

EMPLOYING ILLEGAL MIGRANTS: THE IMPACT ON SME'S

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Abstract

Growth is essential for any business to ensure survival and long term profitability. For the purposes of this study long term SME success is argued from a positive growth perspective. Crijns identified four key success factors of business growth namely resources, external factors, organisational factors and entrepreneurial orientation. This paper investigates the possible impact of employing illegal migrants on these four success factors. A literature study was conducted to substantiate the proposition that the employment of illegal migrants has a negative impact on SME growth and thus subsequent success. The resultant difference between employing legal and illegal migrants will also be addressed.

INTRODUCTION

The environment in which businesses operate today is dynamic and competitive. In order to gain or keep a competitive advantage, businesses have to be adaptable, flexible, aggressive and innovative. In essence it implies that the small-and-medium enterprise (SME) owner must recognise threats to the business, embrace opportunities, identify weaknesses and capitalise on strengths. Indeed it can be threats that create weaknesses and must therefore be identified in the early stages of the business in order to prevent business failure or premature decline. Fostering weaknesses can be more detrimental to business growth than strong market competitors. However, managing the competitive advantage cannot be underestimated. Resources are scarce and the market place demands more choice, quality and efficiency. The fast pace of changes in the external environment also contribute to continually more industry entrants and businesses are faced with increasing pressure to produce better service, new products and effective strategies and systems. It is thus essential that the business understands change; and change leads to growth.

Nieman and Pretorius (2004:23) argue that growth is essential for entrepreneurial (and SME) success. The questions that must be asked are: What makes a business grow? What is it that makes an organisation effective and successful in the long term?

According to Grobler (2002:1) the most important contributing factor leading to growth and prosperity is awarded to the people of the organisation, the human resources. Specialists in the field of production management would contend that effective production management is

the secret of long term success, others relate business success to financial stability and decision making, while marketing experts believes marketing is the key to success. It would thus seem that, if any one of these functions is ineffective it impacts on future growth and success. From a general management perspective it is, however necessary to determine specific key success factors of business growth. If such factors are in place, threats to potential growth and internal weaknesses can be identified and overcome and a planned strategy can be pursued in order to ensure growth.

Another aspect of this paper deals with the issue of illegal migrants in South Africa. The impact of illegal migrants on both the economy of a country and business success is argued as positive by some authors as it is viewed as a contributing factor to entrepreneurship and the creation of job opportunities (Reitz, 1995). Other authors and experts on the topic hail this as detrimental to not only the development of the country but contributing to poverty and unemployment of its citizens (Ellis, 2001).

The objective of this paper is to investigate success factors for growth of a SME and to evaluate if the employment of illegal migrants will negatively impact on such factors, and consequently inhibit or cause growth of a SME.

PURPOSE OF THIS STUDY

For purposes of this paper long-term business success of a SME will be evaluated from a positive growth perspective. Crijn (cited in Nieman and Pretorius 2004:6) identifies four key success factors that can indicate the existence of growth potential namely resources, external factors, organizational factors and entrepreneurial orientation.

For the purposes of this paper the following primary question is asked:

- In what way does the employment of illegal migrants' impact on business growth and long term success of a SME?

In order to answer the above question, the following secondary questions must be answered:

- Does the employment of illegal migrants impact on resources of a SME?
- Does the employment of illegal migrants impact on external factors of the SME?
- Does the employment of illegal migrants impact on organizational factors of the SME?
- Does the employment of illegal migrants impact on entrepreneurial orientation of the SME?

LITERATURE STUDY

International labour migration within the Southern African region is nothing new. Labour migrates in order to find work and earn an income to support families in poorer countries with

less physical resources and infrastructure. Census data show that South Africa's foreign-born population was always significant and increased as the twentieth century progressed. However, reliable statistics of the number of migrants in South Africa are unavailable, as the concepts of migrants include both legal and illegal migrants. Legal migrants are traditionally associated with "contract migration" and are often found in formal industries like mining. It is thus much easier to compile data on such legal migrant workers (Crush, 2002:1). It must be noted that many studies have been done on the impact of migrant entrepreneurs. Meintjies (1998:20) states that many migrant entrepreneurs (legal and illegal) pay tax, and provides a positive injection into local economic development initiatives. This trend of investigating migrant entrepreneurship is echoed by various studies such as that of Crush (2002), Hunter and Skinner (2001, 2003), Reitzes (1994, 1997, 1998) and others.

An aspect to consider is that the aim of previous studies (as mentioned above) is mainly to investigate the impact of entrepreneurship activities on the economy of host countries. The focus of this paper is however on the employment of illegal migrants, referring to foreign people in South Africa that lacks proper documentation and finds employment with specific employers. Making any assessment of the impact of illegal migrants on South Africa requires that some kind of estimate of the numbers of illegal migrants in the country must be made. In this regard, however, researchers have to contend with the illegal nature of this form of migration, which creates a problem that provides an inadequate basis for its quantification. Reitzes (1997:7) notes that, "...given that foreigners whose presence here is either illegal or undocumented devote much time to evading the authorities, any attempt to count them is speculative...". As a result, any figures mentioned by researchers should be seen as tentative rather than definitive.

However, certain educated guesses can be made about the accuracy of numbers of foreigners residing illegally in South Africa. Solomon (2000:2) gives a rough estimate based on figures for those who entered the country legally, but who overstayed the validity of their visas (at the time of his article being published, 900 000), those who have been forcibly repatriated (170 000-190 000 per annum), as well as information provided by the Alien Investigation Units of the South African Police Service (SAPS) and the various field offices of the Department of Home Affairs. In addition, Solomon refers to the Human Sciences Research Council (HSRC) who did surveys on this topic in the late 1990's. His estimates were that at the time of his publication there were between 2,5 and 4,1 million illegal migrants in South Africa (Solomon, 2000:5). This is substantiated by *The Economist* (Anonymous 2000:2), who estimated the number of undocumented migrants in South Africa to range from 2 million to 8 million. No current studies could be found to determine statistics, but given the social and economic problems and macro-economic policies of neighbouring countries it can be concluded that such numbers has vastly increased since previous studies has been done. The most recent study investigated was done by Bernstein and Johnston (May 2006), who contend that there are fewer illegal migrants than is generally accepted and indicate an amount of 500 000. However, it must be noted that their study had a sample size of less than 300, and their research was conducted in one town in the Mpumalanga province.

One of the first challenges with regard to illegal migration is how South Africans should deal with the growing phenomenon of xenophobia. Landau (2005:4) describes xenophobia as “literally, an irrational fear of outsiders...which manifests itself in various forms”. There is growing evidence that the South African population as a whole is becoming more xenophobic in their attitudes towards migrants generally and in particular, illegal migrants (Solomon, 2000:5). It is the view of Bernstein et al (2006) that though South Africans hold strong negative views on foreigners, they do not act negatively on those views.

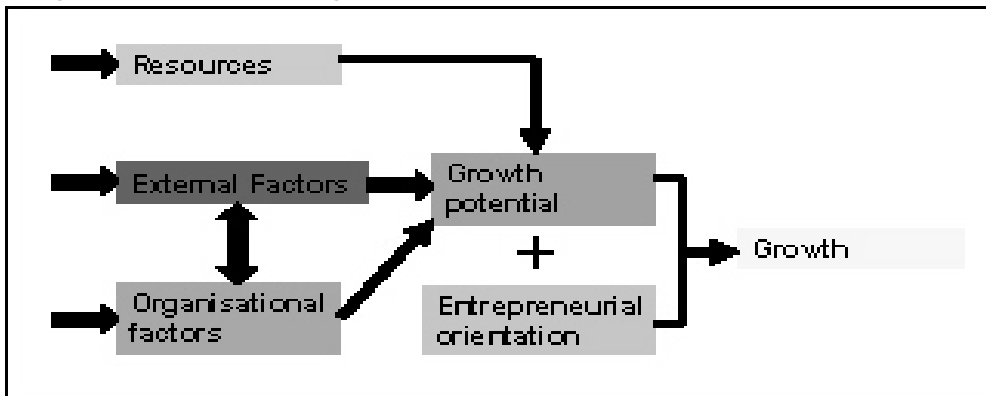
An interesting observation is made by Solomon (2000:6) who mentions that Xenophobia is viewed world-wide as a sentiment generally confined to individuals at the lower end of the socio-economic and the educational spectrum. He proposes various reasons to account for this phenomenon. It is argued that individuals at the lower end of the spectrum have less of a worldview due to the fact that international travel opportunities and access to literature on foreign places and cultures are limited. Solomon (2000:8) also refers to other authors who have argued that anti-illegal immigrant sentiments among this section of the population can be accounted for on economic grounds. This is particularly relevant for purposes of this study, as the effect of illegal migrants on businesses with mainly unskilled workers are discussed.

Nieman and Pretorius (2004:7) propose a model for business growth as identified by Crijns. In terms of this model four groups of success factors for growth are identified, namely resources, external factors, organisational factors and entrepreneurial orientation.

The availability of these success factors contributes to the growth potential of a SME.

Figure 1

An integrated model for business growth



Source: Crijns (in Nieman Et Pretorius, 2004: 7)

RESEARCH OBJECTIVES

The objective of this paper is to investigate success factors for growth of a SME and to evaluate if the employment of illegal migrants will negatively impact on such factors, and consequently inhibit or cause growth. It is proposed that employing illegal migrants in a business will have a negative effect on the long term growth and subsequent success of a business.

METHODOLOGY

In this study, existing data is analysed by means of a literature study. It is an exploratory study, and very few earlier studies have been conducted on this topic, specifically from a South African perspective. The numbers of illegal migrants living and working in South Africa, as well as working in the SME sectors cannot successfully be determined and this was experienced as a major limitation to the study. Reasons for this are addressed in the findings and discussion of the research question. Another limitation is that employers are also reluctant to participate in a study investigating employment practices regarding illegal migrants, as this can lead to criminal liability.

It is thus imperative that this paper be seen as an introductory paper that will lead to further research.

FINDINGS

Solomon (2000:13) reports on a study conducted by the National Labour and Economic Development Institute (NALEDI) that shows that illegal migrants are generally active in the following sectors of the South African economy: agriculture; hospitality (hotels and restaurants); construction; domestic; and informal trading. In many of these sectors employment can be found by bypassing formal documentation requirements. The factors as identified by Crijns will now be evaluated against the possible impact of employing illegal migrants, and conclusions will be drawn.

Resources

Gathering resources in order to pursue an opportunity in the market is one of the essential elements of entrepreneurship. Resources can include capital (money), physical resources, knowledge and skills, information and human resources. Employing illegal migrants will thus naturally impact on this aspect of growth.

The term human resources management (HRM) refers to the management of people active in an organisation (Crafford, Moerdyk, Nel, O'Neill and Schlechter, 2006: 144). This function can be distinguished from other functions by the fact that it is concerned about the employees of the business. Of all the managerial decisions that can possibly have an effect on entrepreneurship and achieving strategic direction, HRM is one of the more essential decision making areas (Morris & Jones, 1993: 874; Morris & Kuratko 2002:238). HRM practices in a business also articulate the true culture in the organisation (Schuler, 1986:617). Each human resource practise is put in place in order to ensure and reinforce certain behaviours and characteristics.

Solomon (2000:15-18) reports on various studies conducted by trade unions in South Africa. According to these studies, organisers of the Food and Allied Workers Union (FAWU) have noted the presence of large numbers of illegal workers on farms in the Limpopo Province,

Mpumalanga and northern KwaZulu-Natal. Officials of the South African Commercial Catering and Allied Workers Union (SACCAWU) reported an increased presence of illegal migrants in the hospitality sector. SACCAWU organisers commented on the fact that illegal migrants are prepared to work for extremely low wages in the agricultural sector and that due to their vulnerability as a result of their illegal status, illegal migrants are wary of embarking on industrial action. SACCAWU argues that this not only undermines their ability to fight for better wages and conditions, but also serves to depress wage levels of South African workers and results in a decrease in employment opportunities for South Africans.

Other trade union concerns reported by Solomon (2000:17-18) regards both the Construction and Allied Workers Union (CAWU) and the Construction Industrial Council, who confirmed the presence of large numbers of undocumented migrants in the construction industry and stated that the majority of these are employed by subcontractors. They remarked that subcontracting accounts for eighty per cent of employment in housing construction, and that it is thought that foreign workers occupies a large portion of this labour market. CAWU organisers pointed out that subcontractors are difficult to organise and that the presence of vulnerable illegal migrants contribute to incidences where these employers pay low wages. A similar situation exists in the domestic sector. The South African Domestic Workers Union (SADWU), according to Solomon (2000:18), reported an increase in the number of illegal migrants. SADWU organisers also report that, since illegal migrants are prepared to work for very low wages and are resistant to unionisation, employers prefer them to South Africans.

The question that must be answered is what the effect of the above will be on HRM. Organisational performance goes hand in hand with recruitment, selection and training of employees. In order to motivate, guide and reinforce the desired behaviours within an organisation, performance appraisal, compensation as well as discipline programs are essential (Morris & Jones, 1993: 876; Schuler, 1986: 618). It has been noted that the HRM practice gives a reflection of the business's culture that should be built around commitment, autonomy, empowerment, earned respect and strong work ethic (Morris & Jones, 1993: 878; Morris & Kuratko, 2002:239). Scarpello and Ledvinka (1987:11) concur on the above areas of HRM that will now be discussed.

Planning

This relates to designing staff policies and programs. Human resource planning and forecasting brings the objectives of the business in line with the human resource strategy (Crafford et al, 2006:147). Planning an employment strategy will fall within this task group; this also determines the organisational culture and decisions made will indirectly impact on worker morale (Scarpello and Ledvinka, 1987:11).

From the above it is clear that trade unions as representatives of employees are concerned about the high levels of illegal migrants employed in their industries. It can therefore be concluded that accepting a strategy of employing illegal foreigners, can negatively impact on the attitudes and productivity of other legal workers.

An employer may also argue that less time have to be spent on administrative tasks like career planning, if illegal migrants are employed. This may seem unnecessary as illegal migrants cannot guarantee commitment and long term employment. Career management implies being interested in each workers future and affording each the chance of promotion. This can be seriously compromised if illegal workers are employed, making promotion unnecessary from an employers perspective.

Staffing

Positions must be filled with suitable employees. Recruitment and selection can be tainted when employing illegal migrants. It is important to remember that illegal migrants are mainly employed in unskilled jobs and the quality of work can easily become a secondary priority when confronted with the cost effectiveness of employing illegal workers.

Edwards (2004:6) found in a primary study conducted in the United Kingdom that it appears that no employer purposefully recruits illegal migrants, but once it is discovered the employer retains the employee. The Basic Conditions of Employment Act of 1997 forces South African employers to keep a file on each worker with a copy of his/her identification documentation. It will thus be difficult for the employer to claim ignorance in this regard.

Compensation

Equitable systems of remuneration must be designed. It can be argued that the employment of illegal migrants will have a positive effect on the labour cost structure of the business. Such workers can be employed for a minimum wage, while no benefits need to be given. No levies required by legislation needs to be paid. However, should the employer be caught out for not registering with legal entities like the Unemployment Fund, the relevant SETA or the Compensations Commissioner, such employer can be found criminally liable and be fined or even imprisoned for a certain amount of time.

Employee development

It is necessary to provide a planned learning experience to improve or maintain job-related knowledge, skills and attitude. If an employer knows that his employees cannot be retained it would be futile to invest in such workers' future by way of training and development programs. The employer will not be able to register his workers for training with the relevant SETA's, which means that the workers will be excluded from any developmental opportunities, which again impacts on the morale and attitude of workers and also the standard and quality of work.

Labour relations

This refers to the relationship between employees and unions. From the above it is clear that some of the issues related to the problems of employing illegal migrants are that such employees can be hired at low wages, work long hours and are resistant to unionisation. This is

perceived as a threat to the job security of unskilled or low-skilled citizens (Toola & Bethlehem 1994:3; Adepoju 2003:12). Many locals fear that migrants will “crowd their towns, steal their jobs and corrupt their culture” (Anonymous 2000:3, Ellis 2001:3). For employers the benefits are not necessarily only cost related, but it can be argued that, since they have often traveled huge distances in search of work, such migrants are probably productive workers. They are less likely to be unionised than locals (see previous discussion), and according to Ellis (2001:11) are less likely to feel the resentment towards white bosses that apartheid fostered among black South Africans. Ellis (2001:11) explains the root of xenophobia by stating that the large flood of illegal migrants to South Africa increases the competition for the few new jobs that are available. It is thus clear that although illegal migrants are perceived as a threat by employees, it can be perceived by employers as an opportunity to pay less, have productive workers and not fear interruptions caused by eager unionists.

From a labour relations perspective, it is apparent that illegal migrants have the potential to cause possible disaster in the employment environment. It is because of this very reason that government should take responsibility to counteract this from being a problem. The Department of Home Affairs has policies and legislation in place to prevent illegal migrants from being employed, but it is not very effective. This is perhaps best encapsulated by the ANC's former Deputy Minister of Home Affairs, Mr Penuell Maduna, who was quoted as saying: “History has shown us time and time again that hunger and fear are driving forces which are much stronger than even the most sophisticated alien control measures. South Africa has become the country of survival for many.” (Reitzes, 1995:15).

Performance management and control

This aspect of HRM is mainly regulated by the Labour Relations Act of 1995. This Act makes provision for both substantive and procedural fairness standards for dismissals (on grounds of misconduct, poor work performance or operational requirements) in the workplace. Employing illegal migrants means fewer fears for the employer of employees approaching the Commission for Conciliation, Mediation and Arbitration (CCMA). Fair and equitable dispute resolution can therefore be compromised by employing illegal migrants. As these workers are not legal they cannot be held accountable to disciplinary codes and procedures. Different rules will thus exist for legal workers and illegal workers, contributing to hostility between these two groups of employees, and to a more negative morale and consequent lower productivity.

As a last thought it is necessary to emphasise the importance of a trust relationship between the employer and the employee. Employing illegal workers can easily create an atmosphere of mistrust between the employer and the legal workers while festering hostility between workers internally.

External factors

Any business must ensure that it knows and utilizes its strengths and opportunities while combating and preventing threats from realizing and weaknesses from prospering. The question

that must be asked is whether employing illegal migrants creates a threat from the external environment or if it provides new opportunities. One aspect of the external environment that can be addressed is national legislation.

Labour legislation stops illegal migrants from taking jobs by regulations enshrouded in Acts like the Unemployment Insurance Act (UIA) and the Skills Development Act (SDA). The UIF makes it impossible to register illegal migrants, as identity numbers can easily be verified, while the SDA regulates skills levies that cannot be claimed for illegal workers.

The Immigration Act of 2000 regulates the prohibition to employ illegal migrants. Section 49 (3) determines that the owner of a business employing illegal migrants will be criminally liable for contravening an Act of the Republic of South Africa, and can be sentenced for the time determined in section 49. Being caught out for contravening these Acts can therefore lead to unplanned costs or time in jail, leaving the business without management and direction.

Other aspects that may impact from the external environment are that of culture. Employing workers from different cultures can lead to internal conflict between employees and affect synergy of teams.

Organisational factors

The entrepreneur or small business owner needs to manage the micro environment through structure, systems and strategy (Nieman et al, 2004:16). This implies good planning, organising and control. Employing illegal migrants will not necessarily impact on the micro environment of the business but it is a factor to take into account when entering into contracts with the state, or on monitored work sites like developments where identification documents of all workers are required from sub contractors.

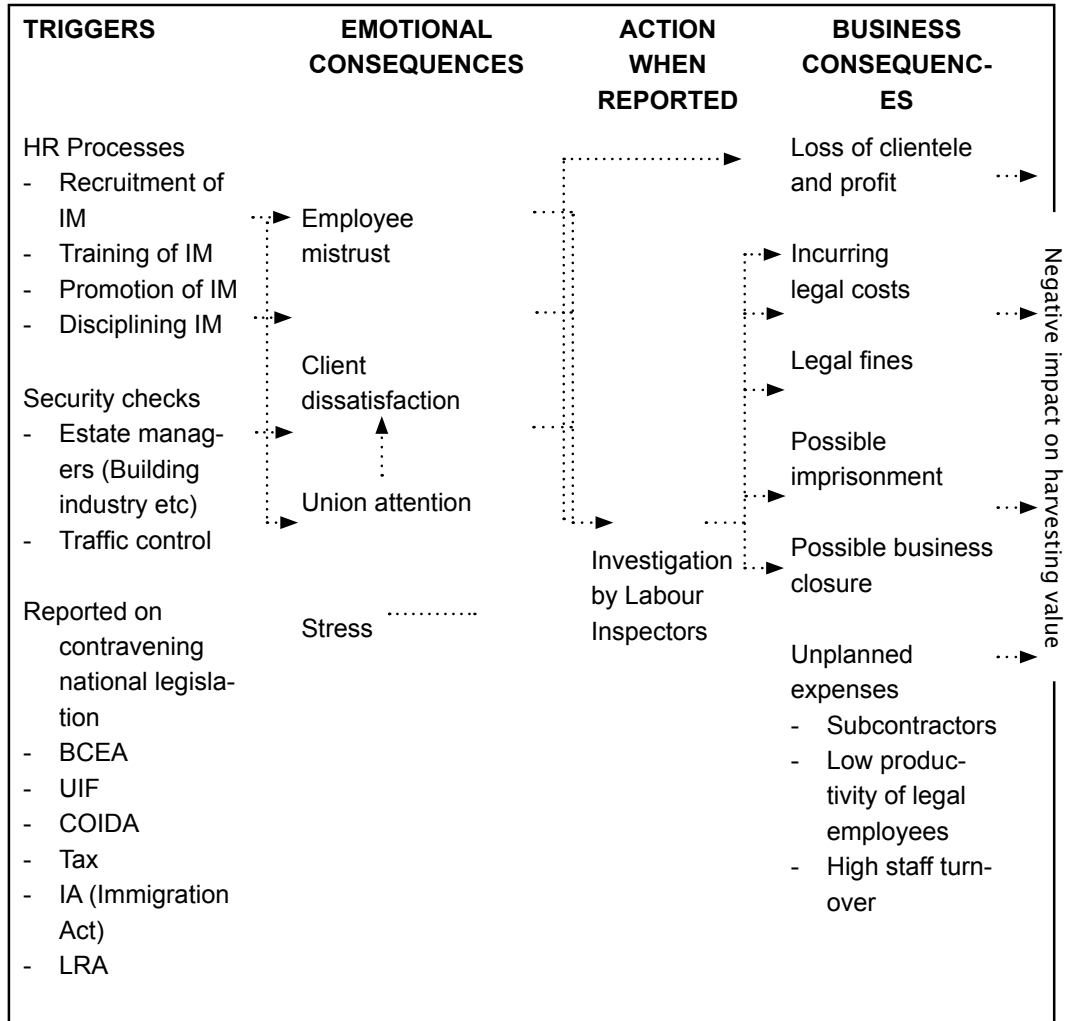
Entrepreneurial orientation

Nieman et al (2004:17) states that “the lack of an entrepreneurial mindset or wish to grow may be the biggest barrier to growth”. Entrepreneurial orientation means that the business owner must follow an added value approach in everything he does. The intention of the small business owner must therefore be to grow the business and in order to ensure this, that all aspects of the business are geared towards this goal. Edwards (2004:9) found in a primary study regarding illegal migrants, that one factor contributing to the closing down of businesses, regards the strict legal regulation in this regard. The existence of entrepreneurial orientation means the avoidance of anything that might be detrimental to the existence or success of a business.

The possible business consequences of employing illegal migrants can be illustrated by figure 2.

Fig 2

Direct consequences to the employer if employing illegal migrants



Illegal migrants (IM)

CONCLUSION

Employing illegal migrants does seem to provide definite advantages and disadvantages to the SME business. From a cost perspective it is clear that employing illegal migrants can contribute to profitability in the short term. However, it can be accepted from the above that employing illegal migrants impacts negatively on at least two of the four key success factors as determined by Crijns, for business growth. This implies that employing illegal migrants will prohibit the growth of a SME venture and therefore it can be argued that long term success of such business will be compromised.

MANAGERIAL IMPLICATIONS AND RECOMMENDATIONS

- The employment of illegal migrants must be avoided by management;
- Identification documentation must be copied and kept on file by every SME owner;
- Primary research needs to be undertaken in the SME sector to determine the exact number of illegal migrants active as employees, and attitudes of employers in this regard;
- Empirical studies must be done to determine the effect on the morale of employees where an employer employs illegal migrants; and
- More exposure should be given to the problem and effects of illegal migrants in the South Africa workplace.

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