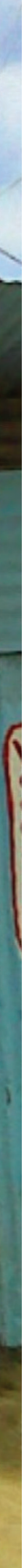

12
SUSTAINING BUSINESS AND COPING WITH RISK

In this chapter we analyse some of the strategies and informal institutions that township business persons utilise to grow their business, invest profits in new endeavours and cope with risks.

CHAPTER 12

Sustaining business and coping with risk

In the formal economy, the strategies that businesses pursue are influenced by the regulatory framework and the role of formal institutions. In business studies, formal institutions are understood as laws, regulations and the relevant supporting state agencies (Webb, Tihanyi, Ireland & Sirmon 2009). The regulatory framework, as one example of a formal institution, influences what activities a business may legitimately pursue and specifies conditions under which the business is required to operate in compliance with the law. These might require investments to comply with matters such as environmental health, safety standards and labour conditions. Similarly, regulations might specify minimum standards, traceability and transparency, which are widely applied, for example, to food products and their supply chains. As we have argued in earlier chapters, formal regulatory frameworks have considerably less influence in the township economy where informality is widespread, apart from a few sectors such as liquor retail, undertaking and the provision of educational services where businesses have strong incentives to formalise. Yet even in these sectors where regulatory compliance is best enforced, the existence of legal-institutional frameworks does little to prevent individuals from operating businesses illegally, as is the case for the majority of liquor retailers and educare operators. In these and other sectors where adherence to rules is often enforced, trading informally necessitates gearing the business to avoid what scholars describe as 'the undesired attention' of regulatory authorities as well as the 'unwanted attention' of criminals and enemies (Kistruck, Webb, Sutter & Bailey 2014, p 4). From the perspective of institutional theory, such informality is described as the consequence of the incongruence between formal and informal institutions (Webb et al. 2009; Williams & Shahid 2016). Informal institutions, in this sense, refer to the set of norms, practices, values and beliefs that are widely shared across a population and embodied in culture. Selling beer and providing childminding services, to return to the examples above, might be illegal under formal laws, but are accepted as morally legitimate and culturally acceptable under informal institutions, certainly amongst a sufficiently large segment of the township population to be regarded as 'legitimate' informal business.

Institutions fulfil an especially important role in the formal economy. Financial institutions enable formal businesses to raise capital and manage risk through purchasing services such as insurance. Additionally, legal institutions safeguard intellectual property, maintain brand and product integrity and enable entrepreneurs to securely transact and manage the risks of capital investments. Although these institutional products and services can benefit the township economy, such as with respect to property rights and

in providing licences to minibus taxis and taverns, their penetration in informal markets is relatively shallow. The truncated reach of formal institutions can be attributed, in part, to the existence of alternative, organically-emergent, informal institutional services and organisational rules that influence business practice in terms of providing alternative strategies of investment and risk control. Steven, the Avanza taxi operator whose story is told Chapter 7, said that if someone causes a motor accident then in accordance with practice they are required, there and then, to settle the repair costs in cash. In this chapter, we argue that these informal institutions and practices exist alongside, complement and contest state regulation and formal institutions. Furthermore, community and social relations influence the 'ways of doing business', and in certain contexts this influence supersedes formal regulating institutions. An important point is that these influences are not simply 'informal' alternatives, embraced to avoid regulatory capture or evade taxation or resist state authority, but mechanisms that can enable entrepreneurs to protect and grow their business (and secure the value of their investment) even in times of operational challenges.

In this chapter, we analyse some of the strategies and informal institutions that township business persons use to grow their businesses, invest profits in new endeavours and cope with risks. We argue that for many (micro-) entrepreneurs, informal institutions and practices provide more effective benefits to the business than formal institutions. Although the benefits of informal institutions might equate to a sub-optimal outcome, such as the comparative advantages of taverns (formal institutions) versus shebeens (informal institutions) in respect to access to supply chains and risks of non-compliance, their elevated importance reflects the pervasiveness of informality in the township context. This is attributable to a combination of the centrality of cash in transactions, the ineffectiveness of regulatory authorities, the power of 'big men' who use informality as a business strategy and socio-cultural influences. The influence of social context on decision-making is central to our understanding of informal institutions. In *KasiNomics*, Alcock (2015) writes: 'the belief system which says "take care of the past and the future will take care of itself" is deep seated. …This belief system can influence things like planning and investment. If you can choose only one, what is more important? A burial plan or an education plan?' (p. 101). There are, as a result, a diverse range of micro-enterprises that service funeral events and unveiling ceremonies, including informal financial services which aim to minimise the cost-burden on a bereaved household (Figure 12.1 and Figure 12.2).

Our spatial analysis on this topic centres on the level of invisible infrastructure, for which symbolic and anecdotal evidence is required as shown in the example of the ceremonial investments to sustain cultural practice and connections to ancestors. Additionally, we examine spatial influences at the micro-context level where the consequences of certain practices are evidenced in the arrangement of infrastructure, the vernacular architecture and strategies to minimise an appearance of wealth. Just as informal institutions are difficult to conceptualise, being invisible to outsiders, so too are the power responses which are embodied in rules, practices and norms. These responses range from 'self-levelling' pressures, to reciprocal understandings which underpin cooperative and mutual support in savings societies, to actions that use violence to enforce contractual agreements.

FIGURE 12.1 A township funeral service where large investments are made for honouring the dead

FIGURE 12.2 'Taking care of the past': a ceremonial post with sacrificial horns

Business strategies

Fronting

The township economy exerts a 'self-levelling' pressure on most entrepreneurs. From a community perspective, successful entrepreneurs can be scorned by their communities, with their success attributed to power of the entrepreneur to mobilise social, spiritual (including magic), economic and/or political resources rather than recognition of entrepreneurial drive (Ashforth 2005; Hickel 2014). In the township context, overtly successful businesses can be the subject of community suspicion and jealousy, occasionally even witchcraft accusations, or simply 'pulled down' through network withdrawal and sabotage (Koens & Thomas 2015). When asked about the main challenges that impacted on the family business, one KwaMashu informant responded: '*my mother was bewitched by neighbours because she runs a spaza shop and that also she bought a house*' (2/1302/F/37). Whereas the particular spaza shop was deliberately shabby in appearance, thus signalling a message that the business was survivalist, neighbours perceived the link between the spaza shop and the residential house as a sign of entrepreneurial success. The perception of entrepreneurship as something alien to social norms aligns with African nationalist ideology which holds the state, not private individuals, responsible for economic growth and wealth distribution (Anciano & Piper 2019). This constitutes a paradox in African nationalism. On the one hand, individual wealth accumulation through small business is seen (from the African National Congress [ANC] Party perspective) in suspicious terms (prompting the question: how can it be possible?); on the other hand, wealth accumulation through state and corporate B-BBEE measures is seen conversely as politically acceptable (see Figure 12.3).

FIGURE 12.3 Flagrant display of political wealth, *shisa nyama* Ivory Park
Note: Unlike township entrepreneurs who tend to conceal their incomes, earning considerable wealth from the state is celebrated with conspicuous consumption among the political elite and 'big men'. Photograph taken in Ivory Park.

The latter has given rise to the 'capture' of state procurement processes through strategies commonly known as 'tenderpreneurship' (Piper & Charman 2018). In Zukisani's DST (SLF 2017c) about his land struggles (see Figure 12.4), he retells how the local ANC ward councillor sought to oppose the operation of his container-based barber shop on the grounds of its spatial situation within the road reserve (public land), because, in his view, the business was seen to be successful rather than because the business spatial situation was unlawful. As he recalled: '*Why am I the only one being singled out, among so many? [other businesses also on public land]. I realised that they were jealous that my business was growing and the officials wanted to be bribed… [Yet in doing this business] I was simply acting on the words of the former president – Thabo Mbeki: 'Vuka uzenzele (do it yourself).*'

In some contexts, the distrust of entrepreneurs towards the state (and politicians) as a consequence of corruption and misuse of resources has influenced people's decisions to disengage with formal institutions (Littlewood, Rogers & Williams 2018). Similar concerns might inform the actions of businesses that operate in township markets, though our evidence indicates that those entrepreneurs who strategically embrace informality do so as a consequence of state weakness rather than as an action of political dissatisfaction.

From the early days of our field research, we learnt to avoid questioning business owners on their apparent entrepreneurial 'success', since the notion of success necessitated an unwelcome confession. It is for this reason that many 'successful' business persons seek patronage from political leadership and forge links to industry and influential bureaucrats. Relations of patronage fulfil an important role in helping these individuals to navigate

FIGURE 12.4 A scene from Zukisani's digital story where he, as a micro-entrepreneur, details his challenges with local politicians hostile to his success

state procedures and reduce the hurdles of red tape that impact on formalisation, to obtain favourable industry supply chain agreements, and to pacify common community jealousy (and thus opposition) towards individual success. Yet even with strong patrons, 'successful' entrepreneurs are acutely aware of the risks of operating their business within the township. The owner of the popular *shisa nyama* restaurant whose parking lot features in Figure 12.3 above situated her business on the settlement periphery (relocated away from its original location), with the owner intentionally residing outside the area.

To avoid criticism and resentment from the accumulation of wealth, often entrepreneurs adopt a strategy of 'downwardly mobile' fronting to give an impression of shabbiness in order to appear as economic survivalists (Figure 12.5).

Strategies of fronting align with the notion of Ubuntu which, from an epistemological viewpoint, holds that competition and inequality are un-African virtues which undermine traditional values of community and reciprocity. Ubuntu derives from the root for a 'person' (*-ntu*). The notion of Ubuntu has been employed in the post-apartheid nationalist project to promote African humanism, wherein the idea is based on the set of values and norms that historically governed extended family and village relationships, with an emphasis on consensus, mutual respect and selflessness. As an idea which has been 'reified' and given 'quasi-magical properties', the use of Ubuntu as a developmental paradigm has been justifiably criticised, not least because it overlooks the centrality of reciprocity at the base of all village relationships (McAllister 2009). The notion of Ubuntu contradicts the often-expressed view that neighbours would rather support the 'outsider' than see an 'insider prosper'. In one account, a shopkeeper bemoaned: '*[even if I have*

FIGURE 12.5 Visible business investments are minimal, but this does not mean the enterprise is unsuccessful
Note: A well-known (and well patronised) business within a destination of chicken braai outlets, Browns Farm.
Credit: Justin Patrick

all the [right] products in my shop…they [customers] will still go to the Somalians out of spite…because they do not want to see my business grow…even if I have the same prices as the Somalis' (2/1640/F/nd).

We have sought to argue throughout this book that entrepreneurial behaviour is informed by culturally specific and locally pertinent social rules, norms and relationships, some of which are indeed rooted in historical village life. Street traders who sell comparable items, for example, do not compete on price, but sell their goods at the same price per unit as all other traders. Instead, acceptable forms of competition in this situation are based on location (the position at the micro-context level within the market), product range and marketing approach, such as compiling a unique combination of vegetable products. While price competition is seen as unacceptable, pre-capital notions of discounting such as the offer of a *pasella* (from the isiXhosa verb root to give a present; whereas in isiZulu, the word *basela* derives from the verb root to beg), for example, when a grocery trader gives the customer an extra banana as 'a present' if a whole bunch is purchased, are deemed as acceptable (as a request) and reasonable (as a reward). In this sense, Kinyanjui (2019) refers to the *utu-ubuntu* business model, drawing on her experiences of informal markets in Nairobi. She argues that the *utu-ubuntu* model 'operates on the basis of humanity and solidarity […which helps traders…] harness their own agency through the sharing of experience and through self-regulation' (p. 2). We see evidence of these informal institutions in the practices of street traders in Chapter 5, though when taking into consideration the power responses which frame opportunities, not least the violent taxi entrepreneurs and spaza informalists, there are limits to the scope of collective self-regulation with respect to 'surplus deployment' for communal benefit. We see business practices as more capitalist than communalist, in general, though undertaken in ways that embrace cultural norms, symbols and belief systems.

The strategy of fronting generally applies to both the business and individual. Township entrepreneurs do not, in general, project a body image that could be associated with wealth. Instead, most dress down (both themselves and their businesses) to promote the message that their business is survivalist and profit-shy. Exuberant displays of personal wealth are almost never witnessed amongst township business persons, apart from the small group of (powerful) entrepreneurs who operate businesses in the township under the patronage of political leadership and powerful organised groupings, such as the leaders of taxi mother bodies discussed earlier. On one occasion, while conducting research in Ivory Park, we witnessed an exclusive sedan vehicle 'cruising' the neighbourhood. On enquiring from locals about this car and its occupants, we were told: '*they are drug dealers; they don't live around here*'. This said, outside of the micro-enterprise business sector, even among the poorest township residents, citizens take pride in their physical appearance and signifiers of status, justifying investment in fashionable branded clothing, footwear, apparel, hair styles and cell phones (see Alcock 2015). Ownership of a vehicle is both a measure of achievement and signifier of sophistication, taste and social attitudes via vehicle selection. While the township might be a space in which outsiders visit to parade their wealth and status (as in Figure 12.3), for insiders, wealth is subject to informal taxation (and sometimes resentment and jealousy), thus expressed more modestly.

'Luck'

We were often told that the success of an entrepreneur could be enhanced by 'luck'. This can occur in ways that are positive, to their benefit, or negative, to the disadvantage of competitors. In his research on the causes of xenophobic violence in a Durban

township, Hickel (2014) argues that people (and young men especially) attributed the success of foreign-run spaza shops to witchcraft. We found that such thinking was more broadly applied, whereby people view 'luck' not as a consequence of entrepreneurial behaviour, but rather the influence of supernatural forces obtained through secret means. In the Cape Town township of Imizamo Yethu, Petersen, Moll, Hockings and Collins (2015) found that some 62% of 228 local households utilised traditional medicines in the previous 12 months, of which 17 of the top 19 medicines were used for 'cultural ailments, including luck enhancement' (p. 1051). In this respect, it is common to find advertisements on street poles and flyers throughout the township advertising the services of spirit mediums, herbalists and fortune tellers. In addition to providing medicines to enhance sexual performance and enable fertility, these healers offer to improve 'luck' and spiritual protection. Dr Kahima and Mama Surea, who once operated in Tembisa (along with other locations in Gauteng) in promoting their services as a palm reader and psychic, ask potential clients: 'Is everything becoming bad to your side?', to which they offer 'lucky charms', 'protection charms' and magic rings (see Figure 12.6).

This decidedly traditionalist conceptualisation of luck as a supernatural force has an important role in the establishment and operations of township businesses, and though difficult to interpret in conventional business studies and economics, is clearly reflected in the words of one traditional healer in Imizamo Yethu who simply stated: '*[a]bove this township is a gigantic cloud of black magic, and it controls absolutely everything that we do!*'

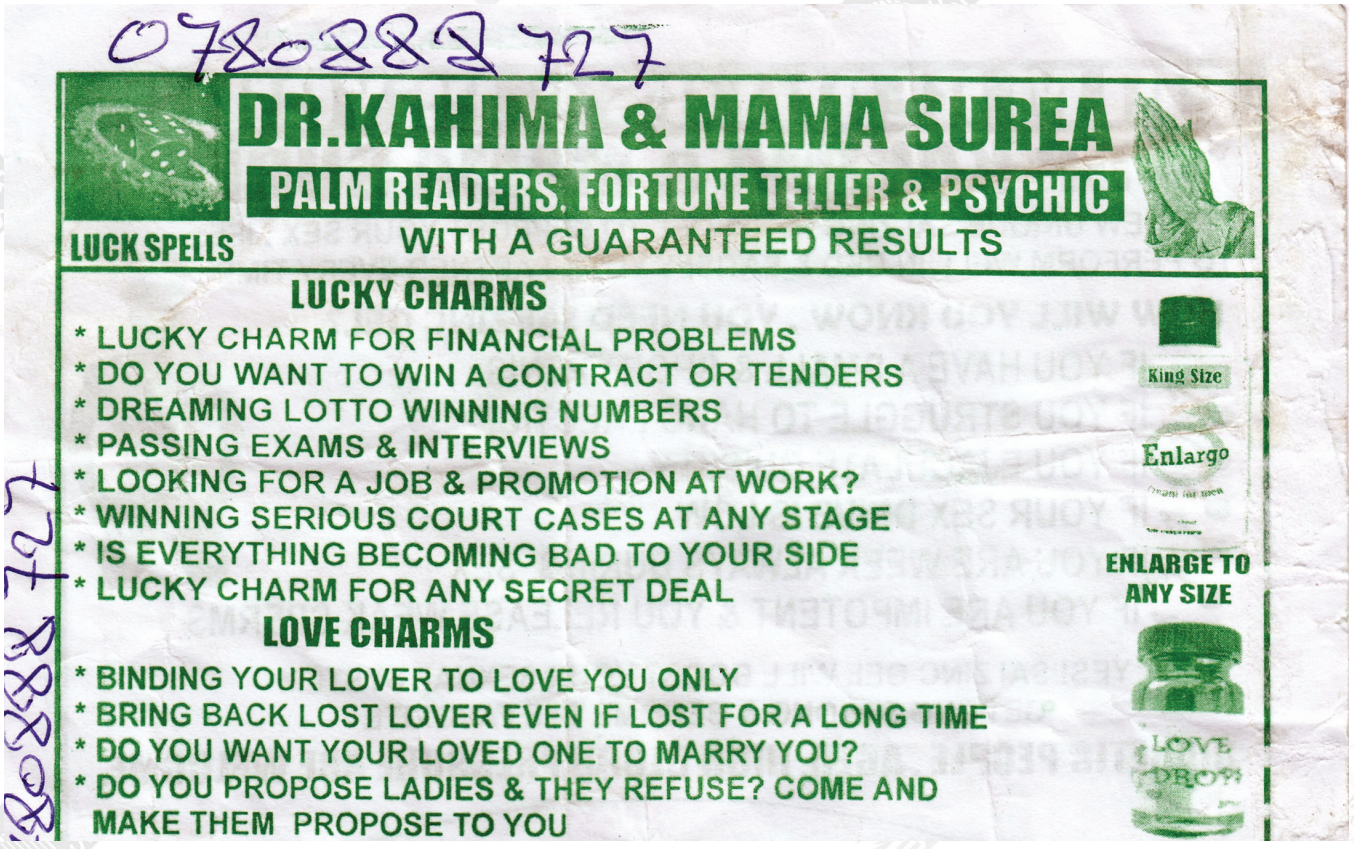

FIGURE 12.6 'Guaranteed results' from local palm readers, fortune tellers and psychics reflect a belief in supernatural influences in business and social lives

Reciprocity and favours

Social reciprocity is an important non-material resource for informal businesses. There are different aspects to reciprocal relationships, which collectively constitute an 'economy of favours' through which people seek opportunity and manage risks (for the original use of this term, see Ledeneva 1998). One such aspect of these favours is the relationships between the business owner, their competitors and their customers. Where an informal business is highly personalised, for example, in the hair-care, educare or liquor retailing sectors, the business relies on social relationships to establish its customer base. This necessitates that the entrepreneur makes a significant investment of social capital to establish personal ties through getting to know their clients and providing them with the occasional 'favour'. In some instances, the intention of granting favours might be altruistic, where for example, an individual perceives the primary function of the business to provide a social product or service, rather than achieve a profit outcome. Such business practices are undertaken to secure reciprocal support at a point in the future. A small house shop that provides bread on credit, without charging interest on this particular product (hence the favour), is an example of such practice. But it also means that many township business models are reliant on a continuous investment in social reciprocity, which in turn limits the pursuit of profit. As Neves and Du Toit (2012) argue: '[t]he neo-classical economic logic of maximising profit and minimising costs inadequately captures the potentially multiple objectives of economic informality… which include socially embedded considerations' (p. 135).

Social investment can take diverse forms, such as favourable customer terms, provision of credit or short-term loans, and other less obvious economic and social favours. We came across several examples in the tavern sector where the tavern owner had made their venue accessible to non-customers during the daytime for community meetings, to children so as to watch television or videos during the daytime, or to people seeking shelter from the weather. Such social investments are not only good for businesses but enable the entrepreneur to secure community support and create goodwill among customers. Fostering a good relationship with neighbours builds the social capital required to defend the entrepreneur against potential community threats to her/his business. Shebeen owners in sites like Sweet Home Farm where police raids constantly target illegal outlets would not be able to operate without community acceptance and reciprocal support. The incongruence between the formal institution (liquor policy) and informal institution (general acceptance of beer selling) was demonstrated in Chapter 9. Immigrant spaza shop entrepreneurs have also recognised the need to invest in reciprocity to protect their businesses from competitors and xenophobic thugs. These investments range from extending credit to loyal customers to providing cigarettes to street gangsters and in some sites like Delft South, providing monthly subsidies to gang leaders who provide 'protection' services.

Investments in social reciprocity also apply in relationships between businesses. These investments are spatially evident, for example, along the high street or in nodes where entrepreneurs share responsibility for controlling the space. In Chapter 5, we showed how micro-enterprises operating on a high street in Ivory Park accommodate diverse activities within the street through permitting flexible and fluid use of space and infrastructure resources. In one such micro-context, shopkeepers afford trading space outside the shop to micro-enterprises with limited spatial requirements, permitting them to set up their operations within the building overhang. In a similar logic, street-based businesses secure agreements with adjacent residential property owners to access utilities (such as water, electricity and the use of toilets); to repurpose boundary walls contingent with

the sidewalk to display sale items; and to store trading goods at night. These agreements sometimes entail cash payments, but often include reciprocal 'favours' where the business owner compensates the homeowner with in-kind offerings, including providing surveillance over the property while the owner is away from home. The need to build social reciprocity is especially important for street traders who face insecure tenure, are vulnerable to eviction or dispossession, and endure petty crime and police harassment. For most street traders, the business requires working long hours at their stand or stall, reducing the amount of non-trading time during which the trader is able to engage in home-based activities. The high labour demand is especially burdensome on women who have to juggle business and social responsibilities, such as looking after children. Through investing in social relationships with other traders, individuals are able to make reciprocal demands on each other to 'mind their stalls' if attending to home matters and prevent encroachments onto their stands. This might entail surveillance (watching over each other's stock), conducting trading on behalf of an absent business owner, and upholding a land-use claim (in other words, to prevent site encroachment) when the owner is temporarily absent. These reciprocal exchanges are strongly informed by gender to the extent that women and men operate in different sectors within reciprocities of sisterhood and brotherhood, within which there might be secondary subdivisions of ethnicity, race and religion.

Entrepreneurs may form alliances with stronger networks as part of a strategy of 'defiance', to actively confront 'institutional pressures' (Sutter, Webb, Kistruck & Bailey, 2013). The term has been used to refer to responses by socially legitimate informal businesses against socially illegitimate actors, such as gangsters or thugs. Such power responses can be (and are) mobilised in xenophobic actions to defend or capture markets. In the township context, the most powerful networks are the taxi associations and political grouping such as the South African National Civic Organisation (SANCO) or the *Abahlali baseMjondolo*, the shack dwellers' movement. These networks provide a 'latent power' (Sutter et al. 2013, p. 753) which can then be activated in response for which more subtle strategies such as coordination, compromise or negotiation might be ineffective. Taxi drivers are known as 'enforcers' of informal institutions, especially outside and surrounding the transport hubs which serve as their operational base. Accessibility to latent power is especially important in sites where gangs control much of the territory, such as Delft South, whereas the high-street territory falls under the hegemonic authority of taxi associations. Political networks like SANCO offer protection to specific groups of entrepreneurs and can intervene to resolve disputes between business owners or other parties. In Sweet Home Farm, the first immigrant spaza shopkeepers to operate businesses in the settlement rented premises from leadership of *Abahlali* and SANCO respectively, with the two leaders affording the new businesses with protection from crime and a buttress against community opposition.

Social institutions

Social and human capital

Human and social capital are important to all businesses. In formal and established businesses, human and social capital are strengthened through, inter alia, investment in the skills development of employees, improvements to the working environment and investments in durable networks, such as membership of formal associations. In simple terms, human capital is understood as knowledge and technical skills, whereas social capital refers to the social resources that can be drawn upon through a network of relationships. Investments in social and human capital are also important for informal

micro-enterprises, though the 'interplay' of human and social investments (Rooks, Szirmai, & Sserwanga 2009) does not necessarily result in the growth of the business in ways that can be anticipated. Rooks et al. (2009) argue that benefits to be derived from social investments can be influenced by size of the network and its resources. Large networks with weak resources, such as clan membership, can be less beneficial than small networks with strong resources, such as access to the suppliers of a product in high demand (for example, contraband tobacco or certain traditional medicines).

Most township micro-enterprises are sole proprietorships where network investments are made in consideration of the household, rather than the business per se. This means that members of the household are usually the primary recipients of human capital investments, though the boundaries between the micro-enterprise and household are fluid and generally overlap. Investing in the household is sensible for multiple reasons, though two factors are especially important: first, the household (and extended) family functions as a social safety-net in times of crisis, with survival often dependent on remittances (Du Toit & Neves 2009); and second, the family provides a mechanism for expanding and sustaining business activities over long periods without compromising centralised control or 'entrepreneurial orientation' (Zellweger, Nason & Nordqvist 2012, p. 143). The latter is important, as we show below, in strategies of divestment. It was common to hear business owners refer to the main legacy of their business in terms of financially enabling their children to attend school, college or university to obtain a formal qualification. The business itself had little to show in terms of investment in assets, equipment or systems. The reallocation of resources from business investment to household members shows that micro-enterprises do pursue long-term strategies, though these decisions tend to prioritise reducing the dependence of the family on the business through, for example, investing in the capacity of one's children to obtain formal employment. We did not encounter widespread evidence of where human capital investments had resulted in a specific benefit to the enterprise, though this reflects the fact that most township micro-enterprises are of young age. Over time, we would anticipate greater evidence of intergenerational businesses where the investments in human capital translate into productivity enhancement for the family business.

That said, Jack's business, a tavern and spaza shop situated in Ivory Park, provides an insight into how such an investment of human capital might ultimately benefit township business.

CASE STUDY: *Jack's business*

Jack, the business owner, sponsored both of his sons, via the profits of his business, to complete university degrees. Although the sons had other career ambitions, one having studied drama at the University of the Witwatersrand, both returned 'home' to work in the business where they applied their skills to introduce modernisation within the business, including instituting electronic stock control and a CCTV surveillance system. In this case, Jack's human capital investment resulted in financial investment into the property from which the business operated, thus transforming the original RDP-style house into a double-story building which accommodated the sons' families, while spatially separating the retail premises for the tavern and spaza shop. The spatial and social complexity of Jack's business can be seen in Figure 12.7 and Figure 12.8, where the residential development connects what would otherwise appear as two separate businesses.

In Chapter 8, we provided an example of how social capital is mobilised amongst immigrant shopkeepers to enable supply chain efficiencies and access low-cost labour, and strategically concentrate investment in shops within specific neighbourhood

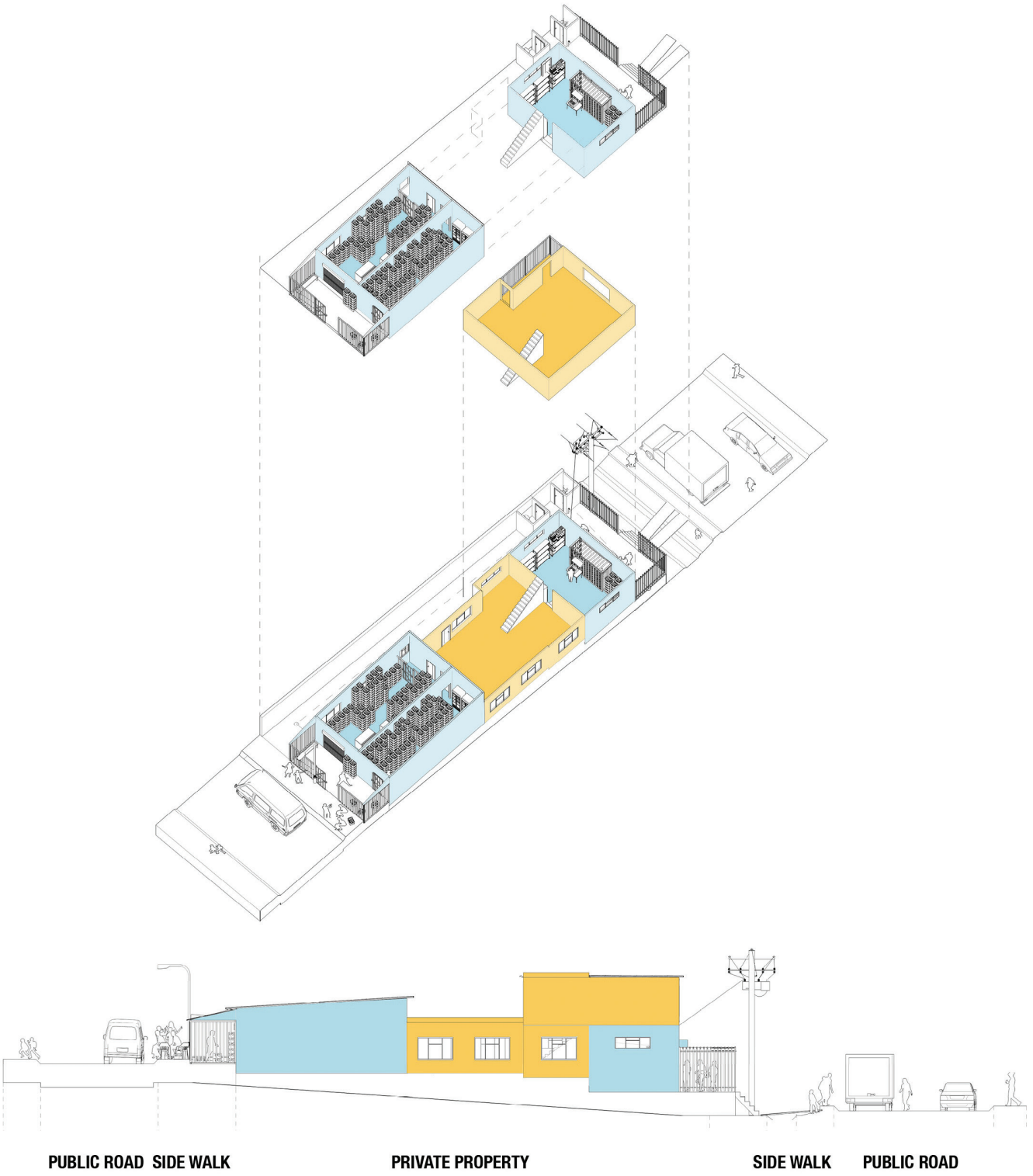

FIGURE 12.7 An illustration of how a residential property supports (and is organised into) two linked, but spatially separate businesses on neighbouring streets

FIGURE 12.8 Photographs of the two separate businesses, set-out to limit perceptions of business success

geographies. In the liquor sector, traders have organised into associations with the strategic objective of mobilising collective action against the liquor laws (and their enforced informalisation from formal institutional protection), another form of 'defiance'. While these associations have had limited influence on policy, their value lies in providing mutual support, sharing practical and strategic knowledge, and in linking the traders to liquor manufacturers. In Chapter 11, we highlighted the importance of social capital for township educare owners who, through their networks, institute norms of minimalising competitiveness among one another and good practice, dispense information and provide a platform linking individual educares to the state and industry or NGO sponsors. The relationship between micro-enterprises and networks can be formally constituted, based on membership, or informally and thus varies in strength. Strong networks, such as the taxi driver associations, have the power to impose impermeable barriers on entry into the sector, micro-manage the spaces in which the micro-enterprise can operate, and influence the modalities of the business such as the cost of service. While less controlling, weak networks can offer indispensable information, such as those amongst the Rastafari bush doctors who utilise their networks to access far-flung sites for wild harvesting, often on farms and private reserves, about which knowledge and logistical support is given. Apart from helping with the harvest, the bush doctors reported marketing their stock of traditional medicine through Rastafari-inspired religious groupings who provide access to an important customer base.

The church

Religious institutions fulfil a psychological and material role in managing risks. As part of this role, religious institutions enable access to a social network, provide solace and offer spiritual as well as moral guidance for attendees. For micro-enterprise entrepreneurs who believe that their business success can be impacted by supernatural intervention, either good or bad, religious institutions are guarantors against unforeseen risks and threats.

The institution of the church is widely supported in township communities. Most residents claim to be religious, whereas secularists are in the great minority. The high levels of religious devotion sustain a diversity of churches that are broadly aligned to the orthodox Anglican, Methodist and Catholic faiths, Jehovah's Witness, African Zionist, Pentecostal, and independent churches. Across the nine South African sites, the research identified 293 religious institutions (roughly one per 300 households), with the majority falling into the categories of African Zionist and independent churches (see Figure 12.9).

Apart from those churches which fulfil a missioning function, the majority of small churches operate on a financially independent basis, providing the pastor or church leader with an income stream. As micro-enterprises in their own right, these township churches derive income from tithes, providing services to officiate in marriages, funerals and unveiling ceremonies, and selling commodities such as 'holy' oil, water or salts. There were incidences where some of these religious institutions were directly linked to micro-enterprises (including educares, traditional healers and occasionally a house shop or even a shebeen) with the business and church often run from the same premises. Some of these businesses arose as a philanthropic service for members of the congregation and subsequently evolved to become financially autonomous micro-enterprises. The principal of an educare in Ivory Park which emerged through this development trajectory explained: '*The church members volunteered to take care of some kids for free. They brought the kids food and drinks. After a while they needed to get some income and so charged R50 until 2010. Then they hired qualified teachers and charged R100 from 2010*' (3/2323/F/n.d.).

FIGURE 12.9 The great majority of township churches are independent of mainstream services and are best seen as business opportunities for the church leader

The use of religion as a business strategy is an old phenomenon. Some of the townships' fastest growing churches include the Brazilian-originated Universal Kingdom of the Church of Christ, which openly promotes a doctrine of prosperity in which wealth accumulation and personal enrichment are deemed rewards of devotion. Churches provide an important social network for marketing and business opportunities. In one such instance, an entrepreneur sold Avon products through small-group church interactions, including at weekly prayer meetings. In another example, a spaza shop owner explained that the business mainly served members of the ZCC and thus specialised in commodities that are particularly required by devotees of the church, including '*Excella cooking oil, skimmed milk, Trekker coffee and the like*' (2/1901/F/25). Formal businesses have recognised the potential of the church to provide access to difficult to reach segments of the market. Cell-phone companies, banks and insurance brokerages, amongst others, have established exclusive retail agreements with, for example, the ZCC to sell their products to its members, in terms of which a portion of the service fee goes to the church.

In the traditional healing sector, a number of healers gave examples of the linkage between 'business' and church, participating as both a member of the church while simultaneously assisting congregants with their 'cultural problems' (for which the orthodox doctrine was deemed inadequate) such as helping people to protect their businesses, accessing work opportunities and protecting people's homes from housebreaking and other forms of evil intent.

Capital

Stokvels

Stokvels are one of the most important informal institutions through which township entrepreneurs seek to manage risk and strengthen social capital. The term '*stokvel*' originated in the 19th century in the Eastern Cape and makes reference to the cattle auctions (stock fairs) at which people would pool resources to make a purchase (Lukhele 2018; Verhoef 2001). The term has since become synonymous with small-size groups which enable savings, minimise risks and build social bonds between members. It is thought that there are more than 800 000 *stokvel* groups in South Africa representing 11 million persons (Lukhele 2018), which could be true if one includes the diverse range of *stokvel*-like informal institutions within this number. There are a number of derivatives of the term *stokvel* as well as regional terms, including *mogodisô* (after the Sotho word *gogodisô*, meaning 'to grow') and *gooi-gooi* (after the Afrikaans word *oorgooi* 'to throw over'). The term is also applied to informal insurance products and food-banking groups. In her history of the *stokvel* movement, Verhoef (2001) argues that the main driving force was small networks of women who embraced *stokvels* as a saving mechanism because these institutions were independent of patriarchal control. Saving was one strategy to safeguard against their marginalised position within their husband's extended family to which his relatives held traditional rights. Verhoef discerns four main types of *stokvels*: burial societies, savings clubs, investment groups and 'high-budget' *stokvels*. The latter consists of a large membership of persons with higher income and social standing, whose purpose is to provide opportunities to their members to make 'a lot of money' through a process of wealth acquisition with extravagant rituals and celebrants (Verhoef 2001, p. 13).

Stokvels have a diverse set of member rules and operational procedures, in accordance with the group rules on governance. Unlike cooperative societies (which incidentally have a much smaller influence on the township economy), *stokvel* membership is through invitation alone and the member's continued participation in the group is subject to strict adherence to rules and commitments. For this reason, *stokvels* are usually restricted in member numbers and further limited by their operating mechanisms (such as instances where members receive cyclical benefits). The *stokvel* rules are defined in a constitution or written agreement. While the function of *stokvels* varies as saving or credit institutions, they provide enforceable mechanisms (through expulsion for non-compliance) for mobilising regular financial deposits. The member contributions are managed by a treasurer or chairperson and held in cash, banked, invested or used for procurement of specific goods for future disbursement. While their function might be to enable savings or provide credit, *stokvels* operate through social mechanisms and thus require of the members to socially invest into the network through participating in meetings, attending funerals and weddings, for example. This function is overlooked by the formal financial institutions which, in seeking to capture the *stokvel* market, have developed a number of savings products that rationalise the savings rules and procedures and thus separate the financial aspect from its social roots. These initiatives have had limited success (Mulaudzi 2017). As Alcock (2015) explains:

> the power and allure [of *stokvels*] to their members is the social connectedness it gives to each member. The protection of group assistance, the social fun of the *stokvel* meeting where members gossip and feast and laugh together. They fulfil a social benefit first, a financial one second. (p. 94)

For entrepreneurs, *stokvels* provide a savings opportunity and a mechanism to manage and minimise risk such as cushioning the impact of social obligations on the household (rather than insurable business-specific risks such as theft or vandalism). We learnt that entrepreneurs tend to mitigate financial 'shocks' of social obligation through proactive measures, such as supporting neighbourhood watches, patronising local political leadership and enhancing investment in security systems. Social obligations within the household, extended family or networks are non-negotiable and require ongoing financial and social commitments. In this respect, critical social events that require financial investment include deaths, marriages, family home-coming events, and cultural celebrations such as rites of passage into adulthood or unveiling ceremonies. In anticipation of high-risk events such as deaths in the family, some *stokvel* arrangements are constituted to allocate resources to each member on an as-needed basis in specified tranches, while providing all members with a lump-sum payout on an annual basis. Annual savings payouts enable the members to undertake substantial investments in property or to purchase assets.

Groups of business owners utilise *stokvel* principles to enhance resource capacity and thus boost business performance on a rotational basis. Such groups tend to be less discerning towards membership, accommodating members out of solidarity (rather than on strict terms) and to strengthen social reciprocity. An example is a tavern-owner *stokvel* whose members make regular financial contributions for disbursements on a rotational basis. When a member receives payment, they host an event at which all members provide support, hence enabling the beneficiary to monetise the advantage. MaLinde (1/128/F/32), a shebeen owner in Tembisa, explained how her stokvel operated: '*Twelve people make up the stokvel and they each contribute towards the running of the business. Every two weeks, we pool money together and purchase beer to the value of what is in the kitty. Each person usually pays R100 per week. Together we make regular purchases of up to 20 cases every 2 weeks.*' While entrepreneurs utilise *stokvels* to mobilise savings and the social network in support of their business, direct forms of cooperation in business are rarely embraced, such as group purchasing.

In contrast to the social underpinning of *stokvels*, the national government has driven entrepreneurs to form legally constituted cooperatives to benefit from development support programmes, providing direct and indirect incentives. Yet the weight of evidence indicates that such cooperatives have a high failure rate, mainly due to people's unwillingness to share liability amongst strangers and low levels of interpersonal trust where the social network is weak. Of the 22 619 cooperatives which the Department of Trade and Industry (DTI) had helped to register, only 2 644 were still operational in 2012 – an 88% failure rate (DTI 2012). The great majority of individuals whom we interviewed said that they would be unwilling to enter a cooperative and preferred doing business alone or with close family members (spouses, siblings, children, relatives), with the business firmly under their 'entrepreneurial orientation'. The steadfast reluctance to pool financial resources was cited as one explanation for the inability of South African spaza shops to withstand the competition of immigrant entrepreneurs.

Money lending

Shortage of capital was commonly listed in our enterprise survey as one of the main constraints affecting the growth of the business. While capital availability does present a major challenge, this should not be understood as the lack of access to finance. Most entrepreneurs do not access credit from formal financial institutions, for a myriad of reasons, including a lack of formal banking history, the absence of non-tradeable or

legally protected assets, and the complexity of the finance application requirements such as those for business plans, registration certifications, and approved municipal building plans for the business premises. While township entrepreneurs are unable to secure micro-finance, institutional lenders actively promote borrowing to formal sector employees with work contracts, providing them with unsecured loans on evidence of employment. These low-skill and often low-paid formal sector employees have greater access to formal institutional micro-finance than entrepreneurs, many of whom run stable and profitable businesses. As a result of their de facto financial exclusion, entrepreneurs tend to obtain business finance through five mechanisms: i) arranging with a family member (usually) in formal employment to access an unsecured loan; ii) drawing on household or family savings, including obtaining capital through the sale of non-core assets; iii) borrowing from an informal money lender known as a '*mahodisana*' (Verhoef 2001) (from the Sotho *hoda*, meaning to pay back) or colloquially as *mashionisa*; iv) acquiring a loan from a formally registered micro-lender; and v) the use of cash windfalls, including redundancy or pension pay-outs, either to establish the business or enhance enterprise capacity.

Across the spectrum of businesses we examined, there were three distinct perspectives towards business finance: one cohort had no desire to obtain loan finance and aimed to avoid debt-dependency altogether; the second cohort desired finance, but either could not access formal institutional loans or preferred to access finance via social mechanisms, such as family, due to the comparative advantages of flexible repayment terms; the third cohort desired financial access from available sources, including informal money lenders. While collecting data on business finances, our evidence suggests that most entrepreneurs utilise family savings as investment capital. Where family savings are unobtainable, the individual may seek to access institutional finance, either via the strategy of family loans or directly through (the relatively few) micro-finance organisations targeting small, medium and micro-enterprises (SMMEs). Additionally, SMME micro-finance organisations often pursue strategies of group lending, via organisational structures such as cooperatives (formal or informal), a strategy which is unappealing to independently-minded entrepreneurs. Seldom do entrepreneurs borrow from *mashionisas* for capital investments.

Mashionisas typically offer short-term loans to fulfil unmet household consumption needs, mitigate risk events, or settle urgent debts which could pose a serious risk. We learnt that entrepreneurs who operate profitable businesses are an important source of informal lending. In some instances, money-lending is the core generator of income, the business providing the institutional framework and social relationships to establish a client base. But we also learnt that micro-lending is highly risky, and several informants spoke of their experiences of loan defaulting as the reason why they would no longer engage in micro-lending.

CASE STUDY: *Nonkuthula's money-lending business*

Nonkuthula is a *mashionisa* in Delft South. She has been lending out money since 2002, providing loans at 50% interest per month (See Figure 12.10 and Figure 12.11).

She had about 10 customers per month, most of whom she knows, though, in her words, '*some are referred to me by friends, for example when people are drinking beers they would say go to sister Nonkuthula, you gonna get the money there.*' The size of the loan varied and was based on lender's income. She restricted the loan amount for old-age pensioners to R500 but would consider larger sums (up to R2 500) if a person had a stable income or if the loan was for a social need, such as a funeral. If she has doubts about the trustworthiness of the lender, Nonkuthula will insist on holding onto their

FIGURE 12.10 A money lender or *mashionisa* in Delft South holding the bank cards of the 'runaways', clients that have not repaid their loans

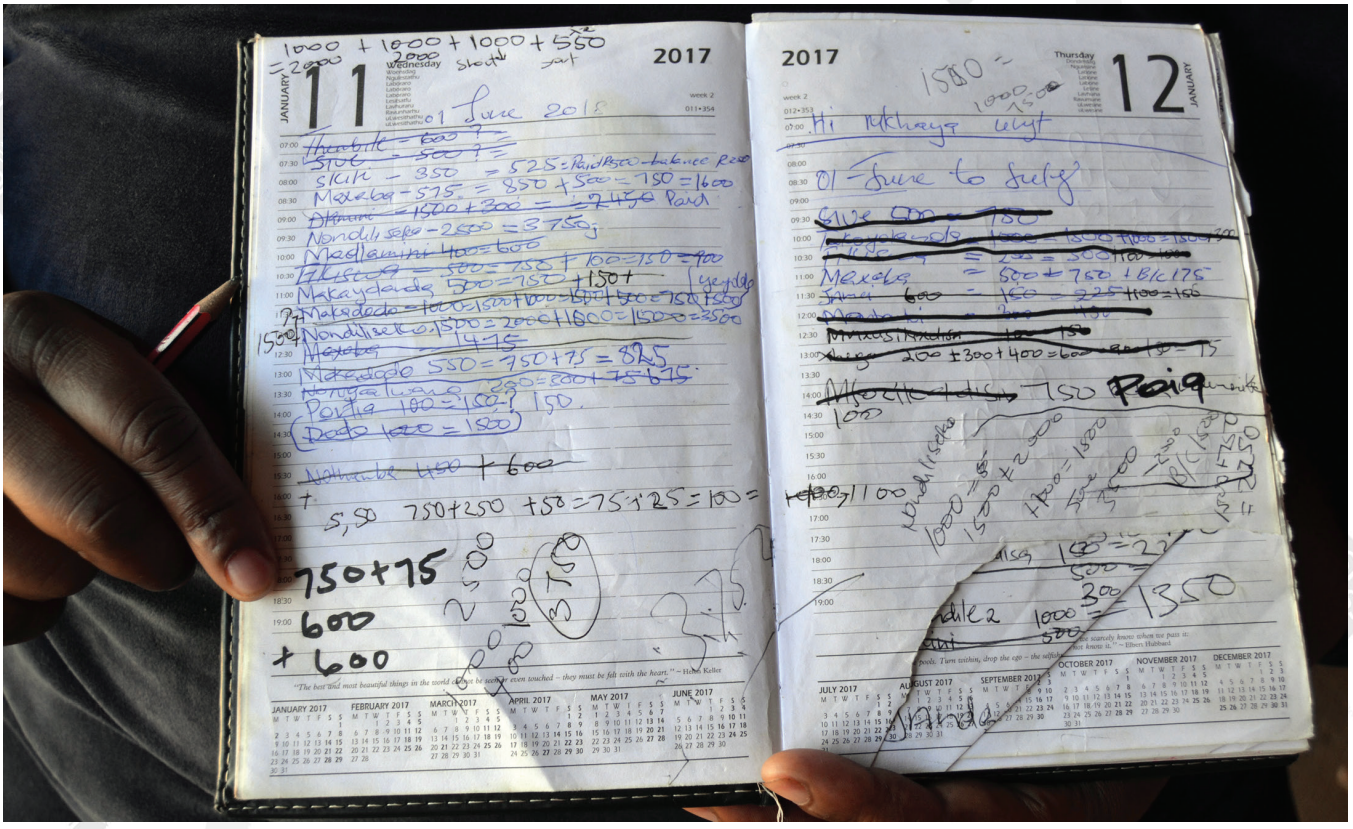

FIGURE 12.11 The *mashionisa*'s ledger

Note: Loans are issued at 50% interest per month. Borrowers are not required to sign for the loan as lending is based on an interpersonal agreement between the borrower and the *mashionisa*.

card (bank or SASSA cards) as well as the personal identification number (PIN) and official identification documents. Most borrowers repay the loans within the month, but some abscond. She complained: '*When they want money, they come to me but when it's paying back its me who goes to them to look for them. I knock on their doors and tell them I want my money…They know they don't mess with me. Some hide in their hoodies to conceal identity when they see me…Some even threaten to go to the police, and I tell them they would go there to report assault after I deal with them.*' The loan agreement was simply based on a mutual understanding between Nonkuthula and her customers. There was no documentation and Nonkuthula maintained the ledger simply '*to calculate how much money was paid out and how much was paid back. I know I gave so-and-so a certain amount. Some people come back and undervalue what they took, and I go to the book and show them.*' In spite of her fierce reputation, some loans are never repaid; Nonkuthula calls these '*the runaways'*. She refuses to lend to backyarders because they '*leave early in the morning [and] deep in the night.*'

Divestment

Township informal businesses are cautious to reinvest profits into infrastructure, branding and social capital development (or other business strategies). With some exceptions, most limit investment in business premises and infrastructure to achieve basic functionality, without (what is seen as unnecessary) expenditure to enhance the design for the sake of service excellence or aesthetic appearances. Dressing down the external projection of a township business can be a strategy to conceal business success in order to avoid the risks of theft, public criticism and jealousy. The strategy of presenting a survivalist front is akin to the practice in traditional farming societies of hiding the cattle (or 'cattle loaning') (Shackleton, Shackleton & Cousins 2001, p. 586) whereby the owners of large herds distribute cattle among family and patrons and so reduce resource demands against their wealth. In the township context, divestment strategies make it difficult to assess the true profitability of micro-enterprises. For example, street traders who operate with minimal functional infrastructure and sell items such as clothing, cooked food and fruit and vegetables can, despite appearances, be highly successful entrepreneurs with substantial cash incomes. Similarly, taverns in poor condition with broken windows amidst piles of empty liquor bottles or spaza shops that sell goods through a small window/hatch can be turning over thousands of rand per day. An important aspect of this strategy to manage and downplay entrepreneurial success is the tactic of divestment. In this strategy, entrepreneurs seek to divest resources away from a successful micro-enterprise into alternative business ventures, rather than reinvestment in the primary business by enhancing infrastructure or improving facilities. A successful township entrepreneur might own a tavern, operate a taxi, run or rent out a spaza shop and may have a number of residential property investments, particularly those providing accommodation units. Often divestments to other businesses are made in different geographical localities and business sectors, reinforcing a disconnection between entrepreneurial achievement and visual evidence.

Another strategy which micro-entrepreneurs utilise to minimise the risks associated with wealth accumulation is to spatially separate the site of business from their home residence. In some instances, the entrepreneur might elect to shift their home to a different locality, in a different township or suburban neighbourhood, again to reduce the association between their home lifestyle (and property investments) and business activities. In the course of our research, we encountered numerous examples of this strategy, especially among successful tavern operators who, in addition to seeking to present a survivalist front, had a valid reason for relocating their home life away from the business premise since trade is conducted late into the evenings, with the environment of drinking venues potentially

generating inconvenience for residential life. As part of this strategy, one such individual told how he operated an old model Toyota Cressida as his 'township' car to be used for business purposes, using his Mercedes Benz for residential use where his status as a financially successful individual would attract less of the 'wrong kind' of attention.

Outlook

Informal institutions fulfil an important role for township business, creating and simultaneously maintaining social networks, systems of rules and practices. Since these institutions are poorly understood by 'outsiders', the forays of financial services, for example, have not penetrated far into the township cash economy. In earlier chapters, we highlighted the successes (and implications for micro-enterprises) of corporate business which developed pathways into this market through supply chain expansion and the establishment of retail outlets, to list some of the core strategies. With respect to the financial services sector, corporates have sought to extend formal financial services to micro-enterprises with limited success. Inroads have been advanced in the provision of insurance products, like personal funeral plans, or cellular phone money transfer services, which have enabled informalist entrepreneurs to repatriate profits out of South Africa through a channel which avoids the stringent exchange controls on formal businesses via conventional banking services. Otherwise, the role of formal and regulated financial services in micro-enterprise operations remains shallow. Few township micro-enterprises have accessed bank finance. Where entrepreneurs have succeeded in acquiring small loans, these are usually accessed via informal lenders who do not evaluate the business but lend on the basis of social relationships and network resources. For similar reasons, few township businesses have taken out insurance policies on their business premises, vehicles, stock or assets. Yet township business persons are acutely aware of risks of doing business as a result of endogenous and exogenous 'shocks' to their intertwined investments in the household and business. Shocks include crime and violence, police raids and other forms of regulatory action by the state to halt business activities, business competition, and demands on the household arising from events such as unemployment, death and socio-cultural pressures. To offset risks, individuals commonly set aside cash savings with the money either held in the bank or stashed at home. When a business activity is deemed to cause damage or physical harm, either directly or indirectly, the owner is required to recompense the third party on the spot, paid out in cash. Louise, a shebeen owner featured in Chapter 9, was required to pay a sum of R20 000 to the family of a customer who had died in her venue, even though she had had no role in the killing. As in cases such as this, micro-enterprises require unhindered access to informal insurance finance for which savings rather than loans is the primary strategy.

In this chapter, we have focused on some of the main strategies through which entrepreneurs seek to mitigate risks. These strategies provide two lessons. First, township entrepreneurs recognise the need to embrace both short-term and long-term strategies. The argument in business literature that informal entrepreneurs are guided by short-term priorities, which then shape the nature of the business and investments, overlooks the various unseen investments in long-term needs which include taking 'care' of the past (see Kelliher & Reinl 2009). This leads to our second lesson. Business in the township economy is undertaken within a framework of informal institutions of social norms, values and practices. One such framework includes the simple 'rules' within the market to safeguard rights and maintain 'fair' competition. These are informal, and constitute what Hiebert et al. (2015) describe as based less on 'dos and don'ts' but on a 'multitude of incentives and disincentives, and measures of a more persuasive nature' (p. 10).

Such 'persuasive' measures can include violence (as we learn from the *mashionisa*), intimidation and witchcraft. In some instances, organised bodies such as taxi associations and civic associations as well as local street committees and neighbourhood gangs, can be mobilised to intervene in enforcing contractual business agreements, through violence or intimidation. On the 'incentive' side of the spectrum, an important form of institutional order derives from mutual reliance and hence reciprocal exchange. These social institutions are important in enabling entrepreneurs to call for 'favours', whether these relate to acquiring a place to store stock, keeping an 'eye' on the business, or providing assistance in running a business while the entrepreneur is absent. Informal institutions fulfil an important role in solidifying group actions. In this respect, *stokvels* enable individuals to voluntarily associate for the purposes of saving, managing risks and providing mutual support. A key element in their institutional effectiveness is the exclusivity of membership, constituted as a small network with valuable resources, in contrast to formal cooperative institutions which are constitutionally more inclusive but weak in resources once external incentives have been depleted. *Stokvels* illustrate that collaboration is undertaken as a strategy rather than objective.

We have argued that informal institutions enable economic investment and business growth. Our research brings into question the base assumptions in conventional business studies which hold that markets are inefficient and cannot improve social welfare in the absence of formal institutions. We are doubtful, for this reason, about the role of technology in the form of cell-phone 'apps' to change the way micro-enterprises conduct business in respect to supply chains, introduce digital banking and modernise business practices. The strategies utilised and institutions engaged by township entrepreneurs are not simply informal alternatives but provide a qualitatively different and indeed sometimes superior set of economic arrangements for undertaking business and reducing risks. While noting their benefits, we recognise that economic power is unevenly distributed and informal institutions can, through their mobilisation, particularly in terms of power responses, serve to reinforce inequality, while undermining social and cultural practices which might otherwise enable opportunities and distribute surplus for wider benefit. Although many businesses project a survivalist front, this does not mean that the businesses are survivalist or that market opportunities are equally accessible.


WE APOLOGISE FOR
ANY INCONVENIENCE
CAUSED DURING
ILDING OPERATIONS