

**Sustaining Native Entrepreneurship in South African Townships:  
the Start-up Agenda****Josephat Mukwarami<sup>1</sup>, Robertson K. Tengeh<sup>2</sup>**

**Abstract:** Faced with enormous unemployment, the South African government enacted pro-SMME policies. It was assumed that such policies would ignite broad-based growth within the SMMEs cluster, regardless of the sector. However, the current evidence suggests that these laudable efforts have not benefited the poorest of the poor nor have they aroused and sustained entrepreneurship in certain quarters. Using the spaza shop as the focus and two prominent townships as the locus, this paper sought to understand the factors that under mind the effective startup of businesses by natives. Furthermore, it identified the support structures that can foster and sustain new firm births. Leaning on the exploratory and descriptive research design, the quantitative research approach was enforced through self-administered questionnaires. The data collected was captured and analysed using the Statistical Package for the Social Sciences (SPSS) software, and was based on 121 fully completed questionnaires. A number of challenges unique to native spaza shops were conceded. These included a restricted access to seed capital, inability to benefit from bulk purchases, competition from non-South African shops, lack of business information, unsuitable business location, and the lack of collateral. The customarily challenges included a high level of crime, high cost of security and limited management skills. To encourage and sustain, new firm births, firstly, spaza shop-owners must have a clear vision of what they want to achieve before they embark on the venture. Secondly, crime must be dealt with collectively. Thirdly, government agencies and the private sector must come on board to address the skills gap. Lastly, technology should be adopted, to mitigate the issues around bulk purchases and transport costs.

**Keywords:** spaza shop; entrepreneur; unemployment; township; Western Cape

**JEL Classification:** M13; L26; O17

**1. Introduction and Background**

Like most countries in Africa and the rest of the world, South Africa, suffers from acute unemployment. With the unemployment rate staggering at around 26.5% (Stats SA, 2016), the South African government is forced to outsource job creation to Small, Medium and Micro-size Enterprises (SMMEs) (Ngek & Smit, 2013). Though

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perceived to benefit the poorest among the poor, the contributions of small and micro enterprises are of particular concern (Fatoki, 2014), and this is particularly true of those operating in the informal sector.

It comes as no surprise that the South African government would invest in programmes aimed at ensuring that small business enterprises are as productive as anticipated. The Ministry of Business Development currently runs an Informal Traders Upliftment Project (ITUP), where 1000 spaza shop-owners and other informal businesses are supported with the skills and infrastructure vital for business startup and growth (Zulu, 2015). In the same light, the government invests millions in the form of the Shared Economic Infrastructure Facility to support informal businesses and spaza shops fall into this category.

Despite these government initiatives, a myriad of problems inhibit the startup of grocery shops by natives in the townships. In fact, the survival and growth of a significant proportion of the locally owned township grocery shops are questionable, while their non-South African counterparts are seemingly dominating. Liedeman, Charman, Piper and Petersen (2013), confirm that the survival rate of locally owned home-based businesses is particularly low. The participation and dominance of non-South Africans in the township grocery industry have presented an unparalleled challenge for native spaza shops. Mbata (2015) quoted the Minister of Small Business Development as follows:

*“Black people were never part of the economy of South Africa in terms of owning anything, therefore when they see other people coming from outside being successful they feel like the space is being closed by Non-South Africans.”*

The above assertion clearly questions the efficacy of the support extended to South African entrepreneurs to stimulate and sustain business start-ups. While reasonable work has been done on the challenges and obstacles confronted by small businesses in general (van Scheers, 2010; Worku, 2013; Liedeman et al., 2013; Fatoki, 2014; Cant et al., 2013; Perks, 2010), there is a scope for a similar inquiry into spaza shops townships with particular reference to Gugulethu and Nyanga in the Cape Town Metropole. Hence, the main objective of this paper was to identify the startup challenges faced by Native Spaza shop owners in South African Townships and to recommend accordingly.

## **2. Literature Review**

### **2.1. Definitions and Overview of Spaza Shops**

Basardien and Friedrich (2014), describe a spaza shop as a “business that specialises in selling a limited variety of grocery products”. These entities are usually found in the informal economy of South Africa. In this paper, a spaza shop is a convenience

store operated from the front of the house or in a makeshift container that sells basic grocery items to surrounding the community members (Von Broembsen, 2008). Historically, spaza shops were not allowed by the apartheid government, and as a result they operated clandestinely. As such the name spaza which means “hidden” or “camouflaged” in Zulu speaks to the clandestine operation of these shops in the apartheid era. The operations of spaza shop become formal at the end of the apartheid regime, and efforts have since been made to support their founders (Mathenjwa, 2007). The ensuing stance was partly anchored on the need to create jobs and alleviate poverty. All things being equal, spaza shops provide some succour to unemployment and poverty, especially for the poorest of the poor.

Spaza shops are small grocery shops, which provide essential services in most of the South African townships, and are inherently part of the SMME sector (Sunter, 2006). To support this view, Charman et al., (2012) refer to them as home-based grocery shops, mostly common in the townships of South Africa. While it is generally agreed that a spaza shop has a positive role to play in our national economy, the terrain and dynamics in the business environment are changing as competition has become fierce due to the emergence of large-scale retailers. According to Mathenjwa (2007), spaza shops represent a livelihood, especially for the poor people in the townships, yet the owners of these shops are facing challenges with regard to their start up entities. This means the government needs to address barriers related to the start up as well as the growth of spaza shops so as to promote job creation.

Spaza shops are common among black townships and they operate on family lines with family members providing the much-needed labour of selling and ordering merchandise. These shops operate from a stand meant for residential purposes, yet the common feature is that they use part of the house where people stay, or part of the stand can be used to erect a wendy house or container. Most spaza shops are quite hesitant to try new brands, as they are afraid of making some loses. Experimenting with new products might mean keeping them for too long on the shelves (Terblanche, 2006). The spaza shops buy in bulk and then re-package the items in small lots. They are located very close to the markets, which in a way cut costs for consumers, as they do not need to travel, and lastly, these shops are conveniently located and operate for long hours (Terblanche, 2006).

## **2.2. Challenges of Spaza Shops**

Despite government programmes and policies meant to support the SMME sector, the spaza industry is still facing challenges with regard to their establishment and sustainability. This view is supported by a South African study that notes that 63% of small businesses fail in the first 18 months of their trading (Kumah, 2014). Besides this, a number of South African studies have explored the challenges facing small businesses in general and spaza shops in particular.

### **2.2.1. Challenges Faced by Native South African Grocery Shops During Start-Up**

Many years of discriminatory legislation suppressed and deprived most black South Africans of opportunities of training and access to resources (Herrington et al., 2008). Hence, the apartheid legacy was a pool of blacks with no or shallow business skills coupled with lack of resources and confidence to run and own businesses. The following are the most cited constraints that negatively impact on the spaza sector.

#### **2.2.1.1. Limited Capital for Start-Up**

Although it is true that all businesses require an adequate amount of startup capital in order to establish themselves effectively, most owners of spaza shops have great difficulty meeting this initial requirement (Van Scheers, 2010). Access to funding usually presents a major obstacle and the little capital raised usually comes from personal savings and borrowing from friends and relatives.

#### **2.2.1.2. Lack of Savings and Collateral**

Most financial institutions require that their clients provide evidence of a good saving habit and collateral to access loans –something that most small and micro businesses lack. Financial institutions also require a well-articulated business plan and there is considerable evidence to suggest that most spaza shop-owners do not have this specialised knowledge.

#### **2.2.1.3. Crime**

Crime has a negative effect on the startup and sustainability of spaza shops. In the townships, crime is noted to thrive against the backdrop of poverty and unemployment. Crime is a peculiar issue as robbers and thieves take advantage of the limited security of spaza premises (Bear, Tladi & Pedro, 2004). The spaza owners need to spend a considerable amount of money to maintain the reasonable security. The cost of replacing or repairing stolen and vandalised items add up to the cost of doing business in these townships and thwarts the sustainability of spaza shops.

#### **2.2.1.4. Limited Business Management Experience**

Start-up capital might be available, but in the absence of management experience, the first few months or years of running a spaza shop become a real challenge for most entrepreneurs. Lack of business management experience has dire consequences as it inhibits the effective takeoff of the business. Van Rensburg (2010) relates this aspect of management experience to a game of golf. He says “*you can read the books, speak to the pros... the only way you can truly master the game is by getting on the course and playing. Over and over again.*”

#### **2.2.1.5. Limited Business Management Skills**

Most spaza shop-owners do not have the much needed business management skills and these are very vital in all start-up businesses. Business management skills include knowledge of finance, administration, marketing, human resources and leadership skills. Entrepreneurship is an undertaking that is not necessarily influenced by one's background - anyone can become an entrepreneur (Nieuwenhuizen et al., 2008). Though many may disagree, it is clear that an individual, who ventures into business without the requisite management skills can acquire them informally or formally from educational institutions, mentors, and other sources such as textbooks and the Internet.

#### **2.2.1.6. Limited Government Support Services**

There is a great concern among the spaza shop-owners with regard to the limited government support that they receive. Once in business, owners expect further support with regard to training and the acquisition of necessary skills, and such government support will assist entrepreneurs to grow their businesses sustainably. Van Scheers (2010) believes that spaza shop-owners would like government to improve safety and security in South African townships as this has a direct bearing on entrepreneurial activities in those areas.

#### **2.2.1.7. Limited Networks**

Business networks provide the platform for entrepreneurs to share information and resources. In the absence of sustainable networks, shop-owners cannot make effective contacts that benefit their businesses. Business networks add value as shop-owners are able to benefit from reliable counterparts as well as distributors of goods and services and the end result is the growth and development of the businesses (Nieman & Nieuwenhuizen, 2009). Somali spaza shops have been noted to benefit from bulk purchases as the result of networking (Hakim & Tengeh, 2016).

#### **2.2.1.8. Lack of Information**

Information is power and without information it is difficult to reach the appropriate business support structures, services and initiatives offered by stakeholders such as private companies, government and non-governmental organisations. Most spaza shop-owners are not aware of the existence of information, with particular reference to start-up capital and other related training (van Scheers, 2010).

#### **2.2.1.9. Business Location**

Identifying suitable business location seems to be a challenge for prospective Native spaza shop-owners. Most of the spaza shop-owners normally are tempted to take the first available location without considering the needs and the catchment area from where they would draw their customers (Mariotti & Glackin, 2012). Fatoki and Garwe (2010) argue that location has bearings on the market and growth prospects

of new enterprises. According to Mariotti and Glackin (2012) the factors to be considered include: proximity to customers, access to suppliers, convenience, the cost of facilities (rent, construction etc.), demographics, business incentives, governmental regulations and laws and proximity to competitors.

### **3. Materials and Methods**

#### **3.1. Research Design**

Taking advantage of the exploratory and descriptive research design, the quantitative research approach was enforced through self-administered questionnaires. The questionnaires were administered to grocery shop owners in the Gugulethu and Nyanga townships. The data collected was analysed separately using the latest version of Statistical Packages for Social Sciences (SPSS) software.

#### **3.2. Research Population**

Welma and Kruger (2002), refer to the population as an aggregate or totality of all the objects, subjects or members that conform to a set of specifications. In this study, the population was restricted to South African owned spaza shops operate in Gugulethu and Nyanga, in the Cape Town Metropole. The Gugulethu township has six sub-locations, namely, Gugulethu SP, New Rest, Phola Park, Zondi and Vukuzenzele, while Nyanga has 11 sub-locations, namely, Lusaka, KTC, Old Location, Maumau, Zwelitsha, Maholweni “Hostels”, Black City, White City, Barcelona, Kanana and Europe. As one of the oldest townships in Cape Town, Gugulethu and Nyanga provided the platform to study trends, dynamics and development of spaza shops in South Africa.

#### **3.3. Sampling Method and Sample Size**

Convenience sampling is a non-probability sampling technique where participants are chosen because of their convenient accessibility and proximity to the researcher (Farrokhi, 2012). The researcher preferred this method because it is fast, cost effective, easy and the subjects are readily available. As such, the technique facilitated the inclusion of the spaza owners known to have been in operation for three years more years into the sampling frame. It was assumed that spaza shops that have been in existence for more than three years can provide far more detailed and richer information on the factors that negatively impact on start-up and the growth of their businesses, compared to new entrants to the spaza industry.

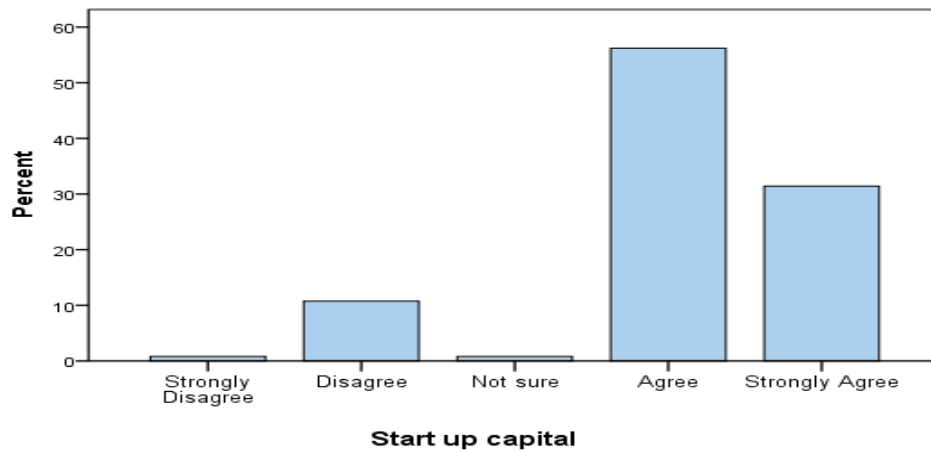
Welma and Kruger (2001) stressed the importance of having a large enough sample so as to represent and generalise the entire population. Using the Raosoft Calculator, hoping to minimise the error margin (at 5%) with the associated confidence level of 95%, and an estimated sample size of 130 was reached.

**4. Results and Discussions**

**4.1. Challenges Faced by Spaza Shop During Start Up**

**4.1.1. Lack of Capital**

According to the results (Figure 1), 56, 2% of the respondents agreed that access to capital was a major challenge to the start-up of a business. This percentage is even bigger if combined with the 31.4% participants who strongly felt that capital was a stumbling block to the start-up of businesses.



**Figure 1. Start up capital**

Limited access to start-up capital has a ripple effect on the startup and growth of a business. For the spaza shop owner, this translates to limited stock and sales. The issue of having a limited access to capital seems to be a recurring theme (see Tengeh & Nkem, 2017; Nsegenmana et al. 2017). Besides this, the business cannot afford advertising and other related activities that can ensure growth and sustainability.

**4.1.2. Lack of Collateral to Get a Bank Loan**

The results indicate that 57.8% (Table 1) of participants acknowledged lack of collateral as an obstacle in securing bank loans for business start-up. Issues to do with a lack of savings and a lack of collateral, as well as inability to compile a proper business plan, further limited their chances of obtaining funding from financial institutions.

**Table 1. Lack of collateral security**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	1	.8	.8	.8
	Disagree	27	22.3	22.5	23.3
	Not sure	22	18.2	18.3	41.7
	Agree	51	42.1	42.5	84.2
	Strongly Agree	19	15.7	15.8	100.0
	Total	120	99.2	100.0	
Missing	System	1	.8		

Perhaps business support structures, including private financial institutions, can assist spaza shop-owners who have acquired knowledge and skills from educational institutions, especially those who have obtained entrepreneurial and managerial qualifications, and want to start small-business ventures.

#### 4.1.3. Limited Management Inexperience

Limited experience in the business sphere is a constraint to the start-up of spaza shops. The results (Table II) concede that 43.8% of participants agreed that insufficient business experience was a stumbling block to the startup and success of spaza business. This was further supported by the 10, 7% that strongly agreed to the statement.

**Table 2. Business inexperience**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	8	6.6	6.7	6.7
	Disagree	33	27.3	27.5	34.2
	Not sure	13	10.7	10.8	45.0
	Agree	53	43.8	44.2	89.2
	Strongly Agree	13	10.7	10.8	100.0
	Total	120	99.2	100.0	
Missing	System	1	.8		
Total		121	100.0		

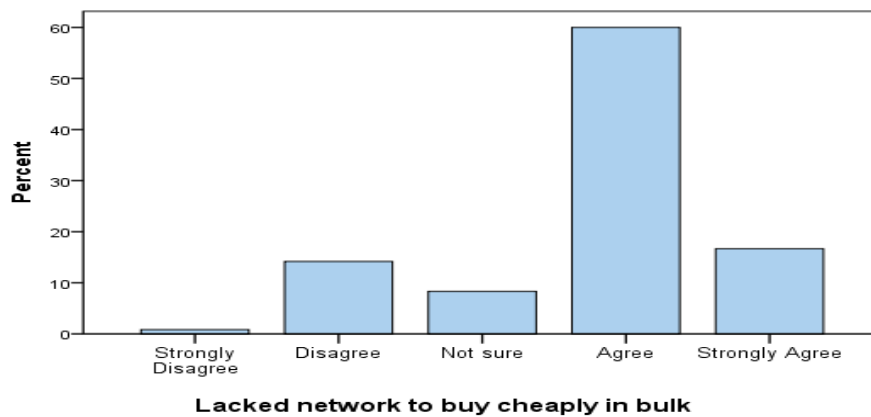
To Van Rensburg (2010), an entrepreneur has to run a business to gain the necessary experience. Therefore, experience certainly plays a leading role in start-up businesses.

#### 4.1.4. Absence of Networks that Facilitate Cheap Prices Through Bulk Buying

The results (figure 2) suggest that over 59,5% of the participants have limited networks and as a result cannot fully take advantage of the large discounts associated with buying in bulk. This outcome sits well with Nieman and Nieuwenhuizen (2009)



who emphasize the indisputable role that networks and contacts play in the success of a business. Hence, Chebelyon-Dalizu et al. (2010) attribute the inability of spaza shops to benefit from bulk buying to the absence of organised distribution network channels. Even when present, South African networks tend to be weaker due lack of trust in others.



**Figure 2. Lacked Network**

**4.1.5. Crime**

Crime and even the fear of it, negatively impacts on the startup of spaza shops in the study area. The results indicated that 67.8% of respondents agree that crime is a challenge to the effective startup of businesses. Hence, crime becomes an impediment to the sustainability of spaza shops as robbers and thieves always target these shops for cash (Bear et al., 2004). In a similar and much broader study Ligthelm (2005) found that 25% of the 340 spaza shop-owners, reported crime (robbery and burglary) as the second major constraint to the sustainability of their businesses, following after a lack of financial support.

**4.1.6. Security Improvement**

Crime is indeed a major constraint and has the negative effect on the sustainability of spaza shops (Bear et al., 2004). This view is supported by the findings emanating from this research. According to the findings 39, 7% of participants agree that security improvement takes a considerable amount of their income, as spaza shops must be fitted with burglar bars and alarms. A further percentage of 17, 4% strongly agree that security improvement is an area of concern, as they must secure their stock from all sorts of risks such as theft and fire. This is against 3.3% of respondents who strongly disagree and a further 24, 8% who agree with the view that security improvement has no bearing on their incomes. This can mean that such respondent may have inherited premises that are already highly secure.

#### 4.1.7. Getting a Business Location

According to the results on the table, 46.2% share the view that getting a suitable business location was indeed not a challenge, while 48% of respondents acknowledged that getting a suitable location was an obstacle that affected their start-up business. This is in line with Fakoti and Garwe (2010) who believed that business location was vital, as it has impacted on the market potential and growth opportunities of new enterprises. Since most spaza shop-owners use their dwellings as business premises it means issues of market research and business location are coincidental in their planning. Geographical proximity to either critical buyers or suppliers produces a form of enhanced environmental scanning that enables new firms to easily identify and exploit growth opportunities in the market. Mariotti and Glackin (2012) list the following considerations for deciding on a location: access for customers; access to suppliers; climate and geography; convenience; cost of facilities (rent, construction, etc.); demographics; economic conditions and business incentives; governmental regulations and laws; labour pool; proximity to competitors, and visibility.

#### 4.1.8. Lack of Managerial Skills

According to the results (Table III) 56, 2% of participants felt that managerial skills were a major challenge affecting their start-up businesses, and such skills cover aspects such as accounting, business finance, marketing, selling, advertising, human resource management and stock control. This finding is supported by Perks (2010) who emphasizes the need for managerial skills for the sustainability of spaza shops.

**Table 3. Lacked managerial skills**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	1	.8	.8	.8
	Disagree	24	19.8	20.0	20.8
	Not sure	27	22.3	22.5	43.3
	Agree	61	50.4	50.8	94.2
	Strongly Agree	7	5.8	5.8	100.0
	Total	120	99.2	100.0	
Missing	System	1	.8		
Total		121	100.0		

These results could also relate to the argument made by Van Rensburg (2010) that in order to achieve a good entrepreneurial outcome, entrepreneurs should focus on developing their business and entrepreneurial skills. This could be in line with the claim made by Nieuwenhuizen et al. (2008) that an entrepreneur should be exposed to the portfolio of management skills in order to effectively manage a new business

venture, namely project management, small business management, financial management, team building and leadership, and risk-management skills.

## **5. Conclusions**

Most discussions on the effects of business formation on the socio-economic development of a country re-echo the job generation potential of small businesses. Ironically, in South Africa, research on township grocery shops has gained traction over the last few years due to the dismal performance small businesses. It is certainly clear that the challenges currently confronted by small grocery shops further thwart South Africa's agenda of mitigating unemployment through the startup and sustainability of small businesses (Lose & Tengeh, 2015). Aiming to contribute to this discussion, this paper sought to navigate the factors that inhibit the startup and sustainability of grocery shops in the Gugulethu and Nyanga townships.

The findings indicate that township grocery shops face a number of start-up challenges, not limited to limited start-up capital, inaccessible bank loans, high rental costs, lack of networks, management inexperience, inadequate management skills, high security costs, lack of family business background, and business location. These start-up challenges informed the recommendations advanced to tackle the issues in the spaza industry.

## **6. Recommendations**

There is growing literature to suggest that the preponderance and success of non-South Africans in the spaza industry can be partly attributed to their ability to innovate, effective distribution networks and use of unconventional initiatives to spur up profits (Tengeh et al., 2012; Liedeman et al., 2013; Basardien & Friedrich, 2014; Tengeh, 2016).

On the basis of the empirical findings, and the literature on the strategies that propel immigrant-owned businesses in similar settings, the subsequent recommendations were made.

Firstly, there is the need for the formation of viable networks. Evidence suggests that networks play a major part in determining the success and growth of immigrant-owned spaza businesses. As such, Native spaza shop-owners may need to form mutually beneficial networks, such as distribution networks and so on. For instance, the benefits of a distribution network include reduced transport cost, discounts on bulk purchase etc. Mobile technology can be used by the spaza shop-owners to strength and sustain these networks. For instance, spaza shop owners can easily share best practices, share information on funding and information on alternative suppliers.

Secondly, crime prohibits the start-up of businesses in the affected areas. Spaza shop-owners may need to initiate or join vigilante groups to keep crime hot spots under check. Spaza owners may also encourage the works of vigilante groups by providing financial support. Beyond this, the spaza shop-owners may regulate their operation hours accordingly taking in consideration the risks involved. In addition, they may make security installations on their premises a priority. The challenge of crime can be dealt with if spaza shop-owners, police and community members work together. There is a need for real cooperation in terms of sharing information on suspicious criminal elements so that where possible police can be on look out.

Thirdly, access to finance is vital, especially during the start-up phase where a lot of effort is expected with regards to purchase of stock, advertising, security upgrades, payment of electricity and so forth. Hence, the spaza shop-owners need to explore various ways of raising capital such as personal saving, informal financial associations or partner with resourceful individuals. Partnering with resourceful individuals who are financially well off will ensure increased start-up capital needed to successfully launch a business.

Fourthly, limited business space was also identified as a challenge to the growth of locally-owned spaza businesses. Spaza shop-owners normally use containers, shacks and or a room within the main house and such arrangements cannot accommodate the need for more space. To maximise on the available space, the spaza shop-owners are encouraged to deal in fast moving items, and if the need to keep stock arises, the excess merchandise can be kept in boxes underneath the shelves. Alternatively, the spaza owner can move into a bigger space providing he or she enjoys the same customer base.

Fifthly, the research alluded to the strategies utilised by non-South Africans to gain and maintain a competitive advantage. Such strategies included bulk buying, selling cheaply, stocking a wider variety of goods, extended operation hours and living simple life so as to maximise on saving. The researchers believe that the native spaza owners may draw vital lessons from their foreign counterparts. As noted earlier, the native spaza shop owners may need to establish distribution networks, which are based on teamwork than individualism in order to enjoy the larger discounts that emanate from buying in bulk.

## **7. Limitations and Scope for Future Studies**

A plausible shortcoming of the current study alludes to the fact that it was limited to the Gugulethu and Nyanga townships in the Western Cape, making it impractical to generalise the findings. Perhaps, other geographical areas or provinces of South Africa may produce different results given their dynamics and peculiar circumstances.

Again the study concentrated on local owned township grocery shops in Gugulethu and Nyanga townships. It is worth noting that South African grocery shop owners were not a part of the research project. Nevertheless this research study appreciate and acknowledge the role played these non-South African entrepreneurs in the community where they operate their businesses.

The study recommends an extension of this study to other townships in South Africa, which have similar characteristics to the Gugulethu and Nyanga townships, to gain a better understanding of their distinctive needs. This may provide a better framework for policy interventions.

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