

Competitive Marketing by Immigrant SMMEs in South Africa

Reginald Masocha¹, Busiswa Buso² and Olawale Fatoki³

¹*University of Limpopo, Turfloop, South Africa*

²*Zhongnan University of Economics and Law, China*

³*University of Limpopo, Turfloop, South Africa*

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ABSTRACT In South Africa, SMMEs can be categorised into immigrant owned and native owned SMMEs. This paper, a quantitative research, aimed to ascertain competitive marketing approaches and major challenges pertaining to immigrant SMMEs in South Africa. At the hand of the snowball sampling technique, a total of 150 respondents as a sample size were surveyed. Data was collected through the questionnaires and data analysis included descriptive statistics and Chi-square tests. The results revealed that lack of funds and competition from other businesses, were the major challenges faced by immigrant SMMEs.

INTRODUCTION

South Africa is regarded as a rainbow nation owing to its cultural diversity. The South African economy is currently battling with the provision of sustainable jobs and alleviation of poverty. This is evidenced by a high unemployment rate estimated at 26.6 percent in the second quarter of the year 2016 (Statistics South Africa 2016). Strydom (2011) asserts that six percent growth rate has been targeted to sustain and improve the development of the South African economy. Adding to this is the growth of immigrants in South Africa. The phenomenon of immigrants to South Africa is increasing due to high prospects of enhancing their livelihoods by possibly finding job opportunities (Lubbe 2008; Piperopoulos 2010). Unwarrantedly, immigrants face severe challenges in obtaining employment as the natives receive preference in the labour market. Also, immigrants often fall prey to exploitative employers, hence they eventually engage in entrepreneurship for survival (Salaff 2002: 28).

Small Micro and Medium-Sized Enterprises (SMMEs) in South Africa, as in most countries worldwide, are regarded as an engine to accentuate the desired economic growth. Asa et al. (2015) posit that in South Africa SMMEs are regarded as critical towards poverty alleviation, income equality, employment and sustainable economic growth. The surge in immigrants in South Africa has brought in another dimension to the entrepreneurial sector particularly regarding their entrepreneurial acumen and interests. Segal et al. (2010) assert that the emancipation of Nelson Mandela and the subsequent demo-

cratic era post 1994 ushered in the growth of immigrants to South Africa due to favourable political environments. There are growing debates on immigrants' contribution to South Africa. Over and above, scholarly research interests in the area of immigrant entrepreneurship is growing as it has been observed that in developed countries immigrant entrepreneurs often outperform their native counterparts (Crockett 2013; Turkina and Thai 2013; Ullah et al. 2016).

Despite of this success, the immigrant SMME sector in South Africa faces numerous challenges which weaken or impair their growth and development prospects (Ligthelm and Cant 2002). Piperopoulos (2010) noted that immigrant SMEs face challenges in the form of lack of citizenship and lack of political rights and this eventually driving them to venture into entrepreneurship. Guerra and Patuelli (2013: 191) cite marginalisation, high unemployment, low wages, non-recognition of qualifications and the lack of language skills as primary drivers to immigrant entrepreneurship. Apparently, even after establishment immigrant entrepreneurs still face severe challenges compared to native SMME owners in conducting businesses. In addition to language and networking barriers (such as networking with their customers and competitors), immigrant entrepreneurs face difficulties in accessing low priced credit (capital), which mainly force potential immigrants to operate mainly in the retail sector, supermarkets and hair salons (Segal et al. 2010). The major question now is what competitive marketing strategies immigrant SMMEs utilise to outdo competition in the East London MetroPole. Ostensibly, the paper seeks

to examine the possibility of distinctive strategies adopted by SMMEs in their pricing strategy, distribution strategy, service strategy and others given their observed success rate.

Research Objectives

The main objective for this research was to investigate the competitive marketing applied by immigrant SMMEs to overcome challenges affecting their growth and success. The paper pursued three objectives, namely, assess the challenges faced by immigrant SMMEs in the East London MetroPole, to investigate the competitive marketing skills determining the growth and success of immigrant SMME sector in South Africa; as well as determining whether competitive marketing by immigrants in East London MetroPole is aggressive towards other firms or SMEs.

Literature Review

Importance of the Immigrant SMME Sector

SMMEs dominate both developed and developing economies in terms of employment and the ability of SMMEs to create jobs is a major attraction for government in the short term (Zindiye 2008). In the UK, migrant entrepreneurs are credited for the creation of approximately 14.5 percent (1 in 7) of all businesses at an estimation of a total of 456 073 migrant entrepreneur in the UK (Ullah et al. 2016). Based on the Budget Speech 2012, Minister of finance Gordhan brought a tax relief for SMEs from 10 percent to 7 percent which clearly shows that SMMEs are supported by government. However, this status quo does not apply to immigrant SMMEs despite them experiencing almost similar numerous challenges to their native counterparts. However, the anticipated returns in entrepreneurship are greater than the anticipated gains from wages for immigrant entrepreneurs (Ullah et al. 2016; Zhang 2010).

Immigrant entrepreneurs have an indirect impact on the economy especially in areas such as hair salons, retail shops and others whether formal or informal (Segal et al. 2011). In this regards, Immigrant SMMEs fulfil one of the traditional roles of small businesses; namely, serving markets that are neglected by huge firms. Immigrant entrepreneurs often possess knowl-

edge about niche areas (Stephens 2013; de Vries 2012). For instance, most immigrant small firms are visible in the retail sector where they target peripheral markets that are a challenge for huge firms in terms of accessibility and lucrativeness. According to Azmat and Zutshi (2012) immigrant entrepreneurs significantly contribute towards the economy through job creation, enhancing exports, developing social capital, providing scope for more incorporation into the society, diversifying consumer choices and contributions towards the growth of certain sectors. OECD (2009) and de Vries (2012) argue that internationalization and international entrepreneurship among SMEs is contemporarily prevalent and relevant as observed in growth effects of cross-border venturing in driving economic development a nationally, regionally and globally. Francioni et al. (2016) argue that the propensity to internationalise their business tends to be high amongst immigrant entrepreneurs compared to their local counterparts.

Competitive Marketing by Immigrants SMMEs

The term “competition” in the business world refers to the rivalry of two or more businesses that are targeting the same customers (Jain 2000). The useful way of defining competition is on the understanding of the difference between the natural and strategic competition. Natural competition often refers to the survival of the fittest, and is determined by experience in business such as, educational level and prior experience (Jain 2000; Tang and Ke 2013; Fifield 1995). Cao et al. (2015) cite that strategic competition is the exploitation of resources that is based on a high degree of creativity, innovation and insight. Competitive marketing relates to the use of elements such as pricing, discounts, timing, positioning and special offers that offer creativity and innovation (Fifield 1995).

Apart from following common competitive practices, immigrant entrepreneurs showcase peculiar competitive business strategies within their fraternities. Zhang (2010) posits that immigrant entrepreneurs have the potential or ability to work long hours in their foreign countries, of which they have nothing to lose from failure but higher returns. According to Zhang (2010), immigrant entrepreneurs relied heavily on family labourers in order to cut the costs and their businesses opened long hours to attract customers

and gain more profit. Also, some immigrants businesses rely on importing goods or products from their country and start selling them at cheaper prices. For example, substantial numbers of immigrant businesses in the hair beauty industry obtain their products such as fibers, relaxers, shampoos and hair foods cheaper from their home countries.

The organisation's location and the characteristics of the surrounding environment affect the firm's competitiveness (Jain 2000). Bless et al. (2003) states that the location is of significance in the field of competition. The concentration of immigrant SMMEs in certain locations may create demand for their home goods (Ozgen et al. 2011). Location is related to barriers to entry into the business and industry. Rath and Kloosterman (2000) observed that the barriers to entry for immigrant SMMEs and other small businesses were relatively low since they require low startup capital than the large businesses. The immigrant businesses such as restaurant, barber shops, spaza shops in East London MetroPole required less capital and they often use simple technology to cut costs. Rath and Kloosterman (2000) further state that many immigrant entrepreneurs enter markets through working for natives and after sometime replace the businesses of native entrepreneurs. In some cases, the immigrant entrepreneurs eventually become dominant through their competitive marketing strategies.

Creativity and Innovativeness

Creativity and innovation are the sources of gaining competitive advantage (Calero et al. 2010). Innovation is the process of finding new ways of doing things in the market and may either be the improvement of technology, new approaches of marketing and new forms of distribution (Van Aardt et al. 2000). Zimmerer and Scarborough (2008) define creativity as the process and the ability of the entrepreneurs to discover new ways of solving problems and opportunities. The creativity applied by the immigrant entrepreneurs in South Africa were based on product differentiation. Most of the businesses such as spaza shops and hair salons in East London are owned by immigrants. In any industry, entrepreneurs should always be able to produce new ideas and find possible ways of solving problems (Engelen 2002). Pinkowski (2009)

suggests that competitive advantage can be gained by realising that innovation comes in many forms and may be driven by the new immigrant SMMEs.

By developing and introducing a new product to the market, immigrant businesses gain advantage and recognition over the native entrepreneurs (Stephens 2013). Brandenburger and Nalebuff (1996) assert that to win in the contemporary business world, there should be something supreme and unique that a business is applying. Fatoki (2014) pinpoint that a business can succeed by carefully positioning itself in the environment and this will then win the attention of customers. In South Africa, the immigrant small businesses that operate in small towns win the attention of consumers and they enjoy greater profits. The immigrant SMMEs in East London can focus on the creation of new product market through differentiation strategy and discount offering.

Cooperation and Competitive Advantage

Cooperation can be described as the participation in partnership arrangements with other players with similar intentions and needs in a firm's environment. Dyer and Singh (1998) determined that the main aim of cooperation is to gain access to customers, learning and accumulating technical and organisational knowledge, and enjoying the benefits of economies of scale. There is a platform for immigrant SMME's in South Africa to gain competitive advantage through the collaborative arrangement that is, forming partnership with other businesses to fight against their competitors (third party) in the market. As a result, the immigrant entrepreneurs in East London Metropole might gain competitive advantage through forming alliances in their businesses and family structures. According to Hong (2007), the immigrant entrepreneurs in some businesses rely heavily on family labour with the aim of cutting costs.

Generally, firms can gain competitive advantage through building alliance (Osarenkhoe 2012). Gulati (1998) posits that any business can obtain advantage if they collaborate with certain competitors to jointly fight the common enemy. Kalnins and Chung (2006) opine that there is a cooperative behaviour that is prevalent among the immigrant entrepreneurs. In some cases, the benefits from group membership can

be attributed to social capital (Kalnins and Chung 2006). Social capital is defined as the goodwill that is available to individuals and groups and its sources lies in the structure and the content of the actor's social relations (Adler and Kwon 2002). Building alliances play a vital role for businesses, for example when immigrant entrepreneurs decide to associate with native entrepreneurs, both businesses will gain from sharing ideas, knowledge and skills (Osarenkhoe 2012). Segal et al. (2011) noted that immigrants are increasingly depending on the social networks to interact with their customers, suppliers and competitors. Kim et al. (2013) identified three C's (Competition, Creation and Cooperation) which generally immigrant entrepreneurs can use to attain competitiveness.

Barriers to the Immigrant SMME Sector

Grey et al. (2004) argue that there are numerous challenges that are faced by immigrants compared to non-immigrants which often are the reason of turning into entrepreneurship. Burns (2011) concedes that starting and running a business as an entrepreneur is a daunting task and requires hardworking and extraordinary effort. The challenges affecting the growth of immigrant entrepreneurs in many localities, amongst others include: access to technology support, access to finance and funding, access to advice and information, poor business infrastructure, language barrier and legal and ethical pressure (Yazdanfar et al. 2015). Stephens (2013) argues that immigrant entrepreneurs are insulated from new ideas because of challenges with regards to networking with their local counterparts. Furthermore, there is a high rate of immigrant failure due to the regulations imposed by the government, motivation, personal characteristics and markets (Azmat and Zutshi 2012). The attitude of the local government towards immigrant has an impact towards SMEs to a larger extent (Clarke et al. 2016). In many countries, immigrant entrepreneurs face discrimination from the host governments.

Bruder et al. (2011) posit that immigrants often face exclusion when accessing finances due to lack of relevant documentation, inadequate knowledge of the banking system, cultural factors and poor income. Even in situations where immigrant entrepreneurs met the requirements by the banks, research has noted that this finan-

cial exclusion is still prevalent amongst this sector and it is yet to be established whether or not this is due to economically justifiable factors. Kloosterman et al. (1999) argue that barrier of entry to the markets can be in terms of capital outlays and other required educational requirements. The lack of education and access to finance were the major challenges that were faced by immigrant SMMEs in South Africa (Fatoki 2014) and that possibly caused the immigrants to operate their businesses in spaza shops, hair salons and restaurant and so on. In the case of immigrant SMMEs, the adaptation in the environment, lack of experience, access to target market, poor business infrastructure and access to information could be the major challenges they face.

METHODOLOGY

A sample size of 150 immigrant SMMEs was considered due to the challenges of accessing all the respondents who were widely geographically dispersed. A questionnaire and face-to-face interviews were used simultaneously to collect the data from the immigrant SMMEs in Mdantsane, Quigney, Beacon Bay, Southernwood and Berea. A questionnaire comprised of closed and open-ended responses of which the majority of the questions were closed-ended for convenient data collection to both the respondents and the researcher. The questionnaire design aimed to obtain accurate information whilst ensuring the interviews flow smoothly at a minimal time without inconveniencing the respondents during their business times. Snowball sampling method was used in gathering the data.

RESULTS

A Chi-square test of association was used with a 95 percent confidence level. There were two hypotheses: H_0 (null hypotheses) and H_1 (alternative hypotheses) for each objective. Cronbach's Alpha was used for reliability with a value of 0.78 signifying that the instrument was reliable. Section A of the questionnaire focused on the demographic factors of the respondents and the sample distribution in terms of nationalities. In the sample, 74 percent were male and only 26 percent were female. Table 1 shows the distribution of the sample in terms of nationality.

Table 1: Nationalities

Nationality	Percentage	Nationality	Percentage	Nationality	Percentage
Bangladesh	5	Ethiopian	5	Ghanaian	1
Cameronian	10	Filipino	2	Indian	7
Egypt	2	Somalian	8	Nigerian	29
Congo	2	Zambian	2	Pakistani	24

This research comprised of three objectives and three hypotheses. Interpretations of the research findings were used to address these objectives and hypothesis.

Challenges Faced by Immigrant SMMEs

The respondents were asked to identify challenges experienced in East London and how these challenges limit the growth and success of their businesses. Of which, competition from other businesses had the highest frequency of 40.3 percent and a mean of 3.13. An average mean of 3.07 score on the Likert scale also shows that lack of funds also had been their greatest challenge. For all the challenges investigated, the overall mean was 3.00 which mean that the majority of respondents strongly agree that to some extent the selected challenges limit the growth and success of their businesses. Table 2 highlights analysis on each challenge as rated by the respondents on a 5 point Likert scale.

The null hypothesis state that: *immigrants SMEs face no challenges in South Africa*. Table 3 shows the chi-square analysis pertaining to objective 1. From the results, all the challenges had a p-value < 0.05 except discrimination and poor information. This means the majority of the variables were significant. Therefore, H_0 is rejected in favour of the alternative hypothesis; H_1 which stated that there are numerous challenges faced by immigrant SMMEs was supported.

Entrepreneurial Skills

The second objective of the research sought to determine whether or not entrepreneurial skills

Table 3: Chi-square results-objective 1

Types of challenges	Chi-square	df	p-values
Lack of funds	20.2	3	0.000151
Language	13.5	3	0.003699
Competition	20.2	3	0.000151
Discrimination	7.4	3	0.060361
Infrastructure	8.3	3	0.039995
Poor information	4.9	3	0.174175

*p < .05

[NB: If the results are below or equal to the significance level 0.05, the null hypothesis is rejected, but if it is above the significance level, then the outcome will be statistically significant]

had an influence on the success and growth of immigrant-owned businesses. Herein, 30.6 percent of immigrant entrepreneurs indicated that they are beginners on creativity, 54.8 and 48.4 percent indicated that they were at intermediate on innovative and advanced levels on business skills, respectively. The mean ratings for creativity, innovativeness, financial management skills as well as business knowledge and skills were 2.02, 2, 2.08 and 2.04, respectively. Table 4 indicates the responses of the respondents on how each entrepreneurial skill was rated based on a semantic differential scale.

According to Table 4, the findings; with a mean of 2.08, financial management skills and knowledge of the business was identified as the major key entrepreneurial skills category by the immigrant entrepreneurs. The overall mean for all the entrepreneurial skills was 2.03 meaning that respondents view entrepreneurial skills as important components for the success of their businesses.

Table 2: Descriptive results objective 1

Types of challenges	Strongly disagree	Disagree	Strongly agree	Agree	Mean
Lack of funds	9.7%	11.3%	40.3%	37.1%	3.07
Language	17.3%	17.3%	41.9%	29.0%	2.89
Competition	4.8%	17.7%	35.5%	40.3%	3.13
Discrimination	14.5%	19.4%	27.4%	37.1%	2.89
Infrastructure	9.7%	25.8%	33.9%	29%	2.84
Poor information	14.5%	22.6%	32.3%	30.6%	2.79

Table 4: Descriptive results objective 2

Skills	Beginner	Intermediate	Advanced	Mean
Creativity	30.6%	37.1%	32.3%	2.02
Innovative	22.6%	54.8%	22.6%	2
Financial management skills	24.2%	41.9%	32.3%	2.08
Business knowledge and skills	16.1%	33.9%	48.4%	2.04

In line with Table 5, the null hypothesis stated that: *competitive marketing skills employed are not similar amongst immigrant SMMEs*. From the results obtained, innovation and business knowledge skills had a p -value < 0.05 . This means for these factors, H_0 is rejected in favour of the alternative hypothesis, which state that competitive marketing strategies employed are linked amongst immigrant SMMEs in East London MetroPole. However, for creativity and financial management skills, the null hypothesis is not rejected because of insignificant association amongst the responses.

Table 5: Chi-square results objective 2

	Chi-square	df	p-values
Creativity	0.419	2	0.811
Innovation	12.903	2	0.02
Financial management skills	2.298	2	0.225
Business knowledge and skills	31.032	2	0.000

* $p < .05$

[NB: If the results are below or equal to the significance level 0.05, the null hypothesis is rejected, but if it is above the significance level, then the outcome will be statistically significant]

Competitive Marketing Strategies

The third objective of the research aimed to determine whether the marketing strategies applied by immigrants are aggressive on other firms or SMMEs. From the 5 point likert scale find-

ings, 38.7 percent of immigrants strongly agree that pricing strategy is the major marketing strategy that they are applying. With an average of 3.80 it is supported that marketing strategies contribute positively to the success and growth of immigrant entrepreneurs rated by respondents. The responses on the importance of marketing strategy were rated using a Likert scale, Table 6 will illustrate the analysis of the objective 3 of the research.

The null hypothesis states that: *the competitive marketing applied by immigrants in East London MetroPole is not aggressive to other firms or SMEs*. From the results shown in Table 7, each marketing strategy has a p -value < 0.05 which therefore means H_0 is rejected. The alternative hypothesis which states the competitive marketing applied by immigrants in East London MetroPole is aggressive to other firms or SMEs is supported.

Table 7: Chi-square results objective 3

Marketing strategies	Chi-square	df	p-values
Pricing	33.8065	4	0.000001
Discounts	37.6667	4	0.000000
Service	33.3443	4	0.000001
Product	34.9836	4	0.000000
Distribution	20.2295	4	0.000450

* $p < .05$

[NB: If the results are below or equal to the significance level 0.05, the null hypothesis is rejected, but if it is above the significance level, then the outcome will be statistically significant]

Generally, for the first objective, the findings indicate that lack of funds and language difficulties were the major challenges that immigrant entrepreneurs were experiencing in East London MetroPole. The empirical results indicate that the respondents generally agree that the competition from other businesses affects their success and growth. These findings were consistent with the findings obtained by Oliveira et al. (2000) which assert that immigrants face low

Table 6: Descriptive results objective 3

Marketing strategies	Strongly disagree	Disagree	Neither agree nor disagree	Agree	Strongly agree	Mean
Pricing	11.3%	4.8%	8.1%	37.1%	38.7%	3.87
Discounts	4.8%	4.8%	14.5%	45.2%	27.4%	3.88
Service	1.6%	1.6%	17.7%	35.5%	37.1%	4.02
Product	1.6%	6.5%	21.0%	43.5%	25.8%	3.87
Distribution	11.3%	8.1%	29.0%	37.1%	12.9%	3.83

levels of English language proficiency and literacy skills. In consistence with Mitchell's (2003) study, these obstacles further result in challenges such as lack of awareness and difficulty in approaching financial formal institutions for loan.

According to a research by Engelen (2002) immigrant entrepreneurs relied on innovativeness and creativity in Netherlands. Consistently, from the results obtained in this study, given the fact that immigrants' entrepreneurs leave their home country and choose to come to South Africa, they are therefore more willing to take risk of starting a business. The results indicate that immigrant entrepreneurs had a higher rate of opening businesses in East London than native entrepreneurs. Good marketing skills were also observed to have a positive impact on growth and success of immigrant businesses in this study. Furthermore, the results indicate that financial management skills and knowledge of the business were identified as the key entrepreneurial skills used by the immigrant entrepreneurs. This finding contradicts with van Scheers (2010) who established that 67 percent of ethnic entrepreneurs used had inadequate marketing skills in South Africa.

As for the third objective, immigrant entrepreneurs had the potential of communicating through the four P's of marketing mix (product, price, promotion and place or distribution) to gain competitive advantage over the other SMMEs. The service strategy was considered to be an important advantage and from the results obtained, immigrants believe that building a long-term relationship with their customers is a key to success. Consistently, Chika Onyeani (2008) findings indicated that immigrant entrepreneurship as a "spider web doctrine" that is, they build networks around their nationalities. Based on this study, immigrants win the customers through lower pricing, discounts and special offers and service strategy. On the contrary, a study by van Scheers (2010) established that 67 percent of ethnic entrepreneurs had inadequate marketing skills in South Africa.

CONCLUSION

The demographic factors of immigrant SMMEs from data analysis highlighted that most businesses in East London MetroPole are dominated by male than female immigrants. Most female immigrants SMMEs in East London were

operating their businesses in Hair salons and a smaller proportion on grocery business. There were challenges affecting the growth and success of immigrant SMMEs in East London MetroPole. In this paper, the challenges faced by immigrants SMMEs were correlated, meaning that one challenge can lead to another. Based on the analysed data, the immigrant SMMEs were facing other challenges such as high crime, jealous from native businesses, lack of accommodation and finding good location for their businesses.

The lack of entrepreneurial skills on the SMMEs results in the higher rate of failure. As noted in literature, it is no wonder that the failure rate of SMMEs in South Africa is very high during their start-up of their businesses. The majority of respondents agreed that creativity, innovation, financial management skills and knowledge and skills of the business were crucial for their businesses' success. The study established that immigrants SMMEs possessed entrepreneurial skills to gain competitive advantage and survive in the market. These entrepreneurial skills included creativity, innovation, cooperation and building alliances. Based on the empirical findings, most small businesses owned by immigrants SMMEs were resorting to heavy marketing strategies such as pricing, discount and special offers (promotion), effective distribution and well thought product offerings in order to manage their challenges. Some respondents revealed that they offer best service and playing African music outside their businesses so as to attract customers.

RECOMMENDATIONS

The one most vital need to the success and growth of the business of the immigrants SMMEs was to value their staff and customers, adjusting to the environment with different cultural background, getting advices from developed businesses, hard work and commitment. In this case, immigrant small businesses should be concerned with satisfying the needs of customers rather than profit, as well as listening to the complaints and suggestions of the customers. The majority of immigrant SMMEs revealed that they could use advanced technology to improve the productivity and gain competitive advantage, such as computers for fixing cell phones and record inventories, social networks to keep in touch with their customers, advertis-

ing (such as posters and fliers) and installation of surveillance cameras. Thus, the government of South Africa needs to consider seriously this sector coming up with inclusive strategies that support this sector as more economic development is likely to emanate from doing so. As it stands, this sector has received no government support and has been negligently dealt with. Furthermore, if native entrepreneurs could build business alliance with immigrant SMMEs, the economic development to be reaped from would be quite substantial for the economy of South Africa.

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