PHASES OF SUSTAINABLE DEVELOPMENT IN SMALL AND MEDIUM ENTERPRISE (SME) RETAIL OUTLETS

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PROMOTER: Professor Hendrik Lloyd
DECLARATION

I, Marlon Brower, hereby declare that:

- The work in this thesis is my own original work;
- All sources used or referred to have been documented and recognized;
- This thesis has not been previously submitted in full or partial fulfilment of the requirements for an equivalent or higher qualification at any other recognized education institution.

_________________
Marlon Brower
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ABSTRACT

SMEs play a vital role in the country. For the purpose of the study the focus was on SMEs in the Nelson Mandela Bay Municipality Jurisdiction. Businesses which met the SME criteria (refer to Chapter 1, Section 1.7.1), (Du Plessis, 1996: 162; Marx et al., 1998: 728) were included in this study. The study is formed around the aspects of business which contribute to the growth of the business in the long term. A specific study was conducted on the ethnic entrepreneur and the aspects that influence business growth. There are many factors which influence the growth of the business; for the purpose of this study, a specific focus was placed on: (1) knowledge with regard to business; (2) entrepreneurial culture; (3) brand management; (4) location of the business; (5) business relationships; and (6) cultural influences. These variables will determine how the growth of the business is ultimately influenced. The research can also discover from respondents what they view as important in their lives. The study then goes further to analyse whether the independent variables, as reacted to by the respondents, have a significant or non-significant effect on growth.
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CHAPTER ONE - INTRODUCTION

1.1 GENERAL INTRODUCTION

Three-quarters of the world’s population still live in poverty (SMEs sector in South Africa stuck on Quandary, 2001). South Africa, as a developing country, is battling with its own problems of poverty, the root cause of which, unemployment, has been exacerbated by the past legacies of inequality and discrimination. Of the total population of 44 million South Africans in 2000, about 8 million were surviving on less than the World Bank ‘dollar a day’ poverty line benchmark (which converted to R92 per person per month in research conducted prior to 2000), while 18 million were living on less than double the ‘dollar a day’ poverty line (Furber, 1995). Recent figures indicate that 37% of households in South Africa survive on less than R1000 per month (Woolard, 2002). Poverty and unemployment are closely linked, in that 53% of the South African population falling in the poorest quintile are unemployed, compared to 4% of the most affluent 20% of the population.

It is imperative to find solutions to the unemployment problem in order to give poor South Africans some means of sustained income generation. Unfortunately, existing large corporations and the public sector have proved unable to address the endemic problems of unemployment and poverty. Hence, the focus has increasingly shifted to the role the small business sector can play in solving the economic crises facing South Africa. Altogether, 85% of South African businesses can be categorised as small to medium-sized enterprises (Strategic Trends, 1995/96:26), while some even claim that SMEs account for 97.5% of all establishments in the formal (registered) private sector (Erwin, 2002). SMEs already provide approximately 57% of jobs in the South African economy and contribute about 35% of South Africa’s GDP (Erwin, 2002; Ntiska, Enterprise Promotion Agency; 2000:24; South African Yearbook, 1999:292; SME sector in SA stuck in a quandary, 2001).

In an attempt to improve its survival prospects, it is therefore important that greater insight into and understanding of the SME sector be obtained. Such insight could facilitate the longevity and financial performance of this important economic business sector and ultimately contribute to the alleviation of poverty in South Africa.
South Africa has fared very badly in developing the above-mentioned area of concern; more than six out of ten new business start-ups in South Africa fail within the first 18 to 24 months (Training cuts the rates of failure, 1997). These failures are largely due to a combination of poor macro-economic performance and a number of structural constraints that impede development, such as lack of access to market information, finance and the latest technology and managerial skills (IDC support to SME sector, 2001:5). Other issues contributing to the problems experienced by the SME sector include lack of effective communication, funding problems, a misconception of the significance of entrepreneurship, and insufficient preparation to face the competitiveness of the international market-place (SME sector in SA stuck in a quandary, 2001).

In addition, specific barriers serve to restrict the entry of SMEs into the South African economy. According to Furber (1995:28), these include vested interests, union intervention, the number of monopolies, and strong-arm tactics by existing players. All these factors make it difficult for SMEs to break into the existing market. Larger businesses often have extensive power and wield it vigorously to keep small businesses out of the market. In addition, the legislative environment in South Africa is complex and generally does not favour the entrepreneur. Funding is also a big problem; there are few venture capitalists, and the banks’ attitudes toward high-risk funding are often not supportive (Furber, 1995:28).

1.2 RESEARCH PROBLEM

From the above discussion, the importance of Small and Medium Enterprises within the Nelson Mandela Bay Municipality can be deduced. Therefore, the main research problem is:

MAIN PROBLEM

To obtain a better understanding of how certain aspects in business influence the ethnic entrepreneur in order to assist Coca-Cola in managing the growth and sustainability of SME retail outlets in the Metropole.
1.2.1 Research Sub Problems:

In order to solve the above research problem, the following sub-problems must be solved:
Identify factors from a literature review that will promote the long-term growth survival and sustainability of SME retail outlets.
Conduct a situational analysis based on the literature research into the importance of the identified factors for Coca-Cola’s operations in the SME market.
Discover to what extent the ethnic entrepreneur perceives certain factors to be influential in the sustainability and growth of his/her business.

1.2.2 Research Hypotheses:

- Hypothesis 1:
  H0 - Entrepreneurial culture has no influence on the growth of the business.
  H1 - Entrepreneurial culture has a definite influence on the growth of the business.

- Hypothesis 2:
  H0 – Branding of products has no influence on the growth of the business.
  H1 - Branding of products has a definite influence on the growth of the business.

- Hypothesis 3:
  H0 – Relationships with customers do not have an influence on the growth of the business.
  H1 – Relationships with customers do have an influence on the growth of the business.

- Hypothesis 4:
  H0 – Location of the business does not affect its growth.
  H1 – Location of the business does affect its growth.

- Hypothesis 5:
  H0 – Knowledge of running a business does not affect its growth.
  H1 – Knowledge of running a business does influence its growth.
Hypothesis 6:
H0 – The sustainability of the business has no influence on its growth prospects.
H1 – The sustainability of the business does have an influence on its growth prospects.

1.3 DEMARCATION OF RESEARCH

The research will be focused on the SME sector within the NMBM, which has a standing relationship with Coca-Cola. The study will be conducted amongst all members involved in ethnic businesses. Employees at management level (Coca-Cola) will also be included in the research where necessary.

The geographical area will be the urban areas of the NMBM, (i.e. Port Elizabeth, Uitenhage and Despatch areas).

1.4 ASSUMPTIONS

It is assumed that the universal ethnic entrepreneurial practices which apply to small and medium enterprises in general, will apply to the emerging market of black- and coloured-owned enterprises.

1.5 SIGNIFICANCE OF THE RESEARCH

Research in this field in the NMBM creates a base for comparative research with the rest of South Africa and the world, especially as it relates to the operations of Coca-Cola in this sector.

The importance of this research will lie in the provision of a basis of commonality in order to invite further research in this field, nationally and internationally.

1.6 PURPOSE STATEMENT

The purpose of the study is to provide a generic model to ensure the sustainability of SME outlets within the NMBM community in South Africa from a business survival and growth point of view. This study can help to create insight into this important business category.
1.7 AN OVERVIEW OF RELATED LITERATURE

A survey of SME literature by different authors will be conducted to establish existing SME research, which will be incorporated into this study. The following is an overview of the literature.

1.7.1 Defining Small and Medium Enterprises

Opinions differ about what small and medium-sized businesses really are. The many definitions available are normally based on economic and statistical guidelines (Du Plessis, 1996:162). Economic characteristics include: independent ownership and management; capital which is supplied by an individual or a few individuals who hold ownership; the area of operations being primarily local, although the market is not necessarily local; a simple organisational structure; and the business being small in comparison with the largest competitors in its own industry and perhaps having multiple liabilities (Du Plessis, 1996:162; Hodgetts and Kuratko, 1998:6; Marx, Van Rooyen, Bosch and Reynders, 1998:728). The modern trend is to use four quantifiable guidelines for definition proposes, namely annual turnover; number of full-time employees; value of assets (excluding property); and the number of business units or branches (Du Plessis, 1996:162; Marx et al, 1998:728).

The White Paper on a National Strategy for the Development and Promotion of Small Business in South Africa (1995:10-11), defines a small business as one which is normally owner-managed and employs between 5 and 50 people. Classification in terms of assets and turnover is difficult, given the differences in various business sectors such as agriculture, retailing manufacturing, professional services and construction (National Small Business Act, 1996:20). Medium-sized businesses are basically owner/manager-controlled, though the shareholding or community control arrangements may be more complex. A workforce of 200 workers and capital assets (excluding property) of about R5 million are usually regarded as the upper limit. Owing to the sensitive nature of this data, it is difficult to obtain turnover and capital asset figures through empirical research. Therefore, for the purpose of this study, the only quantifiable guidelines that will be used for definition purposes are form of ownership and number of full-time employees.
The definition of small and medium-sized businesses to be applied in this study is therefore:

**Small and medium-sized businesses that are independently owned and managed, and employ more than 5 but fewer than 200 workers.**

1.7.2 Ethnic Entrepreneurs

As Rath and Kloosterman (2002) point out, what distinguishes ethnic entrepreneurs from entrepreneurship is seldom made explicit. Does the adjective refer to the origins of the entrepreneur, management strategies, personnel, clientele, products, or a combination of these? (Rath, 2000). When does an ethnic entrepreneur stop being ‘ethnic’? Not all entrepreneurial activities of immigrants can be labelled ethnic. Entrepreneurs can be considered ethnic if they have major advantages or disadvantages as a result of their ethnicity. Ethnic entrepreneurs may benefit from co-ethnic loyalty (from buyers and sellers) and co-ethnic employment. According to Light and Karageorgis (1994), entrepreneurs become ethnic entrepreneurs when ethnic resources become more important than the non-ethnic resources commonly used in that entrepreneurial activity. Businesses are not isolated units. They grow from similar businesses in the community, which in turn function as a support base. Entrepreneurs need social relations that support the establishment of businesses (Zimmer and Aldrich, 1986; Granovetter, 1985; Light and Karagoergis, 1994).

Ethnic entrepreneurs need to develop socially meaningful relationships with other ethnic enclaves in order to start a business. To start a business, ethnic entrepreneurs draw on co-ethnics to help them, but these ties are not a given. They have to activate their networks for them to become social capital. People come to recognise each other as part of the same ethnic group by defining them as belonging. 'Belongers' are characterised situationally, and definitions may be narrowly or broadly determined, depending on circumstances. The innermost circle includes those from the same defined space and time. Those that leave and arrive from the same location at a similar time often share biographies (Bertaux, 1997; Bertaux-Wiame, 1981; Salaff, 2000). Shared cultural indicators include language and religion. Identifying features may embrace physiology and demeanour. Dress, food and other familiar consumer
items become cultural markers. People draw on such indicators to define others as culturally similar (Salaff, 2000).

1.8 RESEARCH DESIGN

1.8.1 Research Methodology

The following procedure will be adopted to solve the main sub-problems:

1.8.2 Literature Survey

SMEs and ethnic entrepreneurial practices will be identified from literature. Literature of relevance/contribution to SMEs will be researched to identify common ground. This common knowledge will be used as a basis in solving the posed sub-problems of the study.

1.8.3 Empirical Study

a) Sample
Business registrations at the Registrations Office in Pretoria will be included in the sample. They must comply with the definition of SMEs as identified in Chapter 1, Section 1.7.1. A sample of approximately 700 SME businesses within the NMBM is possible, based on their Coca-Cola relationship.

b) Interviews
As the sample of SME-owned businesses is manageable and localised in the same geographic area, interviewing with structured questionnaires is feasible, and will be conducted. This will be the main method of research.

c) Measuring Instrument
A comprehensive questionnaire for this research project will be developed based on a 5-point Likert Scale. A 5-point Likert Scale will be used in an attempt to eliminate the central tendency errors from playing a significant role affecting the empirical data analysis.
The envisaged research model is highlighted in Figure 1 below:

**Figure 1: Envisaged Research Model**

Source: Researcher’s Own Construction
1.8.4 Development of an Integrated Model

Data obtained from the empirical survey will be analysed by means of frequency analyses and inferential statistical analyses. The results of the literature study as well as the empirical study will be integrated to develop a model, defining the competencies required to ensure the survival and growth of SMEs in the study area as assisted by Coca-Cola.

1.9 PROPOSED STUDY OUTLINE

In Chapter 1, a brief overview of the research problems and sub-problems are highlighted. The demarcation of the study is outlined as per the geographically demarcated boundaries in the Nelson Mandela Bay Metropolitan area. The significance of the study is discussed in order to understand what contributes to the sustainability and growth of the business. Objectives of the research include those factors which influence the growth of the business. An overview of the literature is discussed, defining SMEs as well as the ethnic entrepreneur, and the research design is set out culminating in the envisaged research model.

In Chapter 2, special attention is given to the holistic effect of the SMEs from a South African context and how this sector influences the economy.

Chapter 3 emphasises the extent to which businesses are affected by different ethnic groups. Focus is placed on the ethnic entrepreneur as well as the link between national culture and entrepreneurship. A comparison is made between western and non-western cultures, and the cultural density challenges in the South African context are discussed.

Chapter 4 focuses on the ethnic entrepreneur and the role performed in the developed market. It considers the different aspects of an ethnic entrepreneur. These aspects include the relationship between ethnicity and entrepreneurs, characteristics of ethnic entrepreneurship and that of ethnic-owned businesses.
Chapter 5 takes a look at how branding of products, product attributes, and customer relationships influence growth of the business. Benefits of the brand and consumer are discussed in detail.

Chapter 6 relates to the method of research that was conducted for the study. The development of the questionnaire is discussed as well as the research method and data collection procedure and techniques.

Chapter 7 provides the analysis and results obtained from the empirical study.

Chapter 8 concludes with the limitations to the current study as well as recommendations for future research opportunities.
CHAPTER 2

DEFINING SMALL AND MEDIUM ENTERPRISES

2.1 INTRODUCTION

This chapter will examine the importance of SMEs in general, defining what constitutes small and medium-sized businesses, the importance of SMEs and the problems that they face in a South African context.

It is important that all players in the economy have a good understanding of the dynamics of the small business sector, if they are to make a success of helping and assisting SMEs. Since 1994, substantial positive changes that have taken place in this sector. Not only has government established a comprehensive support framework over the past ten years, but also there has been a substantial increase in the products and services offered by the private sector to small businesses (Venter, 2002:18). It is evident that the South African economy is going through a structural change; part of this change is that the number of enterprises and their contribution to the economy is steadily increasing. This structural change is necessary for South Africa if we are to grow our economy, be more competitive and have greater equity (Ntsika,1997a).

2.2 DEFINING SMEs IN THE SOUTH AFRICAN CONTEXT

There are many opinions about what SMEs are. The many definitions available are based on economic and statistical guidelines (Du Plessis, 1996:162). Economic characteristic include: independent ownership and management; capital that is supplied by an individual or a few individuals who hold ownership; the area of operations being primarily local, although the market is not necessarily local; a simple organisational structure; and the business being small in comparison with the largest competitors in its industry and may have multiple liabilities (Du Plessis 1996:162; Hodgetts and 1998:6; van Rooyen, Bosch 1998:728).

The White Paper on a National Strategy for the development of Promotion of Small Business in South Africa (1995:10-11), defines a small business as one which is normally owner-managed and employs between 5 and 50 people.
Providing and agreeing upon the exact definition of different business categories is a complex task. Definitions differ from country to country and between institutions in countries. The number of employees (the most common mode of definition) per enterprise, size category combined with the annual turnover categories, and the gross assets excluding fixed property differentiates these according to sub-sectors. The information on assets is important for this study as this gives us an indication of capitalisation needs. Gross assets exclude any fixed property as SMEs will reflect a wide range of access forms to physical facilities, most being rented. Inclusion of rented property as part of assets would be an incorrect reflection of assets. South Africa also has a wide range of definitions of ownership and user rights; this is not an issue in this case, as property is excluded in these definitions (Van Rooyen, Bosch 1998:728).

### 2.3 DEFINING THE SME ECONOMY

In mainstream international writings on small-enterprise development, attention is generally focused on either SMEs or small and medium enterprises (Mead, 1994). In South Africa, however, the focus is on SMEs (small and medium enterprises), which include a large survivalist sector.
The confusion arising from the terminology is not of substantive importance. What is crucial is to recognise that it is necessary to distinguish several types of SMEs in South Africa (Ntsika, 1997a). In the National White Paper on Small Business, which draws upon international patterns, the South African SME economy is segmented into three sets of enterprises (South Africa, 1995a:9). The first set comprises survivalist enterprises. Operating in the informal economy, they are defined as a set of activities undertaken primarily by unemployed people unable to find regular employment. In this group, incomes usually fall short of minimum standards, little capital is invested, skills training is minimal, and scant prospects exist for growth into a viable small-business enterprise. The second set comprises micro enterprises which involve the owner, some family members and, at most, one to four employees. Although such businesses frequently escape the trappings of ‘formality’ such as licences or formal premises, the entrepreneur sometimes has only rudimentary business skills or training. Many micro-enterprises have between 5 and 100 workers, and the medium enterprises between 100 and 200. SME enterprises are usually owner-managed, operate from fixed premises, and bear all the trappings associated with formality (South Africa, 1995a; Ntsika, 1997a).

Another important distinction is that drawn between the group of established formal SMEs and the group of emerging SMEs. Businesses are largely owned by whites and (sometimes Asians), and established SMEs operate in South Africa’s urban areas, particularly in larger cities. Emerging SMEs are largely under black or coloured ownership and operate in urban townships, informal settlements and rural areas (Ntsika, 1997a). According to the White Paper, the largest component of the South African SME economy is the survivalist sector, which numbers an estimated 2.5 million businesses as compared to the 800,000 businesses in the rest of the SME economy (micro enterprises and formal SMEs).

2.4 THE SMALL BUSINESS SECTOR

There are a number of terms used when referring to small businesses. These include the term Small Medium Micro-sized enterprise (SMME), and the generic terms, small business or small firm. For the purpose of clarification, this study focuses on SMEs. Later in this chapter the respective criteria for a 'business' will be clarified and quantified.
2.5 WHAT MAKES A SMALL FIRM SO DIFFERENT?

“Small firms are not just scaled down versions of large ones” (Burns, 2001:9). The manner in which small firms go about their business differs from larger organisations. In fact, Burns (2001) goes further by stating that small firms go about their business in fundamentally different ways.

Burns (2001) Storey and Sykes (in Burns and Dewhurst, 1996) highlight the following characteristics of a small firm, which distinguishes it from larger firms:

- Small firms are always short of cash, which limits their strategic options;
- Their approach to risk and uncertainty is not rational;
- The owner-manager’s characteristics fundamentally influence the firm;
- The small firm is seen as a social entity and often revolves around personal relationships;
- They require their business options to provide a quick payoff to offset the cash constraints;
- The majority of their decisions are short-term based.
- Small firms generally operate in a single market, offering a limited range of products and services;
- They become over-reliant on a few customers, which makes them vulnerable to failure should a key customer discontinue doing business with the small firm;
- Decisions are more judgmental, involving fewer people and therefore made much more quickly;
- They are more responsive to changes in the marketplace; and
- They are less likely to influence developments in the marketplace, but can respond or adjust to changes in the marketplace much more quickly than larger firms.

Storey (2000) notes that politicians around the globe have, over the past decade, been emphasising the importance of small enterprises as mechanisms for job creation, innovation, and the long-term development of economies. However, the media coverage in the European economy on business, in general, contains over 95% of
column space for large businesses even though in the European economy 95% of all firms are in fact small. They provide more than half of all jobs in Europe, yet little media coverage is afforded to these entities.

Small firms, like the term 'entrepreneurship', have numerous definitions (Culkin and Smith, 2000). The ‘objective’ measures which one would want to use to define a small firm cannot be agreed upon by the various researchers. For example, the different sectors of an economy will have different interpretations of the word ‘small’. Some authors use turnover as a measure; some use the number of employees; some use profitability or net worth as a measure. Some researchers use a combination of measures like number of employees and turnover.

In order to overcome the conflicting opinions of a small firm, the Department of Trade and Industry in the UK (Culkin and Smith, 2000) provided the following definitions or classifications of small, micro, and large-sized enterprises:

- **Micro-firm**: 0-9 employees;
- **Small firm**: 0-99 employees;
- **Medium firm**: 50-249 employees; and
- **Large firm**: over 250 employees.

Culkin and Smith (2000) and Deakins (1999) realised that the UK could not ignore the European Union dimension, and expanded their classification to be determined by at least two out of three criteria from Table 2.1 below. Also illustrated below in Table 2.2 is the European classification.

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Small Firm</th>
<th>Medium Firm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover</td>
<td>Not more than 2.8 million</td>
<td>Not more than 11.2 million</td>
</tr>
<tr>
<td>Balance sheet</td>
<td>Not more than 1.4 million</td>
<td>Not more than 5.6 million</td>
</tr>
<tr>
<td>Employees</td>
<td>Not more than 50</td>
<td>Not more than 250</td>
</tr>
</tbody>
</table>

**SOURCE:** Culkin and Smith (2000) and Deakins (1999)
The tables above illustrate the lack of consistency in trying to arrive at a definition of a Small, Medium, and Micro Enterprise. In some instances, like South Africa and the USA, the definitions differ within a country depending on the sector of the economy, which makes consensus even more difficult (Rwigema and Venter, 2004; Longenecker, Moore and Petty, 2003).

Harper (1984) believes that there is real benefit in trying to produce a universally, or even nationally, acceptable definition or classification for small businesses. According to Harper (1984), the main motivation for wanting a quantitative definition of a small firm is to exclude other larger firms from preferential assistance programmes, which are essentially designed to assist the small firms.

In gauging the contribution the small firms make to the economy of a country, the task might be made easier if a consistent definition was formulated. One could then compare different countries and the contributions of their small-firm sectors. Be that as it may, there are many positive contributions that these firms make in a country’s economy. The next section will delve into the role of the small firm.
2.6 THE ROLE OF THE SMALL FIRM IN THE SOUTH AFRICAN ECONOMY

Garavan, O Cinneide, Fleming, McCarthy, and Downey (1997) suggest that small firms, in contrast to larger organisations, are the most prolific source of innovation practices in many sectors, and their importance to the vigour and health of an industrial economy is widely recognised.

Small firms are the primary source for entrepreneurship and innovation in the economy. It is stated that existing evidence points to a strong and broadly based small-firm sector as the essential ingredient for economic prosperity, resilience and innovative growth (Sweeney 1981).

Entrepreneurship is behaviour focusing on opportunities rather than resources, and this type of behaviour is present in small business, as can be seen in the simple running of a firm for a living, as shopkeepers, professional people, and franchisees. However, if the small firms engage in the introduction of new products and processes that change the industry, these firms are identified as Schumpeterian in nature (Thurik and Wennekers, 2004), which, by implication, would make them entrepreneurial in nature. Rwigema and Venter (2004) warn that not all small firms are entrepreneurial, despite making a significant contribution to the economy. The average shopkeeper, selling everyday items, is not classified as entrepreneurial because of the absence of innovation and change – the shopkeeper is merely buying and selling goods.

According to SENET (2004) over 99% of the 3.2 million businesses in the UK are small and medium-sized enterprises (SMEs) and they account for more than two thirds of the business turnover. The Department of Trade and Industry (DTI) of South Africa (1995) suggests that there are more than 800 000 SMEs, absorbing approximately a quarter of the labour force of 15 million people. This is in addition to approximately 3.5 million people who are involved in some type of survivalist venture. The DTI (1998) believes that small businesses in South Africa account for 60% of all employment and 40% of GDP.
Commonwealth Resources (1998) indicates that agriculture contributes 5% of South Africa’s GDP and employs 10% of total labour, while manufacturing contributes 25% of GDP and employees 28% of total labour, and mining contributes 7.7% of GDP.

2.7 UNDERSTANDING THE POSITION OF THE SME ECONOMY

In understanding the role of SMEs in the post-apartheid economy, it is important to understand some of the principles which are guiding government interventions and support infrastructure for SMEs. In addition, an appreciation of the key constraints on developing the SME economy sets the context for evaluating the government’s new support infrastructure and policy framework for SME development.

In an analysis, Manning (1996:63-67) argues that South African government intervention for SMEs promotion derives from identifying three key roles for SMEs in the national economy and society, namely employment promotion, economic redistribution, and the enhancement of competitiveness.

The role of SMEs in employment promotion is particularly significant given that the post-apartheid economy has been characterised by ‘jobless growth’. In terms of economic redistribution, SME promotion undoubtedly will contribute to redressing the economic inequalities inherited from the apartheid period (South Africa, 1995a). SMEs are expected to enhance the economic competitiveness of local industry in order to stimulate growth and even export. This issue has attracted considerable attention, particularly in terms of flexible specialisation, industrial clusters, and the promotion of industrial districts (Rogerson, 1988).

The needs of the SME economy set the context for an infrastructure of institutional and policy support (Rogerson, 1988). In interpreting the constraints on the SME economy, it is essential to appreciate that the growth of the SME economy is being nurtured by the reduction in the labour-absorptive capacity of the formal economy on the one hand, and the break-up of formal enterprises and the displacement of formal factory jobs by the growth of unregistered plants and home-based work on the other hand.
The net consequence of these divergent processes is that the SME economy has become stratified, and that entrepreneur status can no longer be given to all SME participants (Horn, 1995:35). Although some micro-enterprises have grown into formal SMEs, the majority are likely to remain poor. Indeed, SME participants become trapped in casual jobs within the structures of the dominant formal capitalist economy. Forms of casual work include short-term wage work, disguised wage work (e.g. commission sellers and home workers) and dependent work (common among street traders, their dependency being based on credit relationships). The majority of the population working in SMEs are unlikely ever to escape the struggle for a meagre survival, ‘constrained by a number of factors which constantly reinforce their position at the bottom of the pile’ (Horn, 1995:35). Worst affected are women, because they are constrained by patriarchy and the responsibilities of child care, which limit their capacity to pursue training and develop their skills. The inevitable consequence is the feminisation of the lowest and worst-paid echelons of SME work, namely survivalist enterprise.

The key constraints facing the different segments of the SME economy have been extensively investigated across both urban and rural areas of South Africa (Preston-Whyte and Rogerson, 1991; World Bank, 1993; Kirsten, 1995; Rogerson, 1996a, 1996b, 1998a; Rogerson and Reid, 1997). Initially, emphasis was placed upon the negative impact of narrow regulations on the growth of SMEs. Hence it was suggested that government’s role in promoting SMEs should be minimised to the enactment of measures for deregulating the economy. Nevertheless, legal restrictions are no longer the major impediment to SME development in South Africa (World Bank, 1993; Rogerson, 1996a, 1998a).

Other analysts locate the constraints on SMEs in the broader historical, political and economic circumstances of South Africa. According to these analysts, discriminatory apartheid legislation and South Africa’s concentrated economic structure were major contributors to the limited development of SMEs (Manning, 1996). Supporters of this view hold that the demise of apartheid was insufficient to fully develop SMEs. Therefore, a mix of policies is demanded. The policies should address, inter alia, the following:

- Access to finance and credit;
- Inadequate business infrastructure and service provision;
• Inadequacies in the content and delivery of training;
• The fragmentation of cities and the strict separation of land use and racial groups;
• Competition from existing formal enterprise;
• market inaccessibility; and
• The historical underdevelopment of business procurement and subcontracting linkages between large enterprise and the SME sector (Rogerson, 1995, 1996a, 1996b, 1998a).

New research by Manning (1996) stresses that an aggressive SME policy should additionally address ‘competition policy’ as an important explanation for the under-representation of SMEs in the mainstream economy. According to Manning (1996:244), the successful upgrading of SMEs into the mainstream economy requires the implementation of policy at a range of levels:

• Micro-level policies targeted directly at enhancing small-firm capacity; sector-wide policies aimed at improving the performance of all enterprises in a sector;
• Competition-type policies aimed at heightening the level of competition in the South African economy; and
• Macro economic policies addressing the uncontrolled supply of credit to consumers.

Finally, in dealing with constraints, several observers point to a need for policies and programmes to deal with the specific environmental constraints that relegate to women the poorest niches in the SME economy (Horn, 1995; Valodia, 1996). What is required, it is argued, is an integrated policy framework which takes into account the factors which force women to participate largely in survivalist enterprises (SEWU, 1995, 1996). Therefore, intervention programmes should aim at organising and regulating informal workers, redesigning social security systems, and extending workplace child care (SEWU, 1995).
2.8 THE IMPORTANCE OF SMEs

One of the many problems that South Africa faces is that of structural unemployment. According to the Department of Labour (Economic and financial dates for South Africa, 2001), the official employment rate for the country in October 1999 (latest figure) was 23.3%. The unofficial employment rate, however, is lower, and is estimated at as high as 38% (Msomi 2000:1). Between the first quarter of 1998 and the last quarter of 1999, overall employment in the agricultural sectors of the economy decreased by 3.7%. This trend continued into 2000; figures released by Statistics South Africa reflect that a further 63 635 jobs were lost in that year (Ntsika, 2000:15). As part of a global pattern, the demand for semi-skilled labour has shown a consistent and drastic decline in the last decade (Comiteau, Crumley, Gibson and James 2000:24; Cull 2000:11; Gumede 2001). To compound the problem, less than 30% of employed people in South African have a matric certificate, while only 14% of them who passed their matriculation exams in 2004 achieved a university entrance qualification.

Large operations and an inflated public sector have historically dominated South Africa’s economy. Over the past four years, the South African economy has not been able to generate employment opportunities in the formal non-agricultural sectors (Ntsika, 2000:18). With the country’s political and economic liberalisation, the 1990s saw the beginning of a massive restructuring of the corporate nation, which is still continuing. It is estimated that the South Africa economy has shed more than one million jobs between 1990 and 2000 (Msomi, 2000:1), while the informal sector has created more entrepreneurs. Research by the World Bank has confirmed the decline of South Africa’s formal economy over the past three decades (Role of SMEs in the economy 1995:72). This indicates that while large businesses absorbed more than 80% of the labour between 1960 and 1965, the absorptive capacity of the formal economy had declined to approximately 49% by 1975. By 1990, the formal sector could accommodate as little as 8.4% of new entrants to the labour market (Role of SMEs in the economy 1995:70). The drop in absorptive capacity of large corporative businesses has inflated the number of poor alarmingly, forcing many people to start some kind of enterprise in order to survive (Adendorff, 2004:88). When the trend emerged, many applauded, predicting that the formal sector would significantly decrease unemployment (Venter, 2002:18). Others, however, feel that this belief was
ill-founded. In 1996, approximately 19% of the country’s employed were active in the informal and domestic service sectors of the economy. By 1999 the informal economy provided employment to approximately 26% of the employed, with the contribution of formal sectors being 74% (Venter, 2002:23).

Whatever the views, it is clear that most of the future growth and wealth creation will be from SMEs (Role of SMES in the economy, 1995:70). Especially in the last decade it has become glaringly obvious that existing large corporations and the private sector are to address the economic and social challenges facing South Africa (Venter 2002:23). Here the focus has shifted to the role that the small business sector can play in solving the economic crisis facing South Africa (Maas, 1999 a+b).

The critical and valuable role of the SME sector in absorbing labour, enhancing productivity, driving technological innovation, penetrating new markets and generally expanding economies in creative and innovative ways, is globally recognised (Barnard 1996:1; IDO Support to SME sector, 2001:5; Levin, 1998:79; Lunsche 1998:1; Sunter 2000:23; Viviers and 2002:2). In South Africa altogether 85% of businesses can be categorised as small to medium-sized enterprises (Strategic Trends 1995/96:26). It is even suggested that SMEs account for 97.5% of all establishments in the formal (registered) private sector (Erwin, 2002). SMEs already provide approximately 57% of jobs in the South African economy, and contribute about 35% of South Africa’s GDP (Erwin, 2002; Ntsika, 2000:24; South African, 1999:292; SME sector in SA stuck in a quandary 2001). Sectors where SMEs contribute more than 40% of South African’s GDP include agriculture, construction, trade, and transport (Ntsika 2000:24). At a time when the public sector and big business have shed jobs, SMEs have maintained real employment growth, especially in the trade, agricultural and business-service sectors (Erwin, 2002). The small-business sector has been identified as critically important by the South African government, and is often seen as a prime opportunity for economic growth (Budget, 2001). Job creations are at the very top of the agenda of the South African government, and central to job creations are SMEs (Ruiteo, 2002:2). In recognition of this, the government has published several policy documents, such as the White Paper on a National Strategy for the development and promotion of small businesses in South Africa, and the Small Businesses Development Act. The government also financed specific SME initiatives, to the value of almost R1 billion, up to the year 2000.
Venter (2002:24) highlights the reasons why the South African government and various institutions have identified the small to medium-sized business sector as a priority. SMEs can be significant exporters, as is evident in countries such as France, Italy, the Netherlands, Norway and Japan (Small business, big business 1995:89). The small business sector in South Africa has consisted mainly of individuals in previously disadvantaged communities (Pitt, 1996). Venter (2002:24) also indicates that many SMEs act as market-demand shock-absorbers. By employing flexible production technologies (emphasising labour and less specialised capital goods), SMEs have greater flexibility than large businesses in adjusting their relative production levels, and thus are better able to accommodate random, short-term fluctuations in demand (Hodgetts & Kuratko 1998:10). SMEs are less likely to encounter the problems that can arise from the complex, multi-echelon management structures common to large businesses. Complex organisational structures tend to increase the cost of transferring information within businesses, and generally result in more rigid decision-making processes (Hodgetts & Kuratko, 1998:10; Small business, big business, 1995:89).

SMEs play an important role in the introduction of new goods and services to the marketplace (Hodgetts & Kuratko, 1998:9; Mescon et al., 1999:134). The advent of computer-aided manufacturing equipment and the internet has enabled small manufacturing plants to customise their products and deliver them as efficiently as their larger rivals. A small business typically has less diffused ownership, enabling the owner to make business decisions more quickly. Many SMEs act as contractors, servicing agents and suppliers to large corporations (Mescon et al., 1999:134). SMEs provide important economic advantages for women (Hodgetts & Kuratko, 1998:11). For instance, data from the United Kingdom suggests that, over recent years, the number of female entrepreneurs has risen by over 22% and that women are now responsible for a third of all business start-ups (More women entrepreneurs, 2001:1).

SMEs are more likely to employ less-skilled workers and individuals with no prior work experience (Pitt, Morris, Michael and Jones, 1995). According to Maas (1999), SME employment practice benefits the economy in two ways. Firstly, the SME sector employs workers that might otherwise have difficulty securing employment, thereby reducing the duration of transitional unemployment. Secondly, the employment of these workers raises their self-esteem and self-worth.
In addition to serving localised markets, SMEs are important suppliers in other, very specialised, markets. Many SMEs exist to serve a particular demand, for example, consumer goods, where a considerable diversity of taste exists (Hodgetts & Kuratko, 1998:10; Mescon et al., 1999:134). SMEs purchase, use and often revitalise used capital equipment. Such use of capital equipment which may otherwise lie idle, helps to maintain high output levels, which in turn adds jobs to the economy (Hodgetts & Kuratko, 1998:10).

Based on the above, it is evident that the importance of SMEs must not be underestimated in South Africa.

2.9 PROBLEMS AND CONSTRAINTS FACING SMEs

According to Venter (2002:27), there have been many successes within the SME sector globally, but there have also been many failures (Van Eeden, 2001:2). For example the failure rate of SMEs in the United Kingdom within the first four years has been around 60% (Day 2000:1034). South Africa has fared even worse: more than six out of ten new business start-ups in South Africa fail within the first 18-24 months (Training cuts the rate of failure, 1997). These failures are largely due to a combination of poor macro-economic performance and a number of structural constraints that impede development, such as lack of access to market information, finance and the latest technology and managerial skills (IDC Support to SME sector, 2001:5). South Africa’s economic growth rate continues to fall short of the anticipated 5% per annum, mainly because the SME contribution/output is falling short of expectations. Because of the critical importance of SMEs to the South African economy, it is important to understand the factors underlying the high failure rate in this sector. However, because the problems experienced by SMEs are not the main focus of this study, only a broad overview of the problems causing the poor performance of this sector will be provided below:

- A lack of strong central leadership in the SME sector;
- An economic climate that is generally not conducive to SME development;
- The high crime rate;
- Restrictive labour legislation;
• Pervasive corruption in the country;
• The exodus of skilled manpower;
• The perceived poor performance of Ntsika and Khula (the two agencies created to drive SME development);
• The scaling down of SME development by private companies; and
• The reduction in government expenditure on development.

Other issues contributing to the problems experienced by the SME sector include lack of effective communication, funding problems, a misconception of the significance of entrepreneurship, and insufficient preparation to face the competitiveness of the international market-place (SME sector in SA stuck in a quandary 2001).

2.9.1 THE NATIONAL CREDIT ACT AGREEMENT AND THE IMPACT IT HAS ON SMEs

The National Credit Act was published and implemented on 1 June 2007. The NCA regulates credit in South Africa and replaces the Usury Act no. 73 of 1980, the Credit Agreements Act no. 75 of 1980, and the integration of Usury Laws Act no. 57 of 1996. The NCA applies to credit agreements with all consumers entered into on or after 1 June 2007 and to entities such as close corporations, companies and trusts whose asset value or annual turnover is below R1 million.

The NCA will affect individuals applying for, inter alia, any of the following types of products:

• Overdraft
• Credit card
• Home loan
• Instalment agreement

The purpose of the NCA is to:

• Protect the consumer from unscrupulous credit providers;
• Regulate credit bureaus and ensure that the correct information is disclosed appropriately; and
• Regulate the way in which debt is recovered.

In general, the NCA is focused on the natural person, and it is hoped that the NCA will be able to curb the abuse of consumers that has been occurring in South Africa.

The NCA aims to promote responsible granting of credit. In order to achieve this, the Credit Provider will have to check whether the customer applying for the credit, can afford it. Should the Credit Provider fail to do so, it could be alleged that the Credit Provider granted the credit recklessly, which could have severe consequences for the specific Credit Provider. The customer is under obligation to answer any request for information by the Credit Provider fully and truthfully.

The Credit Provider must provide the customer/consumer with a pre-agreement, containing the main features of the proposed agreement and a quotation of the costs. This quote is valid for five business days and gives the customer the opportunity to consider the offer (the right to accept or decline the quotation). The five-day period starts when the quote is communicated to the consumer/customer – when he/she actually gains pertinent information (either in person or through his/her agent).

It is important for the consumer/customer to understand the contents of the credit agreement in his/her own language. The NCA indicates that a credit agreement would be entered into recklessly if the Credit Provider knew that the consumer/customer did not generally understand the risks, costs and obligations under the credit agreement.

Purchasers of immovable property must ensure that the Mortgage Bond Clause in the Deed of Sale/Offer to Purchase/Agreement of Sale (should the offer be subjected to mortgage finance) refers to a 'quotation and pre-agreement statement' instead of a 'mortgage loan approval' as in the past.

The NCA does not apply to leases of immovable property.

This will mean that any entrepreneur who applies for credit with a turnover below R1 million will need to supply the information as stipulated by the new credit act. In addition to this, the individual applying for the credit might be requested to submit a copy of his ID, South African Revenue Services VAT Registration, and a Business
Registration Document, as well as any form of guarantee which will ensure cover to the Credit Provider in the event of the individual defaulting on his credit terms. Credit Providers may also do a credit check reference with the Credit Bureau to confirm the credibility of the applicant.

In addition, specific barriers serve to restrict the entry of SMEs into the South African economy. According to Furber (1995:28), these include vested interests, union intervention, the number of monopolies, and strong-arm tactics by existing players. All these factors make it difficult for SMEs to break into the existing market. Others view big business, legislation and funding as the three main enemies of the small-business sector in South Africa (Furber, 1995:28). Larger businesses often have extensive power, and wield it vigorously to keep the small business out of the market.

In addition, the legislative environment in South Africa is complex, and generally does not favour the entrepreneur (Maas, 1999 a+b). Funding is also a big problem; there are few venture capitalists, and the banks’ attitudes toward high-risk funding are often not supportive (Furber, 1995:28; Venter, 2002:18).

According to Van Eeden et al., (2001), the problems experienced by SMEs can be categorised according to their origin in the environment, as illustrated below in Table 2.5

<table>
<thead>
<tr>
<th>Table 2.5: Macro- and market environmental factors influencing small business success</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Macro environment</strong></td>
</tr>
<tr>
<td>- State of the economy, i.e. economic growth, interest rates, inflation</td>
</tr>
<tr>
<td>- Cost of compliance with legislation</td>
</tr>
<tr>
<td>- Unavailability of resources due to natural disasters or seasonal conditions</td>
</tr>
<tr>
<td>- AIDS</td>
</tr>
<tr>
<td>- Crime</td>
</tr>
<tr>
<td>- Government interference</td>
</tr>
<tr>
<td>- Rapidly changing technology</td>
</tr>
<tr>
<td><strong>Market / Competitive environment</strong></td>
</tr>
<tr>
<td>- Industry complexities, weaknesses, market imperfections</td>
</tr>
<tr>
<td>- New competitors offering similar products at lower prices</td>
</tr>
<tr>
<td>- Loss of major client</td>
</tr>
<tr>
<td>- Low demand for products/services</td>
</tr>
<tr>
<td>- Limited market size</td>
</tr>
<tr>
<td>- Poor growth prospects</td>
</tr>
<tr>
<td>- Low barriers to market entry, i.e. many similar start-up, leading to an oversupply</td>
</tr>
<tr>
<td>- Major changes in the industry</td>
</tr>
<tr>
<td>- Drop in the demand for a major product line</td>
</tr>
<tr>
<td><strong>SOURCE:</strong> Van Eeden et al., (2001)</td>
</tr>
</tbody>
</table>
According to Table 2.5 on the previous page, the variables in the external environment pose challenges for SMEs because management can exert no control over what happens in this environment. Theory postulates that most of the macro-environmental problems experienced are economic in nature. Various publications have confirmed the factors identified by Van Eeden et al., (2001) as having a major influence on the success of small businesses. South African entrepreneurs generally view economic uncertainty, crime, corporate tax rates and labour legislation as the biggest threats facing the small business sector (Disgruntled entrepreneurs, 1998:18; Uncertainty and crime stifle local investment 2000:14). HIV/AIDS is also increasingly affecting the South African SMEs (Ilbury & Sunter, 2001:126; Sunter, 2000:99; Webb, 2000:16).

Other macro and market-environmental issues influencing small business success include:

- Rapidly changing technology,
- Unavailability of resources due to natural disasters or seasonal conditions, the cost of compliance with legislation,
- Industry complexities,
- New competitors offering similar products at lower prices,
- Loss of a major client,
- Low demand for services,
- Limited market size,
- Poor growth prospects, and
- A drop in the demand for a major product line

(ABSA Toolkit, 1999; Levin 1998; Mabotja, 1999; Marx et al., 1998; Top ten reasons why SMEs fail, 2001; Van Aardt & Bezuidenhout, 2000).
<table>
<thead>
<tr>
<th>Management skills / attitudes</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Inexperience in the field of business or industry</td>
</tr>
<tr>
<td>- Lack of managerial training</td>
</tr>
<tr>
<td>- Inability or unwillingness to make the entrepreneurial transition</td>
</tr>
<tr>
<td>- Inability to control growth</td>
</tr>
<tr>
<td>- Generalist but not specialist, or vice versa</td>
</tr>
<tr>
<td>- Failure of the entrepreneur to evaluate him / herself realistically</td>
</tr>
<tr>
<td>- Wrong attitude - overemphasis</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Market / Competitive environment</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Inability or failure to perform</td>
</tr>
<tr>
<td>- Failure to look forward</td>
</tr>
<tr>
<td>- Slow to respond</td>
</tr>
<tr>
<td>- Reluctance to seek advice</td>
</tr>
<tr>
<td>- Lack of management commitment / Neglect</td>
</tr>
<tr>
<td>- Entrepreneurial burn-out / ill health / social or family issues</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Marketing issues</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Poor location / Business is inaccessible to customers</td>
</tr>
<tr>
<td>- Ineffective marketing</td>
</tr>
<tr>
<td>- Inability to identify target markets</td>
</tr>
<tr>
<td>- Failure to conduct market research</td>
</tr>
<tr>
<td>- Misperceiving the market</td>
</tr>
<tr>
<td>- Failure to address the proper market, i.e. poor market segmentation</td>
</tr>
<tr>
<td>- Poor products / services</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Human resources issues</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Inability to attract and retain suitable staff</td>
</tr>
<tr>
<td>- Losing key employees</td>
</tr>
<tr>
<td>- Low productivity, low morale and labour problems</td>
</tr>
<tr>
<td>- Failure to adjust organisational structure</td>
</tr>
<tr>
<td>- Not hiring additional employees soon enough</td>
</tr>
<tr>
<td>- Human resources training</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Capital requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Inadequate capital, lack of credit</td>
</tr>
<tr>
<td>- Inadequate estimates of capital requirements</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Bookkeeping</th>
</tr>
</thead>
<tbody>
<tr>
<td>- No or inadequate bookkeeping</td>
</tr>
<tr>
<td>- Insufficient knowledge of bookkeeping</td>
</tr>
</tbody>
</table>
Various aspects in the internal or micro-environment of SMEs could also influence their success or failure, as illustrated in Table 2.6. According to Van Eeden et al. (2001), issues in the micro-environment could broadly be subdivided into management, functional, and financial issues, a viewpoint shared by Murphy (1996:25). In recent years, the Department of Trade and Industry and its agencies have undertaken studies to assess the progress made by support policies for SMEs. It was established that while such policies did help to varying degrees, the overall success of the enterprises that had implemented these policies fell short of the desired outcome. Nothing less than a revolution is needed to unlock the full potential of this sector.
The policy objectives of the Department of Trade and Industry have now been amended to include:

- A significant increase in the number of small, medium-sized and micro enterprises;
- A reduction in their failure rate;
- Maximisation of the number of jobs created by this sector;
- Improvement of competitiveness; and
- Segmenting the sector to target government support measures to meet the specific needs of subcategories, instead of the previous shotgun approach (Erwin 2002).

The time has come to apply different strategies for the different categories that constitute the SME sector (Ntsika 2000:9). One such category is the family business sector. Until recently, family businesses have been one of the most consistently overlooked organisational phenomena in the business environment (Litz & Kleysen 2001:337).

### 2.10 PROBLEMS AND CONSTRAINTS FACING THE SME SECTOR

The following areas of concern can be depicted regarding the problems and constraints faced by SME in the sector trade:

- **Survival Rates of the Sector Businesses**
  Experience shows a high failure rate among start-up businesses in this sector. As high as 80-85% of enterprises will disappear within five years of start-up. A study by the South African Development Community (SADC) in 1997 shows that half of the newly established SMEs in all SADC countries go out of business within three years of operation.

- **Lack of Finance**
  The problem facing the operations in South Africa is a lack of access to finance. Other problem-related constraints are a lack of information on sources of finance,
inadequate risk capital, lack of collateral, and complicated lending procedures (Venter, 2002:27).

- **Lack of Entrepreneurial Skills**
  Poor management of businesses, which leads to serious losses, and to missed business opportunities (Venter, 2002:28).

- **Bias of the Education System Against Self-Employment**
  In Botswana, schools have traditionally encouraged the development of employee culture rather than one based on self-employment. This must be reversed if entrepreneurship is to be promoted in the present generation of school pupils (Venter, 2002:28).

- **Lack of Marketing Skills**
  It is difficult for the sector traders to compete with protected sector entrepreneurs (Venter, 2002:28).

- **Lack of Official Data on the Sector Trade**
  The lack of pertinent data on the sector trade is a serious constraint. There is no systematic collection of data on new entrants, their survival and growth, numbers of business failures, job creation, and breakdown by gender, by region, by sector, etc. (Venter, 2002:28).

- **Inherent Biases Against the Sector Trade**
  Absence of clear government policies for the development and protection of the sector trade (Venter, 2002:28). For example, it is only large firms from the sector trade that are better placed to obtain import permits for capital equipment, components and raw materials, as well as the tariff rebates on duties paid on imported inputs and materials used in the production of export products (Venter, 2002:28). Another bias relates to government procurement policies that discriminate against the operators, for example, only large firms can supply large orders and can afford the payment of security bonds. It can be seen that SMEs in South Africa are faced with many difficulties inherent in operating in South Africa. Among these is the dual nature of the economy, where SMEs often have to compete with established multi-national giants in the same sector.
Although this is true in most places, in South Africa most sectors are extremely concentrated around a few large firms. ‘Survivalist’ is the name given to that category of SMEs whose owners started SMEs because they could not keep or acquire employment in the wage economy (Adendorff, 2004:27). The number of survivalist enterprises therefore fluctuates depending on the ability of the economy to provide wage and salary employment. Most survivalist SMEs are disbanded or closed when the owner finds employment (Adendorff, 2004:30).

2.11 NEW PROGRAMMES, INSTITUTIONS AND POLICY INITIATIVES

In this section the focus is upon analysing new government programmes, institutions and policy initiatives for improving the SME economy. Firstly, the objectives of SME development programmes are defined and then the new institutional structures for support are identified and analysed.

2.11.1 Objectives for SME Development

The broad development objectives for the SME sector in South Africa can be gleaned from a number of official policy statements (South Africa, 1995a, 1995b). The key national objectives are set forth in the White Paper of the Department of Trade and Industry (DTI) on a National Strategy for the Development and Promotion of Small Business in South Africa (South Africa, 1995a). This document provides the context for the more specific objectives for the urban and rural SME sector which were laid down in the discussion papers on urban and rural development respectively (South Africa, 1995b, 1995c) and their most recent revisions (South Africa, 1997a, 1997b). Moreover, the DTI White Paper furnishes guidelines and a context for provincial SME development planning throughout South Africa.

The White Paper on Small Business sets forth the national objectives for the SME sector in South Africa (South Africa, 1995a:15-16). The primary objective is ‘to create an enabling environment’ for SME development in terms of national, regional and local policy framework.
In addition to this basic objective, the following more specific policy objectives are identified:

- ‘To facilitate the greater equalisation of income, wealth and economic opportunities’ which is inseparable from a strengthening of the labour-absorptive process in the micro-enterprise and survivalist segments, the redressing of discrimination with respect to blacks as well as women’s access to economic opportunities, and the facilitation of growth in black and small enterprises in rural areas.
- The creation of long-term jobs, which demands policy interventions designed to upgrade human resource skills and to strengthen the use of appropriate modern technologies.
- To stimulate economic growth through addressing the obstacles and constraints that prevent SMEs from contributing to overall growth.
- To strengthen the cohesion between SMEs in order to overcome their isolation. This could be done by promoting SME networking with a view to building collective efficiency, addressing development obstacles and taking up opportunities.
- To level the playing fields both between large enterprises and SMEs and between rural and urban businesses.
- To enhance the capacity of small business to comply with the challenges of an internationally competitive economy.

These objectives and the associated programmes as set out in the DTI White Paper relate generally to the SME sector as a whole. In the Discussion Paper on Rural Development, and in provincial SMEs planning, certain more specific objectives relating to total SMEs may be recognised. The Discussion Paper on Rural Development draws particular attention to the need to address the disempowerment of ‘the most marginalized groups’, in particular of women and rural entrepreneurs (South Africa, 1995b:25). Of particular importance is the need to stimulate the capacity of rural entrepreneurs to move beyond survivalist enterprise. In other words, a core objective in developing the rural SME economy is to eradicate poverty by correcting the inordinate proportion of survivalist enterprises (Rogerson and Reid, 1997).
An important set of concerns relating to the national SME policy relates to potential problems that arise from the policy’s internal contradictions and diverse objectives towards national SME promotion (Manning, 1996). It is evident that the national government views SMEs as key instruments for employment generation, income redistribution and the enhancement of competitiveness, particularly of small-scale manufacturing operations. As Manning (1996:68) observes:

'Not only are these very divergent policy objectives, but the policy instruments required to effect them are equally divergent (ranging from technology support, R & D support, to literacy and numeracy training, and access to basic information).'

While it must be acknowledged that each of these policy objectives are valid and critical for poverty eradication and inequality reduction, ‘policy-makers necessarily have to impose a hierarchy of importance upon them, in order to decide on the distribution of resources’ (Manning, 1996:68). Indeed, Manning (1996:68) states that trade-offs that policy-makers are obliged to make raise the dilemma of which policy objectives are privileged over others. Do employment creation programmes take precedence over competitiveness-enhancing programmes? Or are programmes aimed at facilitating black economic empowerment privileged in resource allocation?

Different approaches appear to have been suggested to resolve the internal contradictions in government SME policy. According to the World Bank (1993:31), ‘achieving in employment is not as critical as improving the contribution that these businesses make to household income and welfare’. By contrast, the White Paper on Small Business suggests that ‘small business policies will for a considerable time also have to focus on the particular needs of black enterprises and ways to overcome the remaining consequences of that (apartheid) legacy’ (South Africa, 1995a:13). As Manning (1996:68) observes, it remains ‘unclear how government will resolve this dilemma’, and ultimately, it will be ‘the pattern of distribution of departmental resources that will reveal the trade-offs that have been made’.

Key personnel involved in policy formulation and implementation con-cede that the national SME programme does have multiple and conflicting goals and that choices have to be made clear in order to highlight the foci and directions of national SME
support initiatives (Bloch, 1997). As yet, however, it is ‘too early’ to discern which of the programme objectives are taking precedence in fund and support allocation (Bloch, 1997).

2.11.2 New Institutional Structures

After the enactment of the national White Paper on Small Business, the DTI began to build a new institutional infrastructure to service the needs of the SME economy (Manning, 1996:236). The vision for SME development was to integrate small business into the heart of South African economic life. Internationally, it was recognised that the common thread that runs through success stories of SME development was the critical role played by support agencies and institutions, whether these be driven by government, the private sector, or NGOs. A new national framework for SME development in South Africa was therefore developed and linked to key intervention programmes targeted at supporting the national objectives for SME development. The intervention programmes involved the introduction of new programmes for SME promotion and the restructuring of existing programmes to more effectively embrace SMEs. As a result, a new institutional infrastructure has been created for urban and rural SMEs namely:

12.11.3 Small Enterprise Development Agency (SEDA)

The National Co-ordinating Office for Manufacturing Advisory Centres (NAMAC) Trust and Ntsika have finally merged to form a new agency called Small Enterprise Development Agency (SEDA). SEDA is the Department of Trade and Industry's new agency (launched 13 December 2004) for supporting the development of small businesses in South Africa. The establishment of SEDA will ensure a co-ordinated approach to the design and implementation of development support programmes and the creation of a service delivery network for small businesses throughout South Africa.

SEDA was established in South Africa by amalgamating the wholesale financer Ntsika, the National Manufacturing Advisory Centre (NAMAC) and the community Private-Public Partnership programme from the Development Bank of South Africa. Wawa Damane, CEO for SEDA, indicated that the organisation focuses on
encouraging small businesses. The overall plan is to establish a presence locally as soon as possible. A start has been made by opening an office in North West Province, and the goal is to have at least one office in all 284 municipalities in South Africa within three years, with more than one office in larger municipal districts and metros (Guardian: 19/09/2005).

SEDA has outlined four objectives for the organisation:

- To ensure that advice centres operate according to a set benchmark;
- To review SEDA products, such as franchise learnership and export readiness;
- To establish co-ordination across the three tiers of Government i.e. National, Provincial and Local; and
- To facilitate communication between Government and small businesses.

Obstacles highlighted by SEDA are:

- Regulation, which costs businesses around R70 billion per annum;
  and
- The cost of telecoms, steel and chemicals.

SEDA further indicated that the administrative processes must be streamlined, regulation must be simplified, and small businesses must be involved in an interactive process with SEDA and Government.

2.11.4 SEDA Support for Small Business

Trade and Industry Minister Mandisi Mphahlwe commented that small, medium and micro enterprises need advisory support on financial and cash-flow management to make inroads into South Africa’s ‘first economy’.

Government's objective is to create a conducive environment for small businesses to thrive, with SEDA branches being key delivery portals.
Minister Mandisi Mphaphlwa stated the following:

'The fact that SEDA provides non-financial support does not stop it exploring ways SMEs can access funding from other institutions. If small entrepreneurs approach SEDA for help and we see they have good business ideas we will refer them to Khula as part of this agreement.'

SEDA has already held discussions with Khula Enterprise on how to use existing networks and channels such as Absa Bank to help small businesses access funding.

2.11.5 Boosting Small Businesses

As large enterprises have restructured and downsized, small, medium and micro enterprises (SMEs) have come to play an increasingly important role in South Africa’s economy and development. The sector has grown significantly. In 1996, around 19% of those employed were in the informal sector of the economy. By 1999 this had risen to 26%. The government has therefore targeted the SME sector as an economic empowerment vehicle for previously disadvantaged people. As a result, SMEs have received significant attention and investment, ranging from the establishment of state-initiated projects to supportive legislation, a variety of funding institutions and government incentives through the Department of Trade and Industry (DTI). The National Small Business Act, passed in 1996, helped to establish many of the supportive structures now in place.

According to Towards a Ten-Year Review, a discussion document reviewing the impact of the government’s policies since 1994, there were 2.3 million people who owned at least one Value Added Tax (VAT) unregistered company. Of these, only 338 000 owners had employees, numbering a total of 734 000. These numbers may raise the question of the job creation potential of these enterprises, but they also demonstrate the level of self-employment, a large portion of which may be survivalist. Data on small and medium enterprises suggests that these enterprises contribute about half of total employment, more than 30% of total gross domestic product. Also, one out of five units exported is produced in the small and medium sector in South Africa.
2.11.6 Government Initiatives

- **Department of Trade and Industry**

The CSBP implements and administers the aims of the national strategy, which includes job creation. The DTI has recently signed an agreement with the European Union which will see the EU donating R550 million to start a risk-capital fund for SMEs.

- **Industrial Development Corporation**

The Risk Capital fund will be administered by the Industrial Development Corporation (IDC) and the European Investment Bank, and 90 enterprises will benefit. The IDC allocates 75% of new business loans to SMEs. The SA Women’s Entrepreneur Network was rolled out countrywide in 2002, alongside manufacturing advisory centres in all provinces with the aim of encouraging women to enter the entrepreneurial environment.

- **Khula**

Khula offers financial support mechanisms to the sector. The financial products include loans, the national credit guarantee system, grants and institutional capacity building. Khula has also launched its own micro-lending scheme, KhulaStart, an entry-level programme that provides loans to first-time borrowers in the survivalist sub-component of the SME sector. The organisation has recently launched the Khula Technology Transfer Fund to facilitate access to local and international technology. In addition, a new fund is being set up to serve businesses in Gauteng, North West Province and the Free State. A similar fund already exists for businesses in the Northern, Eastern and Western Cape, as well as in Mpumalanga, Limpopo and KwaZulu-Natal.
• **Business Partners Limited**

In 1998, the Small Business Development Corporation (SBDC) was transformed into Business Partners Limited. The organisation shifted its focus onto small and medium enterprises, increasing its project involvement to a R150 000 minimum and a R15 million maximum. Business Partners set aside R277.7 million for investment in SMEs last year. The organisation has invested R4.6 billion in emerging businesses in the past 20 years, directly influencing the creation of 500 000 jobs.

• **Tourism Enterprise Programme**

The Tourism Enterprise Programme (TEP) falls within the policy vehicle of the government’s Tourism Action Plan (TAP). As such, it represents a component of a larger and longer-term strategy to both attract and effectively cater for the expected growth in domestic and international tourism.

The TEP is funded by the Business Trust and implemented by ECIAfrica. The main objectives of the programme are to encourage and facilitate the growth and expansion of small and medium enterprises in the tourism economy, resulting in job creation and revenue-generating opportunities.

Primary emphasis is placed on historically disadvantaged entrepreneurs and enterprises. For example, at the World Parks Congress, the TEP was instrumental in facilitating deals which provided employment for its beneficiaries.

Currently SEDA has two operational offices which cover the NMM District. Approximately 600 entrepreneurs are assisted on an annual basis. Three quarters of these entrepreneurs are often involved in projects which occur on a short- to medium-term basis. The balance of the entrepreneurs are therefore involved in establishing long-term business endeavours.

2.11.7 Problems Experienced by the Local SEDA Office

Various problems are experienced by the local SEDA office, these include:

- Very little or no capital by the individual;
• Lack of technology awareness;
• In most cases information is requested for short- to medium-term projects;
• Fear of risks involved in investing;
• Lack of or no business expertise and experience i.e. finance, marketing and infrastructure.

A range of other institutional factors also play a role in SME development in urban and rural areas. Most important perhaps, is local government (Rogerson, 1998) as part of the shift towards a more profound developmental approach to local government, a number of South African municipalities have taken steps to support the SME economy, notably survivalist enterprises such as hawking enterprises or spazas. The establishment of formal and periodic markets, land-use zoning and infrastructure provision, among others, are key areas of local government intervention which impact positively upon the workings of survivalist enterprises (Market Society, 1997; Rogerson, 1996d, 1998c).

It is evident that a new institutional infrastructure for SME development programming in post-apartheid South Africa is in place. The road of transition has not been smooth. Indeed, in launching the programmes proposed in the White Paper, national government underestimated several vital institutional issues (Bloch, 1997). First, it underestimated the problems of establishing new support institutions for small business development; in particular, there have been a number of problems in the early development and operations of Ntsika. More dramatic was the collapse during 1998 of the National Small Business Council as a result of financial irregularities and mismanagement (Steven, 1998). Second, national government underestimated the capacity of the new support institutions to establish and implement new and ambitious policy initiatives. Lastly, national government underestimated the capacity of the existing NGO network to become involved in financial and non-financial support programmes for SMEs (Block, 1997). Such institutional constraints provide an important backdrop to examining SME initiatives.
2.11.8 New SME Programmes for Reconstruction

Several observers point out that the total budgetary allocation for upgrading the SME sector is relatively meagre; recent figures point to an allocation of R80 million for SME upgrading, representing only a 2.2% share of the total annual DTI budget (Valodia, 1996; Hoffman, 1997). Manning (1996:70) regards this as ‘miniscule in comparison with programmes targeted at larger enterprises’. However, DTI funds have increasingly been channelled into SME support since the phasing out in 1997 of the General Export Incentive Scheme. The call for change in the budgetary allocation further needs to be seen against the initial 1995-96 allocation which amounted to R30 per SME participant. If this calculation is correct, it suggests that the budgetary allocation for SME programmes needs to be re-adjusted upwards (Manning, 1996; Valodia, 1996; Hoffman, 1997).

Through the activities of SEDA, important SME initiatives have been launched. The essential thrust in these initiatives is towards establishing an infrastructure of decentralised or localised support services centres that both furnish SMEs with a range of ‘real’ and appropriate services and have credibility in the eyes of relevant stakeholders. Amongst these initiatives the most advanced are those concerning the establishment of networks of Local Business Service Centres (LBSCs), and programmes to expand access to finance.

2.11.9 Improving Access to Finance

As noted above, access to finance is one of the core constraints on developing South Africa’s SME economy. Central responsibility for expanding access to finance is carried by Khula Enterprise Finance and Khula Credit Guarantee, which were established in 1995 as a result of the DTI White Paper on Small Business.

Khula offers two types of financing schemes to retail financial intermediaries (RFIs) such as ‘provincial development corporations, commercial banks or non-governmental organisations, provided that they are financially sound, have the capacity, and are committed to serving the SME sector’ (De V Graaff, 1996:10). In practice, Khula operates primarily through NGOs (Hoffman, 1997). The two types of finance scheme offered to RFIs are loan schemes and grant schemes. Grant schemes
are offered to new RFIs, particularly those NGOs serving ‘the most difficult segment of the SME markets’ (De V Graaff, 1996:11).

In reality, Khula supplies 'start up' capital to its lending NGOs until they achieve a level of sustainability; if certain conditions are fulfilled and targets attained, the 'start up' capital is turned into a grant. In addition to 'start up' capital, Khula also offers an extensive loan capital facility which operates at a subsidised rate of interest which is below prime. The Khula lending programme has only been in operation since January 1997. At inception it focused upon working through existing clients. In order to extend and deepen its lending operations, Khula is exploring the potential for developing a framework and facility for lending to private-sector institutions (Hoffman, 1997).

To ensure the long-term financial viability of the programme, RFIs 'are assessed, approved and monitored' (De V Graaff, 1996:10). However, Khula officials concede that the number of loans that have been made to NGOs have been insufficient to give the SME community in South Africa access to finance (Hoffman, 1997). Coverage of the programme is also geographically uneven. In addition, funding is biased in favour of the more established SMEs. Nonetheless, it must be acknowledged that Khula is acutely sensitive to poverty issues and takes pride in its evaluative performance and its monitoring of gender and rural outreach issues (Hoffman, 1997). The core problem appears to be that ‘there are simply not enough suitable NGOs or other RFIs operating as intermediary lenders (Hoffman, 1997). Indeed, South Africa lacks a vibrant micro-enterprise finance industry that Khula could work with (Dorfling, 1997). Moreover, the existing distribution of financing NGOs introduces access biases. For instance, KwaZulu-Natal has few financial intermediaries, causing limited access to funding for SMEs (Vaughan and Xaba, 1996; Morrison, 1997). Furthermore, rural areas and small towns pose special problems for financing SME development (Baydas and Graham, 1996; Bukula, 1996; Mahabir, 1997; Mashango, 1997; Rogerson, 1998d). The challenge is to expand the availability of financing through encouraging existing NGOs to broaden their activities by creating new branches, and to encourage the operations of suitable new RFIs, particularly in rural areas (Hoffman, 1997; Kirsten, 1997).

In particular, for expanding finance access to survivalist enterprises, NGOs should be encouraged to function in the manner of the Small Enterprise Foundation (SEF),
which uses a group-based lending scheme patterned very closely on the Grameen Bank of Bangladesh (Anwar et al., 1995; De Wet, 1997; Kirsten, 1997). Through its sound group-based credit scheme, SEF reaches rural poor women, a sector which is largely ignored by other lending organisations (Anwar et al., 1995, Kirsten, 1997). In the Tzaneen area of the Northern Province, the SEF has a client base that is 96% women. Since its inception in 1992 the SEF has never had a bad debt (Anwar et al., 1995; De Wet, 1997).

SEF encourages its clients to form themselves into groups of five, which are then combined into centres containing between 6 and 8 groups; first loans may not be larger than R300 per person, while the subsequent loan may not exceed R1,200 (Anwar et al., 1995). SEF is a classic example of an NGO which contributes to poverty eradication, as it ‘likes to concentrate its efforts on reaching down amongst the poorest in its operating area’ (Anwar et al., 1995:2). Some observers, however, caution against such financing depending on only certain segments of the poor (Kirsten, 1997).

One programme that has been introduced by Khula to deepen the reach of and broaden access to finance throughout South Africa is the establishment of the Khula Credit Guarantee facility. It was aimed at encouraging the network of commercial banks to function in the area of SME financing by reducing their risks. Clearly such a programme will be of greater use for the more established formal SMEs or some larger micro enterprises than for survivalist enterprises (Hoffman, 1997). To counter this effect, Khula launched a campaign to change the traditional reticence towards funding in the high-risk area of survivalist enterprises. However, the commercial banks did not respond positively (Dorfling, 1997). First, many banks appear not to be at all seriously committed to the business of SME financing (Hoffman, 1997). Second, the head offices of banks do not always transmit the details of the credit guarantee programme to the branches that service rural areas and small towns, where the need to access finance is greatest.

### 2.11.10 SEDA Initiatives

Lastly, in cataloguing the operational activities of Khula, brief mention must be made of a range of other programmes for SME development which are at various stages of
implementation. Of potential significance on a long-term basis for upgrading the SME economy is the enactment of new initiatives to enhance the access of SMEs to both government and large private sector procurement/linkage programmes (Ntsika, 1996; Bloch, 1997). In terms of private sector linkages, consulting firms, such as Deloitte and Touche and Frontline have launched a marketing and business-linkages division to facilitate national and international increase and expansion of markets for SME goods and services.

The issue of public procurement is particularly crucial in the light of international experience (Tendler and Amorim, 1996), which suggests that ‘public procurement policy represents a powerful instrument which governments could use to stimulate inter-firm collaboration’ (Manning, 1996:240). In many parts of South Africa, especially in urban townships and rural areas, the government’s new guidelines for public procurement promise growth opportunities for emerging entrepreneurs (Rogerson, 1997). The Green Paper on Procurement Reform (South Africa, 1997c) offers a 10-point plan towards improving the access of emerging SMEs to public sector procurement, and introduces an affirmative SME programme. The programme addresses the simplification of tender procedures, the packaging of tenders into suitably sized segments to target SMEs, the setting of appropriate standards, delivery dates and contractual obligations, and price preference for targeted SMEs (South Africa, 1997c). Another related policy initiative is the establishment of several tender-advice centres that provide information about tenders, tender advice and counselling to emerging SMEs (Ntsika, 1997b). The early workings of the new procurement programme, however, suggest several blockages to changes in the existing patterns of public procurement.

2.12 SUMMARY

The aim in the chapter was to examine the importance of SMEs in general, and to survey the emerging new policy directions and SME-support infrastructure that have been established by South Africa’s first democratic national government. By acknowledging the problems that surfaced in the new policy frameworks and institutional structures, a means has been created to adapt and change these frameworks and structures over the next decade.
The most important shortcoming in support infrastructure is perhaps the bias towards a supply-side approach to SME support (Rogerson, 1998b). The supply-side approach is based on identifying specific needs of, and constraints on, SME development, and on initiating programmes to overcome these constraints. International experience (Tendler and Amorim, 1996) points to the need to apply a demand-driven approach to the delivery of support services, which focuses on the specific needs of different clusters or sectors of enterprises, rather than on the provision of generic packages of assistance (Tendler and Amorim, 1996).

In the final analysis, however, South Africa’s new SME support infrastructure marks a decisive break with the apartheid past. Moreover, the new infrastructure affords an important base for achieving several of the core national objectives for the reconstruction and development of SMEs.

The next chapter will discuss the complexity of cultural factors influencing SMEs in general and in South Africa.
CHAPTER 3

CULTURAL INFLUENCE ON SMEs

3.1 INTRODUCTION

Chapter 2 emphasised that the importance of small and medium-sized enterprises in creating jobs and wealth. SME family businesses are fast becoming the dominant form of business enterprise in both developed and developing countries. Particularly in developing countries, SMEs have come to play a major role, both socially and economically, and the influence and number of SMEs can be expected to increase substantially in the future. The present chapter describes how cultural influence contributes to the development of sub-enterprises, as well as the importance of family members within the business (Prime, 1999).

It is well accepted that people in particular locations share a number of common characteristics such as religion, political views, lifestyle patterns and approaches to work. People normally vary in the ways that they live their lives, but the variations are often reasonably predictable within and across groups of people (Prime, 1999). The variability is the descriptive dimension of what is termed 'culture' (Erez and Earley, 1992; Hofstede, 2001; Bret, 2000; Prime, 1999; Brett et al., 1997; Triandis, 1994, 2000; Fisher et al., 1991; Thompson, 1998). The field of international management often neglects specific aspects of culture in favour of a more easily defined (and less theoretically precise) parameter denoted by geopolitical boundaries (Hofstede, 2001) when discussing managerial practices.

Researchers have shown an increasing interest in studying the development of business activity as a pattern of adjustment by some racial and ethnic groups (Portes and Manning, 1986; Light and Sanchez, 1987; Bonacich, Light and Wong, 1980; Cobas, 1985, 1986; Wilson and Martin, 1982; Sullivan and McCracken, 1988; Horton, 1988). The major theoretical perspectives guiding this chapter are 'middleman theory' (Bonacich, 1972) and 'ethnic enclave theory' (Wilson and Martin, 1982; Wilson and Portes, 1980). Although there is considerable overlap between these theories, they appear in the literature as unique perspectives that enhance our understanding of the development of business activity by racial and ethnic groups.
This chapter also explores the degree to which one enterprise is more prevalent within certain ethnic groups than others. Most studies simply combine all 'white' ethnic groups together into one category (Sullivan and McCracken, 1988; Zimmer and Aldrich, 1987), which they then compare with certain 'racial' ethnic groups (e.g. Asians versus Whites). Given this narrow focus, one can expect that questions still persist about which ethnic groups, if any, are more likely to pursue entrepreneurship (Buttler and Herring, 1991)

3.2 CULTURE-RELATED RESEARCH

Several authors have pointed out the biased nature of culture-related research. According to Featherman (1993:41),

'At least two-thirds of published research originates in the West. In the social sciences...America, especially, has exported the major theoretical frameworks, methods of research design and analysis, and with them, the disciplinary form of codifying and organizing scientific knowledge systems.'

It is thus important to stimulate the production of rigorous, culturally sensitive research in a variety of geographical settings, to ensure that our knowledge-base in research becomes less American-centred (Triandis, 2000). According to Triandis (2000), American research has shown that self-esteem is the strongest predictor of satisfaction for American adults in enterprise.

In a research programme conducted by Bond and Sabourin (2000), the logic of collectivist social thought is used to argue that the achievement of relationship and harmony with others will be a major goal in collectivist systems valuing group stability. Since 1980, social scientists have relied on Hofstede’s (1980) work, Culture’s consequences, to compare the locations of 40 nations on four dimensions of cultural values. New dimensions have been added to his theory, and more comprehensive value measures have been developed. Others have researched ways to conceptualise and measure culture, such as the assessment of social axioms. In addition, eco-social indicators have been combined to give a way of comparing cultural systems. These new approaches to making sense of culture variation are being utilised to explore ways in which a person’s cultural background may be scientifically
linked to his/her social and commercial behaviour (Triandis, 2000). The growing appreciation of the role of culture role in organisational behaviour will enhance our understanding of good governance of both the family and the business.

3.3 DEFINING CULTURE

'Culture' is defined as a shared meaning or system, found among those who speak a particular language/dialect, during a specific historic period, and in a definable geographic region (Triandis, 2000). It functions to improve the adaptation of members of a culture to a particular environment, and it includes the knowledge that people need to have in order to function effectively in their social environment (Triandis, 2000).

Culture thus refers to the core values and beliefs of individuals within a society, which are formed in complex knowledge systems during childhood and reinforced throughout life (Lachman, 1983; Triandis, 1989; Hofstede, 1994, 2001). According to Samovar and Porter (1994), 'culture' refers to the cumulative deposit of knowledge, experience, beliefs, values, attitudes, meanings, hierarchies, religion, notions of time, roles, spatial relations, concepts of the universe, and material objects and possessions acquired by a group of people in the course of generations, through individual and group striving.

Kluckhohn, (1951) summarises the definition of culture: 'Culture is transmitted mainly by symbols, constituting the distinctive achievements of human groups; including their embodiments in artefacts; the essential core of culture consists of traditional (i.e., historically derived and selected) ideas and especially their attached values.' Other commonly applied definitions of culture include Herskovits’ (1955:305) formulation that culture is the man-made part of the environment. Schein’s (1985) view is that the core of culture is the untested assumptions of how and why to behave. Hofstede (1980) defines culture as a set of mental programmes that control an individual’s responses in a given context, and Parsons and Shils (1951) view culture as a shared characteristic of a high-level social system.

There are several cultural influences on the institutional and organisational levels of human endeavour. Culture shapes the organisations that evolve and the nature of social structures as they grow and adapt (Hofstede, 2001). Societies shape their
collectives and social aggregates according to the rules implied by culture. In collectivist cultures (comprising most traditional cultures) people are more likely: (a) to think of themselves as interdependent within their groups (family, co-workers, tribe, co-religionists, country, etc.) rather than the individual self (reflecting the independent self), and to see themselves as autonomous individuals who are independent of their groups (Markus and Kitayama, 1991); (b) to give priority to the goals of their in-group rather than to their personal goals (Triandis, 1995); (c) to use in-group norms rather than personal attitudes to shape their behaviour (Abrahams, Ando and Hinkle, 1998; Suh, Diener, Oishi and Triandis, 1998); and (d) to perceive social relationships as communal (Mills and Clark, 1982). That is, they pay attention to the needs of others and stay in relationships even when that is not maximally beneficial to them. There is evidence that these four aspects are interrelated (Triandis and Gelfand, 1998).

Two broad cultural groupings have been identified in the cultural literature, namely the collectivist and individualistic cultures. These two differ in that the individualistic culture places a low emphasis on broad, social networks of extended families and friends. The individualistic culture reflects on purely individual reward and action (Triandis, 1980; Hofstede, 2001).

Collectivist cultures have languages that do not require the use of 'I' and 'you' (Kashima and Kashima, 1997, 1998). They also have many culture-specific relational terms that are not found in individualist cultures, such as 'philotimo' in Greek (Triandis, 1972), which expresses a feeling of compassion, regarded as a positive attribute of an individual who does what the in-group expects. 'Amae' in Japanese reflects tolerance of deviation from norms by a dependent person (Yanaguchi, 1998). 'Simpatia' among Latin Americans (Triandis, Martin, Lisansky and Betancourt, 1984), reflects the expectation that social relationships will include mostly positive and very few negative behaviours. Collectivists use action verbs (e.g. 'offered to help') rather than state verbs (e.g. 'he is helpful'). This difference exists because collectivists prefer to use context in their communications. Zwier (1997), in four studies, reported empirical support for this cultural difference, by comparing Turkish and Dutch students.
Culture also impacts on people’s behaviour and organisations. A great deal of management research has been directed towards understanding corporate culture (also referred to as 'organisational' culture), which refers to the peripheral or more easily influenced values and beliefs that an individual holds (Hofstede, 2001). An organisation’s culture has a relatively weak influence on an individual’s core cultural beliefs and values. If these beliefs and values are threatened by organisational practices, one can expect dysfunctional work behaviour or maladjustment (Adler, 1986). Thus, an individual’s behaviour in an organisational setting is a product of knowledge systems which are acquired both culturally and individually through unique life experiences (Erez and Earley, 1992).

3.4 CULTURAL AND STRUCTURAL THEORIES OF ETHNIC GROUPS

In an attempt to understand the relationship between culture and entrepreneurship, Butler and Herring (1991) have suggested the middleman theory and ethnic enclave theory, as they can be thought of as cultural and structural patterns of entrepreneurship. Both frameworks identify cultural and structural patterns of various ethnic groups that facilitate or hinder success in the business world. Middleman theory has developed propositions relating to ethnic solidarity, societal hostility, and the development of business enterprises (Triandis, 2000). This theory proposes that, for groups that adjust to society by developing enterprises, hostility is generated towards them from the larger society, and this increases ethnic solidarity, which in turn promotes the further development of business enterprises. As a result, an entrepreneurial culture develops, that keeps the groups from falling to the bottom of the economic ladder in society (Ward, 1995). Over time, such groups begin to occupy the middle part of the economic system, hence the term 'middleman' (Bonacich and Modell, 1980).

Butler and Herring (1991) suggest that, because of the small amount of capital required, groups in this tradition are more likely to concentrate on small-service enterprises. In addition to a heightened sense of the importance of business, these groups develop a strong emphasis on the education of their offspring. As a result, their children are more likely to become professionals, especially in areas that are entrepreneurial in nature. They are often found in occupations such as law, education,
and medicine (Butler and Herring, 1991). Mantzaris (2000) points out that those who are not professionals are more likely to develop enterprises in the middleman tradition (Bonacich and Modell, 1980; Zenner, 1985).

Enclave theory also stresses the development of small business enterprises within ethnic communities, but adds the element of labour market theory (Hofstede, 2001). There are two theoretical constructs of this theory, primary and secondary. The primary sector is made up of jobs that are 'good', as measured by excellent opportunities for promotion, remuneration, and company 'perks' (e.g. health-care plans, quality of workplace, and retirement plans). The secondary sector consists of 'bad' jobs that do not provide the employee with opportunities for promotion, remuneration, and company perks. According to the enclave theory, ethnic groups can create the perception of the primary and secondary jobs within their enterprises (Portes and Bach, 1985; Wilson and Martin, 1982). Portes and Bach (1985) show how, within the Cuban enclave, there existed both 'good' and 'bad' jobs. One of the major differences between the two theories is that, while middleman enterprises are found throughout the host population or city, ethnic enclaves are usually concentrated in one section of a city (Portes and Manning, 1986).

Another cultural explanation that attempts to account for differential rates of entrepreneurship among diverse ethnic groups is social learning theory (Schere, Adams, Carley and Wiebe, 1989). This perspective proposes that 'role models' act as important environmental factors in forming career preferences. Observing, identifying with, and appreciating the behaviour of others make certain callings more noticeable than others. Through a process of careful learning and emulation, people make cognitive evaluations of the overall attractiveness of specific career options. They are either encouraged or discouraged to enter a particular occupation. People are more likely to enter a particular career or profession if they have seen role models successfully performing the activities associated with that career.

They are also less likely to pursue a path in which significant others have been unsuccessful (Hofstede, 2001). Research has established a relationship between social learning and entrepreneurial behaviour. It has been shown that over 70% of entrepreneurs come from homes where parents or close relatives owned a small
enterprise or were independent professionals such as lawyers, farmers, or accountants (Butler and Herring, 1996).

In summary, members of certain ethnic groups are more likely to be exposed to entrepreneurial behaviour (Ward, 1995). However, cultural and structural explanations pose some difficult challenges for analysts who want to distinguish between the separate effects of cultural and structural elements of ethnic entrepreneurial behaviour. As both culture and structure are so extensive, it is advisable to allow ethnicity to act as a proxy for cultural elements (Butler and Herring, 1991).

3.5 THE LINK BETWEEN NATIONAL CULTURE AND ENTREPRENEURSHIP

If one accepts that culture is a system of collective values that distinguishes the members of one group from another (Hofstede, 1980; Mueller and Thomas, 2001), then national culture acts as the 'common frame of reference or logic by which members of a society view organisations, the environment, and their relations to one another' (Geletkanycz, 1997:617). One of the most commonly employed descriptions of national culture was developed by Hofstede (1980), who isolated four basic cultural dimensions: uncertainty avoidance, individualism, masculinity, and power distance. 'Uncertainty avoidance' measures the ability of a society to deal with inherent ambiguities and complexities in life. Cultures that are high in uncertainty avoidance rely heavily on written rules and regulations, embrace formal structures as a way of coping with uncertainty, and have very little tolerance for ambiguity or changes. According to Kreiser et al., (2001), 'individualism' describes the relationship that exists between the individual and the collectivity in a culture. Societies high in individualism value freedom and autonomy, view results as coming from individual (and not group) achievements, and place the interests of the individual over the interests of the group (Kreiser et al., 2001).

'Masculinity', on the other hand, is primarily concerned with the level of aggression and assertiveness present in a culture. Highly masculine cultures place a high level of emphasis on assertive and ostentatious behaviour, and material goods and prestige are highly sought after. Individuals tend to exhibit a high need for achievement, and organisations are more willing to engage in industrial conflict.
The fourth cultural dimension, 'power distance', is a 'measure of the interpersonal power or influence between B (the boss) and S (the subordinate) as perceived by the least powerful of the two, S (the subordinate)' (Hofstede, 1980: 70-71). According to Keiser et al. (2001), high power-distance cultures exhibit an unequal distribution of power, strong hierarchies and control mechanisms. In power-distance cultures, there is less communication among organisational levels, and a heavy emphasis is placed on subordinates being deferential and obedient to those in positions of power.

Researchers have cited numerous reasons for utilising the cultural dimensions posited by Hofstede (1980). These include the parsimony of the framework (McGrath, MacMillon and Scheinberg, 1992), the reliability and validity of the measures (Shane, 1994, 1995), the capacity of the model to tie cultural orientation to institutional differences between countries (McGrath, MacMillan, Yang and Tsai, 1992), and the ability of the framework to accurately predict individual behaviours (Mueller and Thomas, 2001). Hofstede’s (1980) cultural dimensions have also been employed extensively in entrepreneurship research, having been utilised to examine entry mode (Kogut and Singh, 1988), rates of innovation (Morris, Avila and Allen, 1993; Mueller and Thomas, 2001; Shane, 1993), entrepreneurial differences between countries (McGrath, MacMillan, Yang and Tsai, 1992; Takyi-Asiedu, 1993), and behavioural differences between entrepreneurs and non-entrepreneurs (McGrath, MacMillan, and Scheinberg, 1992; Morris, Davis and Allen, 1994).

### 3.6 THE CONCEPT 'ENTREPRENEURIAL ORIENTATION'

Researchers have often conceptualised entrepreneurial organisations as possessing three main characteristics: innovation, risk-taking, and proactiveness (Covin and Slevin, 1989; Miller, 1983; Miller and Friesen, 1982). 'Entrepreneurial orientation' is demonstrated by the 'extent to which top managers are inclined to take business-related risks (the risk-taking dimension), to favour changes and innovation in order to obtain a competitive advantage for their business (the innovative dimension), and to compete aggressively with other businesses (the proactiveness dimension)' (Covin and Slevin, 1988:218).

Recent research suggests that the three dimensions of entrepreneurial orientation may vary independently of one another (Dess, Lumpkin and McGee, 1999; Marino and
Weaver, 2001; Lumpkin and Dess, 1996). This suggests that aggregated measures of entrepreneurial orientation may provide misleading results during the research process, as the individual contributions of each of the three dimensions of entrepreneurial orientation may not be clearly stated. It has been argued in the literature that future research on entrepreneurial orientation may benefit from considering innovation, proactiveness, and risk-taking – separate and unique dimensions of entrepreneurial orientation (Keiser, Marino and Weaver, 2001; Lumpkin and Dess, 1996).

Several studies have linked national culture to the strategic decision-making process that occurs in entrepreneurial organisations. Geletkanycz (1997: 14) argues the 'differing views and assumptions embedded in national culture are reflected not only in managerial attitudes and beliefs, but also in the behaviours and actions by which organizational members discharge their roles'. Mueller and Thomas, (2001) also theorise that national culture is responsible for causing individuals to engage in behaviours that are not as prevalent as in other cultures. The argument that national culture affects individual behaviour has often been linked to the formation of business-level entrepreneurial orientation. Various researchers have argued that key decision-makers in the business determine the overall strategic orientation of the organisation (Lumpkin and Dess, 1996; Miller, 1983). If national culture affects the way that individuals behave within organisations (Geletkanycz, 1997; Meuller and Thomas, 2001), and individual behaviour affects the strategic orientation displayed by these organisations (Lumpkin and Dess, 1996; Miller, 1983), then it stands to reason that national culture may play a significant role in determining the overall level of a business’s entrepreneurial orientation.

3.7 DIFFERENCES BETWEEN WESTERN AND NON-WESTERN CULTURES

Mann, Radford, Burnett, Ford, Bond, Leung, Nakamura, Vaughan and Yang (1998) believe that the activity of decision-making is a universal process. People in all cultures encounter recurrent problems and opportunities that require significant choices between competing alternatives. Despite apparent differences in complexity of decision problems across cultures, the core issues are essentially the same – fulfilment of human needs, protection of the individual, promoting group survival,
and maintenance of community norms and standards (Mann et al., 1998). In similar vein, Schwartz (1994) points to universal aspects of the content and structure of human values across cultures, identifying the widespread operation of achievement, power, stimulation, self-direction, hedonism, benevolence, conformity, security, and universalism as basic value types. What may differ across cultures is a set of factors that determine who makes the decision, as well as the values and interests served by the decision. These factors include:

- The authorities and entities vested with responsibility and control over decision-making, as well as sources of expertise and advice, for example, the council of tribal elders, the medicine man, the Chairman of the Board, the Investment Analyst, and so on.
- The sphere in which individuals have freedom of choice, in contrast to areas in which they have limited or no choice, for example, to elect leaders, to operate their own business, and to choose whom they will employ.
- Lastly, ideological principles and societal values that underlie decision rules and the criteria for choice, for example, preference for cautious options over risky or adventurous ones, and the requirement that chosen alternatives must be supported by the majority or by consensus (Mann et al., 1998).

The question of similarities and differences in roles, rights and responsibilities of individuals in decision-making has received little attention in the cross-cultural literature Mann et al., (1998). There is, however, a small but growing research literature on cross-cultural differences in individual cognitive styles of information processing and strategies for decision-making (e.g. Wright, 1985).

At the same time, there is evidence of culture differences in the tendency towards bias and distortion in probability assessments. Wright (1985), for instance, suggests that when making decisions under uncertainty, Westerners adopt a probabilistic set of outcomes and make relatively fine discriminations or 'calibrations' in the assessment of these outcomes. Asians, on the other hand, tend to adopt a non-probabilistic set that leads them to see outcomes as either certain or uncertain. Wright and Phillips (1980) found significant differences between British and South-East Asian subjects in dealing with numerical probabilities. Asian subjects, for example, are less comfortable with probability than Westerners. Wright and Phillips (1980) suggest that
the greater 'fatalism' of Asian culture may be a contributing factor in the Asian subject’s preference for non-probabilistic thinking. Tse, Lee, Vertinsky, and Wehrung (1988) conducted a cross-cultural study of business executives, which included participants from Canada, the People’s Republic of China (PRC), Hong Kong, and Taiwan. Significant differences were found among these groups in terms of decision-making under simulated marketing situations. For example, PRC executives were more inclined than Canadians to adopt face-saving options, to favour long-term business arrangements, and to be less decisive (Tse et al., 1988).

Stewart (1985) has postulated that there are major differences in the decision-making styles of Western and non-Western people, and draws a sharp contrast between the 'technical' style of North American decision-making and the social-collective style of Japanese decision-making. According to Stewart (1985), the Japanese are more likely to 'prefer events to shape whatever actions are required...rather than attempt to control it by decision-making' and consider it brash for an individual to make definite decisions regarding her or himself or others' (Stewart, 1985). Citing Hofstede’s (1980) analysis of values in 40 countries, Stewart (1985) maintains that the Japanese style is to put off announcing decisions until all uncertainty is removed. Hofstede (1980) claims that, while 'using alternatives seems natural for North Americans... the Japanese tend to focus on the best course of action and persevere in it.' On the basis of his observations, Stewart (1985) surmises that 'decision-making for the ethnic entrepreneur is a social process, not a cognitive and conceptual one as it is with North Americans.'

3.8 CULTURAL DIVERSITY AND MANAGEMENT CHALLENGES IN SOUTH AFRICAN BUSINESSES

Western and non-Western people and cultures have for a long time existed in South Africa, but separated ethnic development has led to what has been termed a 'cultural patchwork' rather than a 'melting pot' (Maylan, 1986). South Africa has a population exceeding 41.2 million people, of whom more than 75% are blacks, about 12% are whites, 9% coloureds and 3% Asians. The diversity goes further when one takes into account that blacks are divided into nine major ethnicities with distinct communities, often with different cultural practices and, of course, languages. As Prime (1999) points out, the new constitution recognises 11 official languages, (nine black
languages, English, and Afrikaans) but English is the business language. Of the nine black official languages, Zulu is the most commonly spoken, but many South Africans without formal education are fluent in several languages, which they need for communication in the multilingual townships and workplaces. More than 80% of the population are Christian (most whites and coloureds, and roughly 60% of blacks), about 60% of Asians are Hindu, and 20% are Muslim. There is also a large Jewish community. Respect and deference to seniors is shown by both blacks and whites, the heritage of an authoritarian culture based on strict religious leaders and parents (Richmond and Gestrin, 1998).

Cultural influences have impacted significantly on the management styles found in South Africa. According to Prime (1999), the management of African organisations has traditionally been neglected by the mainstream international management literature. In the literature, three management approaches regarding culture have been identified that are evident in South African businesses. These comprise the following:

- **The Eurocentric Approach**
  The Eurocentric approach is the traditional dominant Western, and in fact, white Anglo-Saxon Protestant cultural style of management (Prime 1999). It is globally consistent with Western value systems, in which the primacy is given to individualism and related self-centred concepts (self-fulfilment, self-development…). Koopman (1991) refers to the whites being 'individualistic exclusivists' and building 'exclusive institutions'. Most of the private industry is controlled by a handful of super conglomerates with an exclusively 'White male Eurocentric' management board (Koopman, 1991).

Several authors have described the manifestations of this traditionally dominant corporate style. Khoza (1994) notes that it is dominated by the idea of a form of opposition: decision-making is based on power relations, and adversarial relationships are fostered between groupings such as managers and the managed, buyers and suppliers, whites and blacks. To Jackson (1999), Western cultural management style is characterised by its instrumentalism, where people serve the ends of the organisation. Finally, Mgibi (1994) responds to the rationalism of Western management cultural systems as expressed in job descriptions, job evaluations, disciplinary codes, and grievance procedures, stressing the lack of place for dreams,
by constantly making the workers aware of the practical limitations and realities of companies.

- **The Afrocentric Approach**

Prime (1999) is of the opinion that the need for an Afrocentric approach to management in South African businesses has been acknowledged by several authors. Afrocentricity remains a broad concept, but it has largely to do with addressing challenges, including economic challenges, in South Africa (Khoza, 1994). Conceptual knowledge about people, their predispositions to work, and their productivity are all connected with Africa’s inclusivist 'Ubuntu-based' value system. To Koopman (1991), Ubuntu implies the belief that man is very much part of the societal fabric, and that each individual will see the need to find his place in a societal structure. As he says: 'Ubuntu covers the cultural propensity for African people to be community inclusivist orientated. It is a concept that brings to the fore images of humanism, supportiveness, cooperation and solidarity, within the community' (Koopman, 1991: 12).

According to Khoza (1994), the Ubuntu philosophy and the community concept of the corporation have significant practical implications for corporate life. A community concept requires that people feel a sense of belonging, that management be approachable, and that the atmosphere be informal with a free flow of information. It places a great importance on working for the common good. Mgibi (1994) points out that Ubuntu means fundamentally relying on traditional African management values and practices, such as an oral culture of learning, and using traditional healers, folk singers, market women and traditional peasant farmers as role models for inspiring and empowering leadership. Other African-based Ubuntu principles are about creating an inclusive enterprising community, and establishing intimate relationships (Mgibi, 1994). Lessem (1994) notes that the view in Africa is that a group needs 'stroking', nurturing, and attention.

Much has been written about *individualist-collectivist* philosophies and their impact on management, but the large body of literature does not provide an adequate explanation of African communalism, although generally traditional African society may be regarded as being low in individualism (Blunt and Jones, 1992). To Khoza (1994), Ubuntu is an orientation to life that is opposed to individualism and...
insensitive competitiveness, but is not comfortable with collectivism where collectivism stresses the importance of the social unit to the point of depersonalising the individual (Khoza, 1994).

- The Synergistic Inspirational Approach

The third management approach prevalent in South Africa is based on the acknowledgement that management must understand diversity in the workplace and take advantage of its dual heritage. It involves consciously integrating traditional African management practices, values, and philosophies, with Western management techniques (Prime, 1999). Lessem (1989, 1996) demonstrates the need for reconciliation in a creative tension of the four different cultural worlds present in South Africa: Western competition and Eastern cooperation, Northern coordination and Southern cocreation (community based management). Koopman (1994) described the ideal new South African organisation as being developed under a 'pragmatic humanism' approach, in which the way to incorporate inclusivism is to seek unity in diversity. It means building trust and respect for different values, building common values, and learning from each other (Prime, 1999).

Mgibi (1997) described the challenge of synthesising different tribal, racial, economic, social, political, and cultural values in South African management, because there is a need for management as a discipline to have a strong value, and a philosophical base as a foundation of practice, to enforce good governance. He draws a parallel between the feudal African hunter’s attributes and those of the modern entrepreneur (emotional resilience, persistence, hunch, instinct, an eye for chance, enthusiasm, and the capacity to work hard, to take risks, and to improvise). Mgibi, (1997) describes the implementation of what he calls 'Inspirational Management'.

The process of management change is going through four major stages: releasing the hunter’s spirit, releasing the communal spirit, developing a village spirit, and releasing a productive spirit. The business has to be driven by a powerful vision. Rational management systems only assist in the process, and all these approaches are based on 'synergistic' approaches to manage cultural diversity (Adler, 1991). The premise that business holds about cultural diversity is that a creative combination of strengths is more efficient.
3.9 CULTURAL ADJUSTMENTS

Mantzaris (2000) draws attention to an important distinction in the culture literature, namely that between integration into the network of social relationships of the larger culture and internationalisation of the new cultural standards, or what has been called 'resocialisation'. Vlachos, (1965) made such a distinction in respect of the assimilation process, by separating 'behavioural assimilation' or acculturation, from 'structural assimilation'. Behavioural assimilation means absorption of the cultural traits and patterns of the host society (Gordon, 1960; Vlachos, 1965; Mantzaris, 2000; Hofstede, 2001). Structural assimilation, on the other hand, refers to the entrance of the immigrants and their descendants into social cliques, organisations, institutional activities, and the general social life of the receiving society. It is the structural assimilation that leads to the creation of either primary relationships, such as friendships, or secondary relationships, such as earning a living or carrying out political responsibilities. Gordon's (1960) thesis, which is in opposition to previous research, is that while behavioural assimilation, or acculturation, has taken place in America to a considerable degree, structural assimilation (with some important exceptions) has not been extensive.

There evolves a basic distinction between what can be described as 'cultural' and 'structural' assimilation (Mantzaris, 2000). The distinction, which may be expressed in various terms, is illuminated by a definition of culture proposed by Triandis (1994). According to him, culture is defined as 'the transmitted and created content and patterns of values, ideas and other symbolic-meaningful systems as factors in the shaping of human behaviour and the artefacts produced through behaviour'. The social system, on the other hand, according to the same author, is the relational system between individuals and collectives (Triandis, 1994). The 'structural assimilation' of Gordon (1960) would imply participation in what Triandis (1994) calls a 'social system'.

The implications from the above distinctions are that, in cultural assimilation, the immigrants and their descendants are assimilated to the degree that they internalise and express South African cultural patterns and values, and fulfil at least the universal roles of the host society. In this arrangement they are allowed to retain certain particularistic traits from the old culture. However, these traits are modified to a
certain degree in their transplantation from the old traditional culture to the South African society (Mantzaris, 2000). Structural or social assimilation, on the other hand, revolves mainly around the actual participation in the political, educational, occupational, and other aspects of the 'social system' (Vlachos, 1965).

Cultural assimilation of immigrants and their offspring in South Africa, according to Mantzaris (2000), requires only the acceptance of the major values, rules, and behaviour patterns of South African society, and allows considerable deviation from customary patterns in secondary areas. The social assimilation of the immigrants requires only participation in the major institutional areas of the receiving society, or in Vlachos’s (1965) terms, 'structural assimilation'.

Vlachos, (1965) prefers to use the term 'absorption' as the broadest term of the terminology of cultural adjustment and the interchange of ideas, beliefs, and customs, between groups of people who differ culturally and come into contact. According to Vlachos (1965), there are three main indices of full absorption:

- **Acculturation**, which indicates the extent to which the immigrant learns the various roles, norms and customs of the absorbing society. Such an operation includes two distinct levels. One is that of learning a certain number of roles and habits; the other is that of internalising these roles and habits and behaving in accordance to them.

- **Personal adjustment**, which encompasses the effects that the process of absorption has on the personality of the immigrant, and his/her coping with his/her frustrations.

- **Institutional dispersion**, which refers to the general social-structural level of the migrant group and its place in the social structure of the absorbing society. It is at this level that absorption finds its culminating point, in the complete loss of ethnic identity of the migrant group in the context of the new society (Vlachos, 1965).

Vlachos’s (1965) 'acculturation' corresponds to Gordon’s (1960) 'behavioural assimilation', whereas 'institutional dispersion' is identical with 'structural assimilation'.
3.10 CULTURAL SYNDROMES AND COMMUNICATION

Culture is relevant in at least two domains: how conflict starts and how conflict evolves (Triandis, 2000). Poor communication is the major cause of the first, and the way members of different cultures treat out-groups is relevant for understanding the second of these domains.

When people come into contact with members of other cultures, they are often not aware of their miscommunications, because they think that the others are more or less the same as themselves. This is the stage of **unconscious incompetence**. After some interpersonal difficulties, people realise that they are miscommunicating, but they do not know exactly what is wrong. That is the stage of **conscious incompetence**. As they get to know more and more about the culture of the others, they begin to communicate correctly, but they have to make an effort to communicate in a different way. This is the stage of **conscious competence**. Finally, after they have developed the habits of correct communication with the members of the other culture, they reach the stage of **unconscious competence**, where the communication is effortless and correct (Triandis, 2000).

A serious problem in communication is that people do not perceive the same 'causes' of behaviour (Miller, 1984; Morris and Peng, 1994). When the actor thinks that a behaviour is due to one cause and the observer thinks that the behaviour is due to another cause, each gives a different meaning to the behaviour. For instance, a businessman may invite another businessman to dinner. The host may do so because he likes the other businessman. The guest, however, may see the cause as 'his boss told him to invite me'. Obviously, the meaning of the invitation is different for the two businessmen (Triandis, 2000).

According to Triandis, (2000), there exists a well-researched phenomenon called 'attribution'. When two groups, A and B, are in conflict, if a member of group B does something 'nice', members of group A attribute the behaviour to external factors (e.g. he was forced to do it under the circumstances). When a member of group B does something 'nasty', members of group A attribute it to internal factors (e.g. they are nasty 'by nature'). The attributions that B makes about the behaviour of group A are exact mirror images, that is, when A does something nice, it is due to external factors,
and when A does something nasty, it is due to internal factors. When a member of
group A makes attributions about the actions of members of group A, if the action is
positive, it is attributed to internal factors, and if it is negative, it is attributed to
external factors (Triandis, 2000). In all cultures, when researchers ask actors why they
did something, they report external causes, but observers of these actions tend to use
causes internal to the actor. This is called the ‘fundamental attribution error’. People
all over the world have a tendency to make attributions incorrectly. However, those
from individualistic cultures are even more biased in this respect than those from
collectivist cultures (Triandis, 2000).

Another factor in miscommunication is the tendency of collectivists to sample the
context of communications more than individualists, which results in their paying
more attention to gestures, eye contact, level of voice, the direction of two bodies,
touching, the distance between the bodies, and the like. According to Fiedler, Mitchell
and Triandis (1971), there is a strong likelihood of error and misinterpretation in the
way people interpret paralinguistic cues. The way people use time can also result in
misunderstandings, because people from monochronic time cultures are used to
carrying on one conversation at a time, whereas people who use polychronic time
carry on several conversations simultaneously, which confuses and frustrates the users
of monochronic time (Hofstede, 2001).

The structure of messages can be another source of difficulty. Triandis (2000) points
out that Western people tend to organise their thoughts and messages in a linear
fashion: fact 1, fact 2, etc., generalisation, conclusion. In many other cultures, people
start with a conclusion, then find the facts that fit the conclusion, and permit
deviations from a straight line. In some cases the argument is like a spiral, starting
from general ideological or mystical considerations, and gradually zeroing in to a
conclusion (Triandis, 1994). The extent to which ideology versus pragmatic matters
are categorised also varies with culture (Triandis, 2000). Glenn (1981) provides an
interesting example. At a United Nations conference (Glen 1981), the Russians
advocated the use of reinforced structures whereas the American delegates said that 'It
depends on what works best' (pragmatic). Delegates from the Third World interpreted
the exchange in favour of the Russians. They thought that the Americans were saying
that, 'We are not good enough to use what they are using'.
Interpersonal difficulties can also harm cross-cultural communication. Triandis (2000). For example, when presenting a position, the universalist may expect that all the facts will 'fit in' with the position, whereas the particularist may not feel that this is necessary. When such expectations are present, the particularist might need to start the communication process with a universalist position (e.g. 'We are all in favour of peace') and then present the particularist view. Another source of miscommunication is that in some cultures communications are 'associative' and in others 'abstractive'. In the West, communication is typically 'abstractive'. That is, one abstracts the most important elements of the argument and organises them for presentation. An associative presentation can present anything that is vaguely related to the point, which can frustrate the Westener (Szalay, 1993). For example, in 1932 the finance minister of Japan was assassinated after agreeing to a 17% revaluation of the yen. In 1971, the American Treasury Secretary Connolly, oblivious to Japanese history, demanded a 17% revaluation of the yen. His Japanese counterpart rejected it without explanation. When Connolly suggested a 16.9% upward evaluation, the Japanese minister accepted it (Cohen, 1991).

### 3.11 PROBLEM-SOLVING AND CULTURE

It is unfortunately true that the cultural embeddedness of strategies and strategic knowledge in problem-solving has not received a great deal of attention in the literature (Strohschneider and Guss, 1999). Most of the cross-cultural research on thinking and problem-solving belongs to what Viviers and Willemsen (1993: 319) call the 'formal tradition'. In order to understand the interaction between problem-solving strategies and cultural context, we can, as a first step, look for appropriate metatheoretical frameworks. Berry (1993), for instance, in his 'ecological approach', argues that behaviours are adapted to the ecological as well as the socio-political context in which they occur. This context emphasises a functional perspective on thinking. It implies that problem-solving strategies are usually not developed for their own sake or because cognitive skills are valued per se, but in order to tackle specific adaptational problems. These strategies are used as long as they fulfil their specific purpose, no matter how awkward or suboptional they seem to be from the outside (Berry, 1993). The importance of practical activity for the development of problem-solving styles has been stressed by the so-called 'sociohistorical school' (Cole, 1988). According to this line of thought, the development of problem-solving skills is
dependent on (among other factors) culture-specific tasks and goals, the typical ways of transmitting knowledge (e.g. abstract instruction versus guided participation), and the available material and symbolic tools (Strohschneider and Güss, 1999).

Empirical studies in the 'cognition-in-action' tradition have clearly demonstrated that people develop and use highly sophisticated strategies in dealing with specific tasks that are important to them (Gauvain, 1993, Scriber, 1984). In many cases, however, people are not able to generalise the strategies to other contexts. More importantly, within the complex problem-solving perspective, it is possible to develop a framework for the understanding of national cultural influences on the development of problem-solving patterns and strategic knowledge. Strohschneider and Güss (1999) argue that, from a strictly functional position, there are basically five (probably inter-related) aspects of culture that contribute to the development of specific problem-solving patterns.

- **Predictability and 'planability' of the environment.** It is obvious that the stability of the environment (taken here to include climatic as well as social or economical aspects) is influential in the development of problem-solving styles (Gardner and Rogoff, 1990). If an environment is completely unpredictable, there is not much problem-solving required, because there will be routine solutions available for all kinds of tasks. Only when the environment is dynamic does some sort of problem-solving become necessary. Slow and predictable rates of change may allow for knowledge-based, analytic, and long-term strategies to develop (Agarwal, Tripathi and Srivastava, 1983; Sundberg, Poole and Tyler, 1983). An environment in a constant state of flux (as in change) requires ad hoc and short-term strategies (Lindblom, 1959; Timmons, 2000).

- **The degree to which a culture requires and promotes experiences in different areas of problem-solving ('exposure').** Exposure may be related to the accountability of the environment, but may also be a function of dominant value systems or the availability of resources necessary to promote exposure. It has been shown in intercultural studies (Schaub and Strohschneider, 1992) that the amount of problem-solving experience is a crucial factor in the development of strategic competencies. The greater the
range of problems from different domains the individual has to tackle, the more likely he/she is to develop the strategic competence necessary to deal successfully with novel and complex problems. The amount of schooling and the methods of teaching are important in this context (Scribner and Cole, 1973). In particular, if learning at school is equated to absorbing and repeating prefabricated solutions, there will be only limited development of problem-solving expertise (Strohschneider and Güss, 1999).

• **Legitimacy of norms and value system.** Value systems and philosophies of life are means of reducing uncertainties and defining proper goals, as well as ways of reaching these goals (Rokeach, 1973). If value systems have a high degree of legitimacy and therefore assume the status of behavioural norms, value systems can again reduce the necessity of problem-solving. In so-called post-modern societies, value systems have often lost their traditional, prescriptive power or have become fragmented. Different domains of life (like family, profession, and leisure time) may be only loosely integrated, and even if there is a high accountability on a day-to-day basis, when it comes to important or critical events, the individual has a choice of different strategic possibilities (Strohschneider and Güss, 1999).

• **Power distance and social hierarchy.** Attempts to solve a problem make sense only when one is given sufficient leeway not only to find a solution but also to make it work. The notion of 'control span' (Frese, Kring, Soose and Zempel, 1996) captures this idea. High power-distance cultures are more likely to limit the control span of individuals who are not at the top of the hierarchy, and thus hamper individual problem-solving rather than promoting it. This is not to say that high power distance necessarily results in poor strategies. However, problem-solving techniques will concentrate more on possibly adverse social implications of decisions, and will therefore be rather conservative, or risk-avoidant (Frese et al., 1996; Nair, 1997).

• **Individualism versus collectivism.** This raises the question of whether one type of culture requires more problem-solving than another. However, there should be differences in the degree to which the social environment is taken into account. How individualistic cultures reinforce individualistic problem-
solving, aimed at increasing personal benefits even at the cost of others, is well documented (Gabrielidis, Stephan, Ybarra, Dos Santos Pearson and Villareal, 1997; Yu and Yank, 1994). In collectivist cultures, personal benefits are less valued if other members of relevant groups suffer or if group-orientated values (group harmony) are endangered. Therefore, individualistic cultures should require short-term, problem-focused strategies as compared to collectivist cultures. (Strohschneider and Gûss, 1999).

Negotiation is a form of social interaction (Mantzaris, 2000). It is the process by which two or more parties try to resolve perceived incompatible goals (Carnevale and Pruitt, 1992). In order to understand the effect of culture on negotiation, it is useful to have a mental mode of negotiation (Brett et al., 2000). What is it that people mean when they say they negotiate? What is involved in negotiating? What is a good outcome in negotiation? What does it take to get a good outcome? What goes wrong in a negotiation that has a bad outcome? If culture has an effect on negotiation, the mental models of negotiators from one culture may not coordinate with those from another culture, making the specification of a single mental model problematic (Brett, 2000).

According to Brett (2000), there are two ways to approach this problem of specifying a mental model of negotiation. One is to specify the model in use in one culture and then compare and contrast its elements with the elements of models of negotiation from other cultures. Alternatively, researchers can specify the mental models of negotiation in many different cultures and aggregate their common and unique elements. The latter approach is less likely to overlook culturally unique aspects of negotiation, but requires the prior existence or current construction of many culturally 'emic' (unique) models of negotiation (Brett, Tinsley, Janssens, Barsness, and Lytle, 1997).

Recent empirical research suggests that cultures differ with respect to the basis of power in negotiation (Brett and Okumura, 1998) and appropriate standards of fairness (Leung, 1997). Cultures also differ with respect to information sharing, both in the extent to which information is viewed as important in negotiation (Brett et al., 1988; Mantzaris, 2000), and in the approach to sharing information relevant to reaching integrative agreements (Adair, Okumura and Brett, 1998c).
Some cultures share the information about interests and priorities needed to reach integrative agreements directly, while others share that information indirectly, and still others not at all (Adair et al., 1998a). Other research shows cultural differences in the emphasis placed on interests, rights, and power in dispute resolution (Tinsley, 1997, 1998).

3.12 SUMMARY

The primary purpose of this chapter was to assess the nature and importance of cultural influences on SMEs in a South African context. This chapter has emphasised how culture has an effect on the SME business. Besides defining the concept of culture, this chapter also explored cultural theories about ethnic groupings. The chapter focused on the importance of culture, and considered what impacts it would have on entrepreneurship. An integral part of this chapter focused on cultural diversity and how it has a definite effect on SMEs.

Chapter 4 will focus on Ethnic Entrepreneurship in developed and emerging markets.
CHAPTER 4

ETHNIC ENTREPRENEURSHIP IN THE DEVELOPED AND EMERGING MARKETS

4.1 INTRODUCTION

Chapter 3 provided an overview of cultural influences in the SME industry. SMEs in South Africa pose a host of unique challenges and difficulties which need to be addressed. Often immigrants have to overcome difficult circumstances, for example, immigrants need to gain respect in the marketplace before being accepted into the SME fraternity.

Entrepreneurship from specific ethnic communities is now a readily apparent part of the business landscape in most countries of the world. Historically, entrepreneurship has emerged in specific groups organised along ethnic, religious, or other sub-cultural lines. Examples include the Jews in Europe, Marwaris, Jains, and Chettiars in India, Hokkiens/Fukiens in China, the Medici merchants in Italy, and more recently, the Tan, Lee, Ng and Gan clans in Singapore (Lyer 1999; Kotkin, 1993; Lander, 1981). As a result, enclaves of ethnic entrepreneurs can be found in the U.S.A, the U.K, Africa and other Western countries. Some examples include the East Indians in Edison, New Jersey; Cubans in Miami; Koreans in Chicago and Los Angeles, and Chinese in San Francisco and Vancouver (Light 1972). Several reasons have been suggested for such ethnic identity and proximity in an overall business and professional ethos. Entrepreneurship may arise from levels of suitable labour market opportunities (especially because of language barriers and discrimination), desire to amass wealth and return to one’s homeland, and/or from business opportunities created by a growing community of co-ethnics (Aldrich and Waldinger, 1990). Moreover, such entrepreneurs often return their distinct ethnic identity and form close linkages with co-ethnic labour and consumers, while choosing to remain segregated from the mainstream culture.
4.2 THE RELATIONSHIP BETWEEN ETHNICITY AND ENTREPRENEURSHIP

Despite the importance of cultural factors, traditional theories of entrepreneurship pay scant attention to factors in the rise of entrepreneurship and subsequent business strategies. The dominant economic and psychological factors that are conventionally used in the literature are limited to explaining entrepreneurship and business strategies among groups that are organised along ethnic lines. A limited part of the literature is devoted to ethnic entrepreneurs’ entrepreneurial motivations, the formation of enclaves, the use of ethnic and class resources, and the proclivity to specific business forms found in sociology (Aldrich and Waldinger, 1990; Bonacich, 1973; Light, 1972).

Gopalkrishnan and Shapiro (2000) find that ethnic entrepreneurs are quite intricately connected to family and community sources of support. This is in contrast to the rugged, individualistic, and self-made entrepreneur who is the paragon in Western business literature. Cultural ties and specific cultural factors, of which identity is one, enable the ethnic entrepreneur to view business conduct and strategies rather differently from those emphasised by the 'main-stream' entrepreneur. Gopalkrishnan and Shapiro (2000) offer a unique perspective that suggests that the ethnic entrepreneur's emphasis is on business cash flow and turnover rather than on margins. These and other culture-based observations enable them to suggest several implications of ethnic competition in the economy. Moreover, they suggest that the spread of such entrepreneurship across national borders may be a characteristic of the next phase of globalisation – one that merges and extends the historical nexus of cultural identity and trade in interesting ways (Gopalkrishnan and Shapiro, 2000).

4.3 DIFFERENCES BETWEEN ENTREPRENEURS AND ETHNIC ENTREPRENEURS

Not all entrepreneurial activities of immigrants can be labelled ethnic. What distinguishes ethnic entrepreneurs from 'main-stream' entrepreneurship is seldom made explicit (Rath, 2000).
Does the adjective refer to the origins of the entrepreneur, management strategies, personnel, clientele, and products, or a combination of these? (Rath, 2000). Not all entrepreneurial activities of immigrants can be labelled ethnic. Entrepreneurs can be considered ethnic if they have major advantages or disadvantages as a result of their ethnicity. Ethnic entrepreneurs may benefit from co-ethnic loyalty (from buyers and sellers) and co-ethnic employment. According to Light (1994), entrepreneurs become ethnic entrepreneurs when ethnic resources become more important than the non-ethnic resources commonly used in that entrepreneurial activity.

One has to accept that businesses are not isolated units. They grow from links with others. Entrepreneurs need social relations that support the establishment of businesses (Zimmer and Aldrich, 1986; Granovetter, 1985; Light, 1972). Ethnic entrepreneurs need to develop socially meaningful relationships in order to start a business. To start a business, ethnic entrepreneurs draw on 'co-ethnics' to help them, but these ties are not a given. They have to activate their networks for them to become social capital. Over time, people reach a point where they recognise each other as part of the same ethnic group by defining them as belonging. 'Belongers' are characterised situationally, and definitions may be narrowly or broadly made, depending on circumstances. The innermost circle includes those from the same defined space and time. Those who leave and arrive from the same location at a similar time often share biographies (Bertaux, 1997; Bertaux-Wiame, 1981; Salaff, 2000). Shared cultural indicators include language and religion. Identifying features may embrace physiology and demeanour, while dress, food, and other familiar consumer items become cultural markers. People draw on such indicators to define others as culturally similar (Salaff, 2000).

Mantzaris (2000) argues that culture needs to be maintained over time in order to remain recognisable. Those who once had a common background but have not kept up ties, may later not recognise others as close associates. Many South African entrepreneurs who seem similar to outsiders do not themselves feel that they share a common background that warrants ongoing ties. This 'drifting apart' lessens the range of others with whom new entrepreneurs can exchange support in South Africa. In other words, people recognise as familiar co-ethnics, those who share networks.
As a result, the enclave economy is part of the social structure of families, neighbours, friends, and acquaintances (Mantzaris, 2002).

Apart from these direct ties, ethnic members are embedded in several other networks that have a common ethnicity. Ethnicity implies clusters of relationships that embed members in a culture. They not only have associates in common; they are also joined together indirectly through third parties. People who know the same people often share the same perspectives and resources and feel that they are similar. These networks may be rooted in social ties back home, and may be created anew in a foreign land by those of colour, who have been excluded from mainstream entrepreneurial networks. By banding together, they create ties that are useful for future entrepreneurs (Light, 1992, Logan, et al., 1994; Mantzaris, 2000). New immigrants/entrepreneurs are most likely to locate suppliers, clients, workers, and capital for enclave firms through multiplex, embedded relationships. These social factors are part of the institutional framework behind enclave entrepreneurship (Salaff, Greve, Wong and Ping, 2002).

Salaff et al. (2002) believe that ethnic entrepreneurs mobilise social capital through ethnic social networks. Entrepreneurs from the same ethnic group will get easier access to business networks in the enclave than will outsiders. They will be in an advantageous position to utilise those ethnic networks. A business that depends on ethnic relations typically establishes value chains within the ethnic community. Such businesses will need to have input or output flows that originate mainly within the enclave or the sending country. For instance, ethnic clients seek special cultural products. Employees with a local language ability, other cultural abilities, and other cultural traits, are in demand in such ethnic businesses. Non-ethnic clients may recognise ethnic products from symbols, like the name, product, or location (Fong, et al., 2001); they may look for these products by following through the firm’s value chains. In a chain of ethnic firms, the entrepreneur may thus attract other ethnic firms. As a result, ethnic entrepreneurs mobilise through ethnic social networks.

Location is one means of finding others of the same ethnic community. Ethnic business enclaves are best located where they can take advantage of a large co-ethnic population to become self-employed (Bates, 1994; Bonacich, 1973; Min, 1988; Park, 1990; Waldinger, 1994; Zhou, 1992).
Their contacts are expanded, and information is shared relatively easily in a concentrated physical space. An established business community of earlier immigrants sends signals to newcomers, indirectly promoting entrepreneurship. Light and Bonacich (1988) refer to this signalling as 'ethnic facilitation'. For instance, the Chinese who are concentrated in large communities in New York and Los Angeles have a greater likelihood of being self-employed than Chinese in the rest of the United States (Portes and Zhou, 1999:157).

It is also easier for people to exchange business information if they are concentrated in enclaves. By finding out about new events quickly, co-ethnic employers and employees reduce the impact of the risks associated with investment (Waldinger, 1996: 255; Min, 1988: 74). Business people find a protected market in enclaves. The opportunities that the enclave opens up for small businesses lie in matching of producers and employees. Producers look to the enclave for the employees they need, and employees look there for bosses to work for (Light et al., 1999). The enclave thus becomes a self-sustainable entity.

Although the enterprise can signal its ethnicity chiefly in delimited areas, as long as people can identify with one another and interact, they need not be in one place (Hum, 2001). There are several ways for a business to become visible (Fong et al., 2001). People form identities by mingling in ethnic stores, community centres, neighbourhoods, and churches (Bonus, 2000; Kuah and Wong, 2001, Mantzaris, 2000). Applying the network metaphor implies that people with direct, indirect, or multiplex links to others need not locate in a specific place to get in contact (Salaff, Greve, Wang, and Ping, 2002). Ethnic entrepreneurs differ from non-ethnic entrepreneurs in the balance between the various forms of capital. Lack of access to financial capital can be counterbalanced by, for instance, an extensive use of social capital. In such cases, immigrants may take refuge in ethnic resources. Light (1994) summarised which resources can be regarded as ethnic, indicating that ethnic resources are the socio-cultural and demographic features of the whole group, which co-ethnic entrepreneurs utilise in business. Ethnic resources characterise a whole group, not just its isolated members. These resources may include kinship and marriage systems, relationships of trust, cultural assumptions, and a pool of underemployed co-ethnic workers. 'Ethnicity' is a resource that is instrumental in many economic activities. Ethnic entrepreneurs can and do use this resource.
However, ethnic resources are not always an advantage for the entrepreneur. Ethnic bonding can, at a certain point, become ethnic bondage (Schrover, 2002:2).

Members of ethnic minorities tend to be self-employed more frequently than the natives of a country are. As a result, the percentage of entrepreneurs within a population will be higher than in society at large. This high percentage may, by creating a favourable entrepreneurial climate, stimulate others within the migrant group to become entrepreneurs as well, thus increasing the entrepreneurial character of the group.

Some authors have described immigrant entrepreneurial activities from a disadvantageous perspective. They point out that many migrants lack contacts and language abilities, and they are often discriminated against (Spencer and Bean, 1999; Mantzaris, 2000). Entrepreneurship can thus be seen as a response to a limited opportunity structure. The interaction between resources and opportunity structure that entrepreneurs encounter must not be conceived of as immobile and fixed. Opportunities change over time and are not the same for different groups of migrants (nor for men and women within a group).

Given the available alternatives, entrepreneurs with poor access to capital (human, social, cultural, and financial) confronting a difficult and competitive labour market, may opt for survivalist entrepreneurship. From an economical point of view, it can be more advantageous to be self-employed. This means that the opportunity costs of entrepreneurship are less, as are the risks of the investments undertaken. Entrepreneurs are risk takers, as are other entrepreneurs, but the risks may not be the same for both groups (Shrover, 2002). If it is true that entrepreneurs are driven by the disadvantage perspective, this would mean that they have a different motive for entrepreneurial activities from their immigrant counterparts. Difference in motive may affect the goals and objectives they set for themselves (Shrover, 2002:3).

4.4 CHARACTERISTICS OF ETHNIC ENTREPRENEURSHIP

'Niche formation' is a process by which entrepreneurs who share a religious or other common background cluster together in an economic sector, and is a common phenomenon (Shrover, 2002; Mantzaris, 2000).
According to Waldinger (1996), niche formation is the logical outcome of migration. Initially, newcomers have a restricted number of contacts, mostly with people from the same regional background. The exchange of information and recruiting of personnel take place through these networks and result in a concentration of economic activity in certain sectors. Portes (1994) has pointed out that niche formation may result from a preference amongst migrants for working with people who hopefully will understand them better or are willing to honour their wishes regarding work, for example during the Sabbath or Ramadan (Portes, 1994). Bonacich (1973) puts even more emphasis on ethnic bonding and argues that ethnic groups can act as economic interest groups, because group solidarity leads to the availability of all kinds of resources at a relatively low cost. Solidarity results from trust which is maintained through the criss-cross network of personal ties. Trust can lead to low-interest rate loans and easy-to-obtain credit. The high degree of organisation amongst minorities enables them, according to Bonacich (1973), to generate and distribute resources, such as money, information, training, jobs, and labour, more quickly and efficiently than is possible in the surrounding society. Minority success in business promotes societal hostility, and hostility again promotes ethnic solidarity. Restricting the minority in what it can do contributes to the concentration of all efforts on one sector, and thus indirectly promotes niche formation (Waldinger, 1996).

Niche formation can evolve from the exclusive access that migrants have to certain trade goods. Migrants can act as the sole representatives of a certain item, or through family ties and other contracts, get more favourable trade conditions. This form of niche formation can be strengthened by the recruitment of employees from the region of origin, who are willing to work for lower wages or longer hours (Portes, 1994). Migrants can monopolise a sector when a link is made between pre-migratory skills on the one hand and an association between the specialisation of the group on the other. Ideas in the host society about the qualities of the newcomers can lead to their exclusion, but can also reserve an economic sector for them in a more positive sense. In current South African society, pizza parlours are associated with Italian migrants. This makes it difficult for others to set up similar businesses. As a result, black African migrants who want to run a pizza business often masquerade as Italians by wearing striped T-shirts and using a handful of Italian phrases.
Niche formation need not occur only in a new field. The established population may also withdraw from a field that is no longer considered profitable, and be replaced by newcomers willing, forced, or able to work with lesser margins (Schrover, 2002). Migrants may fill a gap in the market left vacant by others. Light and Karageorgis (1994) have pointed out that the nature of niche formation is determined, amongst other things, by the possibilities it offers for family members to get involved in it. When both men and women can work within the niche, a much closer relationship develops between the group and the economic sector. The possibilities for the family members to get involved depend not only on the nature of the sector, but also on work options outside it. When there are many possibilities within the niche, and only few outside it, ethnic entrepreneurs can profit from the existence of a large reservoir of cheap labour. This will strengthen the success and continuity of the niche. As Sanders and Nee (1987) have shown, the long-term development of a niche is constrained by the principle of competitive exclusion. A niche can support only a restricted number of entrepreneurs.

Looking at niche formation from a historical perspective, Waters (1995) has pointed out that the main determinant of niche formation is mobility of human capital within the larger host society. The establishment of a niche by migrants depends on whether individuals can 'move' what (Waters, 1995) calls their 'inheritable economic base', be it land, labour, class, status, or guild membership, freely into the country to which they have migrated (Waters, 1995). Importantly, it must be noted that, although niche formation clearly relates to migration, not all entrepreneurs end up in niches, and not all niches show the same persistency (Schrover, 2002).

4.5 CHARACTERISTICS OF THE ETHNIC BUSINESS

Salaff et al. (2002) believe that ethnic subcultures typically give rise to complex economic relations. Proprietors use the norms of the ethnic culture to run the business while the employer/employee bond is culturally based. Since culture is a taken-for-granted framework, jobs are often governed by particularistic rules that everyone knows. The hiring contract, the code of conduct, and how the place is run are based on culture. Owners hire or work within the chosen ethnic background.
The emphasis on culture in the enclave often helps entrepreneurs transfer knowledge that the market does not recognise (Hum, 2001). This transfer is often the basis of many immigrant businesses. Doctors trained in China cannot use their credentials in Canada. They may apply their skills in the allied trades of massage and acupuncture, as recognised by customers of colleagues. Similarly a Greek architect cannot necessarily use his/her credentials in South Africa, as Greek and South African requirements differ for recognition by the relevant Institute of Architects.

Enclave theorists believe those congregating in the enclave share cultural codes and in this way expand mutual trust. Business people are often likely to help others start up in the same way they were helped themselves (Min, 1988). These helping features become part of the definition of enclave life. Enclave members proudly maintain, 'We are the kind of people that help each other' (Mantzaris, 2000).

Salaff et al. (2002) indicate that mutuality works well, because most start-up businesses are small, easy to enter, run, and leave. They are the last-minute work of those with few choices. Small businesses, employees, large investments, that do not require human capital or a wider organisational context, depend on their social contacts. Mutuality also works well when people draw on multiplex social networks that can enforce reciprocity, but not when a high proportion of co-ethnics work together. Salaff et al. (2002) further argue that the construct of ethnic business should not be over-defined. By seeing the business as embedded in value chains, it can be readily understood that not all features of the ethnic business need to be present in any one business. Ethnic businesses may hire other ethnic members, but the product, clients, or the location may not be ethnic. Businesses may also hire non-ethnics for speciality tasks (Anderson and Higgs, 1978; Li, 1993). Furthermore, the ethnic community may exist outside a physical community. Nor does the ethnic constituency have a monopoly over business-related networks. One study reported that there are no differences in the use of social networks by ethnic and non-ethnic entrepreneurs (Zimmer and Aldrich, 1987). Nor is physical concentration required to build social networks. Social networks can be dispersed, and assistance can still flow through them (Aldrich and Reiss, 1976; Waldinger et al., 1990). By limiting the community to set locations, the notion of the enclave itself freezes the networking processes for which visibility is desired. As long as the enclave is rooted in the notion
of 'community found' as the basis of its personal support, its conceptual strength is
masked (Wellman, 1999; Salaff et al., 2002).
There is a downside to the enclave business. Critics retort that cultural arrangements
relegate similarly poorly placed people without bargaining power to a narrow
competitive arena. Drawing on enclave members often means exploiting them.
Faultfinders assert that culture disguises economic power. Invoking culture and non-
standard rules may be exploitative (Nee and Sanders, 1987). The concept of the 'eth-
class' critiques the ethnic enclave concept that culture is classless (Gordon, 1964;
Fong, 2001:324-5). Hiring employees outside the labour code gives workers a short-
term advantage, but not necessarily legal protection (Kwong, 1987; Salaff, et al.,
2002).

4.6 TRANSCONTINENTAL ENTREPRENEURS

The contemporary literature on immigrant transnationalism points to an alternative
form of economic adaptation of foreign minorities in advanced societies, based on the
mobilisation of their cross-border social networks (Portes, Haller and Guarnizo,
2001). The phenomenon has been examined mainly on the basis of case studies that
note its potential significance for immigrant integration into the receiving countries,
and for economic development in the countries of origin. Although immigrant
transnationalism has received little attention in the mainstream literature so far, it has
the potential to alter the character of the new ethnic communities spawned by
contemporary immigration (Portes et al., 2001).

The term 'transnational fields' was coined in the immigration literature, and refers to
the web of contacts created by immigrants and their home-country counterparts, who
engage in a pattern of repeated back-and-forth movements across national borders in
search of economic advantage and political voice (Portes, 1999; Verovec, 1999; Glick
and Schiller, 1999). Initially, such contacts may be purely economic, and involve just
the country of origin and that of the destination country. The literature on European
immigration to the rest of the world at the turn of the 20th century features numerous
examples of sustained cross-border contacts of an economic and political character
(Foner, 1997; Piore, 1979). What is novel at present is defined by three features.
The first is the revolutionary innovations in transportation technology and electronic
communications that facilitate easy, cheap, and fast contacts across long distances.
No matter how motivated, transnational political activists or transnational entrepreneurs of the early 20th century could not sustain the volume or engage in the near-instantaneous exchanges made possible by the new communication technologies (Roberts et al., 1999; Levitt, 1997, 2000).

Secondly, the intense level of contact is made possible by communication technologies incorporating the seemingly growing number of immigrants and their home country counterparts involved in them. As they cease to be exceptional, transnational activities may become common and even normative, at least in some communities described in the modern literature (Glick, Schiller and Fouron, 1999; Popkin, 1999).

The third feature is the increasing involvement of sending-country governments seeking to promote and guide transnational initiatives and investments of their respective diasporas. This growing official attention reflects the weight acquired by transnational fields and, in turn, promotes them (Landolt, 2000; Smith, 1998; Guarnizo and Smith, 1998). The problem for the research of immigration is for politicians to decide whether or not the weight of existing evidence justifies coining a new term and opening a new field of inquiry. The phenomenon of transnationalism was initially identified by a team of ethnographers who described it as follows:

'Transnationalism is defined as the processes by which immigrants forge and sustain multi-stranded social relations that link together their societies of origins and settlement. An essential element is the multiplicity of involvements that transmigrants sustain in both home and host societies. We are still groping for a language to describe these social locations.' (Bash et al., 1994:6).

This puzzled attitude is understandable when one is confronted with a phenomenon that, at first, strains the imagination. The improbable spectacle of people of modest means criss-crossing the globe and making use of technologies that were formerly the preserve of powerful corporates defies conventional expectations as to the role of labour immigrants in the world economy. The unconventional character of these practices has also led to scholarly scepticism about their scope and their real significance. Researchers have not been at the forefront of studies of transnationalism, and some have voiced fears that they represent just one more
addition to the faddish rhetoric of globalisation - stronger in grand pronouncements than in hard facts (Waldinger, 1998).

4.6.1 Economic Transnationalism

Transnational fields described in the existing literature include political, social, and cultural linkages, as well as those of an economic type (Guarnizo et al., 1999). The following analysis focuses on transnational economic activities for two reasons, the first being the impossibility of examining all the diverse forms of the phenomenon in a single chapter and the second being the predominance of transnational entrepreneurship in the case studies reported in the literature. If the term identifies a distinct phenomenon at all, it should emerge most clearly in the economic realm (Logan et al., 1994).

Research on middleman minorities and, particularly, on ethnic enclaves, has made it clear that the economic prospects of immigrants do not hinge exclusively on their conditions of employment in host-country labour markets, but also on their chances for self-employment. Immigrant entrepreneurs have been found to do better economically than their wage-earning co-ethnics, and to maintain this advantage even after controlling for human capital characteristics (Portes and Zhou, 1999; Logan, Alba and McNulty, 1994; Wilson and Martin, 1982). The literature on ethnic enclaves has focused primarily on domestic conditions of the immigrant communities and on their relations with the host society. Although references have been made to connections with the home country for such groups as the Koreans (Light and Bonacich, 1988), the main focus has remained the contextual and individual variables that allow enclave entrepreneurs to succeed in their local environment. The concept of transnationalism opens a new dimension in the study of immigrant economic adaptation, because it focuses explicitly on the significance of resilient cross-border ties. The concept may be regarded as an extension of the existing literature on entrepreneurship, but with a focus on international networks, rather than exclusively domestic ones (Roberts et al., 1999). While past economic and sociological theories would lead researchers to focus exclusively on labour-market outcomes or local small business as paths for mobility, the concept of transnationalism explicitly targets the cultivation and development of activities spanning national borders. To the extent that such activities are successful, they may allow immigrants to fulfil their economic
targets without undergoing a protracted process of acculturation, as was expected in the past (Warner and Srole, 1945; Jasso and Rozensweig, 1990).

Transnational enterprise has a second important dimension, namely its bearing on the economic development of exporting countries. In the past, many exporting nations regarded their emigrants as little more than defectors (Roberts et al., 1999; Smith, 1994). At present, the increase of migrant remittances, investments, and technological innovations linked to the transnational field has caught the attention of many exporting governments. Many small countries on the periphery of the developed world have effectively become 'exporters of people', and the remittances and investments of their emigrants have come to exceed the sum total of these countries' commodity exports (Guarnizo, 1994; Glick and Schiller, 1999; Levitt, 2000). The development prospects of these nations may become inextricably linked to the activities of their respective diasporas. Recent activities of Third World countries (including South Africa) in pursuit of the potential benefits of transnationalism are a defining feature of the phenomenon, since at no time in the past have so many governments implemented deliberate policies to further it (Porter et al., 2001).

To summarise, transnational entrepreneurship lies at the intersection of ethnic enterprise, a phenomenon described at length in the research, literature, and the broader field of transnationalism, which includes political and socio-cultural activities. Figure 4.1 on the next page portrays these relations. Transnational entrepreneurship has potential significance for the course of immigrant economic adaptation to the receiving societies, and for the development of sending nations. It also bears directly on sociological theories of the economy, insofar as the rise of this form of entrepreneurship depends directly on long-distance social networks. This should make the phenomenon worthy of attention by researchers, especially in a period when the forces promoting international migration show no sign of abating, and the size of the immigrant population continues to increase (Massey et.al., 1998; Rumbaut, 1996).
Labour migration has dominated migration studies until recently, and only scant attention has been given to entrepreneurial migration. The over-representation of the labour perspective in the migration literature arises because the majority of migrants tend to be job seekers. During the Industrial Revolution in the 1830s, the rural population poured into the cities and towns of Western Europe in search of jobs in the manufacturing sector. These movements were primarily motivated by economic considerations. Studies in developing countries reveal similar reasons behind residential changes. Besides pull factors to urban locations, the push factors also have an important role. Most people were forced into urban areas by socio-economic circumstances in the rural areas, such as poor and unequal distribution of land, natural disasters, population pressure, and unemployment (n’Doen et al., Gorter, Nijkamp and Rietveld; 1997).
During the Industrial Revolution, plenty of jobs were available in developed countries. When the migrants arrived in urban areas, however, this was not the case in developing countries, where employment creation lagged behind an increase in the labour force. As a result, not all migrants successfully obtained jobs in the formal sectors. Birth rates were high and governments had limited economic resources to match the population increase. Those who failed in the labour market were pressed into self-employment activities, such as petty trading, work as street vendors, or household manufacturing (n’Doen et al., 1997). Most of the self-employment activities in developing countries have taken place in the informal sector (Rogerson, 1988). This sector has been considered a safety net for unemployed people in many developing countries.

Entrepreneurial migration research has attracted scholars from various fields, and they have realised that there is a particular type of migrant with characteristics similar to those of entrepreneurs. Instead of queuing for jobs with the locals, the entrepreneurs create jobs for themselves or even employ other people. The majority of migrants in developed nations come from the developing countries, and their numbers are increasing steadily over time. At first, these migrants were often suspected of taking jobs from the native-born, but the reality was that they were creating jobs for the native-born. (Aldrich, H., And Waldinger. R. 1990)

The fact that migrants engage in entrepreneurial activities has been recognised in most studies of ethnic entrepreneurs (Karin and Speare, 1983; Lewandowski, 1980). The notion of ethnic entrepreneurs is rather confusing, because ethnicity is used in this context to indicate the geographic origin of the migrants. When defining ethnicity as cultural traits of particular groups who share common customs, behaviour and a common worldview, then the notion of ethnic entrepreneurs is misplaced in certain contexts. For example, the Indonesians in the Netherlands are considered as one ethnic group, although in the country of origin, each person comes from a different cultural background. This confusion has been reiterated several times in the study of the Moroccan, Turkish, Indian, and other ethnic groups residing in Europe (Blaschke et al., 1990). The Indonesians were introduced into Europe as a single ethnic group, but they actually represent different cultural traits. Thus, the use of the term 'ethnic entrepreneurs' in developed countries ignores cultural particularities and refers more to a generic nationality (n’Doen et al., 1997). n’Doen et al. 1997 prefers the notions
of 'entrepreneurial migrants' instead of 'ethnic entrepreneurs', since ethnic entrepreneurs are generally migrants whose main activities are in entrepreneurial sectors. For the purposes of this study, both concepts, entrepreneurial migrants and ethnic entrepreneurs, are used interchangeably to exhibit a similar process involving migrants in the entrepreneurial sectors.

4.7.1 Ethnic Migration: Conceptual Issues

When discussing the concept of ethnic migration, the migration of entrepreneurs and labour migration are identical concepts. Two explanations are offered in the literature. Firstly, ethnic entrepreneur is a variant of labour migration, which indicates that both share similar characteristics. According to this point of view, entrepreneurs are indeed self-employed and are bound by the rules that apply to the workers in general. Labourers and entrepreneurs must both work harder to realise higher levels of income (n’Doen et al., 1997:2).

As with labour migration, entrepreneurs are motivated by a similar drive, namely to improve their economic circumstances upon arrival at a destination. They have been attracted by the prospect of income from their migration (Harris and Todaro, 1970). They have also been subject to the spatial imbalance distribution of factors of production, which forced them to leave their place of origin (Mueller, 1973; Wood, 1981; Lansing and Simon, 1986 Guest, 1989). This is not restricted to labour migration, but pertains to migration of entrepreneurs as well. In that sense, entrepreneurial migration is only a variant of labour migration, and it is unnecessary to distinguish between the two. Therefore, explanations offered for labour migration are also valid for migration of entrepreneurs (Simon, 1986; Guest, 1989; n’Doen et al., 1997).

The second explanation is that entrepreneurial migration and labour migration do have different characteristics. Entrepreneurs rely more on their management skills, whereas labour migrants attend more to technical skill in performing their jobs (Guest, 1989). According to this school of thought, entrepreneurs rely more on their management skills, whereas labour migrants search for the place that offers the best opportunity for profit. Labour migration, therefore, depends on the availability of jobs in a particular region, with an adequate pay scale. The risk for labour migration
occurs when they cannot find jobs in their destination area, but once the job has been secured, their income becomes more stable. Hence it is clear that ethnic entrepreneurs must be distinguished from labour migration. A separate explanation should be attached to labour and entrepreneurial migration (n’Doen et al., 1997; Rietveld, 1997).

4.7.2 Reasons to Engage in Entrepreneurial Activities: Structural vs. Cultural Approach

A major question related to the migration of entrepreneurs is: Which factors affect migrants’ decisions to engage in entrepreneurial activities? The debate on the prerequisites for entrepreneurial activities has been shaped by socio-cultural arguments in which researchers use two approaches to understand the phenomenon, namely the 'Structural approach' and the 'Cultural approach' (Mavratsas, 1997). The Structural approach argues that the situation in the receiving society is a prime cause for migrants’ engagement in entrepreneurial activities (Cole, 1959). Entrepreneurial skills among specific ethnic groups vary from place to place, since different regional socio-economic structures offer different ranges of opportunities for migrants. The migrant’s choice depends on the structure relating to social, political, and economic circumstances that offer him/her opportunities to start businesses. Migrants thus develop an interactive approach, in which different factors such as market conditions, ethnic and social networks, degree of accessibility, demand density, government regulation, and social convention facilitate interaction among social groups, and in some way impact upon ethnic entrepreneurship (Mulligan and Reeves, 1983; Gouch, 1984; Timmermans, 1986). It may happen that the migrants planned to enter the formal labour market when they decided to migrate, but changed their minds when they saw opportunity in the entrepreneurial sector. One advantage of self-employment activities is that the migrants can ignore others for their supervision, and rely on themselves for decision-making (Timmermans, 1986). It can be expected that migrants have confidence in the entrepreneurial sector, because they believe that this sector offers them the possibility of achieving glamorous economic advancement without jeopardising their social relations with the native-born colleagues (Razin, 1991; Marger, 1989).

One critical aspect of the opportunity structure is market conditions, under which researchers can include degree of market competition and market accessibility.
Competition and accessibility in a market are dependent on the types of consumers that migrants serve. The migrants may take advantage of the opportunity in an ethnic product (Waldinger, et al., 1990) as the concentration of an ethnic group within a receiving region increases the demand for an ethnic product. Cultural events and emotional attachment to the home region require that ethnic goods be supplied only by ethnic groups. The new migrants may see an opportunity to serve ethnic dishes which demand special preparation and cannot necessarily be served by other ethnic groups. For example, most ethnic restaurants in the South African market are operated by the Chinese, Greeks, Italians, and other migrants (Mantzaris, 2000). Apart from building a business on ethnic products, migrants have opportunities for serving the open market (Waldinger, et al., 1990). The migrants may cater to a 'general' market beyond their own ethnic backgrounds. Exotic products and foods from their home regions are often popular to general consumers and are often in high demand. Ethnic products become widely consumed and can often be provided only by the migrants themselves. Examples of ethnic products are woodcarvings, paintings, and crafts that are often identified with a particular cultural heritage (Waldinger et al., 1990).

Migrants can also enter markets that are under-served or markets that have been abandoned by previous entrepreneurs (Waldinger et al., 1990; n'Doen et al., 1997). Previous entrepreneurs may move to other sectors or to other places, thus leaving a space for new migrants. In this situation migrants grasp the opportunities when they find that the demands in immigrant regions are still open and are not yet filled by local entrepreneurs. The entrepreneurs often move toward products that are in demand, and they do not restrict themselves to ethnic products. Instead they choose to serve the 'general' market with a wide variety of goods. As the migrants encounter unfavourable situations such as job discrimination and other hardships in the receiving region, they often switch to self-employment activities as a safety measure. This often happens to migrants with a limited education or with limited skills. This is not a voluntary decision, but it reflects a no-choice, dead-end alternative after job-search failure. This line of argument is in accord with the 'block mobility' theory, in which it is argued that migrants and the local-born workers encounter similar labour market circumstances (Light, 1995; n'Doen et al., 1997). The decision criteria, in an ideal theoretical sense, are based largely on education, merit, and transparent rules, but, in practice, researchers also discover a hidden rule where ethnicity and nativity
are included in labour recruitment, which eliminates migrants’ opportunities to be accepted in the formal sectors. In other words, even if the work available is usually low-paying jobs, migrants still have to compete with local workers. The implication is that migrants are often forced into entrepreneurial activities, which are not what they have consciously chosen to do (n’Doen et al, 1997).

It appears therefore that migrants seek opportunities outside the labour market, and forge social ties among fellow ethnic groups, and the development of an 'ethnic enclave' starts. When the numbers of entrepreneurs increase, an ethnic enclave can be established in the receiving region; this enclave is characterised by a concentration of migrants in particular sections of a city or town, and also by tight business and social networks. The enclave is maintained to provide new migrants with the ethnic flavour of the home region, and it becomes institutionalised in order to incorporate new migrants into the host community. It serves as a development centre for promoting ethnic skills of new migrants, and ultimately offers them the possibility of upward social mobility. Skills nurtured within the enclave are thus described as 'ethnic capital' (n’Doen et al., 1997).

According to Waldinger et al. (1990), the progress of the ethnic enterprise is also related to institutional responses in the host society. A policy of encouraging the informal sector in developing countries can initiate the flow of migration. For instance, in a community where there is discrimination in credit access for migrants, there will be a lower propensity for the migrants to remain, as access to credit is important to permanent immigrants who seek business expansion in the receiving society.

According to the Culturalist approach, values and cultural elements are the essential determinants of entrepreneurial activity. Its proponents refute the idea of a structure of opportunities within the receiving society. Those who subscribe to the Culturalist approach believe that each migrant has brought with him/her an entrepreneurial skill that has been ingrained from an early age, or Culturalists think that there are value-laden groups whose skills are cultivated within the family or within the community. These skills are also known as 'ethnic resources'. The family is the primary institution for grooming entrepreneurial skills under these circumstances (Borjas, 1993). Consequently, ethnic resources are regarded as fundamental to ethnic identity. The Jews in Europe, the Chinese in Southeast Asia, and the Greeks and Italians in South
Africa, are closely identified with business, since the majority of them engage in business activities.

The Culturalists also regard entrepreneurial activities as part of ethnic ideology. Since it is an ideology, it has to be taught, proselytised, and inculcated into children as a way of life. This is why entrepreneurial activities are seen as an expression of one’s faith (n’Doen et al., 1997). There are religious institutions which allow their congregations to engage in entrepreneurial activities, such as the Mennonites in the United States (Redekop et al., 1995). There is also the argument that entrepreneurial activities demonstrate a nationalistic spirit in its citizens. Research into Japanese entrepreneurs during the Meiji Restoration (Hirscmeier, 1971) and the Koreans during the Modernisation period (Byung-Nak Song, 1997) are manifestations of this tendency.

The Culturalist group is associated with the 'middleman minority' theory (Turner and Bonacich, 1980). Minority status is seen as a determinant of entrepreneurial activities. The migrants are only small groups, who have been banned from social and political roles in mainstream society because of their minority status. To compensate for this, most minority groups engage in entrepreneurial activities, which give them social recognition in the receiving society. The Chinese in Southeast Asia are a good example; ethnic Chinese are debarred from activities in politics and this compels them to seek opportunities in business (n’Doen et al., 1997). The business skills are then passed from one generation to the next, and because it is maintained within the community, it is regarded as ethnic capital (Turner and Bonacich, 1988).

n’Doen et al., (1997) offer a 'cultural block' theory regarding a cultural and religious practice that prevents some groups from engaging in entrepreneurial activities. The absence of local entrepreneurs (because of their cultural and religious practices) offers migrants opportunities in business activities. A shortage of local entrepreneurs is very common in many developing countries, since business activities are sometimes regarded as undignified, and those who engage in entrepreneurial activities are thought to be disgraceful. This becomes an opportunity when the migrants encounter such a community, and they enter this sector without having to worry about competition with local entrepreneurs. In the past, traditional Japanese society regarded business activities as a dishonourable job, and this attitude allowed the Chinese to successfully enter this sector. As a consequence, Indonesia had a shortage
of professionals after the nationalisation of Dutch companies in the late 1950's (n’Doen et al., 1997). To secure the policies of entrepreneurial formation, the government implemented a 'benteng' (fortress) programme to protect indigenous business (Robinson, 1986). This policy failed, as very few 'indigenous' entrepreneurs succeeded in business. Over time, the Chinese entrepreneurs eventually took over these businesses and made good profits (Robinson, 1986).

Another perspective, suggested by Dijst and Van Kempen (1991), emphasises the role of contextual conditions and offers different results in relation to entrepreneurial activities. In their view, economic, societal, and socio-spatial contexts affect migrants’ entrepreneurial drive. In other words, migrants respond differently to different socio-spatial conditions. Newly arrived migrants in regions with high job competition prefer self-employed activities in order to avoid conflict with local people. But in low-competition labour markets, the migrants may choose to work in a more attractive business than migrants with lower education and fewer skills, who are forced into entrepreneurial activities because they cannot meet the requirements set up by the businesses. Entrepreneurial activities usually do not require exceptional academic qualifications, but they do require experience in business activities. n’Doen et al. (1997) consider the labour market as the prime target of migration. They ignore the fact that there are migrants who initially move into entrepreneurial activities because of 'native' business acumen.

Besides the socio-spatial context, the prevailing political economic situation also has an impact on the business activities of ethnic entrepreneurs in developing countries. Dijst and Van Kampen (1999) point out that economic policy that relies on imported raw materials can hinder the development of small and medium industries. Small and medium industries employ many people, including migrants. The collapse of these industries will force migrants into entrepreneurial activities. This argument has often been used in the dependency theory, which blames the structure of the international arrangement as the major opposition to the domestic economy of developing nations (n’Doen et al, 1997; Waldinger, 1990).

In short, based on the Structuralist perspective, migrants are like a blank paper without any writing. In this situation, the choice for migrants lies only in entrepreneurial activities (Light, 1995). The Culturalist, on the other hand, believes
that the migrants bring with them an entrepreneurial skill from their home region. In other words, the paper brought by the migrants is full of marks. In their view, entrepreneurial skill has to be born in the individual migrant. It appears that the Structural approach has gained more support among researchers (Waldinger, 1990; Cole, 1959; Forbes, 1979; n’Doen et al, 1997). Structural factors are more obviously playing a role in entrepreneurial activities in developing countries.

4.7.3 Ethnic Entrepreneurs in Developing Countries

Okpara (1986) believes that, because of limited data from developing countries, it is not easy to conduct a study on ethnic entrepreneurs despite the fact that ethnic migration is a phenomenon found in most developing countries. There are a few explanations, one of which is based on the modernisation failure theory (Okpara, 1986:70). According to this theory, industrialisation processes in developing countries fail to provide jobs, hence migrants encounter a scarcity of employment. They therefore engage in entrepreneurial activities as a survival strategy.

Studies in developing countries demonstrate that the majority of migrants enter the informal sector (Rogerson, 1988; Forbes, 1979). This sector is regarded as a recepticle for those who fail to secure jobs in the formal sector, which is why the informal sector is regarded as marginal. Migrants from rural areas prefer the formal sector, since jobs there are considered to be prestigious, and they warrant a fixed income regardless of whether the work is long-term or short-term. Ethnic entrepreneurs characteristically belong in small and medium businesses which rely more on co-ethnic or family members for labour recruitment; they exercise control over a particular line of business; they have the tendency to live among fellow migrants; and contact with other groups is restricted to business activities (n’Doen et al, 1997:5).

Waldinger (1990) points out that it is common for the entrepreneurial 'class' in developing countries to be dominated by a few ethnic groups. Skills are passed from one generation to another or from fellow migrants to each other; the skills are restricted within the group, and in the future they become the property of the group, eventually becoming ethnic capital. All members are required to keep that secret as tightly as possible, and those who break that unspoken rule risk social exclusion. Skill transformations are made almost exclusively within the family and community. All
children in an entrepreneurial family are expected to assist their parents as they grow up, and are trained to run their own business well before reaching adulthood. Children’s involvement in family business can be seen as institutionalised training for future generations to develop required skills (Borjas, 1993).

The ties with the home region encourage the migrants to look for the opportunity to invite their kin-group to participate in the business (Boyd, 1989; Gurack and Cases, 1992; Hugo, 1981; n’Doen et al; 1997). The reason they invite fellow migrants is to protect a particular line and niche in the market. Since the niche becomes the centre for ethnic business at their point of destination, it quickly becomes saturated with fellow migrants. Earlier migrants become pioneers in a certain line of business, and subsequent generations follow the path of their predecessors until the entire niche is fully controlled. When it is fully controlled by a particular ethnic group, the niche becomes the symbol of that ethnic group. All enterprises within a niche boundary are ethnic enterprises. Each ethnic member is required to promote and maintain these ethnic enterprises. When the niche is totally saturated with migrants of a similar ethnic group, new migrants must build a new niche, which is usually not far from the product line of previous migrants. The whole process develops into an enclave economy in the receiving region (Okpara, 1986; nDoen et al, 1997; Waldinger, 1990).

4.7.4 Factors that Determine Entrepreneurial Migration

To understand the factors that influence entrepreneurial migration, n’Doen et al. (1997) have introduced the profit-seeking model, which is based on an integrated social-economic framework and which can be applied to the study of entrepreneurial migration in developing countries (See Figure 4.2). Migrants who engage in entrepreneurial activity consider such factors as market competition, market accessibility, niche concentration, capital accessibility, cultural hospitality, and support networks before deciding to move. These are factors related to locational characteristics, but there are also personal characteristics, such as education, age, entrepreneurial experience, and migration experience, which affect the intention to stay. All these factors are the underlying determinants, and the migration variable of interest, the 'intention to stay' in a particular region, refers to the number of years a migrant lives in a region. The decision to stay at a particular place is dependent upon migrants’ perceptions of the security of their entrepreneurial activities.
When a place offers very little security, the migrants will consider other potential locations (n’Doen et al., 1997).

The model is presented in the following figure.

According to n’Doen et al., ten factors constitute the model. The first factor that determines entrepreneurial migration is the ‘degree of competition’. Degree of competition refers to migrants’ perceptions of the ratio of entrepreneurs to consumers in a given product line. Competition may occur within or outside the product niche. Entrepreneurs typically avoid higher degrees of competition and choose markets with lower competition. When a market is saturated, the possibility of realising a profit is very low, and migrants therefore turn to other places to conduct their business activities. It could be expected that the relation between degree of competition and intention to stay is negative. In other words, the lower the degree of competition at a particular place, the higher the intention to stay (n’Doen et al., 1997).

A second factor to consider is ‘market accessibility’. Market accessibility refers to the migrants’ perceptions of the degree of access to the market or to consumers. The degree of accessibility is dependent on the prevailing local government regulation of access to strategic locations. As could be expected, a market with easy access is preferable to problematic access. In many instances, access to a particular location is
sealed off by earlier migrants as a strategy to maintain business security. The recent migrants are then forced to consider other markets. Market accessibility is positively related to the intention to stay. In other words, the higher the degree of access to a particular market, the higher the intention to stay (n’Doen et al., 1997).

The third entrepreneurial migration factor to consider is 'niche concentration'. Market niche refers to the line of product controlled by a particular group at the current location. The concentration is measured by the concentration of people from a particular ethnic group in a given product line. The more people from a particular group engage in selling a certain product, the stronger the concentration of the niche. A majority of migrant small and medium entrepreneurs are engaged in the distribution rather than the production sector. The variable niche concentration is thought to be positively related to intention to stay. In other words, the higher the degree of concentration of a certain product line in a particular market, the higher the intention to stay and the longer the length of stay.

The fourth factor determining entrepreneurial migration is 'capital accessibility'. Capital accessibility refers to migrants’ perceptions of the chances to acquire credit at the current destination. Access to credit institutions is essential for business expansion in the future. Access is different from one region to another because of different bureaucratic and social settings prevailing at the time. There are also places where access to credit is very costly because of corruption. The variable capital accessibility exerts a positive impact on the intention to stay. In other words, the higher the access to a capital institution, the higher the intention to stay at the current place, and the longer the length of stay (n’Doen et al., 1997).

The fifth factor determining entrepreneurial migration is 'cultural hostility'. Cultural hostility refers to the social response to migrants in a receiving society. Local hostility can be expressed in various forms, from a subtle response such as boycotting to harsh responses such as physical assault. Physical assault is very rare, but when it occurs, it is the expression of a long period of mounting frustration among the local people. The soft hostile response can occur in an everyday form of resistance such as the exclusion of migrants from social activities among the local societies (n’Doen et al., 1997).
A sixth factor to consider is 'support network'. This can be described as migrants’ relations with relatives, family, kin group, or friends in the receiving region. These people provide information or facilities during the process of settlement. Migrants who have family members or kin in a receiving region may reduce the probability of moving from the current place to somewhere else. Since the migrants prefer to stay close to other family members or kin group, the larger the concentration of family and kin in a particular place, the greater the likelihood that the new migrants will remain there. The variable support network has a positive impact on the length of stay in the receiving region (n’Doen et al., 1997).

The seventh factor to consider is 'education'. The effect of education depends on the transferability of skills acquired during school years (Hay, 1980; Robinson and Tomes, 1982). For instance, migrants with a commerce vocational background may have an enhanced ability to assess preferable locations and have less of a tendency to repeat migration. Less-educated migrants are more prone to repeat migrations than are the educated ones (Davanzo, 1983). Educated migrants prefer to remain at a certain place for a period of time before moving again. Education has a positive impact on the intention to stay. It is thought that the higher the level of education, the higher the propensity of the migrant to stay, and the longer he/she wants to stay in a particular region.

The eighth variable is 'age'. Migration research consistently demonstrates a strong correlation between age and migration (Miller, 1977). In other words, younger individuals are more likely to undergo repeat migrations if they discover that the current place is unsuitable for entrepreneurial activities. They are also more likely to travel and experience more of the world before settling in a particular destination. In addition, older migrants usually have family with them, which decreases the possibility of repeat migrations. Thus, the higher the age, the stronger the propensity to stay and the longer the length of stay (Miller, 1977).

The ninth factor is 'entrepreneurial experience'. Migrants with more experience demonstrate a better understanding of the type of location required for their businesses. Experienced migrants prefer to stay in a particular country and are compelled to leave only when extreme crises occur, such as ethnic disorder or riots. People with entrepreneurial experience are typically more aware of socio-economic
circumstances than those with less entrepreneurial experience. Those with greater experience are less likely to conduct a repeat migration, so they can reduce transportation costs. Entrepreneurial experience exerts a positive impact on the intention to stay. In other words, the more the experience in entrepreneurial activities, the stronger the intention to settle in a particular place, and the more the experience, the longer the length of stay in the receiving region (n’Doen et al., 1997).

The tenth variable is 'migration experience'. Migration experience refers to the frequency of moves before the migrants finally settle at the current location. The total number of trips made by migrants from one place to another after the age of 18 can be used as an indicator of migration experience. Migrants with multiple moves are expected to move more than those with less migration experience (Massey et al., 1993). People from families with migration experience may also be more likely to move than those from families with no migration experience. Migration experience has a negative impact on the intention to stay. In other words, the more the migration experience is drawn on, the lower the intention to settle in a particular place and the shorter the length of stay (n’Doen et al, Gorter and Nijkamp, 1995).

4.8 AN ANALYSIS OF MIGRATION AND ASSIMILATION

Mantzaris (2000) points out that the long and complex process of assimilation has as its starting point migration, which can be defined as the physical transition of an individual group from one society to another. According to Eisenstadt (1995), migration itself is accomplished, or can be seen to develop, through three basic stages:

- Motivation to migrate, which includes all the feelings that give rise to the urge for emigration from the old cultural environment, and the circumstances facilitating this motivation.
- The social structure of the migratory process, i.e. the general character of the migration, whether temporary or not, the kinds of immigrants involved, and so on.
- Absorption or non-absorption of the immigrant into the social and cultural framework of the new society.

Mantzaris (2000) argues that the basic fact of the migratory process, (i.e., the physical transplantation of individuals), creates a whole new process of chain reactions and
adjustments, which usually culminate in the assimilation of the immigrant into the
new host society. Migration, in general, necessitates social and economic adjustments
on the part of the community in which the immigrant originates, the one to which he
moves, and personal and social adjustments to the culture of the host society. It is
important to note that migration is a demographic process which calls for assimilation
(Vlachos, 1995).

In the examination of immigration to South Africa by several ethnic groups,
assimilation has been a concept related to the process of adjustment of the various
ethnic groups (e.g. Greeks, Italians, Germans, Nigerians, Kenyans, Chinese and
Dutch) to the new culture. This process of adjustment has been explained in different
ways by many researchers, who have tried more generally to describe and analyse the
philosophy and nature of human relations across the continent (Mantzaris, 2000;

Among the explanations offered towards understanding the assimilation effort of
migrants (the effort to adjust to the larger culture) was one proposed by Hofstede (et
al., 2001). They refer to the 'melting pot' concept, which exemplifies the belief that
foreigners will fuse with native stock with great rapidity, and that a new type of
composite will result. Mantzaris (2000) is an advocate of the ‘Africanisation' concept,
by advocating obliteration of any 'foreign' attitude and cultural trait. Mantzaris (2000)
regards the goal of assimilation as the complete adoption of the cultural patterns of an
African society. Opposed to the above concept, at the other end of the spectrum, are
proponents of 'ethnic federation', or 'cultural pluralism', or 'cultural democracy' based
on the right of each group to maintain its particular lifestyle without interference, and
which therefore describes assimilation as an accommodating scheme of mutual
toleration (Mantzaris, 2000). There have been many ways of proceeding in the
analysis of the assimilation process of the several ethnic groups. Three basic
questions, however, indicate the interest of the bulk of the literature on the subject:

• What is the meaning of assimilation, or what is the definition of the process of
  assimilation?
• What are the factors or variables involved in, or influencing, assimilation?
• How do we measure assimilation, or what indices can the researcher use as manifestations of a successful or unsuccessful assimilation of the culture into a larger society?

Park and Burgess (1935) define assimilation as 'a process of interpretation and fusion in which persons and groups acquire the memories, sentiments, and attitudes of other persons or groups, and by sharing their experiences and history, are incorporated with them in a common cultural life.' Park (1934) further mentions the phenomenon of 're-socialisation' in which the individual learns the new values, attitudes, roles and behavioural expectations of various kinds of larger society.

One other important element in the definition and analysis of assimilation is its gradual, or progressive character. Mantzaris (2000) prefers to view assimilation as 'a process of progressive adjustments whereby an immigrant little by little becomes adapted to the physical and socio-cultural environment of the country of his adoption'. The overlapping of concepts, especially between 'acculturation' and 'assimilation', becomes obvious in many of the above writings. Mantzaris (2000), who has made an intensive study of South African Greeks, states that:

'Acculturation comprehends those phenomena, which result when groups of individuals having different cultures come into continuous contact, with subsequent changes in the original patterns of either or both groups'.

Mantzaris (2000) adds that acculturation is to be distinguished from culture-change, of which it is but one aspect, and assimilation, which is at times a phase of acculturation. It is implied in the various discussions of the concept of assimilation that it is a process, and as a process, one of its first characteristics is its time dimension. There is thus a continual emphasis on the slow character of the process, the gradual acquaintance with the new culture, and at the same time the still slower discarding of the old cultural elements (Bernard, 1950; Roucek, 1957; Vlachos, 1995; Mantzaris, 2000;). Assimilation often takes a long time to be achieved; in some cases it may never be completed. There are many instances where, despite long periods of time, assimilation has been at a bare minimum, and where fusion of cultures would take very long time (Hofstede, 2001). According to Koliopolis and Verimis (2002), assimilation, as a process, can be seen as operating on the individual as well as on the
collective level. Such a distinction emphasises the additional difference in time span for assimilation between the particular individual and the total ethnic group. They also observe that the individual may become 'invisible' in all sorts of social contexts (e.g. work situation, church, cultural associations) but still retain contact with a group (ethnic club, language society), which may be visible as a group. Action and interaction may take place, but generally in the sense of 'visibility', group assimilation may be a much longer process than individual assimilation (Kolipolis and Verimis, 2002).

The various levels of analysis involved in the discussion of the concept of assimilation and the importance of the above distinctions in the literature can be illustrated by the theoretical schemes of some of the previous research. Among the useful theoretical schemes of the assimilation process is a three-fold distinction by Vlachos (1995), who examined the assimilation of the Greeks in America.

In Vlacho’s method a distinction is drawn between:

- **Economic** and **technical assimilation**, which is an outward adjustment and conformity to the general modes of living.
- **Cultural assimilation**, which includes new cultural traits, modification of the old, and psychological re-adjustment.
- What he calls **ethnic assimilation**, which he considers the ultimate test of assimilation and which he describes as a biological amalgamation, especially through intermarriage. To introduce the element of the progressive character of assimilation, Vlachos (1995) notes: 'The three-fold process of assimilation is rarely completed in the first generation. It requires at least three generations and is strengthened with the accumulation of successive generations.'

Kalipaulus and Verimis, (2002) propose a parallel three-stage assimilation process model consisting of:

- **External assimilation**, which is the deliberate and conscious adoption of more outward elements in the culture of the receiving group.
- **Internal assimilation**, which is a gradual process affected by closer contacts being made with South African life, and the immigrant beginning to appreciate the meanings of the cultural material appropriated; and
• **Creative assimilation** which occurs when the member of the ethnic group views the African culture in a more objective and rational manner than one who is racially-minded (Mantzaris, 2000).

Hofstede (2001) offers an alternative exhaustive list of interacting factors that must be taken into account in order to understand the process of assimilation. He refers to the attitude of the dominant host group, attitudes of the minority group, cultural kinship, race, relative number of groups involved in the contract situation, rate of entrance of the minority group, manner of settlement (whether urban or rural, and the extent of isolation), the age and gender composition of the group, and the influence of certain personalities either in opposing or encouraging assimilation. Mantzaris (2000) also discusses the elements affecting the nature and extent of the group’s assimilation, such as tradition, visibility, real or imagined competition, cultural components of the immigrants, and the social pliability of immigrants (Mantzaris, 2000). Other researchers have offered similar classifications of factors or variables involved in the process of assimilation, such as cultural kinship, language, religion, home life, flow of immigrants, legal obstacles, age opportunities, segregation, and so on. All these factors involved in, or influencing, assimilation involve a multiplicity of manifestations of social and cultural participation (Berrie, 1951; Vlachos, 1995; and Hofstede, 2001 Kolipolis; and Verimis, 2002).

Kolipoulis and Verimis, (2002) who, as stated above, distinguished three stages of the assimilation process, offer some indices that can be used to assess the success of assimilation. Their indicators are particularly suitable to the second generation, such as:

- Change in externals, i.e., personal appearance, food habits;
- Change of names;
- Occupational adjustment, i.e., moving away from the parental occupational specialisation, increasing white-collar jobs;
- Marriage, i.e., postponement or avoidance of marriage and therefore greater independence;
- Intermarriage;
- The birth rate and decreasing fertility;
- Racial gestures, or fewer gesticulations;
• Crime patterns, which denote the crossing of ethnic lines in delinquent acts and not 'idiosyncratic' ethnic crimes (Koliopoulos and Verimis, 2002).

Mantzaris (2000) proposes the following list of successful assimilation:
• Economic integration, i.e., jobs in factories, participation in unions, and increasing class and economic status;
• Education, especially knowledge of English and more generally exposure to South African values through school;
• Political activity and identification with African ideology;
• Recreation, i.e., mass participation, influence of movies, entertainment, and mass culture;
• Above all, intermarriage, which transcends ethnic, religious, and racial boundaries (Mantzaris, 2000).

There appears to be at least some convergence among the various authors on assimilation, which can be summarised as follows:
• Despite the definitional subtitles, there is more or less agreement that assimilation is a process of adjustment to the cultural elements of a surrounding larger group.
• Assimilation, being a process, involves a time dimension and therefore gradual acquaintance with the new culture in successive generations.
• There is recognition of individual and group assimilation.
• There is recognition of an underlying distinction between assimilation as denoting the position in the social order and as expressing the internalisation of values and cultural standards of a larger society.
• In the various theoretical approaches, there are common elements with regard to the factors or variables involved in the process of assimilation. These common elements tend to emphasise:
  ▪ The predisposition and cultural background of the immigrant;
  ▪ The structure of the migratory process; and
  ▪ The predisposition of the receiving society and the socio-cultural structure of the receiving area.
• The measurement of assimilation involves certain indices of participation in the South African culture. These indices refer mostly to occupational or
economic status, marriage, education, citizenship, English-language competence, and so on.

This study is based on the contemporary literature on migration and assimilation as applicable to the South African Greeks in South Africa. Generally speaking, the South Africans of Greek extraction have not been the focus of many business-related research studies.

4.9 SUMMARY

Brockhaus, (2003) asks the question: 'Why do entrepreneurs need a theory of entrepreneurship?' His succinct answer is: 'Because it enables its user to be efficient.' According to Brockhaus (2003), 'efficiency' for the entrepreneur, means recognising what kind of information is helpful and knowing where it can be obtained. The efficient entrepreneur uses the theory to translate raw data into usable information and to process the data into categories and variables. A good theory indicates to the user how things and events are related – which are likely to be external causes and independent, and which are likely to be internal results and controllable. A good theory also tells entrepreneurs the probable direction of causality. Therefore, an entrepreneur with a good theory of how entrepreneurship works is practical and efficient. This is crucial because entrepreneurship can be expensive. Real-time failures cost money and the irreplaceable time of many people, as well as their hopes and reputations (Brockhaus, 2003).

This chapter dealt with the migration of entrepreneurs to developing countries. Studies on migration primarily focus on labour migration, in which economic factors have become the most important inducements to migrate. This is only a part of the migration process in many developing countries. Another significant consideration of the migration process is the existence of entrepreneurial migrants in these countries. These migrants are characterised by their motivation to engage in business activities, particularly in trading activities. This chapter has also focused on entrepreneurial migrants, for whom the emphasis is on both economic and socio-cultural factors. Socio-cultural factors play an important role in migration decisions because of the social and political events which often occur in developing countries, and which reflect unstable social and political circumstances in such countries. Two approaches,
the Structural approach and the Cultural approach, were used as a starting point to examine entrepreneurship migration. The Structural approach emphasises structures of opportunity upon arriving at a receiving region, and the Cultural approach emphasises birthright to business.

Immigrant entrepreneurs use resources and take risks in the same way non-immigrant entrepreneurs do. Their access to resources can, however, in some cases be different. They can respond to this access problem by finding or creating alternative resources or by shifting the balance between resources. Some of the resources can be labelled 'ethnic', because they are available to the members of a certain group only.

Here the argument is advanced that 'ethnic' resources must mainly be seen as a form of social capital. Like all social capital, they increase in value when used. If and how they are used and for how long they can be used depends on the opportunity structure that migrants encounter. Use of ethnic resources and restricted access to non-ethnic resources create characteristics that are specific to immigrant entrepreneurs, niche formation, high rates of self-employment, and enclave business activities.

The literature shows that demands (for skill, a specialised regionally-based product, or cheap, seasonal and flexible labour) can encourage niche formation, but this is not necessarily a sufficient condition for success. Niches only develop on this condition if the demand is large-scale and continuous. Short-lived or limited-scale demand does not lead to niche formation. A link can be made to the nature of the migration process. The niche is enforced by the arrival of new immigrants from the same background. As long as the niche is able to accommodate these newcomers, the niche and the group involved in it will continue to exist and grow. If migration stops, because demand disappears or opportunities in the sending society change, the niche will disappear or will be diluted until it is no longer recognisable. Niches develop gradually. Only at a certain point, after an initial phase, will immigrant activity in a sector develop into niche formation. At this point, people from the sending society start to move towards the niche, thus shaping both the niche and the group involved in it. Because of this, group formation and niche formation are interrelated processes.

The next chapter will explore how brands, product attributes and customer relationships have an effect on SMEs.
CHAPTER 5

BRANDS, PRODUCT ATTRIBUTES AND CUSTOMER RELATIONSHIPS

5.1 INTRODUCTION

What is a 'brand'? The word 'brand' is so familiar that it is commonly heard on the lips of consumers and written about in the press. Yet it is only relatively recently that people have become aware that there is a critical difference between a product and a brand (Rubenstein, 1996:269).

The world economic interest in brands is a recent phenomenon. Indeed, some would argue that for a long time now advertising agencies and marketing managers have been doing their best to convince others that brands are a company’s most precious asset. However, even though the argument seemed plausible, most people did not believe it (Kapferer, 1997:21). A brand is a name, term, sign, symbol, or design, or combination of them which is intended to identify the goods and services of one seller or group of sellers, and to differentiate them from their competitors. A brand conveys a specific set of features, benefits, quality, service to buyers, value and product satisfaction (Kotler, 1996:556). A unique set of brand associations represent what the brand stands for and imply a promise to customers from the organisation members. 'Brand identity' establishes a relationship between the brand and a customer by generating a value proposition involving functional, emotional, and self-expression benefits (Aaker, 1992:38-39). It is these esoteric features that give the brand its value, both in rational, economic terms to the company, and in emotional terms to the customer. For a more concise definition of this concept, Tim Ambler (2000) of the London Business School proposes:

'A brand is the promise of the bundle of attributes that someone buys and that provides emotional satisfaction. The attributes may be tangible or invisible, rational or emotional.'
The brand covers the entire consumer experience and includes all the assets critical to delivering and communication that experience – the product name, the advertising, the product or service and in many cases, the distribution channel (Leventhal, 1996:17).

5.1.1 Products, Augmented Products and Brands

Rubenstein (1996:270) and others have observed relatively recently that many people are unaware of the critical difference between simple products and brands. People spend their money not for goods and services, but to get the value satisfactions they believe are bestowed by what they are buying (Levitt, 1969:5). Buyers do not buy quarter-inch drills; they buy quarter-inch holes (Levitt, 1960). Furthermore, competition is not between products but between value satisfactions such as packaging, services, advertising, customer advice, financing, delivery arrangements, warehousing and other things that people value (Levitt, 1969:5). These additional features augment the ‘Core Product’, adding value to the product in the process.value which provides benefits, and for which the customer will be willing to pay extra.

5.1.2 The Augmented Product

What Levitt, (1969:10) was introducing, without mentioning either term, was the concept of brands and the competitive advantage they can offer a company. Augmented products have in common a single attribute; they contain features that produce results and provide a competitive edge.

Christopher (1995) quotes Stephen King, echoing Levitt’s observation of branding as a source of differentiation and hence competitive advantage:

'A product is something that is made in a factory; a brand is something that is bought by a consumer. A product can be copied, but a successful brand is unique and, particularly in mature markets, is a key discriminator in the market place.'
Figure 5.1 below shows how this augmented product is built:

![Figure 5.1 The Augmented Product](image)

**Augmented product**
Includes additional consumer services and benefits.

**Actual Product**
Includes product characteristics.

**Core Product**
What the buyer is really buying: the problem-solving service or core benefit that the consumer seeks when they buy the product.

The differences between a brand and a product is summarised in Table 5.1 below:

<table>
<thead>
<tr>
<th>TABLE 5.1 Differences between a brand and a product</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Product</strong></td>
</tr>
<tr>
<td>Defined by its form and function, what it is and what it does.</td>
</tr>
<tr>
<td>Physical attributes, e.g. formulation, performance, price, ease of use, design and style.</td>
</tr>
<tr>
<td>Relatively easily communicated,</td>
</tr>
<tr>
<td>Rapidly changed and effected in the short term using a number of tools: adding a new ingredient or changing packing gives a new or different product.</td>
</tr>
</tbody>
</table>

5.1.3 Brand Covenant

The brand conveys a specific set of features, benefits and services to buyers, when a customer purchases a branded product or uses a branded service, he/she enters into a relationship with the purveyor of the brand – a ‘Brand Covenant’. The message delivered to the buyer depends on the brand and, of course, on the buyer, for though the form and function of the product may not change, the way in which the brand covenant is perceived may be as unique as the character of the individual. In general, however, a brand can deliver a range of meanings. Kotler and Levy (1969) describe four levels of meaning; these are reflected in Figure 5.2 below:

The strength of brands comes from their ability to mean many things to many people. Any one of the different brand meanings above may be sufficient to tempt a customer to make a purchase, but usually, especially in stronger brands, all of the meanings shown are used together.
5.1.4 Old Versus New School of Thought

The emphasis on the benefits the brand offers appears to bemuse proponents of older marketing methods. Advertisements are just trying to convey a sensory impression of the brands that are out there and to ensure that the market place is fully understood. It is a way of communicating a different type of information, today’s feeling of what the world is like, and if one identifies with that feeling, perhaps one can identify with the advertised brand. The product is no longer just what is between the bumpers – anybody can copy that. ‘The brand is the only thing that is truly unique any more.’ (Levine, 1996).

Despite all the talk of benefits, added value and the competition advantage offered by brands, it should be noted that in the recent past, there was some speculation as to whether brands were 'dead'.

5.1.5 The Perception that Brands are Waning

'The reports of my death are greatly exaggerated,' said Mark Twain (1897). Academics and managers have asked whether the days are gone when companies would invest large amounts of mainly advertising revenue into promoting products to customers while the same customers were beginning to turn their backs on brands and instead buying goods on price. (The Economist, 1994).

However, for the last 50 years, nationally advertised manufacturers' brands have dominated the market. These brands took advantage of low consumer confidence and relatively high channel power, benefited from economies of scale in mass production technology, and used the advent of television as the dominant advertising medium. In this way they developed distinctive value for consumers and built consumer loyalty as reflected in Figure 5.5. In turn, this allowed marketers to capture high price premiums from consumers and achieve strong bargaining positions with retailers (Leventhal, 1996). However, this branding concept existed before companies became focused on the consumer, on the benefits offered, and on the modes of advertising used.
Nevertheless, with this new focus, brands remain vital to the strength of the company as reflected in Figure 5.6. Branding strategies will continue to be the cornerstone of marketing, and marketers focusing on gaining a share of the market surplus will continue to need brands. They will succeed based on their ability to build brands and, as before, their goal will be to develop a sustainable relationship with a consumer as reflected in Figure 5.8. But whereas the 1950s brander faced homogeneous demand, fewer media, and a minimum number of distribution channels, today’s branders face fragmented demand, multiple media, and proliferating distribution channels all creating new challenges as reflected in Figure 5.8 (Leventhal, 1996).

This new marketing scene makes it difficult for companies to build and capitalise on the market surplus. However, branding can be one of a marketer’s most powerful tools for achieving this objective. Brands help build a relationship with a consumer which creates a surplus. Moreover, branding provides the platform for a continuing stream of transactions. Ownership of brand is not enough to justify the creation of a relationship with consumers. Companies need the competitive 'right to brand', to be the best-placed in the industry, with a distinctive brand to approach consumers, gain their trust, and build the relationship as reflected in Figure 5.9. The right to brand will tend to go to the company that, other things being equal, differentiates its value, controls the core assets to deliver the value, and owns the consumer relationship in the most efficient way (refer to Figure 5.2) (Leventhal, 1996).

It is impossible to sell a product or service if the consumer does not know about it. Branding is about building sustainable relationships with consumers, and the company that is closest to the consumer is often best placed to do that. The brand-customer relationship is central to the existence of the brand.
5.1.6 The Mechanism of Branding

The mechanism of branding is a continuous cyclical process in which the company feeds in raw materials, the customer reacts to and processes these into attitudes and images, resulting in memories of the brand which are stored in a 'mental inventory' later used to assist in future purchase decisions.

5.1.7 The Impact of Brands on Consumers

Using a similar analogy to Davidson’s 'Mental Inventory' (1987:294), the cumulative memory resides in the minds of buyers. The brand is the buyer's memory of the product, where it becomes both a historical memory and the future of its associated product. The customer’s long-term perception of the brand is affected in the same way as with an introduction between people; first impressions (Customer Reaction) count. They leave the deepest impression and thereby structure future decisions. Customer
loyalty is created by respecting the brand features that initially seduced the buyers as reflected in Figure 5.7 (Kapferer, 1997:52).

As Leventhal (1996) points out, brands are one of the marketer’s most powerful tools in the creation of market share. The next section deals with the benefits of the brand to the company, the consumer and to other stakeholders in the process.

5.2 BENEFITS OF BRANDS

In general terms, brands offer benefits to three groups of stakeholders:

- The Company
- The Consumer
- The Distributor

This research primarily deals with first two of these. It should, however, be noted that many benefits to the company and the consumer might also be benefits to the distributor. For example, the development of a brand image is a marketing tool which, at no additional cost to the retailer, helps sales, thereby increasing profitability. The development of a brand/consumer relationship helps develop a long-term purchase pattern, again helping profitability. There can, of course also be negative effects, for example the premium price of brands can have a detrimental effect on profitability if the retailer feels unable to pass on the full effect of this high price to the consumer (for example, as occasionally occurs in the student market).

5.2.1 Benefits to the Company

This section deals with the ways in which the company benefits from the power of the brand. It starts with a discussion of how the company uses the brand as part of its strategic processes to add value. The value added to the company by the brand is then explored further through the concept of Brand Equity.
5.2.2 Defining Brand Strategy

One of the major benefits of brands is that the brand’s power can be harnessed through Brand Strategy to add value. The following are a number of major advantages of brands (Crainer, 1995):

- **Brands increase customer loyalty** – Customers can develop strong affiliations to a particular brand. Companies understand this and endeavour to build long term ‘brand relationships’ with customers to encourage long-term brand loyalty. Providing the company keeps providing the benefits the consumer perceives as being peculiar to that brand, the customer will stay loyal.

- Brands provide a source of differentiation and competitive advantage – Brands are a source of differentiation and hence competitive advantage. A successful brand is unique and, particularly in mature markets, is a key discriminator in the marketplace (King, 1995). Porter identified three winning competitive positioning strategies:
  - Overall Cost Leadership: become the lowest cost in a given market.
  - Differentiation: offer extra or special benefits to become class leader, and consequently charge a premium price.
  - Focus: achieve dominance in a niche market rather than chasing the whole market.

Brands offer a flexible means of differentiating products and services that may in many ways be identical.

- **Brands affect pricing decisions** – Research carried out by the City University Business School (1998) showed that consumers pay more attention to brand names than prices when they are doing their weekly shopping. This is partly explained by pricing of products being displayed on shelves and not on individual goods, made possible by an effective pricing system. Hence, price comparison becomes more time-consuming resulting in the brand’s presence coming to the fore. In these circumstances, brands with strong brand equity will attain dominance. However, consumers are prepared to pay high prices for other reasons. In particular, many consumers believe brands add value, as
they are a reassurance of quality. This allows the company to charge a premium price, literally adding brand value. This should not be surprising, for pricing is where brands meet reality. The real power of brands is charging one's own prices which makes one's business profitable, when consumers are more interested in the brand than the price (Crainer, 1995).

- **Brands drive markets** – The strength of brands enables them both to invent and transform markets. Consequently, overall company strategy will have a big impact. There are four areas where strategic decisions are necessary: branding options, new brands, brand extensions, and line extensions (Kotler and Armstrong, 2000).

- **Branding options** – Figure 5.4 below shows some of the options open to companies.

![FIGURE 5.4 Branding Options](image)

- **Corporate Brand**
  The company name is the dominant brand identity across all products e.g. Mercedes-Benz, Heinz

- **Multibrand**
  Companies use individual brand identities for each product e.g. Mars confectionery, Unilever detergents

- **Company & Individual Brand**
  The company uses both corporate and individual brand names e.g. Kelloggs, Cadburys.

- **Range Branding**
  Some companies use separate range names for different product families e.g. Matsushita has Technics and National Panasonic

*SOURCE: Kotler (2000)*
A new brand may be created for a number of reasons, such as the following:

- Companies adopting the multibrand approach create new brands to differentiate the product.
- Companies may wish to enter a new product category.
- Advances in technology that benefit the competition may force change; for example, Swatch transformed the ailing Swiss watch industry during the 1970s, moving from 15% market share to over 50% by 1995 (Kotler, 2000).

For a new brand to succeed, extremely hard work must be done. It must be differentiated and backed by appropriate and well-financed marketing campaigns.

- **Brand Extensions** – Within an established marketplace, a successful brand may use its power to launch a new or modified product in a new category. For example, Honda has extended its brand into cars, motorcycles and lawnmowers. However, a poorly thought-out brand extension is unlikely to succeed and can damage the parent brand.

- **Line Extensions** – These occur when additional items are introduced with the same brand name in a given category. Most new-product activity that takes place is of this nature. The findings of a 1991 study showed that, of 6,125 new products sold, 89% were line extensions, 5% were new brand names, and 6% brand extensions (Kotler and Armstrong, 2000). Although a popular source of new business, this strategy may weaken the overall power of the brand and may cause cannibalisation of an existing brand.

- **Brands can defy the Product Life Cycle** – While companies may come and go, some brands appear to have amazing powers of longevity, if not immortality. Between 1985 and 1990, 143 companies fell out of the Fortune 500 rankings, but a number of famous brands have defied the test of time. They include Kellogg’s Corn Flakes, Heinz Tomato Soup and Johnson’s Baby Lotion.
• **Brand Repositioning** – While some brands ‘live forever’, other brands have successfully rejuvenated themselves. Foremost amongst their number is Lucozade, which successfully moved from a drink for those recovering from illness to the U.K.’s biggest-selling energy drink. Once again, without careful planning, such a strategy could result in expensive failure.

### 5.2.3 Brand Equity

While there are many brands, there is a large difference in the power and value that these brands have in the marketplace, from the largely unknown brands through to brands with moderately high consumer brand-awareness to those that enjoy brand preference, where they are selected over others. Those in the latter category are said to have high ‘Brand Equity’. Brand Equity is a set of brand assets and liabilities linked to a brand, its name and symbol, that adds to or subtracts from the value provided by a product or service to a firm and/or to that firm’s customers (Aaker, 1991).
As Brand Equity is a statement of value, it can have a significant effect on a number of factors, including:

- The potential selling price of the parent company;
- The absolute revenue generated;
- The profit it can generate;
- Its comparative retail price compared to the competition; and
- The degree of promotion required in the brand’s category.

Brand Equity is divided into two areas:

**Brand valuation** – Those factors with a direct financial bearing on the brand, its company and its financial stakeholders.

**Brand identity** – Those factors that reach out to offer benefits to consumers.

One area regularly causes confusion: the distinction between brand equity and brand identity. The brand’s identity is part of brand equity, and deals specifically with how its consumers perceive a brand. It is the responsibility of all in the parent company to increase brand equity, and one of the key ways to do this is to influence customers by strengthening brand identity.
Brand equity is a statement of value and should be measurable, allowing comparability between similar brands and assessment of brand value. However, measurement is difficult, and consequently brand value is seldom listed as an asset on company balance sheets. However, companies still pay handsomely for it, for instance Nestle who paid 2.5 billion for Rowntree, six times its reported asset value (Kotler and Armstrong, 2000).

Conducting such an analysis was difficult as it involved ‘dozens of measures, however, the ability to set objectives and measure results is the hallmark of successful managers. Such basics are extremely difficult for intangible assets such as brands, information technology, and people.’ (Aaker, 1996). The value placed on brands must be managed carefully to preserve brand equity. Strategies must be developed that maintain or improve Brand Equity. The fact is that in the eyes of some analysts brands are the most enduring asset of a company, outlasting the company's products. Yet behind every powerful brand stands a set of loyal customers. The basic asset underlying brand equity is customer equity (Kotler, 1994:558).
5.2.5 Benefits to the Customer

Customer relationships will be recognised by managers as the key strategic resource of any business, because without customers, strategy does not really matter. Competitive realities are what one tests strategies against; one defines them in terms of customers; strategy takes shape in the determination to create value for customers (Ohmae, 1988). Brands offer a way of adding value for customers, providing a strategic tool that can be used to provide a source of competitive advantage. Central to this is the brand’s relationship with the customer. Brands do not create wealth; customers do. When managers strive to grow customer equity rather than a brand’s sales or profit, they put the customer and the quality of customer relationships at the forefront of their strategic thinking. Product sales, brand strength and short-term financial performance are mere secondary indicators of success (Blattberg and Deighton 1996).

The strength underlying Brand Equity is Customer Equity. Customer-based brand equity is the differential effect of brand knowledge on consumer response to the marketing of the brand (Keller, 1993). Customer-based brand equity occurs when a consumer is aware of the brand and holds some favourable, strong and unique brand associations as a memory. The differential effects of brands depend on whether consumers react more or less favourably to the brand’s marketing mix compared to that for a similar, though unnamed, product or service. Favourable response and consequent positive customer-based brand equity can lead to enhanced revenue, lower costs and greater profits (Keller, 1993).

5.2.6 Building Branding Relationships with Consumers

Given the importance of the customer in building brand equity, it is vital for the brand to build long-term ‘relationships’ between the brand and the consumer. Levitt (1983) described the brand as a personality, and marketing as a way of managing a brand’s relationships with consumers – relationship marketing – has emerged as a way of understanding this vital function. In a great and increasing proportion of transactions, the relationship actually intensifies subsequent to the sale (Levitt, 1983). In other words, the end of the process is not the transaction. The sale marks the beginning of the brand’s relationship with its user.
5.2.7 The Relational Paradigm

Relationship marketing – managing a network of relationships between a brand and its various customers – is a way of understanding marketing itself. Marketers are now less concerned with making individual sales than with maintaining long-term customer contact. The new network of co-operative relationships is in contrast with the traditional, neo-classical paradigm and the conflict (results-orientated) paradigm. None of these is wrong; they supplement each other (Goodman, 1998).

5.2.8 Customer Loyalty

In order to sustain the relationship between brand and customer, customers should be willing to make repeat purchases of the brand; they must be loyal. Customer loyalty is created by respecting the brand features that initially seduced the buyers. In order to build customer loyalty and capitalise on it, brands must stray true to themselves (Kapferer, 1997:53).

In today’s uncertain world, brands may even provide an element of continuity in the lives of customers (Langer, 1997).
5.2.9 The Bond between Brands and Consumer

What makes a long-term brand relationship which remains strong and healthy? The answer to this question could help managers avoid poor relationships and offer advantages in their marketing activities. Research has uncovered seven essential attributes of good brand relationships. Their presence results in high-quality, enduring bonds. Together, they make overall brand-relationship quality, which can help marketing managers segment markets, pinpoint competitive strengths and weaknesses, bring new life to advertising campaigns, and diagnose product failures (Fournier, 1998). Fournier’s seven attributes of brand-relationship quality are shown in the diagram below.

A holistic understanding of the relationship that consumers have with a brand can give direction to a company’s marketing activities and result in a stronger bond between consumer and brand (Fournier, 1998). Any company wishing to strengthen brand equity should aim to gain and reinforce customer loyalty and build relationships with consumers. Before departing from the discussion related to consumer/brand relationship, there is one further topic that is worthy of investigation – Consumer Self-image. A large part of the power of brands stems from their ability to create a perception that stimulates the imagination of potential consumers. As part of the
marketing process, marketers strive to create a brand image that is similar to the ‘self-image’ of the target consumers, that is, a concept based on who they think they are, and who they think they would like to be.

5.3 CONSUMER SELF-IMAGE

Self-Concept is described as a set of knowledge and beliefs about one’s self that are stored in memory. As such, it can be activated and recalled to influence purchase decisions (Graeff, 1996). This self-concept can be used to influence attitudes and purchase decisions. The 'Image Congruence Hypothesis' states that consumers should have favourable attitudes and purchase intentions toward brands perceived to be congruent with their self-image, and relatively less favourable attitudes toward brands perceived to be incongruent with their self-image.

5.4 BRANDS – A STRATEGIC MARKETING PERSPECTIVE

With an understanding of the concept of brands and Brand Equity, it is possible to look in more detail at the strategic marketing perspective of branding. Strategic marketing is concerned with devising ways in which a company, capitalising on its distinctive strengths, can differentiate itself from its competitors, thereby creating a sustainable competitive advantage in order to deliver better value to its customers in a particular environmental setting (DUBS Course notes, 1998). This definition highlights the key to this issue; companies seek and exploit sources of differentiation to give them an advantage that gives added value to stakeholders in the company. The term 'stakeholders' is used in this case because the main reason that companies enter the market is to make money. While the vital importance of delivering added value to customers must never be overlooked, it is merely the best way to ensure that the money-making process is optimised and sustainable over the long term.
It is important to maintain, strengthen and sustain this flowing relationship. This can be done by harnessing the power of the brand through brand strategy. It should be remembered that it is expensive to establish, develop, strengthen and sustain a brand over a long period. So the brand must be able to supply greater returns than the costs it incurs. However, it should also be remembered that such a cost-and-benefit analysis should be taken over a period of time in the life of the brand, as the costs of establishing it will almost certainly outweigh the financial benefits in the short term.

There can be no argument that brands add value to stakeholders; the consumer obtains the promised and expected benefits, the company gets loyal customers who make repeat purchases and maintain a healthy revenue stream, and shareholders receive a good return on their investment (Graeff, 1996).

5.5 THREATS TO BRANDS

One of the biggest causes of threats to brands is the growth in power and influence of the big supermarket chains and the rise of generic products. This applies more particularly to 'Own label' products.
5.5.1        Generic Products

Generic products originated in the 1970s, catching many companies unaware. Generics are simple, 'no-frills' versions of products, often of a utilitarian nature, such as paper towels, cat food and sugar. By using cheaper materials for packaging and limited advertising, they can be up to 40% cheaper than their branded counterparts and hence are attractive to certain consumer sectors. However, because brands emphasise brand image and quality, and invest in marketing, the market share of generics peaked in the early eighties and has declined steadily since then (Graeff, 1996).

5.5.2        'Own Label' Products

'Own Label' products pose a more significant long-term threat to brands. Every day we see that private brands are strictly imitative. In fact, imitation is endemic, innovation is scarce (Levitt, 1966). The eighties have sometimes been called the 'decade of the brand' and Leventhal’s (1996) article is a result of the growth in strength and influence of the multiples and their efforts to compete with existing brands. Research by consultants, (McKinsey, 1991), showed a 30% penetration of the U.K. market by ‘Own label’ grocery products. The report concluded that this was largely due to the market share of supermarket chains like Tesco, Sainsbury, and Safeways. Prior to 1990, years of dominance by companies such as Heinz and Kelloggs had led to premium-priced brands sold through supermarkets that previously only acted as the conduit for these brands. Such had been the success of brands that many so-called 'pseudo-brands' attempted to capitalise on this situation. However, neither consumers nor the multiples were to be fooled. Pseudo brands are not brands; they are manufacturers' labels. They are 'me-toos' and have poor positioning, poor quality and poor support. Such manufacturers no longer understand the consumer, and see retailers solely as a channel for distribution (Director of Marketing-Tesco, 1992).

Manufacturers need to stop complaining about copy-cat products and see the opportunity, not the threat (Curtis, 1996). Brands need to protect themselves to ensure they can survive after launch, by creating a barrier to entry by investing in a custom-made production system. In this way, the costs to mass-produce a convincingly similar product are too high for all but the most committed competitor. Probably the
most powerful tool to protecting the brand against the opposition comes from using the power of the brand -- building on the emotional qualities of a brand and consistently reflecting it in all forms of marketing communication. An added bonus of reinforcing the emotional qualities of the brand is that ‘Own label’ products operate on a largely functional basis. 'Own label is rational; there is no heart involved. Brands must concentrate on emotion and win the heart of the consumer – otherwise they will die,' says David Rosen, managing director of Brand Vision (Curtis, 1996). The traditional market leaders have successfully stayed ahead through innovation and single-minded marketing. For them, the secret of success lies not in the product’s name, but in the benefits it delivers to target customers. (Kotler and Armstrong, 1994).

5.6     BRAND MANAGEMENT STRUCTURE

Just as the brand may be considered to have a personality, it may also be considered to be a vibrant entity that may as easily die as it grows in strength. Without active management, the brand will not be a source of competitive advantage and may even become a drain on the resources of the company.

5.6.1 Past Brand Management

In the past, brands were seen very much as a product with a name. The Brand Manager, sometimes called the Product Manager, should be a judicious blend of the theorist and the practitioner, and certainly very much an all-rounder. The person must study the market and the product, forecast the sales and recommend the price; plan and co-ordinate the advertising and sales promotional programmes which make up the bulk of brand expenditure. In short, this person is responsible for the overall health and profitability of the brand over a sustained period of time (Medcalf, 1967:13)

Ever since the 1950s, when they were developed by American manufacturers of fast-moving consumer goods (FMCG), marketing departments have revolved around brand managers. Companies such as Proctor and Gamble developed brands that divided markets into ever-narrower segments. Each brand manager was responsible for a single brand in a single country, handling matters such as advertising and packaging. A separate sales department was responsible for getting products on to
retailers' shelves (The Economist, 1994). Unfortunately, while this form of brand management may have managed the brand as a physical product, it did little to add value for the customer. Research by Hankinson and Cowking (1997) found that in most companies, little had changed. They found that in general, brand managers were relatively young, inexperienced managers with little actual control over the strategic planning process of the brand. They quoted Business Week in 1991 as describing brand managers as 'Murderers of Brand Assets'.

5.6.2 Challenging the Classical Brand Management Model

Despite the strength and potential of brands, many companies remain apprehensive over the long-term future of brands.

Figure 5.8 summarises the six major challenges which brands must overcome.

**Challenge 1 – Brands cannot sustain a price premium:** De Chernatony (1997) concluded that consumers will only be prepared to pay price premiums if the brand is built on consumer-relevant added value.

**Challenge 2 – Brands are failing as retailers become more powerful:** Although retailers are able to put brands under pressure, it is unlikely that retailers' brands will
replace manufacturers brands', providing brands are innovative, based on understanding of consumer behaviour and developed as part of a long-term strategy with a strong brand image.

**Challenge 3 – Brands can no longer innovate; they proliferate:** Proliferation through brand extension has many advantages, but can have a negative effect through dilution of the brand’s core values. De Chernatony (1997) concluded that successful companies will adopt strong, innovative brands unfettered by ill-conceived extensions.

**Challenge 4 – Advertising’s importance in branding is declining:** With the plethora of advertising media and modes of communication, consumers are in danger of information overload. The new branding mode will be based on coherent, well-integrated, well-balanced communication programmes.

**Challenge 5 – Brands no longer represent added value:** As consumers need change, so the added value that is offered must change. De Chernatony (1997) suggests increasing the knowledge density of brands. This provides consumers with greater individualism and allows the business to concentrate on their core competencies.

**Challenge 6 – The traditional brand management structure is failing:** The traditional brand management structure focuses on management of the brand and its functional activities, not on the customer. The result is little integration of the management process throughout the company hierarchy, from top to bottom. The reason for this situation is that in the classical brand management approach, the business of branding begins after the product is launched, at marketing communications level. Branding is too important to be left to the marketing department alone (Rubenstein, 1996:270).

5.6.3 **Brand Marketing is a ‘Whole Company’ Responsibility**

In many organisations, different parts of the organisation have a different understanding of the brand, with the result that, with inadequate brand management, consumers become confused about what the brand stands for, and are more open to
the promises of competing brands or private labels (Rubenstein, 1996:271). In order to achieve a thorough, multi-lateral understanding of the brand, everybody in the organisation should be able to explain the brand, both internally and externally. It should be clear:

- What the brand stands for;
- How competitive the brand is in relation to its category;
- What its role is in the portfolio; and
- How well the brand is understood.

5.6.4 A New Mode of Brand Management

In response to these challenges, De Chernatony (1997) proposes a new branding mode characterised by the following methods:

- Continuous fine tuning of added values to better meet customer needs helping to justify price premiums;
- Becoming part of 'partnership programmes', jointly developing brand strategy;
- Persuading customers to change on a large scale, through continuous innovation. Exercising caution about extending the core brand;
- Using advertising positively to build brand equity. Using IT wherever possible in interactive advertisements;
- Emphasising active rather than passive added values to consumers;
- Restructuring marketing departments with brands managed by senior cross-functional teams, and the CEO taking greater responsibility for integrating company-wide activities.

5.6.5 Brand Management Begins at the Top

Hankinson and Cowking (1997) make recommendations that place emphasis on the last of the above proposals:

- Improving teamwork in brand management with greater cross-functionality;
- Improving cohesion between the various levels of brand management;
• Changing organisational structures rapidly to meet new challenges;
• Applying formal training processes at all levels to ensure common corporate understanding of the long-term value of brands.

World Class Brands integrate core business processes involving the CEO in a balancing act between the financial values focused on measurement of business and added value leaders (Macrae, 1991). In fact more than one-third of companies surveyed indicated that the critical threat to the long-term success of their brands is an internal lack of comprehension of what the brand stands for. Much of the fault can be placed on senior management. One of the biggest threats is management's lack of understanding of what the brand stands for, and until senior management takes the time to truly understand what the asset is and how to leverage it, the brand will often be grounded in short-term decisions (Rubenstein, 1996).

Table 5.3 below shows these criteria and suggests that the brand management process could be viewed as a Core Competence.

<table>
<thead>
<tr>
<th>TABLE 5.3 Core Competence</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Criterion</strong></td>
</tr>
<tr>
<td>Essential to corporate survival in the short and long term</td>
</tr>
<tr>
<td>Invisible to competitors</td>
</tr>
<tr>
<td>Difficult to imitate</td>
</tr>
<tr>
<td>Unique to the corporation</td>
</tr>
<tr>
<td>A mix of skills, resources and processes</td>
</tr>
<tr>
<td>A capability which the organisation can sustain over time</td>
</tr>
<tr>
<td>Greater than the competence of an individual</td>
</tr>
<tr>
<td>Essential to the development of core products and eventually to end products</td>
</tr>
<tr>
<td>Essential to the implementation of the strategic vision of the corporation</td>
</tr>
<tr>
<td>Essential to the strategic decisions of the corporation</td>
</tr>
<tr>
<td>Marketable and commercially valuable</td>
</tr>
<tr>
<td>Few in Number</td>
</tr>
</tbody>
</table>

*SOURCE: Tampoe (1994)*
Brands change and can sustain a price premium. This benefits the company and its shareholders through increased revenue. Relationships are formed between brands and the customer. These relationships encourage customer loyalty and repeat purchase, so sustaining the revenue stream. On purchase, consumers receive benefits from the brand in a variety of forms, for example through improvements to their physical wellbeing or satisfaction of their mental self-image. Brands are not dead and there is strong evidence that finely tuned brands will continue to thrive. The environment in which brands exist has changed, and some companies have failed to respond to this change, leading to an overall fall in stakeholder confidence in brands. Companies that recognise the continued strategic value of brands will not only be in a position to respond to changes in their environment but may themselves be the agents of change. These companies and their brands will be tomorrow’s market leaders.

5.7 SUMMARY

Brands are strategic assets to the company. They add value to stakeholders in a variety of ways. Brands offer a unique mix of benefits and attributes to the customer. If the brand is unique then the management process should be unique to the brand to emphasise the individuality that is its source of differentiation and added value. If companies actively manage the brand in such a way as to optimise these benefits then this management process could be viewed as a Core Competency of the company.
CHAPTER SIX

RESEARCH METHODOLOGY

6.1 INTRODUCTION

This chapter provides an overview of the study’s research methodology, which lies within the quantitative paradigm. The chapter discusses the study’s research design – the survey design, focusing on the data collection, data management and data analysis procedures.

6.2 THE QUANTITATIVE RESEARCH PARADIGM

According to Guba and Lincoln (1994:107), a research paradigm is a 'set of basic beliefs, which represents a worldview that defines … the nature of the world and the individual’s place in it, and the range of possible relationships to that world' for an individual. This worldview is represented in the quantitative paradigm as an investigation of a phenomenon by testing a theory that can be measured numerically and analysed statistically (Creswell, 1994). To this end, the issue of what is considered real or the truth can be measured objectively, for example, a questionnaire, in which the researcher remains independent of what is being studied and the research process is deductive in nature (Creswell, 1994). The quantitative paradigm was appropriate for this study for two reasons. Firstly, the research instrument that was used in the study was designed specifically for the purpose of this study only, and secondly, this study is an extension of previous research done on related issues.

6.3 DEVELOPMENT AND ADMINISTRATION OF QUESTIONNAIRES

The questionnaire was piloted among 15 outlets in the SME sector in the Nelson Mandela Bay Metropole in order to ensure ease of access to respondents and a suitable length of time for completion. Suggestions and recommendations by the respondents were incorporated by way of obtaining their opinion regarding the questions and amending the questions accordingly, in order to reach the final questionnaire. The final questions were then randomly sequenced and coded.
Coca Cola field representatives were trained as field workers to the study and were asked to distribute the questionnaires amongst various retail outlets. The reasons for selecting these individuals were as follows:

- They visited retail outlets on a daily basis.
- They had a good relationship with most retailers.
- Retailers would be more at ease in responding to the questions through someone they knew.
- Any queries regarding the questionnaire would be dealt with immediately.

Field workers were trained accordingly:

- A copy of the questionnaire was handed out in advance.
- An informal meeting was held to discuss the questions.
- Any queries arising out of this meeting were answered immediately.
- They were given an opportunity to analyse the questions over a period of three days.
- Another meeting was scheduled on the fourth day, when all final queries were addressed.

The above training process was necessary to ensure, firstly, that the field workers understood the purpose of the study, secondly, that they understood the questions that were asked, and thirdly, that if the respondents had any questions with regard to the questionnaire, they could be dealt with immediately so that the questionnaires could be completed successfully.

Copies of the questionnaire were issued and explained to field workers who would distribute the questionnaires to respondents. This would assist the person handing out the questionnaire to answer any possible queries. The reason for using Coca Cola field representatives as field workers was to assist the researcher in achieving a rapid response rate as they visited the majority of these outlets on a daily basis. A total of 700 questionnaires were handed out, 133 of which were returned completed. All communication regarding the covering letter and questionnaire was printed on the
official stationary of NMMU. The researcher’s contact numbers were included on the
cover letter in case of any confusion, or if assistance was needed. Questionnaires
were discussed and filled in by way of personal interviews. The researcher kept all
records of the individual questionnaires and how many possible respondents qualified
to complete the questionnaires. This was the basis used to follow up on outstanding
interviews until August 2006. All completed questionnaires were received by the
researcher by September 2006.

6.4 THE RESEARCH METHOD

The specific research methodology that is used will depend on the research objective.
Leedy (1997:173-210) identifies the most common research methodologies as
follows:

- **Historical method:** This method attempts to solve problems that are of a
historical nature by analysing the literature and documents that have recorded
information regarding the topic. Data of a literary or documentary nature is
retrieved and analysed. Historical data can include past and current events.

  Kruger and Wellman (1999:186) believe that the following are underlying
principles of the historical research method. The researcher must attempt to
use primary sources, information must be rigorously criticised, and the
researcher must synthesise and interpret the information.

  Kruger and Wellman (1999: 186) further suggest that the historical method is
mostly applicable to the fields of sociology, criminology, law and education.

- **Descriptive survey method:** This method is also known as the 'normative
survey method' as it attempts to solve problems and obtain the data required
by means of observation. The data is descriptive in nature and conclusions are
drawn from the descriptions. Robson (2002:97), states that the object of
descriptive research is 'to portray an accurate profile of persons, events or
situations'.
• **Analytical survey method:** Data is of a quantitative nature and statistical assistance is required to extract meaning from the data. Bless and Higson-Smith (1995) suggest that in conducting explorative and descriptive research, the survey design can be used to collect information from several units of analysis.

• **Experimental method:** Data is derived from controlled conditions (a control and an experimental group are involved). The question of cause and effect in a given situation is analysed (Leedy, 1997: 173-230). De Vos et al. (2002:146) note that an additional characteristic of a true experimental design is the randomisation of the sample.

### 6.5 DATA COLLECTION PROCEDURES

The analytical survey method was applied in this study: the method of data collection was in the form of a questionnaire. The reasons for this choice are outlined below. Schnetler et al. (1989:19) as well as Emory and Cooper (1991:38) believe that the questionnaire is the most popular method of data collection, and holds the following advantages:

- It is usually the lowest-cost method with regard to saving in time and money.
- This method is perceived as anonymous.
- Respondents have sufficient time to think about questions.
- The stimulus provided to each respondent is identical in all cases, as the questionnaire is the only means of communication between the researcher and the respondent.
- Data is obtained from many respondents within a limited time period.

However, the postal questionnaire has certain limitations. Lapovitz and Hagedorn (1976:72) summarise the disadvantages as follows:

- The research sample is limited to respondents who are literate.
- There is a low response rate due to a high degree of self-selection.
• The questionnaire must be limited with regard to length and scope of questions as respondents can lose interest or become fatigued.
• Respondents are unable to qualify answers or discuss the meaning of statements with the researcher.
• Postal questionnaires are usually highly structured and the use of open-ended questions is limited. This ensures that the postal questionnaire is relatively easy to prepare for data capturing.

Based on the above findings of Schnetler et al. (1989:19), Emory and Cooper (1991:338), Lapovitz and Hagedorn (1976:72) it is clear that the advantages of the questionnaire survey method outweigh its disadvantages. The decision to use the questionnaire survey method was based on the following: Firstly, the questionnaire survey methods favoured the respondents, as they perceived this method to be anonymous and less time-consuming than other methods. Secondly, from the researcher’s perspective, information could be obtained from many respondents within a limited time period, and the data from a postal survey was relatively easy to capture on computer. As a result the researcher decided to use the questionnaire survey method to obtain answers to the research problem (defined in Chapter One).

6.6 RESEARCH SAMPLE

Emory and Cooper (1991:82) explain that a sample is a section of the entire population, which is carefully selected to represent the characteristics and features of that population. A sample can be selected on a probability or non-probability basis. The different probability and non-probability sampling types as described by, Kerlinger (1984:119) and Emory and Cooper (1991: 264) are discussed below.

6.6.1 Probability Sampling Types

Probability sampling types are used with survey-based research where the researcher makes inferences about a population with regard to the sample. These inferences will answer the research question or research objective (Saunders et al., 2003:153). The different types of probability sampling are as follows:
• **Simple Random Sampling**
Each population element has an equal chance of being selected into the sample. The researcher determines the sample using a random number table or generator, thereby ensuring that each population element has an equal opportunity of being selected.

• **Systematic Sampling**
With this type of sampling the first sample element is randomly selected; subsequent elements are selected by means of a sampling fraction at every kth interval.

• **Stratified Sampling**
Stratified sampling divides the population into sub-populations or strata from which random samples are drawn.

• **Cluster Sampling**
The population is characterised into heterogeneous subgroups, units or sets, and then a random method is applied to determine the sample.

6.6.2 **Non-Probability Sampling Types**

Non-probability sampling types provide a range of techniques that are based on the researcher’s subjective judgment (Saunders et al., 2003:170). These techniques are as follows:

• **Convenience Sampling**
Convenience sampling is the least reliable type of sampling but is advantageous with regard to cost and expertise required to conduct the sampling. The samples are unlimited as the researcher can select whomsoever they wish to be included in the sample.

• **Purposive Sampling**
During this type of sampling, the researcher deliberately attempts to obtain a representative sample by including common or typical areas or groups in the sample.
• **Quota Sampling**

During this type of sampling, the researcher has knowledge of the population strata and uses this knowledge to select sample members who are representative.

Berry (2003:203) notes that a general dictum concerning sample size is that when the sample is larger, a smaller percentage of that population is required in order to be representative of the total sample. Conversely, if the population itself is relatively small, the sample should comprise a reasonably large percentage of the population in order for it to be representative.

Kerlinger (1984:119) suggests that researchers use large samples in order to have a random sample. For the purpose of this research project, all ethnic small and medium enterprises within the Nelson Mandela Bay Metropolitan Municipality comprised the population. According to Saunders et al. (2003:150) and Leedy (1997:210), sampling the population is necessary when:

- It is impracticable to survey the entire population.
- Budget and time constraints prevent surveying the entire population.
- The researcher has collected all the data and the results are required within a short period of time.

### 6.7 SAMPLING STRATEGY

Although the study was conducted within the quantitative paradigm and hence probability sampling techniques would normally be used, non-probability sampling techniques were used as the return sample study was relatively small and the generalisation of results was not the goal. The researcher selected two purposeful sampling strategies, namely criterion and convenience sampling. The researcher used convenience sampling as it had the advantages of saving time and money (Creswell, 1998). This is because only those ethnic entrepreneurial businesses that met the criteria were included in the sample. The criteria included, businesses had to be:

- (a) ethnic entrepreneurial concerns;
- (b) located in the Nelson Mandela Bay Metropole;
- (c) suppliers of Coca-Cola products; and had to
- (d) meet the definition of small business as set out in the National Small Business Act of 1996. The reason for
selecting this criterion is that these businesses also fell into the growth phases of organisational life cycles as advocated by Churchill and Lewis (Timmons, 1990). In addition, the researcher used some snowballing in an attempt to access other businesses that met the criteria by asking owner/managers that the researcher had contacted. However, this sampling technique yielded no further respondents as businesses mentioned other businesses that were already included in the study by the researcher.

The Registrar of Coca-Cola Fortune suppliers was initially approached in order to obtain a list of registered businesses from which those firms could be ascertained. Given the criteria for inclusion in this sample, it became evident that a great many of the small businesses in the Nelson Mandela Bay Metropole would be part of the research sample. 700 questionnaires were printed, and interviews were scheduled by Coca-Cola field workers within the Nelson Mandela Bay Metropole.

6.8 DATA COLLECTION TECHNIQUES

The survey instrument that was used in the study was modified from the instrument developed by a panel of experts led by Professor Christo Boshoff of Stellenbosch University. The instrument was modified to suit the South African context with specific bias towards ethnic entrepreneurs within NMBM. The questionnaire was based on a 5-point likert scale (See Annexure.2 ). The sections which are investigated in the questionnaire were; (a) cultural influences in businesses; (b) brand management; (c) external relationships; (d) locational factors; (e) growth and; (f) sustainability of business. One-on-one interviews were conducted with the owner/managers who constituted the primary data source for the research, as it was known from the beginning of the research what information was required.

The advantages of using a structured interview approach (one-on-one) where it would be administered by the researcher in this case, included firstly, that the level of incomplete questionnaires would be reduced because all the questions would be asked and answered (Kumar, 1996). Secondly, the researcher was able to clarify any queries concerning the questions (Kumar, 1996). The owner/managers were interviewed for a relatively short time with interviews ranging between 15 and 30 minutes. Bless and Higson-Smith (1995) note some disadvantages of this method, namely the high costs
and time spent in collecting the data, which in turn may result in the researcher completing a small sample. Secondly, the presence of the interviewer may impede the respondents' ability to answer freely and openly, especially where sensitive information is required. Finally, interviewer bias may be introduced when the researcher is explaining any queries that may arise during the interview.

6.9 ASSESSING OWNER/MANAGERS: ETHICAL CONSIDERATIONS

Hall (1995:68) suggests that because of the nature of small businesses, the (ethnic) owner/manager of the business is best suited to have a thorough knowledge of the business since he/she is involved in the growth of the business from the early stages. For this reason, the ethnic owner/manager will constitute the primary source of information. Ethnic owner/managers participated and represented a variety of retail businesses. Before undertaking interviews with the owner/managers, the researcher gained access to the individuals by telephoning some of them personally and seeking permission to interview them.

The researcher informed the potential interviewees that their information had been obtained from a database provided to the researcher by Coca-Cola Fortune. However, it was stressed that the only information that had been provided by the Coca-Cola Fortune was their contact details as well as the type of industry in which the business operated. To determine if the business was eligible for the interview, the researcher asked the ethnic owner/managers firstly, the number of years that the business had been operating; secondly, if the business was a supplier of Coca-Cola products; and lastly, whether the business employed 50 people or less.

The age of the business was of importance as the study was only interested in interviewing owner/managers whose businesses had existed between one and nine years – the growth phase of a small business, according to Churchill and Lewis (1983). The owner/managers were informed about the nature of the study and its purpose. On the interview day, interviewees were informed before the interview took place that the information provided would be kept confidential and be used for academic purposes only.
6.10 DATA DOCUMENTATION AND STORAGE

An Excel spreadsheet was used to store the data collected from the questionnaires. As descriptive statistics were used, the use of a spreadsheet was appropriate. The information gathered from each questionnaire was entered onto the spreadsheet after completion, and because the questionnaires were administered by the researcher, all the data fields were complete.

6.11 THE DATA ANALYSIS PROCEDURE

Descriptive statistics were used to analyse the data and were appropriate for the relative sample size. Cross tabulations were done on some of the variables in the study, and these enabled the researcher to explain the meaning of the data better because of the link between the ethnic entrepreneur and the questions on the questionnaire. (Also see Chapter 7 Section 7.3 to 7.8.)

6.12 ANALYSIS OF THE BIOGRAPHICAL INFORMATION

This section analyses the biographical information of the respondents. The responses obtained from participants are presented in the tabular and graphical format below. The questions were included to highlight independent variables to facilitate comparisons between the dependent variables obtained from responses to questions in other sections of the questionnaire.
Table 6.1 illustrates the diverse cultural entrepreneurs who participated in answering the questionnaire:

<table>
<thead>
<tr>
<th>TABLE 6.1 CULTURE GROUP</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coloured</td>
<td>42</td>
<td>31.6</td>
<td>31.8</td>
<td>31.8</td>
</tr>
<tr>
<td>Black</td>
<td>29</td>
<td>21.8</td>
<td>22.0</td>
<td>53.8</td>
</tr>
<tr>
<td>Asian</td>
<td>22</td>
<td>16.5</td>
<td>16.7</td>
<td>70.5</td>
</tr>
<tr>
<td>Others</td>
<td>39</td>
<td>29.3</td>
<td>29.5</td>
<td>100.00</td>
</tr>
<tr>
<td>Total</td>
<td>132</td>
<td>99.2</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Figure 6.1 Percentage of Culture Group

Table 6.1 illustrates the percentage and frequency of cultures represented in NMBM. For instance in Table 6.1 it is demonstrated that out of a total of 132 people, 42 were coloured (31.6 %), 29 were black (21.8 %), 22 were Asian (16.5%) and 39 (29.3%) were of other races e.g. Greek, Italian, Cypriot etc.
Table 6.2 gives the geographical location where the questionnaires were distributed. Out of a total of 132 people, the majority of the respondents, 63 (47.4%) were situated in Port Elizabeth, 14 (10.5%) in Uitenhage, 20 (15%) in Despatch and 35 (26.3%) in other areas.

**TABLE 6.2 AREA OF LOCATION**

<table>
<thead>
<tr>
<th>Location</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Port Elizabeth</td>
<td>63</td>
<td>47.4</td>
<td>47.4</td>
<td>47.4</td>
</tr>
<tr>
<td>Uitenhage</td>
<td>14</td>
<td>10.5</td>
<td>10.6</td>
<td>58.3</td>
</tr>
<tr>
<td>Despatch</td>
<td>20</td>
<td>15.0</td>
<td>15.2</td>
<td>73.5</td>
</tr>
<tr>
<td>Others ie. Coega, Rocklands etc</td>
<td>35</td>
<td>26.3</td>
<td>26.5</td>
<td>100.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>132</strong></td>
<td><strong>99.2</strong></td>
<td><strong>100.0</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Missing System</strong></td>
<td><strong>1</strong></td>
<td><strong>.8</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>133</strong></td>
<td><strong>100.0</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Figure 6.2 Percentage of Area of Location
Table 6.3 illustrates the number of full-time employees and the percentage they make up to form the total workforce: Out of 132 employees, 55 (41.4%) in the category one – three worked full-time. 53 employees (39.8%) fell into the five – ten category and 15 (11.3%) were in the ten – more category.

<table>
<thead>
<tr>
<th>NO. OF FULL TIME EMPLOYEES</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>One - Three</td>
<td>55</td>
<td>41.4</td>
<td>41.7</td>
<td>41.7</td>
</tr>
<tr>
<td>Four - Five</td>
<td>9</td>
<td>6.8</td>
<td>6.8</td>
<td>48.5</td>
</tr>
<tr>
<td>Five - Ten</td>
<td>53</td>
<td>39.8</td>
<td>40.2</td>
<td>88.6</td>
</tr>
<tr>
<td>Ten - More</td>
<td>15</td>
<td>11.3</td>
<td>11.4</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>132</td>
<td>99.2</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

| Missing System             | 1         | .8      |               |                    |
| Total                      | 133       | 100.0   |               |                    |

Figure 6.3 Percentage of Fulltime Employees
Table 6.4 illustrates the number of part-time employees and the percentage they made up to form the total work force. Out of 132 employees, 70 (52.6%) fell into the one category. 62 (46.6%) fell into the Five category.

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>One - Three</td>
<td>70</td>
<td>52.6</td>
<td>53.0</td>
<td>53.0</td>
</tr>
<tr>
<td>Four - Five</td>
<td>62</td>
<td>46.6</td>
<td>47.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>132</td>
<td>99.2</td>
<td>100.0</td>
<td></td>
</tr>
<tr>
<td>Missing System</td>
<td>1</td>
<td>.8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>133</td>
<td>100.0</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Figure 6.4 Percentage of Part Time Employees**
Table 6.5 illustrates the response to whether people regarded their business as a family business or not. Table 6.5 demonstrates the responses to the question: “Do you regard your business as a family business?” Out of the 132 people, 92 (69.2 %) replied Yes, whilst 40 (30.1 %) replied No.

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>92</td>
<td>69.2</td>
<td>69.7</td>
<td>69.7</td>
</tr>
<tr>
<td>No</td>
<td>40</td>
<td>30.1</td>
<td>30.3</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>132</td>
<td>99.2</td>
<td>100.0</td>
<td></td>
</tr>
<tr>
<td>Missing System</td>
<td>1</td>
<td>.8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>133</td>
<td>100.0</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Figure 6.5 Percentage of Whether Employees Regard Their Business as a Family Business
Table 6.6 illustrates the gender of the owners of the business. 82 (61.7%) out of the 133 were male, while 50 (37.6%) were female.

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>82</td>
<td>61.7</td>
<td>62.1</td>
<td>62.1</td>
</tr>
<tr>
<td>Female</td>
<td>50</td>
<td>37.6</td>
<td>37.9</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>132</td>
<td>99.2</td>
<td>100.0</td>
<td></td>
</tr>
<tr>
<td>Missing System</td>
<td>1</td>
<td>.8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>133</td>
<td>100.0</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Figure 6.6 Percentage of Genders of the Business Owners
Table 6.7 illustrates how many found that the business was their only source of income for their families. Out of the 132 people, 55 (41.4 %) said Yes, it was their only source of income. 73 (54.9 %) said No, it was not their only source of income, and 4 (3 %) said they were unsure.

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>55</td>
<td>41.4</td>
<td>41.7</td>
<td>41.7</td>
</tr>
<tr>
<td>No</td>
<td>73</td>
<td>54.9</td>
<td>55.3</td>
<td>97.0</td>
</tr>
<tr>
<td>Not Sure</td>
<td>4</td>
<td>3.0</td>
<td>3.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>132</td>
<td>99.2</td>
<td>100.0</td>
<td></td>
</tr>
<tr>
<td>Missing System</td>
<td>1</td>
<td>.8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>133</td>
<td>100.0</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Figure 6.7 Percentage of Source of Income
Table 6.8 illustrates the form of ownership. Out of the 132 people, 55 (41.4 %) fell into the sole proprietorship category, 45 (33.8 %) had a partnership, and 32 (24.1 %) fell into the business trust group.

<table>
<thead>
<tr>
<th>Form of Ownership</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sole Proprietorship</td>
<td>55</td>
<td>41.4</td>
<td>41.7</td>
<td>41.7</td>
</tr>
<tr>
<td>Partnership</td>
<td>45</td>
<td>33.8</td>
<td>34.1</td>
<td>75.8</td>
</tr>
<tr>
<td>Close Corporation</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Private Company</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Business Trust</td>
<td>32</td>
<td>24.1</td>
<td>24.2</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>132</td>
<td>99.2</td>
<td>100.0</td>
<td></td>
</tr>
<tr>
<td>Missing System</td>
<td>1</td>
<td>.8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>133</td>
<td>100.0</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Figure 6.8 Percentage of Form of Ownership
This chapter has outlined the research methodology process the researcher followed in the study. A discussion of the study’s survey research design was presented and its adoption was justified. In an effort to obtain the data, the researcher administered a questionnaire, as this had been shown to be the most effective and advantageous method to gather information (Refer to section 6.8). Descriptive statistics (Sections 6.1-6.8) were used to analyse the data given the study sample. Chapter 7 will discuss the analysis of the empirical results of the study.
CHAPTER 7

ANALYSIS AND DISCUSSION OF EMPIRICAL RESULTS

7.1 INTRODUCTION

The empirical data collected during this study was subjected to statistical analysis. This was used to measure the constructs included in the theoretical model as independent variables that could influence the establishment and sustainability of small and medium-sized businesses.

In this chapter a summary is given of the different explanatory factor analyses conducted to identify the unique factors evident in the data. These factors will be analysed further in order to show the relationship and effect that they have on SMEs. In this chapter, the mean and standard deviation will be illustrated in table form for each of the variables. The hypotheses in relation to the variables will be shown as either accepted or rejected based on the data compiled. All results are based on the factor analyses.

7.2 FACTORS IDENTIFIED BY MEANS OF FACTOR ANALYSIS

The computer programme SPSS, Statistics for Research and Analysis, was used to conduct the exploratory factor analysis.

7.2.1 Sustainability of SMEs in the Nelson Mandela Bay Metropole

Four items were included in the final questionnaire to measure the construct sustainability.
Table 7.1 indicates the growth potential of the business as given by the respondents.

Table 7.1 illustrates the mean and standard deviation as to the sustainability of SME as per respondents. A mean of 2.04 and standard deviation of 0.851 were recorded for the sustainability of the business. Increased market share recorded a mean of 2.30 and a standard deviation of 1.077. Competition in the market is recorded at a mean of 1.80 and standard deviation of 0.746. The possibility of improving market share shows a mean of 2.25 and standard deviation of 0.991. Based on the question of sustainability, out of the 4 categories measured a 2.09 average was recorded for the total mean and an average of 0.91 recorded for the total standard deviation.

The mean of 2.09 and standard deviation of 0.91 indicate that the entrepreneurs were fairly positive regarding the growth potential of their respective businesses.
7.2.2 Entrepreneurial Culture

Thirteen items were included in the final questionnaire to measure the construct entrepreneurial culture.

Table 7.2 indicates to what degree culture was thought to influence SMEs.

<table>
<thead>
<tr>
<th>TABLE 7.2</th>
<th>THE EXTENT TO WHICH INDIVIDUALS PERCEIVE CULTURE AS AN IMPORTANT INGREDIENT TO SUCCESSFUL BUSINESS</th>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>EC1 - The community supports this culture</td>
<td>2.92</td>
<td>1.340</td>
<td></td>
</tr>
<tr>
<td>EC2 - My business supports culture specific requirements with regards to food preference. e.g. Koshar, Halaal etc.</td>
<td>2.80</td>
<td>1.277</td>
<td></td>
</tr>
<tr>
<td>EC3 - Some cultural groups supports this business for cultural reasons.</td>
<td>2.18</td>
<td>0.795</td>
<td></td>
</tr>
<tr>
<td>EC4 - Certain brands are preferred by certain cultural groups.</td>
<td>2.07</td>
<td>0.812</td>
<td></td>
</tr>
<tr>
<td>EC5 - This business culture is influenced by its cultural values of the members.</td>
<td>2.16</td>
<td>1.104</td>
<td></td>
</tr>
<tr>
<td>EC6 - This business is supported by specific cultural groups.</td>
<td>2.02</td>
<td>1.223</td>
<td></td>
</tr>
<tr>
<td>EC7 - This business will be inherited by a family member. e.g. Son, daughter etc.</td>
<td>2.32</td>
<td>0.765</td>
<td></td>
</tr>
<tr>
<td>EC8 - My family assists me in this business.</td>
<td>2.16</td>
<td>1.125</td>
<td></td>
</tr>
<tr>
<td>EC9 - My children (where possible) are involved in this business from a young age.</td>
<td>2.46</td>
<td>0.752</td>
<td></td>
</tr>
<tr>
<td>EC10 - We normally discuss our business at the dinner table.</td>
<td>2.45</td>
<td>1.206</td>
<td></td>
</tr>
<tr>
<td>EC11 - I involve the whole family in decision making for this business.</td>
<td>2.67</td>
<td>1.384</td>
<td></td>
</tr>
<tr>
<td>EC12 - We bring our children up in an entrepreneurial environment.</td>
<td>3.13</td>
<td>1.022</td>
<td></td>
</tr>
<tr>
<td>EC13 - My children help in this business during holidays.</td>
<td>3.20</td>
<td>1.101</td>
<td></td>
</tr>
<tr>
<td>AVERAGE</td>
<td>2.5</td>
<td>1.07</td>
<td></td>
</tr>
</tbody>
</table>
Table 7.2 on the previous page illustrates the extent to which individuals perceived culture as an important ingredient for successful business. For the question: 'the community supports this business because of my culture', a mean score of 2.92 and a standard deviation score of 1.360 were recorded. 'Cultural specific requirements with regard to food preference e.g. Kosher, Halaal etc.' recorded a mean of 2.80 and a standard deviation of 1.277. 'The business is supported by some cultural groups because of cultural reasons' produced a mean of 2.18 and a standard deviation of 0.795.

The question about 'certain brands once preferred by certain cultures' showed a mean of 2.07 and a standard deviation of 0.812. 'The business culture is influenced by its outline values of the members' showed a mean of 2.16 and a standard deviation 1.104. The question: 'The business is supported by specific cultural groups' produced a mean of 2.02 and a standard deviation of 0.765. When asked about 'the family assisting in the business', a mean of 2.16 and standard deviation of 1.125 were recorded. 'Children involved in the business from a young age' showed a mean of 2.46 and standard deviation of 6.752. 'Discussing business round the dinner table' recorded a mean of 2.45 and standard deviation of 1.206. The question around 'The whole family is involved in decision-making regarding the business' showed a mean of 2.67 and standard deviation of 1.384. 'Children named in the entrepreneurial environment' produced a mean of 3.13 and standard deviation of 1.022. 'Siblings assisting in the business during holidays' showed a mean of 3.20 and standard deviation of 1.105.

The total average of the means was 2.5 and 1.07 for the standard deviation out of 13 questions, which indicates that culture forms a huge part in the success of business as perceived by the respondents in the study.
7.2.3 Branding

Nine items were included in the final questionnaire to measure the construct Branding.

Table 7.3 illustrates the significance of branding in attracting consumers.

<table>
<thead>
<tr>
<th>TABLE 7.3</th>
<th>BRANDING OF PRODUCTS AS A MEANS TO ATTRACT CONSUMERS TO PURCHASE PRODUCTS</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Mean</td>
</tr>
<tr>
<td>BR1 - Consumers can easily identify Coca-Cola products in the market.</td>
<td>1.26</td>
</tr>
<tr>
<td>BR2 - Coca-Cola products are well branded therefore influences the rate of sales.</td>
<td>1.72</td>
</tr>
<tr>
<td>BR3 - Coca-Cola brands are the most preferred soft drink in my outlet.</td>
<td>2.05</td>
</tr>
<tr>
<td>BR4 - Coca-Cola sells good quality brands and products.</td>
<td>1.38</td>
</tr>
<tr>
<td>BR5 - Consumers perceive the Coca-Cola brand a status symbol.</td>
<td>1.92</td>
</tr>
<tr>
<td>BR6 - The Coca-Cola brand delivers what it promises e.g Coca-Cola is refreshing.</td>
<td>1.54</td>
</tr>
<tr>
<td>BR7 - Consumers in this store perceive the Coca-Cola brand as superior to that of its competitors.</td>
<td>1.90</td>
</tr>
<tr>
<td>BR8 - Coca-Cola's branding influences the consumer to repurchase the product.</td>
<td>1.67</td>
</tr>
<tr>
<td>BR9 - Coca-Cola's introduction of new products to the market are well received by consumers.</td>
<td>1.89</td>
</tr>
<tr>
<td>AVERAGE</td>
<td>1.70</td>
</tr>
</tbody>
</table>

The influences which product branding has on the purchase of the product is shown in Table 7.3. Coca-Cola products are easily identified in the market, showed a mean of 1.26 and standard deviation of 0.504.
'Well-branded Coca-Cola products influence the sale' showed a mean of 1.72 and standard deviation of 6.794. 'Coca-Cola brands are the most preferred soft drinks in my outlet' showed a mean of 2.05 and standard deviation of 0.968. 'Coca-Cola sells good-quality brands and products' showed a mean of 1.38 and standard deviation of 0.487.

'Coca-Cola brands are perceived by consumers as a status brand' showed a mean of 1.92 and standard deviation of 0.561. 'Coca-Cola brand does what it says e.g. Coca-Cola is refreshing' showed a mean of 1.54 and standard deviation of 0.558. 'Consumers visiting outlets perceive Coke brands to be superior to those of its competitors' showed a mean of 1.90 and standard deviation of 0.799.

'The branding of Coke products influences the repeat purchase of Coke products' showed a mean of 1.67 and standard deviation of 0.673. 'The introduction of new Coca-Cola products to the market is well received by consumers' showed a mean of 1.89 and standard deviation of 0.825.

The average of the means came out at 1.70 and 0.6 % for the standard deviation, which indicates that branding is not perceived to be an obstacle at the point of purchase.
7.2.4 Location

Five items were included in the final questionnaire to measure the construct Location.

Table 7.4 indicates the location of the business and its significance.

<table>
<thead>
<tr>
<th>TABLE 7.4 LOCATION OF BUSINESS AND IMPORTANCE THEREOF</th>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>LOC1 - My business premises is ideally situated to satisfy the needs of my customers.</td>
<td>1.69</td>
<td>0.773</td>
</tr>
<tr>
<td>LOC2 - My business is easily accessible e.g. Roads, entrances and exits.</td>
<td>3.27</td>
<td>1.126</td>
</tr>
<tr>
<td>LOC3 - My business is situated in an ideal location for trading.</td>
<td>1.80</td>
<td>0.707</td>
</tr>
<tr>
<td>LOC4 - My business is close to the consumer target market.</td>
<td>1.77</td>
<td>0.646</td>
</tr>
<tr>
<td>LOC5 - My business is situated away from my competitors.</td>
<td>1.58</td>
<td>0.495</td>
</tr>
<tr>
<td>AVERAGE</td>
<td>2.02</td>
<td>0.78</td>
</tr>
</tbody>
</table>

'The business is ideally situated to satisfy the needs of customers' showed a mean of 1.69 and standard deviation of 0.773. 'The accessibility of the business' showed a mean of 3.27 and standard deviation of 1.126. 'The location of the business for ideal trading opportunities' showed a mean of 1.80 and standard deviation of 0.707. 'The closeness of the business to the customers' showed a mean of 1.77 and standard deviation of 0.646. 'The business is situated away from competitors' shows a mean of 1.58 and standard deviation of 0.495.

The average of the total means was 2.02 and the standard deviation of 0.78 indicate that respondents perceived the location of the business to be important, as the more accessible the business was to consumers, the more trade took place.
7.2.5  Knowledge

Seven items were included in the final questionnaire to measure the construct Knowledge.

Table 7.5 illustrates the importance of business knowledge

<table>
<thead>
<tr>
<th>TABLE 7.5  KNOWLEDGE OF BUSINESS</th>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>KNOW1 - All managers / supervisors in this business are experienced in entrepreneurship.</td>
<td>2.39</td>
<td>1.068</td>
</tr>
<tr>
<td>KNOW2 - All managers / supervisors in this business have had managerial training.</td>
<td>2.22</td>
<td>0.813</td>
</tr>
<tr>
<td>KNOW3 - This business seeks outside advice when needed.</td>
<td>2.37</td>
<td>1.059</td>
</tr>
<tr>
<td>KNOW4 - Market research is done in order to align the business goals with that of the market.</td>
<td>2.02</td>
<td>0.781</td>
</tr>
<tr>
<td>KNOW5 - This business has provision for contingency plans in the event of a major problem, e.g. strike, flood, power failure, etc</td>
<td>2.32</td>
<td>0.876</td>
</tr>
<tr>
<td>KNOW6 - This business has adequate financial controls.</td>
<td>2.83</td>
<td>1.037</td>
</tr>
<tr>
<td>KNOW7 - This business has a detailed business plan.</td>
<td>2.53</td>
<td>1.073</td>
</tr>
<tr>
<td>AVERAGE</td>
<td>2.38</td>
<td>0.95</td>
</tr>
</tbody>
</table>

'Managers and staff are trained in entrepreneurship' showed a mean of 2.39 and standard deviation of 1.068. 'Managerial training for managers and staff in the business' shows a mean of 2.22 and standard deviation of 0.813. 'Whether the business made sure of outside advice when required' showed a mean of 2.37 and standard deviation of 1.059. 'Market research in order to align business goals with market trends' showed a mean of 2.02 and standard deviation of 0.781. The question 'whether the business made provision for contingency plans in the event of a major problem eg. strike, flood, power failure' showed a mean of 2.32 and standard deviation of 0.876. 'The business has adequate financial controls' showed a mean of 2.83 and standard deviation of 1.037. 'The business has a detailed business plan' showed a mean of 2.53 and standard deviation of 1.073.
The average for the total means was 2.38 and 0.95 for the standard deviation, showing there was still a great deal to be done with regard to this aspect of the business, in order for it to be successful.

### 7.2.6 Customer Relationships Management

Thirteen items were included in the final questionnaire to measure the construct Customer Relationship Management.

<table>
<thead>
<tr>
<th>TABLE 7.6</th>
<th>CUSTOMER RELATIONSHIPS MANAGEMENT</th>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>CRM1 - I am satisfied with the signage that Coca-Cola provides for this store.</td>
<td>1.95</td>
<td>1.194</td>
<td></td>
</tr>
<tr>
<td>CRM2 - Coca-Cola offers me the payment option of my choice.</td>
<td>2.73</td>
<td>1.411</td>
<td></td>
</tr>
<tr>
<td>CRM3 - Coca-Cola provides sufficient cooling (fridges) for its products.</td>
<td>2.64</td>
<td>1.036</td>
<td></td>
</tr>
<tr>
<td>CRM4 - I am satisfied with the distribution delivery service offered by Coca-Cola.</td>
<td>1.31</td>
<td>0.632</td>
<td></td>
</tr>
<tr>
<td>CRM5 - Coca-Cola provides information on initial set up of business e.g. price list, product list, delivery sequence, etc.</td>
<td>1.81</td>
<td>0.884</td>
<td></td>
</tr>
<tr>
<td>CRM6 - I see my Coca-Cola rep every week.</td>
<td>1.86</td>
<td>0.679</td>
<td></td>
</tr>
<tr>
<td>CRM7 - My Coca-Cola sales rep responds to my queries / complaints within a timely manner.</td>
<td>2.66</td>
<td>1.259</td>
<td></td>
</tr>
<tr>
<td>CRM8 - I prefer delivery of Coca-Cola products more frequently.</td>
<td>1.96</td>
<td>1.007</td>
<td></td>
</tr>
<tr>
<td>CRM9 - When I order from Coca-Cola I receive exactly what I ordered.</td>
<td>1.85</td>
<td>0.736</td>
<td></td>
</tr>
<tr>
<td>CRM10 - My Coca-Cola delivery crew is very helpful.</td>
<td>2.20</td>
<td>0.961</td>
<td></td>
</tr>
<tr>
<td>CRM11 - My sales rep assists / guides me with making up my Coca-Cola order.</td>
<td>1.83</td>
<td>0.599</td>
<td></td>
</tr>
<tr>
<td>CRM12 - My sales rep ensures that stock rotation takes place weekly.</td>
<td>2.07</td>
<td>1.193</td>
<td></td>
</tr>
<tr>
<td>CRM13 - My sales rep ensures that my returns are uplifted on a every week.</td>
<td>2.23</td>
<td>1.163</td>
<td></td>
</tr>
<tr>
<td>AVERAGE</td>
<td>2.06</td>
<td>0.98</td>
<td></td>
</tr>
</tbody>
</table>
Table 7.6 illustrates the importance of customer relationship management. 'The satisfaction of customers regarding Coca-Cola signage' showed a mean of 1.95 and standard deviation of 1.194. 'The provision of a payment option' showed a mean of 2.73 and standard deviation of 1.411. 'Sufficient cooling provided by Coca-Cola for its products' showed a mean of 2.64 and standard deviation of 1.036. 'Satisfaction with the delivery distribution service' showed a mean of 1.31 and standard deviation of 0.632. 'Information regarding the initial setup of the business' showed a mean of 1.81 and standard deviation of 0.884. 'Sales reps calling in outlets every week' showed a mean of 1.86 and a standard deviation of 0.679. 'Whether sales reps responded to complaints/queries timeously' showed a mean of 2.66 and standard deviation of 1.259. 'The delivery of Coca-Cola products more frequently' showed a mean of 1.96 and standard deviation of 1.007. 'Correct orders from Coca-Cola' showed a mean of 1.85 and standard deviation of 0.736. 'The Coca-Cola crew is very helpful' showed a mean of 2.20 and a standard deviation of 0.961. 'My sales reps guides me with making up my Coca-Cola order' showed a mean of 1.83 and standard deviation of 0.599. 'The rep ensures that stock rotation takes place on a weekly basis' showed a mean of 2.07 and standard deviation of 1.193. 'The sales representative ensures that returns are uplifted on a weekly basis' showed a mean of 2.23 and standard deviation of 1.163.

The average of the total means came to 2.06 and 0.98 for the standard deviation, which indicates that the customers were fairly happy with the service provided by Coca-Cola.
7.3 ENTREPRENEURIAL CULTURE

It can be seen from Table 7.7 that the existence of an entrepreneurial culture was positively related (point estimate = 0.000, p < 0.05, t = 5.703) to perceived growth of the business. Hypothesis 1 therefore suggests that the existence of an entrepreneurial culture does in fact have a positive influence on the growth of the business. An individual with a strong entrepreneurial culture will set goals for him/herself and strive towards achieving them. **Hypothesis 1 is therefore accepted.** This empirical result is supported by prior research conducted by Right (1972), Lyer (1999), Kotkin (1993), Lander (1981), Aldrick & Waldinger (1980) and Hofstede (2001), which suggests that ethnic entrepreneurs often return to their distinct ethnic identity and form close relationships with core ethnic labour and consumers, while choosing to remain segregated from the mainstream culture (Refer to Chapter 3 section 3.4).

### 7.3.1 Branding

It can be seen from Table 7.7 that the existence of brand management was positively related to (point 0.000, p < 0.05, t = 6.176) to the perceived growth of the business.

---

<table>
<thead>
<tr>
<th>TABLE 7.7 FACTORS INFLUENCING GROWTH AS IDENTIFIED BY MEANS OF FACTOR ANALYSIS</th>
</tr>
</thead>
<tbody>
<tr>
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<td><strong>(Constant)</strong></td>
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<td>Entrepreneurial Culture</td>
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<td>Knowledge</td>
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<td>Sustainability</td>
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Hypothesis 2 therefore suggests that the existence of brand management has a positive influence on the growth of the business. **Hypothesis 2 is significant and therefore accepted.** This empirical result is supported by prior research conducted by Kapferer (1997:21), Kotler (1996:56), Aaker (1992:38-39), Rubenstein (1999:270) and Leventhal (1996:17), that brands are a company’s most important asset. A brand name, term, sign, symbol or combination thereof is intended to distinguish the goods and reviews of one seller. The brand covers the entire consumer experience and includes all the assets critical to delivering and communicating that experience (Refer to Chapter 5 section 5.1.1).

7.3.2 Customer Relationship Management

Table 7.7 illustrates that the existence of good relationships with customers was negatively related (point estimate = 0.060, p < 0.05, t = 1.895) to perceived growth. **Hypothesis 3 is insignificant and therefore not accepted.** The empirical result suggests that there is an insignificant relation between customer relationship management and perceived growth in the business (Refer to Chapter 5 section 5.2.3).

7.3.3 Location of the Business

Table 7.7 illustrates that the location of the business had a positive relation (point estimate = 0.00, p < 0.05, t = -5.749) to perceived growth of the business. **Hypothesis 4 is therefore accepted.** The empirical result is supported by Park & Burgess (1935), Hofstede (2001), Kolipolis & Verinis (2002) who state:

'A process of interpretation and fusion in which people and groups acquire the memories, sentiments and attributes of other persons or groups and by showing their experiences and history, are incorporated with them in a common cultural life'

(Refer to Chapter 1 section 3 and Chapter 6 Table 6.2).
7.3.4 Knowledge of the Business

In Table 7.7 it can be seen that the existence of knowledge of the business was positively related (point estimate = 0.13, p < 0.05, t = 2.514) to perceived growth of the business. **Hypothesis 5 is therefore accepted.** This empirical result is supported by prior research conducted by Hall (1995:68) stating that the ethnic owner/manager of the business was best suited to have a thorough knowledge of the business since he/she was involved in the growth of the business from an early age (Refer to Table 7.5).

7.3.5 Sustainability of Business

In Table 7.7 it can be seen that there was no significant relationship (point estimate = .243, p < 0.05, t = 1.173) between the sustainability of the business and perceived growth. **Hypothesis 6 is therefore rejected.** This question poses an opportunity for future research (Refer to Section 7.4.1).

![Table 7.8: Relationship between the hypothesis and the dependant variable (growth) as being significant or non significant](image)

Table 7.8 clearly indicates that 4 out of 6 hypotheses were indeed significant in influencing the growth of the business.
7.4 SUMMARY

The purpose of this chapter was to analyse the different aspects which could influence the growth of the business. These aspects were considered in order to ascertain whether the hypotheses could be accepted or should be rejected.

The results indicated that hypotheses 1, 2, 4 and 5 were significant and according to respondents, influenced the growth of the business, therefore they were accepted. The results for hypotheses 3 and 6 indicated that they were not significant according to respondents, therefore they were rejected.

Chapter 8 will provide an overview of the findings in Chapter 7, and will highlight the conclusions and recommendations from the study, based on the research results discussed in Chapter 7.
CHAPTER 8

LIMITATIONS, SUMMARY, RECOMMENDATIONS AND CONCLUSION

8.1 INTRODUCTION

This particular study was conducted in order to investigate certain pertinent aspects which influence business. These aspects were discussed and the implications of the research result included in Chapter 7. A summary of the research findings and recommendations based on the data presented in Chapter 7 is provided in this chapter. The problems encountered with this research endeavour are discussed and recommendations for further research are outlined.

8.2 PROBLEMS AND LIMITATIONS OF THE STUDY

The aim of the study was to focus on aspects of the business which contribute to the sustainable development of SMEs. In order to achieve this objective, it was necessary to review various sources: published books and articles as well as ethnic entrepreneurship. In the past, very limited research was conducted to establish the growth and sustainability of the SME sector in South Africa. Owing to this, the literature relating to sub-problems two and three is very limited.

Problems encountered during the research study related to the timely collection of data. Initially questionnaires were issued to respondents based on the understanding that the respondent would be interviewed on a one on one basis. On occasion the respondents often did not honour the scheduled time of the appointment. The researcher eventually had to reschedule in order to conduct the face-to-face interviews in order to obtain the information required. Respondents were also very sceptical at first, and the researcher had to emphasise the purpose of the questionnaire and the study.
8.3 SUMMARY OF STUDY

The main problem of the study was:

To obtain a better understanding of how certain aspects of business influence ethnic-entrepreneurship, in order to assist Coca-Cola in managing the growth and sustainability of SME retail outlets for the NMBM.

The study was conducted because of the ever-increasing number of ethnic entrepreneurs who have entered the SME business sector. For this study, it was important to establish which factors influenced the growth and sustainability of the ethnic entrepreneur's business.

To solve the main problem it was necessary to develop sub-problems. These sub-problems and a brief discussion are provided below.

- Sub-problem one: Identify factors from a literature review that will promote the long-term survival and sustainability of SME retail outlets.
- Sub-problem two: Conduct a situational analysis based on the literature research as to the importance of the identified factors as per Coca-Cola operations in the SME sector.
- Sub-problem three: To what extent does the ethnic entrepreneur perceive certain factors to be influential in the sustainability and growth of his/her business.

In order to address the main problem and sub-problem two, specific questions were set up in the questionnaire (see Appendix 2) pertaining to the relationship between Coca-Cola and its customers. For this study, Coca-Cola was used because of its dynamic ethnic customer base and the various services and products which the company offers to its customers.

In order to address sub problem one, it became apparent from the literature review that it was imperative for the South African Government to step in and set up structures and programmes to promote SMEs (refer to Chapter 2 Section 2.11). Without Government initiative, their sector was doomed for failure.
The analysis of the various aspects which ethnic entrepreneurs perceive as important (refer to Table 7.8), addresses sub-problem three. These aspects are illustrated and analysed in Chapter 7.

8.4 RECOMMENDATIONS

This study was conducted over a specific period, therefore a similar study in future will in all probability not indicate similar results. This is primarily due to the ever-changing economic climate in South Africa. This type of research should be a continuous exercise with specific timing intervals. In Chapter 1, the researcher defined the SME in detail. The study has confirmed that aspects such as Entrepreneurial culture, Branding, Location of the business and Business knowledge are significant in the growth and sustainability of a business in the SME sector. These factors should be taken into consideration by entrepreneurs when starting up for the first time. In this study, factors such as relationships and sustainability proved to be insignificant to the entrepreneur. These factors should also be included in decision making processes, when new policy frameworks are developed to stimulate small business development in South Africa and especially in the NMBM area.

On the other hand, aspects such as the culture (see table 7.2) and the location of the business (see table 7.4) are of significant importance to the entrepreneur. The aspect of how to operate the business (knowledge of the business: table 7.5) requires a lot more attention in order for the business to succeed, as entrepreneurs seem to have very little knowledge about starting and operating the business.

Lastly, this study can provide a basis for future research. A similar study conducted in five years' time with the changing South African economy could produce a comparative analysis for better decision making. This would assist organisations by supplying these entrepreneurs with a degree of understanding as to the reasons why they operate in the manner they do.
The objective of the research was to obtain an understanding of the factors which inform and influence the growth and sustainability of ethnic entrepreneurs. To satisfy this objective, the researcher had to obtain information from the respondents in the NMBM. Results derived from the information obtained in the study indicate that organisations or suppliers dealing with ethnic entrepreneurs should take certain factors into consideration. (Refer to Chapter 7, Table 7.7.) The SME sector plays a vital role in the economy of South Africa. People with limited skills are often absorbed by this sector. It would be wise for government agencies and institutions to intensify their efforts to ensure that business in this sector has a sound structure and support base. More training should be provided in order to keep the sector sustainable. This will ultimately lead to a boost in the economy of the NMBM and in South Africa generally.
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Dear Respondent

RESEARCH PROJECT: PHASES OF SUSTAINABLE DEVELOPMENT IN SMALL AND MEDIUM ENTERPRISE (SME) RETAIL OUTLETS.

The purpose of this research is to develop and provide a generic ethnic entrepreneurial management model to assist Coca-Cola in achieving growth and sustainability of Small and Medium Enterprise retail outlets within the NMMM community in South Africa.

The research study will be focused on the SME sector within the NMMM which has a standing relationship with Coca-Cola. The study will be conducted amongst all members involved in ethnic businesses. Employees at management level (Coca-Cola) will also be included in the research study where necessary. In attempt to improve its survival prospects, it is therefore important that greater insight in and understanding of the SME sector be obtained. Such insight could facilitate the longevity and financial performance of this important economic business sector and ultimately contribute to the alleviation of poverty in South Africa. This study can help to create visibility around this important discipline. To obtain meaningful results, your co-operation is of particular importance.

Completing the questionnaire should not take more than ten minutes of your time. Please note that no attempt is made to identify you as the individual but rather to be used in the research. Your anonymity is assured and the responses will be treated in the strictest confidence.

I would be grateful this questionnaire is ready for collection at your earliest convenience.

To ensure full accuracy of the survey results I would like you to answer the questionnaire carefully and complete all questions.

Thanking you for your willingness to contribute to success of this important research project.

Yours faithfully

Marlon Brower: Researcher

PO Box 77000 ● Port Elizabeth ● 6031 ● South Africa
Tel: 041 - 404 1000 ● Cell: 082 854 4117 ● Email: mbrower@ccfortune.co.za
APPENDIX 2

SECTION A : FACTORS INFLUENCING SMALL AND MEDIUM ENTERPRISE (SME) RETAIL OUTLETS.

1. DEFINITION : ENTREPRENEURIAL CULTURE

A shared meaning or system, found among those who share a number of common characteristics such as language / Dialect religion, political views, lifestyle patterns and approaches to work in a definable geographic region.

Coca – Cola Perspective

The core values and beliefs of individuals within a society, which are formed in complex knowledge systems during childhood and reinforced throughout life.

Questions

To what extent do you agree with the following statements?

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<tr>
<th>Strongly Agree</th>
<th>Agree</th>
<th>Neutral</th>
<th>Disagree</th>
<th>Strongly Disagree</th>
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1. The community supports this business because of my culture.
2. My business supports culture specific requirements with regards to food preference. e.g. Koshar, Halaal etc.
3. Some cultural groups supports this business for cultural reasons.
4. Certain brands are preferred by certain cultural groups.
5. This business culture is influenced by its cultural values of the members.
6. This business is supported by specific cultural groups.
7. This business will be inherited by a family member. e.g. Son, daughter etc.
8. My family assists me in this business.
9. My children (where possible) are involved in this business from a young age.
10. We normally discuss our business at the dinner table.
11. I involve the whole family in decision making for this business.
12. We bring our children up in an entrepreneurial environment.

2. DEFINITION : PERCEPTIONS OF COCA-COLA BRANDING

A brand is the promise of a bundle of attributes that someone buys and that provides emotional satisfaction. These attributes may be tangible or invisible, material or emotional. It covers the entire consumer experience and includes all the assets critical to delivery and communicating, the product name, the advertising or service.

Coca – Cola Perspective

Brands: The success of any business or consumer product depends partly on the target market’s ability to distinguish one product from the other. Branding is the main tool which markets are to distinguish their products from that of its competitors. A brand is a name, term, symbol, design or combination thereof that identifies a seller’s product and differentiates them from competitors’ products. Branding has the main purpose: product identification, repeated sales, and new product sales. The term brand equity refers to the value of a company and brand names. A brand that has high awareness, perceived quality and brand loyalty among customers has high brand equity. A brand with strong brand equity is a valuable asset.
Questions

To what extent do you agree with the following statements?

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<tr>
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<th>Strongly Agree</th>
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<tr>
<td>1. Consumers can easily identify Coca–Cola products in the market.</td>
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<td>P</td>
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<td>2. Coca-Cola products are well branded therefore influences the rate of sales.</td>
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<td>3. Coca–Cola brands are the most preferred soft drink in my outlet.</td>
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<td>5. Consumers perceive the Coca–Cola brand as a status symbol.</td>
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<td>6. The Coca–Cola brand delivers what it promises e.g. Coca–Cola is refreshing.</td>
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<td>7. Consumers in this store perceive the Coca–Cola brand as superior to that of its competitors.</td>
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<td>8. Coca–Cola’s branding influences the consumer to repurchase the product.</td>
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<td>9. Coca–Cola’s introduction of new products to the market are well received by consumers.</td>
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3. **DEFINITION : SATISFACTORY CUSTOMER RELATIONSHIPS**

To provide an effective delivery service in order to back up what was ordered by the customer. Also to provide the necessary monitory facility. e.g. Credit as and when required. Extending the relationship further than just the sales transaction. e.g. providing Coca – Cola signage to all outlets which stock the brand as well as training to new entrepreneurs who enter the retail business sector. Queries surrounding the Coca – Cola products are addressed by communicating with the customer/consumer, which implies feedback, is crucial to satisfying the needs of the market.

Questions

To what extent do you agree with the following statements?

1. I am satisfied with the signage that Coca – Cola provides for this store.
2. Coca – Cola offers me the payment option of my choice.
3. Coca – Cola provides sufficient cooling (fridges) for its products.

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<td>Y</td>
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</table>
4. I am satisfied with the distribution delivery service offered by Coca – Cola.

5. Coca – Cola provides information on initial set up of business e.g. price list, product list, delivery sequence, etc.

6. I see my Coca – Cola rep every week.

7. My Coca – Cola sales rep responds to my queries / complaints within a timeously.

8. I prefer delivery of Coca – Cola products more frequently.

9. When I order from Coca – Cola I receive exactly what I ordered.

10. My Coca – Cola delivery crew is very helpful.

11. My sales rep assists / guides me with making up my Coca – Cola order.

12. My sales rep ensures that stock rotation takes place weekly.

13. My sales rep ensures that my returns are uplifted every week.

4. DEFINITION : LOCATION FACTORS

These factors are determined by where the market for the product is. A company must ensure that their products are close to its target market. Accessibility of both the suppliers of raw materials and that of the distribution network is vital in order to maintain productivity. Infrastructure of roads, railway lines, parts, etc, must be taken into consideration before deciding on where to locate a factory / site.

Questions

To what extent do you agree with the following statements?
1. My business premises is ideally situated to satisfy the needs of my customers.
2. My business is easily accessible e.g. roads, entrances and exits.
3. My business is situated in an ideal location for trading.
4. My business is close to the consumer target market.
5. My business is situated away from my competitors.

5. DEFINITION: GROWTH

Refers to the sustained increase of turnover, employees and volumes of a particular business over a number of years. This may also include the increase in site of the premises and the assets acquired since starting the business.

Questions

1. This annual turnover of this business in 2005 was:
   a) between 0 – 50 thousand Rand / annum
   b) between 51 – 150 thousand Rand / annum
   c) between 151 – 300 thousand Rand / annum
   d) between 301 – 500 thousand Rand / annum
   e) more than 500 thousand Rand / annum

2. What is the sales growth of this business in the last 2 years?
   a) Less than 1 %
   b) between 5 – 10 %
   c) between 10 – 15 %
   d) between 15 – 20 %
   e) more than 20 %
3. My business initially started with:

a) between 1 – 5 employees
b) between 6 – 10 employees
c) between 11 – 15 employees
d) more than 15 employees

4. Number of employees currently employed in this business

a) between 1 – 5 employees
b) between 6 – 10 employees
c) between 11 – 20 employees
d) between 21 – 50 employees
e) more than 50 employees

5. Value of assets at inception of this business.

a) 1 – 50 thousand
b) 51 – 100 thousand
c) 101 – 200 thousand
d) 201 – 300 thousand

6. I estimate the current value of the assets of the business at:

a) less than 50 thousand
b) between 50 – 100 thousand
c) between 51 – 150 thousand
d) between 151 – 250 thousand
e) between 251 – 350 thousand
f) more than 350 thousand

7. Initially my business floor space was:
6. **DEFINITION : SUSTAINABILITY**

Refers to the company’s ability to continue its momentum as and when new competitors enter the markets. The company must be able to sustain its market share in a volatile market in order to remain profitable. It is basically the organisations ability to remain in business from day to day and to sustain its viability into the future.
Questions

To what extent do you agree with the following statements?

1. This business is sustainable?
2. How long is this business in operation?
   a) between 0 – 1 years
   b) between 1 – 3 years
   c) between 3 – 5 years
   d) between 5 – 7 years
   e) between 7 – 9 years
   f) more than 9 years
3. This business has gained market share over the past 3 years?
4. This business faces strong competition the market.
5. My business has great possibility of improving market share.

7. **DEFINITION : KNOWLEDGE WITH REGARD TO THE BUSINESS**

This refers to the business having competent individuals who have the required skills in order to make the business a success. Examples of such skills would encompass experience
in the field of entrepreneurship, management skills, market / competitive environment, marketing issues, HR issues, bookkeeping, financial planning of analysis, income generation.

Questions

To what extent do you agree with the following statement

1. All managers / supervisors in this business are experienced in entrepreneurship.
2. All managers / supervisors in this business have had managerial training.
3. This business seeks outside advice when needed.
4. Market research is done in order to align the business goals with that of the market.
5. This business has provision for contingency plans in the event of a major problem. e.g. strike, flood, power failure, etc.
6. This business has adequate financial controls.
7. This business has a detailed business plan.
SECTION B : BIOGRAPHICAL INFORMATION

1. What culture group does your business represent?

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<th>Black</th>
<th>Asian</th>
<th>Others</th>
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2. In what area is your business located?

- Port Elizabeth
- Uitenhage
- Despatch

3. How many employees work fulltime in your business?

- One - Three
- Four - Five
- Five - Ten
- Ten - More

4. How many employees work part-time in your business?

- One - Three
- Four - Five
- Five - Ten
- Ten - More

5. Do you regard your business as a family business?

- Yes
- No

6. Please indicate the gender of the owner/s of the business.

- Male
- Female
- Male and Female

7. Is this business your only source of income for the family?

- Yes
- No

8. Please indicate the form of ownership of your business.

- Sole proprietorship
- Partnership
- Close Corporation
- Private Company
- Business trust
- Other (Please Specify)