



## Exploring the African Immigrant Entrepreneurship - Job Creation Nexus: A South African Case Study

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### ABSTRACT

Generally, the role and importance of African immigrant entrepreneurship had been rarely elaborated with perspectives to its contribution to job creation. Therefore, the aim of this paper was to assess the contributions made by African immigrant entrepreneurs' towards employment creation in the Eastern Cape Province, South Africa. Pragmatic paradigm was adopted and mixed methods research design was selected. Data obtained for 165 entrepreneurs through questionnaire and semi-structured interviews formed the basis for the analysis. Descriptive and content analyses were used to analyse data. The results of the study revealed that immigrant small, medium and enterprises contribute towards employment creation, and where the majority employed is locals. Adaptive immigration policy thus requires a holistic appreciation of the African immigrants' contributions to the economy which stimulate economic growth and new business opportunities. The research contributes to the sparse knowledge on immigrant entrepreneurship in an emerging economy setting. It provides empirical support for the theoretical relationship between African immigrant entrepreneurship and host country's economic growth.

**Keywords:** Immigrant Entrepreneurship, Job Opportunity, Small, Medium and Micro-enterprises

**JEL Classifications:** J15, L26, M10

### 1. INTRODUCTION

Following her independence in 1994, South Africa has had tremendous growth over years and as such, is counted to be one of the largest economies on the African continent (Chamunorwa and Mlambo, 2014; Asoba and Tengeh, 2016; Ntema, 2016) thus, accounting for about 24% of Africa's gross domestic product (Brewer and Gibson, 2014; Chamuorwa and Mlambo, 2014). As a result of its strong economic system, relatively stable political environment among other advantages, it has become a destination of choice for many Southern and Sub-Saharan Africa's immigrant entrepreneurs (IOM, 2006; Fatoki, 2014; Ntema, 2016. p45). These immigrant entrepreneurs are characteristically ambitious (Khosa and Kalitanyi, 2015) so as to live on and confront discrimination in the restricted labour market (Bogan and Darity, 2008; Tengeh et al., 2012).

As elsewhere in the world, the South African literature has documented that immigrant entrepreneurs are important drivers for socio-economic development (Ojo et al., 2013; Fatoki, 2014; Ntema, 2016). It has also been established that through their vitality they identify, exploit and create new businesses opportunities that have important implications for the South African economy (Kalitanyi and Visser, 2010; Tengeh et al., 2012; Fatoki, 2014). Further, through employment, there is a reduction in crime, poverty and inequality thereby motivating economic growth.

Despite claims that migrant labour was one of the factors that caused unemployment in South Africa (Chamunorwa and Mlambo, 2014), one of the most debatable issues in recent times in the South African literature has been the impact of African immigrant entrepreneurship on reducing unemployment. Furthermore, Chamuorwa and Mlambo (2014) and also Lemes

et al. (2010) assert that the effect of immigration on unemployment has been central to the social, economic and political debate in recent years. Ojong (2006) posit that adapting these immigrants into the mainstream economy may result in positive spin-offs in the form of economic growth, employment and poverty reduction.

With the above discussion in mind, it is critical to this study to examine implications of immigrant-owned businesses for employment opportunities. In essence, the paper argues that immigrant entrepreneurs, particularly Africans have had a positive effect on the local socio-economy. In order to examine the contribution of African immigrant enterprises to creation of job opportunities, this paper begins with a brief review on economic contributions of African immigrant owned small, medium and enterprise (SMEs), followed by a discussion on employment opportunities created. It then highlights the conceptual framework of the study, methods and empirical evidence from the survey and interviews; finally, the paper concludes by drawing out the implications of findings for South Africa.

## 2. LITERATURE REVIEW

### 2.1. Immigrant Entrepreneur and Entrepreneurship

Some researchers (for example Vinogradov, 2008; Kahn et al., 2013; Aaltonen and Akola, 2014) have pointed out that, an immigrant entrepreneur is that individual who has immigrated to a different country, although lacks the host country's citizenship status, but establishes a business in that country for economic purposes. The concept of immigrant entrepreneurship has become an important socio-economic phenomenon, as it plays a critical role in economic development. This endeavour creates jobs through new business ventures that contribute to wealth creation in the country. Furthermore, an immigrant entrepreneur or business proprietor involved in entrepreneurship activities of economic innovation and business improvement, whilst seeking profit in a given market sub-sector (Aaltonen and Akola, 2014). Immigrant entrepreneurship therefore, is the process by which an immigrant establishes a business in a host country other than his/her native country (Dalhammar, 2004). In summary, the two concepts briefly discussed above highlight the nexus between them, making it relevant to this paper.

### 2.2. SMEs Contributions to Trade and Industry

A study by Hohn (2012) found that immigrant entrepreneurs have created and/or co-own over 25% all science and technological firms in the US. Similarly, in Europe recent studies (DeLancey, 2014; Fairlie and Lofstrom, 2014; Marchand and Siegel, 2014) have shown that two thirds of jobs and related economic benefits within the EU communities are as a result of immigrant SMEs. Studies carried out in South Africa (Maharaj, 2009; Kalitanyi and Visser, 2010; Tengeh et al., 2012), have indicated that immigrants contribute actively to the economy as workers, consumers and entrepreneurs. Emphasising the need for inclusion, Maharaj (2009) argued that restricting the benefits of the country from immigrants would be short-sighted as they are unlikely to vanish, given the political and socio-economic conditions that prevail on the African continent. Fairlie (2012) and also Fairlie and Lofstrom (2014) assert that immigrant businesses significantly contributed 12%

of the total business income in the US economy. In addition, it was ascertained that immigrant entrepreneurs establish 17% of all new start-ups, a representation of about 13% of all business owners (Fairlie, 2012). Such aforementioned findings lead to the conclusion that new wealth, jobs and skills are created through immigrant entrepreneurship (Radipere, 2012; Kalitanyi and Visser, 2010). Therefore, they are a vital to a countries growth, standing and socio-economic wellbeing.

### 2.3. SMEs Role in Employment Creation

Employment creation is the act of providing new jobs in response to unemployment situation to mostly the unemployed. Many immigrants establish businesses as an alternative to working in low-wage jobs in their initial years after arriving in host country (Hohn, 2012). Many of these businesses offer retail or personnel services that are required by neighbourhood ethnic groups. These businesses act as a means to counter unemployment, and are becoming the leading employers in the South Africa's economy due to loss and/or lack of jobs to a majority of the populaces amid limited employment opportunities in the economic system (Kongolo, 2010). Hohn (2012) states that immigrant entrepreneurs have aided economic recovery by fostering commerce, innovation, and job growth. Even when jobs are not being created in certain communities, the economic benefits flowing within the sector are often noticed (Tengeh et al., 2012; Fatoki, 2013). The creation of substantial work by immigrant-owned SMEs could benefit the low income population because they are the ones involved in the direct employment (Fairlie, 2010; Kalitanyi and Visser 2010; Tengeh et al., 2012). As such, immigrant SMEs therefore, act as catalyst for income distribution because there is engagement of the lower income population. With growing population and scarcity of work for the locals, there is a need for new businesses in today's South Africa. It is believed that the start-up and growth of such entities could lessen the ever rising poverty through job creation (Tengeh et al., 2012) since, it has been established that one of the ways to cut down unemployment is the development of the immigrant SME sector (Fatoki, 2013).

Although the important role that immigrant-owned businesses play in the economy has long been established and promoted in countries such as the US, Canada, Finland, Britain (DeLancey, 2014; Fairlie and Lofstrom, 2014; Marchand and Siegel, 2014), this cannot be said of South Africa. Noting the deficiency in context specific research exploring job creation generated by African immigrant entrepreneurs and the impact of functional constraints experienced in the Eastern Cape province of South Africa, the current study fills a gap. This study contributes to knowledge by offering immigrant entrepreneurship as an important contributor to job creation in the host nation.

## 3. RESEARCH FRAMEWORK

This paper is supported by the ethnic entrepreneurs' theory (Waldinger et al., 1990) which attempts to explain immigrant entrepreneurship based on three interactive components, namely: Access to opportunities, group characteristics, and emergent strategies. Opportunity structure describes the market conditions under which the immigrant businesses operate, i.e. the market

conditions which may favour products or services orientated to co-ethnics or to the non-ethnic market. The ease with which immigrant entrepreneurs' access business opportunities is highly dependent on the level of inter-ethnic competition and state policies. For example, in South Africa, the past decade has seen aggressive competition between native-owned small business operators and businesses ran by African immigrants (Liedeman et al., 2013). In addition, the immigrant-owned business tended to flourish. Apart from the zeal and a culture of prudence portrayed by African immigrant entrepreneurs, opportunities for business that present themselves such as serving the needs of poorer consumers by making available inexpensive products anywhere and anytime therefore meeting their specific demands are usually exploited (Washinyira, 2015).

Group characteristics define predisposing factors such as selective migration, culture and aspiration levels. They include the possibility of resource mobilisation and ethnic social networks, trust, general organising capacity, and government policy that constrains or facilitates resource acquisition. Coulthard and Loos (2007) contend that building and managing personal relationships with particular individuals such as family members (Granabeter, 2017) and firms' surrounding their business is important and employ networking tactics to exploit existing opportunities. Sufficient networking can create space for immigrant entrepreneurs to share ideas and even their problems (Khosa and Kalitanyi, 2015). However, this has been complicated by the government through implementation of stringent regulations on immigrant business owners (Asoba and Tengeh, 2016). The final component of the model describes the ethnic strategies that emerge from the interaction of opportunities and group characteristics, as ethnic groups adapt to their environments (Waldinger et al., 1990). It has been noted (Aaltonen and Akola, 2014) that through interaction among immigrant entrepreneurs and host entrepreneurs, the former are able to gain new skills in entrepreneurship. Small businesses owned by immigrants tend to be competitive by adopting niche strategies such as flexibility, quality products and responding to the specific needs of the customers (Mac and Bhaird, 2010). With such new ideas and improved product and service offerings they promote their business operating environments. Furthermore, through competitive ways, immigrant entrepreneurs tend to drive away monopoly in the local markets (Mason and Rown, 2013).

The strong point of this theory is that it provides a broader picture of how immigrants explore their host environments. Therefore, it fits this study because it allowed to scientifically examining the role and importance of immigrants' entrepreneurship in host countries in employment creation (Habiyakare et al., 2009).

#### 4. RESEARCH DESIGN AND METHODS

A survey using a mix of quantitative and qualitative approaches was employed (Creswell, 2014). Purposive sampling of two major municipalities in the Eastern Cape Province was undertaken. Study participants were drawn from a population of all African immigrant entrepreneurs owning SMEs. This was easily

facilitated through records obtained from the municipalities and Business Support Centres. Some participants were reached through referrals. All SME-owner/managers were approached in advance and informed about the survey at their designated areas of business operations. All those who responded positively to the invitation were requested to participate in the survey thereafter. In total, 200 entrepreneurs were then sampled, out of which 165 participated in the survey within the municipalities in the Eastern Cape. Primary data was then collected from participants using questionnaires which were completed onsite while some were dropped off and picked up from participants at an agreed date and time. On the other hand, 12 individual semi-structured interviews were completed at the respondent's business premise, and were conducted in English and/or Pidgin English. Interviews took between 15 min and 30 min and transcriptions were done within the 1<sup>st</sup> week after they were first recorded. Complete data from African immigrant entrepreneur respondents was analyzed descriptively using quantitative techniques. Descriptive tools were employed to describe the nature of businesses and how they have helped creating work opportunities while content analysis was used in the analyses of data from interviews where coding, categorisation and identification of themes were done (Creswell, 2014. p65; Sekaran and Bougie, 2016. p26-28).

#### 4.1. Ethical Issues

All ethical requirements expected from a researcher were put into use (Sekaran and Bougie, 2016). Permission was sought through obtaining ethical clearance from Walter Sisulu University. Written informed consent was obtained from all participants before data collection. Data collected were stored securely and where verbatim quotes were from interviews were used, no reference was made to participants' names, instead, pseudonyms were used to maintain confidentiality.

### 5. EMPIRICAL FINDINGS

In terms of general profile of respondents (n = 153), 69.9% were males, 68.6% were between 31 and 40 years of age, 17.6% were between 41 and 50 years while 12.% were aged 30 years and below. The majority of the entrepreneurs (35.3%) were from Nigeria. The analysis obtained a computed  $\chi^2$  value of 75.340, with 22° of freedom and a P = 0.001, suggesting up to 95% chance that country of origin and form of business ownership were significantly associated. These were followed by 26.8% Cameroon and Ghana 17.6%. In terms of the duration they had stayed in South Africa, the majority (54.8%), indicated to have lived between 5 and 10 years, followed by those who had lived between 11 and 15 years (25.5%). About 58.8% of the respondents has been in business in South Africa for between 5 and 10 years. As regards education qualification, the majority 88 (57.7%) of the respondents had high school certification, followed by those with technical certificate 23 (15.03%) participants. The Chi-square test suggests up to 95% chance that the form of business ownership is significantly associated with entrepreneur's educational attainment. Table 1 further reveals that gender, age, years the entrepreneur lived in SA and years' of operating the business and form of business affiliation were not significantly associated.

**Table 1: Participants background attributes**

Background attributes	Form of business ownership				Summary of Chi-square tests		
	Individual	Family	Partnership	Total	Computed $\chi^2$	df	P-value
Gender	-	-	-	-	-	-	-
Male	103 (96.3)	3 (2.8)	1 (0.9)	107	0.639	2	0.727
Female	43 (93.5)	2 (4.3)	1 (2.2)	46	-	-	-
Total	-	-	-	153	-	-	-
Age (years)							
<20	1	0	0	1	-	-	-
21-30	18	0	0	18	-	-	-
31-40	99 (94.3)	5 (4.8)	1 (1.0)	105	3.910	8	0.865
41-50	26 (96.3)	0	1 (3.7)	27	-	-	-
51-60	2	0	-	2	-	-	-
Total	-	-	-	153	-	-	-
Country of origin							
Nigeria	54	0	0	54	-	-	-
Cameroon	38 (92.7)	3 (7.3)	0	41	-	-	-
Ethiopia	5	0	0	5	-	-	-
Ghana	26 (96.3)	0	1 (3.7)	27	-	-	-
Somalia	1	0	0	1	-	-	-
DRC	12 (92.3)	1 (7.7)	0	13	-	-	-
Sierra Leone	0	1	0	1	75.340	22	0.000**
Zimbabwe	1	0	0	1	-	-	-
Kenya	1	0	0	1	-	-	-
Senegal	4	0	0	4	-	-	-
Uganda	1 (50)	0	1 (50)	2	-	-	-
Malawi	3 (100)	0	0	3	-	-	-
Total	-	-	-	153	-	-	-
Years lived in SA (years)							
<5	23 (95.8)	1 (4.2)	0	24	-	-	-
5-10	82 (97.6)	2 (2.4)	0	84	6.905	6	0.330
11-15	35 (89.7)	2 (5.1)	2 (5.1)	39	-	-	-
>15	6 (100)	0	0	6	-	-	-
Total	-	-	-	153	-	-	-
Years' of operation (years)							
<5	36 (94.7)	1 (2.6)	1 (2.6)	38	-	-	-
5-10	85 (94.4)	4 (4.4)	1 (1.1)	90	-	-	-
11-15	21 (100)	0	0	21	2.714	8	0.975
16-20	2 (100)	0	0	2	-	-	-
>20	2 (100)	0	0	2	-	-	-
Total	-	-	-	153	-	-	-
Level of education							
Less than high school	12 (100)	0	0	12	-	-	-
High school certificate	86 (97.7)	2 (2.3)	0	88	-	-	-
Vocational/technical certificate	22 (95.7)	0	1 (4.3)	23	38.513	10	0.000**
Uncompleted university	14 (87.5)	1 (6.3)	1 (6.3)	16	-	-	-
Bachelor's degree	12 (92.3)	1 (7.7)	0	13	-	-	-
Master's degree	0	1 (100)	0	1	-	-	-
Total	-	-	-	153	-	-	-

\*\* Represents significance at 0.05 error margin; Figures in brackets represents percentages, Source: Computed from survey results 2017

**5.1. African Immigrants' Contributions to Job Creation**

This study evidenced that African immigrants are engaged in running different forms of businesses in different industries, such as manufacturing, construction, trading, professional and business and other services. The majority (95.4%) of participants were earning a living through engaging in sole proprietorship. Only 3.3% owned family businesses while 1.3% was partnership. The most common type of business ownership immigrants are involved in is sole proprietorship, followed by partnership while corporation and private are least common (Radipere, 2012). It was also established that the majority (52.9%) of these businesses offer services, 41.8% were in trading whilst those in manufacturing

were 5.2%. Service business remains preferred and dominant among immigrants.

**5.2. Job Creation by African Immigrant Self-employed Workers**

The study was also interested in determining the number of individuals these immigrant businesses employed. Table 2 illustrates that sole proprietorships (95.4%) hired between 1 (1) and 5 (5) employees and family businesses (3.9%) employed between 6 and 10 employees. Chi-square statistic test ( $\chi^2$ ) of independence of the results in regards to number of employees amongst the three categories of businesses resulted in a P = 0.001 hence, we concluded that there was a significant difference or

**Table 2: Cross-tabulation between the form of business ownership and the number of employees in african immigrant businesses**

Form of ownership	No. of personnel hired in the business			Total
	1-5	6-10	16-20	
Individual				
Count	142	3	1	146
Expected count	139.3	5.7	1.0	146.0
% within form of ownership	97.3	2.1	0.7	100.0
Family				
Count	4	1	0	5
Expected count	4.8	0.2	0.0	5.0
% within form of ownership	80.0	20.0	0.0	100.0
Partnership				
Count	0	2	0	2
Expected count	1.9	0.1	0.0	2.0
% within form of ownership	0.0	100.0	0.0	100.0
Total				
Count	146	6	1	153
Expected count	146.0	6.0	1.0	153.0
% within form of ownership	95.4	3.9	0.7	100.0

$\chi^2=53.805$ ; Likelihood ratio=16.429;  $df=4$ ;  $P<0.05$ , Source: Survey results 2017

notable difference with regards to employment within the three forms of business ownership.

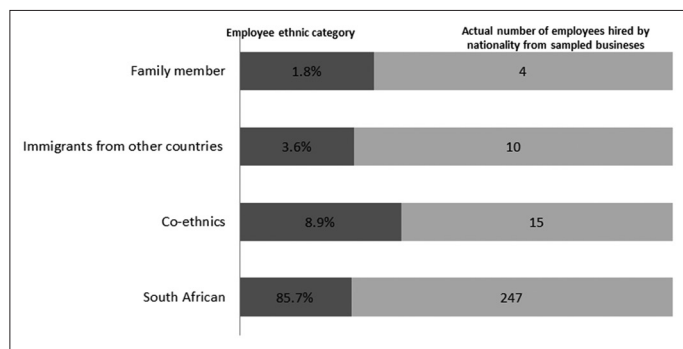
Furthermore, the majority 144 (85.7%) of businesses employed locals (Figure 1). These findings are consistent with previous studies (Abor and Quartey, 2010; Fatoki and Patswairi, 2012) which established that immigrant entrepreneurs employ mostly native South Africans, implying that immigrant entrepreneurship can be one of the ways to address increasing unemployment. In addition, a study by Abor and Quartey (2010) established that SMEs including immigrant owned in Gauteng province contributed over 50% to GDP at provincial level and over 60% of employment. This shows that immigrant owned SMEs contribute in creating jobs for locals (Kalitanyi and Visser, 2010:387-388) hence, contributing also towards reducing poverty. Employing locals has also the advantage to the business in that they act as a communication medium while gaining financially and acquire business skills.

**5.3. Functional Constraints and their Impact**

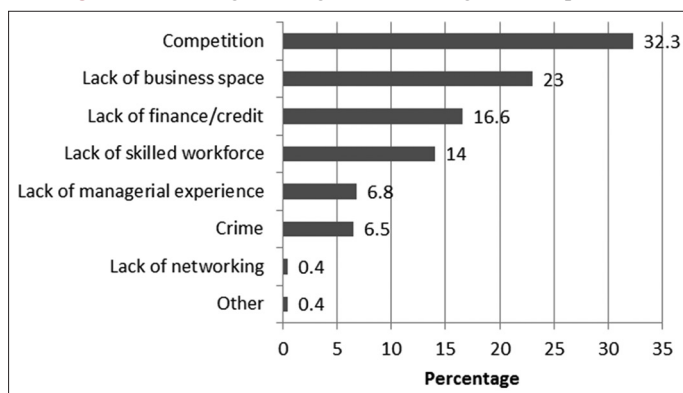
Despite the fact that African immigrant entrepreneurs create employment opportunities, they also face challenges that could impede growth of their economic endeavours. The study found that competition (32.3%), getting a business location (23%), lack of access to credit (16.6%), inadequate skilled personnel (14%), inadequate managerial experience (6.8%) and high degree of crime (26.5%), insufficient networking (10.7%) were threats to their survival. These results were not surprising as previous research (Maharaj, 2009; Goldstuck, 2015; Mthimkhulu and Aziakpono, 2015) among SMEs has shown that finance, competition, corruption and crime are the greatest threats to SMEs. Figure 2 highlights the key challenges to African immigrant businesses.

Access to credit facility from formal financial institutions particularly banks is more problematic (Zolin and Schlosser, 2011; Goldstuck, 2015; Asoba and Tengeh, 2016) as the following quotes from the interviewees exemplify:

**Figure 1: Employment by nationality/ethnic status**



**Figure 2: Challenges facing African immigrant entrepreneurs**



“When we started our business it was difficult to get finance from the banks for our business as it was a foreign owned business and the bank rejected us for not having a South African ID” (P#03).

“When I started my business, having finance support from the bank was the major problem I faced” (P#10).

Therefore, having financial support from the bank through loans to the business can increase the survival rate of these SMEs and improve the economic growth. Shortages of entrepreneurship education as well as the lack of training are key obstacles to entrepreneurship development (Orford et al., 2003). The sentiment below from the interviews illustrates the consequences of shortage of aforementioned skills:

“Right now my business is facing a lot of financial mismanagement challenge because the person I appointed as the manager ended up defrauding the business. This was because of the business confidence and trust I had on him and to add, he is my son. Because of mismanagement of funds, my business has accumulated a lot of taxes I have to pay to SARS” (P#12).

Researchers (Fatoki and Garwe, 2010; Mariotti and Glackin (2012) have posited that a business location can make the difference between success and failure. However, decision upon a location is dependent on the nature of the business and customers. Entrepreneurial immigrants have always been faced with challenges in finding a good space to do business. For example, one the interviewees said:

“A business location was a problem...because even this place we have now, many of our clients did not know it because of its locus” (P#04).

Having credit from suppliers is one way in which businesses can expand and grow their horizons making adequate profits for sustainability. However, these privileges that other native entrepreneurs enjoy are not extended to African immigrant entrepreneurs in the host country as articulated below:

“When I started my business, having credit from suppliers was a major problem I faced....This was because the suppliers saw me as not trustworthy” (P#01).

#### 5.4. Strategies Used to Navigate the Challenges

Ethnic minority businesses have never used or had access to business and financial support from formal lenders (Piperopoulos, 2010), and as such they rely on personal savings and ethnic social resources (Volery, 2007). This study established that respondents used personal savings to run their businesses or borrow from family and friends. A study by Habiakare et al. (2009) reported that 74% of their respondents had saved up their own capital and/or borrowed from their relatives to start their enterprises. African immigrants also reported that they use word of mouth advertising to boost sales. Strong word of mouth marketing has been recognised to be very effective to a business's growth (Kotler et al., 2008; Zeithaml et al., 2009) because customers with high levels of satisfaction for instance, spread positive sentiments about that enterprise's good experiences with its products or services through word of mouth. A host country can benefit from the presence of immigrants since they bring skills, including some of the scarce skills needed. The entrepreneurial spirit and culture brought if correctly attached could benefit local communities (Benton, 2007. p2). For example, it could help tackle the problem of inadequate skilled workforce and proper financial management skills through training as pointed in the following excerpts:

“When we employ people whose skills are not suitable in the business...we had to provide them with adequate training and knowledge so that they could possess at least the required skills needed in the business” (P#13).

“When I realised that funds in my business have been mismanaged...I had to suspend my manager...pending investigations; meanwhile the business is still struggling to pick up again... for instance, the amount owed to SARS, I am negotiating to sell some of my assets like my car and clear the debts. Therefore, only by next year the business will pick up again in it full capacity” (P#12).

## 6. CONCLUSION AND IMPLICATIONS

The current investigation looked at how African immigrant entrepreneurs create employment opportunities on one hand and constraints faced that impact on their survival. The analysis of the data found that African immigrant entrepreneurs create employment opportunities in South Africa, and that those businesses employ more South African nationals than their

immigrant counterparts. While the respondents in this survey were, on the whole, positive and optimistic, they raised some key problems impeding the economic growth including lack of finance from the bank, lack of financial management skills, lack of credit from suppliers, advertisement, electricity load-shedding and not having a good business location which continue to adversely affect their SMEs continuity and survival. Consequently, this is harmful to job creation and socio-economic well-being of a community. However, immigrants used different ways to overcome these challenges ranging from using their personal savings, borrowing from family and friends, using word of mouth advertising and providing adequate training to their employees.

In this light, if the government wants to take serious the issue of job creation and reduction of the impact of unemployment in the country, the study recommends that integration of immigrant entrepreneurs is vital, given their contribution to employment creation and economic growth. This could be made possible via political willingness to have broad-based, coherent and accommodative immigration policies. Further, it is recommended that policies to include immigrants into the financial support systems and/or enable them access formal credit systems will go a long way in enhancing entrepreneurial growth.

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