

Impact of Small Businesses Owned By Immigrant Entrepreneurs on the Local Community of Brits

Prof. Ajay K Garg¹ and Mr. Nelson Phayane²

Abstract

There are three main theories that explore the rate of entrepreneurialism amongst immigrants: the middleman minority, the ethnic market niche and the ethnic enclave economy. The literature reveals that immigrant entrepreneurs tend to target markets that are abandoned or neglected by local entrepreneurs and large chain stores. As a result, immigrant entrepreneurs often occupy business premises that would otherwise have been left vacant, thus providing the owners of the premises with a return on their asset. However, there are few studies that have considered the extent to which immigrants contribute to the local economy of Brits in particular and South Africa in general. The objective of this study was to assess the impact of small businesses owned by immigrant entrepreneurs on the local community of Brits. This impact was analysed using three variables namely employment creation, revenue to the municipality and investment in real estate. The study drew parallels between what is deemed as Foreign Direct Investment (FDI) by multinational enterprises, and the actions of immigrant entrepreneurs in establishing their businesses in a host country as micro FDI. However, there are other characteristics that are associated with immigrant entrepreneurship that are not synonymous with multinational cooperatives, such as contribution to the informal economy and unregulated business practices. A questionnaire was distributed to 70 small business owned by immigrant entrepreneurs in Brits on two separate occasions and received 37 completed questionnaires were received back from respondents. Key findings revealed that, on average, three people are employed by a SMME business owned by an immigrant entrepreneur in the Brits area. 97% of immigrant entrepreneurs rent the business premises that they occupy from private individuals. The municipality is paid rates and taxes for services rendered. 61% of immigrant entrepreneurs don't have operating business licences. The study concludes that, at a municipal level, immigrant entrepreneurs can be classified as providing a form of 'micro' FDI, and contributes positively to the local economy which feeds to the South African economy.

Keywords: Immigrant entrepreneurs, micro Foreign direct investment, Small businesses, Brits, South Africa

¹ 159 Nana Sita Road, TUT Business School, Pretoria, South Africa.

E-mail: gargak@tut.ac.za; akg20055@yahoo.co.in

² PO Box 26338, Arcadia 0007.

Introduction and Background

The demographic make-up of many economies has significantly changed, as long-distance migration from a growing number of locations increased in the second half of the twentieth century. Immigrants from less-developed countries moved to countries with more advanced economies, contributing to the complex phenomenon of globalisation. These highly visible aspects of globalisation are further emphasised when immigrants introduce their products to distant places. These immigrants set up businesses in the host country, settle in and become self-employed or 'immigrant' entrepreneurs (Rath, 2006:1).

According to Okeahalam and Dowdeswell (2008:249-250), FDI tends to flow to areas with growing markets, political and economic stability, availability of natural resources, and relatively high-factor productivity. Analysis of the significance of these factors is usually carried out with the use of country-level data. However, for immigrant entrepreneurs within Small, Medium and Micro Enterprises (SMMEs), the determinants for choosing investment locations depend on the size of the market, geographical location, the position of the economy from a developmental perspective, and weaknesses or 'loopholes' in the economic policy of a government. Hence some parallels can be extrapolated between what is deemed as FDI by multinational cooperatives, and the activities of immigrant entrepreneurs within SMMEs in the establishment of their businesses in host countries. However, there are other characteristics that are associated with immigrant entrepreneurship that are not synonymous with multinational cooperatives, such as contribution to the informal economy and unregulated business practices. Studies for example by Wong and Primecz (2011:69) found that in Budapest, Chinese entrepreneurs had significantly contributed to the development of local markets, and also filled the gaps in local markets with much sought-after goods.

Against this background, this study focused on Brits, which forms part of the Madibeng municipality. The study classified small businesses owned by immigrant entrepreneurs as a form of micro Foreign Direct Investment (FDI). The overall objective of the study was to analyse and assess the contribution of immigrant entrepreneurs on the local community of Brits using the variables: employment creation, revenue to the municipality and investment in real estate.

Literature Review

According to Nestorowicz (2011:12), immigrant entrepreneurship means self-employment within the immigrant group at a rate much in excess of the general rate. Ethnic entrepreneurship denotes ethnic minority specialisation in self-employment, without however, imposing the requirement of foreign-born origin.

Immigrant entrepreneurship is described as the process by which an immigrant establishes a business in a host country (or country of settlement) which is not the immigrant's country of origin (Fatoki & Patswawairi 2012:134).

In the research field of immigrant and ethnic entrepreneurship, there are a variety of theories or explanations for the rate of entrepreneurialism amongst immigrants. Three of the more common theories are: the middleman minority theory, the ethnic enclave economies theory, and the ethnic market niche theory:

- The premise of the middleman minority theory is that immigrant entrepreneurs are drawn to certain types of business sectors to earn money quickly.
- The ethnic market niche theory is framed around the notion that immigrants find business start-up opportunities in market niches created by the interactions between opportunities in society and the characteristics of the immigrant group.
- The ethnic enclave economies theory is built upon the point of view that immigrant entrepreneurs typically find business start-up opportunities within immigrant communities and neglected business sectors in the broader economy (Halkias, Harkiolakis, Thurman, Rishi, Ekonomou, Caracatsanis & Akrivos 2009:145-146).

Relationship between FDI and Immigrant Owned SMMES

According to Kok and Ersoy (2009:106), the important question is "why do companies invest abroad?" The factors which guide investors to select particular locations for a project include the availability of local inputs such as natural resources, the size of the market, geographical location, the position of the economy, the cultural and political environment, factory prices, transport costs and the economic policies of the government, such as trade policy, industrial policy, budget policy, tax policy, etc.

According to Hamilton and Webster (2009:10), FDI occurs when a firm establishes, acquires, or increases production facilities in a foreign country. As corporations move into a multinational phase, they expand their operations into foreign countries. These operations may involve the licensing of foreign companies or joint ventures with foreign companies. In creating a permanent presence abroad, these companies begin to invest in real estate. They may do this by acquiring fixed assets, buying out existing firms, or establishing foreign subsidiaries with their own infrastructure - these can be referred to as forms of FDI (Keat and Young, 2009:507).

Investments by multinationals are of two main kinds: they are made with the purpose of selling the same goods that those multinationals sold in their countries of origin (horizontal FDI); or they are made with the purpose of saving production costs (vertical FDI), or both. In either case, there are fixed and variable costs that are associated with the investment. The presence of immigrants in the host country and emigrants abroad can lower these informal barriers, and with them the threshold above which entry is profitable. In other words, migrant networks can boost bilateral FDI. Furthermore, their existence may turn out to be especially important for small firms, which typically face the highest difficulties investing abroad (Wong & Primecz, 2011:61).

According to Rath (2006:1), the demographic make-up of many economies has also significantly changed, as flows of migrants from a growing number of locations increased in the second half of the twentieth century. Immigrants from less-developed countries moved to countries with more advanced economies, contributing to the complex phenomenon of globalisation. These highly visible aspects of globalisation are further emphasised as immigrants introduce their products to other places. They start businesses in the host country, settle in, and become self-employed or immigrant entrepreneurs.

Chinese business migrants in Hungary have brought about an increase in the purchasing power of local Hungarians due to lower prices and increased access to cheaper consumer items. Local landlords have profited greatly from the steep increase in rent brought about by Chinese businesses. At the same time, local retailers have seen their profits dwindle, and many have been driven out of business as a result of the competition from the Chinese migrants. 'New migrants' are active entrepreneurs that seek out new market opportunities, and many serve local market needs. This is referred to as the 'immigrant effect' - i.e. that of facilitating the internationalisation and entry of Chinese firms into Hungary and central Europe.

The example of Hungary is particularly significant, as Hungary serves as a base and launch-pad into Eastern Europe and other parts of Europe (Wong & Primecz, 2011:69).

The role of immigrant entrepreneurs is not limited to the facilitation of sending-receiving county trade; the immigrant entrepreneurs are also investors. A focus on the relationship between investment and migration is uncommon in economically-focused immigration debates (Rath, 2006: 6). According to Ensign and Robinson (2011:34), contemporary literature on the subject of ethnic entrepreneurship plays down the important role that immigrant entrepreneurs play in Western economies by concluding that immigrants, like other newcomer groups, remain confined to low-value, low-profit segments of the business world, that offer little benefit to the established mainstream society.

Immigrant Entrepreneur's Contribution to Economic Growth

As immigration re-emerged as a popular topic in the social sciences during the 1980s, researchers began to pay particular attention to the role of immigrants in terms of the economy. Although the subject of immigrant entrepreneurialism emerged around 1970, it gained momentum in the 1980s, when American analysts began to document the fact that immigrants were more prone to self-employment than the native-born population (Hiebert, 2002:93). Immigrant business owners make important contributions to the US economy. Immigrant entrepreneurs start 17 percent of all new businesses in the United States and represent 13 percent of all business owners. Of total business income in the United States, 12 percent is generated by immigrant business owners (Fairlie, 2012:1).

Immigrant entrepreneurship in the US creates new wealth and jobs. Many people are familiar with the success stories of immigrants such as Sergey Brin of Google, but few realise just how many immigrants started businesses in the US. Recent surveys have found that immigrant entrepreneurs have founded or co-founded 25.3 percent of all science and technology firms in the United States (Hohn, 2012:3). Immigrants often move into low-rent neighbourhoods characterised by minimal economic activity and deteriorating physical conditions. Many immigrants establish businesses as an alternative to working in low-wage jobs, usually within three to ten years of arriving in the US.

These businesses are typically small to moderate in size and include real estate firms, restaurants, food stores, nail salons, and gift shops. Many of these businesses offer retail or personal services that are required by neighbourhood ethnic groups (Hohn, 2012:3).

According to Tengeh, Ballard and Slabber (2012: 4667), in South Africa today, there is a need for new businesses. It is believed by many that the start-up and growth of such entities will alleviate ever rising poverty through job creation. However, with the financial resources of this country already stretched and unevenly distributed, it is becoming increasingly difficult for small businesses (including immigrant-owned businesses) to gain access to financial resources.

Immigrant Entrepreneurs' Source of Start-Up Capital

African immigrant entrepreneurs frequently make use of their personal savings to finance their businesses. It was revealed that the three most dominant sources of start-up capital were personal savings alone (62.2 percent), business credit (16.9 percent), and personal savings plus credit from family members (18.8 percent) (Tengeh, Ballard *et al*, 2011:19). According to Eraydin, Tasak-Kok and Vranken (2010:537), Turkish immigrants appear to prefer family support to other financial instruments (such as bank credit, loans and entrepreneurship funds). Recourse to external financing remains rare amongst Turkish entrepreneurs.

Immigrant Entrepreneurs' Contribution to Employment Creation

Over the last decade, African immigrants have been met with and exposed to severe manifestations of hostility to their presence in South Africa. A significant number of these migrants have successfully applied their entrepreneurial flair in establishing small enterprises and employing workers, often to the envy of their local counterparts.

One notion - an unsubstantiated belief held by many South Africans - is that immigrants from north of the country's borders are taking South Africans' jobs (Kalitanyi & Visser, 2010:376). Kalitanyi and Visser (2010: 387) found that 29 out of 40 (73 percent) African immigrant entrepreneurs from Nigeria that were interviewed prefer to employ South Africans, as do 36 out of 40 (90 percent) of the African immigrant entrepreneurs from Somalia that were interviewed.

A significant number of immigrant entrepreneurs from Senegal that were interviewed - 19 out of the 20 (95 percent) - prefer to employ South Africans, as do 14 out of 20 (70 percent) immigrant entrepreneurs that were interviewed from various other African countries. The total number of interviewed African immigrant entrepreneurs who employ South Africans is 98 out 120 (82 percent). Nine out of the 40 (23 percent) interviewees from Nigeria choose to employ either a foreigner or a South African, while five out of the 20 (25 percent) interviewees from various other African countries choose to employ either a foreigner or a South African. The total number of interviewed African immigrant entrepreneurs who had no preference between foreign or South African employees is 17 out of 120 (14 percent).

Immigrant entrepreneurship in the United States creates new wealth and jobs. A notable characteristic of these immigrant entrepreneurs is their willingness to take risks. In Massachusetts, immigrants, who make up only 14 percent of the state's population, founded 61 percent of its new businesses in 2008. These entrepreneurs have aided economic recovery by fostering commerce, innovation, and job growth (Hohn, 2012:3).

Growth businesses are essential to economic recovery, because they generate significant numbers of jobs. The US Small Business Administration estimates that small businesses have generated 64 percent of net new jobs over the past 15 years. Immigrant businesses play a significant role in this job growth (Hohn, 2012:5).

Closely connected to social capital, is the ability to access human capital. Immigrant entrepreneurs are able to find workers within their immigrant community, often at a lower cost. The immigrant community itself then benefits, because more job opportunities are made available to members who may have difficulty in finding employment through the host society's main stream labour market (Halkias, Harkiolakis *et al*, 2009:148).

Immigrant Entrepreneurs' Target Market in South Africa

Studies on migrant entrepreneurship, in both the USA and Europe, have recognised the significant contribution of immigrants to SMME activities. Recent studies have shown that immigrant entrepreneurship has a direct impact on a host economy.

Despite the prevalence of such literature at the international level, little is known about the contribution of immigrant owned businesses in South Africa (Tengeh, Ballard *et al*, 2011:2).

Immigrant entrepreneurs in South Africa are visible in a narrow band of SMME activities - mostly in retail or service rather than in production. Their activities involve selling curios, retailing ethnic clothes and foods, motor-car repairs and panel beating, and operating hairdressing salons. Other activities include running restaurants, nightclubs, cafes and music shops, as well as import-export businesses and traditional healing practices (Kalitanyi & Visser, 2010:379). Table 1 show the immigrant business cluster according to their origin in South Africa.

Table 1: Immigrants' Business Clusters According to Their Origins

Sector	Activity	Origin of immigrant
Retail	Curio selling	Malawi, Mozambique & Zimbabwe
	Selling ethnic clothing	West Africa
	Food retail	West Africa
Service	Motor-car repairs/panel beating	Mozambique & Zimbabwe
	Hairdressing	All
	Operating restaurants	West Africa
Production	Traditional clothing	West Africa
	Wedding dresses	West Africa
	General tailoring	Malawi
Other business sectors	Nightclubs	West Africa
	Cafes	West Africa
	Several import/export	West Africa
	Music shops	Central Africa, West Africa
	Traditional healing	East Africa, West Africa

(Kalitanyi & Visser, 2010:379)

Immigrant Entrepreneurs' Association with The Informal Economy

The terms 'informal markets' and 'informal economy' are used interchangeably by various researchers.

The informal economy here refers to the paid production and sale of goods and services, which are unregistered by or hidden from the state for tax and/or benefit purposes, but which are legal in all other respects (Williams, 2007:350).

An informal market differs from a formal market, in that it is not officially regulated. There is no official normative framework present; the market deviates from existing official regulation; and is not controlled, enforced or recorded in any official documents (Walle, 2008:651).

The term 'informal economy' refers to: all economic activities by workers and economic units that are, in law, or in practice, not covered, or are insufficiently covered by formal arrangements. The activities of the informal economy are either not included in the law, which means that they are operating outside the formal reach of the law, or they are not covered in practice; this means that, although they are operating within the formal reach of the law, the law is not applied or not enforced, or the law discourages compliance through being inappropriate, burdensome, or imposes excessive costs (Sara & Minard, 2009:192). Since such an informal market has more latitude than a strictly organised economy, a regulated market or registered activities; it is a considerably volatile and flexible market (Walle, 2008:651).

A large informal sector does deprive governments of tax revenues that could be reinvested into infrastructure development and other national development priorities. A large informal sector could also influence the development of economic policy objectives by skewing the reliability of trade, income, and labour market data. This can breed a culture of corruption in public administrations (including in customs) and hinder further investments in formal SMEs, which constitute a major part of the private sector in developing countries and are key to their economic development and growth (Sara & Minard, 2009:193).

In recent years, a growing number of immigrants have entered South Africa. During their first few months, the immigrants survive under difficult circumstances.

To earn a living, some of them manage to create and successfully run small businesses and create employment for locals.

There are few studies that have considered the extent to which immigrants contribute to job creation in South Africa; such studies could help to change some of the negative perceptions about immigrants held by some South Africans, many of whom believe that immigrants take the jobs that should be done by South Africans. However, as confirmed by the research, many immigrants create employment not only for themselves but also for South Africans (Kalitanyi & Visser, 2010:388).

The literature also reveals that immigrant entrepreneurs tend to target markets that are abandoned or neglected by local entrepreneurs and large chain stores. As a result, immigrant entrepreneurs often occupy business premises that would otherwise have been left vacant, thus providing the owners of the premises with a return on their asset.

Immigrant entrepreneurs are also known for their propensity for risk taking, as they invest their own and/or family savings as start-up capital. This injection into the host country's economy is a form of foreign investment into the host country.

Objectives of the Study

The Local Municipality of Madibeng is located within the North West Province and presides over an area of approximately 3,814 square kilometers. The Local Municipality of Madibeng consists of the following areas: Brits Town, Hartbeespoort Town, Skeerpoort area, rural areas and villages. It is situated approximately 40 kilometres from Pretoria, 55 kilometres from Johannesburg and 50 kilometres from Rustenburg. The Madibeng Local Municipality area includes a number of urban areas, including Brits, Primindia, Elandsrand Area, Oukasie (directly north of Brits), Letlhabile (approximately 20km north of Brits), Damonsville, Mothotlung (west) and the Hartbeespoort area. The Hartbeespoort area includes Kosmos, Schoemansville, Melodie, Ifafi, Meerhof, Eagles Landing, Pecanwood, Westlake and Ville de Afrique. Madibeng Local Municipality also includes approximately 43 villages and 9000 farm portions. Madibeng is characterised by a remarkably rich and varied cultural resource base, with an estimated population of 419 681 people. Of this population, an estimated 93 percent form part of the previously disadvantaged groups (PDI).

This statistic indicates the need for stimulating development in the rural areas, focusing on human resource development and strengthening the linkages with neighbouring economies (Madibeng Municipality, 2010).

The overall objective of the study was to analyse and assess the contribution of immigrant entrepreneurs on the local community of Brits using the variables: employment creation, revenue to the municipality and investment in real estate.

The study objectives were as follows:

Objective 1: To analyse whether immigrant entrepreneurs contribute to employment creation in the Brits area.

Objective 2: To analyse whether immigrant entrepreneurs are contributing revenue to the municipality in the form of rates and taxes for services rendered, and are paying for business operating licences when required, thus contributing to income generation for the municipality.

Objective 3: To analyse whether immigrant entrepreneurs are investing in real estate by renting or purchasing business premises from landlords and/or owners in Brits.

Using existing literature, the study assessed and interpreted the immigrants' business decisions, such as where to source start-up capital, which type of businesses to venture into, and where to locate their businesses, amongst others.

Measurement Instrument for the Study

The primary data collection instrument used in this study was a survey questionnaire. The questionnaire was developed and designed with the objective of ascertaining information that would assist in answering the question: What is the impact of small businesses owned by immigrant entrepreneurs on the local community of Brits?

The questionnaire was written in English and formulated to collect the relevant information as per the objectives of the study. The questions are listed in table 2.

Table 2: Relationship between the Research Objectives and Survey Questionnaire

Research objectives	Question from the questionnaire	Source
Biographic information	Were you born in South Africa? If no, specify your place of birth	Adopted from Kalitanyi (2007)
	Age of respondent using range scales	Adopted from Kalitanyi (2007)
	How long have you been living in South Africa?	Adopted from Kalitanyi (2007)
	How long have you owned a business in Brits?	Adopted from Kalitanyi (2007)
	In what industry is your business trading?	Adopted from Kalitanyi (2007)
	What was the source of your start-up capital?	Adopted from Kalitanyi (2007)
Objective 1: Employment creation	How many people do you employ? By gender and whether you were born in South Africa or not?	Adopted from Kalitanyi (2007)
	What is the estimated remuneration payable to employees per annum? By gender and for people born in South Africa and those not born in South Africa	Added for this study
Objective 2: Income to municipality	Is your business registered with Madibeng Municipality? Yes or No	Added for this study
	What are the fees payable to the municipality for the operating licence per annum, rates and taxes and any other fees (specify)?	Added for this study
Objective 3: Investment in real estate	Is the current business premises rented, leased or owned?	Added for this study
	Was the current business premises acquired by you or through a business consortium?	Adopted from Kalitanyi (2007)
	The current business premises was acquired from: A private individual, A business entity or government department	Adopted from Kalitanyi (2007)
	What was the estimated cost associated with acquiring the business premises? Estimated rent per annum	Added for this study
	What was the source of fund for purchasing the business premises?	Adopted from Kalitanyi (2007)

Questionnaire Pilot Testing

As part of the process of developing the questionnaire, five sample questionnaires were distributed to randomly selected respondents. The purpose of the exercise was to pilot and test the questionnaire for any issues, such as questions that might be interpreted ambiguously. Following obtaining feedback from the respondents and further analysis, the questionnaire was further refined to produce the final version that was distributed to the targeted group of participants.

Self-administered questionnaires were distributed by the researcher to randomly selected respondents trading in the Brits central business district (CBD). The objective of the questionnaires was explained to respondents, and they were given six days in which to complete the questionnaire. To protect the anonymity of the respondents, unmarked envelopes were provided with the questionnaires, so that respondents could enclose and seal completed questionnaires.

The responses were collected by the researcher using a sealed box with a small opening that allowed for insertion of the envelopes.

Sample Size

The population of small businesses owned by immigrants in Brits that operate from a fixed business structure is estimated to be about 90 businesses. 70 questionnaires were distributed (50 in November 2012 and an additional 20 in January 2013). 37 respondents completed and returned the questionnaire, amounting to a response rate of about 41 percent. Of the 37 completed questionnaires, one was excluded in the analysis because the respondent was a South African born entrepreneur. The analysis was therefore based on information derived from 40 percent of the total target population of 90 businesses.

The selection of a respondent depended on three qualifying criteria: the respondent had to be trading in the town of Brits, the respondent was trading from a fixed building structure (i.e. not a street hawker) and the respondent had to be an immigrant entrepreneur. A random sampling method was used for the identification and selection of the sample group and distribution of the questionnaire. This method is known as a probability sampling technique.

Validity and Reliability

Primary data was collected from immigrant entrepreneurs trading in Brits by means of a survey questionnaire. This data collection instrument was considered to be valid and reliable for this study, as it was adopted from a successful previous similar study - a study that was conducted in 2007 in Cape Town by the University of Cape Town for a Master's Degree titled: Evaluation of Employment Creation by African Immigrant Entrepreneurs for Unemployed South Africans in Cape Town.

The participants showed a high degree of willingness to participate in the study. One aspect that posed a challenge was the availability and reliability of a database of all registered small businesses in the town of Brits and the municipality of Madibeng.

Ethical Consideration

Guidance from ethics experts were provided on how to deal with the legal status of immigrant entrepreneurs during the data collection process. That guidance resulted in a cover letter that clearly stated that participation in the study was voluntary and no personal information was required. To encourage and protect voluntary participants, full anonymity and confidential storage of the completed questionnaires was assured. Respondents were provided with unmarked envelopes in which to enclose and seal the completed questionnaires. The sealed envelopes were collected in a sealed box with a narrow opening through which to post them. Information regarding the immigrants' legal status in South Africa was not collected by the researcher, and none of the questions in the questionnaire encouraged divulgence of such.

Data Presentation, Analysis and Discussion

The discussions on the research findings are based on the impact of businesses owned by immigrant entrepreneurs in terms of the three variables; Employment creation, Revenue to the municipality and Investment in real estate. The three variables were assessed in terms of FDI at a municipal level.

Biographic Data

Country of Birth

This section presents information which assisted in understanding the profile of the respondents, all of whom are immigrant entrepreneurs in the Brits CBD. A total of 37 participants responded to the questionnaire. Their nationality breakdown was found to be as: Pakistanis 17, Chinese 10, Ghanaian 3, Nigerian 3, Cameroonian 2, Ethiopiaa 1, and one respondent was a South African born entrepreneur and his information was not considered for this study. This suggested that Pakistani nationals are the dominant immigrant entrepreneurs in the Brits CBD, followed by Chinese nationals. According to Mohan and Tan-Mullins (2009: 588-589), since 2000, China has stepped up diplomatic and commercial links with Africa, culminating in the Forum on China–Africa Cooperation (FOCAC) in Beijing in 2006. This growing connectedness has seen a wave of economic migration to Africa by state-influenced construction teams, mining and oil workers, as well as private traders. These Chinese migrants are arguably significant new shapers of development in Africa. However reasons of Pakistanis can only be attribute to the poor economic and political conditions in the country which is aggravated by terrorist activities.

The age Distribution of the Immigrant Entrepreneurs

81 percent of immigrant entrepreneurs trading in Brits fall within the age bracket of 21 to 35 years old. 19 percent of immigrant entrepreneurs trading in Brits fall within the age bracket of 36 to 45 years old. In South Africa, 'youth' is defined by the National Youth Commission's Act no 19 of 1996 as people aged between 14 and 35 years old (SA 1996). It can therefore be concluded that immigrant entrepreneurs in Brits are predominantly young people.

Table 3 analyses the age classification of respondents by their country of birth. Respondents from the African countries Nigeria, Ghana, Cameroon and Ethiopia are all between the ages of 21 and 35 years, whereas 75 percent of the entrepreneurs from Pakistan and 80 percent of the entrepreneurs from China fall into the youth category.

Table 3: Respondents' age Categories by Country of Birth

	Country of birth					
Age categories	China	Pakistan	Nigeria	Ghana	Cameroon	Ethiopia
21 – 35 years	80%	75%	100%	100%	100%	100%
36 – 45 years	20%	25%				

Fatoki and Chindoga (2011:162) found that youths in South Africa are far less likely to start their own businesses compared to youths from other countries. The low entrepreneurial activity among youths is one of the primary reasons for the low overall rate of entrepreneurial activity in South Africa. These findings are supported by the GEM 2012 report's findings, which indicate that relatively few people are starting businesses in South Africa and even fewer are sustaining them.

Duration of stay in South Africa and Period of Trade in Brits

The objective behind sourcing information about the period of trade in Brits and the duration of the immigrants' stay in the country was to assess the correlation between the two statistics, if any. When analysed against each other, the variables revealed that 86 percent of the respondents chose Brits as their destination whilst still in their home country, and did not explore any other areas prior to starting their businesses in Brits. These figures are shown in table 4.

Table 4: Immigrant Entrepreneurs' Duration of Stay and Duration of Trade

	Years of stay in South Africa Distribution of respondents	Years of trade in Brits Distribution of respondents
Less than 1 year		3%
2 – 8 years	89%	86%
9 – 14 years	11%	11%

Period of stay in South Africa

To the question of how long the immigrant entrepreneurs had been in the country for, the response was as follows: 89 percent of the respondents had been staying in South Africa for between 2 and 8 years, while 11 percent of the respondents had been in South Africa for between 9 and 14 years.

Period of Trade in Brits

To the question of how long the immigrants had owned businesses in Brits, the response was fairly consistent with the length of time they had been in South Africa. 86 percent of the immigrant entrepreneurs responded that they had owned businesses in Brits for a period of 2 to 8 years, while 11 percent had owned businesses in Brits for a period of 9 to 14 years. Only 3 percent of the respondents had owned businesses for less than one year.

The above findings are similar to a study in the United States by Hohn (2012), where it was found that many immigrants establish businesses as an alternative to working in low-wage jobs, usually within three to ten years after arriving in the US.

Sources of Business Start-up Capital

The purpose of the question “What is the source of your start-up capital?” was to determine the extent to which the immigrants’ support structures and finances might be flowing into South Africa from outside. This question allowed the respondents to choose more than one option. The options included funding sources from South Africa. The breakdown of the funding sources is illustrated in figure 1.

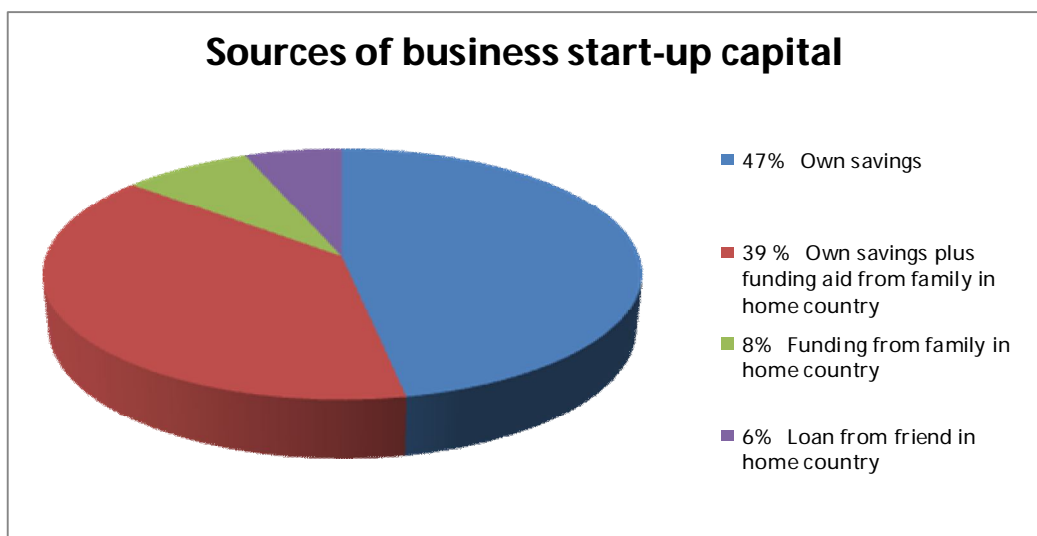


Figure 1: Sources of Business Start-Up Capital

47 percent of the respondents stated that the source of their start-up capital was derived from their personal savings. 39 percent of the respondents indicated that a combination of their own savings and funding aid from family in their home country provided their start-up capital. 8 percent of the respondents indicated that funding aid from family in their home county was the source of their start-up capital, and 6 percent of the respondents stated that loans from friends from their home country was the source of their start-up capital.

Analysis of this data indicated that funding from outside South Africa significantly contributes to the funding used to set up SMMEs owned by foreign nationals in Brits. This results in an inflow of foreign capital into the county. Capital, as a factor of production, can be classified into financial capital (savings and loans), physical capital (land, buildings and machinery), human capital (education and skill enhancement) and social capital (trust, reciprocity and mutuality) based on its source. Despite being an important factor of production, the foreign-earned human capital of most immigrants is not highly valued by employers in their host countries, who frequently rely on educational credentials and work experience as proxies for direct measures of skills and the potential productivity of employees (Tengeh, Ballard *et al*, 2012:4668).

Traditionally, aspiring small-business owners meet the challenge of obtaining start-up and operational capital by using informal sources, as well as personal assets and loans from formal sources. It has been observed that, while native entrepreneurs are more likely to finance new businesses using formal financial sources such as banks, this is unlikely to be the case for migrant entrepreneurs, who are often constrained to use informal sources. On this basis, informal financing via networks can substitute for borrowing in the formal sector, either because formal credit is not offered, or because informal financing is preferred. Credit offered by a supplier, or trade credit, is another alternative to borrowing from financial institutions. Trade credit in itself is highly dependent on trust - a core component cultivated by social networks. Businesses form networks with their suppliers; there is frequently an ethnic dimension to these networks, in that the ethnicity of the supplier may matter for some transactions (Tengeh, Ballard *et al*, 2012:4669).

Creation of Employment

The importance of SMMEs is widely acknowledged. For example, in Finland, only 0.2 percent of all businesses are large (employing 250 people or more), whereas 93 percent of businesses are 'micro firms' that each employ less than ten people. Small and micro firms are instrumental in bringing new innovation to markets, and operate as catalysts in society, create new jobs and assist overall economic growth (Reijonen, 2008:616).

In the USA, in the last decade, SMMEs created 60 to 80 percent of new jobs. In this light, understanding the factors that promote or mitigate the birth of new firms is crucial for regional economic development, and the role of enterprising individuals or groups, in particular, cannot be overemphasised in this process (Tengeh, Ballard *et al*, 2011:2).

According to Fatoki and Patswawairi (2012:137), the average number of people employed by immigrant entrepreneurs is four, which means that many immigrant entrepreneurs' businesses fall into the 'small business' category as defined by the National Small business Act. The majority of the respondents in this study (78 percent) employed South Africans only. 16 percent of the respondents claimed to employ both South Africans and fellow immigrants. Only 6 percent of the African immigrant entrepreneurs employed immigrants and no South Africans.

The results of this study indicate that the 36 immigrant entrepreneurs that responded to the questionnaire collectively employed 109 people. On average, each immigrant entrepreneur employs three people (109 employees divided by 36 employers). When extrapolating the job creation total from these figures for the entire population of 90 immigrant entrepreneurs, total job creation by immigrant entrepreneurs in the town of Brits amounts to approximately 270 jobs.

The entrepreneurs' work force is made up of 60 percent male employees and 40 percent female employees. Given the South African government's statement that at least 50 percent of a workforce should be female, the immigrant entrepreneurs' collective labour practices are non-compliant. The gender breakdown includes both South African born employees and others.

The gender categorisation of South African born employees employed by immigrant entrepreneurs in Brits reflects the following: 15 percent were male employees and 24 percent were female employees. A characteristic of immigrant entrepreneurs is that they frequently employ people who were not born in South Africa, many of whom come from the immigrant's home country. The study found that 44 percent of non-South African born people employed by immigrant entrepreneurs were male and 17 percent were female.

In terms of South African born employees and non-South African born employees, 39 percent of the employees were born in South Africa, and 61 percent were not born in South Africa.

Figure 2 displays the percentage breakdown of the nationality of employers in terms of the total pool of employees; this gives an indication as to which nationalities contribute more than others to employment creation in Brits. The results of study indicate that 38 percent of the employees that are employed by immigrant entrepreneurs in Brits are employed by Pakistani immigrant entrepreneurs, 24 percent by Chinese entrepreneurs, and 19 percent by Ghanaians.

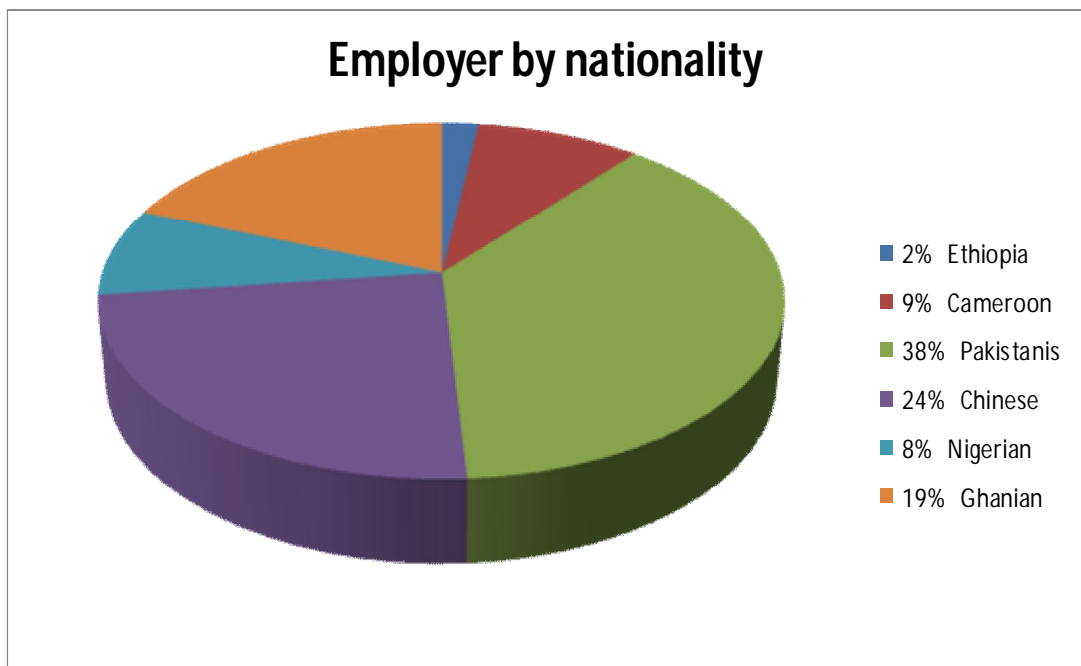


Figure 2: Employer by Nationality

Revenue to Municipality

The municipality of Madibeng, which the town of Brits falls under, provides services to residences and businesses owned by immigrant entrepreneurs; as such the immigrant entrepreneurs are clients of the municipality of Madibeng. The question regarding the contribution of immigrant entrepreneurs to the municipality was twofold; the first being: what is the estimated amount paid to the municipality for rates and taxes? And the second was; what is the estimated amount paid to the municipality for licence fees? The objective behind these questions was to assess what value, if any, the municipality derives from businesses owned by immigrant entrepreneurs in the town of Brits.

Table 5: Rates and Taxes Paid to the Municipality by Immigrant Entrepreneurs

Nationality of respondents	Estimated amounts paid in rates and taxes to the municipality per month by nationality	Average monthly payment to the municipality per respondent
Pakistan	R12 050	R709
China	R10 600	R1 060
Nigeria	R1 500	R500
Ghana	R3 100	R1 033
Cameroon	R3 300	R1 650
Ethiopia	R700	R700

As shown in table 5, the revenue generated from charging the immigrants in Brits for municipal services such as the provision of water, electricity and the removal of refuse, is as follows: Pakistani businesses are paying on average R709 per month; Chinese-owned businesses are paying on average R1060 per month; Cameroonians are paying on average R1650 per month; and Ghanaians and Nigerians are paying on average R1033 and R500 per month respectively. A possible explanation for the high payment rate for services to the municipality could be the type of business venture the immigrants are involved in; 78 percent of the African immigrant entrepreneurs (Nigerian, Ghanaian, Cameroonian and Ethiopian) are in businesses that are classified as hairdressing and other beauty treatments; these types of businesses have, by their nature, a relatively high consumption rate of water and electricity.

The Informal Market

The goal of the question as to whether the business was registered with Madibeng Municipality was to assess two items: the first being whether the businesses owned by immigrant entrepreneurs were operating more in the formal or informal market; the second being whether the municipality was generating any revenue from the operating licenses of these businesses. 39 percent of the respondents indicated that their businesses were registered with the municipality. These respondents indicated the amount that they were paying for services, but did not indicate the amount paid for operating licences. This could be due to the fact that some may have reported having operating licenses for fear of reprisal, but in fact don't have them. 61 percent of the respondents indicated that they were not registered with the municipality, so don't have operating licences, but do pay for municipal services such as water and electricity. If operation licence registration is used as the determinant, then 61 percent of immigrant entrepreneurs could be classified as operating in the informal market.

Investment in Real Estate

Ownership Status of Business Premises Used by Immigrant Entrepreneurs

This study indicates that all business premises occupied by immigrant entrepreneurs are rented or leased, and the buildings are acquired from private individuals. None of the business premises were purchased or built by the immigrant entrepreneurs. Only 3 percent of immigrant entrepreneurs indicated that they leased their business premises, and 97 percent indicated that they rented their business premises. A lease agreement signifies a long-term commitment to investment in the area, while rental agreements can be short-term, and could indicate a degree of uncertainty towards long-term investment in the area on the part of the immigrant.

This pattern of occupation is indicative of the ethnic market niche theory of immigrant entrepreneurs, in which business vacancies are created when existing native business owners relocate their businesses, close their businesses, or sell their businesses to immigrants.

Table 6 shows the amount of annual rent paid by the respondents for their business premises by nationality.

Table 6: Business Premises Rental Paid per Annum

Nationality of Respondents	Total estimated amount of annual rent paid to landlord per year	Average amount of annual rent paid per respondent per year
Pakistan	R739 000	R43 470
China	R397 560	R39 756
Nigeria	R70 000	R23 333
Ghana	R148 000	R49 333
Cameroon	R100 000	R50 000
Ethiopia	R20 000	R20 000

Business Target Market of Immigrant entrepreneurs

Immigrant entrepreneurs identify opportunities that are not readily apparent to the established business community. In particular, immigrant entrepreneurs, especially those operating in an immigrant enclave, quickly identify needs in the immigrant community that have not been satisfied by the established community, and work to provide products and services that cater to those needs. These products and services sometimes gain popularity amongst the host community, resulting in changes to the established marketplace. This being said, many scholars in this area suggest that mature ethnic entrepreneurs eventually abandon their 'ethnic identity' in favour of a mainstream market that offers greater opportunities (Ensign & Robinson, 2011: 37-38).

A study by Wong and Primecz (2011:64) found that in Budapest in Hungary, Chinese entrepreneurs had significantly contributed to the development of local markets and filled the gaps in local markets with sought-after goods.

Standard Industrial Classification (SIC) was used to classify the business establishments of immigrant entrepreneurs by the type of economic activity in which they are engaged. The classification provides a framework for the collection, tabulation, presentation and analysis of data, and as such promotes uniformity (United Kingdom SIC, 2007). Figure 3 shows the breakdown of the types of business establishment according to a SIC classification.

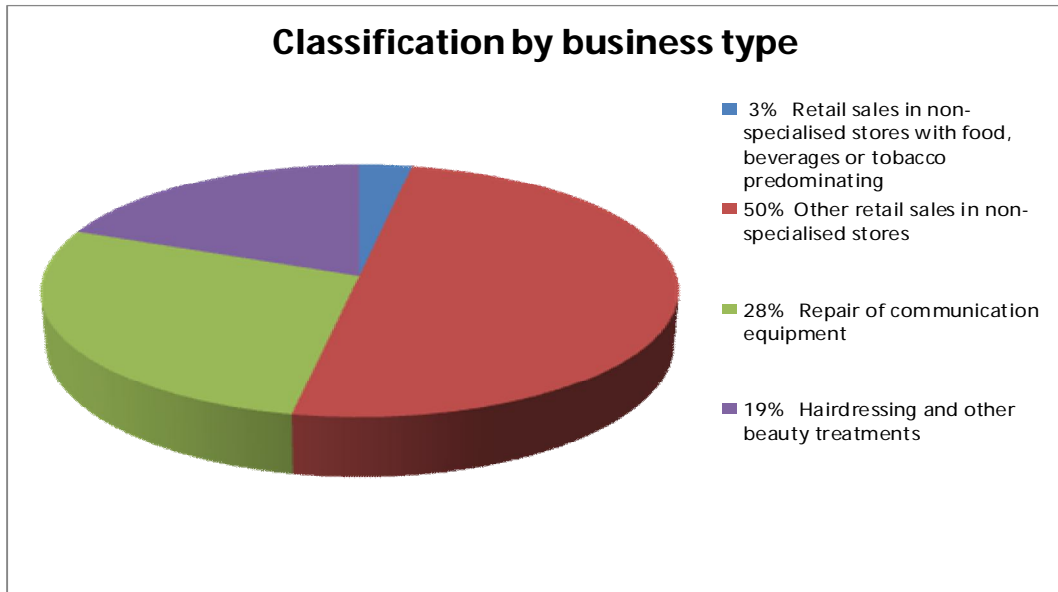


Figure 3: Classification by Business Type

Immigrant entrepreneurs, like most entrepreneurs, start businesses that are closely related to their skill sets. Often these skills were acquired in their home countries, and the immigrants' backgrounds and skill sets influence the choices that they make. Their choices are also sometimes influenced by the availability of resources to trade with from their home countries.

The ethnic market niche theory indicates that ultimately, the type of business which an immigrant entrepreneur starts, how it is operated, and its success, is shaped by the opportunity structure of the community, region, and country the immigrant is in, and by the immigrant group's characteristics. The combination of these factors informs the ethnic strategies that are built around the ethnic market niche opportunities within the host society (Halkias, Harkiolakis *et al*, 2009).

Figure 3 indicates that 50 percent of immigrant entrepreneurs are involved in businesses classified as "other retail sales in non-specialised stores"; 28 percent are involved in businesses classified as "repair of communication equipment"; 19 percent are involved in the business of "hairdressing and other beauty treatment" and 3 percent are involved in "retail sales in non-specialised store with food, beverages or tobacco predominating".

The business sectors are broken down by nationality as follows:

- Businesses classified as “other retail sales in non-specialised stores” are 50 percent Chinese owned; 38 percent are owned by Pakistanis, and Nigerians and Ethiopians each own 6 percent of the category.
- Businesses classified as “repair of communication equipment” are 87 percent Pakistani owned, and the remaining 13 percent are owned by Chinese immigrant entrepreneurs.
- The classification “hairdressing and other beauty treatment” is 100 percent African owned by immigrant entrepreneurs from Nigeria, Ghana and Cameroon.
- The classification “retail sales in non-specialised store with food, beverages or tobacco predominating” is 100 percent Pakistani owned.

Conclusions

Pakistani nationals are the dominant immigrant entrepreneurs in Brits, followed by Chinese nationals. Jointly they account for 75 percent of the sample population of immigrant entrepreneurs. The remaining 25 percent come from African countries. The study found that 81 percent of the immigrant entrepreneurs are people between the ages of 21 and 35 years old. All the African immigrant entrepreneurs are classified as young people. This implies that largely young people from Pakistan, China and the African continent are seeking and exploiting entrepreneurial opportunities in South African. In terms of the source of start-up capital, the study found that 100 percent of all start-up funding was sourced from the home country of the immigrant entrepreneur. This foreign currency flows into the county from outside, boosting the economy of Brits. The study also found that on average, each immigrant entrepreneur employs three people. Some of the employees were South African born and others were not. If the findings are extrapolated to the total population of 90 immigrant entrepreneurs in Brits CBD, then about 270 people are employed as a direct consequence of the presence of immigrant entrepreneurs in Brits.

The municipality generates revenue by charging for services rendered to businesses owned by immigrant entrepreneurs in Brits. Landlords benefit from rental income from immigrant entrepreneurs.

61 percent of immigrant entrepreneurs indicated that their businesses are not registered with the municipality, and are therefore not paying business licence fees; these businesses fall into, and increase the size of, the informal market within the municipal boundaries of Madibeng, in which Brits is situated.

In terms of the findings related to investment in real estate, the study found that none of the business premises occupied by immigrant entrepreneurs in Brits had been constructed or purchased by the immigrants 97 percent are rented and 3 percent leased. 89 percent of Immigrant entrepreneurs have been trading in Brits for period of between 2 – 8 years, the business premises they occupy have existed for much longer than that. This implies that previous business owners have relocated thus abandoning these markets. This behaviour and findings are closely relates to the immigrant entrepreneurial theory of the ethnic market niche due to the fact that the occupied buildings were previously used by native business owners. This theory also highlights the following:

- Immigrant entrepreneurs often enter non-ethnic or open markets when conditions allow access, and also markets with low economies of scale.
- The conditions may be caused by under-served or abandoned markets; this may be caused by geographic migration by large grocery chains or other local industries.
- Business vacancies are created when existing native business owners relocate their businesses, close their businesses, or sell their businesses to immigrants. The socio-economic shifts in neighbourhoods and communities are often critical factors in creating opportunities for immigrant entrepreneurs (Halkias, Harkiolakis *et al.* 2009:147).

Key attributes of foreign direct investment, as viewed by various scholars, are investment in real estate, creation of employment, and the inflow of foreign capital into the economy of the host country. These attributes were all found to apply in the case of small businesses owned by immigrant entrepreneurs in Brits. The study therefore asserts that parallels can be drawn between small businesses owned by immigrant entrepreneurs and the foreign direct investment brought about by multinational cooperation. It can therefore be concluded that immigrant entrepreneurs' business activities can be seen as a form of foreign direct investment. One aspect that immigrant entrepreneurs bring to the equation which multinational firms do not, is the contribution to an increase in the informal market sector and unregulated business practices.

Recommendations

A recommendation that arose from this study is for municipalities to pay closer attention to immigrant entrepreneurs operating within their jurisdiction. One aim of closer attention, would be the identification of the main feeder countries for immigrant entrepreneurs, with a view to forging closer economic relations with those countries.

The other benefit of paying closer attention would be to register these businesses and ensure that all legal aspects of the country and the municipality are adhered to, thus reducing the immigrant entrepreneurs' contribution to the informal markets sector.

Once the municipality have an up-to-date, accurate database of immigrant entrepreneurs operating within their jurisdiction, it will be easier to support this sector and to ensure that the sector supports and contribute to economic growth within the area. The municipality should also ensure that immigrant entrepreneurs are protected by the legal framework of the country; this would also serve to increase immigrants' confidence and sense of security in the country.

Immigrant entrepreneurship can create wealth and new jobs in the economy , for example in the US people are familiar with the success stories of immigrants such as Sergey Brin of Google, but few realise just how many immigrants started businesses in the US. Recent surveys have found that immigrant entrepreneurs have founded or co-founded 25.3 percent of all science and technology firms in the United States (Hohn, 2012:3).

Immigrant entrepreneurs can be used to support the entrance of South African youth into entrepreneurial practices by forging sustainable partnerships. With support from the government, many of these micro businesses could be increased to medium enterprises that employ in the region of 200 people.

In conclusion, immigrant entrepreneurs are a source of foreign direct investment and contribute to the local economy - thus classified as 'micro' FDI. Integration and support of their contribution to the economy has huge potential for South Africa.

Government should provide the necessary channels and means to allow this sector to grow; as such an approach will benefit many South Africans in the years to come.

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