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Causes of the low incorporation of small retailers by shopping mall owners
how market and institutional framework conditions affects the accessibility of small retailers in South African township and dutch shopping malls

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Causes of the low incorporation of small retailers by shopping mall owners:

How market and institutional framework conditions affect the accessibility of small retailers in South African township and Dutch shopping malls

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Eindhoven University of Technology & University of Cape Town
Causes of the low incorporation of small retailers by shopping mall owners:

How market and institutional framework conditions affect the accessibility of small retailers in South African township and Dutch shopping malls

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Preface

It was some 5 years ago that I discovered the beauty of Africa and South Africa in particular. On a three week trip that took me from Johannesburg via Kruger National park to Mozambique, and from Mozambique via Swaziland to Durban, I did not only discover the beauty of South Africa but also the segmentation in living environments: while some people live in high-end 'western' living areas, others live in densely populated areas with no facilities such as water and electricity. These contradictions but also the beauty of the country and its people have caused a strong fascination for South Africa. When professor Francois Viruly, who I met during my time as editor in chief of SilverVicE magazine, suggested to do research in South Africa, the opportunity emerged to combine my fascination for South Africa with my interest for the built environment.

One of the problems in the built environment in South Africa is the poor accessibility of small local retailers in newly developed shopping malls in townships, which are mainly dominated by retail chains. This is a phenomenon which I recognised from the Netherlands, where retail chains increase their market share in shopping malls at the expense of small retailers. The poor accessibility of small retailers in shopping malls and the role of shopping mall owners in this regard is the central theme of this research. By comparing the South African township and Dutch case, this research shows how the accessibility of small retailers in shopping malls gets affected by market and institutional framework conditions.

In order to investigate the South Africa township case, I did research for a period of 5 months at the University of Cape Town, South Africa. I am very thankful for the great support I received during my period of stay, especially from Rob McGaffin and Kathleen Evans, the latter even took me on a trip to Johannesburg to interview township shopping mall owners there. Furthermore, I would like to thank Francois Viruly, for his support and advice regarding my research, but also for his determination to make this research possible. From Eindhoven University of Technology I would like to thank Jos Smeets, who supported my research from start to finish, and Ingrid Janssen. Their knowledge has greatly helped me during this journey. I would also like to thank all the parties that I have interviewed for this research.

Besides all the professional support I have received during the development of this thesis, I had the pleasure to experience great mental support from friends and family. In particular I want to thank my parents and my girlfriend, Saffira, for their love and care.

I am very proud that after one year of work I can present to you this thesis. I believe that it reflects my personality quite well: it is adventurous, explorative, and it shows my broad interest by including a variety of social and economic aspects. I hope you enjoy reading it as much as I did writing it.

Jan Martijn Buruma
Eindhoven, the 18th of February 2012
Summary

Introduction
In a mature market, such as the Netherlands, as well as in emerging markets such as the South African townships, the share of retail chains in shopping malls is increasing, while the share of small retailers in these malls is decreasing. However, the different contexts imply different market and institutional framework conditions under which this trend is emerging and developing. In addition, the different contexts imply different definitions of small retailers. In the Netherlands, a small retailer is defined as a retailer with 10 or less employees. In contrast, although some formal retailers exist in South African townships, most retail activities are often informal in the townships, which means they are unregistered and, consequently, do not pay taxes. The similarity between small retailers in both contexts is that they are focussed on and operate within local communities, rather than operating on regional, national or global scales. Therefore, the decreasing share of small retailers could possibly negatively affect the development of local economies and the welfare of local communities. Hence, various studies have been or are being done from which initiatives and measurements are being developed in order to stimulate small businesses. These studies, initiatives and measurements mainly focus on business skills of small retailers on the one hand, or/and government policy on the other hand. However, little is known about the role that shopping mall owners play in this trend. Some critics believe that, although they seem to be in the best position to stimulate small retailers by incorporating them in their mall, they lack willingness. But, according to a Dutch shopping mall owner, Dutch shopping mall owners are willing to, but due to the institutional framework, lack the possibilities to incorporate more small retailers in their malls. Apparently, the relationship between shopping mall owners and small retailers is affected by market and institutional framework conditions in such a way that shopping mall owners lack the willingness or/and the possibilities to incorporate more small retailers in the mall. By analysing the relationship between shopping mall owners and small retailers/retail chains through a literature review, and the impact of market and institutional framework conditions on this relationship through desk research and interviewing three South African township and three Dutch shopping mall owners, this research identifies the causes of the decreasing share of small retailers in Dutch and South African township shopping malls. Furthermore, by comparing the market and institutional frameworks conditions that affect the willingness and possibilities of South African township and Dutch shopping mall owners to incorporate more small retailers, general determinants of small retailers’ accessibility in shopping mall can be distinguished.

The relationship between shopping mall owners and retailers
The value of shopping malls is determined by the lease contracts: the higher the rentals and the longer the lease terms, the higher the investment value. The rent a retailer can afford depends on his product margins and turnover at his store. In general, when the margins of his products increase, a retailer needs less space to sell his products and can afford to pay more rent per square meter. This explains why lease prices in shopping malls are differentiated by store size: small shops pay higher rents per square meter compared to large stores. Therefore, small shops are indispensable to shopping mall owners, because they compensate the low rents that large stores pay. However, this does not explain the preference of shopping mall owners for retail chains or small retailers, because a retail chain can also operate from small shops. Retail chains and small retailers differ in the way they attract customers.

The success of retail chains in attracting customers largely depends on three factors. First, retail chains can generally offer goods to lower prices compared to small retailers. By investing in retail-firm technology, they increase efficiency and consequently, reduce marginal selling costs. In addition, retail chains can exercise stronger buyer bargaining power on suppliers compared to small retailers, which enables them to negotiate lower buying prices. Consequently, retail chains tend to operate in markets with low value, high volume. The second reason behind the success of retail chains is their recognition. Retail chains have the ability to spread their concept across different markets. When standardizing this concept by selling the same products with the same service through the same marketing strategies, consumers get familiar with and recognize the chain store. Because consumer mobility has increased significantly past decades, retail chains’ ability to create recognition has increased consumer preferences towards retail chains. The third success factor of retail chains is branding. Due to the increase in consumer welfare and the high supply in some retail sections like daily-food, consumer motivations have shifted from utilitarian to hedonic aspects. Branding is a tool that responds to this trend by making consumers aware of distinctive hedonic attributes of a company or product, and can result in increased consumer loyalty. Through their size and budgets, retail chains have the ability to develop stronger brands than small retailers. Consequently, retail chains benefit relatively more from increasing consumer brand sensitivity than small retailers. Through offering goods at lower prices, creating customer recognition, and developing brands, retail chains have increased their market share, making them indispensable to shopping mall owners. Therefore, retail chains that lease large spaces in shopping malls such as supermarkets are also referred to as anchor tenants: they create positive externalities for other tenants by creating high customer-flow densities. In addition, retail chains have lower chances of closing than small retailers in part because of their broader retailing
experience, better trained management, greater financial resources and lower operating costs. Furthermore, shopping mall owners could prefer retail chains over small retailers because small retailers tend to reduce quality and advertising. Because of their indispensability, retail chains, and especially anchor tenants, are in the position to negotiate lower rents. As a result, small retailers have to pay even higher rents to compensate for these low rents.

However, small retailers also play an important role in attracting customers: they provide consumer choice and value. The presence of various smaller retailers as opposed to a few retail chains improves consumers’ perception of choice, when these small retailers are of adequate quality. In addition, small retailers increase consumer value through adapting to local consumers’ needs, offering special services, offering specific formats and aiming on specific target groups. Therefore, small retailers tend to operate in niche markets: markets that are characterised by high value low volume and that are unattractive to retail chains because efficiency plays a less important role or target groups are too small.

Besides by increasing customer traffic through increasing consumer choice and value, small retailers could also indirectly add value to shopping malls. When having an innovative character, small retailers are entrepreneurs who contribute to economic growth by increasing competition through offering competitive alternatives. However, innovation-driven retailers are often opportunity-based: they choose to be entrepreneurs. In contrast, necessity-based retailers have set-up a business to escape from poverty, and therefore show low levels of innovation. In emerging markets such as South African townships, small retailers are mainly necessity-based, while in mature markets such as the Netherlands small retailers are often opportunity-based. Not only do small retailers contribute to economic growth by offering competitive alternatives, they also tend to increase local economic activities more than retail chains: small retailers reinvest most of their profits in the local community, while most of the consumer expenditures at retail chains leak outside the area. This effect is stronger when the difference in welfare between areas is bigger. Furthermore, by increasing competition, small retailers can prevent retail chains from becoming too dominant. This dominance could eventually lead to higher consumer prices, fewer employment opportunities and lower wages. Small retailers also play an important social role in local communities: developing and owning a retail business can lead to personal satisfaction by meeting various personal goals and values. In addition, small retailers create social cohesion by through fostering interaction by promoting local events and using local heritage, developing familiarity and building relationships with the local community, and creating emotional connections in a friendly environment. Thus, by incorporating small businesses, shopping mall owners can stimulate and increase social welfare, and hence, show corporate social responsibility (CSR).

**The South African township case**

All three South African township shopping mall owners interviewed state that they include only 15% small local retailers, and currently, they seem to lack willingness to increase this share. Several reasons for this lack of willingness can be distinguished. First, because of the low income of township residents, the township shopping mall business model differs from that of mature market shopping malls in that it is based upon low value, high volume. Retail chains fit into this business model better than small retailers do, as their efficiency and bargaining power enables them to sell goods with low margins and high volumes. In addition, township residents are keen on retail chains because they are very brand sensitive: for township residents product brands offer a relatively cheap way to show status. In addition, township residents are proud of retail brands, because they consider them as a sign of economic development within their area. Furthermore, because most small local retailers are informal necessity-based businesses, they often lack the willingness and/or the skills to successfully formalise their businesses so that it is compatible for the formal shopping mall business model. The fact that they are often necessity-based also suggests low levels of innovation and little additions to consumer value. Overall, due the consumer preference for retail chains and the lack of opportunity-based retailers, shopping mall owners feel that incorporating small retailers increases the risk of their investment by destabilizing their cash-flow. Furthermore, competition levels amongst shopping malls in townships are low: often one shopping mall is the only or one of a few formal retail developments in the area. Therefore, they lack the need to distinguish their malls from competitors.

The fact that, despite their preferences for retail chains, township shopping mall owners do incorporate small retailers in their malls is mainly caused by their urge to show CSR. In fact, township shopping mall owners show more CSR compared to Dutch shopping mall owners. By incorporating small retailers in their malls, shopping mall owners stimulate the money circulation within the township area, increase social cohesion within the area, and create opportunities for personal development. However, the goal of showing CSR is not based upon moral grounds, but rather on economic: by showing CSR, shopping mall owners want to create support from the local community and increase customer loyalty, and consequently, increase consumer expenditures at their mall. However, incorporating small retailers is just one of the many ways shopping mall owners try to show CSR: employing locals, stimulating
local education, investing in basic requirements and organising entertainment activities are other aspects of shopping mall owners’ CSR policy. The way township shopping mall owners incorporate small retailers varies from case to case. Basically, they have to options. The first is to accommodate informal retailers in kiosks or market stalls. The accommodation is often perceived as successful by shopping mall owners if these informal retailers trade well and do not hinder the formal retail process. The second option is to formalise informal retailers. The goal is to successfully formalise informal retailers so that they can rent space in the ‘main’ mall. This process is management intensive because, as stated above, most informal retailers lack the skills to run a formal business. The way this process is perceived as successful by shopping mall owners varies from case to case and seems to depend on the attitude of the owners, as well as demographic characteristics of the primary source market such as income.

So far, South African legislation does not limit the possibilities for shopping mall owners to incorporate small retailers. However, currently, a discussion between representatives of small retailers and shopping mall owners is going on about the recently implemented Consumer Protection Act (CPA). The CPA could be a potential threat to shopping mall owners. If the act in future also applies to juristic persons and property leases, tenants are given the option to cancel their lease within 21 working days and are given the right to negotiate a new lease contract with a market related price when their lease comes up for renewal. Although this decreases the risk of starting-up a business, it would negatively affect the value of shopping malls, because this value largely depends on the stability of the cash-flow. In addition, it would limit the shopping mall owner’s possibilities of managing the retail mix. The conflict shows that there is little trust between small retailers and shopping mall owners, limiting the chances of a successful cooperation between both parties.

**The Dutch case**

In contrast to South African township shopping mall owners, in general, Dutch shopping mall owners seem to be willing to increase the share of small retailers in their mall. This willingness is mainly caused by two factors. First, competition among Dutch shopping mall is high and is expected to further increase in the nearby future. The expected increase of competition is caused by the expected decline in consumer expenditures due to the European debt crisis, the ageing population and the increase in online consumer expenditures. As a result, shopping mall owners need to distinguish their mall from competitors. By creating additional consumer choice and value, small retailers can increase the distinctive power of shopping malls. The second cause of the increased interest from shopping mall owners in small retailers is the changing consumer preferences. First, consumers increasingly attach value to interaction, authenticity, reliability and fair-trade. By offering specific services, small retailers could respond to important consumer values such as interaction and reliability. Furthermore, consumer values such as authenticity and fair-trade are in favour of small retailers, as they generally offer goods with high value and low volume. Second, shopping is transforming from a necessary activity into an entertainment activity: consumers increasingly seek an experience and new concepts. By offering specific innovative formats, small retailers could respond to the consumers need for experiences. Third, as one shopping mall owner argues, consumer preferences are increasingly varied, and change quicker than they did formerly. By increasing the flexibility of the business model, the shopping mall owner could respond to changing consumer preferences quicker. For example, aspects named by shopping mall owners that could increase the flexibility of shopping mall owners’ business models include signing leases with lower rents and/or shorter terms, offering small size units, increase the flexibility of opening hours, and sign leases with turnover clauses. These aspects could increase the possibilities of small retailers to successfully establish in shopping malls. Furthermore, by increasing the transparency of the business model, the cooperation between shopping mall owners and retailers could improve, which could lead to better performances.

Although all three shopping mall owners interviewed confirm that small retailers are struggling to establish, especially because their lack of finance, they also say that there are sufficient retailers with the potential to develop a successful business. Hereby, they emphasise the importance of having an innovative character and a strong will to succeed.

So although shopping mall owners are willing to incorporate more small retailers, even by offering lower lease prices and shorter lease terms, the Dutch lease legislation hinders them from doing so. Three aspects of this legislation are being named as main causes. The first is the length of the lease terms. While retailers can terminate the contract generally after 5 and 10 years, in practice, it is almost impossible for shopping mall owners to achieve this. Therefore it is almost impossible for retailers to change the retail mix when the mall is underperforming, causing a very static retail market. In addition, shopping mall owners are willing to take less risk when choosing a new tenant: when a tenant is underperforming, there is no possibility to terminate the contract. As a consequence, shopping mall owners tend to prefer retail chains over small retailers, as retail chains offer familiar concepts. The second aspect of the lease legislation is the possibility of lease review. Once every five years shopping mall owners and retailers have the opportunity to having the agreed lease rental reviewed by a judge. This makes differentiation in lease prices very difficult:
shopping mall owners are unable to offer lower rents to small retailers because by doing so, they risk other retailers with equal unit sizes to ask for a lease price review, which could lead to decreasing lease prices. The third aspect of the lease legislation is the possibility to acquire a business including its lease contract. As a consequence, a retail chain could take over a small retailer including the lease contract and its conditions such as the lease price. Moreover, shopping mall owners could face tenants in their malls which they believe do not fit into their retail concept. Overall, it can be concluded that the Dutch lease legislation obstructs shopping mall owners from optimal, flexible and transparent retail mix management. In addition, it weakens the position of small retailers, while it strengthens the position of retail chains.

All three shopping mall owners say that the low trust between them and retailers prevents adjustments of the lease legislation and increasing cooperation. The low trust is caused by the hostile relationships between shopping mall owners and retailers, which in turn is caused by the lease legislation. Although the economic conditions have increased the need for all parties to intensify their cooperation, especially retail chains are not willing to give up their strong position, which is protected by the lease legislation.

**General determinants of small retailers' accessibility in shopping malls**

The stage of economic development is an important determinant of the accessibility of small retailers in shopping malls. South African township economies are characterised by low levels of economic activity and, consequently, a low average household income. Therefore, the shopping mall business model in township in based upon low value, high volume. Consequently, retail chains in townships tend to perform well, as they are able to offer goods with low prices and high volumes. In contrast, the Dutch economy is characterised by high levels of economic activity and, consequently, a high average household income. Therefore, Dutch shopping mall business models are more shifted towards high value, low volume. This creates opportunities for small retailers, who often operate in niche markets and offer goods with high value and low volume. Therefore, in general, the opportunities of small retailers increase along with an increase in economic activities, as the shopping mall business model shifts from low value, high volume towards high value, low volume. Furthermore, entrepreneurship in South African townships is characterised by necessity-based (survivalist) motivations and, consequently low levels of innovation. As a result, small retailers in townships often add low value to consumers. In contrast, entrepreneurship in the Netherlands is characterised by opportunity-based motivations and, consequently, high levels of innovation. As a result, small retailers in the Netherlands tend to add high consumer value. Therefore, in general, small retailers' added value to consumers and thus to shopping mall owners increases along with economic development as their motivation shifts from necessity-based to opportunity-based. Another possible effect of economic development is the increase in competition amongst shopping malls. In South African townships shopping mall developments are often the only or one of a few formal retail developments. In contrast, the Netherlands has one of the highest retail densities of the world, meaning that competition amongst shopping malls is high. Therefore, Dutch shopping mall owners need to distinguish their malls from competitors. And because small retailers create additional consumer choice and value, they can increase the distinctive power of shopping malls. Hence, in general, along with economic development the competition amongst shopping mall owners and, consequently, their need to distinguish their mall increases, increasing the accessibility of small retailers in shopping malls.

South African township shopping mall owners show more CSR than Dutch shopping mall owners. One of the aspects of showing CSR is incorporating small retailers. Two reasons for showing CSR by South African township shopping mall owners can be distinguished. First, township communities have a strong community sense. By showing CSR, shopping mall owners want to create support from the local community. In the Netherlands, people have become more individualistic, limiting the importance of showing CSR. Therefore, in general, the stronger the communities sense, the more important it is for shopping mall owners to show CSR, for example by incorporating small retailers. The second reason is that township shopping mall developments have significantly changed the retail structure in townships in a very short period. In contrast, shopping mall developments in the Netherlands are evaluated naturally over a much longer period. To prevent unrest among township residents and informal retailers in particular caused by the sudden change in retail structure, township shopping mall owners need to show CSR.

It is remarkable to see that legislation in the Netherlands, which was developed to protect small retailers, now limits the possibilities of shopping mall owners to incorporate more small retailers, and that, at the moment in South Africa, a discussion is going on to implement a legislation to protect small retailers which also could limit the accessibility of small retailers in shopping malls rather than stimulate it. Both legislations (could) limit the possibilities for shopping mall owners to manage their retail mix, and, as a consequence, shopping mall owners tend to avoid risk by implementing concepts they are already familiar with; these concepts are often retail chains. Hence, it can be concluded that the stronger a certain legislation limits the possibilities for shopping mall owners to manage their retail
mix, the stronger their preferences for retail chains is.

Finally, in both cases mistrust between shopping mall owners and retailers seems to exist that limits the cooperation between both parties. By increasing the cooperation between them, shopping mall owners and retailers could improve their performances. By increasing transparency, for example by implementing turnover-clauses in leases, understanding between both parties could be created, which in turn could lead to a better cooperation. Hence, in general, a strong trust between shopping mall owners and small retailers could increase the accessibility of small retailers in shopping malls.
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§1.1 Motivation & interest

The struggle of small retailers

A recent study commissioned by Corio, one of Europe's largest retail investors, concludes that, without intervention, the small retailer will completely disappear from the Dutch city centres within ten years (retailnews.nl, 2010). In addition, the study shows that 90% of the leasable space in newly developed shopping malls is leased by retail chains. Consequently, the market share of retail chains has increased: from 28% in 2001 to 35% in 2010, and is expected to further increase (Droogh et al, 2011). Especially small retailers in the daily-food convenience sector seem to struggle: their turnovers decreased with some 15% in the past ten years, while supermarket chains' turnovers increased with some 40% during the same period (Reijn, 2011).

As in the Netherlands, the trend of an increasing share of retail chains at the expense of small retailers is emerging in South African townships as well. For example, André Ligthelm, researcher at the Bureau for Market Research at the University of South Africa, estimates that in Soweto, a township of Johannesburg where almost 1 million people live, almost 40% of the small businesses, closed within a year of the establishment of the Maponya and Jabulani shopping malls. In addition, studies show that 75% of the businesses situated less than one kilometre from a newly developed shopping mall report a decline in their profits. (Kohler, 2010). Furthermore, according to a research among small retailers in Soweto by Mathenjwa (2007), not only the number and profitability of businesses declined, the existing small retailers also perceived a negative impact from the development of the Jabulani shopping mall. In addition, the shopping malls themselves incorporate little small retailers: Thami Mazwai, director of the Centre for Small Business Development (CSBD) recently said: "The impact of malls on small business is not as bad as was originally argued but, according to our research, only 10% of the tenants of these malls are owned by locals. This trend needs to be arrested: locals must begin the rejuvenation process and develop their own economy" (Kaitu, 2010).

Hence, it can be concluded that newly developed shopping malls in the Netherlands and South African townships incorporate only 10% small retailers, causing small retailers to struggle.

Different contexts

Although in recently developed shopping malls in both the Netherlands and South African townships the share of small retailers is sometimes only 10%, the context in which this trend is emerging and developing differs significantly. The Netherlands is a mature or developed country: in fact, it is one of the wealthiest countries of the world: in 2011, the Gross Domestic Product (GDP) was €604 billion, which means a GDP per capita of €36,189. In addition, unemployment figures are low: in 2011, the labour force in the Netherlands consisted of 8,7 million people, of which 385,000 were unemployed. This means that in 2011, 4,5% of the labour force was unemployed (CPB, 2011a).

South Africa is often referred to as an emerging or developing country. However, South Africa is characterised by market segregation: the income inequality in South Africa is by far the highest in the world, leading to living areas with high levels of welfare, often being suburbs which are also being referred to as first economy areas, and areas with very low levels of welfare, often being townships and rural areas which are also being referred to as second economy areas (Gower et al., 2012). The term second economy was first introduced by President Thabo Mbeki in his August 2003 'Letter from the President'. He typified the second or marginalised economy as underdeveloped, contributing little to the GDP, containing a large percentage of the South African population, incorporating the poorest of our rural and urban poor, structurally disconnected from both the first and the global economy, and incapable of generating its own growth and development (Ligthelm, 2010). And indeed, townships, which are the outcome of racial segregation during the Apartheid era, often show low levels of economic activity. For example, a study conducted indicated that even though Soweto households make up of 43% of the Johannesburg population, they only contribute for 5% to the city's gross geographic product (DPLG and EU, 2009). In addition, township areas are characterised by high levels of unemployment, sometimes even 50% (Demacon, 2010).

But not only do the economic conditions under which the trend of decreasing numbers of small retailers is emerging and developing differ significantly, the retail market conditions also differ significantly. While in The Netherlands and other mature markets shopping malls are well-known phenomena for decades, in second economy areas in South Africa, these developments are more of a recent nature. In the period 2000 to 2004, eighteen shopping malls were developed in these areas, while the period 2005 to 2009 saw a further increase of these developments: 32 shopping malls were developed during this period. In addition, the average size of the developments increased as well: from 14,067m2 Gross Leasable Area (GLA) in the period 2000 to 2004 to 19,026m2 GLA in the period 2005 to 2009. Consequently, the total amount of GLA developed during these periods increased from 253,206m2 GLA to 627,866m2 (Demacon, 2010). In contrast, due to decreasing demand, shopping mall developments in the Netherlands declined past years (Droogh et al., 2011).

Furthermore, in mature markets such as the Nether-
lands, small retailers are also referred to as 'mom and pop stores', and are usually defined as single-family operated business with less than 10 employees (www.multilingualarchive.com, 2012). In contrast, although some formal retail exists, small retailers in South Africa are often informal sole proprietors, which means they are unregistered and, consequently, do not pay taxes (Ligthelm and Rasenga, 2006). Whether they are informal or formal, the similarity between both definitions of small retailers is that they are focused on and operate within local communities, rather than operating on regional, national or global scales. Therefore, in this research small retailers are defined as retailers that operate on a local scale.

Besides the differences in economic conditions, the South African township and Dutch market have different institutional frameworks in which shopping mall owners and retailers operate. For example, as this research will show, the Dutch lease legislation plays an important role in the low incorporation of small retailers in shopping malls, while currently, no legislation in South Africa is implemented which affects the incorporation of small retailers in township malls.

It can be concluded that, in the Netherlands and South African townships, the relationship between shopping mall owners and small retailers is affected by significantly different market conditions. But why should a decrease in small retailer raise concerns?

**Concerns regarding the decrease of small retailers**

There are different concerns regarding the decrease in small retailers. For example, John Loos, FNB property strategist and economist, talks about the development of Soweto, South Africa’s biggest township in the Gauteng area. Loos gives two reasons why the local economy of Soweto has only seen a minor growth: most of the income is spent outside the area and most of the income is spent outside the area. Because only a small percentage of tenants in township shopping malls are local, most of the income generated by the mall leaks outside the area. This point of concern is shared by The Bureau of Market Research at Unisa who found that:

"Shopping mall developments create heightened competition for small township businesses, with a potential risk of considerable consumer expenditure displacement from them to national chains and franchise businesses in the new shopping complexes." (Urban Landmark, 2011)

In addition, many studies and expert reviews (Beck et al., 2003; Gebremariam et. al., 2004; Starr, 2011) have concluded that small businesses play a central role in economic growth and job creation. In fact, Paul Reynolds, Global Entrepreneurship Monitor (GEM) project coordinator and a professor at both Babson College and the London Business School, stated a recent global study on entrepreneurship by GEM:

"The GEM report provides conclusive evidence that promoting entrepreneurship and enhancing the entrepreneurial dynamic of a country should be an integral element of any government’s commitment to boosting economic wellbeing." (Entrepreneurism Spurs Economic Growth, n.d.)

However, the decrease in small retailers could temper entrepreneurship and thus economic growth. Furthermore, although big retailer chains may offer goods at lower prices than smaller retailers at first hand, the lack of competition on the long run could eventually lead to failure of market mechanism causing big retail chains to increase prices, leaving consumers paying more for their goods than they would have with more competition. Ravhugoni and Ngobese (2010) point out the importance of competition in a healthy market:

"Expansion by large retailers can in the short run be good for total welfare and consumer welfare since large retailers will tend to be large discounters and suppliers of larger quantities. However, lack of competitive constraints can adversely affect consumer welfare in the long run and total welfare benefits may decline even to below pre-expansion level. Therefore, the disappearance of independent retailers becomes a concern not only from consumer welfare perspective but also from total economic welfare perspective."

The points described above show that the decreasing numbers of small retailers could local and global economies. However, the decrease of small retailers also negatively affects the social welfare of communities, since small retailers increase the social cohesion within communities. These economic and social role of small retailers will be further described in chapter 2.

**Stimulating small retailers**

Recently, different studies have been or are being done from which initiatives emerge in order to stimulate small business development. These studies, initiatives and measurements are mainly focused on skills of entrepreneurs on the one hand or how government policy can stimulate entrepreneurship on the other hand.

For example, the Centre for Small Business Development (CSBD) at the University of Johannesburg’s Soweto Campus has launched a business enrichment program to equip small, medium and micro enterprises (SMMEs) with the skills required for their businesses to meet national and international standards. (Madumo, 2009). The program followed after the opening of an entrepreneurial school by the CSBD in 2009. The academy focuses on developing business and life skills in equal measure among young people between the ages of 18 and 27, particularly those from disadvantaged backgrounds. (Masilela, 2009).
Furthermore, many national government departments have recently focused on stimulating small businesses. For example, the policy of the ANC, the party that governs South Africa since its first free elections in 1994, is based upon creating a successful small business environment, especially for black people. The goal of the ANC policy is to alleviate poverty through broad-based economic empowerment policies and in effect to redistribute income from the wealthier white community to the poorer black township communities. The first ten years of ANC government were dominated by Black Economic Empowerment (BBE) affirmative action legislation. The objective of these legislative actions is to increase black economic power through encouraging black participation in the economic mainstream. Clearly, the economic success of these new black-owned market entrants into existing highly competitive industries is important to the ANC (Klemz et. al., 2005). In other words, the development of small businesses in rural and township areas, which are mainly populated by black people, plays a key role in South African policy because, according to research, it will lead to economic growth.

**The role of shopping mall owners**

What is surprising is that also shopping mall owners themselves seem to be concerned about the low incorporation of small retailers in their malls: in an interview with Trouw (Algra, 2010), John van Haaren, former CEO of the Dutch division of Corio, points out why this trend should be of concern to the retail investor. He says that consumers are complaining about the uniformity of shopping malls and that they therefore tend to buy their products more and more online at so called web shops, which are usually owned by retail chains. In this way, the turnovers of all retailers get affected. And, at the end of the day, decreasing turnovers of retailers will lead to a decreasing rental income for the investor. It seems that at least in the Dutch case, shopping mall owners are willing to incorporate more small retailers, but, due to the institutional framework they operate in, lack the possibilities to do so.

However, some experts believe that statements such as those of John van Haaren are only made to create sympathy and put critics to the background. For example, in a reaction, the Dutch retail organisation Detailhandel Nederland labels the concern of Corio as ‘sympathetic’, but it also points out that:

“Corio itself should do something about the high rents in order to retain small retailers.” (Vermoolen, 2010)

Likewise, in South Africa critical sounds can be heard about the role of shopping mall owners regarding the negative effects of the low share of small retailers in shopping malls. For example, in an interview, Thami Mazwai, director of the CSBD says about the role of the owners of the Maponya Mall in Soweto:

“Newly-developed business centres, such as the Maponya Mall in Soweto, were not doing enough to stimulate and sustain local economic growth.” (Kaidu, N., 2010)

**Synthesis**

It can be concluded that in a mature market, the Netherlands, as well as an emerging market, South African townships, the share of retail chains in shopping malls is increasing, while the share of small retailers in these malls is decreasing. However, the different contexts imply different market and institutional framework conditions under which this trend is emerging and developing. In addition, the different contexts imply different definitions of small retailers. In the Netherlands, a small retailer is defined as a retailer with 10 or less employees. In contrast, although some formal retailers exist in South African townships, most retail activities are often informal, which means that they are unregistered and, consequently, do not pay taxes. The similarity between small retailers in both contexts is that they are focussed on and operate within local communities, rather than operating on regional, national or global scales. Therefore, the decreasing share of small retailers could possibly negatively affect the development of local economies and the welfare of local communities. Hence, various studies have been or are being done from which initiatives and measurements are being developed in order to stimulate small businesses. These studies, initiatives and measurements mainly focus on business skills of small retailers on the one hand, and/or and government policy on the other hand. However, little is known about the role that shopping mall owners play in this trend. Some critics believe that, although they seem to be in the best position to stimulate small retailers by incorporating them in their mall, they lack willingness. But, according to a Dutch shopping mall owner, Dutch shopping mall owners are willing to, but due to the institutional framework, lack the possibilities to incorporate more small retailers in their malls. Apparently, the relationship between shopping mall owners and small retailers is affected by market and institutional framework conditions in such a way that shopping mall owners lack the willingness or/and the possibilities to incorporate more small retailers in the mall. By analysing the relationship between shopping mall owners and small retailers/retail chains through a literature review, and the impact of market and institutional framework conditions on this relationship through interviewing 3 South African township and 3 Dutch shopping mall owners, this research identifies the causes of the low incorporation of small retailers in Dutch and South African township shopping malls. Furthermore, by comparing the market and institutional frameworks conditions that affect the willingness and possibilities of South African township and Dutch shopping mall owners to incorporate more small retailers, general determinants of small retailers’ accessibility in shopping malls can be distinguished.
§1.2 Research problem and objectives

Research objective
The goal of this research is to identify and compare the causes of the low incorporation of small retailers and the high incorporation of retail chains by South African township and Dutch shopping mall owners in order to identify general determinants of small retailers' accessibility in shopping malls.

Problem definition
What are the causes of the low incorporation of small retailers and the high incorporation of retail chains by South African township and Dutch shopping mall owners and can these causes be translated into general determinants of small retailers' accessibility in shopping malls?

Research model and questions
As described in the introduction, the relationship between retail chains, small retailers and shopping mall owners is affected by the context, which exists of market conditions and the institutional framework. Therefore, in order to identify the causes of the low incorporation of small retailers by shopping mall owners, the way in which the market conditions and the institutional framework affect the relationship between small retailers, retail chains and shopping mall owners needs to be analysed. Therefore, the following research questions need to be addressed:

Retail chains, small retailers and their relationship with the shopping mall owner's business model
1. What is the relationship between retail chains, small retailers and shopping mall owners?

Impact of market conditions
2. How do market conditions affect the relationship between retail chains, small retailers and the shopping mall owners?

Impact of institutional framework
3. How does the institutional framework affect the relationship between retail chains, small retailers and the shopping mall owners?

Generalisation
4. What market and institutional framework conditions can be translated into general determinants of small retailers' accessibility in shopping malls?

§1.3 Research strategy, definitions & interviews

Research methodology
In order to analyse relationship between shopping mall owners and small retailers/retail chains and the impact of market and institutional framework conditions on this relationship, a broad based qualitative research, based upon opinions from market players, will be undertaken. This qualitative, exploratory research exists of a combination of desk research and empirical research through interviews and case analysis.

A literature study has been done to analyse the relationship between retail chains, small retailers and shopping mall owners.

To determine how market conditions affect the relationship between retail chains, small retailers and

Figure 1.1: Research model
the shopping mall owners in both the South African township and the Dutch market, first an analysis of these markets through desk research has been done. In addition, the way in which the market affects the relationship between retail chains, small retailers and the shopping mall owners is analysed by interviewing 3 major retail investors in both cases. Because of the sensitive relationship between shopping mall owners and retailers, all 6 investors wanted to remain anonymous.

Equal to the market conditions, the analysis of how institutional framework conditions affect the relationship between retail chains, small retailers and the shopping mall owners in both the South African township and the Dutch market exists of desk research and 3 interviews per case. Furthermore, where necessary, cases of shopping malls are analysed to clarify the opinions of shopping mall owners.

**Research structure**
The research exists of 4 parts which are described below.

Part I: Theoretical framework:
The relationship between retail chains, small retailers and shopping mall owners is analysed in chapter 2

Part II & III: Market specific analysis:
Parts II and III of this research contain market specific research. In part II, the way in which market conditions affects the relationship between South African township shopping mall owners and retailers is analysed in chapter 3. Then, in chapter 4, the way in which institutional framework conditions affects the relationship between South African township shopping mall owners and retailers is analysed. Part III analyses the impact of market and institutional framework conditions on the relationship between shopping mall owners and retailers in the Netherlands in the same way: the market conditions in chapter 5, and then the institutional framework conditions in chapter 6.

Part IV: Comparison & Generalisation:
The fourth part of this research tries to answer the question what market and institutional framework conditions can be translated into general determinants of small retailers' accessibility in shopping malls.

The research structure is illustrated in figure 1.2.

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**Figure 1.2: Research structure**

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Definitions

Small retailers
As described in the introduction, in this research small retailers are defined as retailers that operate on a local scale.

Retail chains
Chain stores are retail outlets that share a brand and central management, and usually have standardized business methods and practices (www.wikipedia.com, 2011).

Shopping mall
The International Council of Shopping Centers (ICSC) defines a shopping mall as a 'typically enclosed centre, with a climate-controlled walkway between two facing strips of stores.' (ICSC, 1999) This research focuses on shopping malls because they are often owned by one investor, in contrast to shopping centres and city centres in particular, which usually have differentiated ownership.

Shopping mall owner
Regarding the shopping malls owners, this research analyses the most common type/structure of ownership of shopping malls; (inter)national investors with a strong profit motivation.

Interviews

In each case, 3 shopping mall owners are interviewed to determine how their business model is affected by market and institutional framework conditions. These interviews are incorporated in chapters 4, 5, 6 and 7.

Because of their relationship with tenants, all 6 owners wanted to stay anonymous. They are simply referred to as shopping mall owner 1, 2 and 3. All 6 owners are investors that own multiple shopping malls in their market and, consequently, they can be referred to as major players in the retail market.
Part I: Theoretical framework

Vangate mall, Athlone, Cape Town (photo by author)
Chapter 2: The relationship between shopping mall owners and retailers

This chapter analyses the relationship between shopping mall owners and retailers. By connecting the shopping mall owner's business model (paragraph 2.1) with the characteristics of retail chains, it explains the interests of shopping mall owners for retail chains (paragraph 2.2). However, this chapter also shows why small retailers could add value to the business model of shopping mall owners (paragraph 2.3). In addition, as Oppewal et al. (2006) suggest, businesses not only have economic responsibilities (making profit), they also have social responsibilities towards society. As paragraph 2.4 shows, small retailers could play an important role in shopping mall owners' Corporate Social Responsibility (CSR).
§2.1 The shopping mall owner’s business model

Shopping mall owners have to create value for their investors, who want to create a stable and secure cash-flow. By the lease contracts shopping mall owners sign with their tenants: the higher the lease value, the higher the property value. The rent a tenant can pay depends on its profits, which in turn depends on the turnover at his shop. This creates a common interest between shopping mall owners and retailers: attracting customers and making these customers spend. In addition, because most investors want to create a stable and secure cash-flow, the length of the lease terms also determines the value of the mall: in general, the longer the lease term the more stable and secure the cash-flow and, consequently the higher the value of the mall. However, as the Dutch case will show, infinite lease terms create a secure and stable cash-flow, but they also limit the shopping mall owner’s possibility to respond to market trends.

But why would retailers want to be in shopping malls? McGaffin and Gavera (2011) distinguish several reasons:

- Large retailers require large spaces, which are often not available on shopping streets. This could partly explain the high share of retail chains in malls.
- Availability of services and specialised space such as refrigeration rooms and loading areas.
- Shopping malls usually attract customers by their size and location, which leads to high visibility and easy access.
- Shopping mall management: because shopping mall owners provide property management issues such as security, cleaning and main tenance, retailers can concentrate on their core business.
- By renting space in a mall, retailers ‘buy’ into the increased drawing power that results from a particular tenant mix. This is also referred to as the agglomeration effect.

The agglomeration effect is an important success factor of shopping malls. By offering the right tenant mix, customers get drawn into the mall and spend money, which is of interest of both the shopping mall owner and the retailers.

But what determines the success of the tenant mix? Mejia and Benjamin (2002) distinguish two major tenant mix concepts: the substitute concept and the complementary concept. They state that an important reason for the existence of shopping malls is the need to satisfy the consumers’ multipurpose and comparison shopping needs. In order to respond to the multipurpose needs of consumers, a shopping mall owner needs to accommodate various types of retailers that complement each other. For example, a shopping mall owner could choose to accommodate a coffee shop near a cinema. Most consumers would not go to the mall to drink a cup of coffee but will happily have one before the movie starts. In order to respond to the comparison need consumers have, a shopping centre owner needs to accommodate substitute shops where consumers can compare styles and prices of the same type of product. Therefore, shopping mall owners will usually cluster similar shops together. Evidence from literature suggests that clustering substitute retailers not only increases merchandise sales of the centre as a whole but also increases merchandise sales of the individual substitute retailers.

In addition, Mejia and Benjamin (2002) also give an important reason why establishing the right tenant mix is of growing interest to shopping mall owners: because of growing competition between shopping centres, these shopping mall owners need to distinguish themselves and their mall from competitors in order to remain competitive. This suggests that when competition among shopping malls is growing, the need to manage their tenant mix becomes of increased importance.

From the introduction it seems that one of the biggest problems of small retailers to get foothold in the mall is the high rents shopping mall owners ask. Why do large stores pay lower rents than small stores? McGaffin and Gavera (2011) explain this as follows. Because gross profit margins vary between different branches, the price per square meter a tenant can pay towards rent and the space it requires to sell its goods depend on which branch the tenant is active in. For example, a grocer may make a profit margin of 18%, while a jewellery retailer has a profit margin of 250%. This implies that the grocer has to sell a greater volume of goods compared to a jewellery retailer. Consequently, a grocer will require a greater space and can pay less rent per square meter. Therefore, in general, the more space a tenant requires the less it pays per square meter towards rent. Sometimes, small stores pay five times the square meter price compared to large stores.

However, the fact that retailers that require large spaces pay less rent per square meter compared to retailers that require small spaces by itself does not explain why small retailers often have to pay more rent than retail chains: why do small retailers often require small spaces and why are the large spaces in shopping mall often leased to retail chains? In addition, the two retail mix concepts do not explain the preference of shopping mall owners for retail chains and, consequently the increasing share of retail chains in shopping malls. Therefore, the characteristics of retail chains and small retailers need to be analysed.

§2.2 Characteristics of retail chains

From the literature, several reasons behind the emergence and success of retail chains can be distinguished,
which are described below.

**Low prices, high volumes**
Retail chains are characterised by the fact that they are able to offer goods to low prices and high volumes. This is caused by two concepts: buyers bargaining power and investment in retail technology.

The concept of buyers bargaining power is based upon the idea that, if unit costs are increasing, the larger the buyer (the retailer) the stronger the bargaining power it has towards its seller (supplier), and therefore it can negotiate lower purchasing prices. Ravhugoni and Ngobese (2010) distinguish two effects of bargaining power that lead to an increased share of retail chains and a decreased share of small retailers. The first is called the spiral effect and works as follows. When a firm that achieves greater discounts as a result of its augmented size passes on to customers a portion or all of the discounts obtained from suppliers, it gains a competitive advantage over its rivals. By cutting prices in this manner a firm is likely to gain market share over its rivals. This further augmentation in size enables the firm to extract even more discounts from suppliers relative to its competitors. Accordingly, a merger does not only have a single one-off effect on discounts received by the merged entity but has secondary multiplier effects which account for an even greater size of discount received and further reduction in size of rivals beyond the initial round of discounts. The second effect is called the waterbed effect. The waterbed effect predicts not only that a merger that substantially increases the size of the buyer enables that buyer to extract higher discounts from sellers relative to other buyers, but also predicts that the size of discounts granted to other buyers declines as a consequence thereof. The waterbed effect operating through upstream adjustment predicts that as the buyer grows some suppliers’ margins will be so squeezed such that some suppliers find it difficult to continue competing such that they either merge with other suppliers or exit the market. In addition, if the sellers’ market becomes unprofitable due to the presence of high discounts, entry into that market could be deterred. As a consequence concentration levels in the upstream increase. The remaining sellers become increasing indispensable to buyers which means that the buyers’ alternative options are becoming limited at the same time the increasing scale of sellers makes their alternative options more accessible. Although this process may reverse the large buyer’s initial gain in bargaining power, the small buyers certainly suffer as their terms of trade become worse than they were before. As small buyers’ market share shrink their alternative option become less accessible hence adversely affecting their bargaining power against suppliers. The small buyers’ prices become even less competitive against the large buyer’s price offering. This further reinforces the loss of market share and ushers in another round of adjustment.

The concept of investments in retail technology is based upon the idea that, when several retailers enter a price vigorous, specific market, the heterogeneous character of these retailers will always lead to dominant retail chains, because these businesses adopt different price and investment strategies (Bagwell, Ramey, and Spulber, 1997). If the market share of a retailer increases, for example due to offering lower prices, it becomes favourable for the retailer to invest in technology that increases the efficiency of producing, because increasing efficiency decreases the costs of producing. Consequently, the retailer can offer lower prices, leading to a further gain in market share and a further incentive to invest in efficiency enhancing technology. This increase in market share of the retailer goes at the expense of other retailers.

The concepts of buyers bargaining power and investments in retail technology explain why the larger spaces in shopping malls are often leased by retail chains. Because, these concepts enable retail chains to decrease their marginal costs, they can sell goods to lower prices and higher volumes compared to other retailers. Consequently, this strategy is particularly successful in branches with low profit margins such as daily-food (supermarkets).

**Recognition**

The emergence of retail chains during the early mid-twentieth century runs parallel to a social trend during this period: the increase in consumer mobility. By constructing a formal model, Loertscher and Schneider (2008) find that the chain benefits disproportionately more from increased consumer mobility than do local stores, even in an equilibrium where chains charge higher prices then local stores.

Loertscher and Schneider explain the theory that chain development is caused by increasing consumer mobility as follows. Chains have the ability to spread their reputation across different markets. When standardizing this reputation by selling the same products with the same service through the same marketing strategies, consumers get familiar with the chain store. Potential customers of local firms must first learn about the existence of the local provider. Once they know this, they have to experiment whether the goods and services provided by the local store suit their preferences. Eventually, they also have to learn how to best consume these. This time and sometimes money intensive process is referred to as the set-up costs of buying a product or service. However, these set-up costs do also have to be made by new customers of retail chains. But when consumers increase their mobility and therefore travel to other places and markets, by visiting small local stores they experience set-up costs again. In contrast, by visiting
a familiar retail chain, consumers avoid set-up costs, because they are already familiar with the products and services.

Therefore, it can be concluded that when consumer mobility increases, as has happened on a large scale since mid-twentieth century, consumers tend to prefer buying products and services at retail chains because of their recognition. This causes the market share of retail chains to increase, and the market share of small local retailers to decrease.

**Branding**

Given the 'aesthetisation of life' (Featherstone, 1991) and the post-modern lifestyles in mature markets, consumption has become much more than the simple purchase of products and services. It has become a way of self-expression, individual identity formation, creativity, or even art (Gabriel and Lang, 1995; Schmitt, 1999; Norman, 2004). Consequently, consumption nowadays exists of two types of motivation: not only do consumers look at tangible product aspects like quality and convenience (utilitarian aspects), but they also look at more subjective, emotional and symbolic aspects (hedonic aspects) (Holbrook and Hirschman, 1982; Babin et al., 1994). Hence, when consumer welfare increases and the supply of a certain product is high, the hedonic motivations to buy the product take the upper hand. When this is the case, branding becomes an interesting strategy for retailers (Chitturi et al., 2007).

A brand distinguishes itself from competitors by communicating most hedonic attributes. A good example of this concept is Red Bull energy drink: it distinguishes itself not by utilitarian aspects such as taste or price, but by emphasising the sportive and energetic character (hedonic aspects). Thus, brands can be powerful symbolic products, having considerable social impact, and provoking considerable loyalty (Muniz and O'Guinn, 2001; Holt, 2004). In other words, branding is a tool that responds to the increased weight of hedonic consumption motivation by making consumers aware of distinctive hedonic attributes of a company or product, and can result in increased consumer loyalty. Consequently, the increased weight of hedonic consumption leads to the fact that consumers are being more and more sensitive to brands.

Two major components of brand knowledge, namely brand awareness and brand image are identified as crucial to successful brand building (Keller, 1993, 1998; Aaker, 1997; Berry, 2000). The former is reached through the presentation of the corporate brand (advertising, firm name and logo), while the latter through external brand communications, (word-of-mouth and public relations), which are essentially not controlled by the company (Berry, 2000). Retail chains benefit relatively more from increasing consumer brand sensitivity compared to small retailers because they serve larger source markets and have much larger budgets for advertising campaigns. Therefore, nowadays, every retail chain holds a marketing department that determines which distinctive company or product attributes are communicated through which channel.

Brand sensitivity and the possibility to increase consumer loyalty have partly led to the growth of private labels. Private labels are brands developed by retailers. However, Mills (1995) shows that private labels not only increase customer loyalty, they also increase competition amongst suppliers. Hence, private labels increase the bargaining power of retail chains.

The three characteristics of retail chains described above explain the increase in market share of retail chains. In addition, because of these characteristics, chains have the ability to generate positive externalities by drawing customer traffic not only to their own store, but also to other stores. It is because of this function that large chains are also referred to as anchors stores in shopping malls (Mejia and Benjamin, 2002). Furthermore, by analysing a data set of mall tenant contracts, Gould et al. (2005) find that shopping mall owners subsidise the rent of stores that generate mall traffic to other stores and charge a rent premium to the beneficiaries so that mall space is efficiently allocated. Consequently, by creating positive externalities, retail chains often pay subsidised rents, while small retailers, who profit from these externalities, have to compensate these subsidised rents by paying a rent premium. Thus, small retailers do not only pay high rents because their small store size, they also pay a rent premium because they benefit from the positive externalities created by retail chains. This could explain why many small retailers are unable to pay the rents of small units in shopping malls. Besides by attracting customers through their characteristics as described above, two other reasons why shopping mall owners could prefer retail chains over small retailers can be distinguished.

**Stability and quality**

Chain stores are traditionally more stable and profitable. Wenthe et al. (1988) examine anecdotal data on store tenant mortality, showing that retail chains have lower mortality rates than small retailers in part because of their broader retailing experience, better trained management, greater financial resources and lower operating costs. As explained in the previous paragraph, the value of the mall is partly determined by the stability and security of the cash-flow. Because retail chains have lower mortality rates compared to small retailers, they increase the stability and security of the cash-flow and, consequently, the value of the mall.

Golosinski and West (1995) argue that small retailers tend to reduce aspects such as quality and advertising,
while free riding on recognized tenants such as retail chains. In other words, shopping mall owners could prefer retail chains because they secure the quality and, consequently, the image of the mall.

§2.3 Characteristics of small retailers
Although the previous paragraph explained why shopping mall owners are incentivised to incorporate retail chains in their mall, and why retail chains have increased their market share at the expense of small retailers, small retailers could still play an important role in shopping malls. This is explained in this paragraph by two concepts: consumer choice and consumer value.

Consumer choice
As already explained in the paragraph 2.1, non-spatial factors such as the tenant mix are of growing interest to shopping mall owners because, due to growing competition, they need to distinguish their mall from others. The concept of tenant mix responds to the growing awareness of consumer choice and value.

In terms of consumer principles, 'consumer choice' has been described as the most precious of all consumers' rights and a source of 'real power' (Lawlor, 1989). Consumer choice can be justified economically and morally (Clarke et al., 2006). By exercising choice, consumers reward those producers who meet their needs most effectively and exercise a powerful sanction against those who do not, creating market efficiency. In addition, choice provides consumers with options, and the opportunity to exercise control over what, where, and how they buy and how much they pay: it can enhance democratic feelings in a society by promoting the notion of the equitable availability of facilities and services.

Research suggests that the presence of various smaller retailers as opposed to a few retail chains improves consumers' perception of choice, when these small retailers are of adequate quality. When people know what type of product they want to buy they perceive shopping choices by the balance of between-store choices they have available (retail brands, price positions, store types and locations) and within-store choices open to them (number of products and product brands) (Clarke, Banga, 2010). This explains the need for consumers to compare, as explained in paragraph 2.1. The composition of shops consumers visit regularly largely depends on their shopping practices that are influenced by their daily routine and their domestic circumstances (Clarke, Banga, 2010). By offering a divers composition of shops of the same type, shopping mall owners create consumer choice.

The role of small retailers in increasing consumer choice explains why the Dutch shopping mall owners in the introduction is worried about the increase of retail chains in his malls: it increases uniformity within and between malls (see figure 2.1) and, consequently, decreases consumer choice. Furthermore, the increase of retail chains in shopping malls weakens the distinctive power of these malls. Put it differently: small retailers increase the distinctive power of shopping malls, which is particularly important in markets with strong competition among shopping malls.

Consumer value
Besides increasing the distinctive power of shopping malls by increasing consumer choice, small retailers are also known to add value for consumers. Clarke and Banga (2010) distinguish three ways in which small retailers increase consumer value.

The first way in which small retailers increase consumer value is by their generic features. Small retailers meet the needs of customers by adapting to the local community. Therefore they can provide a better service and offer a product range tailored to local shopper needs. Furthermore, by offering incremental services they can fulfil neighbourhood needs better than retail chains.

Figure 2.1: Small retailers (the small dots) in shopping malls (the squares) create diversity between and within shopping malls. The increase of retail chains (large dots) in shopping malls creates uniformity between and within these malls.

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They achieve this by competing on psychological factors and time (convenience) rather than on financial and physical factors where chains tend to dominate. By adopting a non-conventional approach and on-going testing of ideas they allow themselves to be more responsive to local customers’ needs.

A second way in which small retailers can add value is through offering a specific format. Specific formats can add value to consumers by offering innovations through developing or/and offering new products, improving availability and enhancing the overall experience of the customer.

A third way of adding value is by targeting specific target groups. Small retailers are in a position to develop knowledge of particular groups, some of which have a stronger affinity with them than other shoppers by specialising and developing a strategy that matches the image of the store with the customers they are appealing to. This can be achieved through concepts as branding, but also through practical changes to in-store facilities.

The fact that small retailers add value through offering specific formats or/and aiming on specific target groups explains why small retailers often operate in niche markets: these markets are often not sensitive to efficiency and high volume. Consequently, where retail chains tend to operate in branches which are characterised by low value high volume, small retailers tend to operate in branches which are characterised by high value, low volume.

§2.4 CSR and small retailers
Besides by affecting shopping mall owners’ business models through increasing consumer choice and value, small retailers could also increase the Corporate Social Responsibility (CSR) of shopping mall owners. But what is CSR, why is it important for shopping mall owners, and how could small retailers increase the CSR of shopping mall owners? This paragraph tries to answer these questions by first giving a definition of CSR, then analysing the importance of CSR to shopping mall owners, and finally showing how small retailers could positively affect the CSR of shopping mall owners.

**Definition**
Oppewal et al. (2006) state that businesses, besides having economic and legal responsibilities, have ethical responsibilities that include a range of societal norms, or standards, especially in a consumer based business such as retail. Lerner et al. (1988) confirm this last point by stating that the retail industry has been reported to display higher rates of social responsibility when compared to those in other sectors. Therefore, CSR, which can be defined as the duty of the organization to respect individuals’ rights and promote human welfare in its operations, is of growing interests to researchers.

**Interests of shopping mall owners**
The growing awareness of CSR can be largely allocated to the growing awareness of Corporate Sustainability (CS), which can be seen as a sub-category of CSR. This point of view is confirmed by Hediger (2010), who states that: “Contemporary approaches and definitions of CSR are mostly driven by some particular view, interest and context. Moreover, the concept of CS is often used as a synonym of CSR, without examination of the theoretical foundations of the two concepts and their relationship.” Hediger gives a working definition of CSR: “Corporate social responsibility (CSR) is a program of action where a firm’s objective is to maximize its profits and, at the same time, to contribute to the improvement of social welfare.” In his research, a theoretical analysis, Hediger tries to find an economic based concept for CSR and CS. An interesting conclusion from the concept is that it supports theories that emphasise on the relevance of externalized costs and reputational risks as well as on the positive relationship of CSR upon the market value of the firm. In other words, CSR could not only decrease the risk of reputational damage of shopping mall owners, it could also increase the market value of their firm and possibly their shopping malls.

In a theoretical analysis of CSR, Tullberg (2005) finds that CSR is merely used by managers as a responsive tactic to avoid criticism. Responsive CSR implies a one-dimensional ethical scale and a normative preference for the good upper part, resulting in the motto: ‘To be as good as you can afford – and be at least as good as your competitor’. The perceived change in awareness of CSR seems to imply both a possibility for a new kind of power and a strong threat to the old power position. The problem of responsive CSR is that it is based upon conventional ethics and seems to be strongly influenced by people with an anti-liberal view of economics. Hence, responsive CSR is used as a tool to decrease the risk of reputational damage, rather than a tool to increase market value.

Therefore, Tullber suggests the development of autonomous CSR. The objective of autonomous CSR is not to be perceived as a company with products acceptable according to general standards, but a company differentiated by fulfilling their own standards whereby ethics is pluralistic rather than one-dimensional. By developing an autonomous CSR strategy, shopping mall owners could distinguish themselves and their malls from competitors.

In a study about CSR trends of real estate companies owning and developing shopping centres, Sardinha et al. (2011) assessed 23 companies in 2004 and 2010 on four domains of CSR. These sub-categories were given a score from zero to eight. By comparing the results of 2004 and 2010 Sardinha et al. conclude that...
the overall CSR awareness of shopping mall owners has grown, showed by increased transparency and accountability. Especially companies from the United Kingdom perform well. In addition, the two assessed Dutch companies, Corio and ING Real Estate, also showed a remarkable increase of CSR awareness and performance. The increased performance of CSR can largely be contributed to the category of sustainability. In fact, all companies scored higher on this category in 2010 than they did in 2004. This trend is in line with the growing global awareness of sustainability. Therefore, most of the conclusions of the authors are related to sustainability, while no conclusions about other categories of CSR are given.

Steurer and Konrad (2009) point out the context specificity of CSR. They compared CSR attitudes of different businesses in Western Europe and Central Eastern Europe and find that the differences in perception of CSR can be deduced from socio-political and socio-economic context factors. Hence, one could expect different perceptions of CSR between South African township and Dutch shopping mall owners.

The economic role of small retailers
Small retailers could affect the CSR of shopping mall owners by affecting a market’s economy and the social welfare of communities. The economic and social role of small retailers are described below:

Thurik and Wennekers (2004) and Kelley et al. (2011) show that the role of small businesses in the economy changes along with economic development. They distinguish three stages of economic development, which are described below and summarised in table 2.1.

A factor-driven economy is based upon agriculture and extractive labour sectors. Especially the extraction sector creates large agglomerations where workers are accommodated and, consequently, amenities emerge. In this stage of economic development, the demand for jobs in high-productivity sectors outpaces supply.

As a result, many people must create their own source of income, causing necessity-driven small business to emerge. Necessity-driven entrepreneurs, also referred to as survivalist entrepreneurs, are people who start their business because they have no better options for work. In contrast, opportunity-based entrepreneurs are entrepreneurs who start their business because they see opportunities, even when they have other employment possibilities.

In a factor-driven economy, entrepreneurs are the prime cause of economic development by challenging incumbent firms through introducing new inventions that made technologies and products obsolete. This process is also referred to as creative destruction.

An efficiency-driven economy is characterised by a strong increase in productivity caused by industrialisation. Large firms increase their market share due to their high efficiency, as explained in paragraph 2.2. In this economic stage, labour shifts away from agriculture and extraction sectors towards the manufacturing sector. The increased employment capacity caused by large firms leads to the gradual decline of necessity-driven small businesses. However, due to improvements in health and basic entrepreneurial requirements such as infrastructure, economic stability and education, opportunity-based small businesses emerge, causing a shift in entrepreneurial nature from necessity-driven towards opportunity-driven. However, the dominance of large firms, leads to an overall reduction in the number of small businesses (see figure 2.2).

Small businesses in efficiency-driven economies are increasingly less important for economic development, but more for social and political reasons. Government policy during this period aims at competition policies, regulation and public ownership of businesses in order to constrain the power of large firms, which are needed for economic efficiency and growth, but pose a threat to democracy through their concentration of power.

<table>
<thead>
<tr>
<th>Stage of welfare</th>
<th>1</th>
<th>2</th>
<th>3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type</td>
<td>Factor-driven economy</td>
<td>Efficiency-driven economy</td>
<td>Innovation-driven economy</td>
</tr>
<tr>
<td>Characteristics</td>
<td>Development of regional scale-intensive agglomerations</td>
<td>Industrialization</td>
<td>Knowledge-based</td>
</tr>
<tr>
<td>Dominating labour sector</td>
<td>Agricultural and extractive sector</td>
<td>Manufacturing sector</td>
<td>Service Sector</td>
</tr>
<tr>
<td>Policy aim</td>
<td>Basic Requirements</td>
<td>Constrain power of large firms</td>
<td>Stimulate entrepreneurship</td>
</tr>
<tr>
<td>Policy measurements</td>
<td>Competition (antitrust)</td>
<td>Education</td>
<td>Increase mobility</td>
</tr>
<tr>
<td>Importance of small businesses</td>
<td>Economic development</td>
<td>Social and political stability</td>
<td>Economic growth</td>
</tr>
<tr>
<td>Nature of small businesses</td>
<td>Necessity-based</td>
<td>Necessity- and opportunity-based</td>
<td>Opportunity-based</td>
</tr>
</tbody>
</table>

Table 2.1: Characteristics of three economic stages and the role of small businesses (Thurik and Wennekers, 2004; Kelley et al., 2011)
Figure 2.2: TEA rate, which is defined as the percentage of the working-age population who are entrepreneurs that are currently setting-up a businesses they will own or co-own and entrepreneurs who manage and own a businesses for no longer than three and a half years, compared to GDP per capita in Purchasing Power of 57 countries (Kelley et al., 2011)

Figure 2.2: Early-stage entrepreneurship activity per sector (Kelley et al, 2011)
The innovation-driven economy is characterised by a large share of knowledge-based activities, which largely depends on innovation and Research & Development (R&D). The manufacturing sector has moved towards low-costs economies and is replaced by a service sector. In an innovation-driven economy the share of small businesses increases (see figure 2.2). This increase is caused by the fact that people live with sophisticated basic requirements and efficiency enhancers. Furthermore, they have access to entrepreneurial finance, open markets and R&D knowledge and other entrepreneurship-specific framework conditions.

In innovation-driven economies, small businesses are seen as vehicles for entrepreneurship, contributing not only to employment and social and political stability but also to innovative and competitive power. In other words, the transformation of an efficiency-driven economy to an innovation-driven economy has changed the role of small businesses from being vehicles of democracy to being vehicles for economic development and growth. The positive relationship between entrepreneurship and economic growth is confirmed by various econometric researches (Audretsch and Thurik, 2000; Audretsch et al. 2002, Carree and Thurik, 1999, Carree et al., 2002, Audretsch et al. 2001) and has been verified across a wide spectrum of units of observation, spanning the establishment, the enterprise, the industry, the region, and the country (Thurik and Wennekers, 2004).

It seems that small business can play an important economic role in factor-driven and innovation-driven economies and an important social role in efficiency-driven economies. However, as figure 2.3 shows, the role of consumer oriented businesses such as small retailers is decreasing along with economic development. Kelley et al. (2011) explain this shift in entrepreneurship activity per sector by the nature of these sectors. Consumer-Oriented businesses tend to have relatively low resource needs and are often local in nature. Therefore, they flourish in an economy with poorly developed transportation systems and commercial infrastructure. In contrast, business services flourish in an economy with a well-established educational system, because these businesses tend to rely on highly educated human capital. In addition, as described in paragraph 2.2, retail, and especially retail branches with low profit margins such as daily-food, are very sensitive to efficiency. Therefore, in general, along with economic development, large firms tend to outperform smaller business in especially sectors with low profit margins such as retail. However, in innovation-driven economies, consumer-oriented businesses still make up 40% of the new businesses, showing that opportunity-based small retailers can contribute to economic growth.

Besides contributing to economic development and growth through their innovative and competitive character, small retailers could also counter the leakage effect within a market and, consequently, contribute to economic growth by increasing the cash-flows within a market. The leakage effect has been defined as the portion of a given stream of spending which is not re-spent within the considered area and period (Little and Doeksen, 1968). The leakage effect can limit a market's economic growth by decreasing the stream of spending that is re-spent in the market in various ways, for example (Hansen, 1953; Wadsworth and Conrad, 1965):
- A part of the stream of spending is used to pay-off debts;
- A part of the stream of spending is saved in the form of idle bank deposits;
- A part of the stream of spending is invested

Box 1: Money circulation in a township: how the leakage effect works

The following example will explain how the leakage effect works.

A township resident sets aside €20 of her salary to buy a new dress. She basically has three options where she can buy the dress:
1. In shopping centres outside the township, for example the city centre;
2. At a retail chain located within the township, for example in a shopping mall;
3. At a local fashion designer within the township, for example in a shopping mall.

When she chooses to buy her dress at an external shopping centre, the €20 immediately leaves the township and therefore not circulates at all. When she chooses to buy her dress at a retail chain in an internal shopping centre a share of the money remains in the area to circulate again in the form of salaries paid to local employees. However, this share can be as small as 10%, meaning that only €2 remains in the area to circulate again. When she chooses to buy the dress at a local fashion designer a much larger share stays within the area to circulate again, for example 60% or €12. It could circulate a number of times if, for example, the fashion designer uses the money to pay the fees for the creche of her child; if the principle of the creche uses the money to pay the caterer of the creche, and so on; before it finally leaves the township to pay for goods and services that cannot be locally produced.

By stimulating consumption at local retailers, the money circulation within the area can increase, leading to an increase in economic activity. (Codehart and Pernege, 2007)
securities purchased from others, who in turn fail to spend the proceeds;
- A part of the stream of spending is spend on imports, which does not help local employment;
- A part of the stream of spending is spend outside the area;
- Substitution of local employment for jobs outside the area.

Clarke and Banga (2010) state that it has been argued that there is a tendency for smaller small retailers to be more reliant on local produce and local sources of supply, rather than national or regional level wholesale supply chains structured for retail chains, which means that they help stimulate the local economy more so than (inter)national chains by helping to retain and reinvest income in the market in which they operate. In other words, expenditures of local consumers at retail chains leak outside the area, while consumer expenditures at small retailers are being reinvested within the areas. This theory is confirmed by a 2004 study in a Chicago neighborhood that showed that local businesses poured 68% of their revenue back into the local community, while for national chains the return was only 43% (Weiner, 2009).

The force of the leakage effect depends on the differences of the economic power between markets: the larger the gap between economic activities in both markets, the more money leaks from the market with low levels of economic activities to the market with high levels of economic activities. Therefore markets with low levels of economic activities that are located nearby markets with high levels of economic activities tend to experience a strong leakage effect. In contrast, markets that are located nearby markets with equal levels of economic activities tend to experience a weak leakage effect.

**Social role of small retailers**

Besides affecting the economy of a market, small retailers could also affect the social welfare of communities and individuals.

As described previously, small retailers can act as entrepreneurs when they are innovation driven. Thiessen (1997) explains how being an entrepreneur can lead to personal development and satisfaction. Entrepreneurship is an individualistic type of behaviour that is based upon opportunities. Therefore, entrepreneurship is highly present in individualistic communities, while communities based upon collectivism show lower levels of entrepreneurship. Various motives for starting-up a business can be distinguished from literature, including:
- Wealth creation;
- Self-actualisation;
- Creativity;
- Independence.

These motives meet the following individualistic values:
- Achievement
- Self-direction
- Social power
- Stimulation

Furthermore, in a literature review about the social role of small retailers, Clarke and Banga (2010) find strong evidence that small retailers play an important role in social cohesion of communities. Historical evidence shows that small retailers have a community 'hub' function where social interaction can take place. Small (and often local) retailers interact socially and advise the community through their proximity to residents as well as their specialisation. In contrast, larger retailers tend to attract a diverse range of customers through the value and innovation they offer. More recent research serves to underline the inherently social nature of the shopping process and the critical role that small stores play in this regard. These studies distinguish three ways through which small retailers create social cohesion:
1. Fostering interaction by promoting local events and using local heritage;
2. Developing familiarity and building relationships with the local community;
3. Creating emotional connections in a friendly environment.

In addition, small retailers play different social roles to a variety of customers. For some, they are the only shop available, for others they are a source of emergency supply and for the most; they are a focal point and source of specialist supply. That small retailers meet a variety of social, sustainability and ethical needs, rather than just utilitarian needs, is supported by research about interventions in regeneration areas, where the opening of small shops showed to alter shopping habits by:
- Fostering a sense of security;
- Reducing isolation and supporting the independence of residents;
- Responding to shoppers needs by selling in flexible and smaller quantities.

§2.5 Conclusions

The value of shopping malls is largely determined by two factors: the lease price (rent) and the lease terms. The higher the rental income and, in general, the longer the lease term, the higher the value of the mall is. The rent a tenant can pay depends on his profits, which in turn depends on the consumer expenditures at his shops. Therefore, shopping mall owners and retailers have a common interest: attract customers and make them spend.

One of the most important reasons for retailers to lease space in a mall is that it benefits from the agglomera-
The business model of retail chains is based upon low value, high volume. Their bargaining power towards each other (multipurpose need) and substitute each other (comparison need).

The fact that retail chains have lower margins and pay more rent per square meter implies that small retailers often require larger spaces and can pay less rent per square meter. Two other success factors of retail chains can be distinguished. First, due to the increase of consumer mobility past decades, a consumer preference for retail chains has increased. Because consumers are familiar with these chains, they know what products and services these chains offer. In addition, retail chains have benefitted from the increase of brand sensitiveness of consumers. Retail chains can respond to this increase of consumer brand sensitiveness better than other retailer by enrolling large marketing campaigns that reach many people. By offering low prices, creating recognition and responding to consumer brand sensitiveness, retail chains have increased their market share. In addition, these characteristics enable them to draw customers to shopping malls. Therefore, large retailers in shopping malls are often referred to as anchor tenants. Because anchor tenants create positive externalities for other tenants, they are in the position to negotiate subsidised rents. Besides drawing customer to the mall, two other factors that explain the shopping mall owner's preferences for retail chains can be distinguished. First, because retail chains show lower mortality rates compared to other retailers, they increase the stability and security of shopping mall owners' cash flows. Second, retail chains ensure the quality, and consequently, the image of the mall.

The role of small retailers in shopping malls is that they increase consumer choice and value. Smaller retailers, as opposed to a few retail chains, improve consumers' perception of choice, when these small retailers are of adequate quality. By increasing the consumer choice within the mall, small retailers could attract customers. In addition, as opposed to retail chains who are present in most malls, small retailers could also create diversity between shopping malls. Therefore, small retailers could increase the distinctive power of shopping malls. Besides increasing consumer choice, small retailers could increase consumer value. For example, small retailers can adapt to the local community better than most retail chains. In addition, small retail chains can offer specific formats or aim on specific target groups. It is because of these characteristics that small retailers tend to operate in niche markets. Consequently, in contrast to retail chains, their business model is based upon high value, low volume.

Besides having economic responsibilities (create value for their shareholders), shopping mall owners also have the duty to respect individuals' rights and promote human welfare in their operations. These social responsibilities are particularly important in consumer oriented businesses such as retail. Therefore, the awareness of Corporate Social Responsibility (CSR) among shopping mall owners has increased significantly. However, this increase in awareness can largely be attributed to the increased awareness of sustainability. By increasing its CSR, shopping mall owners can reduce the risk of reputational damage, which could lead to reduced customer traffic (responsive CSR). However, CSR could also be a tool to gain market share by increasing the distinctive power of the mall (autonomous CSR).

Small retailers can promote human welfare by positively affecting a market's economy and a community's social welfare. They can positively stimulate the economy by increasing competition and add value through innovations. In addition, by increasing the cash-flow, small retailers can encounter the leakage effect of a market. Besides having an economic role, small retailers also play a social role in communities. Small retailers can stimulate personal development by creating opportunities for entrepreneurship. In addition, small retailers tend to increase the social cohesion of a community.
Part II: South African township case

Informal retailers near Central City mall, Mabopane, Gauteng (photo by author)
Because previous chapter suggests that both retail chains and small retailers have specific qualities that could add value to the shopping mall, we need to address the question why it is that in some cases shopping mall owners seem to prefer retail chains over small retailers. By looking at two different markets, we can distinguish market and framework conditions that affect the relationship between shopping mall owners and retailers in such a way that shopping mall owners prefer to incorporate retail chains over small retailers. Therefore, part II of this research analyses the market conditions (chapter 3) and the institutional framework conditions (chapter 4) of an emerging market: South African townships.

Because of the complexity of the South African market, and the township market in particular, paragraph 3.1 gives an introduction of the South African township market. Then, paragraph 3.2 describes the market conditions that affect the relationship between shopping mall owners and retailers in townships. Next, paragraph 3.3 describes the impact of these market conditions on the business model of shopping mall owner. Finally, paragraph 3.4 shows how the market conditions affect the CSR of shopping mall owners.
§3.1 Market introduction

The emergence and present state of South African townships

Bond (2001) defines a township as “land formally allocated to hosting the site of a town; the word township legally refers to both residential and industrial sites. However, in South Africa, the term township and location usually refers to the (often underdeveloped) urban living areas that, from the late 19th century until the end of Apartheid, were reserved for non-whites (principally black Africans and Coloured’s, but also working-class Indians).” The term Coloured’s could be confusing here, since in South Africa, people who are defined as Coloured’s are not black but often brown, interracial people. Godehart and Pernegger (2007) distinguish two types of townships, which are characterised by their time of development.

Colonial townships

Townships initially emerged because of the demand for inexpensive migratory labour, after the discovery of precious metals like gold (1886, Johannesburg) and diamonds (1867, the Cape) and were the outcome of class segregation. This class segregation generally coincided with different race groups:

- The white, colonial elite (rich);
- The colonized middle-class comprising of Indians and some Africans working in the colonial bureaucracy (middle-class);
- The urban majority of Africans working for the elite (poor).

Apartheid townships

Although Apartheid was formally instituted in 1948, racial segregation was a well-known phenomenon since Dutch ships landed on the coasts of Cape Town in 1652. However, it took 250 years before racial discrimination became formal: by the Group Areas Act of 1950 the entire non-white population was ordered to live separately causing the number of township-residents to increase significantly. Townships where designed on peripheral locations in order to control and exclude the non-whites. In addition, each race group was assigned a different area, self-contained by physical barriers such as rivers or buffer zones such as industrial areas. These townships were usually connected with the city centre by a single road and possibly one railroad that could easily be blocked in case of social unrest. Since the abolishment of Apartheid in the early 1990’s, desegregation of Township areas has only been minimal. (Bond, 2001; Godehart and Pernegger, 2007)

Although nowadays townships are often seen as places with a strong community sense, vibrant creative industries, mass transport activities, trade promotion and cultural heritage promotion, they remain high crime areas that are spatially excluded due to the peripheral location and their limited transport links to the cities. As we will see in paragraph 3.3, still many township residents live in poverty and unemployment numbers are very high. Although government policy since 1994 aimed at the integration of townships and their residents into the cities, so far, this integration has only been one way: township residents who wanted to improve their quality of life were moving out of townships to other parts of

Figure 3.1: Variety of living conditions in Diepsloot township, Johannesburg (upper left and upper right), and variety of living conditions in the Western Cape (Guguletu township; bottom left, and Constantia suburb; bottom right)
the city, while hardly any elite or middle-class residents moved into townships, causing townships to continuously lose their impetus to improve living conditions. However, some colonial townships benefit from the fact that cities have grown in such a manner that they are now part of the city centre. These townships can profit more easily from economic growth of the city’s mature market. However, their location has attracted many migrants from rural areas in South Africa as well as foreign migrants who are looking for employment, limiting the growth of the local economy. (Bond, 2001; Goderhart and Pernegger, 2007)

Not only diversity between townships can be distinguished, also within townships various areas with various living conditions exist. For example, in Diepsloot, a township northern of Johannesburg, migrants often settle in an area called ‘The Reception’. This area is a densely populated area existing of shacks and narrow, unpaved paths. In addition, in this area, no electricity, water and adequate transport systems are available. However, in Diepsloot, also more developed areas can be found with houses made of bricks, electricity and water systems, and paved paths (see image 4.1). In other words, not only between townships a lot of diversity exists, where some townships, especially those that are located within or near a city centre, are more economic developed as others, also within townships various areas with different living conditions can be found. (Demacon, 2010)

**Market segregation in South Africa**

Townships and rural areas in South Africa give South Africa an unique economic character because South Africa is often referred to as having a first and second economy market, where townships and rural areas represent the second economy market and city centres and modern suburbs represent the first economy market. Consequently, the living conditions in these areas vary significantly. For example, in the Western Cape, one could find green areas with large estates, flourishing businesses and high-end retail and entertainment facilities near townships with shacks, without water and electricity structures (see image 3.1). The term second economy was first introduced by President Thabo Mbeki in his August 2003 ‘Letter from the President’. He typified the second or marginalised economy as underdeveloped, contributing little to the GDP, containing a large percentage of the South African population, incorporating the poorest of our rural and urban poor, structurally disconnected from both the first and the global economy, and incapable of generating its own growth and development (Lighthelm, 2010). Since then the expression has become a central manner that the causes of persistent poverty are conceptualised in the public discourse of South Africa (Faull, 2005). However, what is precisely meant by the term second economy, what it constitutes of and what characteristics that make it “second” has not been very clearly defined (Du Toit et al., 2007). Alan Hirsch, the South African Presidency, argued that the notion of the second economy is merely a metaphor and a manner of approaching a debate on the structural determinants of poverty in South Africa (Du Toit et al., 2007).

**§3.2 Market conditions**

This paragraph analyses the township market conditions by looking at the township economy, retail developments, consumers and retailers.

**Economy**

Due to the diversity of township areas, as described above, economic activities in townships differ from township to township. However, there are some general conditions that describe a township’s economy.

First, the welfare levels of residents are generally low: unemployment numbers are high, in some areas even 50%, and therefore most people depend on social grants. Paragraph 3.3 will further analyse the township consumer characteristics. The low levels of welfare temper the money circulation within the area. In addition, township residents that do have a formal job tend to work outside the area. Furthermore, most residents tend to buy products and services outside the area, in the first economy areas. Equal to the low level of welfare, by increasing the leakage effect as described in paragraph 2.4, both factors temper the money circulation within the area. Furthermore, investments from outside the area are often marginal, because most businesses within the area are informal, and, consequently, unregistered (Demacon, 2010).

As a consequence, township economic activity is generally marginal. For example, a study conducted indicated that even though Soweto households make up of 43% of the Johannesburg population, they only contribute for 5% to the city’s gross geographic product. Economic activity in many townships is generally limited to retail (frequently informal), trade, transportation and government services (DPLG and EU, 2009). The often peripheral locations and poor accessibility of townships causes information and job opportunities to be limited, which in turn limits economic growth. Furthermore, the costs of transactions and education are relatively high, which further limits economic growth (Demacon, 2010).

Hence, it can be concluded that in order to establish economic growth, cash flows into (stimulate investments) and within the area (encounter leakage effect) need to be stimulated. By increasing the flow of money into and within townships the overall levels of poverty will be reduced as more people are brought into the functioning market system. When enabling necessary supporting structures, the increased flows of income...
will stimulate markets such as the residential and commercial property markets and promote overall economic development (Demacon, 2010).

Retail developments
Before economic developments, retail is a leading sector in townships’ economic activities. Retail activities are mostly informal, necessity-based and scattered throughout the area in the form of street vendors and home-based shops. Some informal retail concentrates around (public) transport hubs. But why do retail concentrations not lead to the development of shopping centres, as it has happened in many mature markets? Several reasons that answer this question can be distinguished.

First, as described previously, because first economy areas are often nearby, consumers spend their money outside the area in these first economy areas (leakage effect). Furthermore, high crime levels are limiting the developments of retail, as explained in box 2. In addition, the lack of financial institutions in the area increases the risk of having a shop: retailers are unable to bring cash to a bank on a regular basis, which makes them vulnerable for crime. Furthermore, because township are often densely populated areas, spatial factors such as shortage of parking and the lack of intermodal integration further limit the development of retail centres (Demacon, 2010).

However, due to the fact that household incomes and the township population have increased and most new middle-income township residents have strong social and cultural bonds (especially the emerging black middle-class), which indicates that they intend to stay for the foreseeable future, the potential for retail developments in township increased (Kohler, 2010). And, because local retailers were unable to establish retail centres, as described above, external investors started to exploit the market potential of the township environments. Consequently, they changed the business environment of townships, causing multi-use nodes to emerge. Originally these nodes were strongly based upon public sector investments. However, since the end of the 1990’s, private led investments in these nodes have increased significantly. These investments were further stimulated by the stagnating first economy markets (Demacon, 2010).

The significant increase of shopping malls developments by external investors in township and rural areas in South Africa is characterised by three aspects:
- The increase in numbers of shopping centres developed;
- The increase in total retail floor space developed;
- The increase in average size of retail centres developed.

In total, 162 shopping centres have been developed in second economy areas. In the period 2000 to 2004, eighteen shopping centres were developed in these areas, while the period 2005 to 2009 saw a further increase of these developments: 32 shopping centres were developed during this period. In addition, the average size of the developments increased as well: from 14,067m2 Gross Leasable Area (GLA) in the period 2000 to 2004 to 19,026m2 GLA in the period 2005 to 2009. Consequently, the total amount of GLA developed during these periods increased from 253,206m2 GLA to 627,866m2 (see figure 3.2). (Demacon, 2010)

The first modern township mall was developed in Dobsonville, Soweto in 1994. The construction costs of the mall were less than €1 million. Since then, the demand for retail space in townships has increased significantly, leading to developments such as Maponya mall in Soweto, which is recently developed at costs up to €70 million. Despite the increased rents due to the global economic downturn, most malls achieve high turnovers. The success of shopping malls in second economy areas, further described in box 3, has caused an increase in value of these malls. For example, Daveyton Mall on the East Rand experienced an increase in value from €4,9 million to €7 million in just two years. The yields of shopping mall investments in second economy areas fluctuate between 10% and 11.5%, whereas buying existing malls in first economy areas has become very expensive, with yields generally down to 7,5% and 9%. The success of these malls can partly be explained by the fact that they are often the first, or one of the few modern and formal forms of retail in large areas. Consequently, these mall often have large primary source

Box 2: Retail and crime: how crime limits retail activities in townships

The following story shows how crime can affect retail activities in townships.

The owner of the store in KwaMashu took over the shop in 1997 when the previous owner was shot dead whilst locking up one evening. The current owner has also been shot in an armed robbery but survived after some time in intensive care. The bullet holes are still visible in the shop. He has installed burglar bars, and razor wire to stop people entering through the roof. He also checks his shop every night at different times. Other shop owners said that they too sleep in their stores. (Godchert and Pernegger, 2007)

This example explains why most businesses choose to operate from their residential premises, rather than from individual or groups of shops. In contrast with larger retailers, who can afford the installation of elaborate security system, they lack the finance to do so.
markets, sometimes even up to 1.3 million people (Demacon, 2010).

**Consumers**

In the consumer landscape two trends are noticeable: the increase in income and living standards and the rise of a black middle-class.

In South Africa, with a population of roughly 45 million people, circa 50% of the South African metropolitan households live in townships. While many of the townships contain middle- and lower-income areas and scattered middle-income households, most township residents are poor and unemployment rates are very high. In fact, as can be seen in table 3.1, the total percentage of people with an income lower than €438 per month was 88% in 2008. However, table 3.1 also shows that the percentage of people living of an income of less than €60 decreased from 58% in 2000 to 41% in 2008. A major cause is the distribution of social grants. These grants, which represent a major monthly income for more than 12 million people, have been playing an increasingly important role in reducing poverty and inequality in South Africa since 2000. In that year, only 4 million people received social grants, while this number has increased significantly past decade to almost 13 million people today. (Demacon, 2010)

So even though 18 million South Africans still live on less than €60 per month, a noticeable and relatively stable shift has occurred in the economic pyramid. This has resulted in an upward movement along the national living standards profile between 2006 and 2006, measured by the Living Standards Measure (LSM). This measure includes 10 classes, in which 1 is being the lowest living standard and 10 the highest. There has been a significant decline in the LSM 1 to 3 categories and a significant increase in the LSM 5 and 6 categories since 2006, meaning that the living standards have increased significantly during this period. (Demacon, 2010)

Largely due to Black Economic Empowerment (BEE) legislation, the black township middle-class is growing in numbers past decade. This can be clearly seen in table 3.1: while in 2000 only 20% of township residents that earned more than €438 per month were black people, in 2008 this percentage had grown to 35%. In addition, black households’ share of consumption expenditure rose from 42,9% in 2000 to 44,3% in 2006. It is anticipated that this rising black middle income segment

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**Figure 3.2: Shopping centre developments in second economy areas in numbers (red) and average size (blue) (Demacon, 2011)**

The following three examples show that, despite the economic downturn, most shopping malls in townships perform very well.

1. **Umlazi Mega City, Umlazi, Durban**
   This mall, with a size of 35,000m2GLA, experienced a growth in retail sales of 17% between end-2006 and end-2007. Retailers in the mall achieve trading densities larger than the industry average of €2,000/m2 per year.

2. **Maponya Mall, Soweto, Johannesburg**
   This large mall, existing of 66,000m2GLA generates a turnover of €8 million per month, which is only 3% below target.

3. **Vangate Mall, Athlone, Cape Town**
   This mall, with a size of 33,000m2GLA, achieves trading densities of €2,700/m2 per year, well above the industry average of €2,000/m2 per year.
The rising black class has two characteristics that positively affect the demand for retail in townships. First, 47% of the black middle class live in suburbs, opposed to townships. However, the remaining 53% still live in townships because of social and cultural bonds. They live mainly in brick houses with electricity and running water. In addition, those not residing in townships, however, visit family and friends in townships on a monthly basis. Second, this market segment has a strong drive towards household appliances, vehicles and aspirational assets. In addition, the spending patterns of the emerging new consumers differ from the established middle income group due to their asset deficit (township inhabitants have relatively low levels of debt, and their homes are often already paid), causing the emerging class to spend a bigger share of their income on things such as microwaves, tumble dryers, cars, education and reading matter. (Demacon, 2010)

The overall increase in income and living standards as well as the emergence of a black-middle class and their characteristics has caused an increase in retail demand in townships and rural areas. This explains the success of township shopping malls. As a result of township shopping mall developments, consumer expenditures within townships have increased. Research shows that shopping undertaken outside the area decreased from 55% to 38%. (Demacon, 2010)

The second economy shopping mall developments have affected local consumer behaviour. Benefits like:
- Savings in time and money that they used to spend travelling to shopping centres further away;
- A safe and secure place to shop;
- Access to a variety of affordable, quality goods;
- Access to banking services and higher levels of credit,
make consumers in townships enthusiastic about these developments. In addition, for consumers, having access to national retailers means wider choice at lower prices: because informal retailers tend not to produce goods but rather buying them at formal sector sellers (sometimes being supermarket chains), they sell these goods on to consumers with a fixed mark-up or margin. The positive attitude of township consumers towards shopping mall development is supported by research among consumers, showing that 53% of the respondents were positive or very positive towards the developments and only 7% of the respondents were negative or very negative about the developments. (Demacon, 2010)

**Retailers**

Before shopping mall developments only a few retail chains could be found in townships. However, shopping mall developments paved the path for retail chains to exploit the township market. In fact, most space in shopping malls is leased by these chains. On average, 75% of the tenants in these malls are national retail chains and 15% are regional tenants, leaving only 10% to be local tenants. Therefore, the success of shopping malls can be largely contributed to the success of national retail chains in these malls. Especially the anchor tenants, usually being supermarkets like Spar, Shoprite and Pick n Pay, perform well. For example on the opening day of the Philani Mall in Umlazi, Durban, anchor tenant SuperSpar set a national trading record for Spar outlets. In addition, another Spar in Umlazi Mega City shopping centre achieves an average trading density of €2.300 per square meter per year, which is considerably higher than trading densities usually generated by food retailers in suburban malls. (Demacon, 2010)

Small retailers in townships are often operating in the informal sector. Nichter and Golmark (2009) define informality in this context as businesses that are unregistered but derive income from the production of legal goods and services. In addition, Schneider and Klinglmair (2005) state that the informal economy embraces all unreported income from the production of goods and services, both legal and illegal, either from monetary or barter transactions, and hence all economic activities that would have been taxable if reported to tax authorities.

Informal business are characterised by several aspects. First, most businesses are necessity-based. Necessity-based businesses, as described in paragraph 2.4, are also referred to as survivalist entrepreneurs, meaning that they are people who start their business because they have no better options for work. In contrast,

<table>
<thead>
<tr>
<th>Income per capita per month</th>
<th>Total</th>
<th>Divided by race</th>
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<td></td>
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<tr>
<td>&lt; €64</td>
<td>58%</td>
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<td>€64 - €438</td>
<td>34%</td>
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<td>€438 - €900</td>
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<td>&gt; €900</td>
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Table 3.1: Income per capita in South African townships divided by race (Demacon, 2011)
opportunity-based entrepreneurs are entrepreneurs who start their business because they see opportunities, even when they have other employment possibilities. In townships, the informal sector has expanded significantly. There are about 750,000 informal businesses located in townships, providing work for 1.6 million people (Ligthelm and Rasenga, 2006). This comprises 13% of the total population of these areas that generate roughly €47 million per month (DPLG and EU, 2009). This expansion is caused by the increasing divergence between economic growth and formal employment growth: GDP indices increased from 124 in 1990 to 170 in 2005, while employment indices declined from 112 in 1990 to a mere 92 in 2005, meaning that the population has grown faster than employment opportunities created by economic growth. The shortage of employment opportunities in the formal sector compels people to enter the informal sector in an attempt to escape the plight of unemployment; the share of informal employment increased from 7.7% to 20.6% of the total South African working population from 1980 to 2005 (Ligthelm, 2010). And, as research shows, people who are employed in the informal sector indeed have a slightly higher quality of life than people who are unemployed. For example, from those employed in the informal sector 12% lack electricity, compared to 39% from those who are unemployed. In addition, from those employed in the informal sector 20% lack enough food to eat, compared to 27% from those who are unemployed. (Demacon, 2010)

In addition, many informal business owners have low levels of education. The Business Sophistication Measurement (BSM), a segmentation tool that was created to look at the continuum of small business from the informal street vendors (BSM level 1) to the more sophisticated and sustainable business practices (BSM level 7), shows that in BSM level 1 the education distribution is:
- 4% some primary school;
- 61% some high school;
and in BSM level 7 the education is:
- Matric 29%;
- Post matric qualification 48%;
- Post graduate 5%;

Bachelor degree 8%. (Demacon, 2010)

The necessity-based motive as well as the low levels of education causes informal businesses to create low turnovers. For example, in Gauteng as many as 220 000 business owners generate a turnover below the current poverty line (Demacon, 2010). In addition, these businesses rarely experience growth. For example, in the informal sector, only between 10% and 15% of informal businesses show inherent potential to grow and to trade up to higher and more formal business echelons. In addition, small businesses in South Africa are characterised by:
- High mortality rates;
- Their stagnating business environment;
- Their market growth, which is often manifested by new entrants rather than by an increase in the existing business’s turnover;
- Their business ‘offices’, often being kerbside shelters or homes. (Ligthelm, 2010)

In addition, business skills vary across cultures. For example, black owned businesses tend to perform worse than, for example, Asian owned businesses (Demacon, 2010).

Not only do the informal businesses’ characteristics as described above reduce the businesses’ growth potential, it is associated with several other characteristics that make growth difficult. Although small, informal businesses may be able to circumvent government regulations and taxation, as they grow they risk becoming more visible, creating disincentives to expand beyond a certain size. As a consequence, informal firms need to ‘keep their heads down’, ruling out large size and rapid growth as well as close relations with formal firms. The rejection of building relationships with formal firms prevent small retailers to set-up contracts with international or governmental buyers and to obtain formal credit and assistance from law enforcement agencies and courts, reducing the businesses’ growth potential even further (Nichter and Golmark, 2009).

The impact of shopping mall development on existing small businesses cannot be explained uni-dimensionally,
purely portraying a decline in small business activity (McGaffin and Gavera, 2011), as Andre Ligthelm, Research Director of the Bureau of Market Research at UNISA explains: “While some small businesses expect to close their doors, several small businesses were established due to mall development. This is particularly true for street vendors with their ability to intercept large numbers of township consumers at the new malls. In addition, a third of the respondents surveyed in Soweto predict an expansion of their business turnover, while another third expects a contraction. Some regard the newly developed malls as their main competitor, while others experience stiff competition from fellow small businesses.” (Ligthelm, 2008)

Hence, it can be concluded that some businesses profit from the shopping mall developments, while others struggle from these developments.

**§3.3 Impact of market conditions on the shopping mall business model**

This paragraph bridges the market conditions and the township shopping mall business model. The three shopping mall owners that have been interviewed explain why they prefer to incorporate retail chains over small retailers.

The reason behind the success of retail chains in shopping malls is threefold. First, shopping mall owner 1 distinguishes one importance difference between the business models of first and second economy areas: “Second economy shopping mall business models differ from first economy shopping mall business models in that they are based upon low value, high volume.”

The reason why the township business model is based upon low value, high volume is that the household incomes in townships are significantly lower compared to first economy areas. Because their efficiency, retail chains can offer goods to lower prices and higher volumes compared to smaller retailers, as explained in chapter 2.

The second reason behind the success of retail chains of shopping malls is the fact that township consumers are very brand sensitive. Shopping mall owner 1 explains this by the fact that brands are a relatively easy way to show and acquire status in township communities. This is supported by shopping mall owner 2, who states that: “Township consumers are strongly brand sensitive. If you can bring home food from Woolworth’s (a high-end South African supermarket chain) for example, it gives you status within the community.”

Not only products from high-end supermarket brands but also the more luxury products from brand chains such as clothing and mobile phones do well, as an example of shopping mall owner 1 shows: “Townships consumers are easily spending half of their monthly income towards the purchase of an ultra-modern mobile phone.”

And since retail chains can respond to consumer brand sensitiveness through their corporate branding and private labels, they benefit from this fact.

Furthermore, shopping mall owner 3 says that pride plays another key role in township communities. Shopping mall owner 3 says that at the opening of the mall people came to them and said: “Thank you so much for giving this to our community.”

The reason why township residents are proud of shopping malls is the fact that the retail chains incorporated in the mall are being recognized as high-end retailers, which could formerly only be found in first economy areas. Thus, the presence of retail chains in townships are being seen as signs of economic development in these areas.

Hence, it can be concluded that the market conditions positively affect all three characteristics of retail chains as described in chapter 2.

The fact that the township shopping mall business model is based upon low value, high volume already partly explains why small retailers struggle in shopping malls: their business model is based upon high value, low volume because they tend to operate in niche markets. However, little township consumers can afford the high value goods offered by small retailers.

In addition, only one shopping mall owner mentions the role of shopping mall owners in creating diversity. Shopping mall owner 3 states that: “The national tenants you will find in almost every shopping mall, it are the small retailers that make the mall unique.”

In other words, shopping mall 3 finds that it is important to incorporate small retailers in order to distinguish its mall from competing malls. In addition, shopping mall owner 3 says that even retail chains asked him to incorporate more small retailers because they also feel that a diverse shopping environment is important. However, the fact that the other two shopping mall owners do not emphasise the role of small retailers in creating diversity can be explained by the fact that most shopping malls are the only, or one of a few high-end formal retail developments in townships, causing the competition levels among township shopping malls to be relatively low. In addition, these competition levels are expected to remain low, because consumer expenditures are expected to grow in the nearby future. The fact that the competition levels among township shopping malls are low and are expected to remain low in the nearby future tempers the need for shopping mall owners to distinguish their malls from others.

Chapter 2 showed that small retailers increased con-
consumer choice when these retailer are of sufficient quality. Because of the necessity-based and informal nature of most local retailers, the quality of these retailers are too low to increase consumer choice. Shopping mall owner 1 found that most informal retailers lack the will or/and the skills to formalise their business: although most informal retailers possess strong trading skills, they often lack the necessary management and business administration skills. In addition, informal retailers are often not willing to formalise their business because:
- They dislike the constraints of being located at a fixed location;
- They dislike the constraints of having to pay the rent on a fixed date;
- They dislike the constraints of fixed opening and closing times;
- They dislike the constraints of trading in a specific product type: some informal retailers sell a variety of products such as cell phone covers and fruit, whereas in shopping malls retailers are only allowed to sell a specific product type.
In other words, the restrictions of formal retailing in a shopping mall and the fluidity of informal retailers are often incompatible. In addition, shopping mall owner 1 finds that informal retailers are finding it difficult to compete, and because in a shopping mall tenants are usually structured by type, competitors are located near each other.

It can be concluded that the characteristics of retail chains respond to the township market conditions better than small retailers do. As a consequence, incorporating retail chains draws customers to the mall and increases the stability of the cash-flow. In contrast, small retailers tend to add low value to township shopping malls and, consequently, decrease the stability of the cash-flow. In other words, because of the nature and characteristics of small retailers, in townships markets, the risk of incorporating small retailers in the mall is high, because of their risk of failure. As shopping mall owner 3 states: “It is very easy to fill up your mall with national retail chains and don’t give space to local businesses. For example, when you fill up your mall with 80% national retail chains and 20% with local retailer, it is within that 20% where your risk lies, because they are the guys that sometimes don’t make it, whereas the 80% is sure rent.” In addition, shopping mall owner 1 states that: “From a business perspective, I prefer to have 100% national tenants, since they give a more secure cash-flow.”

However, shopping mall owners do incorporate some small retailers. The reason behind this is that by incorporating small retailers, shopping mall owner try to show their CSR. Why and how they show CSR is explained in the next paragraph.

§3.4 Impact of market conditions on CSR

Why township shopping mall owners show CSR
The shopping mall developments in townships create discussions about whether or not these developments are positively affecting the economic and social welfare in these areas. First some positive effects of the shopping mall developments are described.

The development of a retail centre near a transport hub is often the first step in the process of nodal development (see figure 3.4). One result is that it brings services closer to the community. For example, it allows banking by local businesses to occur on the same day, addressing a crucial safety and security issue in an area where crime is seen as an inhibiting factor of small business growth. (Demacon, 2010)

The developments of shopping malls has led to a significantly increase in cash flow into the area, which is an important factor to establish economic growth. The total net present value of investments in shopping malls in second economy areas has increased from €237 million in the 1980’s to €2.115 million in the period 2000 to 2009. In addition, one third of shopping mall investments in South Africa over the past five years have been in second economy areas. (Demacon, 2010)

Shopping mall developments play an important role in employment creation. Three different ways of employment creation can be distinguished:
- Store employment;
- Shopping mall management employment, such as security and cleaning services;
- Shopping mall construction employment through, for example, local contractors.

It is estimated that second economy shopping mall developments have contributed to an increase in formal employment of 54,000 jobs since 1980. In addition, before shopping mall developments only few retailers were operating in the formal sector in second economy areas. However, due to these developments national retail chains have established in these areas, consequently leading to an increase in formal businesses in second economy areas. The increase in formal employment and businesses not only leads to an increase in cash flow within the area directly, but also indirectly through tax generation. The total net present value of tax generated by shopping malls in second economy areas has increased from €28 million in the 1980’s to €134 million in the period 2000 to 2009. By spending these taxes on local services and developments, the local government can further increase the cash flow within the area. (Demacon, 2010)

However, the decrease of local businesses that most
shopping mall developments have caused has also led to some critical sounds regarding these developments.

Although external shopping expenditures have declined from 55% to 38%, this does not automatically imply an increase in cash flow within the area. As explained earlier, shopping within the area can be done at a national retail chain or a local retailer. Only a small share of the expenditures done at national retailers will flow back into the local community, for example in the form of salaries paid to local employees, whereas the share of expenditures done at local retailers that will flow back into the local economy is much larger. Because the success of shopping mall developments largely depends on the success of the national retail chains, these chains seem to be largely accountable for the increase in internal expenditures. Therefore, one could argue that the shopping mall developments lead to a decrease in cash flow within the area, rather than an increase.

In addition, research shows that local (informal) retailers only buy a small percentage of their stock at the newly developed mall. By increasing this share, and thus by changing the supply chain of local retailers, the money circulation within the area could increase.

Although the nodal developments can be seen as a platform to increase formal business activity, figures show that only 10% of tenants in shopping malls are local. Therefore, the increase of formal business can largely be accounted to the establishment of national and regional retail chains. In addition, these figures indicate that the possibilities for local informal retailers to move up to the formal economy are still scarce.

Although local consumers are strongly positive about the shopping mall developments, especially local informal retailers not always do so. When many local retailers feel threatened by these developments they could cause social unrest, which could negatively affect the image of the mall. For example, the Chamber of Commerce in Alexandra, a township in Johannesburg, had organised a series of boycotts against the newly developed Pan Africa Mall, discouraging residents to buy at the mall. They felt that too few people from Alexandra had benefitted from the mall through employment and that it was “owned by people from outside”. (Bizzcommunity.com, 2009)

**How township shopping mall owners show CSR**

The discussion about the possible negative effects the low incorporation of small retailers in shopping malls confirm the role of small retailers in establishing economic growth and social welfare as described in chapter 2. Therefore, shopping mall owners incorporate small retailer in order to create support from the local community. This is a form of responsive CSR as described in chapter 2.

However, townships shopping mall owners also see showing CSR as an opportunity to increase consumer expenditures at their mall. Shopping mall owner 3 says that loyalty plays a much bigger role in township communities than in first economy communities. Because townships communities have very strong bonds, they are very sensitive for aspects like loyalty. By creating loyalty within the community, a shopping mall owner can increase expenditures by these communities at the mall. As shopping mall owner 3 states:

![Figure 3.4: Nodal development (Demacon, 2010)](image)
Box 4: The shopping mall development implications discussion: proponents and opponents talk

Proponents:

“The people of Alexandra deserve a mall of this standard and they are doing their shopping here, instead of traveling long distances by taxi to other areas.” Tshepo Ndlovu, franchise owner

“I wanted my business to grow beyond the level that it was before. It is much easier to make a turnover of €10,000 a month at Maponya Mall compared to where I was before, because here I see my clients.” Mluduzi Nkosi, owner of Bath House Hair & Beauty Spa

“The new development has been designed with the local community in mind. Our plans demonstrate our commitment to bolster development in the area, be it entrepreneurship or job creation.” Caswel Ramphiri, Managing Director of Liberty Property Development

Opponents:

“The people of Alexandra will fight for what belongs to them. We will cripple the tenants of Pan Africa mall until they leave and the mall is fully owned by locals.” John Makgoka, spokesperson of the Greater Alexandra Chamber of Commerce

“I have lost many customers to the nearby Jabulani Mall. People are buying their groceries in that mall and I was forced to close some of my grocery shops, leaving behind only hardware.” Reggie Makhetha, owner of Roots restaurant

“Because of the new malls, we are forced to renovate our businesses to look modern in order to keep the existing or attract new clients.” Sibusiso Tapera, Managing director of Toby’s Ford and Service Station

(McGaffin and Gavera, 2011)

“We want township consumers to feel guilty when they go shopping somewhere else.”

So, besides using CSR as way to prevent social unrest, the also use CSR to increase market share, which could be seen as autonomous CSR as described in chapter 2.

In order to incorporate local retailers in their malls, shopping mall owners basically have 2 options:

1. Accommodate informal retailers near or within the mall;
2. Formalise informal businesses so they become regular tenants.

Box 5 shows some examples of how shopping mall retailers try to accommodate and formalise informal retailers.

Shopping mall owner 1 explains that the success of accommodating informal retailers is relative: in some cases informal retailers are trading right in front of shopping windows, creating high turnovers for their businesses but hindering the formal tenants in the mall. In other cases, like the one in Vangate, informal retailers are accommodated in kiosk at the back of the mall, meaning these businesses experience low turnovers but not hindering formal shops in the mall. In other words, informal retailers believe that when they are accommodated on a location with high customer traffic densities, the accommodation is a success, whereas the shopping mall owner believes that when informal retailers are accommodated on a location where they do not hinder the formal retail process, the accommodation is a success. These two different points of view of success are conflicting more often than they are compatible.

It can be concluded that shopping mall owners try to accommodate informal retailers in order to:
- prevent social unrest among informal retailers;
- prevent informal retailers from hindering the formal retail process

In addition, by cleverly locating informal retailers, the shopping mall owner could increase its customer traffic. However, neither of the shopping mall owners believes that accommodating informal retailers increases their economic responsibilities by adding customer value or increasing customer choice. In addition, as described in box 6, informal retailers’ contribution to the shopping mall owner’s cash flow is very low. Therefore, shopping mall owners that try to accommodate informal retailers do this to prevent them from hindering the formal retail process rather than to increase the shopping mall’s value.

A concept that has been or is being implemented among two shopping mall owners is to accommodate informal retailers in small units of approximately 25m² to 40m² and help them in their process from being informal to become a formal business. However, the opinions about the success of this concept differ significantly.
Shopping mall owner 1 has implemented this concept several years ago. However, he finds that the mistrust between shopping mall owners and informal retailers stood in the way of building a successful relationship. He experienced that only a few informal retailers were able to graduate from an informal to a successful formal business because of the previously described lack of skills and willingness.

In contrast with shopping mall owner 3, shopping mall owner 1 feels that training most informal retailers is not necessary and not of their business:

1. They already possess good business skills: they change location and goods and adapt to local consumers’ needs.
2. When they could use some training, for exam example in business administration, the government should provide it.

Shopping mall owner 3 says that the concept of formalisation works very well in his mall, but also admits that this is unique in a second economy shopping mall. Shopping mall owner 3 argues that:

"It is a matter of taking local retailers by the hand and to create understanding of what needs to be done."

In other words, their formalisation concept exists of:

1. Explaining the importance of being a formal businesses;
2. Helping them to get formalised, for example by helping them to get tax registered.

Retailers that show potential are given the opportunity to move to the mainstream are where they are given the right space at the right location. Furthermore, shopping mall owner 3 organises workshops in which these retailers learn how to do their lightening and how to display their products.

In addition, shopping mall owner 3 lobbied with the retail chains to assist small retailers in developing their business by emphasising the importance of small retailers in attracting customers and increasing CSR.

Furthermore, shopping mall 3 stresses the importance of the shopping mall owners’ attitude and management efforts towards small retailers:

“Our malls are very much community driven. Our customers own our shopping centres. They dictate how we manage our shopping malls. So we have a very empathetic attitude towards those communities and retailers.”

In addition, they emphasise the time and effort they have to put in small retailers:

“I had more meetings with the small retailers, who only make up 15% of my mall, than I ever had with my national tenants.”

It seems that the success of formalising informal retailers depends on the attitude of shopping mall own-

ers. However, the stage of economic development in townships could also affect this success. The fact that shopping mall owner 3 is positive about his concept of transforming informal into formal businesses within his mall could partly be explained by differences in demographics: the primary source market of shopping mall owner 3 includes more people who can afford low volume, high value products compared to the primary source market of shopping mall owner 1.

All three shopping mall owners say they mainly incorporate small retailers to show that they feel social responsible for their community. Apparently, small retailers do play a role in the CSR of shopping mall owners, as suggested in chapter 2. However, the shopping mall owners also say that incorporating small local retailers is only one of the many ways they show their CSR. Other ways named by shopping mall owners to show CSR are described below.

All three shopping owners say they show CSR through stimulating local employment. Shopping mall owner 3 says that it has an mandate in all their contracts with contractors and tenants that states that regarding employment these parties have to source locally first. For example, an established first economy security company signed a contract with the owner including a condition that they have to hire 50% of their employees from the local community. In addition, shopping mall owner 3 says that they monitor if their contractors and tenants pay fair wages.

Shopping mall owner 3 shows how they stimulate education within the community by building relationships with schools. By running a competition, winning schools get selected. Together with a "winning" school and local contractors they set-up a list of things that the school wants to improve. Then they prioritise these things and invest in things that have high priority. For example, they repaint the school, upgrade computer facilities etcetera. So far they helped 4 schools but they go into the community and run a new competition soon. In addition, by running a competition, students can win school fees, meaning that the shopping mall owner pays the school fees of these students. These competitions were a success: people thanked the shopping mall owners by sending letters to local newspapers.

An example of shopping mall owner 3 shows how shopping mall owners invest in basic requirements: construction materials that were left from the redevelopment were given away to the community so they could use them to develop or improve their houses.

Other activities that supported the local community that are named by shopping mall owners include:

- HIV prevention programs;
- Family planning programs;
Career workshops;
- Entertainment activities such as fashion shows.

Shopping mall owner 3 emphasises that:
"All the community initiatives are based upon sustainable strategic alliances and are based upon the question where we can make the most impact."
In addition, shopping mall owner 3 says that showing CSR means that the shopping centre management has to be actively involved in the community and has to put in a lot of effort to show their CSR.

Box 5: Incorporating formal and informal retailers: three different approaches

The next three cases will show that shopping mall owners’ approach to accommodate small retailers and informal retailers varies significantly

Vangate mall, Athlone, Cape Town
Small retailers in the Vangate mall are partly spread throughout the mall, but mainly concentrated in the 'Souk'. The 'Souk' is a part of the mall with an Arabic market character: the name refers to Moroccans. Since the community is most Muslim, it gives space to local retailers to sell mainly Arabic goods. The shops are small and the walkways are less wide then they are in other parts of the mall. The tenants differ in the way they can be called formal: some tenants are sole proprietors, some are registered businesses and not all of them pay VAT. But they all pay rent individually and some businesses have one year leases, while others have three year lease terms.

Informal retailers are accommodated in small kiosks at the back of the mall, where customer traffic densities are low. The total sum of money they pay is €600 per month. This money is paid by an intermediate, who collects the rent from the traders. This intermediate also manages the leases of the kiosks. Vangate Mall's management have tried to collect rent from the traders individually, but this created resistance from the intermediate, who was involved in the development of the mall. One could expect that the €600 paid for rent by the intermediate exists for a large part of 'intermediate costs'.

Lay-out and positioning of small formal and informal retailers Vangate mall

Central City, Malopane, Gauteng
Small formal retailers are spread throughout the mall. Informal retailers are located between the mall and a transport hub. This area experiences high customer traffic densities. The informal retailers are partly accommodated in market stalls on the mall's land. Equal to the first case, these informal traders pay one rental sum. However, this sum is not paid by an intermediate but by an association in which all informal retailers who trade on the mall's land participate.
§3.5 Conclusions

This chapter showed how the market conditions in South African townships affect the relationship between shopping mall owners and retailers in such a way that shopping mall owners prefer to incorporate retail chains over small retailers.

Several reasons behind the preference for retail chains can be distinguished. First, because of the low average household incomes, the township shopping mall business model is based upon low value, high volume. Their efficiency and bargaining power enables retail chains to offer goods to lower prices and higher volume compared to small retailers, who tend to operate in niche markets and, consequently offer goods to high value, low volume. In addition, retail chains, are able to respond to the brand sensitiveness of township consumers better than small retailers. Furthermore, because township consumers recognise retail chains because of their high-quality, they are seen as a sign of economic development. In addition, township shopping mall owners lack the urge to distinguish their malls, because competition levels in these areas are relatively low and are expected to remain low in the nearby future compared to first economy areas. Consequently, they lack the urge to incorporate small retailers, who increase the distinctive power of shopping malls. Finally, because most local retailers are informal and necessity-based, their quality is insufficient to increase consumer choice. So, while retail chains draw customers and add value to the mall, small retailers’ added value to consumers and, consequently, the shopping mall is low. Therefore, shopping mall owners feel that incorporating more small retailers decreases the stability and security of their cash-flows.

However, shopping mall owners do incorporate small retailers. This can be explained by the fact that shopping mall owners need to show CSR to create support from the local community. By incorporating small retailers, shopping mall owners counter the leakage effect and prevent social unrest amongst the community. In addition, by showing CSR, shopping mall owners try to increase customer loyalty and, as a result, increase consumer expenditures at the mall. Two ways of incorporating small retailers can be distinguished. First, township shopping mall owners accommodate informal retailers in kiosks and stalls. Second, township shopping mall owners can accommodate informal retailers in little spaces and help them to formalise their businesses. The success of these concepts depends on the attitude of the shopping mall owner and the specific market conditions of the township: in townships that are more economic developed, formalising informal retailers tend to succeed easier compared to townships that are less economic developed. In those townships, more consumers can afford to buy goods at small formal retailers.

However, the incorporation of small retailers is just one way to show CSR by township shopping mall owners. Other ways to show CSR are the stimulation of local employment, the stimulation of local education, improving living conditions and organising (entertainment) activities.
The previous chapter took us a step further and concludes that the market conditions affect the relationship between shopping mall owners and retailers in townships. Now it is time to analyse if the institutional framework also affects this relationship. Therefore, this chapter looks at the policy and legislation in paragraph 4.1, the trust between shopping mall owners and retailers in paragraph 4.2, and the role of local governments in paragraph 4.3.
§4.1 Policy & legislation

Consumer Protection Act
Small retailers and parties that represented small retailers expected a lot from the recently introduced final version of the Consumer Protection Act (CPA). This Act constitutes an overarching framework for consumer protection, and all other laws which provide for consumer protection (usually within a particular sector) will need to be read with this Act to ensure a common standard of protection. However, the final version of the Act let the small retailers down in two ways, which are described below.

For most small retailers a long-term fixed contract form a major obstacle in developing a business. In the early stages of business development, the retailer encounters a lot of uncertainties in for example turnover. Therefore, a long-term fixed contract is often seen as too risky, because the retailers is not certain he can pay his rent in the early stages of the business development. The CPA has revolutionised fixed-term contracts such as security-company contracts, cell phone contracts and gym memberships by allowing individual consumers to cancel them at will with only 20 working days’ notice. However, leases are only covered if the tenant is a natural person, as opposed to a juristic person such as a CC or company. And even though the CPA as a whole classifies CC’s and companies with turnovers of less than R2-million as consumers, the rules dealing with the cancellation of fixed-term contracts specifically excludes all juristic persons. (Terblanche, 2011)

While it is theoretically possible that a small-business owner could sign a shopping centre lease as a sole proprietor, in other words as a natural person, the most likely effect of the CPA will be that commercial landlords will from now on insist that tenants register their businesses as companies.

This point is confirmed by Cape Town-based commercial lease lawyer Reid Corin, who says: “Try to go and get a lease in your own name. I’ve been turned down flat by everybody. I’ve tried to negotiate new leases (on behalf of clients) in at least four different malls in South Africa and they simply refuse to put it in (my client’s) own name” (Terblanche, 2011). The reason for this is explained earlier: the value of shopping malls is partly determined by the length of leases, as shopping mall owner 3 emphasises:

“Our power is our lease agreement. The value of our shopping mall is determined by these lease agreements. But if a tenant has the power to cancel its lease within 20 days, this value significantly decreases.”

Consequently, shopping mall owner 3 concludes that if the rule would apply juristic persons, the current business model would be untenable. Especially pension funds investors would then refuse to invest in shopping malls, as they are strongly risk averse.

Another point of concern for small retailers that the CPA tried to encounter is the possibility of having to move their premises. When retailers have to move their premises they could lose many customers and basically have to start from scratch. It has been argued that shopping mall owners use this to extort huge rental increases from their tenants when their leases come up for renewal. This argument is supported by shopping mall owner 2 who stated earlier that they offer shorter term leases to small retailers so that they can increase the rent earlier. The CPA tried to counter this argued imbalance of power by giving the tenants the right of first renewal when their leases come to an end. In other words, shopping mall owners have to offer the new lease to the incumbent tenant before offering it to a new tenant. However, in the final version of the CPA, no restrictions to the prices of these new leases are given. It is argued that what will happen in practice is that, for example, a small tenant who is paying €40 per square metre will come to the end of his lease. The shopping mall owner abides by the CPA by offering a new lease to the tenant, but at €85 per square metre, figuring that the small business may well swallow a doubling of its rent instead of losing the customer base that it has built up in the mall. If the small tenant refuses the extortionate rental, the premises are let to a new tenant at, say, €45 per square metre (Terblanche, 2011). However, shopping mall owner 2 argues that it often negotiates with the incumbent tenant first, because:

“Attracting a new tenant requires investments so it’s often cheaper to maintain the existing tenant.”

While some experts argue that the CPA should be adjusted to fortify the position of small retailers and consequently stimulate small retailers business environment, others argue that these adjustments would weaken the position of landlords in such a way that it tempers investments. It can be concluded that adjusting the CPA as described above would affect the business model of shopping mall owners by:

- Destabilising the cash-flow of shopping mall owners;
- Limiting the possibilities to adjust the retail mix.

Black Economic Empowerment
After the Apartheid era, South Africa held its first free elections in 1994. These elections marked an important turning point in South African history, namely a peaceful transition of power from the white minority to the black majority by Nelson Mandela’s African National Congress (ANC) party. The goal of the ANC is to alleviate poverty through broad-based economic empowerment policies and in effect to redistribute income from the wealthier white community to the poorer black township communities. The first ten years of ANC government were dominated by Black Economic Empowerment (BEE) affirmative action legislation. The
The objective of these legislative actions is to increase black economic power through encouraging black participation in the economic mainstream. Clearly, the economic success of these new black-owned market entrants into existing highly competitive industries is important to the ANC. Some outcomes of BBE legislation are:

- Encouraging of traditionally held white businesses to sell parts of their business to blacks by government funds;
- Formulating industry “charters” to voluntarily transform industries;
- Awarding governmental contracts to black-owned firms only or firms with significant black shareholding;
- Implementation of legislation forcing privately held businesses to implement strong affirmative action policies.

Critics of these policies claim that BBE has benefited only the ‘black elite’, while the vast majority of black South Africans have not benefited from this economic transformation (Klemz et. al., 2005). However, one could argue that the emergence of the black middle class in townships, which has stimulated township external investments, is partly caused by BBE legislation. Shopping mall owner 2 says that it experienced some pressure from the local ANC party to stimulate black-owned retailers, but that so far, no real BEE policy has been developed that affects its business model. In addition, shopping mall owner 3 says that BEE legislation had mainly impact on employment in the mall by stimulating black employment. Therefore, it can be concluded that BEE legislation does not directly affect shopping mall owners’ business model.

§4.2 Trust

The fact that the business models of shopping mall owners and most small retailers in townships are incompatible causes mistrust between both parties. The recent debate about the role of the CPA, as described in previous paragraph shows that small retailers want to increase their flexibility and security. However, they do not seem to understand that their increasing flexibility and security does not match with the business model of shopping mall owners, as it decreases the stability and security of the cash-flow. In addition, shopping mall owners struggle to find ways to incorporate small retailers, because the formal business model of the mall does not match with the desired flexibility of small retailers. In order to create trust and increase the cooperation between both parties, first an understanding of each other’s interests is needed. However, the debates about the role of the CPA and the impact of shopping mall developments in townships show that this understanding is often absent.

§4.3 Local governments

According to all three shopping mall owners, local governments are often very keen on township shopping mall developments and as a consequence, they often do not tend to set certain requirements or conditions for such developments. One of the reasons for this is that, as explained earlier, formalisation in informal business environments causes tax revenues to increase.

However, local government do have and sometimes use the power to set requirements or conditions for township developments. For example, shopping mall owner 3 says that they had a case where the local government dictated that 30% of the construction needed to be done by local sub-contractors.

But, as shopping mall owner 1 points out, local governments often lack the resources and structures to manage their requirements and ideas. Shopping mall owner 1 supports this statement by the following example. A local government ordered the development of a multi-nodal hub including taxi ranks, a bus station and a mall on top. The structure was built, costing €10 million. However they run out of funds and currently lack the €500,000 to draw parking bays, install fire extinguishers et cetera. This shows they lack the knowledge and skills of working with operating budgets. In addition, the building is a sectional title scheme, which means that different sections of the building are owned by different parties. The local government lacks the skills to manage the administration that comes with such a construction. So it can be concluded that in some cases local governments do tend to influence nodal developments but that they usually lack the management skills and necessary structures to accomplish their ideas.

Shopping mall owner 3 also emphasises the importance of having strong relationships with governmental institutions. For example, they worked together with an economic development institute from the local government on developing workshops for small retailers and drawing up small retailers’ business plans et cetera. By communicating what works and what does not, both parties learn and create understanding, which increases the bond between the parties. Consequently, through developing relationships with governmental institutes, the willingness of these institutions towards developments and initiatives by the shopping mall owner increases.

§4.4 Conclusions

Currently, the impact of the institutional framework on the relationship between shopping mall owners and retailers is not significant. Legislation and policy as well as local governments’ conditions do not lead to a preference of shopping mall owners for retail chains or small retailers. However, the incompatibility of the business models of shopping mall owners and small retailers causes mistrust between both parties, which in turn limits the cooperation between both parties.

Although at the moment legislation does not affect the
relationship between shopping mall owners and retailers, currently, a discussion about the role of the Consumer Protection Act is going on. While at the moment this act only applies for natural persons, small retailers believe that the act should also apply for juristic persons. This means that they could cancel a lease contract within 20 working days and that they have the right to renegotiate their lease contract when in time up for renewal. Both aspects could decrease the risk of setting up a retail business. However, both aspects increase the risk of shopping mall investments: if retailers can cancel their lease contracts within 20 working days, the stability and security of the cash-flow decreases significantly. In addition, if shopping mall owners have to renegotiate with the current tenant first, it limits their possibility to manage their retail mix and, consequently, respond to market changes. Hence, it can be concluded that, given the current business model of shopping mall owners, adjusting the CPA so that it would apply to juristic persons makes investing in shopping malls very unattractive.
Part III: The Dutch case

Shopping in Wormerveer, the Netherlands (photo by www.zaanstreek.nl)
Chapter 3 showed how market conditions affected the relationship between South African township shopping mall owners and retailers in such a way that shopping mall owners preferred to incorporate retail chains in their malls. The introduction showed that also in the Netherlands shopping mall owners show a strong preference for retail chains. However, the market conditions in the Netherlands differ significantly to those in South African townships. Therefore, part III of this research analyses how the Dutch market conditions (chapter 5) and institutional framework conditions (chapter 6) affect the relationship between shopping mall owners and retailers in this market.

In order to compare and generalise the market and institutional framework conditions in chapter 7, part III of this research has the same structure as part II. That will say that this chapter starts with the analysis of the market conditions in paragraph 3.1. Then, the impact of those conditions on the shopping mall business model is described in paragraph 3.2. This chapter ends with an analysis of the impact of the market conditions on the CSR of Dutch shopping mall owners in paragraph 3.3.
§5.1 Market conditions

Economy
In December 2011, the Dutch economy was in a recession caused by the European debt crisis. Through implementing a European currency in 2001, the economies of the European countries in which this currency is used got strongly linked. The high governmental debts of especially southern European countries such as Greece and Italy has caused the European financial market to destabilise. This decreased stability eventually negatively affected the economic growth in even the countries that have less debt such as the Netherlands. Because the uncertainty of how the crisis will develop, making predictions about economic developments in the Netherlands is difficult. The Centraal Planbureau (CPB), who provides the Dutch government with economic figures, assumes a ‘muddle along’ scenario for 2012. That will say that it expects that no break-through or further escalation of the European debt crisis. The predictions described below are based upon this scenario. However, it also states that if the crisis further escalates, the real figures could be significantly more negative. (CPB, 2011a)

The Netherlands is a mature or developed country. In fact, it is one of the wealthiest countries of the world: in 2011, the Gross Domestic Product (GDP) was €604 billion, which means a GDP per capita of €36,189. For 2012, the CPB expects a shrinkage of this GDP of 0,5%. In addition, unemployment figures are low: in 2011, the labour force in the Netherlands consisted of 8,7 million people, of which 385,000 were unemployed. This means that in 2011, 4,5% of the labour force was unemployed. This percentage is expected to increase to 5,25% in 2012. (CPB, 2011a)

Although the predictions about the Dutch economic developments on short-term are pessimistic, in a comparative study, the CPB (2011b) concludes that the Dutch economy does relatively well and that the competitive power of the Dutch economy has increased last decade. Indication that support this are the high GDP per capita, as described above, a high labour productivity (GDP per working hour), and a high labour participation (75% of the potential labour force is employed) caused by the high share of part-timers. Furthermore, the Dutch economy and labour market is characterised by above average levels of education and innovation, showing that the Netherlands has an innovation-driven economy.

The number of patent applications, a factor which is often used to measure a country’s innovation, remains high in the Netherlands. However, this strong position seems to weaken. In addition, there are some other indicators that show that, compared to other western economies, the Dutch economy has average to low levels of innovation. These indicators are:
- Below average R&D expenditures by companies;
- Below average number of innovative companies;
- A low percentage of innovative goods and services in the Dutch industry’s turnover;
- Weak cooperation between companies and educational institutions such as universities.

In addition, most indicators show no progression. Besides the number of patents, the size of the high-tech service sector is one of the few positive indicators of innovation in the Netherlands. (CPB, 2011b)

The number of people that can be defined as entrepreneurs has increased from approximately 10,5% to 12% 2005 to 2009, slightly above the average of other western countries. In addition, early stage entrepreneurship (TEA-rate, see chapter 3) has increased from approximately 4,75% to 7,25%, which is one of the highest percentages among all western economies. In short, the number of existing as well as the number of new entrepreneurs has increased significantly, showing an increased awareness of the possibility of being economically active through entrepreneurship. This trend is in line with the changing attitude towards entrepreneurship in the Netherlands: in 2009, 40% of the respondents preferred being an entrepreneur above being an employee, while in 2007, this percentage was only 33%. Furthermore, the size of new business is relatively large compared to other western countries: the average size of new business was approximately 2 persons, showing that not only independent entrepreneurs start new businesses. In addition, the business dynamics in the Netherlands have increased, which is shown by an increase in the number of new businesses, an increase in the mortality rate of new businesses, and an increase in the number of fast growing businesses. Therefore, it seems that people in the Netherlands are willing to take more risk in developing a new businesses. The reasons behind this increased entrepreneurial activity include:
- Favourable economic conditions, as described above;
- Low entrance barriers for new business;
- Low barriers for trade and investments;
- Little interference of the government in the economic market;
- An above average transport and internet infrastructure. (CPB, 2011b)

Retail developments
Droogh et al. (2011) distinguishes several trends in the Dutch retail market, which are described below.

Due to the decrease in demand, as discussed in the next sub-paragraph, the retail developments have decreased as well. In 2008, the total planned developments were 6,5 million square metres. By the end of 2010, this
number had decreased to 4.1 million square metres. Especially the peripheral locations are less popular among developers: while the number of developed square meters of traditional city centres projects increased with 50% from 2009 to 2010, the number of developed square meters of peripheral projects decreased with 20% (Droogh et al., 2011).

The average GLA of shops increased from 215m² to 266m² over a ten year period, while the number of shops per 1000 persons decreased from 6,45m² to 6,18m². This trend of scale enlargement is expected to continue in the nearby future. Furthermore, the total amount of Net Leasable Area (NLA) per capita increased from 1,4m² to 1,65m² during this period, meaning that the Netherlands has one of the highest retail densities of the world (Droogh et al., 2011).

Despite the fact that the total turnover of retailers has increased the past ten years to a number of €35,7 billion in 2010 (Jones Lang LaSalle, 2011), due to scale enlargement the turnover per square meter decreased with 10%.

Although the total population is expected to increase in the next ten year from 16,7 million to 17,3 million, some regions are expected to face a decreasing population. Especially the populations of large cities as Amsterdam, Rotterdam, Utrecht and The Hague are expected to increase, while the populations of regions in the south and north are expected to decrease. Consequently, these regions, which are also defined as shrink areas, are also expected to experience a decrease in retail demand (Droogh et al., 2011). According to a vacancy measurement tool developed by Droogh Trommelen en Partners 109 of the 430 municipalities in the Netherlands have to decrease their retail supply in order to encounter vacancy (Luth, 2011).

In the Netherlands, a polarization of the demand for retail space can be noticed. The demand for A1 retail space in the biggest cities in Netherlands such as Amsterdam, Rotterdam and the Hague is increasing, while the demand for A1 retail space in medium sized cities stabilises. In contrast, the demand for A1 retail space in small cities is decreasing. In addition, the demand for A1 retail space in cities is increasing, while the demand for B or C retail space in cities is decreasing. (Jones Lang LaSalle, 2011a)

The increase in demand for A1 retail space in cities is in line with the increase of retail chains on these locations. Because on these locations 59% of the GLA is rented out to chains and, consequently, the increase of rents in these areas, small retailers have moved to run-up streets (inner city streets which are not considered to be part of the inner city central shopping area), where rents are still relatively low. In these areas, the presence of retail chains is still relatively low: 41% of GLA (Locatus, 2011). In some cases, small retailers in these areas have managed to create high consumer value, often by promoting its small, local, specialised and

**Box 6: Negen straatjes, Amsterdam: small retailers in run-up streets**

The Negen straatjes area exists of approximately 220 shops spread out over nine streets and covers a part of the western canal area in Amsterdam. Twelve year ago, small retailers in the area combined forces in order to attract more customers. By promoting its diversity and creative character, as well as its 17th century Dutch architecture through a joint marketing strategy, the retailers in the area have managed to create a large customer flow. Today, the Negen straatjes is seen as a good example of how small retailers can attract customers in niche markets in supporting shopping areas such as run-up streets.

*Impression of the ‘negen straatjes’ area*

However, the small retailers are becoming the victim of their own success: the large customer flow has caused the individual landlords to increase rents significantly when lease contracts expire or when stores close; some rents have increased from 300 €/m²/year to 1200 €/m²/year. Furthermore, some retailers have been bought out by speculators. As a consequence, small retailers are unable to secure new lease contracts, causing retail chains to open up flag stores in the area. The result is that the presence of retail chains in this area is increasing, causing the area to lose its unique character. (Monden 2009)
distinctive character through a joint marketing strategy. A good example of a successful area of run-up streets is the ‘negen straatjes’ (in English: ‘nine streets’) area in Amsterdam (see box 6). Jones Lang LaSalle (2011a) expects the rents on A1 locations in big cities to remain stable, whereas the rents on non-A1 locations in big cities will slightly decrease.

In the Netherlands, €2.2 billion was invested in retail property in 2010. This was an increase of 80% compared to 2009. This increase can be explained by the fact that investors were traditionally focussed on office and industrial property. Due to the high vacancies in these markets, investors recently shifted focus towards houses and retail property. The high demand for and low vacancy (about 3%) of A1 retail space in the 6 biggest cities results in low Net Initial Yields (NIY) of about 3.75% for retail units and 4.75% for shopping centres. There seems to be a gap between the demand for prime retail locations and the low supply. (Jones Lang LaSalle, 2011a)

**Consumers**

The Dutch consumer landscape is analysed by various factors, which are described below.

In 2010, the average income per capita was €22.000 per year, which is €1.833 per month. This includes salary, profits from businesses and social grants. In addition, the average income of the employed labour force was €34.600 per year (€2.883 per month) and the average income of the unemployed labour force was €18.400 a year (€1.533 per month). (CPB, 2011a)

The total consumer expenditures were €267 billion in 2010. Due to the European financial crisis which has affected the Dutch economy, this number decreased in 2011 with 0.75%. The consumer expenditures are expected to further decrease with 0.5% in 2012. Especially the expenditures of sustainable goods such as cars saw a strong decrease of 3% in 2011, while the expenditures in the daily-food sector remained the same. The purchasing power of consumers decreased in 2011 with 1% and is expected to further decrease with 1.25% in 2012. The expected decrease in purchasing power is mainly caused by the fact that the increase of salaries is lower than the inflation. (CPB, 2011a)

A report of Jones Lang LaSalle (2011a) shows that, in 2010, Dutch consumers did 23% of their purchases online, a total of €8.2 billion (see figure 5.1), while 71% of the purchases were done at the shop or another physical place. They also expect that these online purchases will further increase, to €9 billion in 2011. This would imply that online purchases have tripled since 2005. Furthermore, a growth of the online versus total purchases ratio is expected.

Droogh et al. (2011) suggest that the rate of online purchases in some branches such as electronics and media could increase to 50% in the future. In contrast, they expect the number of daily food purchases to remain relatively low; approximately 5%. They explain this increase by factors such as technical development, better transport options and new generations growing up with internet.

Droogh et al. (2011) suggest that the aging of the Dutch population will negatively affect the demand for retail. This can be explained by the fact that elderly spend significantly less on, for example, clothing and furniture compared to people who are in the construction phase of their life.

Droogh et al. (2011) conclude that the demand for retail will decrease due to the increase in online purchases and the ageing population. In addition, the current and predicted economic condition will further temper the

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<th>Year</th>
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*Figure 5.1: Turnover of value online purchases in The Netherlands (Jones Lang LaSalle, 2011)*
demand for goods and services.

Jones Lang LaSalle (2011b) analysed the (upcoming) trends in consumer preferences. They find several trends that could influence the position of small retailers and shopping mall owners.

Globalisation and technical developments have had positive impact on the position of consumers. For example, due to the internet, prices are much easier to compare than they were fifty years ago. However, these trends have significantly increased the amount of information people have to deal with, and people find this increase in information stream more and more stressful. Consequently, the need for people to interact and meet increases. In addition, the demand for, reliable, authentic and fair services and goods increases. The need for transparent and authentic services and goods is strengthened by the characteristics of new generations: older generations are more motivated by money and status, while younger generations attach more value to meaningful work and the distinction of the individual. The need for authenticity is shown by the increase in demand for biological and locally produced products, the growing interest in yoga and mindfulness courses, and the success of magazines that write about the meaning of life. Furthermore, the need for interaction, authenticity, reliability and fair-trade also means that:

- Consumers want to identify themselves with the product;
- Consumers want to have more personal contact with retailers;
- Consumers expect more customisation;
- Consumers expect more transparent products. (Jones Lang LaSalle, 2011b)

Not only are consumers looking for authentic products, the interest for authentic shopping centres is also increasing. This means that consumers are looking for shopping centres with distinctive characters that offer experiences. (Jones Lang LaSalle, 2011b)

Furthermore, shopping mall owner 2 concludes that consumer preferences increasingly diverge and change more quickly. That will say that formerly, consumer preferences were more predictable and stable. However, nowadays, due to the increase of information technology, society is changing fast. Consequently, consumer preferences change quicker and these preferences increasingly vary: some brands work, some brands do not.

Retailers

Hoofdbedrijfschap Detailhandel (HBD, 2009) and Jones Lang LaSalle (2011b) expect that in upcoming years, retail chains will become bigger, and small retailers will become even smaller. In other words, the difference in size and nature between small retailers and retail chains will increase and the ‘in-betweens’ will disappear. Scale enlargement among retail chains will continue, but the countertrend of scale reduction will gain share. In addition, they argue that, due to the present and predicted economic conditions, competition amongst retailers will increase.

Since the beginning of 2010, international retailers are showing increased interest in the Dutch retail market. Especially the interest from American retailers stands out. International retailers are following a European expansion strategy. That will say that they choose for European cities to establish rather than for European countries. Amsterdam is definitely the most popular Dutch city to establish. However, due to the scarce supply of A1 space here, international retailers are also willing to establish in cities such as Rotterdam, The Hague and Utrecht.

Because of the Dutch retail structure, which is protected by spatial planning legislation, international retailers find it very hard to penetrate the Dutch retail market. However, once they do so, they seem to learn and understand the market quickly. Hence, once they established in one of the big cities, they seem to be willing to open shops in other cities as well. (Jones Lang LaSalle, 2011a)

Despite the fact that the attitude towards entrepreneurship is changing and the entrepreneurial activity in the Netherlands is increasing, there are some factors that could explain the decrease of small retailers.

The Dutch working force is ageing, and as a consequence, it will decrease in numbers. Upcoming ten years will see high number of retirements. The retail market is no exception: approximately 40% of all small retailers in the Netherlands are older than 50 years and approximately 17% of all small retailers are older than 60 years. Many of these small retailers struggle to find successors. Consequently, it is expected that the number of small retailers will further decrease. (Droogh et al., 2011)

In addition, as suggested in chapter 2, many small retailers are unable to afford the rents in shopping malls, especially in the big cities where the demand for space by retail chains is high. (HBD, 2009)

Furthermore, due to the financial crisis, small retailers struggle to obtain finance from banks, because banks are only willing to finance entrepreneurs with a very reliable and promising business plan. (Reijn, 2011)

Finally, many potential small retailers are scared off by the workload, as a butcher in de Volkskrant (Reijn, 2011) explains:

"The doctor advised me to sell my business because I had to work 120 hours per week, which had a sig-
nificant impact on my health. When I finally found a potential successor, he was scared off by the workload, as he expected it would ruin his family life."

However, although they confirm that nowadays setting up a retail business is difficult, all three shopping mall owners believe that there are sufficient retailers with innovative concepts that have the potential to succeed. In addition, shopping mall owner 3 believes that: "There are always opportunities for small retailers to obtain finance. In contrast to large retailers who are always dependent on banks, small retailers could ask family, friends, and colleagues to participate in the necessary capital investments."

Shopping mall owner 2 sees that especially small retailers in the daily-food sector do well.

However, shopping mall warns to generalise small retailers. He distinguishes two types of retailers:
1. Small retailers that fail to innovate and lack assertiveness. Some retailers run their business for 20 years without replacing their original inventory and changing their image. These retailers can hardly be called entrepreneurs.
2. Small retailers that develop innovative concepts and implementing marketing strategies. These retailers can be justly called entrepreneurs.

Shopping mall owner 2 believes that the second type of retail adds value to the mall. In contrast, the first type rather decreases the value of the mall.

§5.2 The impact of market conditions on the shopping mall business model

This paragraph bridges the market conditions and the township shopping mall business model. The three shopping mall owners that have been interviewed explain why they prefer to incorporate retail chains over small retailers.

Shopping mall 3 emphasises the importance of the retail mix of the mall: "It is the mix of international and national retail chains and small retailers that attracts consumers." In addition, shopping mall owner 1 says that both retail chains and small retailers add value to the mall: "Consumers want to recognise a shopping mall. To achieve consumer recognition and attract customers, you need retail chains. Without the presence of retail chains consumers could think that the shopping mall is not good enough for these chains. In addition, consumers want to experience new retail concepts and shops. Therefore, you need to accommodate small retailers."

This emphasises the role of retail chains in shopping malls: they are recognised by consumers for their high-quality.

Furthermore, scale enlargement and the decrease of turnover per square meter shows that retail chains have increased their market share: they tend to sell goods with low value and high volume in large spaces. Especially supermarkets have benefitted from their efficiency and buyers bargaining power.

However, all three shopping mall owners emphasise the vital role small retailers could play in the changing market conditions. First, all three shopping mall owners confirm that consumers increasingly seek shopping experiences. And because there are sufficient small retailers who are innovation-driven, they could respond to this need by offering innovative retail concepts. In addition, shopping mall owner 2 emphasises the function of shopping malls as places for social interaction/meeting places. As he states:
"Formerly on Sunday, people met in church. Nowadays on Sunday, people meet in shopping centres to drink a cup of coffee and do some shopping."

Since small retailers can build personal relationships with customers better than retail chains, they can respond to the need of interaction better than retail chains. Furthermore, the consumers' need for authentic and fair-trade products increases the opportunities for small retailers, because these products tend to have higher margins. Because small retailers often operate in niches with high value, low volume, they could respond to this need better than retail chains.

The important role of small retailers in the changing consumer preferences is supported by an article of HBD (2009), who argue that small retailers can respond to these changing consumer preferences by their ability to:
- Implement complementary strategies (not compete with retail chains but looking for niches)
- Choose a distinctive market positioning;
- Decide what, but especially how things are being produced;
- Create added value through offering additional products and services;
- Implement technological marketing strategies such as the use of social media.

Besides by responding to the changing consumer preferences, small retailers could also play a vital role in increasing the distinctive power of shopping malls. Currently, the Netherlands has one of the highest retail densities of the world, meaning that competition levels among shopping malls are high. In addition, because of the decreasing consumer expenditures, the increasing online expenditures and the aging Dutch population, this competition is expected to increase in the nearby future. Therefore, all three shopping mall owners feel that by incorporating more small retailers, they can increase the distinctive power of their malls.
Shopping mall owner 3 emphasises the inter-dependency of shops within the mall: 80% to 90% of the customers of most shops are determined by other shops. Therefore, he argues that directing the retail mix is a vital aspect of the success of shopping malls, which is in line with the theory described in chapter 2. As shopping mall owner 3 argues, the role of director is not always present in Dutch shopping centres, because:
1. Most shopping centres have fragmented ownership;
2. The high share of institutional investors such as pension funds in retail investments.

The first aspect implies that the buildings in a shopping centre are often owned by various investors, which means that, as shown in the example of the 'negen straatjes', each investor often prioritises its own profits, instead of thinking about what is best for the tenant mix of the centre as a whole. The second aspect is a result of the traditional Dutch investment market, in which pension funds have always played a large role. These pension funds invested in different real estate sectors such as office, housing and retail. The goal of these investments was to create a stable cash-flow, which means that they preferred long-term leases. As shopping mall owner 3 argues, this strategy works well for housing and office investments. However, because determining the right retail mix is of vital importance of a successful retail investment, retail investments need a more intensive management approach compared to housing and office investments. Since the beginning of this century these types of investors started to recognise this, and consequently, they started to approach retail investments with a more management intensive attitude. For example, shopping mall owner 2 says that this has led to a separation of lease management and shopping centre management. Where, the lease management monitors the retail mix strategy, the shopping centre management maintains contact with its tenants. The more management intensive attitude also means that, as shopping mall owner 3 argues, shopping mall owners should not focus on long-term leases, but on more flexibility in their leases. In this way, shopping mall owners could respond to the changing consumer preferences quicker. As shopping mall owner 3 states: "Traditionally, investors believe that the value of shopping malls is partly determined by the length of their lease terms. I disagree with this: I prefer a shopping mall with average lease terms of 5 years over a shopping mall with average lease terms of 30 years, because this gives me the possibility to quicker respond to market trends."

Besides, increasing the flexibility of lease terms, shopping mall owner 2 expects that in the future, he could also increase the flexibility of its unit size. He argues that, by offering more flexibility in lease terms and shop size, new retail concepts could be developed in so called 'breeding places'. In addition, shopping mall owner 2 emphasises the importance of an increasing flexibility of opening hours to encounter internet shopping. He argues that: "The emergence of internet shopping is partly causes by the fact that it has no limitations in opening hours. Nowadays, people have the time to shop when shops are closed, for example in the evening or on Sundays."

In addition, all three shopping mall owners say that they are willing to offer lower rents to small retailers who add specific value to their malls.

An increase in flexibility of the shopping mall business model could have positive effects for small retailers, as they are given the opportunity to lease smaller spaces against lower prices.

Not only do shopping mall owners plead for an increasing flexibility of their business models, they also emphasise the importance of transparency and cooperation between them and their tenants. An important step in developing these aspects is the implementation of turnover clauses in lease contracts. According to shopping mall owner 3 this rental construction partly exists of a fixed rental component and a flexible rental component. The fixed rental component is the rent the tenant is to pay below a certain turnover. When the tenant's turnover exceeds this agreed amount, the shopping owner will receive an agreed percentage of this overage turnover; this is the flexible rental component. However, as shopping mall owner 3 explains, benefit from increasing turnovers of tenants is not the most important aspect of incorporating a turnover clause. In fact, as he says, the flexible rental component is often only a small part of the rental income: somewhere between 2% and 4%. As shopping mall owner 1 argues, this low percentage is caused by the fact that shareholders do not accept more risk. All three shopping mall owners say that the main reason to incorporate turnover clauses in lease contracts is to obtain insight in the tenant's turnovers. This is important for several reasons, which include:
- To analyse and compare the performances of tenants;
- To focus on tenants which are under-performing compared to retailers that sell similar products;
- To monitor the impact of certain marketing strategies;
- To monitor the impact of adding a retailer on the performance of other retailers;
- To monitor the share of online purchases in order to respond to this trend.

All these reasons are related to the fact that shopping mall owners want to monitor the retail mix and analyse how this retail mix is affected by various factors in order to respond to consumer preferences quicker. Without turnover clauses, the only way to monitor this is by measuring customer traffic densities. However, shopping mall owner 3 gives another reason why
nowadays he only signs leases with turnover clauses: he argues that this increase in transparency between the owner and the retailer increases the trust between both parties, which in turn increase the chance of a successful cooperation.

§ 5.3 The impact of market conditions on CSR

Form of CSR strategy
Shopping mall owner 1 says it mainly shows CSR by showing sustainability, which is in line with the theory in chapter 2. Currently, they show sustainability mainly through sustainable constructions and inventories of their malls. They say that aspects such as monitoring the sustainability of their tenants’ goods could be the next step. However, as shopping mall owner 1 explains, increasing the CSR of retail related parties such as investors and retailers depend on external pressure: by increasing its CSR as shopping mall owner increases its exploitation costs. Consequently, this increase in exploitation costs has to be compensated by increased rents, which could lead to a decrease in demand for space within the mall and an increase of demand for space in competitive malls. In other words, the costs of increasing CSR are too high, while the incentives are too low. This fact is supported by shopping mall owner 2, who says that its CSR policy does not have priority, and when he does improve its CSR it is based upon economic motives. Hence, it can be concluded that Dutch shopping mall owners use CSR as a responsive tactic to avoid critics.

The fact that Dutch shopping mall owners implement a responsive CSR strategy rather than an autonomous CSR strategy not in line with what could be expected from chapter 2. Because an autonomous CSR strategy could increase the distinctive power of shopping malls, one would expect that shopping mall owners in competitive markets such as the Netherlands use this strategy to distinguish their mall from competitors. However, shopping mall owner 1 says it is difficult to reward individual tenants for their CSR policy, because due to the Dutch legislation (see chapter 6), they are not allowed to subsidise rents. Consequently, it is hard to manage the CSR of individual tenants.

Small retailers and CSR
Regarding CSR, none of the three shopping mall owners sees incorporating small retailers as an important aspect of their CSR. This could be explained by the fact that the economic role of small retailers in the Netherlands is less prominent compared to the South African townships. First, the leakage effect in the Dutch market is minimal, because the difference between the economic activities of local markets is not as big as in South Africa. In addition, none of the three shopping mall owners feels that the strong presence of retail chains could lead to lower competition levels, as suggested in chapter 2, because in the Netherlands, an institute called the Nederlandse Mededingingsautoriteit (NMA, see box 8) protects competition and prevents retail concentration from becoming too strong.

However, the fact that none of the three shopping mall owners interviewed feels incorporating small retailers as an important aspect of showing CSR is a bit surprising, since a general consensus in Dutch society is emerging that a further increase of retail chains is undesirable. An example of this emerging consensus is the price of ‘best shopping mall’, which is handed out annually by the Dutch shopping mall council (Nederlandse Raad van Winkelcentra, NRW). Last year, this price was given

Box 7: Nederlandse Mededingingsautoriteit (NMA)

The NMA was originally established by the Dutch ministry of economic affairs with the purpose of monitoring the ‘mededingingswet’ (competition law), which was established in 1998. Currently, the NMA is an independent institute, which tasks are threefold:

1. Dispute cartels;
2. Counter the abuse of economic power;
3. Test firm-concentration.

The first task should prevent companies of making appointments about consumer prices, distribution of customers or boycotting certain suppliers. The second task should prevent companies with strong economic power, such as monopolist who can operate independently from competitors and suppliers, from abusing their power, for example by:

- Couple sales: that will say, selling independent products in one package;
- Strangling of newcomers, for example by selling products below cost price;
- Selling products with extremely high prices.

The third task should prevent companies of becoming dominant market players which could affect or eliminate competition, for example through a merger or joint venture. An example of the latter effect is the intended merger between two large Dutch supermarket chains, Jumbo and C1000, which is at the time of writing being investigated by the NMA. (www.nma.nl)
to shopping mall Vleuterweide, Utrecht. One of the main reasons for the success of this mall according to NRW is the high presence of small retailers:

“The retail supply in the mall is attractive, caused by a high presence of small retailers, especially in the daily-food sector.” (www.nrw.nl)

§5.4 Conclusions

This chapter showed how the Dutch market conditions affect the relationship between shopping mall owners and retailers. In fact, it showed that shopping mall owners are greatly incentivised to incorporate more small retailers in their malls.

Several reasons behind the willingness of Dutch shopping mall owners to increase the share of small retailers in their malls can be distinguished.

First, competition among Dutch shopping mall is high and is expected to further increase in the nearby future. The expected increase of competition is caused by the expected decline in consumer expenditures due to the European debt crisis, the ageing population and the increase in online consumer expenditures. As a result, shopping mall owners need to distinguish their mall from competitors. By creating additional consumer choice and value, small retailers can increase the distinctive power of shopping malls.

Second, consumers increasingly attach value to interaction, authenticity, reliability and fair-trade. By offering specific services, small retailers could respond to important consumer values such as interaction and reliability.

Furthermore, consumer values such as authenticity and fair-trade are in favour of small retailers, as they generally offer goods with high value and low volume. Second, shopping is transforming from a necessary activity into an entertainment activity: consumers increasingly seek an experience and new concepts. By offering specific innovative formats, small retailers could respond to the consumers need for experiences.

Finally, as one shopping mall owner argues, consumer preferences are increasingly varied, and change quicker than they did formerly. By increasing the flexibility of his business model, the shopping mall owner could respond to changing consumer preferences quicker. For example, aspects named by shopping mall owners that could increase the flexibility of shopping mall owners' business models include signing leases with lower rents and/or shorter terms, offering small size units, increase the flexibility of opening hours, and sign leases with turnover clauses. These aspects could increase the possibilities of small retailers to successfully establish in shopping malls. Furthermore, by increasing the transparency of the business model, the cooperation between shopping mall owners and retailers could improve, which could lead to better performances.

Shopping mall owners only use CSR to respond to the growing awareness rather than using it to increase the competitive power of their malls. In addition, shopping mall owners do not feel that incorporating small retailers increases their CSR.
Chapter 6: Institutional framework conditions

Now it is clear that shopping mall owners are willing to incorporate more small retailers in their mall, the question arises why they refuse to do so. This chapter shows that, by looking at the Dutch policy and legislation (paragraph 6.1), the trust between parties (paragraph 6.2) and the role of local governments (paragraph 6.3), the institutional framework conditions limits the possibilities of Dutch shopping mall owners to increase the share of small retailers in shopping malls.
§6.1 Policy and legislation

All three shopping mall owners name the Dutch lease legislation (in Dutch: huurwet) as the most important factor of limiting their options to increase the flexibility of retail mix management and increase the share of small retailers in the mall. The Dutch lease legislation is developed in the early 1970's, a time in which retail space was scarce and retail chains and shopping malls were relatively unknown phenomena in the retail market. The main objective of this legislation is to protect the 'humble' tenant from the 'almighty' landlord: a view which was based upon the idea that the social position of retailers was too weak to provide themselves with sufficient guarantees regarding lease terms which would assure retailers to recover their investments. Three particular aspects of the legislation that affect the business model of shopping mall owners can be distinguished, which are described below.

Length of lease terms

The starting point of this section is that a landlord can never terminate a lease contract with a tenant, because a retail business is strongly tied to its location: when a retailer has to move its premises he could lose a large part of its customer base. Legislation assumes a first lease term of 5 years, after which the lease term will be extended to 10 years. After ten years the lease term will be infinitely extended. After the 5 and 10 years, the tenant has the possibility to terminate the contract. However, the possibilities for the landlord to terminate the contract are less simple. In order to terminate the contract, it needs a court order. During the time of this judicial procedure the contract is extended till the judge confirms the termination of the contract. Legislation prescribes the cases in which a judge could order the lease termination. These cases could include, for example, a tenant who is unable to pay the rent, or a landlord who unfortunately needs the rented space for own use. However, in practice, the judge will often choose the side of the 'humble' tenant, which makes it almost impossible for landlords to terminate a lease contract. The effect of the infinite lease terms is that shopping mall owners are willing to take less risk in incorporating new concepts. As shopping mall owner 3 explains: "The uncertainties which come along with new concepts imply to much risk because I am unable to get rid of retailers whose concepts fail. Therefore, I prefer to incorporate retailers which concepts are known to work. These retailers are often retail chains."

In addition, shopping mall owner 2 states that: "Because leases are infinite, the retail mix developments are minimal. You can try to buy out tenants, but this is very costly. Consequently, the retail market is very static."

Shopping mall owner 3 says that just recently, he signed the first definite contract with a small retailer which included a clause that stated that he could terminate the contract after 10 years. This lease contract was approved by a judge, because the retailer showed understanding of the risk and explained why he was willing to take this risk. Because of this success, shopping mall owner 3 says that never signs an infinite lease again.

Protection of lease price

Not only the lease terms of tenants is protected is protected by legislation, the Dutch lease legislation also protects lease prices. This legislation provides the opportunity for both tenants and landlords to review the lease price by a judge once every 5 years. This judge will then compare the lease price with other lease prices of comparable units during the reference period (past 5 years).

The possibility for a lease price review prevents unfair competition between retailers and gives the landlord the opportunity to increase the rent when, for example, the shopping centre's customer traffic densities have significantly increased.

However, the implementation of this law is criticised: the fact that judges compare lease prices to the lease prices of comparable units in the past 5 years instead of market conform lease price often tempers the determined lease price. In addition, the possibility for a lease price review also limits the possibilities for retail mix differentiation and the incorporation of small retailers in shopping malls in particular. An example of shopping mall owner 3 explains this as follows:

"Currently, due to the possibility for a lease price review, shopping mall owners can only differentiate their lease prices by unit size. However, in some cases it would be preferable to also differentiate by retail type. For example, adding a candy store to the mall could cause an increase of customer traffic by pulling children, and consequently, their parents to the mall. However, the profit margins in this retail type are low. Therefore, the retailer is unable to pay rents similar to that of retailer with equal unit sizes. If I want to incorporate such a retail concept in the mall, I should be able to offer this retailer a lower lease price. However, by doing this, I risk other retailers with equal unit sizes to having their lease price reviewed. and consequently, decreased."

Hence, it can be concluded that the possibility for lease price reviews limits lease price, and consequently retail mix differentiation because, by offering a lower lease price to a certain tenant, other retailers with equal unit sizes could enforce a reduction of their lease prices.

Lease acquisition

The third aspect that limits the flexibility of managing the retail mix is the fact that tenants can sell their business including the lease contract to other parties. The Dutch legislation originally included such an arrangement to give small retailers the opportunity to sell their business for retirement income. Because the new party will take over the place of the former tenant, the
Shopping mall owner 3 says that the possibility of lease acquisition leads to the trade in lease contracts. In fact, he says that this is the reason behind 95% of the lease acquisitions. Parties are willing to pay substantial amounts of money for the difference between the applicable lease price and the market conform lease price.

By giving an example, shopping mall owner 1 shows that the possibility of lease acquisition limits the flexibility in retail mix management:

"Imagine I want to accommodate a small retailer that sells wooden toys, because I believe this adds value to the mall. The moment I have signed the lease contract with this retailer a retail chain that sells toys could acquire the contract, affecting my initial ideas of adding value to the mall."

Although retailers are only allowed to sell their business to businesses that work in the same retail sector, the fact that this other business is a small retailer or a retail chain does not matter. This is another reason why, currently, shopping mall owners are more likely to include well-known retail concepts of retail chains. The three aspects of the Dutch lease legislation as described above are limiting the retail mix management. The legislation was developed in a time that tenants only were independent and small businesses. However, nowadays, tenants are more often large retail chains: the tenant is no longer the 'humble' and vulnerable party it used to be. Consequently, the legislation protects parties that do not need protection. In fact, the legislation does not protect the small retailer anymore; it rather hinders the opportunities of small retailers. As shopping mall owner 1 states:

"From allowing increased market mechanism, especially small retailers will benefit."

One possible way to get around the Dutch lease legislation is to offer incentives to small retailers. For example, as shopping mall owner 1 proposes, shopping mall owners could collect the rent as agreed in the lease contract, and give a part of this rent back to the retailer, for example in the form of inventory investments. However, all three shopping owners are critically about such a solution. Shopping mall 3 says that new retailers should have the will to succeed, and giving incentives could affect this attitude. In addition, shopping mall owner 2 expects from every tenant that it can make sufficient turnovers. Therefore, he prefers to assist new
businesses by helping them with developing a marketing plan and/or utilise the possibilities of social media. Furthermore, shopping mall owner 1 emphasises the increase in risk that comes along with giving incentives.

§6.2 Trust
Asking about the reasons why the Dutch lease legislation has not been adjusted to achieve more market dynamics, all three shopping mall owners say that, due to the restrictive legislation, there is a lack of trust between owners and retailers. The fact that in order to change or terminate leases owners have to go to court has created a hostile attitude between owners and retailers. As shopping mall owner 1 states:

"There is too little trust between parties to come to a review of the lease legislation. The little trust is also shown by the lack of transparency and sharing information between owners and retailers."

Shopping mall owner 3 says that retail chains have developed a strong position in the Dutch retail market, partly because of the lease legislation. For example, the legislation has prevented many international retailers from establishing. Therefore, they are not keen on adjusting this legislation. However, shopping mall owner 3 states that:

"This is short term policy. Dutch shopping malls are getting less attractive compared to shopping mall in other countries and, consequently, expenditures at these malls stagnate. At the end of the day this will negatively affect the turnovers of retail chains as well. Therefore, on the long run, it is important for retail chains to increase the attractiveness of shopping malls as well."

The economic crisis has accelerated the cooperation between owners and retailers, because it increases the need to keep shopping malls attractive. In addition, as shopping mall owner 3 argues, adjusting the legislation would increase the trust and cooperation between both parties: if shopping mall owners and retailers have to negotiate an extension of the lease contract from time to time, both parties are forced to increase their cooperation and transparency. This is supported by shopping mall owner 3, who says that the trust between shopping mall owners and small retailers in countries with less restrictive legislation is much higher:

"Small retailers in other countries say that they trust the owner: They believe that their contract implies that the owner is looking for the optimal retail mix. They believe and trust in the director role of shopping mall owners."

§6.3 Local governments
All three shopping mall owners have different views about the role of local governments in shopping mall developments. Shopping mall owner 2 says that local governments' role with shopping mall developments is minimal. However, shopping mall owner 1 says that in some cases the local government together with the developer and investor participates in a commission which looks at the right tenant mix and type of retailers. However, shopping mall owner 1 believes that local governments are not allowed to set requirements in terms of a certain percentage of small local retailers. In contrast, shopping mall owner 3 says that sometimes local governments do set this requirement. However, he argues that even if they do so, this percentage could decrease during time due to the lease legislation described above.

Another point shopping mall owner 3 wants to emphasise is the role of local governments in stimulating new retail developments. He argues that because of the economic crisis has negatively affected local governments' budgets, local governments still stimulate retail developments to increase their profits from land exploitation. However, the retail market is saturated, and more retail developments would increase vacancies. Therefore, shopping mall owner 3 believes that local governments should carefully consider each retail development.

§6.4 Conclusions
Despite the fact that Dutch shopping mall owners want to increase the share of small retailers in shopping malls, this chapter showed that the institutional frameworks prevents them from doing so.

All three shopping mall owners name the Dutch lease legislation (huurwet), which was developed with the idea to protect retailers from landlords, as the biggest obstruction in increasing flexibility and transparency, and increasing the share of small retailers. Three aspects of this legislation are being named as main causes.

The first are the length of the lease terms. While retailers can terminate the contract generally after 5 and 10 years, in practice, it is almost impossible for shopping mall owners to achieve this. Therefore it is almost impossible for retailers to change the retail mix when the mall is underperforming, causing a very static retail market. In addition, shopping mall owners are willing to take less risk when choosing a new tenant: when a tenant is underperforming, there is no possibility to terminate the contract. As a consequence, shopping mall owners tend to prefer retail chains over small retailers, as retail chains offer familiar concepts.

The second aspect of the lease legislation is the possibility of lease price review. Once every five years shopping mall owners and retailers have the opportunity to having the agreed lease price reviewed by a judge. This makes differentiation in lease prices very difficult: shopping mall owners are unable to offer lower rents to small retailers because by doing so, they risk other retailers with equal unit sizes to ask for a lease price review, which could lead to decreasing lease prices.

The third aspect of the lease legislation is the possibil-
ity to acquire a business including its lease contract. As a consequence, a retail chain could take over a small retailer including the lease contract and its conditions such as the lease price. Moreover, shopping mall owners could face tenants in their malls which they believe do fit in the retail concept.

Overall, it can be concluded that the Dutch lease legislation obstructs shopping mall owners from optimal, flexible and transparent retail mix management. In addition, it weakens the position of small retailers, while it strengthens the position of retail chains.

All three shopping mall owners say that mistrust between them and retailers stand in the way of adjusting the lease legislation and increasing cooperation. The low trust is caused by the hostile relationships between shopping mall owners and retailers, which in turn is caused by the lease legislation. Although the economic conditions have increased the need for all parties to intensify their cooperation, especially retail chains are not willing to give up their strong position, which is protected by the lease legislation. As one shopping mall owner says, this is short-term policy: at the end of the day also retail chains profit from an optimal retail mix.
Part IV: Comparison & Generalisation

Small retailer in a South African township (upper photo) and the Netherlands (lower photo)
Now we know what and how market and institutional framework conditions affect the relationship between shopping mall owners and retailers in South African townships and the Netherlands. We can translate these market specific conditions into general determinants of small retailers' accessibility in shopping malls. Therefore, this chapter describes these general determinants by looking at the stage of economic development (paragraph 7.1) and its impact on competition (paragraph 7.2), consumers (paragraph 7.3) and retailers (paragraph 7.4). Furthermore, general conditions can be derived from legislation (paragraph 7.5) and CSR (paragraph 7.6).
§7.1 Market conditions
The township economy is characterised by low levels of economic activity. Economic activity in this market is limited by low levels of external investments in the area and a strong leakage effect, which is caused by a large share of consumer expenditures and formal employment outside the area. As a consequence, townships’ contributions to the South African GDP are very low. In addition, education and innovation levels are very low: education is relatively expensive and, consequently, innovation-driven businesses are scarce, because they are often knowledge-based enterprises.

In contrast, the Dutch economy is characterised by high levels of economic activity. In fact, the Netherlands has one of the highest GDP per capita ratios of the world. In addition, the economy is strongly innovation-driven and knowledge-based: education levels are high.

Shopping mall business model
As highlighted in chapter 3, the yields of township shopping malls are between 10% and 11.5%. These high yields imply that the risk of investing in these malls is relatively high. Therefore, township shopping mall owners tend to be risk averse. Consequently, they focus on a stable and secure cash-flow.

In contrast, Dutch shopping malls have Net Initial Yield (NIY) of around 4.75%. This implies that the risk of investing in Dutch malls is very low. As a consequence, Dutch shopping mall owners tend to be less risk averse. In fact they want to increase the flexibility of their business model in order to respond to changing consumer preferences quicker.

Hence, in general, it seems that along with economic developments, the business model of shopping malls shifts from focussed on stability to a more flexible business model. Because small retailers are known to have higher business mortality rates, they increase the risk of destabilising the cash-flow, which is particular unattractive to high-risk retail investments in emerging markets.

Retailers
In South Africa, 36% of the entrepreneurs are necessity-based, while 31% of the entrepreneurs are opportunity-based (Kelley et al., 2011). However, one could expect the percentage of necessity-based entrepreneurs in second economy markets to be higher, while in first economy markets, one could expect the percentage of opportunity-based entrepreneurs to be higher. Therefore, the percentage of entrepreneurs who are necessity-based is very high in South African townships. These entrepreneurs set-up a business to escape from poverty, and, as a result show low levels of innovation.

In contrast, in the Netherlands only 6% of the entrepreneurs are necessity-based, while 64% of the entrepreneurs are opportunity-based. These opportunity-based entrepreneurs set-up a business to exploit an innovation or to penetrate a niche market. Consequently, as opposed to necessity-based entrepreneurs, opportunity-based entrepreneurs tend to add value to economic activities.

Equal to entrepreneurs in general, small retailers that are opportunity-based tend to add value to consumer choice and value. In contrast, small retailers that are necessity-based tend to add low value to consumer choice and value.

Hence, in general, it can be concluded that along with economic developments, small retailers motives shift from necessity-based to opportunity-based. As a result, along with economic developments small retailers addition to consumer choice and value increases.

Competition
Township shopping malls usually have large primary source markets: often these malls are the first formal retail developments in these areas. Therefore, currently, competition amongst formal retailers in townships is low. In contrast, the Netherlands has one of the highest retail densities of the world, meaning that competition amongst formal retailers is very high.

The increasing competition amongst retailers in the Netherlands increases the need of shopping mall owners to distinguish their mall from others in order to attract customers. And because small retailers increase the distinctive power of shopping malls, this need partly determines the willingness of Dutch shopping mall owners to incorporate more small retailers in their malls. In contrast, partly due to the low competition, township shopping malls achieve high trading densities. Therefore, there is no need for township shopping mall owners to increase the distinctive power of their malls, which in turn negatively affects their incentives to incorporate more small retailers in their malls.

Hence, in general, it seems that along with economic developments the competition among shopping malls increases, because the number of retail developments increases faster than the economic welfare of residents. The increase in competition means that shopping malls have to increase their distinctive power in order to remain competitive. Because small retailers create diversity within and between malls, they increase the distinctive power of shopping malls.

Consumers
Township residents are characterised by high unemployment (sometimes even 50%) and, consequently, low household incomes: 88% of the township residents had an income below €438 per month in 2008. Therefore, they are very sensitive to low prices. In addition, they
Retail competition, Household income, Consumer brand sensitiveness, Urge to show CSR

Figure 7.1: General determinants of small retailers' accessibility in shopping malls

are very sensitive to brands, because, equal to cars and houses in more developed markets, they are seen as a relatively cheap way to show status.

In contrast, in the Netherlands, unemployment is low (circa 5%) and household incomes are high: the average income per capita was €1833 per month in 2010. As a consequence, Dutch consumer preferences are shifting towards authentic and fair-trade products. In addition they increasingly attach value to experiences and interaction. All these characteristics show that Dutch consumers are looking for products and/or services with added value.

Therefore, in general it can be concluded that along with economic developments and, as a result, increasing consumer welfare, the demand for products shifts from low value, high volume to high value, low volume. Consequently, the demands for small retailers increases along with economic developments, as they tend to operate in niche markets with high value, low volume, as opposed to retail chains that tend to operate in high efficiency markets with low value, high volume.

CSR

South African township shopping mall owners show more CSR than Dutch shopping mall owners. One of the aspects of showing CSR is incorporating small retailers. Two reasons for showing CSR by South African township shopping mall owners can be distinguished. First, township communities have a strong community sense. By showing CSR, shopping mall owners want to create support from the local community.

In the Netherlands, people have become more individualistic, limiting the importance of showing CSR. Therefore, in general, the stronger the communities sense, the more important it is for shopping mall owners to show CSR, for example by incorporating small retailers.

The second reason is that township shopping mall developments have significantly changed the retail structure in townships in a very short period. In contrast, shopping mall developments in the Netherlands are evaluated naturally over a much longer period. To prevent unrest among township residents and informal retailers in particular caused by the sudden change in retail structure, township shopping mall owners need to show CSR.

Non-linear relationship

Although the determinants described previously suggest a linear relationship between the small retailers' accessibility in shopping malls and the stage of economic developments, chapter 2 showed that this relationship is non-linear: an economy has to reach a certain market efficiency first, before, small business perspectives improve.
Figure 7.2 shows that the South African economy is shifting from a factor-driven economy towards an efficiency driven economy. However, the TEA rate of South Africa is an average of its first and second economy. Because in the lower GDP levels the TEA rate decreases when the GDP increases, one could expect the TEA rate in first economy markets in South Africa to be lower (red line in figure 7.2 with number 1), and the TEA rate in second economy areas in South Africa to be higher (red line in figure 7.2 with number 2). Hence, it can be concluded that the township economy has to develop into an efficiency-driven economy, before the perspectives of small retailers improve.

In contrast, as figure 7.2 shows, the Netherlands has an innovation-driven economy, where the business perspectives of small retailers should increase along with further economic development.

§7.2 Institutional framework

Legislation
Currently, in South Africa, a discussion is going on about the adjustments of the Consumer Protection Act (CPA). In order to strengthen the position of retailers, some experts argue that the CPA should be adjusted so that retailers have the option to cancel their lease contracts within 20 working days, and that they have the right to renegotiate their lease contract to a market conform price when their lease contract comes up for renewal.

In the Netherlands, the lease legislation was also implemented to strengthen the position of retailers: for shopping mall owners it is almost impossible to terminate a tenant’s lease contract, retailers have the option to review their lease price and retailers can sell their business to other retailers without the intervention of the shopping mall owner.

Both cases result in the fact that the possibilities of shopping mall owners to manage their tenant mix gets limited. The Dutch case showed where this could lead to: when shopping mall owners’ possibilities to manage their tenant mix gets limited by legislation, they tend to prefer concepts that they are already familiar with.

Therefore, in general, the more the possibilities of
shopping mall owners to manage their tenant mix get limited by legislation, the more they tend to prefer concepts which they are familiar with such as retail chains.

Trust
In both cases a mistrust between small retailers and shopping mall owners seems to exists that limits the cooperation between them. By increasing their transparency, both parties can create understanding, from which the chances of a successful cooperation increases.

§7.3 Conclusions
This chapter provided some general determinants of small retailers’ accessibility in shopping malls.

Overall it can be concluded that the chance of successfully incorporating more small retailers in shopping malls increases along with economic developments, when the economy has reached a certain efficiency. Economic developments increase the importance of small retailers in various ways. First, along with economic developments the competition between shopping malls increases. And, since small retailers increase the distinctive power of shopping malls, their importance is expected to increase. In addition, along with economic developments the consumers’ ability to buy products of high value increases. And because small retailers tend to operate in niche markets and, as a result, offer goods to high value, low volume, their importance is expected to further increase. Furthermore, because along with economic development the nature of small retailers shifts from necessity-based to opportunity-based, their levels of innovation and, consequently their added value to consumer choice and value increases. Furthermore, because along with economic developments the business model of shopping mall owners shifts from being focussed on stability to being more focussed on flexibility, it decreases the risk of incorporating small retailers, who are known to have higher business mortality rates compared to retail chains. In addition, if the need for shopping mall owners to show CSR increases, their preference towards small retailers increases, since small retailers increase the economic and social welfare of communities.

Two other aspects that could affect the preference of shopping mall owners for small retailers can be distinguished. By limiting the tenant mix management of shopping mall owners through restrictive legislation, shopping mall owners tend to prefer concepts they are already familiar with such as retail chains. Therefore, restrictive legislation could weaken the position of small retailers rather than stimulating it. In addition, an increase of trust between shopping mall owners and small retailers can increase the chances of a successful cooperation.
The problem definition addressed in this research is: What are the causes of the low incorporation of small retailers and the high incorporation of retail chains by South African township and Dutch shopping mall owners and can these causes be translated into general conditions for a balanced distribution of retail chains and small retailers in shopping malls?

The problem definition basically exists of 3 parts. First, the causes of the low incorporation of small retailers by South African townships shopping mall owners were highlighted. Second, the causes of the low incorporation of small retailers by Dutch shopping mall owners were distinguished. Finally, these causes were translated into general determinants for the accessibility of small retailers in shopping malls.

First, the business model of shopping mall owners partly explains why small retailers struggle to gain foothold in the mall. Due to their efficiency and bargaining power, retail chains often tend to operate in markets with low value, high volume. Consequently, they need larger spaces and they can pay less rent per square meter compared to small retailers. In addition, retail chains often pay subsidised rents because they generate positive externalities to other tenants. Consequently, small retailers pay a rent premium for benefitting from these positive externalities. These two factors causes the rents small retailers have to pay to be relatively high.

In South African townships, the relationship between shopping mall owners and retailers is affected by market conditions in such a way that shopping mall owners believe that incorporating more small retailers implies too much risk for their business model. In other words, the chances of successfully increase the share of small retailers are too low. This can be explained by various market conditions. First, township shopping mall developments are often the first or one of a few formal and high-quality retail developments in these areas. Consequently, they tend to have large primary source markets. And as a result, competition levels among shopping malls are relatively low compared to mature market malls. Hence, township shopping mall owners' urge to distinguish their mall from competitors is lower compared to mature market malls. Therefore, the need to incorporate small retailers, who tend to increase the distinctive power of the mall, is marginal. In addition, because of the low household incomes of township consumers, they are very price sensitive. Since retail chains tend to operate in highly efficient branches, they can respond to this price sensitiveness by offering goods with low value, high volume. Furthermore, township consumer preference towards retail chains can be explained by the fact that they are recognised as high-quality institutes, and thus as economic developments, and by the fact that retail chains offer brands that create and increases personal status, equal to cars and houses in mature markets. Furthermore, small retailers in townships are often necessity-based, which means that they are set-up to escape from poverty. This type of retailers often tends to show low levels of innovation. Consequently, their addition to consumer choice and value is low. In addition, these retailers tend to have low business and administration skills, which increase the chance of failure.

The fact that township shopping mall owners do incorporate small retailers is mainly because of their addition to the shopping mall owners Corporate Social Responsibility. By showing CSR, township shopping mall owners want to create support from the local community and increase customer loyalty.

Although this could change in the nearby future, currently, the institutional framework conditions do not seem to affect the relationship between shopping mall owners and retailers in South African townships.

In contrast to the South African townships case, the Dutch market conditions create high incentives for Dutch shopping mall owners to increase the share of small retailers in their malls. First, because the Netherlands has one of the highest retail densities of the world and consumer expenditures at shops are decreasing because of a decreasing consumer purchasing power and an increase in online expenditures, competition levels among shopping malls are high and are expected to increase even further. Hence, the shopping mall owners' urge to distinguish their mall from competitors is high. As a result, shopping mall owners are greatly incentivised to incorporate small retailers, as they increase the distinctive power of shopping malls. Furthermore, because household incomes in the Netherlands are high, people can afford goods with high value. This is shown by the changing consumer preferences: consumer preferences have shifted towards authentic and fair-trade goods. In addition, new generations feel the need to distinguish themselves from others. Small retailers can respond to these consumer preferences better than retail chains, as they tend to operate from niche markets and offer goods with high value, low volume. Furthermore, consumers increasingly see shopping as a social experience. This also creates opportunities for small retailers as they can offer more social interaction with their customers, and they can increase shopping experience by offering innovative concepts. In addition, most Dutch small retailers are opportunity-based, that will say they became an entrepreneur to exploit an innovation or penetrate a niche market. Hence, their additions to consumer choice and value are high.

In order to respond to changing market conditions quicker, Dutch shopping mall owners want to increase the flexibility of their business model by stronger differentiation in lease prices and terms.
So although shopping mall owners are willing to incorporate more small retailers, even by offering lower lease prices and shorter lease terms, the Dutch lease legislation hinders them from doing so. Three aspects of this legislation are being named as main causes. The first is the length of the lease terms. While retailers can terminate the contract generally after 5 and 10 years, in practice, it is almost impossible for shopping mall owners to achieve this. Therefore it is almost impossible for retailers to change the retail mix when the mall is underperforming, causing a very static retail market. In addition, shopping mall owners are willing to take less risk when choosing a new tenant: when a tenant is underperforming, there is no possibility to terminate the contract. As a consequence, shopping mall owners tend to prefer retail chains over small retailers, as retail chains offer familiar concepts. The second aspect of the lease legislation is the possibility of lease price review. Once every five years shopping mall owners and retailers have the opportunity to having the agreed lease price reviewed by a judge. This makes differentiation in lease prices very difficult: shopping mall owners are unable to offer lower rents to small retailers because by doing so, they risk other retailers with equal unit sizes to ask for a lease price review, which could lead to decreasing lease prices. The third aspect of the lease legislation is the possibility to acquire a business including its lease contract. As a consequence, a retail chain could take over a small retailer including the lease contract and its conditions such as the lease price. Moreover, shopping mall owners could face tenants in their malls which they believe do not fit into their retail concept. Overall, it can be concluded that the Dutch lease legislation obstructs shopping mall owners from optimal, flexible and transparent retail mix management. In addition, it weakens the position of small retailers, while it strengthens the position of retail chains.

Dutch shopping mall owners do not see incorporating small retailers as part of their CSR. In fact, Dutch shopping mall owners’ CSR policies mainly focus on sustainability and not on other aspects of CSR.

Overall it can be concluded that the chance of successfully incorporating more small retailers in shopping malls increases along with economic developments, when a certain market efficiency is reached. This can be explained by several specific conditions, because along with economic development:

- The competition between shopping malls increases. And, since small retailers increase the distinctive power of shopping malls, their importance is expected to increase.

- The consumers’ ability to buy products of high value increases. And because small retailers tend to operate in niche markets and, as a result, offer goods to high value, low volume, their importance is expected to further increase.

- The nature of small retailers shifts from necessity-based to opportunity-based, their levels of innovation and, consequently their added value to consumer choice and value increases.

- The business model of shopping mall owners shifts from being focused on stability to being more focused on flexibility, which decreases the risk of incorporating small retailers, who are known to have higher business mortality rates compared to retail chains.

Two other aspects that could affect the preference of shopping mall owners for small retailers can be distinguished:

- By limiting the tenant mix management of shopping mall owners through restrictive legislation, shopping mall owners tend to prefer concepts they are already familiar with such as retail chains. Therefore, restrictive legislation could weaken the position of small retailers rather than stimulating it.

- If the need for shopping mall owners to show CSR increases, their preference towards small retailers increases, since small retailers increase the economic and social welfare of communities.

Overall, it can be concluded that township shopping mall owners lack the willingness to incorporate more small retailer because it increases the risk of the investment. From the general conditions it can be expected that this willingness remains low until a certain market efficiency is reached after which the willingness increases along with economic development in townships. In contrast, Dutch shopping mall owners are willing to increase the share of small retailers in their malls so that a more balanced distribution between small retailers and retail chains establishes. However, due to the Dutch lease legislation, they lack the possibilities to do so. From the general conditions, it can be expected that a more flexible lease legislation leads to a higher share of small retailers in shopping malls.

§8.2 Recommendations

Recommendations to various parties

South African township Shopping mall owners:

In order to create and maintain support from the local community it seems very important to show CSR. Incorporating small retailers in the mall could be an important aspect of this strategy. However, this can only
succeed with a lot of management time and effort. But successfully incorporating small retailers could not only increase the shopping mall owner’s CSR, it could also increase the distinctive power of the mall. The latter fact could be of increasing importance when competition levels increase. By incorporating small retailers in an early stage of economic development, a shopping mall could stay ahead of competitors.

South African policy makers:
In order to stimulate small retailers it seems that trying to protect them by protective legislation has a reversed effect. Therefore, policy should be aimed at stimulating small retailers, for example by educational programs, rather than by trying to protect small retailers by legislation.

South African township small retailers
South African township small retailers with ambition should focus on niche markets rather than trying to compete with retail chains. By following an educational program that focuses on management and business skills, small retailers could obtain the necessary tools to establish a successful formal business.

Dutch shopping mall owners:
From the theory in chapter 2 it could be expected that township shopping mall owners show CSR to avoid criticism, a strategy that is referred to as responsive CSR, and that Dutch shopping mall owners show CSR to increase the distinctive power of their mall, a strategy that is referred to as autonomous CSR. However, while township shopping mall owners indeed regard showing CSR as an important way to create support from the local community, Dutch shopping mall owners also use CSR to avoid criticism, rather than to distinguish their mall from competitors. However, it seems that an autonomous CSR strategy could increase the distinctive power of the mall and, consequently could increase the value of the mall.

Dutch policy makers:
As shown by this research, the Dutch lease legislation, that was established to protect small retailers, now limits the possibilities of shopping mall owners to incorporate small retailers. In order to increase the share of small retailers in the mall, the Dutch lease legislation should be adjusted in such a way that it increases the possibilities of shopping mall owners to adjust their tenant mix.

Dutch small retailers:
The market conditions suggest that there are sufficient opportunities to establish a retail outlet. However, such an outlet should add consumer choice or/and value by offering an innovative concept which responds to the customers need for authenticity, fair-trade, experience and social interaction. An innovative concept could include innovative products, but also innovative use of

**Recommendations for further research**

Quantitative evidence:
From this research it seems that the presence of small retailers in township malls decreases the value of the mall, while the presence of small retailers in Dutch malls increases the value of the mall. It would be interesting to see if a quantitative research could support this theory.

Franchises:
It is interesting that both South African township and Dutch shopping mall owners referred to as franchises as an upcoming form of ‘entrepreneurship’. Franchises operate a business under an established brand name. They can be seen as a sort of in-between form of retailer: in some way they behave as retail chains (branding and recognition), in other way they behave as small retailers (localness, financial back-up). It would be interesting to analyse the value of franchises to shopping mall owners and/or the retail landscape as a whole.

Shopping mall owners and Corporate Social Responsibility:
As suggested above, establishing an autonomous CSR strategy could increase the value of the mall. Therefore, it could be interesting to analyse the possibilities and effects of an autonomous CSR strategy for shopping mall owners.

The role of Dutch small retailers in the community:
The role that small retailers play in the Dutch community is not quite clear. Further research could establish understanding for this role and their position.
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