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Microenterprise, Multinational Business Support, and Poverty Alleviation in South Africa’s Informal Economy

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The authors examine corporate programs that support microenterprise development in Africa. Specifically, the analysis assesses the extent to which local income and sales are affected by Coca-Cola’s initiatives to assist South Africa’s microenterprise in the retail trade sector. To quantify the impact, questionnaires were obtained from owners of small-scale retail establishments in the country’s vast informal economy. Regression analysis is performed on key variables from the survey, testing hypotheses advanced to explain the size of an owner’s income and sales. In addition to business development support, the explanatory variables include startup capital, size, and male/female ownership.

It appears that business development support has a positive effect on lifting income and reducing poverty for microenterprise owners, after controlling for other influences.

Key words: BOP, CSR, informal economy, microenterprise, MNCs, South Africa

INTRODUCTION

The United Nations Millennium Development Goals put forth an ambitious agenda in 2004, advocating programs to reduce extreme poverty in developing countries by 2015. In promoting the goals, the United Nations Commission on the Private Sector & Development underscores that success requires commitments by multinational corporations (MNCs) to generate employment, deliver technical skills, and create local value-added business activities (United Nations Development Program, 2004). Most MNCs, however, eschew investing in poor, underdeveloped economies. This remains the case, despite research over the past decade pioneered by Prahalad and Hart (2002) and London (2008) that points to the huge market potential in the low-income segment of developing countries. This base-of-the-pyramid (or “bottom-of-the-pyramid”; BOP) constitutes a market of more than 4 billion consumers. Moreover, as MNCs expand in emerging economies, they support job creation and spread income across a large segment of the population.

While the direct economic effects of multinational operations in developing countries may be modest, there is a potentially sizeable indirect impact on employment and poverty alleviation through local entrepreneurial support. These positive spillover effects take place...
through linkages with upstream suppliers and the downstream distribution channels needed to reach final consumers. In developing economies, downstream channels involve millions of small businesses. In Africa, small-scale entrepreneurs in retail earn their livelihood by selling a range of consumer products made by MNCs.

This article focuses on the beverage sector, a space where MNCs have been particularly successful in penetrating BOP markets. Notably, the Atlanta-based Coca-Cola Company and its related international bottling partners (hereafter referred to as Coca-Cola) have spread across Africa. This enterprise network has been identified as the largest private employer on the continent (Stanford, 2010). Coca-Cola is the most ubiquitous MNC product in Africa, sold at more than 900,000 outlets (Smith, 2011). In turn, Coca-Cola has created opportunities for a vast network of small businesses and individuals selling beverage products.

Our research examines Coca-Cola’s programs that support business development in the African informal economy, which are central to their corporate social responsibility (CSR) efforts. Like other MNCs in developing counties, Coca-Cola avows both a dedication to CSR and a concern for economic development. They back their pledge with local investment and support for entrepreneurs engaged in informal retail activities by providing market assistance, business training, signage, and equipment, which includes depots, kiosks, coolers, and refrigerators. Notably, Coca-Cola joined with other prominent MNCs in Africa to advance a Business Call to Action. This initiative was started in 2008 by the United Nations, along with public and private development assistance agencies in Europe, North America, and Australia, to help achieve Africa’s Millennium Development Goals. As an example, Coca-Cola bolstered its locally owned complex of microdistribution outlets, or manual distribution centers, to enhance employment and alleviate poverty in Africa.

Business development programs may improve living standards and sustain employment at the BOP. Previous work acknowledges that soft drink businesses “have an impact on the poor” (Jenkins, 2005). The still-open question is whether CSR programs of MNCs have a significant effect on poverty alleviation or income generation. Therefore, it is important to understand the efficacy of CSR efforts that target the promotion of sustainable entrepreneurs in disadvantaged communities and, in particular, those in the informal sector. This sector reportedly comprises 55% of Sub-Saharan Africa’s gross domestic product and 80% of employment (Mthuli, 2013).

Millions of businesses across the African continent compete in the untaxed, unlicensed informal economy in order to generate income. Recognizing this reality, the chief economist at the African Development Bank advocates promoting profitable informal enterprises as an essential mechanism to raise incomes to meet basic needs (Mthuli, 2013). There is an emerging stream of research analyzing the success characteristics of Africa’s informal sector microentrepreneurs, from West African street vendors (Otoo, Ibro, Fulton, & Lowenberg-Deboer, 2012) to South African home-based businesses (Woodward, Rolfe, Ligthelm, & Guimaraes, 2011). Even so, there has been little scholarly analysis to determine whether multinational assistance of local business has had any impact on African informal traders’ income. This article examines the effects of such assistance on the impoverished informal businesses of South Africa, which account for the majority of the sales outlets.

Informal economic activities not only endure but thrive in African retail markets. Coca-Cola’s interest in business development support for the informal retail sector can be seen as a strategic business proposition; that is, as an effort to garner a competitive advantage through strong bonds with local businesses. This far-reaching market penetration and sophisticated distribution infrastructure give the beverage enterprise an intimate of knowledge of Africa markets. In fact, the highly developed distribution system in the growing African beverage sector serves as a barrier to entry for other soft-drink enterprises, which would have to invest heavily in a risky attempt to replicate this business model.

Our statistical analysis is designed to determine whether Coca-Cola’s business development program in South Africa has had a quantifiable effect on entrepreneurs’ sales and income. The potential income gained in the informal retail sector from this support is measured against poverty (living) standards set by the South African government. To accomplish this, completed survey questionnaires were obtained from more than 300 owners of informal retail establishments across the country. Three types of informal businesses were surveyed: (a) small stores known in South Africa as spaza and tuck shops; (b) taverns known as shebeens; and (c) street vendors, or hawkers. The sample reflected the diversity of the country’s urban and rural regions. Responses were obtained from both formal areas with developed infrastructure and informal residential settlements.

By evaluating the impact of Coca-Cola’s business support, this article provides insights into the relationship between one of the world’s largest MNCs and microenterprise in South Africa. This is the first known attempt to measure the extent to which microenterprise development programs initiated by a major MNC have an effect on poverty alleviation in Africa.

Following this introduction, the second section of the article reviews the pertinent BOP and informal sector literature. The third section presents hypotheses advanced to explain sales and income in South Africa’s informal retail sector, which include startup capital, ownership, gender, and a set of other business characteristics,
along with formal sector business development support. The fourth section turns to the quantitative analysis, with an overview of the informal sector survey and regression model. The following section contains our empirical results, revealing the determinants of entrepreneurial income and sales. We place the findings regarding the impact on an owner’s income in the context of sustainable South African living standards. The article concludes with the broader implications of multinational CSR programs and business development on poverty and employment in Africa.

LITERATURE REVIEW

In his influential work on the BOP market, Prahalad (2004) maintained that when MNCs sell goods and services to lower-income groups in developing countries, poverty can be mitigated (see also Prahalad & Hammond, 2002; Prahalad & Hart, 2002). Like much of the BOP literature, the mechanism through which MNC investment leads to poverty reduction is ambiguous. A review by Kolk, Rivera-Santos, and Rufin (forthcoming, 2014) found that nearly half of BOP-related articles focus on social impacts. An example is Hammond Kramer, Katz, Tran, and Walker (2007), who averred that purchasing Coca-Cola products runs against social development of the poor in Uganda by channeling income away from basic needs and contributing to an unhealthy population. Yet Kolk et al. noted that many studies do not provide objective measures of the full social impact because they typically view the BOP poor as consumers, not as producers or job generators. Arnold and Valentin (2013) argued that if companies simply sell their products and do not economically empower the underprivileged, then their activities could be categorized as “exploitive” (see also Karnani, 2007). They suggested that one of the major ways MNCs can benefit the poor population of developing countries is by enhancing their economic capabilities, such as by providing entrepreneurial opportunities. Clearly, a stable, growing consumer market at the BOP necessitates stable, growing jobs and local businesses that pay a living wage.

Indeed, some MNCs view economic empowerment of the poor through entrepreneurial promotion as a critical factor in their strategy to sell their products to the BOP. Ireland (2008) noted that ties to distributors and retailers are critical to the success of companies marketing to the BOP. An example put forth by Ireland is Polar, Venezuela’s leading beer manufacturer. Polar placed thousands of refrigerators in the homes of slum residents, who then generate additional income selling the product. Similarly, Ireland cited how Coca-Cola installed refrigerators in 30,000 home-based stores to make the stores more profitable and increase its brand loyalty.

One of the major opportunities for business development, then, lies with improving distribution networks in poor neighborhoods. In fact, inadequate and underdeveloped distribution channels can be a major reason that the poor in developing countries pay high prices for consumer goods. A strand of the BOP literature identifies that part of the reason for relatively high cost of consumer goods is the lack of integration of local businesses with the formal economy (Hammond et al., 2007; Pitta, Guesalaga, & Marshall, 2008).

By identifying formal–informal business linkages as crucial to economic development, this embryonic BOP literature intersects with the more established research on the informal sector of developing economies. Africa’s informal businesses have been investigated in a variety of contexts since a seminal study of the informal sector was conducted on urban income and employment in the slums of Accra, Ghana (Hart, 1973). This publication and earlier presentations by the author pointed to a phenomenon that had been surprisingly ignored by development scholars up to that point: Much of the African economy was beyond the purview of government regulation and was based on self-employment and casual labor. A Kenyan mission report by the International Labour Organization (1972) acknowledged informality as an effective means of income redistribution favoring the poorest segment of the population. With overlapping business relations (backward and forward linkages) with the formal sector, but not government support, the informal economy provided a job and income safety net for the poor. This study also elevated the concept in African economic development policy, with field research discovering that informality included profitable, productive, and dynamic enterprises.

Subsequently, Rogerson (1996, 1997) proffered an important distinction with an argument that many informal activities were simply survivalist, with low income generation and growth potential. The primary motivation was a basic economic necessity prompted by high, persistent unemployment and a long-term paucity of formal sector job opportunities. One problem identified in a study of Tanzania found that the jobless tend to crowd into similar, easily identified businesses (Kristiansen, Kimeme, Mbwambo, & Wahids, 2005). The self-employed poor are confined to low-return activities as a result of capital market failures and barriers to entry to more profitable enterprise (De Mel, McKenzie, & Woodruff, 2008; Grimm, Krüger, & Lay, 2011). Yet some informal activities develop into what Rogerson (1996, 1997) recognized as growth enterprises. Subsequent work has examined motivations for informal startups and characteristics of success. Chu, Benzing, and McGee (2007) studied the impetus for business ownership in Kenya and Ghana, with genuine prospects for income generation and jobs in the informal sector being fundamental.
Beyond studying motives, the informal sector literature has examined the determinants of startup success. There appears to be a strong association with access to finance (Cook, 2001; Naudé, Gries, Wood, & Meintjies, 2009). A survey in West Africa found that lack of finance and low educational attainment constrained the growth of women in the informal sector (Ottoo et al., 2012). In regression analysis based on survey data in South Africa, Woodward et al. (2011) further probed the drivers of success for informal business. The article found evidence that the owner’s income is determined by startup capital, male ownership, educational attainment of the owner, size of the business, the owner’s training, and other marginally less significant determinants. In a new line of research, Böhme and Thiele (2012) looked at distribution relations between the formal and informal economies of West African cities. Among the interesting findings in the study is that there are clear links between formal and informal distribution channels in Africa. Formal sector goods, for example, are often sold through informal channels, along with goods produced in the informal economy. Yet there is a “demand bias” in favor of goods produced by the formal sector. As incomes rise, there is an increased tendency to consume formal sector goods. Nevertheless, the study suggests that informal businesses, by serving as distribution channels for formal goods and services, may continue to benefit as African incomes rise. Thus, like BOP research reviewed earlier, the writing on the informal sector development has recently stressed the evolving role of formal–informal business ties in Africa. Missing from this literature, however, is an explicit examination of how the informal sector may benefit through the support programs advanced by formal sector businesses.

HYPOTHESES

In this section, we explain the rationale and formally state the hypotheses that are tested in our empirical analysis of informal sector business development in South Africa. To date, the BOP and informal sector literature has not analyzed the extent to which microretailer income and sales are affected by formal sector business support. Our exploration of South Africa’s informal sector and its connection to Coca-Cola’s distribution channels allows us to examine this issue. In field research on economic development in Sub-Saharan Africa over the past 15 years, we have observed how Coca-Cola has developed a complex network of distribution channels in order to have its soft drinks placed within “an arm’s reach of desire.” This downstream network is responsible for delivering the product to meet consumer demand, even in areas considered inaccessible to many businesses given the remoteness of rural areas and the undeveloped infrastructure found in many urban communities. In this highly developed network, neighborhood wholesalers are needed to distribute products to local retailers and other outlets. The Coca-Cola business system also distributes products directly through retailers. In South Africa, retail outlets run the gamut from large stores to small-scale, privately owned enterprises, convenience stores, restaurants, and small individual points-of-sale. The distribution network in South Africa includes an array of informal channels mentioned in the introduction: spaza shops, tuck shops, shebeens, and street hawkers.

Informal retail channels were central to Coca-Cola’s strategy to garner profit in post-apartheid South Africa, as they were necessary for deeper market penetration (see Moses & Vest, 2010). The informal retail sector opened market access to Coca-Cola products in the many low-income, BOP communities spread across the country. In South Africa, informal spaza shops are located in the owner’s home. Besides beverages, these microenterprises sell food, phone services, paraffin, and various other consumer goods to generate income. When small stores operate separately from residences in South Africa, they are called tuck shops (or cash stores). There are estimated to be over 100,000 spaza and tuck shops in South Africa, generating around 7 billion rand or $889 million in revenues every year (Petersen, 2010). Coca-Cola is also sold in informal taverns located in residences. Many of these so-called shebeens were established during the apartheid era when the government prohibited Blacks from selling or purchasing alcohol. Even though they are technically illegal, shebeens remain popular and many shebeen owners are successful entrepreneurs (Morris, Jones, & Nel, 1997).

The CSR market development programs run by Coca-Cola connect with these small-scale businesses. Coca-Cola South Africa (affiliated with the Atlanta-based headquarters) coordinates operations in South Africa and the region. Coca-Cola continues to produce the beverage concentrate in Swaziland (the Kingdom’s largest export); however, the major operations from bottling to distribution are the responsibility of the independent bottling companies like Coca-Cola South African Bottling Company (SABCO). Each bottling company has CSR and business development programs that target entrepreneurs selling their products. In addition, given the high incidence of HIV/AIDS in the region, they also have programs to combat the impact of HIV/AIDS in the workplace. For example, employees and their spouses and children are given antiretroviral drugs free of charge.

Coca-Cola SABCO’s CSR program is typical of bottlers in Sub-Saharan Africa. The bottler has four main components in its corporate social responsibility program: workplace, environment, community, and
marketplace. In terms of business development, manual distribution centers are one of the most significant initiatives it has established to cultivate and support small distribution centers throughout Africa. From 2008 through 2010, more than 3,000 new African distribution centers were established under the initiative (Business Call to Action, 2012). As noted in the introduction, the program was seen as a successful case of MNC–local business linkages and means of making measurable progress toward the Millennium Development Goals. In addition to the distribution centers, the bottlers also directly provide support to the owners of spaza shops and shebeens.

Coca-Cola bottling companies in South Africa have installed thousands of refrigerators in spaza shops and have promoted business development through preparing signage for the informal retailers. Most small businesses do not have signs and rely on customer knowledge and word of mouth. Small-scale informal traders often do not have access to capital and thus cannot afford signage, though some businesses would paint Coca-Cola’s logo on their establishment.

Corporate signage supplied by Coca-Cola, however, expresses legitimacy as a viable business, conveying a relationship with the widely recognized brand. Equipment, especially refrigerators, also helps the business boost sales and income. It makes the business much more attractive to customers since cold beverages are highly valued. This market support through signage and equipment, moreover, draws customers not just for soft drinks but for other products as well. Accordingly, business support from Coca-Cola should increase the business owner’s income and sales.

The primary focus of our statistical analysis is to determine the extent to which the owner of an informal shop or tavern benefits through income and sales from the business support from the Coca-Cola system, holding other determinants constant. In turn, we examine the impact of support by testing the following central research hypothesis:

**H1: Support.** Business support (equipment and signage) raises the income and sales of informal sector enterprise.

To estimate the effects of business support accurately, our regression model must include other important factors affecting informal enterprise sales and income. Several key influences have been uncovered in prior studies of South Africa’s informal sector, along with similar work elsewhere in Africa and the developing world.

As stated in the literature review, it is well established that successful small businesses are more likely to survive and grow with larger initial capital. For example, Otoo et al. (2012) analyzed primary data collected on West African women street vendors and discovered that financial constraints limit the growth and viability of informal businesses. Moreover, higher startup capital has been found to have the greatest effect on income and sales in the informal sector (Woodward et al., 2011). On average, by doubling the startup capital, an informal retail entrepreneur would earn back the initial investment in less than 9 months. Thus, we posit the following:

**H2: Startup Capital.** Larger initial capital raises the income and sales of an informal sector enterprise.

Previous research has also found that informal retail businesses in South Africa with more employees generate more income and sales with all else remaining equal (Woodward et al., 2011). In the South African informal economy, Rogerson (1997) noted that “survivalist” businesses are not likely to hire many additional employees. In contrast, “growth” businesses hire employees to serve the needs of their growing customer base. We test this influence in our regression analysis as follows:

**H3: Employees.** Larger firm size positively affects income and sales.

Next, we consider another potential factor explaining income and sales in South Africa’s informal retail sector: the owner’s business training. Given low educational attainment, training can help cultivate entrepreneurial, financial, and managerial talent in Africa’s informal sector (Otoo et al., 2012). An owner without this training could be at a disadvantage, as entrepreneurship training correlates with firm survival rates (Orford, Herrington, & Wood, 2004). Previous work in South Africa concluded that business training education was a determinant of microenterprise income and sales (Woodward et al., 2011). Accordingly, we tested this hypothesis in our analysis:

**H4: Business Training.** Business training increases the income and sales of an informal sector retail enterprise.

Gender should be considered as an additional determinant of success in microenterprise. In South Africa’s formal sector, women represent 38% of the total work force. They constitute a larger share of those in the informal sector (45% in our sample). Women entrepreneurs in South Africa, however, must contend with prevailing negative sociocultural barriers and outright gender discrimination, making it more difficult for them to succeed as entrepreneurs (Maas & Herrington, 2007). Many women, for example, experienced difficulties obtaining startup funds since banks and other financial...
institutions often criticize women’s business plans without giving direction and guidance. Even accounting for startup capital, Woodward et al. (2011) determined that male owners have higher income and sales than female owners of informal retail establishments in South Africa. In turn, we consider the following hypothesis in our empirical tests:

H5: Male Owner. Relative to female owners, male owners have an advantage in generating higher income and sales in informal sector retail.

Next, as a control in the regression analysis, we consider the length of time the enterprise has been in business. Like small businesses around the world, informal retail operations in South Africa often struggle to stay in business. With the challenges of factors such as poverty and security, the odds against small business survival in South Africa are particularly daunting (von Broembsen, Wood, & Herrington, 2005). The survival rate over 5 years for South African informal retailers is only 40%. Those who do survive (and have been in operation for at least 5 years) tend to have higher sales and income (Woodward et al., 2011). Therefore, we hypothesize the following:

H6: Established Business. Informal sector retail businesses that have been established for 5 or more years are likely to have higher sales and income.

The owner’s educational attainment represents another important consideration. South Africa’s education system is not meeting the challenges of the twenty-first century. Part of the reason is the lingering legacy of apartheid. In the 1960s, the government spent over 16 times more on the education of a white child than it did on a black child (The Economist, 2010). Blacks are still suffering from inferior learning environments. While university enrollment by blacks has increased significantly since the abolition of apartheid, just 15% of students get into a university. Only 7% of admitted students were determined to have the necessary mathematics skills. Almost half of the students drop out before they graduate. In the context of this study, it should be recognized that low educational attainment is known to adversely impact entrepreneurial skill development in Africa (Otoo et al., 2012). Woodward et al. (2011) determined that low educational attainment, without secondary school or higher levels of education, adversely affects income and sales of South African informal retailers. The following hypothesis is tested in this study.

H7: Minimal Education. Low educational attainment deters entrepreneurial success measured by sales and income for informal retailers.

In additional to education, another serious challenge facing South Africa is the high secular unemployment rate across the country. Throughout macroeconomic expansions and contractions, the official jobless rate never falls below 25% and it is much higher for young adults (Statistics South Africa, 2010). As it can take years to find employment, many people start small businesses to generate much needed income. However, as Ligthelm (2006) noted, these informal business may simply be an effort to escape unemployment rather than the exploitation of a dynamic or prosperous business opportunity. Many start businesses similar to those of their neighbors, such as selling beverages. We postulate, then, the following possible effect of prior joblessness:

H8: Unemployed. Owners who start their business while unemployed will have lower income and sales.

METHODS: INFORMAL SECTOR SURVEY AND REGRESSION OVERVIEW

Our regression analysis tests whether business development CSR programs affect sales and the living standards of microentrepreneurs in the informal sector, holding other important determinants constant, as explained in the last section. To assess the impact on microenterprise development, we draw on a major survey of informal retailers in South Africa. The Bureau of Market Research (BMR) at the University of South Africa periodically carries out large-scale surveys of small retail businesses in the informal retail sector across South Africa. The survey used in this study specifically collected data from shebeens and spaza shops that sold beverages. As in previous studies (Williams & Round, 2007; Woodward et al., 2011), the informal sector is defined as companies that are involved in legal activities, but who are not formally registered as a business and do not pay taxes (although they may pay fees to local governments to set up in certain areas). BMR questionnaires were administered to owners of informal retail operations (without value-added tax numbers) in provinces across South Africa. The sample covers urban and rural areas. The surveys were administered by interviewers trained in sampling procedures by the Bureau of Marketing Research. Owners of spaza shops and shebeens were selected from a sample in the demarcated areas.

Overall, more than 500 completed questionnaires were obtained from owners of spaza shops and shebeens. Of the returned surveys, 346 had sales data and 316 reported the owner’s income information needed for our assessment of poverty status. These data were used to form the two dependent variables in the regression analysis.
The average informal retailer in the survey had sales of R5,905 per month, which converts to US $841 using an average rand/dollar exchange rate of 7.02. The income of the owners varies from R50 to R13,000 per month, with a mean owner’s income of R1,185 (US $151). To put this income level in perspective, it is much higher than the minimum wage for South Africans in 2007. It is much higher than the minimum wage set for rural areas: R866 (US $122).

The survey reveals that over half (53%) of the shop owners had no other source of income. This was also true of an even larger share (58%) of the owners. The ability to sell Coca-Cola products is a major factor for the informal retailers to generate income. Approximately three-fourths of the shop owners (78%) stated that Coca-Cola products were the main reason customers came to their stores.

Regression Analysis

One major advantage of the South African informal sector survey is the ability to model the determinants of owner’s income as a measure of profitability and ultimately of entrepreneurial success. The literature stresses that profitability is desirable as the dependent variable when modeling informal business viability, but data are often hard to obtain (Otoo et al., 2012). In addition to monthly owner’s income, we test a separate model for sales. The dependent variables—sales and owner’s income—are regressed against a set of explanatory variables that are also obtained from the completed surveys: market support for microenterprise provided by the Coca-Cola system, startup capital, employees in the enterprise, whether the owner had business training, male ownership, the length of time in business, educational attainment, and the owner’s previous status as unemployed. The regression model is given in the equation:

Owner’s income (sales) = f(support, startup capital, employees, business training, male owner, established business, education, unemployed).

Table 1 presents descriptive statistics for all variables shown in the equation. The main independent variable of interest in our analysis is the business development support provided by the Coca-Cola system. This variable identifies whether the business was provided equipment and signage, the most significant, identifiable form of business development. As Table 1 shows, 48% of the respondents received such support. The variable enters the regression model as a dummy variable (1 equals support and 0 indicates no support).

In our sample, the mean for Startup Capital is R2,946 ($420). Even though this amount is relatively small, it is still a major impediment for many South African informal entrepreneurs. Most cannot borrow from formal institutions and have to rely on their savings to supply the capital for their business (Ligthelm, 2005). While the average owner in the study was able to get startup funding within 6 months, 16% of the informal retailers took over a year to obtain the necessary funds. Typically, the microenterprises in the sample used retained earnings whenever they expanded their operations. Only 1.6% of survey respondents reported that they had received some type of government incentive.

Most of the businesses sampled in this study are family run and have few employees. While the number of employees ranged from one to 12, the average number is 2.05. To act as a control for firm size, Employees (the number in logs) is tested against owner’s income and sales.

Most of the participants in our study finished primary school, yet few had had formal business training (11%). This type of training typically includes basic accounting, marketing, and loan management skills. Fifty-one percent of the owners in the sample indicated they would like to have this type of training. In the regression, Business Training is a dummy variable (1 equals training, while 0 signifies no training).

In this analysis, the gender effect on owner’s income and revenue is tested as a dummy variable (Male Owner), where 1 and 0 represent male and female ownership, respectively. Only 10% of the owners in the sample analyzed in this study had attended a university. Twenty percent had not attended secondary school.

Our regression includes Minimal Education as a control for business owners who have low educational attainment, defined as 1 for individuals without at least some secondary education and 0 for individuals with secondary education or higher.

### Table 1

<table>
<thead>
<tr>
<th>Variable</th>
<th>N</th>
<th>Mean</th>
<th>Standard Deviation</th>
<th>Min</th>
<th>Max</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Sales</td>
<td>360</td>
<td>5,904.82</td>
<td>9,295.56</td>
<td>300</td>
<td>80,000</td>
</tr>
<tr>
<td>Owner’s Income</td>
<td>338</td>
<td>1,184.70</td>
<td>1,413.58</td>
<td>50</td>
<td>13,000</td>
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<tr>
<td>Startup Capital</td>
<td>552</td>
<td>2,946.08</td>
<td>6,046.89</td>
<td>10</td>
<td>80,000</td>
</tr>
<tr>
<td>Owner Unemployed</td>
<td>552</td>
<td>0.55</td>
<td>0.50</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Employees</td>
<td>552</td>
<td>2.05</td>
<td>1.22</td>
<td>1</td>
<td>12</td>
</tr>
<tr>
<td>Male Owner</td>
<td>552</td>
<td>0.55</td>
<td>0.50</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Business Training</td>
<td>552</td>
<td>0.11</td>
<td>0.32</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Established Business</td>
<td>552</td>
<td>0.40</td>
<td>0.49</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Minimal Education</td>
<td>552</td>
<td>0.20</td>
<td>0.40</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Support</td>
<td>552</td>
<td>0.48</td>
<td>0.50</td>
<td>0</td>
<td>1</td>
</tr>
</tbody>
</table>

Note. Total Sales (monthly), Owner’s Income (monthly), and Startup Capital are expressed in South African rand.
In our sample, 55% of the owners were unemployed before they started their informal retail business. In our regression, a value of 1 for Unemployed represents owners who were jobless when they started their venture, with those previously employed given a value of 0.

RESULTS

Before presenting the regression estimates for the models designed to explain microenterprise success, we set the stage by looking at urban–regional differences in sales and owner’s income, our two dependent variables. We also present some interesting findings regarding business support, our main independent variable. With this setting, we then turn to the major results of the article based on the regression analysis described in the last section.

Table 2 shows results that emerge from a difference of means test comparing informal retail businesses in urban and rural areas. Because informal businesses in urban locations benefit from greater population (demand) density and higher per capita income, it is expected that the business performance and other characteristics are more favorable. Table 2 reveals this to be the case. Looking at the statistically significant variables, we find that urban informal businesses outperform rural areas in terms of higher sales, income, startup capital, size (number of employees), and business training. As for owner’s income, observe in Table 2 that urban microentrepreneurs earn substantially more per month (R1,204) compared with those in rural areas (R747). It is also notable that the average urban owner’s income (R1,204) is above the official urban area minimum wage of R1,067. Yet the average rural owner’s income of R747 is below the rural minimum wage of R866. In turn, the distinct pecuniary benefits of an urban location for informal sector entrepreneurs may represent a strong incentive to move, helping to explain the continuing migration of the population to South African cities and metropolitan areas. A similar phenomenon can be found throughout Africa. As for other evidence presented in Table 2, note that we do not detect a statistically significant difference in male ownership in urban areas: 55% of urban owners are male, while 53% of rural owners are male.

Figure 1 shows the results of an interesting comparison performed on the survey data regarding business support, which helps elucidate the major hypothesis of the paper. The graph discloses that receiving business support helps raise sales and owner’s income for microenterprises. In Table 3, we further contrast business characteristics according to those South African informal retailers who received or did not receive business support. We see that support clearly improves positive business outcomes relative to those without support, with a statistically significant t-test for the difference of means. The mean monthly owner’s salary for spazas and shebeens that received business support is R1,444, compared with R959 for those who did not. Accordingly, the former is well above the R1,067 (US $151) urban minimum wage for South Africa, while the latter is well below. A t-test for the difference of the means is found to be statistically significant. It can also be seen in Table 3 that the informal microenterprises that received business support exhibit higher startup capital, are larger in terms of employees, better educated, more likely to be an established business, more likely to have business training, and less likely to have been previously unemployed. We do not detect a statistically significant difference in male vs. female ownership.

Regression Results

Next, we turn to the results of the regression model, which illuminate the extent to which business support acts as an influence on an owner’s income and sales, holding other key determinants constant. The independent variables described in the last section are regressed with ordinary least squares (OLS) to determine their effect on an owner’s income and sales. Table 4 displays the estimates for the two dependent variables. For Sales the $R^2$ is 0.44, while the $R^2$ for Owner’s Income is 0.36. The signs for all explanatory variables conform to our prior expectations. Moreover, the independent variable estimates are statistically at the 5% significance level or below, except Business Training and Minimal Education.

### TABLE 2


<table>
<thead>
<tr>
<th>Description</th>
<th>Urban Mean (SD)</th>
<th>Rural Mean (SD)</th>
<th>t-Test</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Sales</td>
<td>5959.12 (9313.94)</td>
<td>3087.55 (3510.82)</td>
<td>3.686***</td>
</tr>
<tr>
<td>Owner’s Salary</td>
<td>1203.81 (1431.43)</td>
<td>746.32 (813.92)</td>
<td>3.373***</td>
</tr>
<tr>
<td>Startup Capital</td>
<td>2461.55 (6061.19)</td>
<td>1374.31 (2825.14)</td>
<td>2.0837**</td>
</tr>
<tr>
<td>Male Owner</td>
<td>0.5518 (0.4979)</td>
<td>0.533 (0.499)</td>
<td>0.5980</td>
</tr>
<tr>
<td># of Employees</td>
<td>1.888 (1.187)</td>
<td>1.675 (0.906)</td>
<td>1.993**</td>
</tr>
<tr>
<td>Minimal Education</td>
<td>0.245 (0.431)</td>
<td>0.205 (0.405)</td>
<td>0.9879</td>
</tr>
<tr>
<td>Established Business</td>
<td>0.403 (0.491)</td>
<td>0.4 (0.492)</td>
<td>0.4739</td>
</tr>
<tr>
<td>Business Training</td>
<td>0.104 (0.305)</td>
<td>0.0662 (0.249)</td>
<td>1.341*</td>
</tr>
<tr>
<td>Owner Employed</td>
<td>0.622 (0.485)</td>
<td>0.621 (0.487)</td>
<td>0.0226</td>
</tr>
</tbody>
</table>

*Note. Total Sales (monthly), Owner’s Income (monthly), and Startup Capital are expressed in South African rand.

*p < .10, **p < .05, ***p < .01.
Let us first review the effects of explanatory variables other than business support. It was expected that *Startup Capital* would have a positive impact on *Owner’s Income* and the results bear this out. Since it is measured in logs (like the dependent variable *Owner’s Income*), it can be interpreted as an elasticity. Thus, as indicated in Table 4, a 1% increase in startup finance would yield a 0.27% increase in an owner’s monthly income, all else held constant.

Apparently, *Owner’s Income* and *Sales* are constrained for females and the formerly unemployed. Not surprisingly, two enterprise characteristics correlate with higher income and sales: larger size (in terms of the number of employees) and 5 or more years in business.

Consider now the estimates for the variable defined as *Support*, which indicate the extent to which sales and owner’s income are affected by Coca-Cola’s business development support. This variable is statistically significant in both regressions. The estimates reveal that sales are boosted by 31% with business development support. Owner’s income increases by 19%. Recall that the average *Owner’s Income* in our informal business sample ($R1,185 or US $169) is higher than the country’s minimum wage, which is set for the formal sector domestic workers in urban areas at R1,067 or US $151.

Thus, business support raises income considerably above what the government considers a decent living standard. It can be argued that the minimum wage is set too high in the formal sector, especially in light of substantial Asian competition in the garment industry and other manufacturing sectors, and thus contributes to South Africa’s long-term unemployment crisis (Dugger, 2010). This argument, however, is only pertinent to our findings regarding informal businesses.

### TABLE 3

<table>
<thead>
<tr>
<th></th>
<th>Business Support</th>
<th>No Support</th>
<th>t-Test</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Sales</strong></td>
<td>7734.66 (11270.42)</td>
<td>4473.56 (7100.886)</td>
<td>3.349***</td>
</tr>
<tr>
<td><strong>Owner’s Income</strong></td>
<td>1463.91 (1653.604)</td>
<td>959.25 (1140.543)</td>
<td>3.311***</td>
</tr>
<tr>
<td><strong>Startup Capital</strong></td>
<td>3845.62 (7861.717)</td>
<td>2119.29 (3474.857)</td>
<td>3.289***</td>
</tr>
<tr>
<td><strong>Male Owner</strong></td>
<td>0.576 (0.495)</td>
<td>0.533 (0.499)</td>
<td>1.024</td>
</tr>
<tr>
<td><strong>Employees</strong></td>
<td>2.239 (1.348)</td>
<td>1.875 (1.069)</td>
<td>3.530***</td>
</tr>
<tr>
<td><strong>Minimal Education</strong></td>
<td>0.167 (0.374)</td>
<td>0.221 (0.416)</td>
<td>–1.603*</td>
</tr>
<tr>
<td><strong>Established Business</strong></td>
<td>0.450 (0.498)</td>
<td>0.359 (0.480)</td>
<td>2.169**</td>
</tr>
<tr>
<td><strong>Business Training</strong></td>
<td>0.137 (0.344)</td>
<td>0.0899 (0.286)</td>
<td>1.745**</td>
</tr>
<tr>
<td><strong>Owner Employed</strong></td>
<td>0.498 (0.0308)</td>
<td>0.602 (0.498)</td>
<td>–2.246***</td>
</tr>
</tbody>
</table>

*Note.* Total Sales (monthly), Owner’s Income (monthly), and Startup Capital are expressed in South African rand. *p < .10, **p < .05, ***p < .01.

### TABLE 4
Regression Results for Owner’s Income and Sales

<table>
<thead>
<tr>
<th></th>
<th>Owner’s Salary (log)</th>
<th>Sales (log)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Startup Capital (log)</strong></td>
<td>0.269*** (–0.04)</td>
<td>0.324*** (0.04)</td>
</tr>
<tr>
<td><strong>Owner Unemployed</strong></td>
<td>–0.247*** (0.09)</td>
<td>–0.205** (0.09)</td>
</tr>
<tr>
<td><strong>Employees (log)</strong></td>
<td>0.428*** (0.11)</td>
<td>0.557*** (0.11)</td>
</tr>
<tr>
<td><strong>Male Owner</strong></td>
<td>0.232* (0.09)</td>
<td>0.206** (0.09)</td>
</tr>
<tr>
<td><strong>Business Training</strong></td>
<td>0.172 (0.18)</td>
<td>0.257 (0.20)</td>
</tr>
<tr>
<td><strong>Established Business</strong></td>
<td>0.230** (0.09)</td>
<td>0.340*** (0.10)</td>
</tr>
<tr>
<td><strong>Minimal Education</strong></td>
<td>–0.048 (0.10)</td>
<td>–0.186 (0.12)</td>
</tr>
<tr>
<td><strong>Support</strong></td>
<td>0.192* (0.09)</td>
<td>0.306*** (0.10)</td>
</tr>
<tr>
<td><strong>Constant</strong></td>
<td>4.383*** (0.30)</td>
<td>5.304*** (0.29)</td>
</tr>
<tr>
<td><strong>R²</strong></td>
<td>0.560</td>
<td>0.438</td>
</tr>
</tbody>
</table>

*Note.* Standard errors are in parentheses. *p < .10, **p < .05, ***p < .01.


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insofar as the minimum wage leads to formal sector job losses and increases the demand for informal employment (Banerjee, Galiani, Levinsohn, McLaren, & Woolard, 2007). In any case, the minimum wage reflects what the government and labor unions in South Africa consider to be a sustainable living standard. Our findings suggest that business development support may help individuals in the informal sector attain or exceed this standard.

As enterprise support helps lift the informal retail owners out of poverty, the program could be viewed in the context of corporate social responsibility, the African Business Call to Action, and the Millennium Development Goals. At the same time, this support for informal retail should be seen in the context of Coca-Cola’s long-standing mission to be a “multilocal” enterprise that brings its products “within an arm’s reach of desire,” including the BOP markets of Africa. Indeed, most CSR programs are business tools as opposed to development tools (Newell & Frynas, 2007). Clearly, Coca-Cola shareholders benefit from the increased sales associated with small-business market development programs.

To be sure, the business support impact on income for some microenterprise owners cannot be interpreted as a jobs and poverty alleviation program for the country as a whole. Yet it does demonstrate that MNCs selling to the impovserished, BOP market also help the local, informal microenterprise sector reach higher living standards. With a dearth of formal sector jobs and economic opportunity, this finding about MNC–local enterprise linkages has far-reaching implications for Africa, where the informal sector dominates economic activity.

CONCLUSION

No doubt, the most significant economic challenge facing Africa is persistent poverty, as highlighted in the United Nations’ Millennium Development Goals. Reducing extreme poverty and increasing incomes will necessitate substantial private sector investment. It will also require creating thousands of jobs and channeling entrepreneurial dynamism into viable local businesses.

The expertise and knowledge embodied in investments by the world’s leading companies, coupled with its commitment to local development, will be crucial in moving African economies forward. Directly and indirectly, the African employment and entrepreneurial base will expand only to the extent that private international investors will make substantial, long-term commitments.

The Coca-Cola enterprise system presents an interesting case. It is Africa’s largest employer, with products sold across all the continent’s diverse markets. For over a decade, Coca-Cola has been committed to a large-scale private investment expansion program. These investments in production and the distribution infrastructure have extended Coca-Cola’s linkages deep into the Africa’s market structure.

In South Africa, the growth strategy was invigorated after apartheid’s demise. The company labored to maintain a socially responsible image as the country made the transition to democracy. Its CSR shifted to poverty alleviation and economic development, along with health and environmental issues.

Potentially, CSR programs for small business development can mitigate economic depredation and sustain employment in developing countries. Beyond business development programs examined in this article, the Coca-Cola system has pioneered new CSR efforts in Africa that extend the benefits of its close ties to local businesses to improve health in hard-to-reach areas. In 2011, a pilot social program in Tanzania was set up by the Coca-Cola Company and local bottlers to use their highly efficient distribution network for HIV/AIDS drugs. A Tanzanian government supply chain agency recognized that the beverage distribution network encompasses thousands of microenterprises across the country. A public–private partnership was formed, whereby the government supply chain agency connects with Coca-Cola’s distribution to more effectively reach poor communities and allocate antiretroviral drugs across nine regions. Also planned is a CSR program in Zambia that will take advantage of the Coca-Cola system’s daily capability to reach into poor urban and rural communities by placing “aid pods,” filled with essential health treatments, in beverage crates (Smith, 2011).

The future may see further public–private partnerships along the lines of the Tanzanian and Zambian CSR programs. In a 2010 presentation to the Technology, Entertainment, Design (TED) Conference, philanthropist Melinda Gates (2010) recognized the potential of Coca-Cola’s incredible market reach in Africa (and other developing economies) as an asset for social good: “Coke’s success … makes you wonder, ‘How is it that they can get Coke to these far-flung places?’ If they can do that, why can’t governments and NGOs do the same thing?” Working with the established, extensive Coca-Cola system, as in the Tanzanian and Zambian CRS efforts, makes sense, rather than trying to replicate its distribution model. For these programs to be effective, however, it will take successful, stable, prosperous local businesses in the African trade sector. The business development programs examined in this paper help achieve this goal.

REFERENCES


