

# OWNERS' DEMOGRAPHIC FACTORS AND AWARENESS OF GOVERNMENT SUPPORT PROGRAMMES BY IMMIGRANT ENTREPRENEURS IN SOUTH AFRICA

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## ABSTRACT

*Immigrant entrepreneurs contribute to local economic development and poverty reduction through the creation of employment. However, immigrant businesses have a high failure rate. Government support programmes can enhance the performance of immigrant-owned businesses. The study examined the level of awareness of government support programmes by immigrant entrepreneurs. In addition, the study investigated the effect of owners' demographic factors (gender and level of education) on the awareness of government support programmes. The study utilised the quantitative research approach with a descriptive research design. The survey method was used for data collection. Self-administered questionnaires were used to collect data from the participants in the survey. The convenience and snowball sampling methods were used to identify the survey participants. One hundred and seventy-two participants participated in the study. Descriptive statistics and the independent samples T-test were used for data analysis. The results indicated that the vast majority of the immigrant entrepreneurs are not aware of the three major agencies that support small businesses in South Africa. Male immigrant entrepreneurs showed a slightly higher level of awareness of government agencies compared to female entrepreneurs. However, there was no statistically significant gender difference on the awareness of government support programmes by immigrant entrepreneurs. Entrepreneurs with tertiary education showed a higher level of awareness compared to entrepreneurs with Matric or lower qualifications. The T-test results indicated a significant difference in the level of awareness based on the level of education. The study concluded that government support programmes are crucial for the growth and sustainability of immigrant small businesses. Government agencies were recommended to include immigrant entrepreneurs in their strategic and operational framework. Immigrant entrepreneurs were encouraged to actively search for government support programmes.*

**Keywords:** Awareness, Immigrant, Entrepreneurs, Government Support Programmes, South Africa.

## INTRODUCTION

The issue of migration has become a world phenomenon (Kalitanyi & Visser, 2010). Migration has resulted in globalisation which has seen nations falling under one global village (Awuah & Amal, 2011). There is an exodus every year of people moving from one country to another for many reasons such as seeking asylum from political persecution from their home countries, seeking refugee after natural disasters befall their counties and the last group consisting of people looking for greener pastures in form of jobs and other business opportunities

(Garg & Phayane, 2014). In South Africa, there has been an influx of immigrants from other parts of Africa as well as other continents since 2004 (Asoba, 2014). Considering the above, it entails that nations should accept migration as a reality and therefore find ways to incorporate immigrants into their systems to harness the benefits brought by immigrants (McKinley, 2006).

South Africa is currently facing a high unemployment rate, which is estimated to be 27.1% (Statistics South Africa, 2016). In addition, South Africa is among the countries with high levels of poverty and income inequality (Kalitanyi & Visser, 2010). Wong and Primecz (2011) as well as Garg and Phayane (2014) remark that immigrant businesses contribute immensely to local economies in which they operate in. Kalitanyi and Visser (2010) found out that 80% of immigrant small businesses employ South Africans. First world countries like the United States of America (USA) acknowledge the power of immigrant small businesses in bringing innovation, employment and economic prosperity (Aguilar, 2013). This shows that small immigrant businesses have a huge potential to transform into future large conglomerates that the host country can benefit from. However, immigrant small businesses have a high failure rate (Asoba, 2014). This can negatively affect the ability of immigrant-owned small businesses to contribute to employment creation and poverty reduction in South Africa. A variety of measures are needed to improve the success rate of immigrant small businesses.

Government support programmes can enhance the performance of immigrant businesses. Government support programmes for small businesses include the provision of finance and training among others (Reid & Nightingale, 2011; Sternberg, 2014). According to Cancino et al. (2015), small businesses which receive government support are likely to perform better than the ones without support. Small businesses require resources to ease the flow of their business operations. These include human resources, physical capital and financial resources. According to the Department of Trade Industry (2008), the government of South Africa can enhance small business performance by formulating different support strategies. The government of South Africa has made remarkable strides in designing a plethora of programmes to boost small businesses. However, there is debate about the level of awareness and use of government programmes by the small business sector (Radipere, 2012; Peberdy, 2016). In addition, owners' demographic factors can influence networking, awareness and use of government support programmes by small businesses (Yusoff et al., 2010).

## **OBJECTIVES**

This study aimed to achieve the following objectives: (1) to examine the level of awareness of government support programmes by immigrant entrepreneurs, (2) to investigate if there is a significant gender difference in the level of awareness of government support programmes by immigrant entrepreneurs and (3) to examine if there is a significant difference in the level of awareness of government support programmes by immigrant entrepreneurs on the basis of the level of education.

## **LITERATURE REVIEW**

### **Definition and Theory of Immigrant Entrepreneurship**

According to Kobia and Sikalieh (2010), the behavioural approach argues that *“an entrepreneur is an individual who establishes and manages a business for the principal purpose of profit and growth and is characterised principally by innovative behavior and employs*

*strategic management practices*". Similarly, Schumpeter (1934) sees an entrepreneur as an innovative individual who comes up with new systems and combinations of production, new products and services which eventually feeds into economic growth and development. On the other hand, the opportunity identification approach argues that an entrepreneur is someone who is opportunity oriented and commits resources to convert that opportunity into a profitable venture. Existing literature summarises the above approaches to define an entrepreneur as someone who is opportunity oriented, innovative, risk taking, goal driven, profit oriented, persistent, determined to achieve, self-motivated and driven by the desire for autonomy among others (Schumpeter, 1934; McClelland, 1961; Drucker, 1970). According to Nieman and Nieuwenhuizen (2009), an entrepreneur "*Is a person who sees an opportunity in the market, gathers resources, and creates and grows a business venture to meet customer needs.*" The term entrepreneurship defies a uniform definition (Kobia & Sikalieh, 2010). Radipere (2012) defines "*entrepreneurship as a process of creating new ventures in a bid to realise economic gains.*" On the other hand, Rwigema and Venter (2004), define entrepreneurship as "*The process of conceptualising, organising, launching and through innovation, nurturing a business opportunity into a potentially high growth venture in a complex and unstable environment.*" The term "*entrepreneur*" is often used interchangeably with a "*small business owner*" (Fatoki, 2014). Immigrant entrepreneurship is defined as a process where an immigrant undertakes to venture into new business creation in the host country (Tengeh et al., 2011; Fatoki & Patswawairi, 2012). As indicated by Aaltonen and Akola (2014), an immigrant entrepreneur is an individual who have migrated from the host nation and starts a business venture to realise economic gains.

This study used three base theories to explain the dynamics of immigrant entrepreneurship. These include; the middleman minority theory, the ethnic market niche theory and the ethnic enclave economies theory. The middleman minority theory argues that immigrants are more likely to be concentrated in a particular sector of the industry where they quickly realise profits and other economic gains. In support of the middleman minority theory, studies such as Kalitanyi & Visser (2010) as well as Peberdy (2016) found out that a significant number of immigrant entrepreneurs operate in the retail and service sectors where they quickly make profits with little capital investment. The ethnic market niche theory postulates that immigrant small businesses start by seizing business opportunities available in their ethnic groupings. These opportunities are sustained by networking and socialisation among the different ethnic immigrant groups for example Indians, Nigerians, Chinese, Zimbabweans and Zambians among others. On the other hand, the ethnic enclave economies theory argues that immigrant entrepreneurs capitalize on the business opportunities in abandoned areas and markets in the host country (Halkias et al., 2009). The three theories discussed above form the basis to understand how immigrant small businesses operate and how they end up in the sectors they operate in.

The contribution of immigrant small businesses to local economies is acknowledged worldwide. Garg and Phayane (2014) remark that "*immigrant entrepreneurs start 17 percent of all new businesses in the United States and represent 13 percent of all business owners.*" Furthermore, Garg and Phayane (2014) argue that immigrant small businesses contribute foreign direct investment to local economies given that their startup capital comes from their countries of origin. A significant number of immigrant small businesses are started with startup capital of \$50,000 and above which is a boost to the local economy (United States Small Business Administration, 2012). Fatoki (2014) argues that immigrant small businesses benefit local economies through job creation and act as poverty alleviation mechanisms. Results from a study conducted by Kalitanyi and Visser (2010) revealed that 82% of the immigrant entrepreneurs in

South Africa employ local people. Peberdy (2016) notes that immigrant entrepreneurs not only contribute to employment but also greatly contribute to the tax base of a country. It is also important to note the benefits of business linkages brought by immigrant entrepreneurs as they buy most of their stock from local suppliers. Chrysostome and Arcand (2009) remark that immigrant entrepreneurs also transfer business skills to the local people that they employ. Halkias et al. (2007) add that immigrant entrepreneurs tend to occupy deserted locations and markets hence bringing development in such areas. Immigrant entrepreneurs tend to create new businesses at a faster rate which is favourable for local economic development (Nestorowicz, 2011). Hohn and Mohammed (2012) remark that immigrant small businesses offer tailor services to their local markets.

However, the performance of many immigrant small businesses in the form of sales growth and profitability is weak (Fatoki & Garwe, 2010; Rogerson & Rogerson, 2011). Existing literature attribute this to factors such as crime, xenophobia, unsupportive legal environment, lack of capital among others. This has become a concern for policy makers given the potential of immigrant small businesses towards contributing to economic prosperity to host countries (Asoba, 2014; Kalitanyi, 2007).

### **Government Support Programmes for Small Businesses**

**Theoretical foundation of government support:** Government support programmes include all the mechanisms, systems, policies and structures put in place by the government to assist small businesses (Radipere, 2012). Some theoretical justifications for government support of the small business sector especially in the provision of finance can be linked to the credit rationing and the discouraged borrowers' theories. The credit rationing theory by Stiglitz and Weiss (1981) points out that credit rationing is said to occur if: (1) among loan applicants, some receive credit while others do not; or (2) there are identifiable groups in the population that are unable to obtain credit or can only obtain credit at much higher prices. The Stiglitz and Weiss' theory therefore suggests that there are significant numbers of small businesses that could use funds productively if they were available but cannot obtain finance from the formal financial system. Credit rationing is caused by factors such as information asymmetries, lack of collateral, high transaction costs and investors risk aversion. This leads to a market failure and a financing gap. Market frictions lead to exclusive financial systems and force entrepreneurs to rely on personal wealth and internal resources. Discouraged borrowers theory by Kon and Storey (2003) argues that potential borrowers can refuse to apply for credit because they fear that their applications will be rejected. Thus, policy measures to improve access to external finance by small businesses should focus on broadening the range of financial and non-financial sources and instruments. These policies include government support programmes (Erastus et al., 2014).

### **Government Programmes for Small Businesses in South Africa**

In South Africa, the government has made remarkable strides in designing a plethora of programmes to boost small businesses. The initiative started with the establishment of the 1995 white paper with the mandate to increase financial and non-financial support, create a demand for the products and services provided by small businesses and reduce regulatory constraints. To further support this mandate, the government established different bodies such as Small Enterprise Development Agency (SEDA), Small Enterprise Finance Agency (SEFA), South African Micro-Finance Apex Fund (SAMAF), National Youth Development Agency (NYDA),

the Technology and Innovation Agency (TIA) and the National Empowerment Fund (NEF). The Department of Small Business Development was also established in 2014 to closely monitor the above government bodies and achieve the mandate to boost the small business sector in the country. Out of all these agencies, the three major agencies include SEFA, SEDA and the Department of Small Business Development. SEFA helps small business with financial products while SEDA assists small businesses with non-financial products such as training and the writing of business plans. The Department of Small Business Development provides grants and non-financial support for small businesses.

### **Awareness of Government Support Programmes**

Osano and Languitane (2016) found that small business support services established by government influence access to finance by small businesses. Rambo (2013), however, points out that the majority of small business owners are not aware of these support services. The lack of awareness occurs in both developing and developed countries. Philips et al. (2014) in a study of native small businesses in South Africa found that a minority of the respondents in the study were aware and received government support. Mahajar and Yunus (2006) and Yussoff et al. (2010) in studies that focused on small businesses in Malaysia found that the level of awareness of government support programmes is low. In addition, the low level of awareness is one of the factors that contribute to the weak usage of the government advisory services.

### **Gender and Awareness of Government Support Programmes**

The social feminist theory suggests that women differ inherently, because of differences derived from early socialisation (Calas & Smircich, 1989). However, the literature is inconclusive about gender difference in entrepreneurship. Shava and Rungani (2016) provide evidence to indicate that there is no significant difference in the performance of male-and female-owned small businesses. Thusi and Zondo (2016) found that most female and male SMEs are not aware of Government Financial Incentive Schemes (GFIS). There is no significant gender difference in the level of awareness. Marlow and Carter (2005) investigated the role of accountants in women's entrepreneurship and access to finance. The researchers found that women entrepreneurs are more risk averse and are more inclined to seek advice on informal finance rather than formal financing sources. Robson et al. (2008) found that women have a slightly higher use of accountants and banks and a significantly greater level of use of government backed business advice. According to Watson (2012), there is no significant gender difference in networking. This study hypothesises that there is no significant gender difference in the level of awareness of government support programmes by immigrant entrepreneurs.

### **Level of Education and Awareness of Government Support Programmes**

Extant literature tends to agree that the level of education affects the quality of human capital. Commercial banks perceive owners with higher educational qualification as more creditworthy compared to those with lower qualifications. Educated owners are relatively well informed about bank credit services and its requirements (Ogubazghi & Muturi, 2014). Greve and Salaff (2003) and MacGregor (2004) found that the level of education positively impacts on networking by small business owners. This suggests that the level of education can affect the awareness of government support programmes. It is hypothesised that there is a significant

difference in the level of awareness of government support programmes based on the level of education of the immigrant entrepreneur.

## METHODOLOGY

All research is based on some underlying philosophical assumptions about what constitutes valid research and which research method(s) is/are appropriate for the development of knowledge in a given study (Antwi, & Hamza, 2015). There are two main research philosophies the positivism and the phenomenology. The positivism philosophy was adopted for this study. According to Thomas (2010:294), "*Positivistic thinkers adopt scientific methods and systematize the knowledge generation process with the help of quantification to enhance precision in the description of parameters and the relationship among them*". This philosophy was adopted since the study intended to employ a quantitative methodology to collect, analyse and make generalisations from results obtained in the survey. A deductive research approach was further used where existing literature about the particular topic was reviewed to construct a conceptual framework/theory that was to be tested through a set of data. The study adopted a quantitative research method with a descriptive research design. The study area was Johannesburg Central Business District (CBD) located in the Gauteng province of South Africa. Johannesburg was chosen because of the large number of immigrant entrepreneurs located in the city (Fatoki, 2014; Chinomona & Maziriri, 2015). A pilot survey was conducted prior to the actual data collection stage to: (1) detect possible flaws in measurement procedures (including instructions, time limits and in the operationalisation of independent variables, (2) identify unclear or ambiguous items in a questionnaire and (3) pick out the non-verbal behaviour of participants which may give important information about any embarrassment or discomfort experienced concerning the content or wording of items in a questionnaire (Calitz, 2009). On that note 40 questionnaires were distributed following a recommendation by Hazz and Maldaon (2015) that a sample size of 10-20% is appropriate to conduct a pilot study. The survey method was used for data collection. The self-administered questionnaire was used to collect data from the survey participants. Question items about the level of awareness and use of government support programmes were constructed based on existing literature (Kalitanyi, 2007; Fatoki, 2014). The five-point Likert scale ranging from "*1 not aware at all to 5 extremely aware*" was used to measure the level of awareness. Because of the large number of government agencies that support small businesses in South Africa, the study focused on three government agencies. These are the Small Enterprise Development Agency, the Small Enterprise Finance Agency and the Department of Small Business Development. The convenience and snowball sampling methods were used to identify the survey participants. Descriptive statistics and the independent samples T-test were used for data analysis.

## RESULTS AND DISCUSSION

### Response Rate and Biographical Information

Four hundred questionnaires were distributed to immigrant entrepreneurs in Johannesburg Central Business District and one hundred and seventy-two questionnaires were completed and returned. The response rate was forty-three percent. 67% of the respondents were male and 33% female. Most of the respondents (41%) are in the 31-40 years category with

Matric or equivalent qualification (52%) and employing two people (37%). All the respondents were from other African countries.

### Awareness and Use of Government Support Programmes by Immigrant Entrepreneurs

<b>Statement</b>	<b>Not at all aware</b>	<b>Slightly aware</b>	<b>Somewhat aware</b>	<b>Moderately aware</b>	<b>Extremely aware</b>
I am not aware of the Small Enterprise Development Agency	135	33	0	4	0
I am aware of the Small Enterprise Finance Agency	133	33	2	4	0
I am aware of the Department of the Small Business Development	141	21	8	2	0

As indicated by Table 1 above, the vast majority of the respondents are not aware of the three major agencies that support small businesses in South Africa. Awareness is a prelude to the use of these government agencies that support small businesses with their products and services. The findings are consistent with previous empirical studies about the awareness and use of the products and services of government agencies that support small businesses in South Africa (Yusoff et al., 2010; Rambo, 2013). Rambo (2013) points out that the majority of small business owners are not aware of government support services. Osano and Languitane (2016) found that small business support services established by government influence access to finance by small businesses. However, since the surveyed immigrant entrepreneurs are not aware of government support programmes, this negatively affect their chances of accessing finance and other relevant information to grow their businesses. Consequently, as explained by the Discouraged Borrowers' Theory by Kon and Storey (2003), most immigrant entrepreneurs in South Africa have already given up applying for funding from banks due to high credit decline rate.

### Gender Difference

<b>Factors</b>	<b>Female Mean</b>	<b>Male Mean</b>	<b>t-statistic</b>	<b>Sig. level</b>
I am not aware of the Small Enterprise Development Agency	1.43	1.46	1.51	0.37
I am aware of the Small Enterprise Finance Agency	1.42	1.53	1.50	0.29
I am aware of the Department of the Small Business Development	1.13	1.14	1.33	0.49

Note: Sig<0.05.

Table 2 above shows the results of the T-test for gender difference on the awareness of government support agencies by immigrant entrepreneurs. Male immigrant entrepreneurs have a slightly higher level of awareness of government agencies compared to female entrepreneurs as depicted by the means. However, there is no gender difference on the awareness of government support programmes by immigrant entrepreneurs. The hypothesis that there is no significant gender difference in the level of awareness of government support programmes by immigrant entrepreneurs is accepted. Previous empirical studies such as Watson (2012) and Thusi and Zondo (2016) obtained similar findings about gender difference in awareness and networking by entrepreneurs. Thusi and Zondo (2016) found that most female and male SMEs are not aware of

Government Financial Incentive Schemes (GFIS). The results suggest that lack of awareness does not depend on whether one is a male or a female. Both groups are equally affected.

### Level of Education Difference

<b>Factors</b>	<b>Matric and below Mean</b>	<b>Tertiary Mean</b>	<b>t-statistic</b>	<b>Sig. level</b>
I am not aware of the Small Enterprise Development Agency	1.15	1.78	1.56	0.02
I am aware of the Small Enterprise Finance Agency	1.13	1.80	1.61	0.00
I am aware of the Department of the Small Business Development	1.09	1.83	1.44	0.01
	1.11	1.13	1.22	0.03

Note: Sig<0.05.

Table 3 shows the results of the T-test for the level of education difference in the awareness of government support agencies by the respondents. Entrepreneurs with tertiary education have a higher level of awareness compared to entrepreneurs with Matric or lower qualifications. The T-test results indicate a significant difference in the level of awareness based on the level of education. The hypothesis that there is a significant difference in the level of awareness of government support programmes based on the level of education of the immigrant entrepreneur is accepted. According to Greve and Salaff (2003) and MacGregor (2004), the level of education can positively affect networking by small business owners. Through networking, one can unlock opportunities in their networks based on people who have information about government support programs. The level of education affects the quality of human capital. Educated owners are relatively more knowledgeable about credit services and its requirements. The authors of this study believe that education improves one's alertness to opportunities such as government support programmes. This is supported by the fact that some of these government support programmes and agencies responsible for such are covered in the course materials of most tertiary qualifications in the case of immigrant entrepreneurs who obtained some of their tertiary qualifications in South Africa.

### CONCLUSION

Immigrant entrepreneurs contribute positively to the socio-economic development of South Africa. Immigrant-owned businesses contribute immensely to local economies in which they operate and employ South Africans. However, immigrant small businesses have a high failure rate. A variety of measures are needed to improve the success rate among immigrant small businesses. Government support programmes can enhance the performance of immigrant businesses. Government support programmes for small businesses include the provision of finance and training among others. Small businesses that receive government support are likely to perform better than the ones without support. The purpose of this study was to investigate the level of awareness of government support programmes by immigrant entrepreneurs. In addition, the study examined the effect of owners' demographic factors on the awareness of government support programmes. The results indicated that the vast majority of the immigrant entrepreneurs are not aware of the three major agencies that support small businesses in South Africa. Male

immigrant entrepreneurs have a slightly higher level of awareness of government agencies compared to female entrepreneurs. However, there is no statistically significant gender difference about the awareness of government support programmes by immigrant entrepreneurs. Entrepreneurs with tertiary education have a higher level of awareness compared to entrepreneurs with Matric or lower qualifications. The T-test results indicate a significant difference in the level of awareness based on the level of education.

## RECOMMENDATIONS AND FUTURE RESEARCH

Government agencies should include immigrant entrepreneurs in their strategic and operational framework. These agencies should create awareness of government agencies and their products and services through the media. Government agencies can also create awareness through field agents that will visit immigrant entrepreneurs and their ethnic associations. Municipalities can also help to create awareness through information sharing with the immigrant entrepreneurs. This can be done through the assistance of ethnic associations. Immigrant entrepreneurs are encouraged to actively search for government support programmes. Future studies should examine the effect of firm factor (i.e., length of operation of the business) on awareness of government support programs. In addition, the effect of awareness and use of government support programmes on the performance of immigrant entrepreneurs can as well be investigated by future studies.

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