COMPETITIVENESS OF SMALL BUSINESSES OWNED BY ASIANS AND EXPATRIATE AFRICANS IN SOUTH AFRICA COMPARED TO THOSE OWNED BY INDIGENOUS CITIZENS

by

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I declare that

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is my own work and that the sources that I have used or quoted have been indicated and acknowledged by means of complete references.

vmaqanda ____________ 16 November 2012

SIGNATURE DATE

(Mr Vuyani Maqanda)

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The Lord has been good to me in enabling me to reach this level in my life. Thank you Lord.

My wife and children. You have been kind, understanding, and pillars of strength to me.

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SUMMARY

Asians and expatriate Africans have been prominent in the SMME economy of South Africa. This work seeks to establish reasons for the growth and competitiveness of SMMEs run by these groups compared to those operated by local citizens.

Reasons for this competitiveness are gleaned from existing literature and presented in accordance with the Perren model which attributes the growth of SMMEs to the owner's motivation, expertise in managing growth, access to resources, and demand. In this work, the Perren model was first applied to Asians and Lebanese in East and West Africa to set a foundation for comparison with the South African situation.

This work concluded that it is the four interim growth drivers acting together that cause competitiveness of Asian- or expatriate African-owned SMMEs. Policy recommendations to improve competitiveness of SMMEs owned by local citizens are then suggested at the end.

KEY WORDS:

SMMEs	Perren model	Entrepreneurial motivation
Demand	Asians	Interim growth drivers
Expatriate Africans	State intervention	Resource access
Expertise in managing growth		

ABBREVIATIONS

ASGISA – Accelerated and Shared Growth Initiative of South Africa

DTI – the Department of Trade and Industry in South Africa

ILO – International Labour Organization

JIPSA – Joint Initiative on Priority Skills Acquisition

LBSCs – Local Business Service Support Centers

LFS – Labour Force Survey

MACs – Manufacturing Advice Centers

NSBA – the National Small Business Act of 1996

RFIs – Retail Financial Intermediaries

SAQA – South African Qualifications Authority

SARS – South African Revenue Services

SEDA – Small Enterprise Development Agency

SETAs – Sector Education and Training Authorities

SMMEs – small, micro, and medium enterprises

UNDP – United Nations Development Programme

VAT – Value Added Tax

Contents

CHAPTER 1

INTRODUCTION

The South African governments after 1994 adopted different strategies to influence economic growth, reduce unemployment, effect income redistribution, and improve global competitiveness. On the microeconomic front, the White Paper on National Strategy for the Development and Promotion of Small Business in South Africa of 1995 set the tone for government intervention and the adoption of a national small business strategy aimed at improving the SMME sector. Objectives of the intervention strategy included (White Paper 1995: 14):

- Creating an enabling environment for small enterprises
- Facilitating greater education about income earning opportunities
- Addressing the legacy of apartheid-based disempowerment of black business
- Creating long-term jobs
- Strengthening cohesion between small enterprises

The national small business strategy was directed at the previously disadvantaged groups, namely, Black Africans[1], Coloureds, and Indians (or Asians[2] as they are referred to in this work). The SMME sector that the strategy was aimed at had been

[1] Classification of racial groups in South Africa: Asians as in footnote 2, Whites are people of European descent, Black Africans are indigenous Africans belonging to the South African ethnic groups such as Zulus, Sothos, and Xhosas. The previously disadvantaged groups (Black Africans, Coloureds and Asians) are collectively referred to as Blacks in the post-1994 period.

[2] Asians are people from the Asian subcontinent which includes countries like India, Pakistan, Sri Lanka, and Bangladesh. The classification is retained for these people even if several generations have acquired permanent citizenship in African countries. The generic term of "foreigners" is used in this work to refer to Asians in both East and South Africa and the Lebanese in West Africa collectively.

neglected during the apartheid period and economic participation for Blacks was actively suppressed by the state (White Paper 1995: 5, 8). It was reported (Lewis 2002: 740-743; White Paper 1995: 8) that SMME operations in South Africa are usually constrained by:

- Aggregate demand conditions
- Access to markets
- Skills and managerial expertise
- Regulatory requirements
- Level of interest rates and access to capital
- Availability of government contracts and support programmes

Government support measures contained in Black Economic Empowerment (BEE) or Broad-Based Black Economic Empowerment (BBBEE) strategies were linked to certain requirements such as meeting the conditions of the Codes of Good Conduct or the BEE scorecards which prescribe changes in capital or control structures, management structures, procurement relationships, and societal engagement (Andrews 2007: 32-34). These requirements affected the target groups (i.e. Black Africans, Coloureds, and Asians) disproportionately. Black Africans had been excluded from economic participation during the colonial and apartheid eras and were entering previously unexplored business terrains. In contrast, Asians, as a group, were well-established as operators of family businesses for more than a century in South Africa. According to Nieman (2006: 40), family businesses impart the following advantages:

- A sense of belonging and enhanced common purpose for the whole workforce
- Commitment and loyalty for the whole workforce
- A long-term view of the business and shared values
- Less bureaucratic red tape and ease of decision making
- Ease of adaptation to changing circumstances

On the other hand, family businesses can suffer from the following challenges (Nieman 2006: 41-42):

- Conflict within the family derived from roles, power dynamics, leadership, recognition, and succession
- Nepotism, unwillingness to change and adapt, autocratic tendencies by the head of the family, and ineffective communication
- Inadequate control measures and lack of effective supervision among family members of themselves.

Changing circumstances as South Africa moved from colonial rule, apartheid, and then democracy, required that all enterprises had to adapt to new conditions. For the Asians to access some of the government support measures, they had to meet the requirements of BEE scorecards. The BEE scorecard requirements meant that outsiders must be brought into the family business structure and management. Asian owners of SMMEs therefore had to adapt to new competition terrains involving Whites, Black Africans, Coloureds, and large numbers of expatriate Africans[3].

The collapse of apartheid allowed for large numbers of expatriate Africans to migrate to South Africa (Peberdy and Rogerson 2000: 22). This was unlike in the earlier periods of apartheid when expatriates were recruited as migrant labour to work in the mines and were then deported to their home countries at the end of their contracts. Expatriate Africans have endured hostile reception in South Africa (Peberdy and Rogerson 2000: 23). This hostility manifests itself in government restrictions in terms of entry and business opportunities while the general public and trade unions have opposed the employment of expatriates and their participation in business activities. Xenophobia has affected many of the expatriates. The limited opportunities to earn income have driven some of the expatriates to engage in small businesses and hawking.

This chapter presents the aim of this study in section 1.1, the method used in section 1.2, and motivation for this study in section 1.3.

1.1 Aim of this study

The aim of this study is to determine the causes of the competitive advantage of small businesses owned by expatriate Africans and Asians in South Africa compared to those owned by Black Africans focusing on small towns and rural areas. The business sectors and types of shops that are chosen for this study are those that foreigners target most, namely, the retail and services sectors.

[3] Expatriate Africans are people from African countries outside the Republic of South Africa. They are of indigenous African descent.

Part of this study looks at the existing policy measures intended to assist the local small, medium, and micro enterprises (SMMEs). Such measures were designed to give advantages to the local entrepreneur but the foreigners are still able to compete effectively with the local people. A review of the existing policy measures in the SMME sector is then done with a view to developing other policy measures if the existing situation so requires.

1.2 Method used

Reasons for the competitive advantage of businesses owned by expatriate Africans and Asians in South Africa are gleaned and collated from the existing literature. The identification of the factors that lead to the competitiveness of foreign-owned small businesses is done within the framework of the model proposed by Perren (1999) for the development and growth of micro and small enterprises.

The Perren model is based on the impact of four SMME growth-determining factors that are referred to as the "interim growth drivers" in the model. These interim growth drivers are the owner's motivation, expertise in managing growth, access to resources, and demand (Perren 1999: 366). The interim growth drivers are in turn influenced by other independent factors such as the desire to succeed, the family situation, management skills possessed by the owner, transferrable capital in the hands of the owner, and the state of the economy.

In this work, the Perren model was first applied to business domination by Asians and Lebanese in East and West African countries before and after these countries attained independence. African countries considered include Uganda, Kenya, and Tanzania in East Africa; Nigeria, Ghana, Ivory Coast and Senegal in West Africa. This work covers three periods, namely, the colonial era from the second half of the 19th century up to the 1960s just before most of these African countries attained independence; the 1960s to 1970s when independence permeated the African continent and foreigners were restricted or expelled with many of the economies of the independent African countries collapsing a decade or so after independence; and the 1980s to 2007 period which includes realignment, recovery and consolidation of African economies. The corresponding periods in South Africa are the colonial era up to 1910 when the Union of South Africa was formed and the British colonial influence ebbed; 1910 to 1994 including intensification of segregation and apartheid; and the post-1994 period of democratization in South Africa.

Asians have dominated the economies of East African countries like Uganda, Kenya, and Tanzania from as early as the second half of the 19th century (Jackson *et al* 2008; Kristiansen and Ryen 2002; Jamal 1976, Gupta 1974, Cable 1969) while Lebanese have been prominent in West African economies since the second decade of the 20th century (Akyeampong 2006; Bierwirth 1999; Falola 1990). Asians and Lebanese still play a significant role in the economies of some countries in Africa even though these countries attained independence decades ago. This is confirmed by studies done by Kristiansen and Ryen (2002) and Ramachandran and Shah (1999). These studies revealed that in 1999 Asians owned 96.4%, 60%, 45.5% and 13.9% of the largest firms in Kenya, Tanzania, Zambia and Zimbabwe respectively while the indigenous Africans were dominant only in the very small firms. In the Ivory Coast, the Lebanese controlled most of the national distribution network and more than half of the country's manufacturing output by 1999 (Bierwirth 1999: 94).

The arrangement of chapters in this study is such that a background to the retail and elementary services sectors at SMME level is presented in chapter 2 together with reasons for choosing the Perren model over other models. The four interim growth drivers and their impact in African countries and in South Africa are then discussed separately in chapters 3 to 6. Foreign domination in East and West African economies is then compared to the situation in South Africa in chapter 7. The nature and impact of the existing policy interventions by the government is also looked at in chapter 7. A conclusion and policy recommendations are then presented in chapter 8 based on the preceding discussions.

1.3 Motivation for this study

Poverty, unemployment and economic growth are some of the critical problems facing South Africa. The unemployment rate[4] has ranged between 30.4% and 22.7% for the years 2001 to 2007 (LFS 2007: iv). The incidence of poverty and unemployment in South Africa has racial connotations with Black Africans featuring as the poorest. In 1996, almost 60% of Black African households were designated as poor (Black 2002: 1149). The underperformance of the economy has been attributed to the global economic system, liberalization policies, and the structure of the South African economy as well as capital and skills intensity in production. All these have combined to yield persistent inequality, unemployment and poverty for a large portion of the population. One of the possible methods of reducing poverty is improved economic growth occurring concurrently with job creation.

[4] The official definition of unemployment was used i.e. the unemployed are persons aged 15-65 who did not have a job or business in the seven days prior to the survey interview but had looked for work or taken steps to start a business in the four weeks prior to the interview and were available to take up work within two weeks of the interview (LFS 2007: ii).

A critical sector to sustainable economic growth in any country is manufacturing. This is because manufacturing can influence the growth, productivity and success of the other sectors as it creates demand for services (Tregenna 2008a: 176). Services such as marketing, information technology, “research and development”, and sales are improved in an economy entrenched in manufacturing as both SMMEs and large businesses engage these services. Some of the big companies outsource non-core services to smaller enterprises but the former have been accused of doing so with the aim of circumventing some of the labour laws (Tregenna 2008b: 236). The smaller enterprises that provide the outsourced services have to render high quality services while the big companies reduce their overheads in the form of wages and avoid compliance in terms of basic conditions of employment, skilling, and training of their employees. The economic landscape in South Africa is such that manufacturing is mainly confined to only a few areas. These areas are the Gauteng Province, Durban, Port Elizabeth and Cape Town.

In addition to being hampered by overconcentration in a few areas, manufacturing in South Africa has not developed to such an extent that it can drive all other sectors. It is mainly the very big companies that are engaged in manufacturing while production in the small enterprises is insignificant, yet small enterprises are considered to be the greatest source of employment globally (White Paper 1995: 2). The two largest contributors to employment in South Africa from 2001 to 2007 have been the trade and the services sectors (LFS 2007: vi). The trade sector has accounted for 19.4% to 24.6% of total employment in the years 2001 to 2007. The services sector accounted for 17.8% to 19.2% in the same period. These high-employment sectors are mostly consumption based rather than production focused. Employment in the services sector is dominated by jobs in the public service (nationally, provincially and in local government) and non-governmental organizations (Altman 2008: 135). The trade sector includes wholesale and retail trade. Even this wholesale and retail sector is dominated by large enterprises such as the Spar Group, Shoprite, and Woolworths. Small-scale retail shops have to compete with these large chain stores in order to survive (Ligthelm 2008). The large chain stores serve as their own wholesalers and the SMMEs are forced to create their own distribution networks at high costs to themselves (Pedersen and McCormick 1999: 115,121). The terrain for competition is skewed to the side of the well-resourced large enterprises, thus depriving the aspiring SMME operators chances of engaging in effective business.

The South African population located far from the high production centers like Durban and Gauteng has limited options of finding employment and improving their economic situation. Cowling and Bygrave (2002: 4) argued that high unemployment drives people to start their own businesses. Even citizens who manage to secure jobs can also start their own businesses due to factors like limitations of financial rewards from conventional jobs, job insecurity, career limitations and setbacks in a conventional job (Wickham 2004: 166). Starting small businesses should improve the rate of employment as such businesses are expected to be an important contributor to economic growth, innovation, and the exploitation of opportunities (Cowling and Bygrave 2002: 2). The businesses started are likely to start up as small enterprises and grow to medium and large enterprises if they happen to be successful. However, Rogerson (2001: 117) argued that the African experience is that the majority of business start-ups are a result of enforced entrepreneurship rather than the pull of market opportunities and that most of the small businesses did not grow hence their contribution to economic growth was minimal and they acted only as survivalist tools (Rogerson 2004: 770).

Entrepreneurship for the vast majority of South Africans residing away from the highly concentrated business centers is hampered by numerous factors such as lack of resources in the form of financial capital and human resource capital. Most aspiring entrepreneurs opt for the retail and services sectors since these do not require extensive accumulation of resources and appear as soft targets for business start-ups.

In addition to the competition with large chain stores, the local Black African entrepreneur has to compete with the small shop owned by expatriate Africans or Asians who are involved in most of the small business sectors. The local Black entrepreneurs which include Asians, Black Africans, and Coloureds receive assistance from the government in the form of affirmative public procurement, promotion of local clusters of SMMEs, and financial and business support (Rogerson 2006b: 54). Black Africans would be expected to effectively compete in their areas, especially the predominantly rural areas, due to the assistance from the government and their knowledge of the needs of their communities. This expected competitiveness has not been borne out by reality on the ground. In the midst of all this competition and selective assistance, the foreign business person perseveres. This study seeks to determine reasons for the Asians' and expatriate Africans' perceived competitiveness against the local Black Africans in the SMME sector with special focus on the retail and services sectors.

CHAPTER 2

BACKGROUND TO THE SMME SECTORS IN RETAIL AND SERVICES AND THE CHOICE OF MODEL

Most of the small towns and rural areas in South Africa are involved only in retail trade and provision of services done in SMMEs with no manufacturing. Competition occurs among the different race groups of permanent South African citizens and expatriate Africans mostly in these SMMEs. This chapter introduces the nature of businesses considered in this study and the situation in the SMME sectors in South Africa in section 2.1 and then the reasons for choosing the Perren model for this study are provided in section 2.2. The chapter ends with a summary in section 2.3.

2.1 The retail and services sector

2.1.1 The nature and size of businesses in this study

This study focuses on businesses that range from micro, very small to small, and medium enterprises. This is the classification used in the National Small Business Act of 1996 (NSBA 1996: 15-16). The classification in the NSBA is that microenterprises, being the smallest, employ between one and five employees while medium enterprises are the largest of the SMMEs and employ up to 200 employees. In this study, the enterprises considered employ far less than the upper limit of a medium enterprise. This may just be between one and ten employees. The sectors under consideration are in the retail and services sectors operating from designated physical premises. Examples of such businesses include general dealers, hairdressers, dressmakers, watchmakers, clothing stores, fast food outlets, electronics and music shops. Informal sector traders like hawkers, street vendors and operators from side-walk stalls are excluded. The requirement for the businesses studied is that they should be licensed and should operate from fixed physical premises. Owing to the small size of the enterprises, registration for value added tax (VAT) (SARS)[5] is waived.

2.1.2 The SMME sector in South Africa

The SMME sector in the pre-1994 era was subjected to extreme neglect and racial suppression (White Paper 1995: 5-10). Government policies favoured import substitution strategies focusing on capital intensive production while also channelling government procurement towards White-owned SMMEs. Assistance to SMMEs could only be accessed from a few institutions such as the Development Bank of Southern Africa, the Industrial Development Corporation, and homeland-based bodies such as Transido in the Transkei (White Paper 1995: 10). Most of this assistance was not coordinated, hence duplication of services occurred.

The post-1994 government adopted the 1995 White Paper on National Strategy for the Development and Promotion of Small Business in South Africa with a primary objective of creating an enabling environment for small enterprises and providing the necessary support framework (White Paper 1995: 13-14). Following on the adoption of the White Paper, several pieces of legislation were passed. These included the National Small Business Act of 1996, the Skills Development Act of 1998, and the Broad-Based Black Economic Empowerment Act of 2003, as well as subsequent amendments to these acts. Institutions such as Ntsika, Khula, SAMAF,

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[5] VAT registration is compulsory for persons who make taxable supplies in excess of R1 million in any 12-months consecutive period and persons who choose to register voluntarily provided that the minimum threshold turnover of R50 000 has been exceeded in the past 12-months period.

and later SEDA were then established to offer financial and nonfinancial assistance to the SMMEs.

The Integrated Business Register compiled by Stats SA (Annual Review of SMMEs 2008: xxix) indicated that in 2004 there were 421 644 SMMEs and this total had increased to 536 240 in 2007. This was a 27.2% increase. Gauteng and the Western Cape had the largest share of formal SMMEs (48% and 19% respectively). In contrast, provinces with large rural populations e.g. the Eastern Cape and Limpopo had high proportions of informal SMMEs. The largest sectors of formal SMMEs in 2007 were the "Financial Intermediation, Insurance, Real Estate and Business Services" and the "Wholesale and Retail; Repairs of Motor Vehicles, Motor Cycles, and Personal and Household Goods; Hotels and Restaurants" comprising 44% and 23% of all formal SMMEs respectively. The "Wholesale and Retail Trade" industry dominated in the informal SMME sector with 52% of the total informal SMMEs.

The Department of Trade and Industry (Annual Review of SMMEs 2008: xxix) reported that South Africa had 120 000 new enterprise registrations in the formal sector in the 2001-2002 financial year. In the 2006-2007 period, the new formal registrations amounted to 280 000. On the other hand, there were 2 469 and 1 438 close company liquidations in the 2001-2002 and 2006-2007 financial years respectively. The Department of Trade and Industry (Annual Review of SMMEs 2008: xxx) also reported that about one percent of the enterprises registered from 01/04/2005 to 31/03/2006 lasted only between 1.5 to 2.5 years. The highest shares of liquidations occurred in the "Wholesale and Retail Trade" and "Financial Intermediation, Insurance, Real Estate, and Business Services" sectors in 2006-2007. These had 31% and 40% liquidations respectively. The same sectors also had relatively high shares of new enterprise registrations for the same period (32% and 22% respectively). This indicates high birth and death rates for the SMMEs in South Africa.

Black Africans made up about 71% of South African SMME owners in 2007 (Annual Review 2008: xxx), but this was mainly in the informal sector. The share of Black Africans owning and actively managing an informal business in 2007 was about 88%. The proportion of Black African women owning informal businesses was as high as 92-94% of all Black African women owning businesses while 81-87% of all businesses owned by Black African men were informal. The sizes of the enterprises in the hands of Black Africans and their informal nature impact adversely on the access of these businesses to government tenders and other forms of support.

2.1.3 Competitiveness of small retail and services enterprises

The traditional competitiveness of small retail and service enterprises is based on convenience in location, friendly service, informal financial services and flexible opening hours (Baron 2003: 232). The shops are normally located close to the customers and open for long hours. The small retailer outside of built-up urban areas caters to customers with low disposable incomes and normally offers credit on flexible terms. These factors ensure retention of loyal customers. The value-creating functions of small retailers are that they provide an assortment of products in smaller quantities, enable customers to keep small inventories of goods at home while also enabling the customers to use their meagre incomes to purchase other essential items, and customers are better informed about the products they purchase through friendly communication with the shop owner (Ligthelm 2008: 38).

The competitive advantages of small retail and service enterprises have been whittled away by the advent of large multiple retailers (Baron 2003: 233). The Spar group, for an example, has set up shops in many parts of the country including many small towns and villages which open for long hours and during weekends. Independent small retailers have to compete with large enterprises in their vicinity as well as out-of-town superstores. Alliances between supermarket groups and fuel companies have resulted in the formation of petrol forecourt stores which open for 24 hours per day in some cases, and some of these stores are located in remote areas. The Shell Ultra City and the Engen 1-Stop shops are typical examples of such enterprises in South Africa. These take away the advantage of long opening hours from small neighbourhood retail shops.

The emerging middle class has also adversely affected the small neighbourhood shop (Ligthelm 2008: 39-42). The higher incomes of the emerging middle class have changed the tastes and demands of people in this social class such that they no longer buy from the neighbourhood small shop. Access to transport allows the people in the middle class to travel to shops in large towns rather than buy locally. This reduces the number of potential customers of the small neighbourhood shop.

Other negative factors to small retailers include internet and mail-order shopping (Baron 2003: 233). Some people in small towns and rural areas have become customers and agents of shops like HomeChoice and Pres Les from which they order goods. These negate the advantages of flexible opening hours, home delivery and the convenience of location for the small shop. Owing to the ease of entry and small input capital requirements, expatriate Africans enter the retail and services sectors thus increasing competition with the local small shop owner. Shop owners with the ability to compete survive in this highly contested terrain.

2.1.4 Interaction of retail and services sectors with other business enterprises

The birth, growth and survival of small businesses are linked to the state of the macro-economy (Rogerson 2001: 119). A buoyant macro-economy feeds small businesses leading to the creation and expansion of existing enterprises. This expansion increases employment in the small business sector as well as production and incomes of employees. It is not only the large enterprises that benefit from a macroeconomic boom as outsourcing of less critical units by large enterprises nurtures small enterprises and demand for goods and services provided by both large and small enterprises increases. Cleaning, security provision and professional services have been outsourced by both the private and public sectors in the past (Tregenna 2008b: 223).

Rogerson (2001: 118-119) argued that most small businesses do not grow. Even those that grow, they do so only by small margins while others engage in an endless struggle to survive. Service enterprises were also found to be more likely to survive than small retailers. Setting up businesses close together is considered to favour the survival of service enterprises more than retailers. Possible reasons for these contrasting outcomes for retail and services enterprises include differences in skills requirements, competition, and entry barriers. The services sectors require unique skills and entry is not easy. A new service offer must be good enough and marketed adequately in order to move customers away from competitors. A highly-skilled hairdresser who satisfies customers is likely to get more customers than a less-skilled competitor, but retailers selling the same product are less likely to get large differences in customer appreciation of the final product if all other factors are the same.

2.2 Justification of the choice of the Perren model

2.2.1 Outline of the Perren model

The model is based on the impact of four interim growth drivers that determine the development, survival and growth of SMMEs[6]. These interim growth drivers are the owner's motivation, expertise in managing growth, access to resources, and demand (Perren 1999: 366). The four growth drivers cover aspects of supply (access to resources) and demand as well as the internal situation in terms of personnel inside the enterprise (owner's motivation and expertise in managing growth). The interim growth drivers are in turn influenced by other independent factors.

Motivation is a process that involves purposive behaviour (Bergh and Theron 1999: 166). The process starts with internal motives or drives that stimulate a person towards a particular behaviour or action (Cronje *et al* 1997: 145). Action is then taken to fulfill goals which bring satisfaction to the individual. The attainment of goals and satisfaction will reinforce or modify the behaviour of an individual such that the same actions are repeated or changed. The goals can also be modified, thus making the motivation to be cyclical. The owner's growth motivation is concerned with growing an enterprise in terms of profits, obtaining a niche market or changing the structure of the business. The owner's growth motivation is influenced by the desire to succeed, the desire to be independent, risk

[6] There are disparities in the classification of the sizes of businesses by different countries. In the USA, a small business is defined as one with fewer than 500 employees; in the United Kingdom the maximum is 50 employees (Tilley and Tonge 2003: 35); while in South Africa, a small business has less than 100 employees and the medium-sized enterprise has less than 200 employees. The literature presented here should be understood to refer to small businesses without strictly adhering to the country-specific definitions since this literature is from authors from diverse countries. "Small businesses" is also used in this work as a generic term for SMMEs.

aversion, the family situation, and competition in the business sector. Push factors like the risk of being unemployed or the limitations of the current job can foster the resolve to succeed as an entrepreneur. The attitude of the owner will determine his/her resolve to succeed, effectiveness in competing with businesses in the same sector, and how the owner interacts with debtors, creditors, and suppliers.

Managing growth involves application of the basics of management, namely, the principles of planning, organizing, leadership, and control in order to ensure that an enterprise achieves growth. All levels of a business need to apply the four management principles. Independent factors that influence expertise in managing growth include relevant management skills possessed by the owner, partners, employees, or family as well as access to active professional advisors and networks of contacts. Assistance from these individuals or bodies has a positive influence on the growth and development of the business.

Economic resources are the inputs used in the process of production (Hyman 1997: 35). The resources include labour, capital, natural resources, and entrepreneurship. Some of these resources can be purchased e.g. the natural resources and labour through wages while the quality of human capital can be improved through education and training. The attitude of the owner towards risk, the owner's relationship with creditors and debtors, transferrable capital in the hands of the owner, partners or family, personal contacts and the state of the economy influence the interim growth driver "access to resources". Amicable relationships with debtors, creditors and suppliers will have a positive influence on the survival of the business. Getting the required financial resources, capital and raw materials whenever they are required is also critical to the development of the business.

Demand depends on the internal situation within the enterprise pertaining to the physical location of the business, networks, and knowledge of the functional areas like marketing; the external environment dealing with markets and competition; and the macro-environment dealing with monetary and fiscal interventions by the state resulting in adjustments to interest rates, government spending, and taxation. Each enterprise strives to improve its customer base and secure a niche market. Demand as an interim growth driver is influenced by the state of the economy, societal factors, the skills of stakeholders to promote and sell their products, as well as innovation. A growing economy offers more possibilities for business development and changes in tastes can create niche markets where none existed before. Highly capable teams of sales personnel can have a positive impact on business growth and reduce the possibility of unnecessarily accumulating large volumes of inventory.

2.2.2 Outline of other models considered and reasons for not using them

The Perren model was chosen ahead of four other models. These are models by:

(a) Gibb and Scott (1985)

(b) Keats and Bracker (1988)

(c) Davidsson (1991)

(d) Jennings and Beaver (1997)

The Perren model appeared to be more comprehensive and included most of the aspects contained in the other models (Perren 1999: 366). It covers the situation internal to the enterprise in terms of motivation of the owner-manager and expertise in managing growth as well as the external environment concerning supply (access to resources) and demand. The model by Perren is underpinned by empirical research and focuses on the interaction of the factors that determine the growth of micro and small enterprises.

The model by Gibb and Scott (1985) focused on strategic awareness, personal commitment and the process of planning. Jennings and Beaver (1997: 64) believed that in small businesses strategic planning is not of critical importance. The reason advanced for asserting that strategic planning is not critical is that small business owners have no control over their operating environment and just have to adapt to the existing conditions. Personal commitment in the Gibb and Scott model is covered in the Perren model as motivation of the owner-manager. The empirical data used by Gibb and Scott was for established firms that were pursuing the next stage of growth and the model did not consider the start-up of very small enterprises (Perren 1999: 367). To its credit, the Gibb and Scott model attempted to address a wide range of factors that influenced growth, but it did not explain how the factors blend together.

The model by Keats and Bracker (1988) focused on the owner and strategic choice. It left out the existing environment and how the owner must adapt to the existing situation. It dealt with psychological and behavioural characteristics of the owner-manager. It only acknowledged the influence of industry characteristics but did not incorporate them into the model (Keats and Bracker 1988: 43). The model leaned more towards large businesses than small enterprises (Perren 1999: 367). The Keats and Bracker model relied on the existing literature and did not have empirical foundations. It also did not explain the interaction of the factors that determine enterprise growth but only dealt with influences on the entrepreneurial process and behaviour (Perren 1999: 368).

The model by Davidsson (1991) suggested that growth motivation determines the actual growth of a business (Davidsson 1991: 406). It asserted that ability, need and opportunity are the variables that determine growth motivation. All these variables seem to fit under motivation and expertise in managing growth in the model by Perren. The Davidsson model could only explain 25% of the empirical data used in deriving the model (Perren 1999: 367). It only concentrated on the entrepreneurial process and behaviour without focusing on the full range of factors that influence development of an enterprise. The blending of the factors that determine development was also not considered.

The model by Jennings and Beaver (1997) considered the role of management in the performance of the business. This left out some of the additional variables considered in the Perren model e.g. resource access and demand. The Jennings and Beaver model was not specific about the size of the firms studied and relied on the existing literature with no empirical foundations (Perren 1999: 367). It also did not explain the interaction of the factors that determine the growth of small enterprises.

Another point of criticism against some of the models is that they considered enterprise development in discrete stages rather than as a process of slow iterative adaptation to emerging situations (Tilley and Tonge 2003: 4; Perren 1999: 366). Tilley and Tonge (2003: 4) argued that the success and competitiveness of any business depends on a range of situational and contextual factors. They also contended that new businesses encounter both internal and external barriers in the course of their development and growth. The internal barriers include the motivation of the owner while the external barriers include government controls like licensing requirements. It is the interaction of all factors, internal or external, that determines the growth of a business. The model by Perren seems to cover most of these factors and was considered as a significant contribution by Tilley and Tonge (2003: 2).

2.3 Chapter summary

The first part of this chapter introduces the form of businesses considered in this study and the situation in the SMME sector in South Africa. The focus is on SMMEs in the retail and services sectors with less than 10 employees operating from designated physical premises. These SMMEs are located away from urban areas or shopping malls and are not franchises. Payment of VAT is not set as a requirement since these enterprises are relatively small.

The retail and wholesale SMME sector is one of the largest sectors in terms of the numbers of enterprises in both the formal and the informal sectors. Provinces like Gauteng and the Western Cape have the largest share of formal SMMEs while the predominantly rural provinces like Limpopo and the Eastern Cape have higher proportions of informal SMMEs. Black Africans are mostly involved in informal SMMEs as compared to Asians and Whites who are engaged in formal SMMEs. The small size and the informal nature of the Black African-owned SMMEs put these enterprises at a disadvantage in obtaining some of the government support services and tenders. The SMME sector is also characterized by high birth and death rates with many unable to survive beyond the first three years after inception.

The second part introduces the Perren model used in this study and also provides a justification for its choice. The model considers competitiveness to arise from the interaction of four interim growth drivers, namely, motivation of the owner-manager; expertise in managing growth; access to resources; and demand. Moderate influence by one driver may be compensated for by the other drivers thus resulting in enhanced growth in total. The model is preferred in this study because it appears more comprehensive than models advanced by authors like Davidsson (1991) or Jennings and Beaver (1997) which consider only one growth factor instead of the four in the Perren model. The alternative models also lack empirical validation.

CHAPTER 3

MOTIVATION OF THE OWNER-MANAGER

The first interim growth driver in the Perren model is presented in this chapter, namely, the motivation of the owner-manager. The owner-manager in an SMME has attributes of both the entrepreneur and the manager. This chapter distinguishes between entrepreneurs and managers.

A discussion of entrepreneurship and small business management showing differences between the two is given in section 3.1. The entrepreneurial development process is then presented in section 3.2 and followed by subjective factors favouring entrepreneurship in section 3.3. A theoretical background to motivation from behavioural theory is presented in section 3.4. Motivation of Asians and Lebanese in East and West Africa during colonial and post-colonial times is presented in section 3.5 and followed by the motivation of Asians in South Africa in section 3.6. Motivation of expatriate African business owners in the South African economy is presented in section 3.7. The chapter ends with factors discouraging the indigenous South Africans in section 3.8 and the chapter summary in section 3.9.

3.1 Entrepreneurship and small business management

The concepts of entrepreneurship and entrepreneurs have been in existence from the times of Cantillon[7] and Jean-Baptiste Say[8], more than two centuries ago, but there are no universally precise definitions for these concepts (Nieman 2006: 4).

[7] Richard Cantillon, an Irish-French economist who lived from 1680 to 1734.

[8] Jean-Baptiste Say, a French economist who lived from 1767 to 1832.

The definitions usually offered often reflect the fields from which the concepts are viewed e.g. economics, psychology or behavioural theory. The definition of an entrepreneur that will be used in this work is that given by Nieman (2006: 9): "An entrepreneur is a person who sees an opportunity in the market, gathers resources, then creates and grows a business venture. The entrepreneur bears the risks of the venture and is rewarded with profit and/or growth if it succeeds".

Entrepreneurship is not confined to small businesses or starting a business. It is also found in large businesses where concepts of restructuring and turn-around strategies are involved, thus changing the direction or focus of the business. Underpinning entrepreneurship are the identification of a real economic opportunity, taking risks in exploiting the opportunity through innovation and creativity, and finally being rewarded by getting profit or business growth (Nieman 2006: 9). The business must be managed properly and efficiently for the required outcomes to be attained.

Entrepreneurs can also be considered to be agents of economic change and managers based on the tasks they perform in managing the business and the effects of their performances (Wickham 2004: 7). These tasks include identification of market opportunities, setting up new organisations, bringing innovations to markets, as well as acting as a leader and manager. When these tasks are implemented efficiently, the economic well-being of the enterprise does not remain the same. The entrepreneur plays the role of combining economic factors (i.e. raw materials, labour and capital), provides market efficiency, processes market information, accepts the risks involved, and maximises investors' returns.

Classification of entrepreneurs can be made in terms of their motivation to start a new business (Glancey 1998: 253). The types of entrepreneurs are the opportunist, the lifestyle, and the accidental entrepreneurs. The opportunist is motivated to pursue an opportunity that he/she has identified in the market. The opportunity might be a once-off occurrence. The lifestyle entrepreneur is motivated by being in control of deciding the nature of the work to be undertaken and expertise required. The lifestyle entrepreneur is always on the lookout for possibilities and adapts to the specific requirements of the situation. The accidental entrepreneur is pushed into entrepreneurship due to lack of other opportunities to earn a livelihood, for example, being unemployed.

Entrepreneurship can be distinguished from small business management by looking at issues of innovation, the potential for growth, and strategic objectives (Wickham 2004: 102-103). Entrepreneurship involves innovation which brings forth a new or modified product or a new way of production whereas small business management involves delivering an established product or service. There is more potential for business growth under entrepreneurship while there is limited potential under small business management. An entrepreneurial venture has the ability to create its own market while a small business operates within a given market with its growth limited by its competitors. Entrepreneurs set themselves strategic objectives like market growth and market development more extensively than small business managers. It is the impact of innovation, potential for growth and strategic objectives combined rather than these factors individually that sets entrepreneurs apart from small business managers.

3.2 The entrepreneurial development process

Entrepreneurship is influenced by external factors like the supportive and the cooperative environments and entrepreneurial orientation (Nieman 2003: 11-13). These factors are necessary so as to encourage entrepreneurs in their endeavours.

The supportive environment consists of the possibility of obtaining finance, the training and development of entrepreneurs, the available infrastructure, the legal restrictions in the economic sphere, and the attitude of the entrepreneur's immediate family, friends, and partners. Amicable dealings between entrepreneurs and financial institutions like banks or the government can improve the levels of entrepreneurship in a country. Effective training and development of entrepreneurs as well as the provision of the necessary infrastructure like roads and telecommunications networks can have positive results on the creativity and innovation of entrepreneurs. Excessive economic, legal and environmental restrictions or regulations can retard entrepreneurship.

The cooperative environment includes institutions like universities and technikons which are involved in generating knowledge through research on entrepreneurship. Entrepreneurs can then access the readily available information from such institutions rather than embarking on a "re-invention of the wheel" process by creating new information databases. Non-governmental institutions also have a role to play in the cooperative environment by providing the knowledge and expertise they possess.

Entrepreneurial development perceived from the personal environment of the entrepreneur is referred to as entrepreneurial orientation. One aspect considered under entrepreneurial orientation is the culture of the entrepreneur. Cultural differences can be described in terms of five bipolar dimensions (Hofstede 1993: 89-91). These dimensions are power distance, individualism/collectivism, masculinity/femininity, uncertainty avoidance, and long term/short term orientation. The jump from being just an employee to being a manager can motivate some employees into starting their own businesses in order to be their own bosses or frustrate those who do not get promotion, thus driving them to leave their employers and set up their own enterprises. In an article by Jackson *et al* (2008: 401), contradictory arguments were presented on whether cultures that encourage individualism were suitable for successful African businesses or not. It was argued in the article that businesses should reflect the cultures of the communities from which they emerged instead of the colonial or Western orientation which focused on individualism.

The individualism approach from the colonial period was criticised for creating the disconnection between the employees and the firms where they worked. The employees and wider society did not have a sense of belonging or association to the firm and it was difficult to motivate employees in such situations. This was unlike the situation with Asians and Lebanese employees in small businesses who believed that their survival depended on the success of the enterprise and expected to be sponsored by the owner in setting up their own businesses. The firm-employee disconnection led to the European perception of the "lazy African". On the other hand, it was argued (Jackson *et al* 2008: 401-402) that humanism, collective responsibility, community self-help, and mutual assistance are features of African societies. Entrepreneurship based on collectivism is therefore viewed as appropriate for African societies and evidence of successful collectivism is provided by Japanese organisations which established mutual and obligatory relationships.

Nieman (2003: 11-12) argued that cultures in which a stigma is attached to failure and there are no visible role models tend to retard entrepreneurship. People in these cultures tend to maintain what is considered the norm and take no initiative to change the status quo. The tendency to avoid uncertainty due to the fear of failure suppresses innovation and creativity.

Other aspects of entrepreneurial orientation involve the family situation and role models, education, work experience and personal orientation towards business and risk. The age of the entrepreneur at the inception of the business is considered to be a determinant of subsequent performance (Glancey 1998: 261). Different age groups are associated with contrasting forms of motivation and objectives as well as different levels of human and financial capital. Glancey suggested that people in the 35-45 age groups have the best blend of both human and financial capital while those much younger have strong ambitions and aspirations but lack experience and financial capital. Those much older may have the necessary financial capital and experience but lack the ambition and drive to sustain a successful business enterprise.

Families with parents that are entrepreneurs are more likely to have children that are entrepreneurs as well because they emulate their parents who are more likely to be their role models. Education improves aspects like creativity and management skills, hence entrepreneurship grows. Entrepreneurs who start off as employees gain experience while still ordinary workers and then apply the knowledge, skills and experience gained when they set up their own businesses. Entrepreneurs who have a commitment to achieve, are risk takers, are proactive with an inclination to experiment, and are independent are more likely to succeed.

3.3 Subjective factors that favour entrepreneurship

Individuals are driven to start their own businesses by factors referred to as the push or pull factors (Wickham 2004: 166-167). Push factors encourage the prospective entrepreneur to leave the current option because it is less attractive e.g. being unemployed or being frustrated in formal employment. Job insecurity and career limitations also contribute as push factors. Young people who cannot get the jobs they aspire for in the formal sector because they do not have the necessary education, skills or experience normally resort to starting their own businesses (Zimmerer *et al* 2008: 19-25). Discrimination at work is also considered to be a push factor that drives some individuals or groups such as women, minorities, and immigrants to entrepreneurship. A more generous welfare system and steep barriers to market entry are considered to lower the rate at which people are pushed into entrepreneurship (Cowling and Bygrave 2002: 2-4). A generous welfare system alleviates the cost of having no income; hence the person is not under pressure to earn income by starting a small business when that person is unemployed.

Pull factors encourage individuals to become entrepreneurs by virtue of the attractiveness of the entrepreneurial option (Zimmerer *et al* 2008: 8-11; Wickham 2004: 166). These factors include the financial rewards from being an entrepreneur, independence, and a sense of achievement in terms of social standing. Economic possibilities in previously unexplored Africa enticed Asians to engage in trade in the African continent while the economic stability and size of the economy in South Africa encouraged expatriate Africans to migrate southwards. Part-time entrepreneurs are normally attracted to business by the profits to be made and the lower risks involved. This is due to the fact that income from their regular employment is secured regardless of the success or failure of the business venture.

There are also factors that prevent an entrepreneur from exploiting a potentially profitable opportunity. These are called inhibitors (Wickham 2004: 167). They include the inability to obtain start-up capital, extremely high risks, legal restrictions, and a lack of suitable personnel to operate the business. Other factors that can hold back an entrepreneur are the uncertainty of obtaining income from the venture, the risk of losing the entire investment, lower quality of life until the business has been fully established and operational, as well as high levels of stress and despondency (Zimmerer *et al* 2008: 12-15).

A single factor or several factors acting simultaneously can motivate an individual to engage in entrepreneurial activity. An example of a single factor is that shown by Mahadea (1994) who focused on only the influence of need achievement in entrepreneurs from the former Transkei region of the Eastern Cape Province of South Africa. The conclusion from that research was that entrepreneurs with high need achievement motivation were more successful in business and tended to engage in more sophisticated and larger business ventures. Mahadea also contended that well-conceived entrepreneurial training programmes could be devised to enhance the need achievement of entrepreneurs. Multiple factors can simultaneously motivate an individual such that the individual acts in a manner that attempts to satisfy various needs like the physiological, security and social needs, all at the same time. It is also possible that in attempting to satisfy a need, that need becomes more important and the individual devotes most of his/her resources to that need.

Carter *et al* (2003) criticised the samples used by some researchers to gather data about the reasons for people to become entrepreneurs. The criticism derived from the use of samples consisting of entrepreneurs who had been engaged in business for some time. The use of established business people was considered to invite self-justification bias from the chosen entrepreneurs and excluded those whose attempts at entrepreneurship met with failure. Carter *et al* used nascent entrepreneurs in their research and they concluded that the reasons for being entrepreneurs stem from six separate factors, namely, self-realisation, financial success, roles, innovation, recognition, and independence. These reasons were not different from those offered as reasons for choosing any occupation. Carter *et al* then concluded that there might be other underlying cognitive and behavioural factors in action. Self-efficacy and perceived feasibility of accomplishing a task might be some of those underlying factors. It was considered by these researchers that knowledge and skills could have more impact than any assumed innate desires. This contention by Carter *et al* was in agreement with the position in the Perren model used for this work which considers the success of an SMME to be due to a combination of all interim growth drivers rather than a single factor.

3.4 Motivation from behavioural theory

One of the theories that can be applied to explain motivation is behavioural theory. A motive is a symptom of a need and determines the behaviour of a person in pursuit of processes to satisfy the perceived needs. If the need is not satisfied then the individual can seek out a substitute for the original need or completely abandon any attempt at satisfying the need (Chevalier 2007: 55-58). Motivated behaviour is influenced by both external and internal factors.

3.4.1 External factors

External factors are derived from the outside environment rather than from within the individual. The external factors include reinforcement of an individual's behaviour through reward or punishment, considerations of job content which relate to job satisfaction or dissatisfaction, and job design with aspects of job rotation, enrichment and enlargement (Chevalier 2007: 62-70). Motivators like responsibility, achievement, recognition, and growth can influence the effort an entrepreneur puts into the success of the business. Lack of motivators and the presence of inhibitors like poor infrastructure (roads, rail, and telecommunications networks) and inadequate security can discourage an entrepreneur and less effort will be put into achieving the goals of the enterprise.

3.4.2 Internal factors

Internal factors are psychological processes within the individual that influence an individual's self motivation. The internal factors include self-actualisation, functional autonomy, expectancy, self efficacy, attribution, equity, emotion, and unconscious factors (Bergh and Theron 1999: 169-181). Internal activation is based on self-motivation for individuals who are considered to be rational, are willing to perform their duties, understand their needs or goals, and personally contribute to the outcomes of their behaviour. The factors influencing motivation also appear in Maslow's hierarchy of needs with self-actualisation at the top of the pyramid (Chevalier 2007: 61):

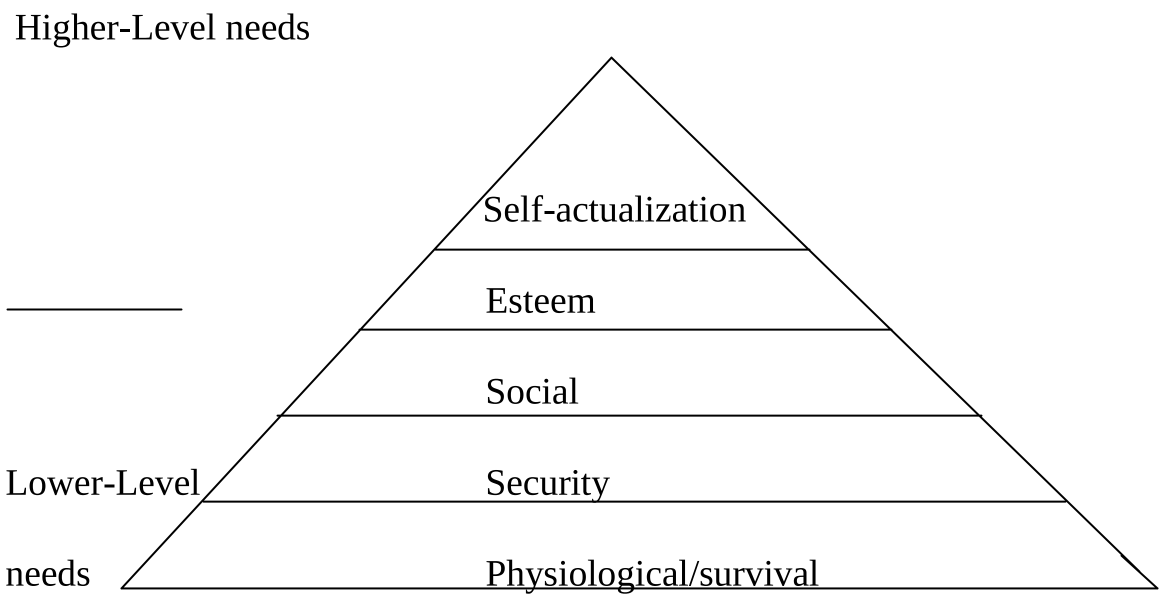

Figure 1: Maslow's Hierarchy of Needs (Chevalier 2007: 61)

The four lower need levels depend on external factors in the physical, socio-economic and socio-cultural environments for satisfaction. Before self-actualisation is reached, an individual has to satisfy the lower needs dealing with survival. Evidence of how need satisfaction progresses is shown by the Asians and Lebanese who were driven by the desires to satisfy the lower needs as many of them were poor when they arrived on the African continent. They had to work hard, be frugal, and save profits made from their businesses to ensure that they alleviate hunger and poverty (physiological needs) and secure their well-being for future times. As their businesses became successful, they could then strive for acceptance by their peers and build self esteem. All these depended on the success of their major income-earning activities, that is, running successful enterprises.

Functional autonomy acknowledges that the motivational factors, values, interests, and needs of individuals vary from childhood to adulthood while attribution refers to attempts by individuals to understand the causes of events or outcomes and then attribute such events or outcomes to those causes (Bergh and Theron 1999: 171-176). The South African Asians of Muslim faith attributed the high number of insolvencies before the end of the 19^{th} century to the participation of Hindus in trade whom they considered inexperienced and ill-equipped for trade but suitable for agriculture (Padayachee and Morrell 1991: 80-81). They attributed their own successes to training and family descent. The theory of expectancy refers to the individual's subjective beliefs about the outcomes of the individual's behaviour while self-efficacy refers to an individual's perception of his/her personal capacity to use his/her skills effectively to achieve desired outcomes (Landy and Conte 2007: 345-358). Role models play a crucial part in motivating individuals to have high self-efficacy. An individual emulating his/her role model can acquire the self-belief to achieve the same level of success as his/her role model.

A demonstration of self-efficacy is provided in Kristiansen and Ryen (2002: 173) of Asian family members who regarded themselves as traders and were motivated to engage in trade and make a success of it as a family tradition. It was acknowledged by Landy and Conte (2007: 361) that entrepreneurs are generally high on self-efficacy and perseverance. Equity deals with perceptions of fairness while motivation from the unconscious acknowledges that activators of motivation may be buried deep in the subconscious (Bergh and Theron 1999: 176-181). Goal setting, emotion, and self esteem are also motivating factors. Self esteem also appears in Maslow's needs pyramid as a higher need just below self-actualisation.

3.5 Motivation of Asians and Lebanese in East and West Africa from colonial times

Asians and Lebanese have dominated African economies during colonial times. The historical reasons for this domination of African economies are analysed here from the viewpoint of the independent factors that influence the interim growth driver “motivation of the owner-manager”.

(a) The desire to succeed

Most of the pioneer foreigners were poor and were looking for economic opportunities i.e. the Asians (Ghai and Ghai 1965: 39) or were fleeing from conflict and poverty i.e. the Lebanese (Bierwirth 1999: 85; Falola 1990: 525-529). They worked hard to get out of the poverty trap and satisfy the lower needs in Maslow’s pyramid of needs such as the physiological, safety, and security. As they settled in Africa and the survival of most of them was ensured, then other motivating factors took over. Pride and the sense of belonging to a particular group, cultural or religious, motivated them to work harder and for some, failure in business was unacceptable (Kristiansen and Ryen 2002: 175-176). Successful Lebanese in the 1940s and 1950s aimed at buying cars, being prominent in clubs, saving enough to get married, undertaking the pilgrimage to Mecca, and retiring to the home country of Lebanon (Falola 1990: 537-538).

Asians built a culture that cast a stigma on failure. Although cultures that stigmatize failure are considered to retard entrepreneurship as mentioned in section 3.2 above, their fear of failure fuelled the desire to succeed for those that had started their businesses. Part of their pride fed stereotyped thinking for some who considered themselves inheritors of an ancient civilisation far superior to that of indigenous Africans (Patel 1972: 19). These stereotypes served as motivation for the Asians to work harder although they fuelled resentment from indigenous Africans.

The success of the Asian and Lebanese businesses could invite the demonstration effect and motivate the indigenous Africans to emulate them. Some indigenous Africans e.g. the Igbos of Nigeria did copy the foreigners as Falola (1990: 530) argued, but others resented the way the foreigners conducted their businesses and considered them as cheats (Falola 1990: 534; Balachandran 1981: 319; Jamal 1976: 609; Patel 1972: 20). The accusations of cheating, success achieved through working long hours and living frugally were considered “unheroic” and did not create a demonstration effect and invite emulation (Ghai and Ghai 1965: 39).

(b) The desire to be independent or to be one’s own boss

Cable (1969: 220) argued that the over-concentration of Asians in commerce and private manufacturing was derived from the restrictions on land-holding, salary discrimination in formal employment and obstacles to promotion in the higher ranks of the civil service. These restrictions were applied to Asians in East African countries and to Lebanese in West Africa. The foreigners were therefore motivated by the push factors mentioned in section 3.3 above or driven by the desire to be independent in terms of the Perren model when they started their small enterprises. They had to work hard in one of the few income-earning activities available to them.

(c) The influence of the family situation

The pioneer Asian and Lebanese small business owners came from poor backgrounds and worked hard to send remittances to their families in the home countries (Akyeampong 2006: 306-308). They also had to be successful and save enough to get married and sponsor their wives’ or relatives’ coming to Africa. Poverty in the home front motivated them to work harder in their businesses.

Successful family businesses created visible role models in the midst of the Asian and Lebanese communities for the younger generations to emulate (Kristiansen and Ryen 2002: 172-174). Separate education systems, pride and clannishness made the foreigners to be distinct groups with entrenched family and group values. Their first commitment was towards the family ahead of their communities (Bierwirth 1999: 89). The standards set for the family and for the group served as motivation for the foreigners to work even harder.

(d) Competition dynamics

The underdeveloped state of African economies served as a pull factor motivating the foreigners to exploit the gaps that were available since Europeans and indigenous Africans operated from different levels. Foreigners learned and understood the competition dynamics of their host countries. They selected markets in which they had an advantage and avoided others e.g. in West Africa they avoided areas where accomplished traders like the Jula[9] operated (Bierwirth 1999: 87; Falola 1990: 526). Once foreigners got a foothold into a market, they expanded their businesses and diversified. They would be in almost all levels in a niche market e.g. in the cotton and coffee production in Uganda, they started out as collectors and distributors of the raw material but ended up as processors as well (Jamal 1976: 603-604). This vertical integration occurred wherever profits and market domination could be achieved.

Free market competition in many areas was hindered by frequent demands from indigenous African and European traders. They demanded regulation or exclusion

[9] The Jula are an African tribe in West African countries such as the Ivory Coast who have been accomplished traders from historical times. In Nigeria, the Lebanese met with stiff competition from the Igbo traders who were able to imitate the Lebanese business strategies (Falola 1990: 530).

of Asian businesses from some areas (Jamal 1976: 607-615). This motivated the Asians to adopt competitive counter-strategies. When Asians were barred from trading in rural areas in Uganda, they moved to towns and continued with their businesses. The African entrepreneurs could not fulfil the roles played by the departed Asians since they did not have the technical and business skills required to run enterprises similar to those of the foreigners. This lack of service compelled the African people to go to the nearby towns for their commercial activities. They ended up buying and enriching the same Asians who had been excluded from the local trade. Lebanese used lorries to access trade with areas from which they had been excluded or disallowed permanent premises.

3.6 Motivation of Asian traders in South Africa

The motivation of Asians in the South African economy has been affected by circumstances in history pertaining to legislation and the reasons for the Asian presence in South Africa. The Asian small businesses were at first allowed to operate freely from the 1870s until stringent regulations were effected in the late 1890s, and then more restrictions were to follow during the period of existence of the Union of South Africa and later apartheid. These restrictions discriminated between the passenger group and those who came under indenture e.g. those who left indenture had to pay a £3 tax to remain in South Africa and this tax did not affect the passenger group (Hart and Padayachee 2000: 688). Restrictions on entry into South Africa for passenger Asians were strengthened after the Immigration Restriction Act of 1897 was passed and conditions such as knowledge of a European language were imposed (Swanson 1983: 416). Regulations on the lease or sale of land to Asians and refusal of licence renewals affected the passenger

Asians directly. The motivation of Asian small business owners can be analysed in terms of the independent factors in the Perren model.

(i) Desire to succeed

The unfavourable conditions in India and the attraction of the Natal economy enticed the passenger Asians to come to South Africa in search of trading opportunities (Bawa 2006: 168; Vahed 2005: 450-456; Padayachee and Morrell 1991: 71-77). It was push factors that sent them out of India and pull factors that resulted in them landing in South Africa. Asians released from indenture soon joined the passengers in seeking alternative economic opportunities. The previously indentured Asians did not have enough capital and relied on hawking (Bawa 2006: 169). The profits made by both groups were small, therefore they had to work long hours and live frugally. In many cases they used their shops as places of trade and as residences (Vahed 2005: 457). The relatives working in the shops occupied squalid back shacks and the owners lived above the shops. This arrangement enabled them to keep the shops open for long hours. The desire to succeed pervaded the Asian business structure and enabled many of them to survive.

The desire to succeed drove Asian entrepreneurs away from areas where they endured failure and spurred them onto new areas. This mobility allowed them to exploit previously untapped markets. This free movement was curtailed only by legislation passed by the colonial regime and later by the apartheid state. Free movement across the South African provinces was only granted to the Asians in 1972 (Hart and Padayachee 2000: 689). Asians have since spread throughout South Africa and have carried their historical business culture along i.e. operating small trading shops, opening for long hours, and living frugal lifestyles.

(ii) The desire to be independent

Some of the passenger Asians arrived as poor shop assistants. They worked for relatives, saved some money, and ultimately set up their own businesses (Hart and Padayachee 2000: 691). The working conditions for the shop assistants were poor and wages low if they were paid at all (Vahed 2005: 457). Large traders entered into contracts with their employees and the contracts were usually weighted in favour of the employers with the salaries of the employees paid out only at the end of the contract. The employer was required to provide board and lodging which would likely be a dilapidated backyard shack. If the employee broke the contract, his entire salary for the duration of the contract was forfeited and the employee was liable for the cost of securing a replacement. The shop assistants endured these hardships with the belief that ultimately they would attain financial freedom and be their own bosses. Experience gained as employees was used in the new ventures to make them successful.

Many of those who started business partnerships later broke away from such partnerships and worked independently (Vahed 2005:459). Breaking away from partnerships allowed for quicker decision-making. Economic theory as mentioned in section 3.2 above acknowledges the due success of entrepreneurs that are independent and inclined to experiment. Experience gained from working for others or in partnerships also builds self-belief or self-efficacy and therefore motivation of the prospective SMME owner.

(iii) The impact of being active risk takers

The effect of being active risk takers encouraged the expansion of Asian businesses. They ventured into unknown markets with all the associated social, economic and political risks. The fear of anti-Indian reprisals, robberies, theft, and defaulting debtors (Vahed 2005: 469-472) did not deter Asians from setting up shops in rural areas. These traders often applied for permission to own firearms to protect themselves and their properties instead of abandoning the area. These Asians were motivated or pulled by the promise of untapped markets in the indigenous African areas that they could exploit; hence they took the risks of settling in such places.

(iv) Motivation from the family situation

Asian families owning shops were committed to the success of their businesses as they recognised that their very own existence depended on the success of the enterprise. Remittances had to be sent back to families left behind in India. The Asian shop-owners descended from the passenger group did not usually employ workers previously indentured but imported cheap labour, mostly relatives, from their home villages in India (Vahed 2005: 455). The shop owners had to save money to sponsor these relatives travelling to South Africa in addition to providing passage to their own wives and children. To achieve all of these, the Asians had to work even harder so as to make some profit.

(v) Motivation from competitive dynamics

The presence of large numbers of indentured Asians in South Africa encouraged the passenger Asians to exploit the opportunity of servicing their compatriots with goods from the home country as these were not adequately served by the White businesses (Padayachee and Morrell 1991: 71-76). At the time of arrival of the passenger Asians, Natal was under-supplied with money and goods, was relatively stable, and had few bureaucratic hindrances. The passenger Asians supplied their compatriots with goods like dhal, ghee, rice, and dhotis (Vahed 2005: 452). Acting as middlemen between the indigenous Africans and Whites also motivated the Asian small business operators to settle in South Africa in order to exploit the gaps in the economy. In both cases, motivation came from the pull of economic opportunities.

Whites owning small businesses that were in competition with the small business Asians and some indigenous Africans objected to the physical and economic presence of Asians in some areas (Bawa 2006: 169). These groups needed protection from the competitive Asian business people who were undercutting their prices. The Asians were then restricted to designated areas leading to market congestion in those areas. When these complaints came up during the colonial era, the Asians appealed to the British imperial authority and won some concessions. When the Asian operations were threatened during the apartheid era, some responded by collaborating with the apartheid regime to safeguard their interests. When the tricameral parliamentary system was introduced, Asians responded by exploiting the space afforded to them and consolidated their activities by excluding other race groups from Asian areas. The Asian responses to competition or restrictions and disruptions ensured continuity of operations and motivated them to exploit the business spaces afforded to them.

3.7 Motivation of expatriate African business owners

Some expatriates came to South Africa to escape from conflicts and economic deprivation in their countries (Crush and McDonald 2000: 6; Maharaj and Moodley 2000: 153). Others came in search of business opportunities (Peberdy and Rogerson 2000: 38). Many of the expatriates got involved in business because they were unable to access formal employment due to their classification as foreigners.

Many South Africans and even some local trade unions have objected to the employment of foreigners instead of South Africans (Maharaj and Moodley 2000: 157). They therefore started their own businesses such as hair salons, clothing apparel shops or electronics shops using expertise obtained from their home countries. Their desire to succeed in the few available income-earning options drove them to work even harder and to offer quality services.

The expatriates who came only for the available business opportunities were usually not interested in formal employment (Peberdy and Rogerson 2000: 23-24). They were motivated by the desire to be independent and to make a profit. Some of them had businesses in their home countries and therefore had the relevant business experience to compete with the local citizens. This experience reinforced motivation from self-efficacy or self-belief.

The family situation also fed the resolve of expatriates to engage in business. Expatriates with families in their home countries were obliged to work harder and efficiently in order to save money and send remittances home. In a study by Maharaj and Moodley (2000: 157), it was reported that a significant proportion of expatriates sent remittances home. The need to support families left behind served as motivation on its own.

3.8 Factors working against the motivation of local citizens

The motivation to engage in small business for Black Africans was dampened by many factors in the history of South Africa. At first the indigenous African population relied on subsistence agriculture and were not interested in business (Hart and Padayachee 2000: 688). They engaged in bartering rather than cash transactions with some only entering the cash economy as late as the 1920s. This left only the Asians and Whites to contest the economic terrain involving money for almost 50 years from the time of arrival of passenger Asians. The focus on mining and the use of the migrant labour system disrupted participation in the economy by Black Africans. The apartheid policies enforced relocation to overcrowded areas and then generally focussed on large scale business with import substitution. Small enterprise development was subsequently neglected (Rogerson 2006a: 66). Indigenous African business was actively suppressed by the state at that time. All these were disruptive and discouraging to prospective entrepreneurs.

It has been acknowledged that South Africans were not socialised or educated to become entrepreneurs (Van Aardt *et al* 2008: 4; White Paper 1995: 9). This was especially true of Black Africans who had to endure the Bantu Education system unlike the Asians who were in charge of their children's education and could access education from abroad (Hart and Padayachee 2000: 689). Asians also had a historical culture in entrepreneurship from their family businesses. Motivation from self-efficacy for Black Africans was therefore low since their business experiences were low. The inhibitors like lack of capital, high risks and lack of personnel mentioned in section 3.3 above combined to frustrate the local Black African entrepreneurs to such an extent that they even expected their local municipal councils to assist them by blocking out competitors like the Asians and expatriate Africans from their areas (Rogerson 2006a: 75).

The government of South Africa tried to rectify the situation disadvantaging SMMEs by passing the Small Business Act of 1996 and later adopted the Integrated Small-Enterprise Development Strategy for application from 2005. One of the pillars of the integrated strategy was the promotion of entrepreneurship through campaigns to strengthen awareness about the critical role of entrepreneurship, leadership training, and awards (Integrated Strategy 2005: 4-7). The core thrusts of the strategy included creating an enabling regulatory environment and initiating a national entrepreneurship drive for small businesses. These moves were intended to motivate would-be entrepreneurs and those already operating businesses. The awards were in line with motivation through re-enforcement mentioned in section 3.4.1 above. There were numerous bodies involved in implementing the strategy including the national, provincial, local, and district governmental structures. The success of the strategies aimed at improving SMMEs was threatened by duplication of activities, lack of coordination, insufficient communication resulting in many people remaining unaware of the availability of the support and few business owners actually using the support measures. These threats reduced the impact of the intervention strategies by the government and dampened the competitive edge and motivation of local Black Africans in business.

3.9 Chapter summary

Motivation of the Lebanese in West Africa and Asians in East and South Africa can be explained from two considerations, namely, the behavioural theory and the Perren model. The two approaches do not contradict each other in their explanations but use different terminology to arrive at the same conclusions. From behavioural theory, these foreigners were motivated by aspects of need satisfaction, expectancy, and self-efficacy. They had to satisfy the lower needs in Maslow’s pyramid first, i.e. physiological and “safety and security” needs. Restrictions on landownership, selling certain goods, or entering certain markets meant that they had to do the best they could by focusing on the success of their businesses as this was one of the few methods of earning income. Their culture, religion, pride, and the caste system motivated the foreigners to work harder, save more, and invest more in the success of their businesses in order to achieve acceptable status as well as acceptance by their peers. These qualify as higher levels in Maslow's pyramid.

In terms of the Perren model, the foreigners were motivated by the desire to succeed. This success encompassed providing food for their families, making profits to sustain the businesses, expanding, diversifying, and opening more enterprises. The family situation also served as motivation since the foreign business owners supported their poor relatives in their home countries, and were expected to sponsor their relatives and brides to come to Africa. Those who started off as shop assistants were motivated by the expectations that they would eventually establish their own enterprises and be their own bosses. The economy structures of the African countries during colonial times created gaps between the Europeans and the indigenous Africans. Upon realising the opportunities that Africa offered, the Asians and Lebanese were therefore motivated to exploit the opportunities of being middlemen and enjoyed favourable competition dynamics.

The desire to succeed, the family situation, and risk taking motivated the expatriate Africans to make their enterprises successful. Financial, social, labour, and political restrictions meant that they had few options of earning income; hence they had to ensure the success of their businesses in order to survive. They had to make reasonable profits in order to send remittances home. They faced xenophobic attacks, extortion from government officials, and possible deportation. In the midst of all this persecution, expatriate Africans carried on with their businesses.

The indigenous Africans in South Africa were less motivated to compete with the Asians during colonial times; firstly, because they did not get involved in the cash economy earlier but relied on bartering; secondly, they had subsistence agriculture to fall back on; thirdly, employment in the mines and White farms could alleviate some of the difficulties; fourthly, they could appeal to the extended family for assistance. There was also active state intervention that restricted indigenous Africans from participation in some sectors of the economy. The post-1994 governments have since tried to promote entrepreneurship by adopting the Small Business Act of 1996 and the Integrated Small-Enterprise Development Strategy for 2005. The good intentions of the intervention measures have been dampened by implementation problems including not being adequately communicated to their intended targets.

CHAPTER 4

EXPERTISE IN MANAGING GROWTH

This chapter deals with general business management and the need to cope with a business that is growing. Management of any business, whether large or small, requires the application of the four managerial tasks or principles, namely, planning, organising, leading, and control for the business to operate optimally. Management has to deal with the situation inside the enterprise, resource access, market conditions, and state regulation. The management of an SMME may be able to control some of these areas but others are outside the sphere of influence of the SMME owners or managers e.g. state regulation. Experience, training and education are all important for the successful management of an enterprise.

Management is applied in the individual functional areas such as operations or production, sales and marketing, finance, and human resources as well as the coordination of all these areas. Weaknesses in management are particularly disruptive in small businesses than in large businesses (Longenecker *et al* 2006: 364). The moderation of management failures in large businesses is due to the managerial structures in place, protocol, and the numbers of people involved in decision making. This moderation does not occur in small businesses where most of the management functions fall on a few individuals if not the owner alone. Some of the managerial functions need specialists but the small businesses do not have finances to employ the necessary specialists. Market entry and survival strategies are more crucial in small businesses than market share and product development which dominate the strategies of large businesses (Burke and Jarratt 2004: 127).

The application of the managerial principles in small businesses is subject to the higher degree of uncertainty, the level of innovation, and evolution (Nieman 2006: 17). Uncertainty in small businesses is associated with being a price-taker, a limited customer and product base, the diverse objectives of the owner, and the impact of environmental factors. The price-taking results in SMMEs being unable to individually influence their business environments. The argument by Jennings and Beaver (1997: 64) that strategic management is not necessary for small businesses as they just have to respond to existing conditions is in line with the price-taking by SMMEs. Innovation and differentiated products affect the development of niche markets.

The managerial tasks of planning, organising, leading, and control are presented in section 4.1, followed by strategies for managing growth in 4.2. Discussions of expertise in managing growth by Asians and Lebanese in East and West African countries, Asians in South Africa, and expatriate Africans in South Africa are given in sections 4.3, 4.4, and 4.5 respectively. The situation affecting expertise in the Black African community is presented in section 4.6 and this is followed by the chapter summary in 4.7.

4.1 Managerial tasks

The mission and goals of the business are outlined in the planning phase (Smit and Cronje 2000: 11) and strategies of achieving the goals are investigated and the required resources identified. The plans may be written down when a business plan is drafted. Some of the entries in the business plan should be a financial plan, a production or operations plan, and a marketing plan. The financial plan deals with forecasts of income statements, cash flows, balance sheets, and capital requirements (Nieman 2006: 20). The production plan deals with how the product will be produced or how the service will be provided, location and facilities, supplies, and equipment. The marketing plan details the preferences of customers, market size, competition, pricing strategy, sales tactics, advertising, and promotion.

Compliance with state regulations must also be taken into consideration in the planning phase. In South Africa, the colonial government required Asian business people to submit plans for their businesses and give written undertakings about sanitation and insolvency before their applications for trading licences could be approved or renewed (Vahed 2005: 475). An advantage of good business plans is that they can be used to source funds from financial institutions or venture capitalists. The inability to compile business plans does not only hamper the management of an SMME but also disadvantages the enterprise in securing funds or accessing state tenders. In small businesses, no expansive management structure is possible and all the management duties fall on the owner or a few individuals. The plans may not even be written down but conceptualised in the head of the owner (Nieman 2006: 19).

Lines of responsibility and accountability are defined during the organization phase so as to clear the way for coordination of duties, delegation, command and leadership. Leading involves directing employees to efficiently and effectively perform their duties. Delegation can only occur when the business has grown to some extent, has a workforce, and the tasks have been clearly defined and allocated (Nieman 2006: 22). The inability to delegate in small businesses restricts the growth prospects of the enterprise because the necessary expertise to manage growth is limited to the traits of the owner alone. Divergent and worthwhile inputs from employees are limited by the smaller pool of employees in the small businesses.

The control process entails setting standards against which performance can be measured, determining the actual performance, evaluating deviations and taking steps to correct such deviations (Smit and Cronje 2000: 401). Data on the actual performance of the organisation must be collected and recorded, then analyzed for use in improving performance. Budget administration is one case of controlling the operations of the enterprise by comparing items like cash receipts, disbursements, and net working capital before and after the business cycle. Books of account including balance sheets, income statements, and cash flow statements need to be prepared and analysed for effective control of operations. Legislation enforces compliance in keeping books of account and prescribes the manner in which these books should be kept. Asians in South Africa during the colonial era were frequently prevented from trade due to failure to keep books in English or Dutch, even if they were able to keep them in their own languages like Gujarati (Padayachee and Morrel 1991: 101).

4.2 Managing growth

Growth may be in terms of financial, strategic, or structural indicators (Nieman *et al* 2003: 189). Financial growth refers to increases in turnover, investment, profit, assets, or the value of the enterprise. Strategic growth involves being able to exploit new markets, new product development, becoming self-sustainable or changes in organisational form. Structural growth involves increases in the number of employees and creation of separate managerial or employment levels with associated responsibilities. The ability of SMMEs to create jobs depends on whether they are growing or not (Van Aardt *et al* 2008: 276). These growth indicators are interdependent such that changes in one have an impact on the others.

The growth process involves different stages for which there may be no clear lines of separation. These stages include the birth of the enterprise, then the survival, the take-off, and the maturity stages (Nieman 2006: 190). The decline stage can occur at any point of growth when the enterprise experiences operational or market problems. Each stage has its own problems that hinder the growth process thereby leading to business failure. The growth process must therefore be managed properly such that there are no production bottlenecks or resource provision problems.

Limited market access does not allow a business to grow freely since its operations will also be limited. The age of the enterprise and its legal standing also affect the growth potential of an enterprise. An enterprise that has been in existence for some time is likely to have gone through some of the growth stages and has perfected its competitive strategies such that it will have secured a better position in the market. Partnerships have better access to resources such as human and financial capital than sole proprietorships; hence the growth prospects of partnerships are much improved. The success of partnerships compared to sole proprietorships is evidenced by the fact that the largest pioneer Asian-owned businesses in South Africa during the colonial era were partnerships (Vahed 2005: 458).

The growth potential of an enterprise is also dependent on factors like competition from other businesses, the state of the economy, and government requirements such as regulations and taxes. These are outside the control of the SMME owner.

4.3 Expertise in managing growth by Asians and Lebanese in other African countries

4.3.1 Transferable support skills from the owners

Most of the early Asian and Lebanese traders had little education (Bierwirth 1999: 85-86) and had not acquired their business skills from formal education. Their business acumen grew out of personal experiences. Some of the Asians in East Africa had been involved in the Indian Ocean trade before setting up businesses in Africa. The experience gained from such endeavours was useful in running businesses in the African mainland. Employees of the pioneering enterprises received skills from working for others and then utilised such skills when they set out to start their own businesses. These skills were passed on to subsequent generations.

In addition to the skills acquired through experience and apprenticeship, the Asians and Lebanese encouraged education of their children (Kristiansen and Ryen 2002: 171; Falola 1990: 537; Jamal 1976: 610,). The generations following the pioneers even sent their children to schools outside their host countries. The colonial system also favoured the education of Asian children as shown by the disparities in state funding given for the education of the children of foreigners compared to that given to the indigenous African children (Jamal 1976: 610). In Uganda, for an example, Asians financed their own schools but also received government grants amounting to 82.30 shillings per child while the grant for an African child was only 4.27 shillings in 1927. The skills obtained through formal education contributed to the competitiveness of Asian and Lebanese businesses over the indigenous African entrepreneurs who were deprived of formal education.

In the early 1960s, Asians contributed 40% of the professional personnel of graduate level, senior administrators, and senior managers in commerce and industry in the three East African British colonies (Ghai and Ghai 1965: 38). This share of employment in skilled fields was also complemented by 50% in skilled fields including technicians, executive grades in the civil service, middle management in industry and commerce, and teachers. The comfort zones occupied by the Asians were disturbed in the 1960s which were the years of independence for the African countries (Uganda gained independence in 1962, Kenya in 1963, and Tanzania in 1964). The indigenization or Africanization programmes were intensified after independence. These included anti-liberal economic policies involving tariff barriers, local content requirements, restrictions on property ownership, raising state-provided social services, nationalization of private enterprises, and tightening of exchange controls. Many Asians lost their businesses as a result of the Africanization or the subsequent expulsions.

4.3.2 Network of contacts on managing growth

Large numbers of Asians in East Africa and Lebanese in West Africa congregated in towns where commercial activity was high (Cable 1969: 221). The spatial location of most of the foreigners in towns reinforced business networks and clusters. There is a contention that many of the problems of SMMEs derive from their isolation and their success comes from the development of clusters (Rogerson 2001: 121). Clusters tend to share information, network with each other in terms of suppliers or customers and cooperate in solving common problems. Clusters also assist the enterprises to access the latest technology and market opportunities. Uncertainty and transaction costs can be reduced through networks and clusters.

The benefits of clusters and networks were available to Asian and Lebanese businesses thus encouraging their growth unlike the Africans who were scattered over the countryside. Family relationships, ethnicity and religion bound the Asians and the Lebanese together thus creating the mutual trust necessary for effective networks. The people that the Asian or Lebanese business owners mingled with were more likely to be involved in related commercial activities unlike the indigenous Africans whose business peers were few and geographically isolated in their distribution in mostly rural areas. Those who broke the bonds of trust among the Asians and Lebanese, e.g. by failing to repay loans, were made outcast and could not interact with the existing networks (Kristiansen and Ryen 2002: 181). Indigenous Africans did not belong to such groupings that fostered trust outside of the family. Trustworthy business contacts for the indigenous Africans were therefore limited mostly to families and these restricted possibilities for networks and business growth.

4.3.3 Use of educated clerks and professional advisors

The large Lebanese shops employed educated young men as clerks at relatively high wages (Falola 1990: 534). Asians were also not just petty traders but large numbers of accountants, clerks, and bookkeepers came from the ranks of the Asians in East African countries (Cable 1969: 220). The presence of these qualified people allowed Lebanese and Asian businesses to acquire additional expertise and management skills to run their enterprises more efficiently and to be more competitive.

4.4 Asian expertise in managing business growth in South Africa

Expertise in managing growth for Asians came from transferable support skills from the owner-manager, employees, partners, family, professional advisors, and networks.

4.4.1 Transferable support skills from the Asian owner-manager

Asians who came to South Africa were of different social and economic status. There were wealthy merchants, relatively poor passenger Asians and the indentured group. The earliest traders and shop owners came from these different groups. Some had previous experience in business while others did not (Hart and Padayachee 2000: 687; Bhana and Brain 1990: 35). Those that had previous experience in business had a better competitive advantage over those that did not have such experience. The Asians that did not have previous experience gained experience by being shop assistants and later set up their own businesses. This involvement in cash trade had not permeated the African population as they relied on subsistence farming and bartering (Padayachee and Morrel 1991: 75, 81 & 92). The Asians accumulated the necessary knowledge and information about the local trading environment while the Black Africans were still oblivious of such knowledge. The Asians had already perfected their skills and were more competitive by the time Black Africans entered the cash economy.

Although most of the Asian pioneers were not educated, they could perform the basics in business management e.g. bookkeeping. Books of account were often written in their home languages such as Gujarati (Vahed 2005: 473). The later generations of Asians in South Africa encouraged education and sent their children to secondary schools and universities; even to countries outside South Africa. They often built and maintained their own community schools (Hart and Padayachee 2000: 688). More skills were acquired by the Asians through education while the majority indigenous African population was subjected to extreme repression under apartheid with the Bantu Education laws imposed on them (Thomas 1996: 330-334; Christie and Collins 1982: 59-74; Johnson 1982: 214-233) or suffered disruptions during the liberation struggle or the inadequacies of the disjointed Bantustan-based education systems. Participation in the economy by Black Africans was limited to designated areas through apartheid legislation. Many Black Africans could not acquire skills through on-the-job learning or apprenticeship as fewer opportunities for this type of learning were available. The Asians gained competitive advantage through experience, education, technical skills and being pioneers in the business sector compared to Black Africans.

4.4.2 Family and partnerships on managing growth

The pooling of ideas in the family businesses and the added input from the other partners enabled the Asian businesses to manage the growth of their enterprises efficiently. Sons were nurtured from an early age to inherit the family businesses and therefore received the necessary management skills. The impact of pooling together the available management skills was evident from the fact that the largest businesses were partnerships (Vahed 2005: 458). Relatives with commercial experience and knowledge of the local markets were sometimes recruited as working partners. In cases where enough capital to expand had been accumulated, multiple stores were opened and different partners often looked after each store, albeit under the same umbrella body (Vahed 2005: 454). These partnership arrangements improved the management structure of the business.

Asians have retained the family approach from the colonial to the current era as indicated by Desai (1996: 100). The father is the head of the family and exercises authoritarian rule over the whole family. Young children are expected to conform to the principles espoused by the father and they tend to apply the same principles to their own families when they have grown up. Nadya Bawa (2006: 170-184) cited several contemporary family businesses which encouraged the younger generations to get education, explore other fields outside the family business, start at the grassroots level in the family business and work their way up to the top. Starting at the bottom ensures that the future managers have a holistic understanding of the business from the factory floor to the top management level. Getting education and working for other companies before leading the family business also makes the Asian business managers aware of the external environment.

Asians have perfected the management of family-owned businesses unlike the Black Africans who, firstly, find difficulties in transferring family relationships into the workplace environment (Bernstein and Schirmer 2007: 3). Issues of who should be the boss and the subordinates often lead to conflicts and disagreements in African businesses. Secondly, although the family is usually a source of capital at the start-up phase, family responsibilities can also reduce available finances at a later stage (Pedersen and McCormick 1999: 124). Collectivism outweighs individualism such that the success of the business can be viewed as a public good within the African extended family and the proprietor must be prepared to share the success with the rest of the family. The ability of the enterprise to accumulate resources and grow is therefore affected by the situation within the extended African family. Proper management of the enterprise can be compromised as income transfers to family members increase. Wrong decisions like investing extensively in fixed assets or consumer durables can be made just to tie up the cash and reduce the income transfers to family members. This approach by African business owners often results in cash flow problems and ultimately the demise of the enterprise. This is unlike the Asian families where the father is the head of the family and the business; his decisions are obeyed.

4.4.3 Professional advisors and networks on managing growth

The merchants and rich Asian entrepreneurs used salaried managers and even imported bookkeepers from their home countries as most of the shop assistants they employed were unskilled and untrained (Vahed 2005: 454-477). The smaller business owners did not have funds to hire permanent clerks but frequently engaged bookkeepers who travelled throughout the country servicing various businesses. This assisted them to be able to manage their businesses and keep books of account for purposes of licence renewal applications. Many trading licence renewal applications were rejected on the basis of the entrepreneur being unable to keep books of account in English or Dutch.

Networks with large business houses were also established with the smaller enterprises acting as agents of such large houses (Padayachee and Morrel 1991: 84). Organisations were formed to defend the Asian commercial interests and one of them was the Indian Chamber of Commerce which was established as early as 1908. Political organisations such as the Natal Indian Congress (NIC) were also formed but the NIC was initially dominated by the wealthy merchants and failed to close the gap with the lower classes. Later the NIC changed its approach and accommodated the lower classes. These organisations enhanced cooperation and networking within the Asian community.

4.5 Management expertise of expatriate Africans

Expatriate Africans owning businesses in South Africa can be found all over the country, in both urban and rural areas. Their abilities in managing their businesses stem from transferable support skills gained through education, experience gained from active participation in business, and training.

4.5.1 Skilling through education

The education systems for Africans during colonial times were of very poor standards and were designed for exploitation, domination and sustaining the provision of cheap labour (Boye and Mennasemay 1988: 686). The situation changed when the African countries gained independence. Mass education became the focus for all the countries (Emoungu 1987: 283). A lot of resources were devoted to education and some countries even provided free education e.g. primary education was offered for free in Kenya (Ikiara 1990: 45). The type, quantity and quality of the African education systems were drastically changed. Vocational and technical education was also introduced in many countries. An example showing the drastic change in the revamped education system is that of Nigeria which established five universities of technology in the 1980s to add to sixteen federal academic universities (Hamilton and Asiedu 1987: 347-351).

The economic objective of educational expansion was to meet the manpower needs that resulted from the departure of colonialists (Emoungu 1987: 284). Formal education is acknowledged as a method of improving the productivity of workers and educated entrepreneurs enjoy a higher rate of firm growth (Ramachandran and Shah 1999: 85; Emoungu 1987: 284). Educated entrepreneurs acquire better management skills such as the ability to hire and manage large numbers of people, the capacity to maintain accounts and records, and the ability to access new technology. Ramachandran and Shah also reported in 1999 that ownership of enterprises by Kenyan Africans with secondary education and university degrees was 45.4% and 23.7% of the total number of enterprises respectively. In Tanzania, the percentages were 29.9% and 18.8% respectively for the same period. These indicate a huge improvement in the education of Africans compared to the colonial era at the end of which a country like Zaire emerged as the most economically progressive in the Sub-Saharan region excluding South Africa but only had 20 university graduates when it attained its independence in 1960 (Emoungu 1987: 287).

Expatriate Africans in South Africa enjoy competitive advantage in terms of skills acquired through education compared to the local Black African population whose education was only transformed after the political transformation of 1994. The transformation in South Africa occurred decades after some of the other African countries had effected changes to their systems. The burden of the Bantu Education system and separate homeland education structures also dragged the local population into underdevelopment (Christie and Collins 1982: 59-74; Johnson 1982: 215-233). Transformation of the South African education system has also been burdened with problems of being continuously reviewed. The education system has gone from the racially divided education system under apartheid, to a unified system, to the outcomes based system which was in turn reviewed. The local Black African population is therefore still at a competitive disadvantage when compared to expatriates whose educational and technical skills are more advanced.

4.5.2 On-the-job learning

Skilled jobs in African countries during the colonial era were not accessible to the indigenous African citizens. Such jobs were dominated by Europeans and Asians. On-the-job training or apprenticeship as a way of acquiring skills was therefore not accessible to the African population. The dual nature of the African economic systems during the colonial era also resulted in the modern sector being dependent on the importation of physical and human capital as well as advanced technology from outside Africa. This reinforced the exclusion of the largely unskilled African population from economic participation and development. This is similar to the situation that the indigenous South Africans were subjected to under colonial rule and apartheid.

Employment for indigenous Africans in skill-intensive jobs was possible as vacancies occurred after the departure of some colonialists after independence. Some of the African countries enforced the Africanization of their economies leading to expanded employment of indigenous Africans or forced the foreigners to enter into partnerships with the local African population or expropriated Asian-owned businesses. Evidence of Asian business expropriation was shown by the Kenyan situation where a thousand non-citizen Asians were simply told to part with their businesses in August 1973 (Balachandran 1981: 317; Patel 1972: 14). Subsequently, in Kenya, the number of medium-sized firms in Asian hands dropped from 60% to 41% in the period 1965-1973 while Asian ownership of big firms dropped from 66% to 47%. Indigenous Africans had full or partial ownership of 60% of all new private companies in Kenya by 1973 (Balachandran 1981: 318). The African population gained hands-on experience through employment, business ownership, or involvement in partnerships. Partnerships with Asians were later viewed as disingenuous by state officials who vehemently campaigned against such partnerships e.g. the former President of Kenya, Daniel Arap Moi, warned Kenyans against “unscrupulous Asian businessmen who take in African partners only as figureheads” (Cable 1969: 226).

A number of African countries enjoyed prosperity in their first decades of independence before they disintegrated as a result of civil wars, inappropriate government policies, droughts, and world-wide recessions such as that of 1979 to 1982 (Green 1990: 5). The lack of cohesion among the parastatals (often granted monopolistic positions); the formal sector involving multinational companies; the enterprises owned by migrant traders like the Asians; and the informal sector dominated by indigenous Africans is viewed as one of the causes of failure in African economies (Pedersen and McCormick 1999: 112-113). In some cases the state even competed with the private sector through its parastatal companies e.g. in Kenya, the state created its own corporation which competed in wholesale trade in groceries and other consumer goods (Pedersen and McCormick 1999: 115-116). The parastatals and the large businesses owned by indigenous Africans have generally depended on the state for assistance and for restricting competition. The existence of these African-owned businesses and parastatals which were also managed by Africans meant that Africans as individuals were gaining on-the-job training from a much earlier period compared to indigenous South Africans despite the fact that the economic policies were not conducive to consistent growth.

The economies of most African countries failed at both the macro and the micro levels. The resultant economic downturn in the African economies caused the international community to intervene (Rogerson 2001: 131-136). Some of the intervention strategies were focused on small businesses e.g. the UNDP-ILO-

Kenyan government initiated Sub-contracting and Partnership Exchange Programme of 1991 which promoted linkages and subcontracting arrangements between large and small enterprises. Another Kenyan initiative from the private sector was the Kenya Management Assistance Programme (K-MAP) which was established in 1986 with the objective of transferring expertise from established large enterprises to SMMEs through technical and managerial training and counselling. African citizens of affected countries gained knowledge and experience from such initiatives. This also exposed the African citizens to international trade standards and norms as well as globally competitive strategies. Expatriates in the South African economy who have had that kind of exposure are expected to be more competitive than local citizens without similar exposure.

Many African citizens fled from their countries when their economies failed. An indication of the extent of the dispersions was shown by the case of Ghana that had between 900 000 and 1.2 million of its citizens residing in Nigeria alone before they were repatriated in 1983 (Akyeampong 2006: 301). The economic collapse and dispersions created space for the expelled Asians to be recalled by many of the African countries and the returnees were compensated for the losses incurred during the expulsion or expropriation (Balachandran 1981: 322-323). Some of the countries recalled the Asians with the hope that their return would improve foreign direct investments. The well-resourced, well-connected, and commercially astute Asians soon dominated the African economies. Evidence of this domination is shown by the fact that by 1997 in Tanzania, Asians had purchased 92 of the privatised former public enterprises out of 143 and the indigenous Africans bought only 23 (Aminzade 2003: 50). Hence, in some cases the Asians were viewed as having benefited disproportionately from economic liberalization policies (Whitaker 2005: 119).

An article by Ramachandran and Shah (1999: 79) reported that, in Kenya, African ownership of the largest firms in 1999 was only 3.6% while Asians owned 96.4%. In Tanzania, Africans owned 30% of the largest firms while Asians owned 60%. African ownership was more evident in the very small enterprises with percentages of 79.3 and 93.7 in Kenya and Tanzania respectively. So Kenya alone experienced a fluctuation in Asian ownership of large businesses from 66% at the beginning of the Africanization process from 1965 down to 47% in 1973 and finally up to 96.4% in 1999 after the Asians had been recalled. The decades of independence have brought the indigenous Africans to a situation where the majority is sidelined from economic activity although they enjoy political freedom. It is the lack of economic opportunities like that caused by the crowding out of prospective indigenous African entrepreneurs by parastatals and foreigners that has led to an extensive flight by Africans to all countries of the world including South Africa.

Entry into skilled jobs Black South Africans was curtailed by apartheid policies and the few available jobs could not yield enough apprenticeship positions to significantly improve the abilities of the local population. By 1996, nearly 90% of senior managers in South Africa were Whites (Smit and Cronje 2000: 27). At the same time some of the African countries had enjoyed close to 30 years of independence with the associated job opportunities even though economic activity by indigenous Africans was largely insufficient. The African expatriates therefore had a huge head-start in experience and in on-the-job learning compared to their South African counterparts even though their experience might have been gained from operating very small enterprises or in the public sectors of their own countries.

4.6 Expertise in Black African-owned SMMEs in South Africa

Black Africans were disadvantaged in terms of acquiring expertise in managing business enterprises due to poor education and lack of experience. This was more evident in rural areas where the trading stores owned by Whites or foreigners constituted the only major commercial activity. In the Bantustan states like Transkei, significant transfers of White-owned trading stores to Black Africans only occurred when these states were granted self-government status (Campion 1976: 18-20). Attempts at industrialisation in the homelands favoured the Whites who relocated to the border areas near the homelands since these industrialists were allowed to operate their own factories for 20 to 25 years before the factories were transferred to Black Africans; acquisition of the buildings was wholly or partly financed by the government; the industrialists enjoyed tax holidays; were compensated for relocating; and obtained wage, transport and accommodation subsidies (Campion 1976: 18-20; Best 1971: 342). The conditions under which the White industrialists were supposed to offer mentorship and business training to Black Africans were completely different to those the Black Africans experienced after the businesses were handed over. The businesses did not survive as evidenced by the numerous ghost factories in what were then border areas.

It has been acknowledged that a large segment of SMME entrepreneurs in South Africa have limited skills and that the most successful SMMEs are those in which entrepreneurs have relatively high levels of education, technical/managerial skills and training (Rogerson 2008: 70-71). The government has adopted strategies and set up institutions to improve the skills of entrepreneurs in SMMEs. The Centre for Small Business Promotion and the Provincial SMME desks were set up to offer policy support, coordination, supervision of the establishment of new institutions, and provide information (Small Business Development 2008). The Ntsika Enterprise Promotion Agency was set up to provide non-financial support such as mentoring, business advice, assistance with tender processes, and technology support. This support was provided through the Local Business Services Centres (LBSCs) and Tender Advice Centres (TACs). Manufacturing Advisory Centres (MACs) to offer support for small scale manufacturing and Business Referral and Information Network (BRAIN) to provide information were also established. The government later introduced the Accelerated and Shared Growth Initiative for South Africa and the associated Joint Initiative for Priority Skills Acquisition (JIPSA) to provide solutions to critical skills requirements. Sector Education and Training Authorities (SETAs), learnerships, and institutions like the Small Enterprise Development Agency (SEDA) were promoted in the attempts to revive and strengthen SMMEs.

Government attempts at promoting SMMEs have had some shortcomings and have met with criticism. Empowerment pressures and changing focus has resulted in some of the programmes being pursued with less vigour e.g. the ASGISA programme. Some of the criticism comes from the perception that the attempts are biased towards established businesses as well as medium to large enterprises in urban areas which predominantly belong to Whites and Asians (Rogerson 2004: 774). Small and micro Black African-owned enterprises have struggled to survive as they are sidelined or neglected. Some of the government agencies adopted a top-down approach focused on achieving bureaucratic order and visibility rather than providing useful support to entrepreneurs (Bernstein and Schirmer 2007: 5).

The strategies of the government institutions also leaned towards service providers and therefore lost direction in developing small and micro enterprises. The training material is mostly generic and does not address the specific needs of the trainees in an SMME sector (Rogerson 2008: 73). Most of this available training material is relevant for the corporate rather than the SMME market. Many of the service providers are not properly accredited and do not have the required skills to present courses. Many trainers lack the necessary empathy with the SMME market as they are more oriented towards the corporate market. The training courses are not graduated to take into consideration the different needs of the SMMEs at different stages of growth. In some cases, the SMME owners also lack appreciation of the benefits of training or skills acquisition. Rogerson (2008: 71) cited a FinMark Trust study of 2001 which found that only 12.5% of small business enterprises in Gauteng had received business training at that time.

Another point of criticism is the requirement that SMME owners should be members of networks in order to access benefits from such networks since this favours already established businesses whose networks are well established. These established networks include those of Asians who as a group are classified as previously disadvantaged. Black Africans with intentions of starting their own businesses are disadvantaged as they cannot meet the stringent requirements of some of the institutions. Non-governmental institutions like the National Federated Chamber of Commerce and Industry (NAFCOC) which were established to assist Black African business have shown little impact in improving the situation of their target group (Bernstein and Schirmer 2007: 2). These aspects retain competitiveness in the hands of Asian businesses when compared to African enterprises.

4.7 Chapter summary

SMMEs have limited capacity in terms of human and financial capital. This limited capacity reduces the ability of SMMEs to tackle management problems because there may be no expertise in place or no adequate funds to hire professional help. The owner-manager alone or with a few individuals ends up performing all the management tasks involving planning, organising, controlling, and leading the business activities.

Asians and Lebanese, in East and West Africa respectively, obtained knowledge to manage their businesses from:

- On-the-job experience by working in the family businesses or working for others.
- Education, as the generations following the pioneers were sent to schools and universities in the host country and overseas.
- Networks in their religious and ethnic clusters wherein they shared information and tackled common problems.

Asians in South Africa obtained expertise in managing their businesses from the same sources as the Asians and Lebanese, namely, through on-the-job experience, education, and networks. South African Asians also used professionals such as bookkeepers whom they engaged on non-permanent basis as these professionals serviced several merchants.

The improvement in the quality and access to education in African countries after independence assisted in equipping the citizens of these countries with more skills. The departure of the colonialists, Africanization of the economies, and expulsion of foreigners created opportunities for African citizens to enter sectors of the economy from which they were previously excluded before independence. These changes improved the competitiveness of African expatriates when they emigrated to other countries. The emigration increased as a result of collapsing economies as a result of inappropriate economic policies, civil wars, and external shocks such as recessions, droughts and famines that affected the international community.

Poor education, lack of access to business opportunities, deliberate colonial and apartheid suppression, and limited apprenticeship opportunities deprived the Black Africans the opportunities to gain expertise in managing businesses. The democratic government of South Africa after 1994 adopted policies and strategies aimed at educating, training, and skilling SMME owners. These included setting up Provincial SMME desks, Ntsika Enterprise Promotion Agency, SEDA, MACs, learnerships, and SETAs. Although these were set up with good intentions, their successes were negatively affected by implementation drawbacks and perceptions that they were biased towards established medium and large businesses in urban areas which were predominantly owned by Whites or Asians. Lack of expertise in managing growth was therefore one of the contributors to poor competitiveness by Black Africans when compared to Asians and expatriate Africans.

CHAPTER 5

ACCESS TO RESOURCES

Economic resources are defined as the inputs in the production process (Hyman 1997: 35). No enterprise can operate without resources and some resources are considered to give competitive advantage to firms that can access such resources and use them as inputs in their production processes. Competitive advantage is not derived from mere ownership of resources but the ability to use them to give additional value to the firm. The resource-based theory of the firm argues that for resources to give competitive advantage then they must be valuable, rare, inimitable, and not substitutable (Barney 1991: 105-112).

This chapter first presents the types of resources in section 5.1. This is followed by a discussion of resource-based competitive advantage in 5.2 and then methods of accessing financial resources in section 5.3. Resource access for Asians and Lebanese in East and West Africa is then discussed in section 5.4. Discussions of resource access for Asians and expatriate Africans, both in the South African economy, are then presented in sections 5.5 and 5.6 respectively. Factors that affected access to resources for the Black Africans in South Africa from the colonial era up to 2007 are presented in section 5.7 and the chapter summary is given in 5.8.

5.1 Types of resources

Classification of resources is often associated with the theory applied e.g. the resource-based theory or the competency-based theory. One form of classification was given by Wickham (2004: 200-212) who listed three types of resources, namely, the financial, human, and operating resources. The classification of organisational process and learning, intangible assets like patents and brand names, and intellectual assets which relate to specific knowledge of technology or products as financial, human, or operating resources is rather tentative, but these can also be classified as resources. Application of the resource-based theory allows even the classification of customers and customer relations as resources even though the enterprise does not own these resources (Gouthier and Schmid 2003). These resources which differ in form or classification are combined by entrepreneurs to produce the required output.

5.1.1 Financial resources

These resources take the form of cash or are readily converted to cash (Wickham 2004: 200). Resources that are easily converted to cash are said to be liquid and the opposite is illiquid. Cash is the most liquid resource. Cash as a resource may be in the form of petty cash, money in a bank's current account, or other direct access accounts. Overdraft facilities and loans constitute other types of financial resources. An overdraft facility provides short-term loans as a result of an agreement between an enterprise and a bank which allows the enterprise to withdraw more money from the bank than the funds it holds in its current account. Overdrafts and loans are relatively expensive since interest has to be paid on the outstanding amounts. Loans can be obtained from institutions or individuals and the terms of the loan include the loan amount, the interest rate, and the repayment period. Loans can be secured against the assets of the enterprise. An enterprise with no assets to use as collateral may be denied access to loans. Lebanese operated from one central location, spreading their activities to outlying areas using lorries, and they used this constancy in location as collateral to secure bank loans (Falola 1990: 527-535). Asians established mutual trust through their social, ethnic, and religious networks and these helped them circumvent the need for collateral in securing loans among themselves and they also avoided formal banks (Padayachee and Morrell 1991: 92).

Cash owed to the enterprise by debtors also constitutes a financial resource. This kind of resource presents problems in terms of periods of grace requested by debtors and the problems are often compounded by defaulters. Some of the money owed may therefore never be recovered. Many of the pioneer Asian merchants in South Africa became insolvent although they had large sums of money owed to them by their debtors (Vahed 2005: 466-469).

Although the financial resources are the most liquid and flexible resources, they are also the least productive (Wickham 2004: 203). They are not directly involved in the production process but only useful in obtaining the resources directly involved in the production process like raw materials and physical capital. An enterprise with low financial resources and high amounts of productive assets can encounter problems in meeting short-term commitments as its resources will be tied up in such illiquid investments. It will then miss out on unexpected opportunities. Maintaining high liquidity also implies that the enterprise is keeping non-productive financial resources instead of expanding production by investing in productive assets. Enterprises therefore must try and achieve a balance between liquid and illiquid assets.

5.1.2 Operating resources

These are resources used in the production process and they include business premises, motor vehicles, production machinery, raw materials, storage facilities, and office equipment Wickham (2004: 204). Some of the operating resources depreciate with time or with use. It becomes necessary to replace the worn-off or obsolete equipment from time to time. This represents a cost to the enterprise and must be taken into consideration when planning production. The cost of depreciation can be reduced if the entrepreneur claims depreciation allowance from SARS, but these allowances do not return the full replacement costs for a new asset. Some assets are excluded from depreciation allowances based on issues of ownership or direct use in operations. Enterprises cannot claim depreciation allowances for assets they do not own but rent or those not involved directly in operations e.g. buildings. Inflation distorts replacement costs. This distortion derives from the fact that depreciation is based on the historic acquisition price of the asset and replacement costs which depend on current prices might be understated in real terms when inflation is high.

The use of some of the operating resources is subject to external regulation by the state. These include legal aspects as well as health and safety standards (Wickham 2004: 204). Enterprises must abide by the prescribed standards or face punishment for non-compliance. It might be necessary for an enterprise to purchase safety equipment for its employees, e.g. masks and air conditioners, which are not directly involved in the production process. The safety equipment brings additional costs and reduces the funds available for the purchase of productive resources. Asians in South Africa were often penalised for non-compliance with sanitary, safety, and accommodation standards (Vahed 2005: 475-476). The licences of those found to be in contravention of the minimum standards were not renewed. Environmental protection and waste disposal regulations also compel enterprises to set aside funds to ensure compliance and enterprises can be penalised or closed down by the regulatory authorities as a result of non-compliance with the set standards.

Operating resources are not readily converted to cash since the market for second-hand goods is not always well developed and they can also be of a highly technical nature that requires continuous assistance from the manufacturers or suppliers. Purchasing or renting of operating resources should therefore be done with due consideration of the costs involved (both direct and opportunity costs) as well as the expected demand. Excess capacity in the form of large quantities of production equipment while demand is low can lead to high fixed costs and unnecessary inventory. Renting the equipment might be a good idea in this case as opposed to buying it outright (Wickham 2004: 205). Asians in South Africa frequently opened stores on lands rented from Black Africans or White farmers (Vahed 2005: 470) while Lebanese in West Africa traded with outlying communities using lorries instead of erecting permanent shop structures. These approaches allowed these traders to respond quickly to changes in demand without being overly concerned with losses from relocation to areas with higher trade potential. Permanence of location, on the other hand, allows an enterprise to access bank loans by using the premises as collateral as was the case with Lebanese in West Africa as mentioned in section 5.1.1 above.

5.1.3 Human resources

Human resources include productive labour, technical expertise in the form of knowledge specific to the product or service offering, provision of business services like legal or accounting services, skills in functional areas like finance and communication, as well as strategic and leadership skills (Wickham 2004: 205-206). A balanced application of human resource skills is critical at all organisational levels. Specialisation, where possible, allows for the effective exploitation of the best attributes of the workforce but the specialised tasks must be coordinated with the bigger organizational goals and procedures.

Employing personnel should also be in relation to the existing demand for the product or service and the productivity of the workforce. Human resources constitute a fixed cost. Laying off excess staff may not be possible when demand is low due to contractual obligations, social responsibility, or the consideration of investments made in training employees (Wickham 2004: 206). Each enterprise must devise means of retaining personnel as they might be enticed away by competitors. The enterprise must also abide by the statutory requirements such as the labour relations, basic conditions of employment, employment equity and health standards as set out in the South African legislation. SMMEs are limited in their ability to hire personnel by their size and inadequate funds.

5.2 Competitive advantage based on resources

Resources can give competitive advantage to an enterprise if they are valuable, rare, imperfectly imitable, and not substitutable (Barney 1991: 105-112). Issues of heterogeneity and immobility of resources are important for these four requirements to have a bearing on competitiveness. Resources are valuable if they enable the enterprise to conceive of or implement strategies that improve the enterprise’s efficiency and effectiveness. The enterprise must be able to exploit opportunities and reduce threats by using the resources it has available. These valuable resources must not be freely available to a large number of competing firms if they are to impart competitive advantage. A firm can enjoy competitive advantage if it is employing a value-adding strategy that is not simultaneously employed by a large number of competitors (Barney 1991: 106). The impact of competitiveness derived from resource use is more pronounced in small service enterprises with high service/product differentiation rather than in small retail enterprises where the products are homogeneous.

Firms that do not have the rare valuable resources should not be able to access such resources or competitors should not be able to obtain perfect substitutes in order for competitive advantage to be sustained. This condition of imperfect imitability can be derived from three factors, namely,

- If the ability of the firm to obtain resources is as a result of a unique historical condition. A previously undetected factor can influence competitiveness in the future. A firm located at an area that turns out to be more valuable than was anticipated or a unique organisational culture that emerged in the early stages of a firm's history can impart competitive advantage. Lebanese and Asians located their businesses in previously unexplored African areas and became successful.

- If the link between the resources possessed by the firm and its competitive advantage is causally ambiguous. It will be difficult for competitors to emulate or duplicate the competitive strategy of a firm if they cannot understand how the advantage came about. Even the management of the competitive firm should not be able to understand the source of its competitiveness or the competitors can entice the knowledgeable managers away from the firm.

- If the resources generating a firm's competitive advantage are socially complex. Imitation of resources may not be possible if competitors are unable to systematically study and influence the socially complex strategies. Resources that may be socially complex include the firm's culture, interpersonal relationships within the firm, and the firm's reputation among suppliers or customers. Since goodwill cannot be bought, then no firm can imitate its competitor's advantage-yielding strategy and get the same results. Customers can flock to one hairdresser or restaurant due to their appreciation of the service offered and competitors might not be able to emulate the leading enterprise's strategy even though they are in similar business sectors.

There should be no perfect substitutes for the value-creating, rare, and imperfectly imitable resources if competitive advantage is to be sustained. The substitutes need not be perfect replicas of each other for the advantage to be lost e.g. a charismatic leader's vision and strategy can be emulated by a systematic strategic process and the advantage derived from the leader's vision will be lost.

5.3 Methods of accessing resources

Access to raw materials can be through ownership as a result of inheritance or purchasing. Inheritance may be as a result of a previous event e.g. if the resources were part of the family assets and the current owners do not have to buy such resources. Physical capital can also be accessed through inheritance, purchasing, or rent. In many cases, Asians and Lebanese inherited businesses from their parents unlike most indigenous Africans who had to start from scratch in setting up their businesses. In the case of rent, the enterprise does not own the resource but pays an agreed upon amount to the real owners of the resource for accessing such a resource. As already mentioned in section 5.1.2, Asians in South Africa frequently rented business premises in lands owned by Black Africans or in White-owned farms (Vahed 2005: 455). Human capital can be accessed through wage employment, non-wage employment in the form of family personnel, or consulting. The quality of human capital can be improved through education, mentoring, external or in-house training, and apprenticeship. Productivity is likely to improve with improved quality of human capital.

Financial resources can be accessed in a number of ways depending on the type of financial resource obtainable. The methods of accessing financial resources are as follows:

(a) Accessing short term finance

Short-term finance refers to finance that is repayable or reviewed within one year (Nieuwenhuizen 2004: 345-346; Nieman 2003: 149-151). Forms of short-term finance include trade credit, bank credit, bills of exchange, acceptance credits, factoring, and customer advance payments (Van Aardt *et al* 2008: 192-193). Trade credit involves firms allowing enterprises to obtain goods without putting up cash payments upfront. Payment is deferred to a later period. The amount and terms of credit depend on the creditworthiness of the buyer as perceived by the selling firm. Enterprises with a history of regular payments without defaulting are usually favoured in granting trade credit. Suppliers can offer rebates for payments in cash or payments made before the due date (Van Aardt *et al* 2008: 193). Defaulters usually get their trade credit reduced or even cancelled. Asians in South Africa used their networks to facilitate payments or used the legal route to extract payment. In the absence of networks or poor legal systems, it becomes difficult to extract payments from defaulters. This is viewed as a very important source of finance for small businesses especially at the start-up phase since they experience difficulties in obtaining finance from other more formal sources. The difficulty in obtaining finance stems from lack of resources that can be used as collateral and unverifiable credit records.

Bank credit as a form of short-term finance involves the use of overdraft facilities (Nieman 2003: 149). The enterprise is allowed to withdraw money from the bank exceeding what it holds in its current account. The bank first ascertains the character of the enterprise and obtains credit references before it offers a cheque account and an overdraft facility. The enterprise can then use the overdraft facility up to the specified limit but banks normally dishonour cheques issued while the facility has been exceeded. Interest on the overdraft facility is normally high and it depends on the prevailing interest rates and the creditworthiness of the borrower. Other charges applied by banks include deductions for issuing bank statements, ledger and tax levies on cheques issued.

Bills of exchange include bills payable and promissory notes in which the buyer agrees to pay the debt at an agreed future date (Nieman 2003: 150). The bill is a binding contract that is flexible in the hands of the seller since the seller can obtain cash for the bill by selling it to a financial institution. This short-term credit source was used extensively by earlier Asian traders in South Africa (Padayachee and Morrell 1991: 82-90). This kind of credit helped the Asians tremendously since banks were apprehensive about Asian businesses and did not extend adequate credit to the Asians. The Asians of Islamic faith modified their credit offers to circumvent the religious prohibition of lending on interest by trading in futures where the borrower received the agreed upon credit with interest already factored into the fixed price of a future sale.

Factoring involves ceding debts to a third party (referred to as the factor) who pays the seller the agreed upon amount owed by the buyer and this third party collects the debt from the buyer (Van Aardt *et al* 2008: 193; Nieuwenhuizen 2004: 344-345). The seller obtains the money owed by the buyer within a short time from the factor rather than wait for the buyer to pay. The agreement between the seller and the factor may involve a discount but the advantage to the seller is that he/she gets to reduce the staff and paperwork associated with maintaining accounts and monitoring debts (Nieman 2003: 151). The seller also does not have to offer discounts to the buyer for prompt payment. Asians used third parties to settle debts involving small traders in outlying areas and large merchants in distant locations (Padayachee and Morrell 1991: 89). A merchant located near a small trader where the latter owed another merchant payment for goods purchased would act as an agent of the distant merchant and accept payment on behalf of the distant merchant from the small trader in debt. Transfers of payments received would only occur when the merchants met to settle their own personal debts and no interest was charged for the transactions. This approach facilitated trade and payment for the small traders and the merchants acted as bankers.

(b) Accessing medium-term finance

Medium-term finance refers to finance that is repayable in a period of one to three years (Nieman 2003: 151). Sources of medium-term finance include instalment sale transactions, leasing transactions, and medium-term loans (Van Aardt *et al* 2008: 192; Nieuwenhuizen 2004: 342-345). Instalment sale transactions are also called hire purchase transactions and involve an agreement to pay the purchase price in instalments while the buyer also has possession and use of the item bought. Full ownership is only transferred to the buyer after the last instalment has been paid. The instalments are structured to include interest with the Credit Agreement Act of 1980 of South Africa, later replaced by the National Credit Act of 2007, stipulating the maximum amounts of the deposits payable and interest rates.

Leasing transactions involve obtaining goods or equipment through leases rather than outright purchasing. This often involves goods that are subject to constant technological changes or the user does not have to own the goods for lack of funds for an outright purchase or the equipment is used periodically. The lessee gets to use the goods in production activities without owning such goods. Ownership of the goods remains with the lessor and this owner gets paid by the lessee for use of the goods. There are two types of leases, a financial lease and an operating lease. A financial lease involves a commitment to make payments to the lessor over a specified period and cannot be cancelled once such contracts have been entered into (Nieman 2003: 152). Operating leases are similar to financial leases but differ in that they can be cancelled by giving the lessor a notice of the intention to cancel. Operating leases often include maintenance or service agreements and the agreement might include restrictions on the grounds for cancellation such as being conditional on trade-ins or upgrading of the leased equipment.

Medium-term loans are normally payable over periods of two to three years (Nieman 2003: 152). These loans are normally received with strict conditions intended to ensure their repayment. These conditions can include limitations on the sale or pledge of assets before the loan is repaid, restrictions on dividends that can be paid, or setting maximum permissible equity to debt ratios. These loans are not easily accessible to start-up businesses that do not have proven creditworthiness records or security in the form of assets than can be attached.

(c) Accessing long-term finance

Long-term finance can be provided for periods as long as the lifetime of the business (Van Aardt *et al* 2008: 192; Nieuwenhuizen 2004: 340-342). The types of long-term finance include shares, investment capital, or loans. Shares or equity capital refer to capital invested by the owners of the enterprise and the business has no commitment to pay back the amounts invested or the interest on such investments. The shareholders are the actual owners of the business who are entitled to dividends when they are declared. The ability of an enterprise to obtain equity capital depends on whether the business is a sole proprietorship, a partnership, a close corporation or a company. Companies, especially public enterprises, are the most likely to obtain equity capital and the sole proprietorships are the least capable. The wealth of the owners or shareholders of the enterprises and their willingness to invest in the business also determine the ability of the enterprise to access equity capital. The largest pioneer Asian businesses in South Africa were partnerships and this allowed the Asians to share risks while also pooling their resources in the form of capital or expertise (Vahed 2005: 458-462).

5.4 Access to resources for Asians and Lebanese in East and West Africa

5.4.1 Risk effects

According to the Perren model, the owner-manager who is willing to use the available resources to obtain what the business needs in the form of other resources presents a positive influence (Perren 1999: 377). Asians and Lebanese were able to access resources as a result of active risk taking and alleviation of risk. Asians and Lebanese ventured into remote areas in search of business opportunities. They risked money and lives in these searches. Proximity and contact with African primary producers enabled the Asians to access resources cheaply as they bartered with the indigenous African population. The cheap resources were a good return for the risks involved in going into the African hinterland. This gave the Asians a competitive edge over the Europeans who did not have direct access to these cheaper resources since they remained in the towns and cities.

Risk alleviation featured as a result of diversification. Asians and Lebanese engaged in both vertical and horizontal diversification. A memorandum submitted to President Idi Amin of Uganda in December 1971 showed that Asians were involved in primary produce processing of items like cotton and coffee; in sugar and tea industries; manufacturing e.g. cotton and textiles; service industries; goods distribution; and financial organisations (Patel 1972: 13). As an example, Kristiansen and Ryen (2002: 173-174) referred to a single family that had businesses in diverse sectors such as soda manufacturing, cattle rearing, a dairy, and several shops before these were lost during the nationalisation process in Tanzania in the 1970s. Struggling divisions in the individual's business empire could be supported by those divisions that were successful until they could stand on their own. From the side of the struggling businesses, resource needs could therefore be met without resorting to premature closure of the enterprise.

5.4.2 Debtors and creditors

The Perren model posits that suppliers offering favourable terms of business and quick-paying customers are a positive influence in accessing resources (Perren 1999: 377). Small Asian businesses acted as agents of larger merchant houses or used European suppliers (Falola 1990: 530). This kind of engagement ensured that the small businesses were fully resourced as they were able to receive trade goods on credit. Competitors like the African traders, who could not exploit similar credit arrangements had to rely on cash purchases or purchase their supplies from the Asians. As mentioned in section 5.1.1, excessive use of cash can result in cash flow problems, the inability to exploit unexpected opportunities and tying up of funds in inventory that cannot be immediately disposed of. The debtor-creditor arrangements with large reliable businesses gave the small Asian enterprises a competitive advantage.

Cultural unity, kinship, group cohesion, and geographical clustering reinforced cooperation among the Asians (Kristiansen and Ryen 2002: 168-181). Asian business owners came to know and trust their customers and suppliers. This ameliorated the risk of defaulting and dishonesty in business dealings; thus facilitating resource acquisition.

Asians also benefited from access to local branches of Indian banks like the Bank of Baroda and the Bank of India (Balachandran 1981: 318). Indigenous Africans did not have similar dedicated banks and were therefore disadvantaged in terms of access to credit.

5.4.3 Personal capital and investing family or friends

Personal capital derived from the owners, partners, family or investing friends was a huge contributor to the success of Asian businesses from the start-up phase to maturity. Growth was made possible by reinvesting the meagre profits made in the course of business operations. Asians and Lebanese were able to save money by maintaining a frugal lifestyle for the whole family. The extent of these frugal lifestyles was demonstrated in West Africa by the Lebanese business people who were considered to be wealthy but there was no clear indication of what they spent their money on since their lifestyles did not reflect this perceived wealth (Falola 1990: 535).

The earliest Asian and Lebanese arrivals were mostly men and those relatives invited to join them in Africa came for predetermined purposes e.g. cheap labour, as business partners, and to offer professional services such as bookkeeping, accounting, and legal services. Those invited contributed to the businesses rather than being burdens on the owners. Efficiency in production allowed the Asians to save more and then acquire other necessary resources. This was unlike the situation in the extended families of indigenous Africans where members could help provide resources but could also tap into the resources available to the enterprise, thus hindering its progress (Pedersen and McCormick 1999: 124).

5.4.4 Networks

Asians and Lebanese benefited from networks within religious, social, and cultural groups in their immediate areas of operations. These networks provided resources or lowered costs involved in providing information, technology, finance, or favourable terms of credit (Kristiansen and Ryen 2002: 169; Megginson *et al* 1997: 61). Asian business networks were more extensive than those of the native African businesses (Kristiansen 2004: 1153; Balachandran 1981: 325). Most of the people an Asian mingled with could contribute to building the Asian's entrepreneurial resources while the native African entrepreneur could hardly link his circle of acquaintances to his business (Kristiansen 2004: 1166) and these acquaintances had no resources to add to business success. Asians could therefore access resources better than the indigenous Africans who did not have similar elaborate networks that could strengthen business success.

As mentioned in section 4.3.2 above, many of the small business problems stem from isolation, therefore clustering offers substantial benefits. Location also becomes a critical factor in business success with home-based enterprises experiencing higher closure rates than those situated in market areas (Rogerson 2000: 689). Enterprises have to take into consideration aspects of location, clusters, and networks. The Asian and Lebanese networks were more extensive geographically considering the numbers of relations, the strength of ties, the diversity of networks, and flexibility as evidenced by those of Asians in Tanzania which extended to other East African countries, North America, the United Kingdom, and India (Aminzade 2003: 49). Relatives in different countries were exposed to different business environments and often engaged in different businesses altogether; hence their experiences could be complementary. Asians and Lebanese were also highly mobile and could relocate from areas where their businesses failed (Kristiansen and Ryen 2002: 171). Their destinations were determined by information gathered from the networks. Sharing of information, expertise, and resources in those networks could lead to enhanced competitiveness. The Asian and Lebanese international networks were established much earlier (from the end of the 19th century) than those involving Africans whose migration of educated and skilled people increased earnestly after the collapse of the African economies in the 1970s, after independence.

5.4.5 Employees and the state of the economy

Employees providing lower costs constitute a positive influence on resource access (Perren 1999: 377). Asians and Lebanese benefited from family members and relatives working in their enterprises since these were either not paid any salaries or were poorly paid. The owner could therefore make significant savings on salaries and then reinvest these savings in the business by purchasing more resources. Low overhead costs from salaries enabled the Asian and Lebanese businesses to undercut and be more competitive than those businesses with high overheads e.g. the European-owned enterprises.

African countries during the colonial era subjected Asians and Lebanese to contradictory situations. On the one hand they were excluded from land ownership, trading in certain goods or areas, and some jobs (Falola 1990: 527-528; Cable 1969: 221; Ghai and Ghai 1965: 35). They could not access some resources due to these restrictions. Business growth could not proceed freely and competitiveness of Asian businesses was affected.

On the other hand, the colonial era positioned the Asians and Lebanese in the middlemen position between Europeans and the indigenous African population. This arrangement sheltered the Asians and Lebanese from competition with the indigenous Africans as they operated at different levels of the economy e.g. in Uganda, the Africans were mostly small-time primary producers while the Asians were collectors and processors (Ghai and Ghai 1965: 36).

In addition to job and trading restrictions, taxes on indigenous Africans were even higher than those for the other race groups (Jamal 1976: 609). Possibilities for indigenous Africans to acquire resources were therefore limited by keeping the Africans unemployed, paying them subsistence salaries if employed, taking away even the small income earned by imposing high taxes, and reserving better jobs for the other races. An example of the income disparities experienced is that of the East African countries where Europeans earned an average annual income of £1 560, the Asians earned £564, while the indigenous Africans earned a meagre £75 (Kristiansen 2002: 170). By 1972, proportions of economically active Asians in wage employment in Kenya, Tanzania, and Uganda were 70%, 50%, and 45% respectively (Balachandran 1981: 319). Employment in the public sector for the Asians at the same time constituted about 33%, 25%, and 18% respectively. These show how Asians could accumulate more resources than indigenous Africans.

5.5 Access to resources for the South African Asians

5.5.1 Access to resources through active risk taking

South African Asians took risks in venturing into remote areas of South Africa during the colonial era and this allowed them to access cheaper resources by bartering with the indigenous African population. Asians were at risk of having their businesses closed down as the colonial governments regulated their existence and expansion at the behest of the White small traders (Muller 1968: 38-41). Some of the Asians who traded in farm produce were prepared to take land that was considered not suitable for sugarcane growing, develop it into productive land; but the sugar barons would repossess it once it had been suitably prepared (Bhana and Brain 1990: 47). During the apartheid years, separate development and forced removals were entrenched by the state thus increasing uncertainty and risk to the Asian businesses as they could be relocated at any time. Despite all these negative occurrences, the Asians persisted in setting up their businesses, expanding and diversifying. They reinvested the profits made in the survival and growth of their businesses.

5.5.2 Access to resources through networks

Extensive networks existed among the Asian small traders and the merchants during the colonial era and these networks ameliorated the earlier problems of exclusion from the formal banking sector (Padayachee and Morrell 1991: 71- 84). Goods, credit, and manpower circulated in these networks (Vahed 2005: 451, 463-465). These networks existed within South Africa and beyond since some of the larger Asian businesses had branches in India. These large businesses also had links with other establishments in England and the South East Asian countries as well as large White business houses in South Africa. The networks ensured a continuous supply of goods to the Asian traders in South Africa. As agents of the larger enterprises, small traders were kept supplied with goods for trade. The smaller traders carried less risk to themselves as the costs and risks were borne by the larger enterprises e.g. packaging of the imports, shipping, and insurance. Asian small traders also acted as distributors for White wholesalers to remote areas (Vahed 2005: 466-467). These networks were maintained until they were disrupted by internal state legislation and later thwarted by apartheid policies and sanctions. Indigenous Africans did not have extensive networks similar to those available to the Asians and their economic activity was actively suppressed by the state. Competitiveness derived from networks was therefore skewed in favour of the Asian businesses.

5.5.3 Resource access from debtors and creditors

The larger merchant houses acted as banks offering financial assistance to the smaller Asian traders as well as providers of goods on credit. Large sums of money were owed to these larger merchant houses indicating that they had sufficient capital and they did not discriminate against the smaller traders (Bhana and Brain 1990: 73). This was tremendous help for the small businesses which could not get financial assistance from the formal banking sector because Asian-owned businesses were considered untrustworthy by banks such as the Standard Bank (Vahed 2005: 463). The Asians also used diverse and sophisticated methods to access resources, especially the financial resources e.g. promissory notes, factoring, or dealing in futures (Padayachee and Morrell 1991: 82-93) .

Asians engaged in money lending as well as offering credit to their customers and they resorted to legal recourse in order to recover unpaid debts. Properties of debtors were sequestrated (Vahed 2005: 467). Money lending to members of the same social and religious networks who could be trusted with repayments and the use of legal recourse improved debt collection.

Apartheid brought about concentration of Asians in designated areas and allocated resources in terms of race. This resulted in the establishment of institutions like the New Republic Bank in 1970 in which shareholding was restricted to Asians only. Asians could therefore be served by the informal financial sector and a dedicated formal sector. Such dedicated facilities were not available to the African population who therefore could not compete with Asians due to lack of access to financial resources in addition to the deliberate suppression of their businesses by the state.

5.5.4 Personal capital, investing friends and family

The Perren model posits that owner-managers, partners, family, and friends willing to supply funds to the enterprise contribute positively to the growth of the enterprise (Perren 1999: 377). Asians used their savings and profits in setting up and growing their enterprises. These funds came from retained earnings from business operations, personal income from activities not related to the business, inheritances, assistance from wealthy relatives that they had worked for, and borrowing (Vahed 2005: 463,479; Padayachee and Morrell 1991: 81). The wage structure in South Africa was set such that Asians earned more than Coloureds who in turn earned higher wages than Black Africans (Muller 1968: 29-30).

Wealth was also retained within Asian families through marriages. Cousins married their close cousins and the dowry paid could be used to set up new businesses or expand existing ones. The Asians were able to accumulate resources as they sponsored people who had a contribution to make in the survival of their enterprises or sent remittances to their families in the home countries when they were able to do so. This is unlike the indigenous Africans who are born and raised in the midst of their numerous members of the extended families. Accumulation of wealth in African households was hampered by the requirements and expectations of the extended family as mentioned in section 4.4.2 that the owner of the enterprise has a commitment towards members of the extended family (Pedersen and McCormick 1999: 124). African families were made even poorer by being confined to townships or homelands far from the work places and being subjected to institutionalised low wages.

5.5.5 Employees and resource access

Asian businesses made savings on salaries by employing family members or relatives who were either not paid or paid little. Evidence of these low wages is shown by the £3 or £4 monthly salary paid by Asians to their workers compared to £14 to £20 paid by Whites to their own employees (Vahed 2005: 457). The family members or relatives were a huge benefit to the businesses as they were committed to the success of the business as it reflected on their own survival and were trustworthy. Larger businesses employed salaried employees who were bound by contracts that favoured the employers in that payment was only received at the end of the contract; payment was forfeited if the employee left before the end of the contract; the employee was liable for the costs of securing a replacement; and the employer was only responsible for board and lodging during the period of the contract (Vahed 2005: 457). The importation of family members was dampened by state intervention from the second decade of the 20^{th} century.

The apartheid regime offered incentives to White and Asian businesses to operate in areas close to the homelands, for example the border industrial areas, where cheap labour was abundant (Muller 1968: 40-41; Campion 1976: 18-20; Hart and Padayachee 2000: 684). The suppression of trade union activity and wage demands by the state assisted the business owners to save more from salaries. These savings could then be used to acquire resources.

Human capital as a resource was more developed among the Asians than among the Black Africans since the literacy levels were much higher for the Asians (Desai 1996: 89-92; Muller 1968: 17). This enabled Asians to be more productive as they could acquire and assimilate information much quicker than the Black Africans thus making them more competitive.

The low wage situation carried through from the colonial era to the apartheid years has been curtailed by the democratic governments since 1994 through legislation like the Labour Relations Act of 1995, the Basic Conditions of Employment Act of 1997, and the Employment Equity Act of 1998. All businesses are now forced to comply with the requirements of minimum wages, maximum number of working hours, health standards, and general safety conditions in the workplace. These laws have taken away the Asian ability to save from paying their employees low salaries. Some of the Asian businesses could not cope with the current demands and had to close down (Hart and Padayachee 2000: 684).

5.5.6 The state of the economy

The flexibility in which a business uses its resources is determined by legislation enacted by the state (Perren 1999: 377). Asian small businesses suffered mixed fortunes as a result of state legislation during the colonial and apartheid periods.

They were restricted due to White traders' demands on the state to constrain competition. They were refused licences due to reasons like inappropriate location of the business or insanitary conditions. They had to obtain visitors' permits to cross provincial borders, hence their job search possibilities and business operations were geographically limited (Hart and Padayachee 2000: 687; Muller 1968: 3). They also had to apply for permission, which was often denied, for wives, relatives, and business associates like bookkeepers to come over from India. These requirements denied Asian businesses access to resources in the form of physical location of premises and human capital. Asians who were previously indentured but decided to remain in the country had to pay a £3 fee which was at that time an exorbitant price for the Asians to afford. The advent of the Union of South Africa and apartheid placed more restrictions on Asian businesses e.g. municipal rates that were at times higher than those in White areas but the rates were not equated with services provided (Hart and Padayachee 2000: 688).

On the other hand, the state of the South African economy favoured the Asians. European employers preferred to have Asians as employees in certain industries or sectors as shown by employment levels of 82%, 87%, and 91% in "match factories", "sugar mills and wool washing firms", and "tea and coffee industries" respectively during the early 1900s (Bhana and Brain 1990: 56-57). Earnings from formal employment for business start-ups by Asians were therefore much better than for Black Africans.

The Asians responded to the restrictions of colonial rule and apartheid by organising passive resistance and appealing to the Indian and British governments. Some concessions were won through these efforts. Others resorted to collaboration with the apartheid regime and gained preferential terms for their enterprises (Hart and Padayachee 2000: 689-691; Desai 1996: 21-33). They accepted and advanced the doctrine of separate development during the apartheid years in return for Asian trader interests. The state offered incentives to Indian entrepreneurs in an attempt to appease them. Many Asians accumulated wealth behind apartheid barriers. Some of the Asian businesses have not survived the transformation started in 1994 when their protective barriers were removed (Hart and Padayachee 2000: 684).

5.6 Access to resources for expatriate Africans

Expatriate Africans can be considered to be active risk takers. They have persisted in setting up businesses despite the state's restrictions on foreigners and rampant xenophobia. Many have had their businesses looted, burnt down, suffered personal injuries, or died; but despite these drawbacks many have continued operations (Harris 2002; Palmary 2002; Peberdy and Rogerson 2000: 23-26). Some of the enterprises are located in townships, small towns, or even villages where security services are not always available. The Perren model argued that a willingness to take risks in order to obtain the necessary resources is good for the growth of an enterprise (Perren 1991: 377). Locating their businesses close to their markets e.g. township dwellers reduces costs from transporting goods to markets, storage, and rent for premises.

Resource acquisition has been made possible for the expatriates by investing in the businesses their own capital or contributions from friends and family. At times the funds are obtained from the home countries of the expatriates or the funds are earned by working in South Africa in wage employment (Peberdy and Rogerson 2000: 35-36).

Expatriates have also used networks to obtain the necessary resources. These networks have contributed financial capital and/or goods. Some of these networks extend to countries in the African continent and beyond. Examples of international SMME networks provided by Peberdy and Rogerson (2000: 36) included a clothes retailer from Mali operating in Johannesburg with brothers in the same business operating from Gabon and Congo. The networks sometimes extend beyond the African continental boundaries to Europe, North America, and the Far East as exemplified by a Nigerian restaurateur with relatives in the United States of America and the United Kingdom; or the Ghanaian curio retailer with relatives running a cafe in Canada. These networks put the expatriates on a better footing than the local Black African competitors who do not have access to similar international networks or do not have relatives outside of South Africa engaged in similar businesses or acquaintances in foreign countries to link up with.

Human capital is better developed in the case of expatriates due to a higher level of education and exposure to practical experience in business as discussed in sections 4.5.1 and 4.5.2 above. Expatriates are therefore better placed in terms of information acquisition and interpretation. During the start-up phase, many of the SMMEs owned by the expatriates employ people from the same countries as the owners, and locals get employed when there has been significant stability, accumulation and growth in the enterprise (Peberdy and Rogerson 2000: 34). Productivity in SMMEs owned by expatriate Africans is therefore expected to be relatively higher than in enterprises owned Black Africans due to better developed human capital.

5.7 Factors affecting resource acquisition by local entrepreneurs

Resource access for the Black African population was restricted from the time of colonial rule, to the unification phase from 1910 to 1961, and continued into the apartheid years. These periods ensured that Black Africans were used as cheap labour under the migrant worker system, their wages were set extremely low, their education and training retarded, and that they were confined to inhospitable homelands. Black Africans could not therefore accumulate significant personal capital in order to start their own businesses. Even if they could get the start-up funds, they were not allowed to operate freely in South Africa as the doctrine of separate development and forced removals from settled areas caused disruptions to any stable arrangements. Asians benefited through collaboration with the apartheid regime and later through their membership of the tricameral parliament which allowed them to enact business environments that suited themselves.

The democratic process started in 1994 attempted a redress of the ills of the previous colonial and apartheid governments. Access to finance for the previously disadvantaged groups was facilitated through the establishment of the Khula Enterprise Finance and Provincial Economic Desks, restructuring of existing bodies like the Industrial Development Corporation (IDC), redirecting of commercial banks, the Land Bank, and the Development Bank of South Africa (DBSA) to assist SMMEs. The Khula Enterprise Finance worked through its Micro Credit Outlets, Retail Financial Intermediaries (RFIs), and Credit Guarantee Schemes to provide financial assistance to SMMEs. Black Economic Empowerment, the status of being previously disadvantaged, membership of focus groups like women, were all used to redirect assistance measures.

Some of the government programmes were criticised for favouring existing medium to relatively large businesses with proven business track records. This focus excluded the start-up businesses which involved a large number of Black African-owned enterprises. Many Black African citizens could not produce credible business plans, had no credit histories, did not have audited statements of their business activities, had no collateral, and were not members of business networks. These factors resulted in their neglect by the formal banking sector and other financial institutions. Borrowing from the informal micro lending schemes is used as a source of funds by many entrepreneurs who cannot access funds from formal institutions like banks. This form of funding carries high costs and the sector is largely unregulated despite the establishment of the Micro Finance Regulatory Council (Hawkins 2002: 530-533). The state-initiated intervention measures also used some of the criteria set up by banks to determine whether an entrepreneur was eligible for assistance or not. These requirements ended up excluding some of the aspiring Black African entrepreneurs.

Access to finance has been cited as a major problem in many areas (Fatoki and Garwe 2010; Ligthelm and Cant 2003; Van Eeden *et al* 2003). Banks are reluctant to deal with SMMEs because they consider them to be too risky, the costs involved are too high, and the returns from SMMEs are too low (Nigrini and Schoombee 2002: 737). SMMEs are in turn reluctant to enter into long-term relationships with banks because they are not certain about their abilities to fulfil the terms of their contracts pertaining to loan repayments as they do not know when their next customer would be coming (Rogerson 2008: 64). The government has intervened as a credit guarantor so that the risks to banks are lowered. But the owner still needs to put up a 10 % contribution from own resources and should have the necessary skills and training relative to the industry concerned.

The arrangements between the banks and the government credit guarantor have in the past caused friction between the parties involved due to the handling of guarantee fees, the share of risk, the claims procedure, and direct service offer promotions by the guarantor to the clients bypassing the banks (Nigrini and Schoombee 2002: 746). The credit guarantor approach therefore ended up discouraging banks from investing in SMMEs and the needy were left disadvantaged. White- and Asian- owners of SMMEs are less likely to struggle to access finance compared to Black African owners since most of their businesses are of the right size (i.e. medium to large) and have been in existence for some time; hence they have no problems with issues of collateral, experience, and verifiable business records which are lacking in many aspiring Black African business people (Rogerson 2008: 64).

The government programmes have also been criticized for not being adequately communicated to the people they are intended for. Another point of criticism is the urban bias of the state programmes and the neglect of the rural areas. Government policies on interest rates and taxes also work against the success of small businesses. The interest rates are generally considered to be very high and this retards capital investment (Lewis 2002: 741). Tax incentives to portfolio investors who could assist the small businesses are also not very prominent. The Black African small business owners, especially those in rural areas, cannot therefore raise the financial capital to acquire the necessary operating resources despite the good intentions of the government's intervention policies.

5.8 Chapter summary

Resources can be classified as financial, operating, and human resources. An enterprise should keep a balance of the different types of resources in order to take advantage of unexpected opportunities, meet short-term commitments while also expanding production or avoiding shortages in production inputs.

Asians and Lebanese in East and West Africa during the colonial era were able to access resources cheaply by going into the African hinterland and buy directly from the indigenous African producers. In addition to the acquisition and bulking up of purchased primary produce, Asians and Lebanese graduated to processing and manufacturing. Indigenous Africans were mostly involved in primary production and were excluded from processing and manufacturing. The indigenous Africans were largely dependent on the Asians or Lebanese for manufactured or imported goods. This gave the Asians competitive advantage when compared to the indigenous Africans.

Networks built around religious, cultural, or business cooperation provided resources, allowed for easier debt settlement, lowered the costs involved in searching for information, and better access to credit for the small enterprises owned by Asians or Lebanese. Linkages to big businesses also provided credit and trade goods. Savings were also made from low overhead costs.

Asian pioneers in South Africa were able to access resources at lower cost when compared to Black Africans due to the same reasons that benefited Asians in East Africa. They gained access to resources by risking going into areas no foreigner had ventured into and setting up their businesses, linked up with large wholesalers and wealthy merchants to obtain goods and finances, used personal or family funds to start and sustain their businesses, and saved from low overheads from employing relatives at low wages. The wage structure in South Africa allowed the Asians to save more than the Black Africans whose salaries were generally set lower than those of Asians.

Expatriate Africans have benefited in accessing resources from active risk taking, assistance from friends and family, as well as from networks, some of which transcend international borders. Expatriate Africans have relatively higher levels of education and experience. Active state suppression during the colonial and apartheid periods deprived Black South Africans the ability to accumulate resources. Black African SMME-owners do not have extensive networks; hence their access to resources from abroad through networks is limited.

The democratic governments since 1994 have enacted laws to rectify the historical constraints on resource access and have set up institutions like the Khula Enterprise Finance to provide financial assistance to SMMEs. The government programmes intended to assist SMMEs have been criticised for being in conflict or competition with one another, not being adequately communicated to their targets, and adopting very strict requirements such as collateral or high financial contributions from the owners of SMMEs before they can be assisted. The target groups, especially Black Africans owning SMMEs at the start-up stage, have not sufficiently accessed the assistance from the state while Asians owning already established businesses with proven track records have better access to such assistance. This results in Asians being more competitive while Black Africans are proportionally gaining less assistance.

CHAPTER 6

DEMAND AS A GROWTH DRIVER

This chapter deals with demand as an interim growth driver for the survival, sustainability, and growth of SMMEs. Demand is affected by government intervention through macroeconomic strategies and legislation, the internal situation within the enterprise e.g. competency of personnel, and the external environment involving markets and customers. SMMEs have no control over the government intervention or the external environment. This lack of control derives from the fact that the SMMEs are not the only stakeholder in the economic sector but they have to contend with organized big business, politicians, other interest groups like organised labour, and the government with its aspirations to fulfil political, social, and economic resolutions.

In this chapter, discussion of the impacts of the macroeconomic intervention by the government, the internal and external environments are presented in sections 6.1, 6.2, and 6.3 respectively. The demand situations that affected small businesses owned by Asians and Lebanese in East and West Africa are looked at in section 6.4 and this is followed by section 6.5 dealing with demand as it affected Asian-owned SMMEs in the South African economy. Demand effects on expatriate African-owned businesses in South Africa are then discussed in section 6.6, followed by demand factors affecting Black Africans in the South African economy. The chapter ends with a summary in section 6.7.

6.1 The macroeconomic factors affecting demand

The Perren model refers to “the state of the economy and its management by government” as one of the independent factors influencing demand (Perren 1999:

379). This independent factor manifests itself through the government's monetary and fiscal policies implemented by effecting changes in interest rates, taxation and government spending aimed at growing the economy, curbing inflation, reducing unemployment, redistribution of income, and reducing poverty. Fiscal and monetary interventions affect both the macroeconomic and individual firm levels. Achievement of the government goals is likely to create jobs and improve employment leading to greater consumption and demand. Authors like Fatoki and Garwe (2010), Van Eeden *et a*l (2003), and Ligthelm and Cant (2003) reported that interest and tax rates, unemployment, and inflation affect the level of demand in SMMEs in South Africa.

- **The impact of interest rates on demand**

High interest rates indicate that the cost of credit is high and they reduce the income of the consumer (Sorensen and Whitta-Jacobsen 2005: 480-481; Miles and Scott 2002: 333). Consumers intending to purchase durable goods like furniture, refrigerators, or television sets on credit may be deterred from buying such goods due to the higher debt payments associated with high interest rates. This has the result of reducing consumption and demand. Some consumers may decide to save by making bank deposits or interest-earning investments to gain the higher returns associated with higher interest rates. Current consumption and subsequently demand might be reduced by such actions as money is taken out of circulation. On the other hand, the promise of additional income derived from interest earnings can stimulate current consumption through borrowing against the investment or increase consumption in later periods when the yields from investments are realised. The influence of high interest rates for savers can result in higher or lower demand, but for borrowers, the result is unambiguously low consumption and demand (Miles and Scott 2002: 333).

- **Unemployment, income transfers, and tax rates**

Unemployment reduces the purchasing power of consumers (Van Eeden *et al* 2003: 21) and this reduces demand for goods or services. The unemployment rate in South Africa (official definition) has been relatively high as evidenced by the rates ranging between 30.4% and 22.7% for the years 2001 to 2007 (LFS 2007: iv) with rural Black Africans featuring prominently in the cohorts of the unemployed. This is likely to affect consumption and demand for goods and services offered by SMMEs in small towns and rural areas.

A welfare system is likely to affect consumption and therefore demand. Van der Merwe (2000: 719-724) argued that social security contributes towards income redistribution, macroeconomic stability, and economic growth by creating a contented workforce and promoting entrepreneurship since expectations about the future and retirement carry less uncertainty when social security conditions are well defined. The welfare grants can take the form of unemployment benefits, child support grants, old age grants, and disability grants. On the other hand, generous social grants have a disincentive effect on the work effort and saving as the income received from the grants can adequately satisfy the current or future needs of individuals so much that they find searching for jobs or saving for old age not necessary. Dependence on social grants can create a welfare state and deplete government resources that can be used elsewhere. Current or future consumption will be affected by levels, accessibility, and expectations about social grants.

Governments usually promote equity through taxation and government spending (Van der Merwe 2000: 718). Taxes reduce disposable income of consumers and this in turn reduces consumption and demand.

- **Inflation and business cycle effects on demand**

Inflation is defined as the general and considerable increase in prices of goods (Hyman 1997: 12). This reduces the value of cash as relatively fewer items can be bought when inflation is high. The reduced buying power results in low demand for goods and services. Inflation is also associated with uncertainty as both producers and consumers cannot determine whether inflation, and therefore prices, would go up, stabilise, or go down in the near future. This uncertainty disrupts planning and budgeting by both producers and consumers. Some countries including South Africa have adopted inflation targeting as a tool of stabilising their economies. The communication of the targets and the frequent updates go a long way towards reducing the uncertainty associated with inflation.

Economic boom periods are likely to result in increased production, consumption, and demand but prolonged recessions are likely to lead to job losses and dampen demand (Miles and Scott 2002: 386). Extremes in business cycles can be disruptive and governments usually attempt to smooth over the cycles.

6.2 The internal enterprise situation affecting demand

The Perren model acknowledged that demand is affected by the risk attitude of the owner-manager of an SMME; business networks; the business skills of the owner-manager, employees, family, friends, and partners; and the level of innovation (Perren 1999: 378-380). These are all factors located internally to the enterprise or can be manipulated from within. Enterprise stakeholders with skills in marketing and sales expertise can promote the business to the general public, thus improving demand for its goods and services. The contribution of internal factors to the success of SMMEs in South Africa has been acknowledged by Fatoki and Garwe (2010), Van Eeden *et al* (2003), and Ligthelm and Cant (2003).

Another internal factor is the geographical location of the enterprise. Locating an enterprise in close proximity to other businesses or basing it at home gives different success outcomes. An enterprise located in a developed area frequented by large volumes of customers is likely to benefit in terms of demand for its products or services. The contention by Rogerson (2001: 116) that SMMEs may not survive due to isolation and that clusters can assist enterprises to survive offers argument for the importance of location in demand determination.

Active risk taking, where the owner-manager is willing to accept challenging orders rather than deal only with customers that have verifiable credentials, can be a positive influence on demand (Perren 1999: 379). Accepting new credit customers can be risky but at the same time can increase the customer base. Registration of the enterprise allows for access to government tenders (Rogerson 2006a: 73). An enterprise that obtains government tenders and acts as a supplier to government departments or externally-funded projects will have the demand for its products or services vastly increased during the tenure of its contract. Linkages to large retailers and wholesalers can also assist demand for an SMME if it supplies the larger businesses with its products or services (Rogerson 2000: 706). Small Asian and Lebanese businesses in East and West Africa used extensive linkages with big businesses starting as far back as the colonial era when they collected and bulked up surplus produce from indigenous Africans which they sold to European processors or exported.

6.3 The external or market influence on demand

Demand for goods or services offered by SMMEs is affected by the market environment which involves aspects of access to the market, the size of the market, and competition within the market (Rogerson 2006a: 66-77; Ligthelm and Cant 2003: 42-53). The Perren model also deals with the same independent factors of "product and market sector", "societal and other outer factors", and competitive dynamics (Perren 1999: 379). Access to markets can be hindered by steep entry barriers set up by the state through regulations or the actions of operators already inside the market. Demand for products or services of an SMME that is excluded from the market is likely to suffer. Market size can be expanded by increasing the number of customers or changing consumer preferences. Marketing and advertising can be used to bring an SMME offering to the attention of the public or manipulate consumer preferences.

Attempting to enter a highly contested market sector can have negative effects for the operations of an SMME, but exploiting a niche market offers huge benefits. Innovation or offering a differentiated product or service can assist secure a niche market and improve the competitiveness of an enterprise.

6.4 Demand impact in East and West African countries

6.4.1 The state of the economy, government intervention and societal factors

Many colonial governments in Africa imposed restrictions on land holding and areas of business operations in order to control Asian or Lebanese businesses. This resulted in Asians and Lebanese congregating in towns (Falola 1990: 526; Cable 1969: 221). This congregation created stable markets for exotic goods from the foreigners' home countries. Businesses which imported or produced these exotic goods locally had reliable clientele and could easily determine the sizes of their markets. Demand for these exotic goods was high in areas inhabited by Asians or Lebanese.

The compartmentalization of races enabled Asians and Lebanese to occupy the middlemen position. They were the dominant providers of manufactured goods to the African population and also bought the surplus primary produce from indigenous Africans which they subsequently sold to the European-owned businesses and processing firms. This middlemen position ensured demand for goods offered by the Asians and Lebanese. In the case of cotton in Uganda, the Asians collected cotton from the African growers and sold it in bulk to the European processors (Jamal 1976: 603). The protected middlemen position ensured that the Asians could compete in all sectors.

The expansion of trade into the African hinterland exposed the large indigenous African population to exotic products. The numbers of customers increased and demand for the products increased in turn. The infrastructure was also being developed and this facilitated access to markets e.g. roads and railways were under construction before the end of the 19th century (Falola 1990: 526; Jamal 1976: 603). Asians and Lebanese responded faster to the changes in the colonial era than the indigenous African traders who were still using old market places and outdated patterns of demand. All these factors worked in favour of the Asians and Lebanese who had set up businesses in the African hinterland and had also established stable networks. Aspiring African entrepreneurs did not have access to the manufactured imports to compete in retail trade at the time.

6.4.2 Competition and niche markets

The Asian business people used the free market systems during the colonial era in African countries to assert themselves. They established monopolies in different sectors of the economy e.g. cotton and coffee trade in East Africa (Jamal 1976), retail and wholesale trade in West Africa (Bierwirth 1999; Falola 1990). The market power enjoyed by the Asians and Lebanese in these sectors allowed them to manipulate demand in their favour. They dominated some niche markets so much that they were even accused of creating scarcity in order to increase prices (Aminzade 2003: 47; Falola 1990: 535). Asians and Lebanese were therefore able to limit competition through monopolies and price manipulation.

Low overhead costs also allowed the Asians and Lebanese to sell at low prices. This placed competitors with high overheads at a competitive disadvantage as attempts to match the low prices charged by Asians or Lebanese would drastically reduce their profit margins or result in losses. Asians and Lebanese made their meagre profits from high turnovers rather than high prices.

Legislation by the colonial states also restricted competition from African businesses e.g. indigenous Ugandans were not allowed to be involved in early coffee production because the colonial state feared that the indigenous Ugandans would abandon cotton production (Jamal 1976: 604). When the indigenous Ugandan producers finally participated broadly in the coffee production, they had to sell their produce to the Asian who controlled the processing. There was therefore no competition against the Asians in some of the niche markets they dominated.

6.4.3 Skills in marketing and sales

Some of the Asian and Lebanese business people honed their business skills in their home countries (Akyeampong 2006: 307; Vahed 2005: 451). These skills could effectively be used to market the goods sold on the African continent and outwit competition from indigenous Africans who had only been introduced to the cash economy by the same Asians or Lebanese. The Lebanese could imitate the indigenous Africans in their business dealings such as hawking or haggling while also researching the tastes or preferences of their African customers (Falola 1990: 534-535). Agents and collaborators were used extensively to market the products of the Lebanese enterprises.

Bargaining with customers was one of the strategies used by the Asians and Lebanese. This strategy contributed to views that foreigners were cheats who did not hesitate to exploit the gullible (Ghai and Ghai 1965: 40). Criticism stemmed from the perception that Asians were selling the same products at different prices. This resulted when customers could not equally negotiate the prices down. But selling at different prices is an acceptable marketing strategy; hence Asians were more advanced in business than the indigenous Africans who did not understand the different strategies. Nieman (2006: 59) argued that pricing should not only be based on concepts like the break-even analysis, but must also consider the market characteristics as well. Pricing strategies like variable pricing and dynamic pricing reflect such market characteristics. The former refers to setting more than one price for a product in order to offer price concessions to certain customers, while the latter refers to charging more than the standard price when the customer’s profile suggests that a higher price will be acceptable.

6.5 Demand in the Asian-owned businesses in South Africa

6.5.1 Niche markets, competition, and state intervention

The presence of indentured Asians provided extensive markets for exotic goods from India as these people were underserved by the colonial economy (Padayachee and Morrell 1991: 76). Asians had a steady market for imports from India, Mauritius, and England in the form of dhal, ghee, rice, dhotis, wheat, cotton goods, oilseeds, kerosene, spices, bananas, silk, jewellery, textiles and curios for the indentured Asian population (Vahed 2005: 452-453). The Asian merchants shipped these goods to South Africa and their agents, who were the small traders, distributed them throughout the country. These goods were also introduced to the local African population and the Europeans thus extending the market even more.

Asians did not rely on imports only, but they also developed huge tracts of land previously unused or considered not suitable for sugarcane production and they produced vegetables, fruit, and flowers; markets in which they enjoyed monopoly power (Bhana and Brain 1990: 44, 49). They also engaged in petty trade and service provision to mineworkers in the gold and the diamond mines (Bhana and Brain 1990: 18).

Black Africans then entered the cash economy, sought employment, and accepted monetary compensation. Employment meant that more people had cash to buy goods with and the introduction of previously unknown goods changed the tastes or preferences of many. Therefore demand increased.

White shop-owners started appealing to the colonial government to restrict Asian business when they could not compete effectively with them. Restrictions in terms of trading licences, shop location, residential conditions, and health requirements were set. These combined to restrict access by Asian traders to their customers, thus limiting demand for their products. Asians were not allowed to enter native locations and mining compounds to trade (Padayachee and Morrell 1991: 101) and they were confined to low-income, segregated markets (Vahed 2005: 475). Many Asian businesses failed due to such restrictions at the end of the 19th century and the beginning of the 20th century.

Apartheid legislation led to the creation of separate residential areas and Asians settled in designated areas like Chatsworth and Phoenix in KwaZulu Natal as well as Lenasia and Laudium in Gauteng. Congregation of people of the same race in large numbers in the same area assisted in improving demand for some of the goods frequently used by the race group. The concentration of customers in designated areas allowed for easy determination of tastes, the numbers of customers, their average earnings, and other factors that determine demand. Through collaboration with the apartheid state and enforcing segregation, Asians refused competitors from other races entry into their areas. Indigenous Africans were subjected to more extreme restrictions and could not grow their businesses like the Asians did. In addition to the government restrictions, there were frequent violent protests, looting, and burning of properties in African locations during the liberation struggle leading to further business disruptions.

6.5.2 Sales and marketing

Asian traders retailed existing goods that were either imported or produced locally (Vahed 2005: 453). Their approach to trade in rural areas involved bargaining, credit sales and customer satisfaction. Vahed (2005: 470) referred to stories about customers travelling long distances to reach the Asian stores and these customers were offered meals at the end of their shopping. Their shopping involved bargaining, thus the customer left the shops satisfied with the deals struck. Customers who could not go back to their homes were allowed accommodation in restrooms adjacent to the shops. White farmers received long term credit which they cleared when they harvested their crops. These measures sustained a constant customer base and demand for the Asian products persisted. Asians also used a form of lay-bye approach when selling to indigenous Africans where they sold goods to Africans but kept them in their shops until full payment was received (Padayachee and Morrell 1991: 89). These strategies indicate the shrewdness of Asians in business dealings.

Asian traders also acted as agents of the bigger merchants (Hart and Padayachee 2000: 691) while the indigenous Africans were only used by the small Asian traders as agents (Vahed 2005: 469). Indigenous Africans did not benefit much from this agency arrangement and had only primary produce to sell to the Asians. Indigenous Africans and Asians operated from different levels of the economy; hence competition between the two groups was limited.

One strategy used by Asians as early as the 1890s to create demand was advertising (Vahed 2005: 454). Small businesses placed matchbox-sized advertisements in newspapers while those of bigger businesses were larger. This helped identify the location of the stores and the products sold. The use of advertisements was extended to compulsory adverts in newspapers when a prospective Indian entrepreneur applied for a licence to trade. Promotion of Asian businesses had a modern flair as early as the 1890s indicating that the Asians were more advanced in their operations before the indigenous Africans even entered the cash economy.

6.6 Impact of demand on expatriate African-owned enterprises in South Africa

Expatriate Africans have faced lots of hostilities from the locals and state agents. This hostility has been expressed through rhetoric and outright xenophobic violence. Expatriates willing to take the risk of operating in volatile Black African locations like the townships have benefited by being close to the markets. Those not willing to take the risks lose out on the larger trading markets. Expatriates developed markets where none existed before (Palmary 2002: 14). Several authors have argued that access to markets and stable demand are critical to the success of business (Ligthelm and Cant 2003: 50-51; Van Eeden *et al* 2003: 14-21; Rogerson 2000: 692). A combination of risk taking and market access favours those expatriates that take the initiative.

The South African economy has endured high unemployment, insufficient levels of new investments, high interest rates and highly skewed income and wealth distributions even after democratization (Hart and Padayachee 2000: 703, Lewis 2002: 740). Many people are poor and are not able to buy goods in bulk. Their best option is to buy from small businesses who sell in small quantities. This has helped increase demand for goods sold in SMMEs including those of expatriate Africans as they are closer to their customers in terms of location and small units can be purchased from these shops. Another factor that increases demand for products offered by expatriates is the low pricing. Efficiency in business practices and working long hours with intentions of making high turnovers allows the expatriates to sell at low prices, thus enticing more customers to buy from the expatriates who are then able to undercut competitors.

Expatriate Africans are more mobile than their indigenous local counterparts. The local Black Africans are tied down by family considerations and lack of extensive networks that can provide the necessary information about business possibilities. When business fails in one area, expatriates relocate to another location. This affords them new markets with a different level of demand as well as possibilities of success.

6.7 General demand influences in the South African rural setting

The participation in wage employment by indigenous Africans was at first dominated by jobs in mining and the migrant labour system took able-bodied men away from their homesteads, thus retarding subsistence agriculture. Many of those that remained behind could not secure employment and mainly remittances sent home by the mine workers assisted in sustaining demand for goods sold in the rural enterprises. The intensification of the apartheid system and its associated relocation of people resulted in people being dumped into homelands with extremely low prospects of employment. The meagre nature of wages earned in formal and informal employment meant that demand in most rural settings was not substantial.

Political liberation in 1994 brought in changes. Income levels of people in formal employment increased and social grants were improved (Ligthelm 2008: 40). This resulted in more people with income to spend, thus increasing demand. The increases in income also caused changes in tastes and the availability of transport allowed the emerging middle class to partake in shopping from far away centres e.g. in major towns and cities, as well as through mail orders from shops like Pres Les and HomeChoice. These changes had an effect on demand in the rural areas. The social grants also had the unintended effect of reducing the desire to search for work by those young people who could be supported by their relatives. Large numbers of young people remaining unemployed also contributed to demand reduction.

Small traders whether Asians, expatriate and indigenous Africans, or Europeans had to compete in the rural areas and small towns for customers whose incomes were low. Competition in these areas was very intense and those who survived needed to retain and expand a viable customer base. Many businesses from all race groups did not survive the over-competition. But as some died, others took their vacated places as indicated in section 2.1.2.

The government introduced the Integrated Small- Enterprise Development Strategy in 2005 (Integrated Small-Enterprise Development Strategy 2005: 4). One of the pillars of the strategy was the creation of demand for small enterprise products and services. Demand was to be leveraged through improved public sector procurement strategies and BEE codes of good practice. The implementation of the strategy has suffered problems of coordination and inefficiencies in the tendering processes.

6.8 Chapter summary

Demand is affected by government actions, the external environment concerning the markets, and the internal situation within the enterprise. Government actions involve monetary and fiscal interventions effected through changes in interest rates, government spending, taxation, and income redistribution measures. The internal environment that affects demand is determined by the location of the enterprise, skills of stakeholders, the risk attitude of the owner-manager, business networks, and the level of innovation. The external factors include access to markets, the size of the market, and competition within the market.

Asians and Lebanese in East and West Africa improved demand by locating their businesses in areas close to viable markets. They also had a captive customer base in the form of their compatriots to whom they supplied exotic goods from their home countries. The colonial states in Africa assisted by limiting competition from indigenous Africans and setting Asians and Lebanese in the middlemen position, thus ensuring that they did not trade in the same products as the indigenous Africans. Entry into the cash economy and wage employment by indigenous Africans also increased the sizes of the markets. The Asians and Lebanese used several methods to market their products including researching the needs of their customers or their preference, networking, and selling at different prices. These approaches promoted demand for their products in addition to the attraction of low prices that they charged for their products.

Asians in South Africa had the same demand-influencing factors as those of Asians and Lebanese in East and West Africa. These were a captive customer base from their indentured compatriots, increasing market size as wage employment increased, and changing preferences as manufactured or imported goods were made available. They also used diverse marketing tools to promote their products. The state of the economy favoured their middlemen position and sheltered them from competition from Black Africans. Asians also exploited the segregation policies under apartheid by preventing other races from operating in Asian-designated areas, thereby limiting competition.

Expatriate Africans benefited from choosing sectors with low entry barriers such as retail trade and by locating their businesses close to their markets e.g. townships, despite rampant xenophobia. They expanded their markets by selling small quantities cheaply to their customers and opening for long hours, thus making their businesses more accessible. Expatriates used their mobility to obtain information about accessible alternative markets and then they would relocate to access such markets if their existing businesses failed.

The post-1994 governments have effected changes by increasing the incomes of those in formal employment, setting minimum wage levels, expanding the scope of social grants. Space for interaction between government and SMMEs was also created as proposed in the Integrated Small Enterprise Development Strategy with public sector procurement and BEE codes of good practice at the core of the strategy. Problems such as the emerging middle class being able to afford transport to go and shop in distant towns or engaging in mail order shopping affected the perceived demand benefits to SMMEs. There were problems encountered from implementation and coordination of the state intervention measures as well. The social grants could also result in low savings, discouraging recipients from seeking employment, and depleting government revenue in the form of taxes.

CHAPTER 7

COMPARISON AND POLICIES

The Asians in East Africa came from a home country that was a British colony and settled in East African countries that were also British colonies. The same applied to Asians in South Africa. The Lebanese came from a country that was part of the Ottoman Empire earlier and then became a French mandate after World War I. The Lebanese then settled in African countries, some of which were British colonies (e.g. Nigeria) or French colonies (e.g. Ivory Coast). The colonial administrators sometimes had common strategies in administering African colonies.

This chapter compares the factors that drove the success of Asians in East Africa and Lebanese in West Africa to the factors that affected Asians in South Africa. The situations under which expatriate Africans operated are contrasted with those experienced by the local Black Africans. These comparisons are looked at from the perspective of the interim growth drivers in the Perren model. Section 7.1 compares East African Asians and Lebanese in West Africa with South African Asians. Section 7.2 compares indigenous Africans with foreigners (Asians and Lebanese) in African countries while section 7.3 compares expatriate Africans with local Black Africans in South Africa. State intervention measures affecting foreign-owned small enterprises in South Africa and in other African countries starting from the colonial era to the 1960s and 1970s when Africanization policies were applied in the African countries are discussed in section 7.4. The current situation in South Africa dealing with labour- and SMME-directed policies is discussed in section 7.5. The current policies in South Africa have been criticized for their shortcomings in improving the state of the SMME sector. This criticism is presented in section 7.6. The chapter ends with the summary in 7.7.

7.1 Comparison of the impact of the interim growth drivers on foreigners

7.1.1 Motivation of the owner-managers

The three groups of foreigners (i.e. Asians in South Africa, Lebanese in West Africa, and Asians in East Africa) had the same motivating factors during colonial times:

- *The desire to succeed*: Many of the pioneers from all three groups were poor and uneducated. The lack of education and their inability to communicate in the different languages used officially or spoken by the indigenous Africans hampered their employment opportunities. All three groups were restricted in their commercial activities. These restrictions were on land ownership, markets that they could enter, and goods they could trade in (Falola 1990: 527-528; Jamal 1976: 607-615; Cable 1969: 221). The limited commercial activities motivated the three groups to put more effort in ensuring the success of their trading businesses which constituted one of the few income-earning opportunities.

  The fear of failure, pride, the need to assimilate to a religious, cultural, or social group also motivated the three groups (Vahed 2005: 449; Kristiansen and Ryen 2002: 176; Falola 1990: 550).

- *The family situation*: The poverty suffered by the family members left behind in the home countries, the need to send remittances home, the need to sponsor relatives to come to Africa to assist in the businesses, and marriage costs combined to motivate the three groups to work harder and save similarly (Akyeampong 2006: 306).

- *The desire to be independent*: Many of those who started out as shop assistants and later opened their own small shops endured hardships working for others (Akyeampong 2006: 307-308; Padayachee and Morrell 1991: 79). The hope of eventual assistance by the employers sustained them. Once they started their own shops, they worked hard to make a success of their newfound independence.

- *Competition dynamics*: The African economies were still underdeveloped and were undersupplied with goods and money. The opportunities that Africa offered and the lack of competition attracted members from all three groups to come to Africa (Padayachee and Morrell 1991: 73-76). The gaps that existed in the African economies favoured the Lebanese and both groups of Asians as the Europeans preferred a relaxed style of operation situated mainly in urban areas while indigenous Africans in predominantly rural settlements were initially not involved in the cash economy and their ultimate participation did not offer much competition to the foreigners. This allowed the foreigners from the three groups to exploit the opportunities that Africa offered and expand their operations significantly. This resulted in extensive growth of businesses run by the three groups.

7.1.2 Expertise in managing growth

The acquisition of skills to run small businesses by the three groups was also influenced by similar factors:

- *Transferable support skills from the owner-manager*: Some of the Asian pioneers in East Africa and in South Africa had experience in the Indian Ocean trade from their operations in Mauritius and the western cities of

India such as Surat (Padayachee and Morrell 1991: 77; Ghai and Ghai 1965: 39). Some of the Lebanese had experience from operations in towns like Beirut, which was a major trade port in Lebanon as early as the nineteenth century (Akyeampong 2006: 304). Both Asian groups and the Lebanese had an ingrained culture in trade derived from their home countries.

- *Assistance from family and other stakeholders*: Children of the three groups grew up assisting in the shops and therefore gained experience in managing the enterprises. These children later inherited the shops as their parents retired or passed away. All three groups valued education highly and they even sent their children overseas in order to get education. This resulted in these children gaining more expertise in managing businesses. Relatives also assisted in the shops and learned the skills of managing the enterprises.

- *Transferable network of contacts*: Extensive networks with peers and larger businesses provided the three groups with assistance in running their enterprises. The networks were made up of members of the same religious, cultural, or social groups or just business acquaintances or big business houses for whom the small traders provided distribution channels as agents.

- *Active professional advisors*: Small traders from the three groups learned to do the basics in business management such as bookkeeping, although some used their home languages in writing books of account. Professional advisors such as accountants, lawyers, and bookkeepers were brought to Africa by those firms with adequate financial power.

These professionals availed themselves to even the smaller businesses that needed their services (Jamal 1976: 604; Cable 1969: 220).

7.1.3 Access to resources

Access to resources was facilitated by the following concepts that were also similar for the three groups:

- *Active risk taking*: The pioneers from the three groups ventured into unknown lands at great risk to their lives and their financial stature. This rewarded them with cheap resources obtained from indigenous Africans e.g. primary produce. The meagre profits they made in their earlier operations were mostly re-invested in their businesses. Taking these risks allowed them to survive and grow their enterprises. Foreigners were also very mobile compared to the indigenous Africans since they could relocate away from areas where their businesses failed. This mobility was facilitated by the extensive networks of relatives and contacts (Bierwirth 1999: 87; Padayachee and Morrell 1991: 81). The risks increased as the African countries attained independence and the foreigners faced expulsion, were targets of Africanization policies, and were affected by civil wars, or suffered xenophobic attacks as it has been in South Africa.

- *The state of the economy*: The position of foreigners as middlemen in the economic structure of the host countries allowed them to obtain resources from both the Europeans and indigenous Africans while also being able to import from countries outside Africa e.g. Hong Kong, India, China, and Great Britain (Bierwirth 1999: 90; Padayachee and Morrell 1991: 77; Gupta 1974: 318). They could buy small quantities of goods from indigenous

African producers, bulk up the produce, and then sell to European processors. They could also purchase manufactured goods from Europeans to sell to indigenous Africans or import exotic goods to sell to all citizens in the host countries.

- *Debtors, creditors, and networks:* Extensive networks with their peers and association with big businesses allowed the Asians and Lebanese to obtain resources at lower prices (Padayachee and Morrell 1991: 79-84). The costs of information and funds were reduced through membership of the networks and debt settlement was facilitated by the networks. Cooperation with big businesses owned by their compatriots allowed the smaller businesses to obtain funds as the bigger businesses also acted as sources of funds just like banks. This alleviated the difficulties experienced by small businesses in accessing funds from the formal banking sector which was hesitant in dealing with foreign-owned small businesses in earlier times.

- *Transferable personal capital:* The tiered structure of the colonial or pre-independence labour systems in the African countries allowed the Asians and Lebanese better wages compared to the indigenous Africans. They could therefore make significant savings that could be invested in the growth of their enterprises or used to buy required resources. Savings made from business operations were also reinvested in the growth of the enterprises with the owners moderating on consumption and living frugal lifestyles.

- *Employees, family, and other stakeholders:* The lack of labour regulation allowed the Asians and Lebanese to exploit their workers by paying them low wages while also keeping them at work for long hours. The owners of the businesses could therefore make significant savings from these actions.

Family members or partners who had a stake in the businesses also contributed funds or expertise to the enterprises. The three groups also ensured that wealth was retained within their families by having marriages between close relatives.

7.1.4 Demand

Demand influences were also similar for the three groups:

- *Transferable primary skills possessed by owner-managers*: Members of the three groups had gained experience from cultural heritage in trade which they combined with modern methods to promote their businesses and improve demand (Falola 1990: 526). The traditional methods of running effective family businesses, succession in ownership, hawking, bargaining with customers and networking were linked with advertising in newspapers.

- *Competition dynamics*: These three groups selected locations that enhanced demand for their products e.g. near areas inhabited by indigenous Africans where there was minimal competition since the indigenous Africans operated in different levels of the economy from the foreigners (Bierwirth 1991: 90; Padayachee and Morrell 1991: 81-88).

- *Product sectors*: The Asian and Lebanese foreigners provided exotic goods from their home countries. Demand for these goods was already established since the large numbers of their compatriots were already resident in Africa. These exotic goods were later introduced to the indigenous Africans and Europeans, thus increasing the size of the consumer market.

- *Market segments*: The small businesses run by Asian and Lebanese catered mainly for the low income sections of the population. They were able to service their major market by unpacking bulk products and sell them in small quantities at relatively low prices. Selling at low prices also helped undercut the competition and retain a captive customer base.

- *The state of the economy*: The three groups could exploit niche markets derived from their position as middlemen in the economy structure. The middlemen position also sheltered them from competition from Europeans and indigenous Africans. Discriminatory state intervention to restrict commercial activity assisted the foreigners to exploit the gaps thus created e.g. restrictions on market access or race-focused taxation on certain activities.

7.2 Comparison of indigenous Africans with foreigners

The discussion in section 7.1 above does not imply that indigenous Africans in West, East, and South Africa did not participate in small business operations. The involvement of indigenous Africans was hampered by several factors:

- They entered the cash economy relatively late when compared to the Europeans and Asians. At first they relied on subsistence agriculture and bartering without the need to operate their own businesses. They had to be coerced into the cash economy by being forced to pay taxes which forced them to enter wage employment (Hart and Padayachee 2000: 688; Jamal 1976: 603).

- When the indigenous Africans finally entered the cash economy, the state actively discouraged them from participation in certain commercial activities through market and product discrimination. This left the contested terrain of commerce to the Europeans and Asians.

- The indigenous Africans did not have experience in running businesses comparable to that of the foreigners. Many indigenous Africans started their businesses from scratch and did not inherit the enterprises. They did not grow up in business environments that would allow them on-the-job training as was the case with Asian or Lebanese children. There were no extensive networks among the indigenous African-owned businesses to guide the small enterprise operators and they interacted with other businesses such as those owned by foreigners mainly as buyers, sellers, or agents. The educational levels of the indigenous Africans were relatively low, hence expertise through academic learning was also lacking.
- The opportunities that attracted the foreigners were available to the indigenous Africans as well, but the major constraint on the latter was lack of adequate resources to exploit such opportunities. Indigenous Africans lacked the necessary financial capital, the networks with big business required to assist in acquiring goods and funds, access to formal financial providers like banks as they lacked the necessary collateral, and the international links to engage in export/import trade in manufactured goods. Active state repression, strong competition from foreigners already in the market, and the dual nature of the economic structure that placed indigenous Africans at the bottom end of the informal sector, all served to deprive the indigenous Africans of effective competition in commerce.

Competitiveness of businesses owned by the three groups of foreigners was favourably influenced by the four interim growth drivers and they dominated during colonial times up to the 1960s when most of the African countries gained independence. In South Africa, the prominence of Asian-owned SMMEs continued as the Asians exploited conditions that benefited them similarly to the colonial era.

7.3 Comparison of expatriate Africans with local Black Africans

The attainment of independence by the African countries before South Africa exposed their citizens to increased opportunities to work in the positions left vacant by the departing foreigners. The education systems of the African countries were revamped after independence. On-the-job experience and education allowed the expatriate Africans to be more competitive in terms of expertise in managing growth when compared to the Black Africans in South Africa whose lack of opportunities in apprenticeship and the poor state of the education system were disadvantageous.

Expatriate Africans had limited options to earn income as they were discriminated against when they searched for formal employment and were also restricted from certain services such as social and banking services. The survival of those expatriate Africans who started small businesses was then dependent on the success of their businesses. Motivation for the expatriates to make a success of their businesses was high since running small businesses was one of the few income-earning activities available to them. The need to send remittances to their families left behind in the home countries was additional motivation to work harder and save more in order to make profits.

The local Black Africans were less restricted in terms of earning income since they could access formal employment better than the expatriates based on nationality, could rely on the extended family, and could access government assistance like social grants, housing, and free basic services like water and electricity. These possibilities reduced motivation from push factors for local Black Africans.

The expatriates had better access to resources from international networks than the local Black Africans. These networks provided goods and funds. Expatriates developed their own markets in high demand areas like townships, sold their products at relatively low prices, and opened their shops for longer hours. Selling at low prices countered competition from the locals and improved demand for the products sold by expatriates. The influence of the four growth drivers, namely, the owner's motivation, expertise in managing growth, access to resources, and demand favoured the competitiveness of the expatriates when compared to the local Black Africans.

7.4 State intervention affecting foreign-owned SMMEs in West, East, and South Africa

The colonial regimes had no problems with low numbers of foreigners owning businesses as these businesses opened up the African hinterland to commerce (Akyeampong 2006: 308; Hart and Padayachee 2000: 691). But the colonial regimes relented to the pressure from small-scale European operators in East, West, and South Africa. Restrictions on certain goods and markets were then applied. Refusal to grant trade licences was used extensively by the colonial regimes at all tiers of government down to municipal levels to limit the number of foreigners who could enter the commercial sector. The foreigners used to appeal to the colonial masters for reprieve, but in most cases they did not succeed.

In some cases the foreigners were able to reduce the adverse effects of some of the policies through market strategies e.g. when minimum wages were prescribed. At first there was no labour regulation and this allowed the foreigners to exploit their employees by paying them low wages. When minimum wages were then prescribed, the foreigners responded by increasing the prices. This action served to pass the costs of labour to the consumers and increase the profits of the foreigners.

Exclusion from certain markets was applied frequently by the colonial governments. The foreign shop-owners responded by trading from temporary structures e.g. selling from lorries. They also gained access to some markets by walking long distances from their shops to peddle their wares, securing accommodation in the homesteads of indigenous Africans and then using the homesteads as bases of operations.

The foreigners also deflected conflict with the colonial regimes by refraining from involvement in politics. In some cases they also bribed indigenous Africans, especially the chiefs, to intercede on their behalf. In South Africa they even overtly collaborated with the apartheid regime through the tricameral parliamentary system. They used the tricameral parliamentary processes to safeguard their privileges through reinforcing the apartheid laws e.g. by preventing other races from doing business in areas demarcated for Asians. The privileges conferred upon the foreigners by the colonial regimes were reduced by independence in the African countries or the advent of democracy in South Africa.

Independence brought new policies to African countries. Foreigners in African countries except South Africa had to contend with policies that ostracised them e.g. Africanization in the workplace where indigenous Africans were preferred over the foreigners (Bierwirth 1999: 87-93; Jamal 1976: 611; Ghai and Ghai 1965: 42-43). Nationalization of foreign-owned businesses which involved expropriation of businesses was implemented while parastatal entities were promoted. Commercial activity by the indigenous Africans was promoted at all levels. The new policies proved inappropriate for the independent African countries and led to economic collapse for most of these countries shortly after independence. Many nationals of the African countries emigrated to other countries. Liberation in South Africa also introduced new policies.

7.5 Current legislation affecting SMMEs in South Africa

The South African situation facing the Asians has not been like that in other African countries. Asians were reclassified to fall into the group of previously disadvantaged citizens together with Black Africans and Coloureds. These previously disadvantaged groups are now collectively called Blacks. This reclassification meant that policies designed to correct the injustices of the colonial and apartheid eras benefited the Asians as well. The same laws intended to benefit the Asians had negative effects on some of the Asian businesses which had been beneficiaries of the apartheid repression on labour wages and incentives (Hart and Padayachee 2000: 684). The laws that affected SMMEs include the following:

- The Labour Relations Act of 1995 which applied to all workers and employers with the aim of advancing economic development, social justice, labour peace and democracy at the workplace.

- Basic Conditions of Employment Act of 1997 which regulates working hours, employment contracts, deductions, leave and termination of employment.

- Compensation for Occupational Injuries and Diseases Act of 1993 which deals with compensation for injuries and diseases resulting from work-related activities.

- The Employment Equity Act of 1998 which protects workers and job seekers from unfair discrimination and provides a framework for implementing affirmative action.

- The Occupational Health and Safety Act of 1993 which regulates health and safety at the workplace for all workers.

- The Unemployment Insurance Act of 2001 which provides security to workers when they become unemployed. Employers are obliged to contribute to the Unemployment Insurance Fund.

- The National Small Business Act of 1996 which provides guidelines for organs of state such as Khula Enterprise Finance, the Small Enterprise Development Agency (SEDA), and the National Empowerment Fund intended to promote small business in South Africa through financial and non-financial assistance. The Integrated Small Enterprise Development Strategy was also adopted to unlock the potential of South African entrepreneurs, broaden the support programmes, streamline support institutions, and integrate service delivery (Integrated Strategy 2005: 5).

The repeal of apartheid legislation opened the sheltered business terrain of Asians to increased competition from other race groups and also to state regulation (Hart and Padayachee 2000: 689). Asians could no longer save on overheads by exploiting their workers through low wages or keeping them at work for long hours without overtime compensation. They also could not enter into contracts with their employees that led to exploitation of workers or compromise the health of their employees. Black Africans were empowered by these laws to compete with the other races on a potentially level terrain. Although the policies adopted by the government were based on good intentions, they also had shortcomings for which they were criticised.

7.6 Criticism of current policies affecting SMMEs in South Africa

The strategies intended to offer support to SMMEs were criticized for not being coherent and in competition with one another. The top-down approach in support provision focused on the aspirations of service providers rather than the opportunities identified by entrepreneurs at the grassroots level (Rogerson 2001: 121-131). The focus on potential growth points like the tourism and crafts sectors or export readiness neglected potentially worthwhile ideas from grassroots entrepreneurs. Many entrepreneurs did not even know about the existence of the support services or the location of the support centres (Fatoki and Garwe 2010: 732; Rogerson 2006: 75-77; Lewis 2002: 343). Some of the entrepreneurs did not trust the service providers because they were not continuously exposed to them.

The credit guarantee schemes offered by Khula were criticised for generating conflict with the banking sector that Khula had to work with (Nigrini and Schoombee 2002: 746). The banks complained about their share of the risk when claims were made and that Khula had a tendency of offering services directly to the clients, bypassing the banks which had to do the risk assessment. The funds contributed by the clients in order to access the scheme were also considered to be relatively high for a service intended to assist the poor who had no collateral. These funds from the clients included the 3% indemnity fee and the 10% or 20% contribution that the client had to provide from his/her own funds.

The SMME support programmes were also criticized for being biased towards the more established small to medium enterprises and neglecting the very small and micro enterprises (Rogerson 2004: 765-774). This bias left high cohorts of enterprises at the start-up stage and many Black African-owned enterprises outside the serviced group since most of the established medium-sized enterprises were owned by Whites. There were claims that only 4.6% of funds were given to Blacks and as much as 95% was given to White-owned enterprises in 2004. There was also a geographical and urban bias with some provinces receiving more services than others while the rural areas were underserved (Rogerson 2004: 773-779). Rogerson reported that as high as 70% of the Retail Financial Institutions' loans were disbursed to urban area in 2004. The LBSC network was not tightly linked but loose and uneven.

The training programmes offered by the government, for example in the SETAs, were viewed as being relatively unsuccessful as most of the training was done on-the-job and did not meet the South African Qualifications Authority standards (Rogerson 2008: 72-74). Some of the intended recipients of the training programmes were illiterate; hence a more in-depth training was required. Some of the aspiring entrepreneurs did not understand what business plans, budgets, and cash flow statements were.

The regulatory environment was also considered as a hindrance in the growth of SMMEs. Labour legislation and tax compliance were viewed as too complex and complicated for the small-scale entrepreneur (Rogerson 2008: 74-77). The relatively high minimum wages set by the government resulted in an inflexible labour market which worked against resource acquisition as a high proportion of the enterprises' funds went to overheads like wages. Compliance costs such as registration fees were also considered to be high, thus reducing the operational budgets of the enterprises.

Adopting international best practices neglected the unique qualities of South Africans, their diverse cultures, traditions, and values. Asians made a success of running small businesses for many years but the BEE requirements are in contradiction with the fundamental principles of running family businesses. Outsiders need to be brought into the family business if the enterprise is to obtain a favourable BEE scorecard to secure government tenders and gender considerations have to be factored in. Most of the traditional Asian-owned family businesses are not equipped to accommodate these requirements since the father rules over all business operations and the business is owned by family and relatives.

The government support services were relatively extensive, covered wide aspects of the required state intervention but few of the intended targets were reached, funding was low, the services were too centralised, and delivery was short of expectations (Rogerson 2004: 772; Rogerson 2008: 70).

7.7 Chapter summary

Foreigners (i.e. Asians in South Africa, Lebanese in West Africa, and Asians in East Africa) benefited from similar influences that determined the survival and growth of their enterprises during colonial times. Their backgrounds were similar and they arrived at African countries that were similarly underdeveloped and under colonial rule from European countries. Motivation, expertise in managing growth, access to resources, and demand were similar for the three groups during colonial times; hence their successes were achieved similarly.

Differences between South African Asians and the other two groups (i.e. Asians in East Africa and Lebanese in West Africa) occurred when segregation policies intensified after the formation of the Union of South Africa in 1910. Further divergence occurred when the African countries gained independence in the 1960s and apartheid intensified in South Africa. State intervention in African countries led to the expropriation of foreign-owned businesses, Africanization policies, deportation, and expulsion of foreigners. In South Africa, Asians responded to the apartheid policies by collaborating with the government and using the tricameral system for their own benefit. In this way, South African Asians were able to safeguard their interests in some instances unlike Asians in East Africa who faced expropriation of their businesses and expulsion. Lebanese in West Africa faced less repression when compared to the Asians in East Africa, especially when compared to the situation in Uganda from 1972.

The new laws introduced after 1994 in South Africa were intended to assist the previously disadvantaged groups. Asian businesses that could not adapt to the new environment became insolvent. The new policies were more comprehensive and covered a lot of critical areas on motivation, expertise in managing growth, access to resources, and demand. Problems with the new policies derived from inefficiencies in implementation and lack of coordination.

CHAPTER 8

CONCLUSION

Foreigners (i.e. Asians in South Africa, Lebanese in West Africa, and Asian in East Africa) were generally successful in running small businesses during the colonial era and were more competitive than the indigenous Africans. The survival and growth of their enterprises could be explained by the four interim growth drivers in the Perren model.

The pull and push factors including opportunities of trade in economically underdeveloped Africa, poverty in the home front, hardship and restrictions in Africa imposed by the colonial regimes on indigenous Africans served as motivation for the foreigners. They had superior expertise in managing growth derived from experience and education when compared to the indigenous Africans. Possibilities of acquiring resources including the use of networks and linkages to big businesses were also much better than those for indigenous Africans. Foreigners developed their own markets and used various methods, some of which were more sophisticated for that period, to improve demand for their products.

The Asians in South Africa benefited from the same factors as East African Asians but it was not smooth sailing all the way. There were many insolvencies in the small businesses owned by Asians in South Africa even before the end of the 19th century. This was attributed to lack of expertise in running trading enterprises and inadequate resources since a fair proportion of the traders came from an indentured background. Factors like the 1903-1908 recession, the habit of carrying excess stock, spreading family resources too thinly as Asian businesses spread throughout South Africa, and the demands of the formal economic sector led to the demise of even some of the big merchant houses during the first decade of the 20th century. This indicated that despite their ability to compete effectively, Asians were not infallible.

The intensification of apartheid and the associated segregation and relocation posed additional challenges to the South African Asians. Many of them collaborated with the apartheid state and became rich while others perished along the way. When the democratic process was concluded in 1994, Asian businesses that could not assimilate became insolvent. Asian businesses lost the ability to make significant savings from low overhead costs like low wages and new policies exposed them to more competition. Exclusive markets were also opened up and competitors like Black Africans were empowered by the new government to compete effectively.

During the colonial era, indigenous Africans were disadvantaged by entering the cash economy much later than the foreigners, did not have adequate resources and networks to compete in commerce, and did not have well developed markets and strategies to improve demand for their products. When the African countries gained independence in the 1960s, the governments responded to foreign domination in their economies by adopting policies that included enforced collaboration between foreigners and indigenous Africans, expropriation of foreign-owned businesses, Africanization in both the public and private sector, or outright expulsion of foreigners.

When the African economies collapsed after independence, many African countries recalled the previously expelled foreigners, returned their expropriated properties and compensated them. The recalled well-resourced foreigners used the same competitive strategies that had worked for them before independence and were helped along by favourable interim growth drivers like higher expertise in managing growth, better access to resources, and well developed networks that also improved demand.

Expatriates were more competitive than the local Black Africans due to higher levels of motivation, more extensive networks that enabled them to access resources better than locals, working long hours and selling at low prices to undercut the competition thus improving demand, and having more expertise in managing their businesses. The democratic governments in South Africa after 1994 introduced measures to assist the local Blacks and these selective measures should have, in theory, made the local Blacks more competitive than the expatriates.

The measures introduced since 1994 in South Africa were more comprehensive and covered all four interim growth drivers responsible for the growth of SMMEs. Promotion of entrepreneurship is one of the pillars of the Integrated Small-Enterprise Development Strategy (to improve motivation) and skills acquisition, training, and setting up of local advice centres (for improved expertise in managing growth) are covered in JIPSA and other government strategies. Access to resources is covered by the National Small Business Act of 1996 and institutions like Khula Enterprise Finance while demand is improved through promotion of local clusters, promotion of business linkages, public procurement measures, and export market development.

The policies, although comprehensive, have suffered problems of implementation. A focus on implementation and a holistic intervention in the economy can improve the performance of SMMEs. The intervention should first target the macro-economy to ensure that there is overall economic growth which can then feed into the SMME sector increasing productivity and creating jobs. Regulation involving licences, tax compliance, and minimum wages should be made flexible. Flexible interest rates can also improve savings or create demand.

An alignment of training programs in the SETAs and those in the SAQA can improve skills acquisition. Making the education system more relevant and promoting vocational training should be encouraged.

Asians have relied on family businesses but the requirements for accessing tenders in terms of the BEE scorecard are not supportive of family businesses. Relaxing these stringent requirements can motivate Asian entrepreneurs to apply their time-tested business strategies instead of stripping them of that option. The unique conditions in South Africa should be factored into the strategies to complement the international best practices.

In order to avoid reliance on formal financial institutions for funding, tax incentives should be given to family members, friends, and relatives providing funds to the enterprises. This can avoid depleting government resources and a welfare state.

The expatriate Africans should be incorporated into the economy rather than attempting to exclude them. Bureaucratic processes should be made more flexible to accommodate them as few expatriates qualify for business permits currently.

Competitiveness of Asians and expatriate Africans was informed by advantages they had in the four interim growth drivers. Limiting competition by excluding them from the economy might result in inefficiencies in production, high sale prices to consumers, and an eventual demise of the whole SMME sector. Adjustments in the economy structure that can promote production-enhancing sectors like manufacturing rather than consumption-based sectors should be effected. A change from capital-intensive heavy industry to light industry that is labour intensive can serve South Africa well in terms of economic growth, employment, income distribution, and the general empowerment of SMMEs.

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