African Journal of Business Management Vol. 6(19), pp. 6070-6081, 16 May, 2012
Available online at http://www.academicjournals.org/AJBM
DOI: 10.5897/AJBM12.010
ISSN 1993-8233 ©2012 Academic Journals

Full Length Research Paper

Do immigrant-owned businesses grow financially? An empirical study of African immigrant-owned businesses in Cape Town Metropolitan Area of South Africa

Robertson K. Tengeh[1]*, Harry Ballard[1] and Andre Slabbert[2]

[1]Department of public management, Cape Peninsula University o f Technology, Cape Town - South Africa.
[2]Department of Research, Cape Peninsula University o f Technology, Cape Town, South Africa.

Accepted 9 February, 2012

Given the fact that numerous challenges prohibit African immigrants from availing financial capital for the purpose of starting a business in South Africa, this paper sets out to investigate whether those that succeeded experienced a significant increment in their financial capital three or more years after start-up. This paper was designed within the quantitative and qualitative research paradigms. A triangulation of three methods was utilised to collect and analyze the data. From a quantitative perspective, the survey questionnaire was utilised. To complement the quantitative approach, personal interviews and focus groups were utilised as the methods within the qualitative approach paradigm. The primary data collection instrument used was the survey questionnaire which was complemented by personal interviews and focus group debates. The results revealed that the majority (71.1%), of African immigrants had an estimated start-up financial capital in the range of R 1 000 and R 5 000, which tended to vary across the different ethnic groups studied. After three or more years, the estimated financial capital of the majority (39.3%) of the respondents moved to a new range of R 50 001 - R 100 000. Noting a disparity in capital growth exhibited by the different ethnic groups, it was found that all the Ethiopians who started with a capital within the range of R1 000-R5 000 moved into a new capital range (R50 001-R100 000) three or more years after business start-up. Although, the absolute migration in terms of capital demonstrated by the Ethiopian is not into the highest capital range, they were nonetheless the only country that experienced this phenomenal growth. In terms of occupying the highest capital range (R250 001- R500 000) 11.1% of Cameroonians moved into that range followed by 7.4% of Somalians. Using an increase in financial capital (generated by ploughing back profits) as a proxy for growth, we were able to prove that these African immigrant-owned business grow and the rate of growth varied across the different ethnic groups studied.

Key words: Immigrant entrepreneurship, immigrant-owned businesses, financial capital, financial growth, African immigrants, business start-up resources and South Africa.

INTRODUCTION

From a business viewpoint, the process of employment and economic development begins with the humble start-up and operation of successful small businesses. Whether these businesses are started by natives or immigrants become irrelevant. According to Basu and Parker (2001) and the Federal Reserve Bank of Dallas (2010), in recent years there has been a growing awareness of the importance of new business start-ups for long-term economic growth and employment creation. With economic growth and employment as a central objective, many governments today are actively involved

*Corresponding author. E-mail: rtengeh@yahoo.com. Tel: 082 640 8558.

in promoting small business start-ups. According to Van Praag (2003), it is increasingly acknowledged that an effective policy to decrease unemployment is to stimulate the number of new businesses. It is widely recognised that a key element of successful start-ups is adequate financing (Basu and Parker, 2001).

The literature on small businesses in general and immigrant-owned businesses in particular, stresses the dual role played by finance. Firstly, a growing number of studies have expressed the importance of having the right type of financial capital (Jacobs, 2003; Colombo et al., 2004), in the right quantity (Huck et al., 1999; Colombo et al., 2004) and at the right price and at the right time for starting up a business. Secondly, other studies have emphasized the fact that the need to survive (Kushnirovich and Heilbrunn, 2008; Tengeh et al., 2011) is the force that drives immigrants into setting up business ventures. Such a need can only be implicitly satisfied by a positive financial return from the business venture. A measure of the financial capital of a business at start-up and over time is one of the ways of ascertaining whether an entrepreneur is 'reaping' the fruits of his or her labour.

A key debate issue confronting small businesses in general and informal businesses in particular is the perception held in certain quarters that these businesses (immigrant owned businesses included) do not grow. Such a perception stems from the fact the overwhelming need to survive is the driving force behind most of these establishments. On these grounds, logic may suggest that these businesses may remain at the same level over the years while maintaining the subsistence of their owners or cease to exist once the basic survival needs have been met. However, the fore going postulation is not necessarily true. If there were to be sufficient evidence proving that small businesses (immigrant-owned included) do not grow, this would call for a shift in the popular perception that they are the engines of economic growth and very instrumental in the fight against poverty.

Cognisant of the numerous challenges that prohibit African immigrants from availing financial capital for the purpose of starting a business in South Africa, this paper sets out to investigate whether those that succeed in starting-up new businesses, experience a growth in their financial capital three or more years after start-up. The specific questions addressed in this paper include the following:

What amount of financial capital do the African immigrants use when starting a business?
Is the amount of financial start-up capital used by African immigrants consistent across the different ethnic groups under study?
Do the African immigrant-owned businesses under study experience financial growth?
Is the growth in financial capital noted in African immigrant-owned business consistent across the different ethnic groups under study?

LITERATURE REVIEW

Entrepreneurship is a broad area of study covering a wider spectrum of interrelated activities carried out by entrepreneurs. Although, immigrant entrepreneurship, which is an emerging sub facet of entrepreneurship, has been widely researched in the developed countries, this cannot be said of the less-developed countries. In South Africa, immigrant entrepreneurship is an emerging area of study that needs attention.

Definition of immigrant entrepreneurship

From a historical perspective, the word entrepreneur is loaned from the French word 'entreprendre', which means 'to undertake'. Examining entrepreneurship from the process dimension as noted by Stokes et al. (2010), the word entrepreneur, according to Pinkowski (2009), is simply someone who starts or operates their own businesses. Putting forward the behavioural and outcome dimensions, Markova and Perkovska-Mircevska (2009) stated that entrepreneurs often have strong beliefs about a market opportunity and organise their resources (land, labour and capital) effectively to accomplish an outcome that changes existing interactions.

Exploring entrepreneurship from an immigrant perspective, Basu and Altinay (2002) and Sahin et al. (2006) concurred with the fact that entrepreneurship normally involves setting up a new business or buying an existing one. And when the process of entrepreneurship is carried out by an immigrant, the phenomenon is referred to as immigrant entrepreneurship (Sahin et al., 2006). Considering that there is probably no significant difference between an entrepreneur and a non-entrepreneur as suggested by Fertala (2006), the question that comes to mind would be whether there is a difference between entrepreneurial activities carried out by foreign-born and native entrepreneurs. The answer to the preceding question may lie in the preponderance of business start-up between the two groups as well as the success of these establishments.

Measuring business success and firm growth

Acquiring the necessary resources for business start-up and operation has been noted to be a challenging task (Jacobs, 2003). Success draws one's attention to a task satisfactorily completed according to specified standards. In order to measure success, a standard or bench mark must have initially been set, against which the result would be compared. In business, different dimensions have been used to indicate success. For instance, profit is commonly used to indicate success (Kloosterman and Rath, 2001). Other indicators of success include survival or numbers of years that the business has existed, which is ultimately indirectly linked to profit, in that a business that does not break even is doomed to close down.

In a study in Germany, Fertala (2006) defined a successful immigrant entrepreneur along the following lines:

The longer an immigrant survives in business the more successful he or she is.

The faster the process of incorporating new information than relying on experience, the more successful the entrepreneur is.

The greater the sales volume, the more successful the entrepreneur.

According to the online encyclopedia, Wikipedia, growth refers to an increase in some quantity over time. When applied to business, one would expect firm growth to be associated with an increase in the size of the business. However, size in its self is not a straight-forward concept. In view of the fore going, various approaches have been used to measure the growth of firms, ranging from an increase in the number of people employed (Feizpour and Jamali, 2009), an increase in market share or venture capital funding, to growth in revenue, return on investment or the number of customers of a firm. Cooney and Malinen (2004) posit that among these approaches, employment is generally the most accepted method of measuring growth. According to Cooney and Malinen (2004) the employment approach gains precedence over the others because the data is easily gathered, determined and categorized, and because this system is already frequently utilised to ordain firm size. Additionally, employment figures will be unaffected by inflationary adjustments and can be applied equally in cross-cultural (Cooney and Malinen, 2004).

Exploring small business start-up and growth from a South African perspective, Von Broembsen (2005), notes that the creation of a new business is a two-phase process. The first phase is the start-up phase, a three–month period when (one or more) individuals identify the products or services that the business will trade in, access resources such as finance and put in place the necessary infrastructure which includes staff. When the business is in this phase, it is referred to as the start-up phase (Von Broembsen, 2005).

The next phase, a period of 3-42 months is when this new business begins to trade and compete in the market place. When a business is in this phase of development, it is referred to as a new firm. The definition of a new firm is a business that has paid salaries or wages for longer than 3 months (Von Broembsen, 2005). It is therefore, possible to classify a business as a start-up indefinitely ifit fails to pay salaries and wages. Once a business has established itself and is more than 42 months old it is referred to as an established business (Von Broembsen, 2005).

The TEA index, the primary measure used to compare the rate of entrepreneurship both among countries and annual variations with a country, measure the number of new businesses that are started in a given year. South Africa's Total Entrepreneurial Activity (TEA) is estimated at 5.15% (Von Broembsen, 2005). In other words, between 4.32 and 5.95% of South African adults between the ages of 18 and 64 have started a business in the last 3 ½ years with others or on their own. While a slightly higher figure of 5.4% for South Africa's TEA was recorded in 2004, the difference is not significant and falls within the range of the last 4 years (Broembsen, 2005). In this study, the duration in business and increment in financial capital are seen as the fundamental indicators of success and growth. More importantly, it is assumed that the increase in financial capital results solely from profits that have been ploughed back.

Business start-up and operation resources

Historically, creating any product or service has often involved combining what has since been referred to as factors of production (Jacobs, 2004). The acknowledged factors of production have included: land, labour, capital and the entrepreneur. According to the Federal Reserve Bank of Dallas (2010), all the economies around the world possess land, labour, capital and entrepreneurship. Land represents natural resources, that is, soil, food crops, trees, and lots that we build on. An example of labour includes the farmers, accountants, cab drivers, dry cleaners, assembly-line workers and computer programmers who provide skills and expertise to build products or offer services in exchange for wages and salaries. Capital represents the buildings, equipment, hardware, tools and finances needed for production. Entrepreneurship represents ideas, innovation, talent, organisational skills and risk. This notwithstanding, the availability of these resources has been noted to vary from one region to another, with some areas having abundance and others scarcity (Smith, 2007). The impact of which may be positively or negatively felt by individuals, depending on the geographical space that they occupy at any one time.

Although, the advent of globalisation has minimised the shortage of some of these factors, such as labour, entrepreneurship and capital, in that they can be transferred from a region of abundance to a region of scarcity, the degree to which these factors can be moved is still limited by both man-made and natural factors. The natural factors include weather, natural disasters and so forth. The man-made factors include laws and regional policies that hinder mobility (Smith, 2007). Capital as a factor of production can be classified into financial (savings and loans), physical (land, buildings and machinery), human (education and skill enhancement) and social (trust, reciprocity and mutuality), based on its source (Coleman, 1988; Smallbone et al., 2001). Sanders and Nee (1996) noted that, 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. Acknowledging a variation in the quality and quantity of the factors of production available to individuals would logically suggest that business success drivers would vary from region to region, between sectors, and even over time. According to Elfring and Hulsink (2003), entrepreneurs rarely possess all the resources required to start-up and operate a successful business.

Financial capital as a business start-up and operation resource

Finance as a business resource refers to all those resources that take the form of, or can be readily converted into cash. Financial resources are valuable as far as business start-up and operation are concerned in that they do not have a single purpose but can be used to acquire other resources (Jacobs, 2003). From this angle, the acquisition and use of this type of resource may be important for the start-up and operation of any business (immigrant-owned businesses included). Finance can be obtained from different sources. The first source is the entrepreneur and the money he or she invests into the business is known as equity capital (Jacobs, 2003). The second source of funds is money loaned to the business by outsiders, such as individuals, banks or other lending institutions.

Traditionally, would-be small business owners meet the challenge of obtaining capital to start and run their businesses by using informal sources, as well as personal assets and loans from formal sources (Huck et al., 1999). 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 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 (Huck et al., 1999). 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, which happens to be a core component cultivated by social networks. Businesses form networks with their suppliers, and there may be an ethnic dimension to these networks, in that the ethnicity of the supplier may matter for some transactions.

The importance of finance for business start-up and growth

At a more general level, and following the 2009 global financial crisis that recently hit the world economy, the importance of finance for economic growth cannot be ignored. Although, a plus for most African countries at this stage has been that the effects of the crisis have been minimal due to less exposure to global financial markets, such a characteristic of a poorly developed financial system is still lamentable (IDC, 2009). A financial market, according to Berry et al. (2002), implies any mechanism that brings agents with money surpluses, such as banks, together with agents with need for money (such as SMMEs) who are willing to pay a price for the capital they acquire.

At first sight, if the market functions well, it should be able at a particular interest rate, to allocate the entire supply (surpluses) of the economy and to accommodate the entire demand for money, and by so doing address the problem of accessibility (Berry et al., 2002). However, this is often not the case and financial systems have been noted to be skewed at a regional level (Gries and Naude, 2008) and within regions (Claessens, 2005). Logically therefore, under perfect market conditions, one would expect finance to be readily available for business start-up regardless of race or size of business.

Over the last decade, finance has been recognised as an important driver of economic growth. Although, a large body of literature has established a positive association between financial sector depth and economic growth at the country, industry, and firm level, Beck et al. (2005) believe that little is known about the breadth of financial systems across countries, the extent to which enterprises and households use financial services, and their relationship to desirable outcomes. Claessens (2006) posits that finance is a vital component of economic growth and that there is a causal relationship between the depth of the financial system on the one hand, and investment, growth, poverty and total factor productivity on the other hand.

Empirical research has shown that initial financial development is one of the few robust determinants of a country’s subsequent growth (Beck et al., 2005; Claessens, 2006). As development takes place, one question that often arises has to do with the extent to which credit can be offered to the poor (including immigrants) to facilitate their taking advantage of the developing entrepreneurial activities (Atieno, 2001). Agreeing with the foregoing author, Claessens (2006) suggests that although finance is crucial for economic growth and the general well-being of society, a universal access to financial services has not been a public policy objective in most countries and would likely be difficult to achieve. At a firm level, it has been argued that higher start-up costs reduce start-up rates through capital.

From a small business perspective, access to capital is an important policy issue because business owners may face funding limits, known to economists as liquidity constraints. According to Huck et al. (1999), although many observers might take funding limits as self-evident, studies have revealed that liquidity constraints affect entrepreneurs both upon start-up and when the business is operationally underway. These constraints deter entry into self-employment and force would-be owners to save for longer periods before launching a business. The effects of start-up constraints extend to ongoing businesses, because starting with more capital increases an owner's prospects of developing a viable, growing business (Colombo et al., 2004; Claessens, 2006).

Drawing a distinction between the financial needs of established firms and those of new start-ups, Berry et al. (2002) observed that while the latter cannot afford too much debt and will rather require equity, the former can be better-off using debt. On the contrary, Gries and Naunde (2008) argued that where start-up is high, access to external finance becomes important.

Atieno (2001) notes that banking systems and capital markets, especially in developing countries, are often skewed towards those who are already better-off, catering mainly to the large enterprises and wealthier individuals. Atieno (2001) posits that the failure of specialised financial institutions to meet the needs of the underprivileged (in which case one may include immigrants) has underlined the importance of a needs-orientated financial system. The popular belief that there is a lack of capital to fund business start-up has been the subject of many recent investigations (Astebro and Bernhardt, 2005). Sub-optimal capital levels in new firms due to credit constraints may have been a burden on the economy, although it has not been fully established how large the problem is, if it exists (Astebro and Bernhardt, 2005).

Forms and sources of start-up capital

In many countries, finance for business start up takes the form of bank loans. The next largest source of funds is family members. In contrast, equity finance tends to be of relatively minor importance (Basu and Parker, 2001).

Earlier studies documented that start-up firms in traditional industries are mainly financed with equity capital, invested by the entrepreneur and friends or relatives, with bank loans and with trade credit (Huyghebaert and Vande Gucht, 2002). For these firms, Huyghebaert and Vande Gucht (2002) add that venture capital is not typically available at start-up stage. While acknowledging that start-up capital comes from both equity and debt sources, Bates (1996) notes that greater equity investments tend to make debt capital more accessible. Given the lack of prior history and reputation, the high failure risk, and the key role played by the entrepreneur, creditors will typically be concerned about adverse selection and moral hazard problems when lending funds at start-up (Huyghebaert and Vande Gucht, 2002).

In a South African survey of SMMEs, Chandra (2001) notes that sources of capital include private savings, family savings, individual savings, and retained earnings from a previous business. Other sources of start-up capital, including church and community groups, retrenchment packages, and government agencies, play a minor role and finance less than five percent of all firms.

Considering the available choices that entrepreneurs face with regards to the form and source of finance, the logical question one may ask is: which form of finance facilitates small business start-ups the most? According to Nee and Sanders (2001), human and financial capital are the forms of capital preferred by elite and middle class immigrants, which is an indication of the class advantages that they enjoyed in their home country. However, Nee and Sanders (2001) warn that financial capital may not be as liquid or as movable an asset as human capital when constraints are imposed by the home country on the portability of financial assets.

Financial capital is required for immigrants who enter entrepreneurial careers. In the USA, Nee and Sanders (2001) note that immigrants who bring with them substantial amounts of this form of capital enjoy a head start in establishing family businesses. Notwithstanding this, many immigrants accumulate needed start-up capital after their arrival in the USA (Nee and Sanders, 2001). The importance of informal sources of funding suggests that it is worth exploring ways to combine the presumed flexibility and informational advantages of informal networks with the formal sector's ability to mobilise capital (Huck et al., 1999). Community development financial institutions and micro-lending pools are examples of institutions that, in some ways, combine the strengths of formal and informal sources of capital.

The ethnic differences in the amount of capital used and the sources of capital illustrate the importance of learning more about how formal and informal capital and credit markets work with regard to ethnic networks and neighbourhoods. These results have important implications for ethnic differences in business survival and growth, the decision to become self-employed, and income and wealth accumulation (Huck et al., 1999).

Size of business start-up funds

There seems to be a pronounced ethnic difference in the start-up funding used by different ethnic groups (Basu and Altinay, 2002; Robb and Fairlie, 2009). Huck et al.

(1999) found that black Americans in particular, start their businesses with significantly less capital than their Hispanic counterparts, even after controlling for differences in industry type and various measures of human capital (such as skills, abilities, training, and so on). In a more recent study, Robb and Fairlie (2009) also noted that Asian immigrants in the USA started their businesses with substantially greater capital than their white native counterparts. The inherent gap in the total amount of start-up funding may be attributed to the differences in the levels of non-personal resources put up by the owner.

Evidence from other studies indicates that the amount of financial capital available at start-up is important because more capital increases an enterprise's chances of survival (Huck et al., 1999; Colombo et al., 2004). At the level of the immigrant, Huck et al. (1999) argue that differences in experience, cultural attitudes toward risk, skills level and willingness to start small businesses account for the differences between groups as far as choosing the start-up funding level is concerned.

Nevertheless, mounting evidence suggests that some owners are constrained in the amount of start-up funding that they are able to obtain and are forced to begin their businesses with less capital than the optimal amount of capital (Huck et al., 1999).

Social network as a business start-up and operation resource

Social networks and most importantly ethnic networks become critical when it comes to setting up a business in a foreign country. The literature on social networks, with regards to business start-up and growth, points to the important role that these networks play in providing the necessary resources for the success of a business. According to Elfring and Hulsink (2003) a network is one of the most powerful assets any person may possess, in that it provides access to wide range of valuable resources. These resources may include information, a niche market, financial capital, human capital and so forth (Elfring and Hulsink, 2003).

Social networks and social capital

From a general perspective the migration theory addresses the cumulative causation of migration as a result of reduced social, economic and emotional cost of migration associated with the migration network formations (Light et al., 1989). In the same vein, Elfring and Hulsink (2003) posit that the value of networks as an integral part of the explanation of entrepreneurial success is widely recognised. However, the role that networks or specific components of networks play in explaining start-up rate is still limited. According to Light et al. (1989:1), the existing treatment of migration networks often overlooks the role of these networks in expanding the migrant economy at locations of destination – a role that migrant networks perform when they support immigrant entrepreneurship.

By developing social or migration networks, Bates (1996) and Salaff et al.(2002) believe that immigrants create social capital which becomes a useful source of start-up finance. According to Fukuyama (2001), social capital in the general sense of the word has been given a number of different definitions, many of which refer to manifestations of social capital rather to social capital. In sociology, where the term was initially coined, social capital refers to the advantages and opportunities accruing to people through membership of certain communities. According to Fukuyama (2001), social networks breed social capital.

Although it is sometimes argued that social capital differs from other forms of capital because it leads to bad results like hate groups or inbred bureaucracies, Fukuyama, (2001) argues that this does not disqualify it as a form of capital, in that other forms of capital also have their downsides. For instance, physical capital can take the form of assault rifles or tasteless entertainment, while human capital can be used to devise new ways of torturing people. Fukuyama (2001) further argues that since societies have laws to prevent the production of many social evils, one can presume that most legal uses of social capital are no less good than the other forms of capital insofar as they help people achieve their aims. Virtually all forms of traditional culture-social groups like tribes, clans, village associations, religious sects and so forth are based on shared norms and use these norms to achieve co-operative ends (Fukuyama, 2001).

According to Fukuyama (2001) and Elfring and Hulsink (2003), a plausible downside of social networks (and the cultivation of social capital) is that strong in-group moral bonding and solidarity reduces the ability of a group's members to co-operate with outsiders, and often imposes negative externalities on the latter. In a free-market liberal democracy, Fukuyama (2001) notes that the economic function of social capital is to reduce the transaction costs associated with formal co-ordination mechanisms like contracts, hierarchies, bureaucratic rules and the like.

How does one measure social capital? According to Fukuyama (2001), one of the greatest weaknesses of the social capital concept is the absence of consensus on how to measure it. It has been suggested that the membership and the degree of trust within a group is a close measure of the group's social capital (Fukuyama, 2001). While a social network group may be united around some common interest or passion, Fukuyama (2001) cautions that the degree to which individual members are capable of collective action on the basis of mutual trust depends on their relative position within the organisation.

Newly arrived immigrants rely on social capital to reduce the costs involved in settling in a new country

(Nee and Sanders, 2001). The social networks are in themselves not capital or finance per se, but they facilitate the accumulation of finance for small business start-up as well as growth. The question one may ask is: How then do they fill in the financial gap as far as small business start-ups are concerned?

Firstly, the trust embodied in social capital is important in business start-ups (Salaff et al., 2002).

Secondly, it is believed that these networks are a source of new ideas and lucrative opportunities (Elfring and Hulsink, 2003).

Thirdly, it is assumed that the trust, solidarity, cohesiveness and the zeal to help each other is translated to social capital and particularly start-up finance (Salaff et al., 2002).

Despite the importance of social networks in harnessing resources for entrepreneurial purposes, recent studies such as that of Tesfom (2006) have found the role of social networks to be limited. To avoid competition among co-ethnic members, entrepreneurs do not share business information especially on how they identified the business opportunity and how they draw resources (Tesfom, 2006). Tesfom (2006) found no evidence to either support the fact that first generation East African entrepreneurs posses ethnic self-help institutions or have individual ties that provide access to training, credit, capital and information. On the contrary, Tesfom (2006) argues that it is the strong cultural value of a savings tradition, persistency and the desire for income continuity that fuels their entrepreneurial drive.

Nee and Sanders (2001) make an important observation that, unlike financial and human-cultural capital, social capital is available to all classes of immigrants in that it is a form of capital that is spontaneously produced and reproduced within a family or social network level within the immigrant community.

Drawing a distinction between financial or economic capital, human capital and social capital, Portes (1998) notes that whereas economic capital is in people's accounts and human capital is inside their heads, social capital is inherent in the structure of their relationships. At the individual level, Portes (1998) concludes that while social ties or networks can bring about greater control over wayward behaviour and provide privileged access to resources; they can also restrict individual freedoms and bar outsiders from gaining access to the same resources through particularistic preferences. For this reason he adds, it seems preferable to approach these manifold processes as social facts to be studied in all their complexity, rather than as examples of a value.

Human capital as a business start-up and operation resource

Human resources comprise of all the people and the efforts, skills, knowledge and insights that they contribute to the success of a business (Jacobs, 2003). The most frequently mentioned aspects of human resource (capital) that have impact on entrepreneurship in general and more specifically on the start-up and growth of small businesses include education and prior work experience.

The literature on human capital and how it influences business start-up and operation is inconclusive. On the one hand, successful businesses have been associated with a certain level of formal education attained by the owner. On the other hand, other studies have found no association. In a related study, Merz and Paic (2006) found that prior experience positively influenced the start-up survival of a business. It has been suggested that the level of education of the business owner plays a crucial role in its chances of survival. Joachim and Peter (2006) found this position to be true but noted that it varied from one type of business to another.

RESEARCH METHODOLOGY

The study was designed within the quantitative and qualitative research paradigms, in which a triangulation of three methods was utilised to collect and analyze the data. From a quantitative perspective, the survey questionnaire was used. To complement the quantitative approach, personal interviews and focus groups were utilised as the methods within the qualitative approach paradigm. The primary data collection instrument used was the survey questionnaire which was complemented by personal interviews and focus group debates. The major advantage that triangulation brings to the fore is the reliability of information collected, as the various methods used will compensate for the shortcomings of one another.

In choosing the research population for this study, some screening was done. Being an African immigrant himself and having been actively involved in entrepreneurial activities since immigrating to South Africa, the researcher developed interest in the topic. Out of curiosity, we wanted to study all immigrants but after preliminary studies and observation, it was found to be practically not feasible given the time frame and resources. On this basis, the research population was then narrowed to African immigrants. However, due to communication difficulties and the fact that certain groups were more visible in business activities than others, five countries were chosen for the study. The research population for this study comprised of all immigrants of African origin that met the following criteria:

Respondents must be of Cameroon, Ghana, Ethiopia, Senegal and Somalia origin.

Operate a small, medium or micro size enterprise (SMMEs) at the time of interview.

Business operation must be located within the Cape Town Metropolitan Area.

Business operation must be three or more years in existence.

Sample design

Using the snow balling technique, a sample of 135 immigrant-owned businesses was drawn. Selected businesses had to be three or more years old. According to the snowballing sampling technique, once a suitable respondent is identified, he or she nominates other respondents. McDonald et al. (1999) reckons that

Table 1. Description of immigrant-owned businesses.

	Frequency	Percent
Cell phone repairs	17	12.6
Clothing	2	1.5
Crafts	2	1.5
Electrician	2	1.5
Fridge repairs	1	0.7
Manufacturing	1	0.7
Mechanic	3	2.2
Night club owner	1	0.7
Panel-beater	3	2.2
Restaurant	2	1.5
Shoe repairs	4	3.0
Trading	89	65.9
Other service	8	5.9
Total	135	100.0

this method allows for an element of randomness and ensures that the confidence of the interviewee would be maintained by being referred by a friend. To avoid some of the inherent bias associated with snow balling, once a suitable respondent is found, such a respondent helps identifies at least two other ethnic businesses (and most importantly their owners) within that suburb, and the researcher randomly selects one for an interview. By tossing a coin, one of the two nominated candidates is chosen for survey. Two approaches were used to arrive at the sample size of 135 used in this study. Firstly, a review of the following recent related studies: Basu and Altinay (2002), Rogerson (2004) Tesfom (2006), Kushnirovich and Heilbrunn (2008), indicted that on the average a sample size of 118 was utilised. All of the aforementioned studies made used of the snowballing technique and the interviews were conducted on a face to face basis. Secondly, in an attempt to justify and to ensure that the same size is big enough to give satisfactory results at a 95% statistical power, the G*Power software was implored. Using G*Power 3.1.2 software, and striving to achieve a statistical power of 95% a sample size of 134 seemed ideal (Faul et al., 2009).

Data collection and analysis

While using the survey questionnaire as the primary data collection instrument, focus group discussions were used to supplement as well as to test the results of the survey. The questionnaire was pre-tested on twenty African immigrant-owned businesses. The pilot participants were asked about the clarity of the items and whether they felt any items should be added or deleted. Based on the feedback from the pre-test and the statistician, some questions had to be reframed as they were grossly misunderstood by the respondents. It also became clear that having an African immigrant to administer the questionnaire would yield more satisfying results than otherwise, the reason being that they tend to trust one of their own more. Two focus group discussions were held, in which attempts were made to answer the research questions with particular emphasis laid on the outcome of the survey questionnaire. The focus group participants were drawn from the same sample from which the survey questionnaire participants were drawn. Two groups of six and seven participants were drawn. In a group session that lasted one and a half hour each, participants shared their experiences as they attempted to provide answers to the research questions. Personal interviews were conducted with key informants, banks and SMME support organisations. The preliminary interviews conducted with key informants was informal and provided information that guided the planning and as well as the identification of the sample population. Furthermore, interviews with key informants like focus group discussion also provided a means of validating the survey results. Specifically, a total of four formal interviews were conducted. The choice of whom to interview emerged from a preliminary analysis of the quantitative survey questionnaire and served to corroborate and as well as to complement it. Two interviews were held with officials of two of the most prominent banks in South Africa. Being banks that are actively involved in SMME development, it was imperative that their own side of the story be heard as it could complement or contradict that told by immigrants in the quantitative survey questionnaire. Another two interviews were held with two prominent SMMEs support organisations. It was believed that their viewpoint on things would shade some light on the topic and by so doing strike a balance. These organisations were purposefully chosen with one representing the government and other representing the civil society.

RESULTS AND DISCUSSION

Background information on successful African immigrant-owned businesses

This study outlines and discusses the general background findings on immigrant-owned businesses.

Description of African immigrant-owned businesses

The results as shown in Table 1 indicates that African immigrant entrepreneurs in South Africa engage in a variety of entrepreneurial activities. An overwhelming majority (65.9%) of those surveyed were engaged in what could be generally classified as trading. Besides trading, a significant proportion was engaged in cell phone repairs (12.6%), and the remaining proportion was distributed between clothing, crafts, electricians, fridge repairs, manufacturing, mechanics, night club owners, panel-beating, restaurants, shoe repairs, trading and other services. A major notable characteristic of the surveyed businesses is the ease of entry and the minimal capital outlay required to start-up and operate.

Formality, age, gender and marital status characteristics of immigrant-owned businesses

The majority of the businesses surveyed fell within the informal sector of the economy. Formality as used here refers to whether the business is registered with the Registrar of Companies in South Africa, or not. A business considered to be informal is one that has not been registered with the said authority. Although, none of the businesses surveyed could be considered as

Table 2. Demographic characteristics of African immigrant-owned businesses.

Formality of business	Frequency	%
Formal	10	7.4
Informal	125	92.6
Gender of owner		
Male	118	87.4
Female	17	12.6
Age of owner		
Below 20 years	5	3.7
20 to 40 years	122	90.4
41 to 60 years	8	5.9
Marital status of owner		
Single	40	29.6
Married	94	69.6
Widowed	1	0.7

N=135

Table 3. Highest level of formal education attained.

Highest level of formal education	Frequency	%
Less than high school or no schooling	57	42.2
High school diploma	59	43.7
Vocational/technical degree	1	0.7
Uncompleted university	16	11.9
Bachelors degree	2	1.5
Total	135	100.0

N=135

Table 4. Estimate of capital used by African immigrant during business start- up.

Best estimate start-up capital	Frequency	Percentage
R1000 – R5000	96	71.1
R 5 001 – R10 000	25	18.5
R 10 001 – R20 000	8	5.9
R 30 001 – R 50 000	6	4.4
Total	135	100

hawkers in that they all operated from a fixed location and particularly in a permanent enclosure or shop, a majority of these businesses could be referred to as informal. As indicated in Table 2, 92.6% of these businesses were informal and only 7.4 % were formal.

In terms of the level of education attained, Table 3 shows that while a significant majority (43.7%) of the respondents had less than high school education (42.2%) or no schooling, a good percentage had high school diplomas.

Measuring the start-up finance or capital of African immigrant-owned businesses

At the very onset, and in line with other studies including Fertala (2006), it was assumed that the number of years that a business has existed and its sales volume (reflected in the growth in capital) are good indictors of success. Having met the first criteria by ensuring that only businesses that were three years or older were included in the survey, this paper set out to investigate the amount of start-up capital that these businesses used, and if they had experienced any growth at all after three or more years later. Table 4 shows the start-up capital of all the businesses surveyed.

According to Table 4, an overwhelming majority (71.1%) of the businesses surveyed reported that they started their businesses with R5 000 or less. Another 18.5% started with capital ranging between R 5 001 and R 10 000 inclusively. Eight percent started with capital in the range R10 001 to R 20 000. Validating this result qualitatively, this is what one of the participants at the focus group meetings had to say: “When I finally met my host, I had only R1200.00 and after reserving R200.00 for miscellaneous expenses he bought me a ‘starter’s pack’ of goods so that I could commence trading”. Said Mbaye from Senegal.

Based on the results noted in Table 4, a cross tabulation was conducted to ascertain how the start-up capital used by African immigrant entrepreneurs varied among the ethnic groups.

As noted in Table 5 the ethnic groups contributed differently toward making R1 000 – R5 000 the dominant capital range. The Ethiopians were noted to have contributed the most (28.0%), while the Senegalese, Somalis, Cameroonians, and Ghanaians contributed 27, 23, 22 and 0.0%, respectively. Examining start-up capital usage in terms of size, table 6 demonstrates that while Ghanaians (18.5%) used the most capital, the Ethiopian (100%) used the least.

In order to determine whether the business has noted any growth, an estimation of the financial capital these entities was done three or more years after start-up. From Table 7, it is evident that a majority (39.3%) of the businesses surveyed now have capital of between R50 000 and R100 000 inclusive. Even though, a reasonable proportion still falls within the R10 000 to R20 000 bracket, it is worth noting that another 20.7% occupied the R100 001 - R200 000 bracket, and that none (0%) now occupy the R1 000 - R 5 000 bracket.

In an attempt to understand how the various ethnic

Table 5. Cross tabulation between ethnic group and start-up capital.

Best estimate of start-up capital	Country / Ethnic group					Total
	Cameroon	Ethiopia	Ghana	Senegal	Somalia	
R 1 000 - R 5 000	21	27	0	26	22	96
R 5 001 - R10 000	5	0	20	0	0	25
R 10 001 - R20 000	1	0	2	0	5	8
R 30 001- R 50 000	0	0	5	1	0	6
Total	27	27	27	27	27	135

Table 6. Size - distribution of start-up capital among ethnic groups.

Best estimate of start-up capital	Country / Ethnic group (%)				
	Cameroon	Ethiopia	Ghana	Senegal	Somalia
R 1 000 - R 5 000	77.8	100	0.0	96.3	81.5
R 5 001 - R10 000	18.5	0.0	74.1	0.0	0.0
R 10 001 - R20 000	3.7	0.0	7.4	0.0	18.5
R 30 001- R 50 000	0.0	0.0	18.5	3.7	0.0
Total	100	100	100	100	100

N=135

Table 7. Estimate of capital used by African immigrants three or more years after start up.

Best estimate of capital now (that is, 3 or more years after start-up)	Frequency	%
R 10 001 – R20 000	28	20.7
R 20 001 – R 30 000	19	14.1
R 30 001– R 50 000	2	1.5
R 50 001 – R 100 000	53	39.3
R 100 001 – R 200 000	28	20.7
R 250 001 – R 500 000	5	3.7
Total	135	100

groups fared in terms of growth in capital, a cross tabulation was done. The results in Table 7 indicate that a majority of the respondents (39.3%) now fall within the R50 001–R100 000 bracket, and also the fact that there is a variation in the contribution of the different ethnic groups. This variation is indicated in the cross tabulated table (Table 8). With regards to the noted results (Table 8), Ethiopians contributed the most (51%), followed by Senegalese (28%), Cameroonians (9%), Somalis (9%) and Ghanaians (2%).

In terms of capital growth, it can be noted that all the Ethiopians, who started with a capital within the range of R1000-R5000 (Table 5) have moved into a new capital range (R50001- R100000, Table 9). Although, the absolute migration in terms of capital demonstrated by the Ethiopian is not into the highest capital range, they are, nonetheless, the only country that experienced this phenomenal growth. In terms of occupying the highest capital range (R250 001- R500 000), 11.1% of Cameroonians moved into that range followed by 7.4% of Somalians.

Conclusions

Sampling businesses that are three or more years old and using an increase in financial capital (resulting from profits ploughed back) as a proxy for growth, we were able to prove that these businesses grow and the rate of growth varied across the different ethnic groups studied. We found that a significant majority (71.1%) of African immigrants had an estimated start-up financial capital in the range of R 1 000 and R 5 000, which tended to vary across the different ethnic groups studied. After three or

Table 8. Cross tabulation between ethnic group and best estimate of capital now (that is, 3 or more years after start-up).

Best estimate of your capital now	Country / Ethnic group					Total
	Cameroon	Ethiopia	Ghana	Senegal	Somalia	
R 10 001 – R20 000	8	0	0	0	20	28
R 20 001 – R 30 000	7	0	1	11	0	19
R 30 001– R 50 000	2	0	0	0	0	2
R 50 001 – R 100 000	5	27	1	15	5	53
R 100 001 – R 200 000	2	0	25	1	0	28
R 250 001 – R 500 000	3	0	0	0	2	5
Total	27	27	27	27	27	135

Table 9. Size - distribution of capital among ethnic groups, three or more years after business start-up.

Best estimate of your capital now	Country / Ethnic group (%)				
	Cameroon	Ethiopia	Ghana	Senegal	Somalia
R 10 001 – R20 000	29.6	0	0	0	74.1
R 20 001 – R 30 000	25.9	0	3.7	40.7	0
R 30 001– R 50 000	7.4	0	0	0	0
R 50 001 – R 100 000	18.5	100	3.7	55.6	18.5
R 100 001 – R 200 000	7.4	0	92.6	3.7	0
R 250 001 – R 500 000	11.1	0	0	0	7.4
Total	100	100	100	100	100

N=135

more years in business, the estimated financial capital of the majority (39.3%) of the respondents moved to the range R 50 001 - R 100 000. Looking at start-up capital usage, it was found that at the time of start-up, Ghanaians (18.5%) used the most capital within the range of R 30 001- R 50 000, the Ethiopians (100%) used the least (R1 000–R5 000). Noting a disparity in capital growth exhibited by the different ethnic groups, it was found that all the Ethiopians, who started with a capital within the range of R1000-R5000 moved into a new capital range (R50001- R100000) three or more years after business start-up. Although, the absolute migration in terms of capital demonstrated by the Ethiopian is not into the highest capital range, they were nonetheless the only country that experienced this phenomenal growth. In terms of occupying the highest capital range (R250 001-R500 000), 11.1% of Cameroonians moved into that range followed by 7.4% of Somalians. In comparative and general terms, these results may suggest that there has been a noticeable growth in capital. In so doing, and considering that all the businesses surveyed were three or more years old, this result may therefore maintain that all the African immigrant businesses surveyed experienced growth in terms of financial capital. Considering the dire need for more businesses to be established in South Africa, and the minimal outlay of financial capital used by African immigrants, a support from the government and civil society would go a long way towards advancing this goal. Do immigrant owned-businesses grow? The answer is a yes.

LIMITATION AND FURTHER RESEARCH

While the paper acknowledged the fact that growth in financial capital may result from both internal and external sources such as profits ploughed back and loans from family and friends, it assumed that the latter was not the case. Given the foregoing assumption, the paper opens up a broad area for criticism and further research.

REFERENCES

Astebro T, Bendardt I (2005). The Winner's Curse of Human Capital. Small Bus. Econom., 24(1):63-71.

Atieno R (2001). Formal and Informal Institutions' Lending Policies and Access to Credit by Small Enterprises in Kenya: An Empirical Assessment. Afr. Res. Consort., 3: 1-45.

Basu A, Parker S (2001). Family Finance and New business Start-Ups. Oxford Bull. Econom. Stat., 63(3): 333-358.

Basu A, Altinay E (2002). The interaction between Culture and Entrepreneurship in London's Immigrant Businesses. Int. J. Small Bus., 20(4): 371-394.

Bates T (1996). Financing small business creation: The Case of

Chinese and Korean immigrant enterprises. Center for Economic Research (CES). Working Paper 96-9. http://www.ces.census.gov/index.php/ces/cessearch?search_terms= bates+t&search_what=0&x=19&y=7 [12 May 2010].
Beck T, Demirguc-Kunt A, Peria M (2005). Reaching out: Access to and use of Banking Services across Countries. World Bank Policy Research Working Paper 3754, October.
Berry A, Von Blottnitz M, Cassim R, Kesper A, Rajaratnam B, Van Seventer D (2002). The Economics of SMMEs in South Africa. Trade and Industrial Policy Strategies (TIPS), Johannesburg.
Chandra V, Moorty L, Nganou J, Rajaratnam B, Schaefer K (2001). Constraints to Growth and Employment in South Africa. Report Number 2, World Bank.
Claessens S (2005). Access to Financial Services: A Review of the Issues and Public Policy Objectives. World Bank Policy Research Working Paper 3589:1-36, May.
Coleman JS (1988). Social Capital in the Creation of Human Capital. Am. J. Soc., 94: 95-120.
Colombo MG, Delmastro M, Grilli L (2004). Entrepreneurs Human capital and the start-up size of new Technology based firms. http://ideas.repec.org/a/eee/indorg/v22y2004i8-9p1183-1211.html. [10 January 2010].
Cooney T, Malinen P (2004). Firm growth as a research issue. In: Cooney T, Malinen P (ends) New perspectives on firm growth. European Council for Small Business and Entrepreneurship (ECSB), Finland, pp. 4-16.
Elfring T, Hulsink W (2003). Networks in Entrepreneurship: the Case of High Technology Firms. Small Bus. Econom., 21: 409-422.
Faul F, Erdfelder E, Buchner A, Lang AG (2009). Statistical power analyses using G*Power 3.1: Tests for correlation and regression analyses. Behav. Res. Methods, 41: 1149-1160.
Federal Reserve Bank of Dallas (2010). Everyday Economics. http://www.dallasfed.org/educate/everyday/ev3.html [15 October 2010].
Feizpour MA, Jamali R (2009). SMEs Employees Gender Composition and Firm Growth: Evidence from Manufacturing Industry in Cooperative Sector during the Second Development Plan in Iran from 1995 to 1999. Int. Rev. Bus. Res., 5 (3): 311-332.
Fertala N (2006). Determinants of Successful Immigrant Entrepreneurship in Germany. Unpublished Ph.D Dissertation. Tubingen University. Germany.
Fukuyama F (2001). Social Capital, Civil Society and Development. Third World, 22(1): 7-20.
Huck P, Rhine S, Bond P, Townsend R (1999). Small Business Finance in two Chicago minority neighborhoods. Econom. Perspect., pp. 46-62.
Huyghebaert N, Vande Gucht L (2002). The Determinants of Financial Structure: New insights from Business Start-ups. Research Report 0203, Katholieke Universiteit leuven, Belgium.
IDC (2009). Africa and the Global Economic Crisis: Challenges and Opportunities. February. http://www.idc.co.za/. [8 February 2009].
Jacobs H (2003). Resource Requirements and Legal and regulated aspects. In: Nieman G, Hough J, Nieuwenhuizen C (eds.). Entreprenurship. Pretoria, Van Schaik: 111-128.
Jacobs H (2004). Basic Business Concepts for the Prospective Entrepreneur. In: Nieuwenhuizen C (ed). Basics Entrep., Cape Town, Juta, pp. 1-32.
Joachim M, Peter P (2006). Start-up Success of Freelancers: New Microeconometric Evidence from the German Socio-Economic Panel. IZA Discussion Paper No. 2036, March fttp://repec.iza.org/RePEc/Discussionpaper/dp2036.pdf [02/04/2009]
Kloosterman R, Rath J (2001). Immigrant entrepreneurs in advanced economies: mixed embeddedness further explored. J. Ethn. Migr. Stud., 27(2):189-202.
Kushnirovich N, Heilbrunn S (2008). Financial Funding of immigrant Businesses. J. Dev. Entrep., 13(2): 167-184.
Light I, Bhachu P, Karageorgis S (1989). Migration Networks and Immigrant Entrepreneurship. Institute for Social Science Research, 5: 1989-90. Available: http//repositories.cdlib.org/issr/volume5/1. [10 April 2009].
Markova S, Perkovska-Mircevska T (2009). Financing Options for Entrepreneurial Ventures. Econom. Interferences, 11(26): 597-604,
McDonald D, Mashike L, Golden C (1999).The Lives and Times of African Migrants and Immigrants in Post Apartheid South Africa. Southern African Migration Project (SAMP). Migr. Pol. Ser., 13: 1-33.
Merz J, Paic P (2006). Start-up success of freelancers New Microeconometric Evidence from the German Socio-Economic Panel. FFB Discussion Paper No. 56:1-32. February. http://mpra.ub.uni-muenchen.de/5737/ [14 May 2009].
Nee V, Sanders J (2001). Understanding the diversity of immigrant incorporation: a forms-of-Capital model. Ethnic Racial Stud., 24(3): 386-411.
Pinkowski J (2009). Challenges and promises for Immigrant Entrepreneurship in Dublin. Dublin City Council Economic Development Unit, pp. 1-63.
Portes A (1998). Social Capital: its origin and application in modern sociology. Annual Rev. Soc., 24:1-24.
Robb AM, Fairlie RW (2009). Determinants of business success: an examination of Asian-owned businesses in the USA. J. Popul. Econom., 22:827-858.
Rogerson CM (2004). Pro-poor Local Economic Development in Post-Apartheid South Africa: the Johannesburg Fashion District. Paper presented at the 50th Anniversary Conference: Reviewing the first decade of development and democracy in South Africa. International Convention Centre Durban. 21-22 October.
Sahin M, Nijikam P, Baycan-Levent T (2006). Migrant Entrprenuership from the perspective of Cultural Diversity. Series Research Memorada, No. 6, VU University, Amsterdam. http://econpapers.repec.org/paper/dgrvuarem/2006-16.htm. [05l11l2011].
Salaff J, Greve A, Wong S, Li PL (2002). Ethnic Entrepreneurship, Social Networks and the Enclave. In: Yeoh B, Kiong, T, Charney M (eds). Approaching Transnationalism: Transnational Societies, Multicultural contacts, and Imagining of Homes. Kluwer Academic Publishers, Boston, pp. 61-82.
Sanders JM, Nee V (1996). Immigrant self-employment: The family as social capital and the value of human capital. Am. Soc. Rev., 61: 231-249.
Smith T (2007). Sen, Equity and Sustainable Development – summary of Amartay Sen's work, and its relevance to the capital approach for measuring sustainable development. OECD Background paper, March. www.unece.org/stats/documents/wgssd/zip.5.add.4.e.pdf [22 October 2010].
Smallbone D, Evans M, Ekanem I, Butters S (2001). Researching Social Enterprise. Final Report to the Small Business Service. Centre for Enterprise and Economic Development Research Middlesex University, pp. 1-88.
Smith T (2007). Sen, Equity and Sustainable Development – summary of Amartay Sen's work, and its relevance to the capital approach for measuring sustainable development. OECD Background paper, March. www.unece.org/stats/documents/wgssd/zip.5.add.4.e.pdf [22 October 2010].
Stokes D, Wilson N, Mador M (2010). Entrepreneurship. Cengage Learning EMEA, UK: 1-391.
Tengeh R, Ballard H, Slabbert A (2011). A Framework for Acquiring the Resources Vital for the Start-up of a Business in South Africa: an African Immigrant's Perspective. Eur. J. Soc. Sci., 23(3): 362-381.
Tesfom G (2006). The role of Social Networks on the Entrepreneurial Drive of First East Africa origin Entrepreneurs in the Seattle Area. J. Asia Entrep. Sustain., 2(3): 1-25.
Van Praag CM (2003). Business survival and success of young small business owners: an empirical analysis, Small Bus. Econom., 21(1): 1-17.
Von Broembsen M (2005). A global perspective. In: Von Broembsen M, Wood E, Herrington M (eds). General Entrepreneurship Monitor. South African Report: 17-21. Cape Town: UCT Graduate school of business University of Cape Town.