

UNIVERSITY OF KWAZULU-NATAL

**CHALLENGES AS EXPERIENCED BY SMALL, MEDIUM AND MICRO-SIZED
ENTERPRISES IN THE INFORMAL SECTOR, KWAZULU NATAL, SOUTH
AFRICA: THE CASE OF KWAMAKHUTHA TOWNSHIP.**

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**A dissertation submitted in partial fulfillment of the requirements for the degree of
MASTER OF COMMERCE IN LEADERSHIP**

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Year of Submission

June 2019



College of Law and Management Studies

Supervisors Permission to Submit Thesis/ Dissertation for Examination

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Title: Challenges as Experienced by Small, Medium, and Micro-sized Enterprises in the informal sector in KwaZulu-Natal, South Africa: The case of KwaMakhutha Township.		
Qualification Master of Commerce	School: GSB&L	
	Yes	No
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ACKNOWLEDGMENTS

I would like to extend my sincere thanks to the following people for their assistance and contributions to this study:

- Dr Emmanuel Mutambara for his guidance, challenging work and continuous support.
- My family for being my pillar of support and for all their years of patience.
- All the research participants that participated in the study and the whole community of KwaMakhutha Township who gave me the courage to complete this study and offered support in every way possible

ABSTRACT

The power and economic contribution that the Small, Medium, and Micro-sized Enterprises (SMMEs) sector brings to the growth and stability of South Africa can never be underestimated. Generally, this sector is the largest contributor to employment and reduction of poverty in most countries. This is in support for businesses operating in informal settlements such as KwaMakhutha Township, where the establishments of such businesses serve as the means for survival and reduction of poverty and unemployment for most individuals. However, these businesses are continuously experiencing critical challenges, which includes lack of (or rather limited) access to finance, and the use of public resources, lack of entrepreneurial knowledge, and increasing FOB competition. This hinders the consistent establishment of small businesses in the informal sector and the economic growth contribution that can be attained from the development of such businesses. The purpose of the study is to determine the challenges as experienced by Small, Medium, and Micro-sized Enterprises in the informal sector of KwaZulu-Natal. It made use of KwaMakhutha Township as the study case.

This study used a qualitative, case study approach to address the research questions and objectives. Primary data was acquired through the usage of face-to-face, semi-structured in-depth interviews. A purposive sample of eight SMMEs owners from KwaMakhutha township was recruited for the interviews. The data was analyzed using thematic analyses. The data collected revealed major findings that were in line with the research question and objectives. Lack of access to sources of funding and the use of public resources, lack of entrepreneurial education, and foreign competition were one of the predominant challenges as faced by most SMMEs in the informal sector. South Africa is still a developing country and therefore, still needs and should encourage small business establishments in both formal and mostly informal settlements. This can be done through fostering initiatives that will improve entrepreneurial knowledge in the informal sector and ease of access to the financial information that can assist entrepreneurs to get their businesses off the ground without long admin processes and unreasonable interest rates and taxes that they experience currently. Also, be given access to the use of necessary public resources. These mentioned will enable local operators in KMT to successfully compete with foreign businesses without fear of unbearable competition from foreign-owned enterprises.

Glossary of Acronyms

SMMEs	Small, Medium, and Micro-sized Enterprises
KMT	KwaMakhutha Township
SA	South Africa
FOB(s)	Foreign-Owned Businesses
FBO (s)	Foreign Business owners
AS	Asylum Seekers
EO	Entrepreneurial Orientation
CA	Competitive Aggressive
PA	Personal Assistant
FT	Family Ties
LB	Local Businesses
NGO	National Government Officials
UN	United Nations
OECD	Organisation for Economic Co-operation and Development

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CHAPTER ONE

OVERVIEW OF THE STUDY

1.1 Introduction

The Small, Medium and Micro-sized Enterprise (SMME) sector has become a livelihood strategy for most people in both developing and the developed world. This sector significantly contributes to the local economy by reducing unemployment and stimulating economic growth. Worldwide, Small, Medium, and Micro-sized Enterprises (SMMEs) are seen by policymakers and government officials as the ideal vehicles for economic growth and job creation (OECD, 2005). Through these businesses, owners are able to meet their families' daily needs. However, there are certain factors that tend to make these businesses unsuccessful especially those operating in the informal settlements. This study aims to gain a thorough understanding of the challenges as experienced by SMMEs in KwaMakhutha Township, as well as other factors that may lead to less development and success of SMMEs within this township. This chapter presents an overview of the study by providing context to the study via the problem statement. The core focus areas of this research, such as the research objectives, research questions, study motivation, and research methodology, are presented to expound the on the intent of the research.

1.2 Background to the study

SMMEs are one of the main contributors to the economic development in the informal sector. They play a critical role in the SA economy as they are key drivers of job creation, innovation and economic growth (The Banking Association South Africa, 2018). "It has been estimated that SMMEs in SA; employs approximately 60% of the labor force, form 91% of formal businesses and contribute approximately 52% to the domestic GDP (SME South Africa, 2017; The Banking Association South Africa, 2018). The Finscope (2006) survey shows that 90% of job creation between 1998 and 2005 were due to SMMEs. The National Development Plan (NDP) expects by 2030 that SMMEs will provide 90% of new jobs (Evan Jones, 2016)" (Ally, 2018, p.1).

SA is one of the developing countries faced with a number of political, social, and economic challenges that not only affect all the inhabitants that reside in it but the

SMME sector as well. Currently, SA suffers from slow economic growth and a persistently high unemployment rate of 26.7% with youth unemployment exceeding 60% (Herrington and Kew, 2017). This is unfortunate as the government is implementing different initiatives and is working with different organizations to ensure a better life for all South African citizens. Ally (2018, p.1) further adds that Government acknowledges the potential impact that SMMEs have on the economy and have thus shown support to this sector by providing support through various initiatives, most notably the unveiling of the Department of Small Business Development (in 2014) and the recent launch of a R2.1 billion fund for start-ups (National Youth Development Agency, 2018; SME South Africa, 2017).

1.3 Motivation for the Study

This study intends to contribute to the existing theory of SMMEs in the informal sector by, Firstly, critically explaining the phenomenon of SMMEs. Secondly, it will unpack how SMMEs have become the vehicle in combating unemployment. Thirdly, it will explore the contribution of SMMEs to the South African economy. The principal purpose of this research is to enhance the knowledge of SMMEs business sector in eThekweni townships by determining the factors for unsuccessful SMMEs in Kwa-Makhutha Township. The findings will be of the greatest use to government in coming up with better policies of controlling socio-economic problems of unemployment, promoting programs for entrepreneurial education, enhancing the sources of funding and allow for ease of access to much needed sources by every entrepreneur in the informal sector, control the increasing level of illegal immigration as they contribute to the unsuccessful SMMEs in Kwa-Makhutha because of the high level of competition that they pose to the existing SMMEs in townships, and most importantly, come up with better ways of improving technological innovation within the informal business sector. With all the above mentioned, the researcher saw a need to conduct this study.

1.4 Justification of the study

The purpose of this project is to investigate the challenges experienced by SMMEs in the informal sector, Kwa-Makhutha Township. While there are misconception about

the challenges facing SMMEs accorss the country, it is not certain that the challenges that are faced by SMMEs in the respective regions and districts of South Africa are the same or similar(Friedrich, 2017). Friedrich (2017) identified and studied in previous research, that there is no consensus on the specif challenges SMMEs face, but all that is known is that, SMMEs face enoumous challenges. The broad topic of SMMEs received attention accorss the country, however there are no specific studies on the informal sector of Kwa-Makhutha Township. As SMMEs face increased survival challenges, the environment in which they operate keeps on changing making it harder and yet communities rely on SMMEs. Recommendations from this study if implemented will help improve livelihood of the Kwa-Makhutha Township communities.

1.5 Problem Statement

The informal SMMEs of South African faces sustainability related challenges of all times (Dlova, 2017a). All that is known at the time of counducting the study, is that informal SMMEs of Kwa-Makhutha Township have struggled to grow while similar SMMEs in other neaby areas seem to perform better, leaving many with the inquisitive question of what has gone wrong with Kwa-Makhutha Township informal SMMEs. The specific sustaibaility related challenge are yet to be revealed by this study. It is important to understand at this point the meaning of informal sector. Informal sector entails that sector of business which is not regulated by government as owners are given room to do as they please (Abor and Quartey, 2010; Dlova, 2017a). According to Abor and Quartey, (2010) an informal does not have restrictions to entry or exit as the sector with proactive entrepreneurs are free to undertake business activities without adhering to formalites that would have been required in a formal company. Despite such room to do as they please, the informal SMMEs of Kwa-Makhutha Township in KwaZulu-Natal province, face numerous challenges yet to be explored by this study. Mindfull of the critical role played by SMMEs, the South African government has put measures to promote SMME growth. Despite such measures, informal SMMEs continue to face businesses countless challenges. Friedrich (2017) argues that SMMEs in SA have the highest failure rate beween 70-80% of new businesses failing within their first year of operation. This has led to people being more

reliant on government as opposed to themselves. The financial support that they get from the government is only enough for them to afford basic needs and nothing to uplift themselves nor improve their standard of living by establishing businesses of their own.

Township economy is made up of social grants and small businesses. The Department of Trade and Industry (DTI) published a comprehensive report on the SMME sector of SA in 2008. Since then, the domestic, as well as the global economy, changed significantly. The global financial crisis followed in 2008 and 2009, pulling the South African economy into recession. Domestic economic policies changed, interest rates were reduced significantly, and a new political administration came to power and much more, (SA DTI, 2008). All these factors of change impacted on the SMME landscape in SA (Small Enterprise Development Agency), SEDA 2016. These add to the critical challenges facing the SMMEs in the informal sector, especially in townships. With this study and many others conducted on SMMEs, it is unfortunate that these businesses are still faced with different challenges that needs be to be identified and attended to. To this effect, this study aims to clearly determine the challenges as experienced by SMMEs in the informal sector, Kwa-Makhutha Township.

1.6 Focus of the Study

The focus of this study is to clearly identify and describe the factors behind the unsuccessful SMMEs in Kwa-Makhutha Township. These factors include lack of access to sources of funding and the use of public resources, lack of entrepreneurial education, and the increasing number of FOB in most townships all over the country (which increases the level of competition amongst local and foreign businesses), crime, poor infrastructure, corruption, globalization and other macro-economic factors, and internal environmental factors that include management skills and competency and access to finance and credit. After these factors have been identified and described, the research will yield a set of outcome principles in the form of recommendations that can be applied to avoid or reduce the failure of SMMEs.

1.7 Aims of the study

This study aims to analyze the challenges as experienced by SMMEs in the informal sector in KwaZulu Natal, South Africa, using KwaMakhutha as the study site. It intends to identify and examine the factors that limit the success, growth, and sustainability of SMMEs in KMT by identifying the challenges as experienced by these enterprises. The qualitative research method will be used to conduct the study. Using semi-structured interviews, data will be collected from the chosen participants and analyzed using the thematic data analysis method. The outcomes of the study can be used to further stimulate the SMME sector by informing governmental or non-governmental initiatives and assist in making informed decisions for growth plans of SMMEs.

1.8 Research Objectives

1. To ascertain whether lack of access to sources of funding and the use of public resources are the factors behind the development and success of SMMEs.
2. To describe whether lack of entrepreneurial education is the factor behind the development and success of SMMEs.
3. To explore whether the increasing number of foreign-owned businesses is the factors behind the development and success of local SMMEs in Kwa-Makhutha Township

1.9 Research Questions

The following questions will guide the study:

1. Is lack of access to sources of funding and the use of public resources the factors behind the development and success of SMMEs?
2. Is the lack of entrepreneurial education the factor behind the development and success of SMMEs?
3. Is the increasing number of foreign-owned businesses the factor behind the development and success of SMMEs?

1.10 Brief Methodology

This study utilized a qualitative research design. Qualitative research was selected as it allows the researcher to practically engage and obtain the lived-experiences of the SMME owners and managers in KMT. Data collection occurred through the means of semi-structured face-to-face interviews with eight SMMEs managers/owners based in KMT. These participants were chosen using the maximum variation subset purposive sampling and Grounded Theory. The reason for this was to be able to offer an in-depth explanation about the driving factors behind the challenges as experienced by SMMEs in KMT. Moreover, the researcher tried to avoid limitations in terms of data collection and analyses. This was achieved by giving participants interview questions prior to the actual interview to enable them to grasp as much information as they can, in terms of what the research seeks to achieve and what exactly is expected of them. This was also executed to ensure that participants are not limited by the short period of time to go through the questions which will limit their desired responses during the actual interview (full discussion on this will be provided on P.69 on section 3.11 which will cover the Administration of the research instrument).

1.11 Delimitation

The study focuses on SMMEs in Kwa-Makhutha Township, to South of Durban metropolitan city and excludes all other areas. Not all SMMEs will be studied, but only informal SMMEs that have been in operation for at least a year. In addition, not all members of the target population will participate in the study as the study will purposively select a relatively small number of participants as opposed to gathering data from a huge population. Thus, the study will not employ a quantitative method.

1.12 Conclusion

The contribution of SMMEs is highly recognizable in most developing countries. They play a vital role in uplifting both the economy and many lives of many South African citizens in the informal sector. It was, therefore, necessary to conduct this study to get a detailed understanding on the challenges as experienced by the SMMEs in KMT, as

well as the underlying factors that limit their development, growth and promote their competitiveness and sustainability.

This chapter introduced the study and briefly outlined the following aspects: problem statement, research objectives and research questions, the motivation of the study, focus of the study, study methodology and the chapter was then summarised. Chapter two provides a thorough synthesis of the relevant topics that relate to the research objectives of the study.

1.13 Organisation of the study

This study is organized as below:

Chapter: one

This chapter serves as the introduction to the study as already outlined above. It contained the following: introduction, the background to the study, problem statement, aims of the study, research objectives, research questions, motivation to the study, the focus of the study, brief Methodology, and chapter conclusion.

Chapter: two

This chapter usually referred to as the literature review provide existing literature in line with the research questions and objectives as set out in this study. It covers the introduction, definition of SMMEs, the economic state of KwaZulu-Natal, concept mapping, theoretical framework, and the conclusion of the chapter.

Chapter: three

This chapter unpacks all the research methodologies that were used to conduct the study. It encompasses the introduction, research design, philosophy, methods, research strategy, and theory development. It then moves to discuss the population, sample design, sample size, research instrument and administration of the chosen instrument. The time horizon of the study is discussed, data analysis, verification of data, bias, limitations to the study, ethical considerations, and conclusion.

Chapter: four

This is the chapter where the data is analyzed and discussed. It first introduce the study and discuss the analysis procedures. All the data was analyzed in line with the

research questions and objectives of the study. Participant's responses to be discussed in line with the study questions and the findings will be fully explored to give an ideal understanding of the study aims as set out by the study, the chapter will then conclude.

Chapter: five.

This chapter offers the conclusion of the whole study. It entails the introduction, and offer recommendations in line with the research objectives and suggestions for future research.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of the literature available on the Challenges as experienced by the SMMEs in the informal sector. In introducing the study, the researcher unpacks the research concept, giving a brief background of what the study is about. Formulated to support the research framework, the concept mapping is then discussed which covers the variety of concept relating to the research questions. The research framework is discussed thereafter which thoroughly explains the five aspects as proposed by the study.

The chapter begins by offering the definition of small businesses (spaza), thereafter, followed by the definition of SMME and their different types. In support of the theoretical framework, the concept mapping, which covers the following aspects: increase level of poverty and unemployment, high competition from foreign-owned SMMEs, limited access to sources of funding and the use of public resources and lack of entrepreneurial education is then discussed. Theoretical Framework, which covers the following aspects: networking and economies of scale, entrepreneurial education and business practices, financial management, geographical location, socio-economic factors, this will be supported by the research findings of the previous study conducted on the similar research area. Thereafter, the chapter will conclude.

2.2 Defining Small Businesses (Spaza Shops)

Small businesses (spaza shops) are often cited as examples of micro-entrepreneurial endeavor and success within the informal economy of South African townships. The term 'spaza' is taken from isiZulu language, meaning 'hidden' (Bear et al, 2015), and emerged in the apartheid era when business opportunities for black entrepreneurs were restricted. Sediba (2017) defines a spaza shop as "a traditional name given to a general dealer usually situated in a rural area, which sells a variety of merchandise and curios". Triple Trust Organization (2014) regards the spaza market as the domain of the poor (both as owners and as customers) and thus any interventions that improve this market will benefit the business owners, as well as the customers who are (by definition), are members of disadvantaged communities.

These micro-convenience stores traded in a clandestine manner to provide township residents with local access to everyday goods otherwise only available at distant supermarkets. Over time, the scale of the spaza shop market has grown steadily (Marketing Mix, 2017), in part due to the greater levels of disposable income in the hands of historically poor communities (Van der Berg and Louw, 2016). The purpose of this section is to place proper and in-depth context, the views, arguments and findings of scholars in the research area (limited access to sources of funding and the use of public resources, Increase level of poverty and unemployment, lack of entrepreneurial education, high competition from FOBs, networking and economies of scale, entrepreneurial orientation and business practices, geographic location, and socio-economic factors and financial management). It is important to note that the above-mentioned research areas are from both the concept mapping (the first four) and the theoretical framework (the last five) as proposed by this study and will be discussed respectively.

2.3 Defining Small, Medium, and Micro-sized Enterprises

Whilst the importance of the SMME sector and the informal sector is acknowledged internationally, defining SMMEs is a challenging task, as every individual from different countries has their own definition. There is no single, uniformly accepted definition of small firms (Storey, 2017). Despite the critical contribution of SMMEs in the economy of developing and developed countries, there is an absence of a universally accepted definition (Abor and Quartey, 2010; Dlova, 2017a). Various countries use different terminology to address enterprises that do not fall under the large enterprise's category. Some countries categorize them as "small businesses" while organizations such as the World Bank, United Nations (UN), European Union (EU) and World Trade Organisations (WTO) categorize them as 'small and medium enterprises' (SMEs). Other countries including SA call them Small Micro and Medium Enterprises (SMMEs).

The EU defines SMEs as enterprises that have an annual turnover that does not exceed 50 million Euros and not more than 250 employees. The EU distinguishes between small enterprises, which have less than 50 employees and an annual turnover below 10 million Euros, and micro enterprises, which have less than 10 employees and an annual turnover below 2 million Euros (Mulhern, 1995; Lukács,

2005). The World Bank defines SMEs as enterprises that have an annual turnover that does not exceed 15 million US dollars and not more than 300 employees. The World Bank distinguishes between small enterprises, which have less than 50 employees and an annual turnover below 3 million US Dollars, and micro enterprises, which have less than 10 employees and an annual turnover below 100 thousand US dollars (Mulhern, 1995; Lukács, 2005).

According to Pett and Wolff (2015), there is an increasing body of literature that addresses various differences between large enterprises and SMMEs. In most cases, they are distinguished by the number of employees each class of these enterprises has, such that SMMEs in the US are defined as enterprises with fewer than 500 employees and in the European Union as those with fewer than 250 employees. In SA, it is SMMEs (Small, Medium and Micro-sized Enterprises) which includes the informal sector. Firms differ in their levels of capitalization, sales, and employment. Hence, definitions which employ measures of size (e.g. number of employees, turnover, profitability and net worth) when applied to one sector might lead to all firms being classified as small, while the same size definition, when applied to a different sector, might lead to a different result, (Small, Medium, and Micro-Sized Enterprises), SMMEs 2014.

However, Pett and Wolff (2015) argue that this classification and definition of SMMEs is not an ideal one. This is due to the fact that the number of employees per enterprise is a measure that is regarded as rather unimportant by SMME owner-managers relative to the disclosure of confidential information on financial measures, as this confidential information is rarely given. Thus, researchers are left with measures that these owner-managers are prepared to provide, which is with regard to the number of their employees and this has been the key criterion that prevails in defining SMMEs. Research by Reynoso *et al.* (2014) shows that there is a general economic standard used by the Bolton Committee to define SMMEs, which includes: small businesses that own a moderately small market share; owners who are fully or at least partly involved as shareholders; daily operations that are conducted in a personalized manner; and no formal business structure. The following are the different categories of SMMEs enterprises and their definitions:

2.3.1. Survivalist Enterprise

Beyene (2002) states that survivalist enterprises are primarily for people who are unable to find paid jobs or to get in the economic sector of their choice. Often classified under micro enterprises, Beyene (2002) further explains that a survivalist enterprise is defined as a business with no formal employees, generating income below the poverty line. The main reason for such a business is to provide income for the owner and their family as a means for survival, with little capital invested and there is also a lack of training and minimal opportunity for growth and development (Gunasekaran, Griffin and Rai, 2011). SMMEs operating in KMT can be classified under this category because the main aim of their operation is just for means of survival with no potential growth nor future investments. With high competition from FOBs, the means of survival have become the long term goal for local businesses and to just operate with an aim to earn cash to keep them going for the next day.

2.3.2. Micro Enterprise

A micro-enterprise is a business which lacks formality in terms of registration (Lokhande, 2011). According to (Bowen, 2009) micro-enterprises are associated with characteristics such as the small scale of operation and market share, low-income generation, unproductivity, and high informality. The informality of these enterprises has led many to believe that micro enterprises assist in generating sustainable income for the owners, by avoiding government incentives such as tax. However, (Gunasekaran et al., 2011) argue that formality of a business entity is an important factor when it comes to growth and development since it enables such businesses to gain access to institutions that assist with capital, guaranteed property rights, as well as administering contracts for the enterprises.

2.3.3 Small Enterprises

These enterprises are more established as compared to micro-enterprises. According to Dockel and Ligthelm (2005), small businesses are usually owner-managed or family managed businesses that operate in business or industrial areas and they are usually registered and meet other fundamental registration requirements. Ownership and management structure in these enterprises is more complex as there is usually decentralization of power and division of labor that helps to differentiate them from micro-enterprises (Beyene, 2002).

2.3.4 Medium Enterprises

These enterprises are said to be well developed and have a high success rate because of their ease of access to external assistance. Micro enterprises already have technological know-how skills, they possess managerial skills and can easily gain access to capital as compared to micro and small enterprises (Gunasekaran *et al.*, 2011). The following table depicts the synopsis of SMME definition by region.

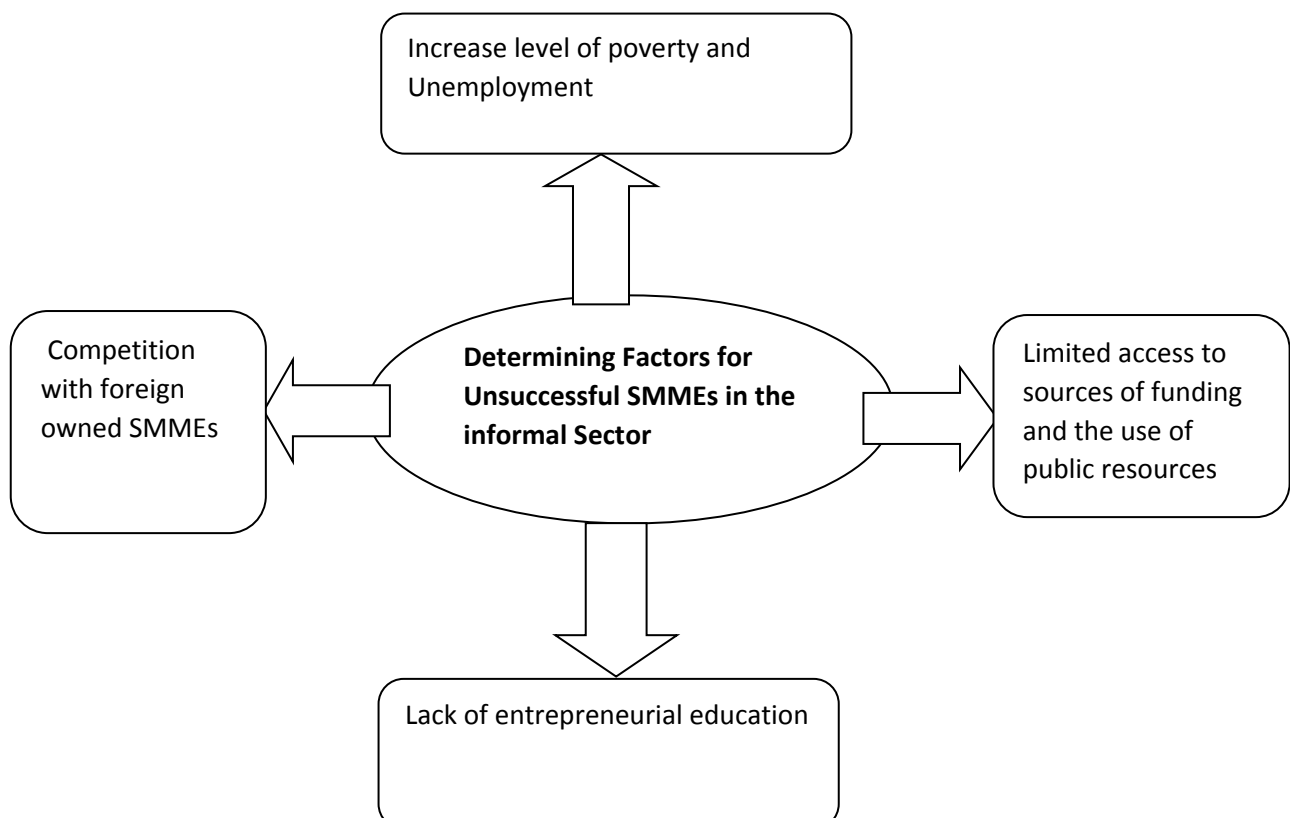
						BRIC					
	EU	USA	ASIA(MI	EGYPT	GHANA	BRAZIL		RUSSIA	INDIA	CHINA	RSA
						Industri	Comme				
	Small and	Small	Small	Micro,	Micro,	Small	Small	Small	Micro,	Small	Small, Medium
# of											
Micro	< 10	0	< 5	1 to 4	up to 5	Up to	Up to	0	0	0	< 20
Small	< 50	<100	5 to	5 to 14	6 to 29	20 to	10 to	15 to	0	<300	50-99
Medium	< 250	<500	51 to	15 to	30 to	100 to	50 to	101 to	0	300 to	100-200
TURNOVER											
Micro	\$3m	0	RM250.	0	\$10 k	0	0	0	<Rs50	0	<R150k
Small	\$13m	0	RM250.000	0	\$100k	0	0	400 m	Rs50-	<Y30	R2m to R4.5m
Medium	\$67m	0	RM 10m	0	\$1milli	0	0	1 B RUB	Rs60-	Y30 to	R4.5 to R50m

Table 2.1. Synopsis of SMME definition by region (SMME, 2014)

2.4 The economic state of KwaZulu-Natal

Although the South African province of KwaZulu-Natal (KZN) has the third smallest land mass with the second largest population, it is the second major contributor to the country's Gross Domestic Product (GDP). KZN contributes 13% of the South African construction sector, 13.4% of the finance sector, 17.8% of wholesale and retail trade and 21.6% of manufacturing output. The manufacturing, finance, trade, and transport sectors are key contributors to the province's economy. The manufacturing sector contributes 17.1% to the province's economy, this proportion is higher than any other province in the country (Botha, 2014). Since 1997, the economic growth achieved by KZN exceeds the growth of SA as a whole. The unemployment rate of KZN is the third lowest in the country with the Western Cape and Limpopo ahead at 19.5% and 19.6% respectively. The expanded unemployment rate of KZN improved from 24.1% and 41%, in the last quarter of 2017 to 22.3% and 40.6% in the first quarter of 2018, respectively (Stats SA, 2018). The following is the concept mapping set out by the researcher as the first step in developing the theoretical framework that will guide and support the arguments that will be made in this study.

2.5 Figure 2.1: Concept Mapping for Determining factors for Small, Medium, and Micro-Sized Enterprises (SMMEs) in the informal sector.



2.5.1 Increase level of poverty and unemployment

Durban is situated in a province full of abundant resources that make industrial development easier. Despite the fact that Durban is the second best contributor to the gross domestic product after Gauteng, the province still faces the high levels of unemployment, income disparities, increasing public debt, political misconduct and crime are all serious problems that have negatively affected the South African's economy, which has further affected the country's ability to empower and foster competitive businesses establishments to fight the struggle of unemployment and the increasing level of poverty, mostly in the informal sector.

KMT is one of the less developed and most suffering townships with poor infrastructure and technological support. After nearly two decades since the ending of apartheid colonialism, poverty, unemployment, inequality, and environmental degradation remain persistent problems. SA is experiencing a process of economic development also characterized by a massive number of its unemployed populace (Musara and Fatoki, 2013). Khuba (2013) states that the development of the economy of any nation is centered on the industries and without industries development, it impossible.

A growing industrial sector is fundamental as it enables a nation to compliment and maintain continued economic growth. Khuba (2013) also believes that a well-developed industrial sector covering different areas is significant to economic growth. In SA, several industrial sectors of the economy exist which include: mining, manufacturing, agriculture, tourism, communications, wholesale and trade, finance and investment incentives. All of these contribute to an enormous role in boosting the economy. Report by KwaZulu-Natal Top Business Portfolio (2016) states that KwaZulu-Natal's industrial sector is the second largest in SA. The report further indicated that the industrial sector is mainly for export and contributes about 20% of the employment. In seeking to improve the quality of life for all its inhabitants, SA must also reduce poverty, create employment, and redress widening inequalities both at national and provincial levels. Moreover, policy development should aim to enhance inclusive development, (Ndabeni and Maharaj, 2013).

Apart from the issue of poverty, SA is also faced with the forever increasing level of unemployment. Due to many individuals being unemployed, SMMEs have become the living strategy for most citizens. Statistics SA has reported that unemployment was

over 25% during the first quarter of 2013. While the economy should be absorbing new entrants into the job market, the present economic climate is unable to deliver on these expectations. It is reported that the number of unemployed among young people under the age of 25 is around 50%, (Statistic South Africa, 2013). One can argue that this is not the problem facing SA only. However, it is a widely spread crisis affecting other countries which have even led to many foreign immigrants who migrate into the country to seek opportunities. As a result, this has led to the increasing number of foreign individuals who illegally enter the country and pursue their illegal business activities, which then pose tight competition to locally owned businesses, contributing to more challenges as faced by SMMEs in the informal sector.

2.5.2 Competition with foreign-owned SMMEs

SMMEs operate in a very active and competitive environment with the aim of surviving despite these difficult conditions. However, a majority seem vulnerable to competition mostly by the foreign-owned enterprises; hence they are unable to sustainably function in a competitive environment, (Masupa Liako Priscilla, 2014). Since about 2005, there has been fierce competition between South African spaza operators and businesses that are run by immigrants. New research has sought to understand the nature of this competition and the impact of the seeming dominance of foreign businesses over their South African counterparts. Whilst the decline of South African spaza shops has long been predicted because they appear to be uncompetitive (Bear et al. 2005), the precise nature of this phenomenon has been poorly understood. Such knowledge would touch on possible government efforts, including legislation and support programs, to bolster South African spaza (and other) entrepreneurship.

The attainment of democracy in SA was one of the biggest achievements that this country has never had but at the same time, it has brought some huge challenges. A major one is the 'alien invasion' - illegal immigrants who stream into SA because it is widely perceived as a land of great opportunities for a better life (Maharaj & Rajkumar, 2015). The scholarly article of Maharaj and Rajkumar further acknowledges that the problem of illegal immigrants in SA is not new. However, it has reached alarming proportions in the 1990s. The influx of illegals is seen to be undermining the Reconstruction and Development Programme (RDP) and threatening the livelihood of

the poor. With the increasing number of unemployment all across countries, SMMEs sector is widely becoming the driving force in economic growth and job creation in both developed and developing countries (Sunter, 2016).

Makwerekwere or Pakistani are two words that have become so popular all around the eThekweni townships (Crush, 2017). According to Raymond (2015), 'makwerekwere' is a derogatory term for black Africans whom South African blacks perceive as coming here to take their jobs. Most immigrants have come to South African to escape poverty and destitution in their own countries, as well as civil wars and political instability (McDonald, 2016). In that light, they have filled every corner in townships with their different enterprises, which has posed a number of threats for local small businesses because of the innovative skills employed in their businesses and their level of competitiveness. They establish this through the use of networking and economies of scale.

Despite its seriousness, the problem is largely under-researched. Hough (2014) examined the nature of refugee and illegal alien movements in Africa and identified some of the underlying causes of illegal migration to SA. Minnaar et al (2016), Minnaar and Wentzel (2016) and Carim (2016) provided an overview of the problem of illegal immigrants. With many other existing pushing factors behind illegal foreign immigration, unemployment is of the greatest concern. It is with this notion that illegal immigrant's businesses are more successful and are given more preference in jobs because they demand lower payments as compared to local citizens and as a result, they have become victims of brutal attacks (Xenophobia). This stems from the threat that local businesses have because of the existence of competitive foreign businesses and the fear of the increasing unemployment rate for local citizens and their future generation.

2.5.3 Entrepreneurial Education

Entrepreneurship keeps on assuming a quintessential part in the economies of many developing nations and in addition in SA (North, 2015). One of the drivers of the economy is the production of small businesses, which has enormously influenced the monetary development, made occupations and in addition expanded the national aggressiveness of the country on the world business showcase (Nicolaidis, 2016). In

SA, entrepreneurship presents open doors for uniting the moderately more youthful populace and changing the past social and financial contrasts among its citizens. To guarantee that a nation's maximum capacity for financial development is accomplished alongside better expectations for everyday comforts for its residents, North (2015) agrees that the entrepreneurial capacities of everybody, even the young, should be used.

Entrepreneurship education as an essential segment on the supply side and entrepreneurship atmosphere is the significant supplier of the required infrastructural assets of a business-driven economy by empowering the production of entrepreneurial abilities, information, and mentalities in people (Askun and Yildirim 2015). "Entrepreneurship acts as a remedy for unemployment and growth problems that are caused by the recent global economic crisis that are the major issues in the political agenda of all countries today" (Askun and Yildirim 2015, p.23).

Entrepreneurship and Entrepreneur are one of the most commonly used business concepts, which hold a very strong definition and that, in most cases, tend to differ for every individual. Therefore, it would not make much sense to discuss entrepreneurial orientation (EO) without first having to define the following concepts of Entrepreneurship and an Entrepreneur. Thereafter, entrepreneurial orientation will be defined along with its importance. It is important for the reader to note that the concept Entrepreneurial education and Entrepreneurial Orientation will be used interchangeable on this study to refer to the same meaning.

2.5.3.1. Defining Entrepreneur

Shelton and Darling (2016) describe an entrepreneur as a person who is a developer and an innovator and who recognizes opportunities and converts them into workable ideas to add value. Following the Becker-McKinney model (2010), two ideal types of entrepreneurs were constructed through empirical analysis and research; the Craftsman-Entrepreneur and the Opportunistic-Entrepreneur. The craftsman-entrepreneur is defined as the person who tends to be focused on the present and past. The craftsman-entrepreneur normally has a specialized technical education and has low levels of confidence and flexibility. Conversely, the opportunistic-entrepreneur

tends to have advanced levels of education and social awareness. This entrepreneur focuses on the future with a high degree of flexibility and orientation (Smith, 2014).

With intelligent business skills that FOBs have, they can be successfully classified under the category of opportunistic-entrepreneur, as opposed to local entrepreneurs. The word entrepreneur is originally derived from the French verb “entreprendre”, that means to undertake an idea, to seek for an opportunity and to fulfill an individual’s needs by starting a business and being innovative (Kuratko & Hodgetts, 2004). Boulton, Hoy, and Carland (2010) describe an entrepreneur as an individual who establishes a new venture and manages it with the goal to be profitable and to be successful. Therefore, this definition of Boulton and Carland is considered sufficient to describe the entrepreneur.

2.5.3.2 Defining Entrepreneurial Education (EO)

Entrepreneurship education has been characterized in smaller and more extensive terms. It can be viewed as an opportunity acknowledgment, marshaling of assets within the sight of hazard and building a business venture (Samwel, 2010) and as an accumulation of formalized lessons that brightens, prepares and teaches anybody to keen on business creation or private venture improvement.

In the competitive environment of the business economy, innovation and proactiveness can be seen as the driving forces of business success and survival along with elements such as risk-taking, autonomy, and competitiveness. These elements combined together have been used often to define the construct of entrepreneurial orientation (Knight, 2016). George and Marino (2011) also describe the domain of EO as containing fewer or more dimensions. Therefore, one should further embrace Lumpkin and Dess’s (2010) concept of EO that explains that EO consists of processes, structures, and behaviors that can be described as being aggressive in a competitive manner, being innovative, being proactive, taking risks and seeking autonomy. The five dimensions of EO hold the key to organizational success. This is what local businesses should strive to achieve to protect themselves against competitive FOBs as they seem to be successfully practicing these processes and having such structures in place for their businesses.

EO is an important determining factor in the successful development and sustainability management of a business and is suggested as a key for success to higher performance (Yamada & Eshima, 2009). The successful implementation of EO also enhances the financial, social and economic factors of a business. Which are on the strategic focus of FOB. The term EO and its existing dimensions are considered the building blocks for entrepreneurs and it explains methods for creating new ventures successfully and running existing ventures in a way to achieve great success.

Lumpkin and Dess (2015) noted that EO represents specific key entrepreneurial processes in terms of how new ventures are created. These include four aspects noted by Miller (2016) namely Innovativeness, Risk-taking, Pro-activeness, and Competitive aggressiveness. With poor business knowledge and lack of support, businesses in townships mostly lack these important components of EO. Although these components are to be expected amidst an informal trade industry, it seems like FOB have the upper hand on local businesses in all these respects. An example of how culture and orientation play a role is that foreigners are essentially away from home and family whilst abroad; therefore, their primary focus is on the performance of their businesses and less can be said for local entrepreneurs. This paper will now offer an in-depth discussion on the four important aspects of EO, as they can be said to be of greatest importance and value adding to every business operating in a township.

A growing body of academic research has examined the effectiveness of entrepreneurship education with the aim of raising students' awareness of self-employment as a career option and creating an enterprising culture amongst them (Lekoko, Rankhumise, et al. 2012). The move towards independent work is and will keep on becoming, an inexorably essential component of financial development and advancement.

2.5.3.2.1 Innovativeness

During the start-up phase of a business, the entrepreneur must be in possession of a set of certain characteristics that includes innovativeness and the will to act (Littunen, 2010). Innovativeness means that the entrepreneur must have the ability to produce solutions in new and unfamiliar situations. The entrepreneur can accomplish this by relying on his abilities attained through training and experience. Therefore, to stay

competitive, it is important for every businessperson to invent and implement innovative ideas into their businesses. As much as both local and foreign businesses can come up with innovative business ideas, local businesses tend to fail to sustain and manage their business competitively as compared to FOBs.

Lumpkin and Dess (2015) suggest that innovativeness is a firm's tendency to engage in and support new ideas, novelty, experimentation and creative processes that may result in new products, services or technological processes. In that light, it can be argued that being innovative is one of the scarce and most lacking skills and with townships being located in the informal sector where there is less knowledge available and provision about such skills is limited, this makes it even more difficult for SMMEs situated in KMT to be innovative. However, foreign businesses seem to be doing much better at this and their businesses are continuously growing with innovativeness being their success booster.

2.5.3.2.2 Risk-taking

The characteristics of a successful entrepreneur include the ability to take risks, innovativeness, and knowledge of how the market functions, marketing skills, and business management skills (Littunen, 2010). This statement relates to EO seeing that the elements mentioned such as innovativeness, for one, determines the success of an entrepreneur or manager. Risk-taking involves taking bold actions by venturing into the unknown, borrowing heavily, and/or committing significant resources to ventures in uncertain environments (Lumpkin & Dess, 2015). Entrepreneurs have become so reluctant when they have to take business risks because of the unknown outcome of the risk being taken. As a result, they tend to miss so many advantageous business opportunities that could take their business to the next level. Since in an informal sector most business activities are done without any consent from the government, which makes it even more difficult for businesses operating there to take any uncertain business ventures because of the fear of possible risks they might encounter.

Caruana et al. (2016) explain that without the willingness to take a risk there can be no innovation and opportunities promising a bright future will not be captured easily. Calculating and assessing the risks involved is a very appropriate approach but the rewards should always be kept in mind. Risk is inherent in the operations of a business

and decisions taken by managers and owners always involve risk. A risk is often an opportunity not yet recognized (Caruana et al., 2016). There are many types of risks and risk-taking is broadly defined. The most suitable definition in terms of entrepreneurial orientation would be to acknowledge that risk-taking is the degree to which managers and entrepreneurs are willing to make large and risky resource commitments (Lumpkin & Dess: 2015).

2.5.3.2.3 Pro-activeness

According to Madsen (2016) pro-activeness, refer to a posture of anticipating and acting on the future requirements of the market. First movers can control the market by dominating the distribution channels. It is further explained by Sharma and Dave (2012) that a pro-active business should be considered a leader rather than a follower. Madsen (2016) supports this statement and further mentions that the pro-active businesses are usually the more sustainable businesses with innovative people and entrepreneurs that are willing to take risks.

Implementing change in a business, product or service that the business provides does not define pro-activeness but a simple reaction to the current situation. By implementing change in the organization while analyzing the future implies acting proactively so that the business is prepared for what the future will bring (Lumpkin & Dess, 2015). Rauch et al. (2017) found that the dimensions of innovativeness, risk-taking, and pro-activeness are of equal importance in determining business success. By being proactive, a business can identify and predict future expectations. This gives entrepreneurs the opportunity to prepare themselves accordingly in order to reap the maximum benefit from the coming events. From being proactive, another dimension such as innovation or risk-taking is often also applied in conjunction in order to achieve the desired outcome.

2.5.3.2.4 Competitive Aggressiveness

Drawing on D. Miller's (2016) definition and prior research, Lumpkin and Dess (2015) identified competitive aggressiveness and autonomy as additional components of the EO construct. Competitive Aggressiveness is the intensity of a firm's effort to

outperform rivals and is characterized by a strong offensive posture or aggressive responses to competitive threats. Autonomy refers to the ability to work independently, make decisions and take actions aimed at bringing forth a business concept or vision and carrying it through to completion. CA is very similar to pro-activeness and it is, therefore, necessary to clarify the difference between these two dimensions. In addition, CA refers to how a business relates to competitors and how it responds to the existing demand in the market. It can be explained as organizations in the market competing for demand (Chang, Lin & Chen, 2010). The reason for CA is thus to outperform rivals in the market and to be prepared for possible competition (Antonic & Hisrich, 2014). Pro-activeness, on the other hand, focuses on meeting the demand.

Most SMMEs, especially in the informal sector fail due to lack of knowledge on how to run their businesses successful and come up with effective strategies to stay competitive against their rivals. Although SMMEs have a critical role to play in addressing the challenges that our citizens are confronted with, levels of entrepreneurship and growth in the SMME sector remain low. SA has relatively low levels of entrepreneurship with SMMEs accounting for only 55% of employment, compared to 90% in China, India, and Indonesia. There is also a high failure rate of SMMEs estimated at 70-80% in SA.

The 2013 SBP SME Growth Index surveyed 500 established small and medium-sized businesses in the manufacturing and business services that employ 10 or more workers. Over 70% of firms reported that 2012 had been a difficult year, with a small average increase in turnover (9%) and declining employment. Over 25% of firms identified raising input costs (electricity prices, municipal rates, and services) as constraints. Other challenges include poor work ethics, an increasing regulatory burden, and inadequate sources of finance and skills shortages. The study also highlighted low levels of entrepreneurial intent by adult South Africans and an aging population of SMME owners (e.g. in manufacturing 43% of SMME owners are older than 50 years and have no succession plan). Policy initiatives to support SMMEs – such as credit guarantee schemes, entrepreneurship training, business incubation, and technology assistance – have not yet had the desired effect, (EDGE, 2013).

It is in every business owner's best interest to ensure that they equip themselves with EO knowledge to enhance their competitiveness in the market. Moreover, to

understand the importance of EO on the daily operation of their businesses as operating in the informal sector, with less infrastructural, industrial and economic development would be their added advantage.

2.5.3.3 The importance of Entrepreneurial Education (EO)

The economy of most countries today is being driven by independent ventures and business enterprise. The business enterprise revolt has enormously affected the worldwide economy and the business world (Kuratko, 2010). "Entrepreneurship enhances wealth creation and is seen as the driving force behind drawing investment to local communities" (Nchu, 2015, P.11).

According to Joubert (2007), SA is flooded by high levels of unemployment and the indisputable relationship between unemployment, poverty and crime suggest that major interventions should be put in place to evaluate the situation. Such interventions may also include the effective application of EO on SMMEs. Maas and Herrington (2010) supports Joubert's statements and further explains the country's urgent need for entrepreneurs that can act and be successful in combating crime and unemployment and to contribute to the economy. In situations in which a clear course of action is unavailable, businesses tend to model themselves after similar businesses that they perceive to be more successful (Borkowski & Gordon, 2013). By educating entrepreneurs and managers towards entrepreneurial orientation will ultimately enable organizations to be successful in their own way without having to follow another business's pattern. This statement also relates to the innovativeness of business managers and owners, which is an important element of entrepreneurial orientation. It was with this in mind that the National Standards for Entrepreneurship Education were developed to prepare youth and adults to succeed in an entrepreneurial economy. The following is a brief discussion on the effect of entrepreneurial education on entrepreneurial goal.

2.5.4 The effect of Entrepreneurial Education on Entrepreneurial goal

This segment presents past research on the effects of entrepreneurship education on entrepreneurial goal. Despite the acknowledgment that instruction may impact individuals' mentalities towards business, the effect of entrepreneurship education,

however, express from general instruction on entrepreneurial expectations, is still moderately investigated (Muofhe and Du Toit 2011). There are subjective papers that propose a connection between business enterprise training and entrepreneurial dispositions and expectation. Trevino (2010) recommended that the state of mind model of entrepreneurship has repercussions for entrepreneurship education programs, while states of mind are interested in change and can be affected by instructors and specialists. Drucker (2014) moreover brings up that specific courses in entrepreneurship, or preparing how to establish a claimed business, may give potential business people the certainty that they must start their business. On the other hand, there is minimal experimental confirmation to strengthen this connection. Bae et al. (2014) affirm the last mentioned and highlight the need for further examination in the connection between entrepreneurship education and entrepreneurial intention. The study will now offer a discussion on the theoretical model of entrepreneurial education.

2.5.5 Theoretical Model of Entrepreneurial Education

Cited from the unpublished Honour's Thesis of Mogoje (2017) which looked at the impact and effectiveness of entrepreneurship education in KwaZulu Natal, the following is the discussion of the theoretical model of entrepreneurial education. The researcher has deemed important to have this aspect on the study as it relates to the research topic. Through this discussion, one can be able to draw a link between the lack of entrepreneurial education as one of the major challenges to SMMEs operating in the informal settlements and as one of the factors behind the lack of development of sustainable businesses in the informal sector, especially in townships.

2.5.5.1 Theory of Planned Behaviour

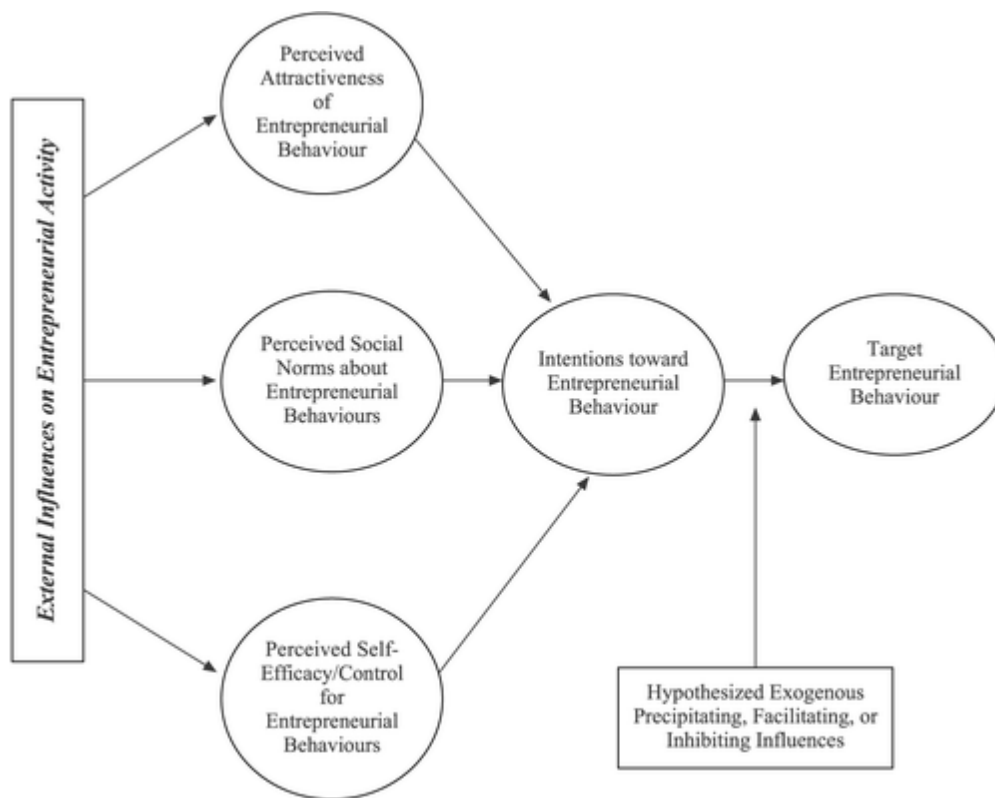
The Theory of Planned Behaviour (TPB) predicts an individual's intention to engage in a behavior at a specific time and place. It speculates that individual behavior is driven by behavior intentions, where behavior intentions are a function of three determinants: an individual's attitude toward behavior, subjective norms, and perceived behavioral control. As per the theory of human behaviour is guided by three

sorts of contemplations: beliefs about the feasible results of the behaviour (behavioural beliefs), beliefs about the normative desires of others (normative beliefs), and beliefs about the nearness of factors that may encourage or obstruct execution of the behaviour (control beliefs).

“In their particular totals, behavioral beliefs create a great or horrible state of mind around the behavior; normative beliefs result in saw social weight or subjective standard; and control beliefs offer ascent to saw behavioral control”(Ajzen, 2017, p.23). In blend, disposition toward the behavior, subjective standard, and view of behavioral control prompt the arrangement of a behavioral aim (Lo, 2014). When in doubt, the more positive the disposition furthermore, subjective standard, and the more noteworthy the apparent control, the more grounded ought to be the individual's goal to play out the behavior being referred to (Ajzen, 2017). “At long last, given an adequate degree of real control over the behavior, individuals are relied upon to do their expectations when the open door emerges” (Ajzen, 2002, p.33). The goal is hence thought to be the prompt predecessor of behavior. In any case, in light of the way that various practices act difficulties of execution that may oblige volitional control, it is significant to consider saw behavioral control despite objective. To the extent that obvious behavioral control is vertical, it can fill in as a delegate for genuine control and add to the desire of the conduct being alluded to (Ajzen, 2002). The following figure depicts the Theory of Planned Behaviour.

Figure 2.2 Theory of Planned Behaviour (TPB)

The below depicts the external influences on entrepreneurial activity. It is with the notion that apart from the known factors that may stem within ones' mind, there are other external influences that may give a push to embark on the entrepreneurial journey. Those external influences are portrayed on the Theory of planned behavior below.



Source: Krueger and Carsrud (1993, p. 323)

With reference to the above model of Theory of Planned Behaviour, a link can be drawn between how lack of entrepreneurial education can lead to the inability of successful businesses being established because of less knowledge and the technical know-how to keep the business running successfully and be able to compete against the competitive businesses within the market. Moreover, there are many other challenges that can come along with operating a business in an informal sector and that can lead to failure of these businesses. This following is the discussion on the last aspect as proposed on the concept mapping which will look at the limited access to sources of funding and the use of public resources.

2.6 Limited access to sources of funding and the use of public resources

Governments across the globe have acknowledged the importance of SMEs by developing initiatives to stimulate the SMME sector. Despite these initiatives improving the performance of some SMMEs, the majority of these enterprises experience challenges that inhibit their success, growth, and sustainability (SEDA, 2016). Amongst all other challenges, the predominant one is the issue of limited access to sources of funding and the use of public resources, which is continuously decreasing

the potential development of sustainable SMMEs within the informal sector. KMT is still amongst others, the less developed township with no infrastructural developments. As a result, businesses developed within this township tends to not grown or reach their potential nor remain competitive against all other rivals within the market.

Financial resources are essential in order for SMMEs to begin trading and fund growth. Lack of availability and access to financial resources hinder SMME growth. SMMEs are financed either from informal sources such as friends or family or from formal sources such as banks, private equity firms, a venture capitalist. As with any investor on the establishment of the business, they expect some returns. Therefore that put the business owner under a lot of pressure as they need to do their very best to ensure that business does not fail and produces positive returns at all times. However, that is the most challenging part as these businesses are faced with the number of challenges on their existence that becomes barriers to such achievements.

One of the most familiar challenges that affect the survival and growth of SMMEs locally and globally is access to finance. With regards to the availability of finance for SMMEs, SA is on par with the global averages (Herrington and Kew, 2017). A variety of studies have focused specifically on the impacts, causes and mitigation strategies of access to finance. In SA, the low firm creation and survival rate of SMMEs are due to a lack of access to finance (Sitharam and Hoque, 2016). Small businesses, particularly micro businesses, often do not fulfill the criteria to obtain the required amount of debt finance for longer-term growth. Typical problems are the lack of appropriate collateral, excessive outstanding debt and lack of proven business skills. For business people to obtain an unsecured loan solely on the strength of their character, requires a major leap of faith on the part of the creditor. Usually, such unsecured credit is forthcoming only after some time has passed and against a proven track record of successfully operating one or more small-scale business undertakings for the business person's own account (Herrington, Kew, Mwanga, 2016)

Although there are several challenges hindering the growth and survival of SMEs in developing countries, lack of access to finance remains the most difficult one to resolve and the primary concern for SMMEs in developing countries (Schwab and Martin; Mutezo, 2005). A study performed by Macpherson and Holt (2007) concluded that the primary reason for the failure of Sub-Saharan African SMMEs is lack of access

to finance. Accessing credit is ranked, in a study performed by Olawale and Garwe (2010), as the second greatest inhibitor of failure and new firm creation. The GEM (2014) report highlights an increase in a business failure resulting from a lack of access to finance. All of this in the face of multiple support schemes by non-profit institutions and government to expedite access to credit for SMMEs (Bosma et al., 2016).

2.7 The economic state of KwaZulu Natal towards the development of successful SMMEs in the informal sector

SA is ranked below fellow African countries such as Ghana and Zambia in their ability to establish, sustain and grow successful new businesses (Global Entrepreneurship Monitor), GEM 2010. Which is unfortunate as SA seeks to improve the quality of life for all its inhabitants by reducing poverty, create employment and redress widening inequality both nationally and provincially. SA hopes to do this through the development of strong entrepreneurship and the SMME sector. Nevertheless, the focus should also be placed on the important factors for unsuccessful SMMEs in the informal sector, as this serves as the indication of the background challenges concerning SMMEs especially in the informal sector. This has been proven by the increasing number of unsuccessful businesses operating in townships, GEM 2010. However, other well-known factors behind unsuccessful SMMEs in townships, the increasing number of FOBs within these townships have become the predominant factor behind the countless number of unsuccessful SMMEs in the informal sector. Unlike local businesses, they have strategies in place on how to run their businesses and hold very strong entrepreneurial education which enable them to be the main leaders in the market.

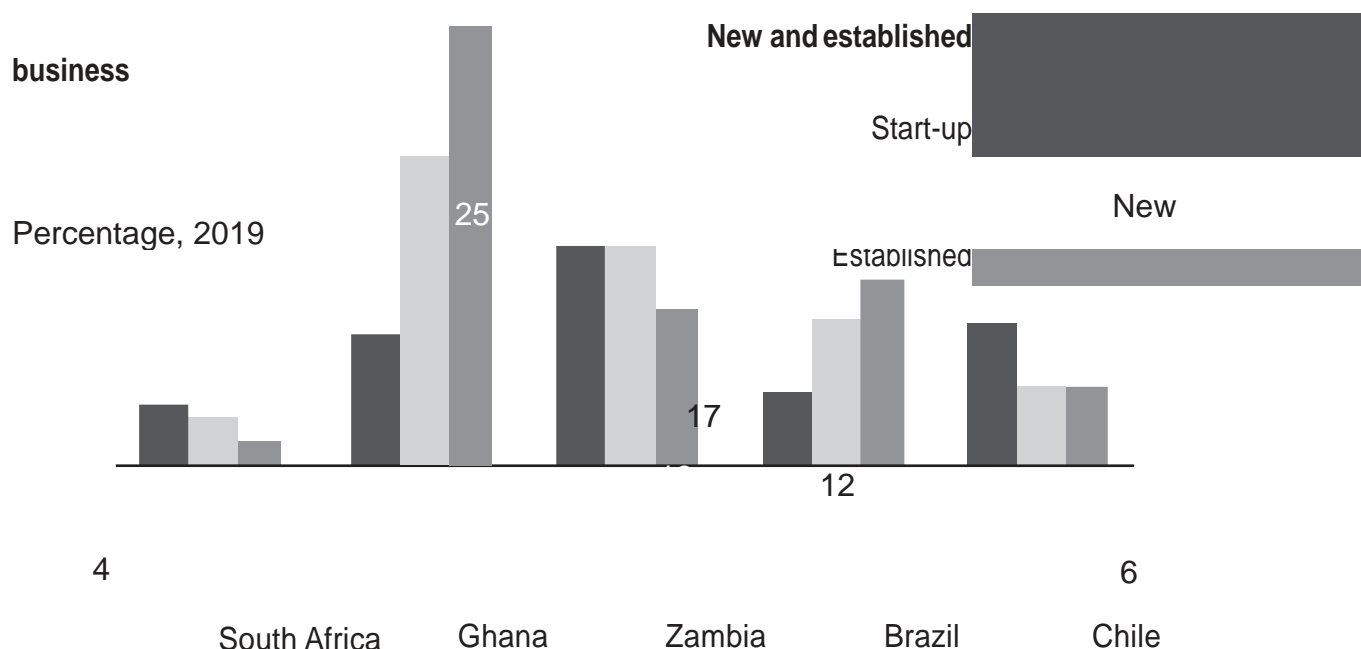
In addition, they understand the importance of effective business practices and financial management and less can be said for local businesses. Moreover, the findings also revealed that they positively use their socio-economic indicators to their advantage for their managerial motivation towards their small business establishment within townships in which they reside, ((McGaffin, Napier & Sebina, 2015). However, not only SA is faced with this challenge, there has been an increase in the number of asylum seekers in search for better life opportunities within the country, more specifically in townships. This has led to an increase in the number of foreign competitive enterprises and that in return, pose a high competitive threat to local

businesses. Based on the previous study which looked at the factors contributing to the success of FOB as compared to local businesses, it has been noted that the “strategies that the business utilize will be the indication of that businesses’ success”, as commented most of the FBOs who were the participants on the study (Ngcongco, 2017).

It is important for one to note that for the purpose of this study, the researcher will utilise some of the findings from her Honours dissertation as one of the source of reference, which contains sufficient information that will be used to construct strong and valuable arguments with the aim of answering some of the critical aspects and research problems and objectives as identified by this study. This is to continuously provide more in-depth and sustainable information based on the previous study in line with the research topic at hand. The following table illustrates how SA is ranked behind other countries in terms of its abilities to foster new successful businesses.

Table 2.2: Global Entrepreneurship Monitor (GEM) Report 2019

South Africa is well behind Ghana, Zambia, Brazil, and Chile in its ability to foster successful new businesses.



Source: Global Entrepreneurship Monitor (GEM) Report 2019

“Current structures in the retail and wholesale sector that support informal and SMME businesses appear to be inadequate to support new business start-ups, their long term

growth, and sustainability. The barriers and facilitators to growth and sustainability need to be clearly understood to drive economic growth within this sector. Our economy continues to grow at a lower rate compared to global and regional economies. Current levels of unemployment exceed 25%. The World Economic Forum's statistics show that South Africa's gross domestic product (GDP) grew at an average of 3.4% between 2003 and 2013 and that GDP growth is projected at 2.5% in 2014 and 3.8% in 2015" (Global Entrepreneurship Monitor) GEM 2012. In this light, it can be concluded that KZN is still, amongst other provinces that are not on the economically productive state to foster and develop successful and sustainable SMMEs in the informal sector. Below is the photograph that clearly portrays the SMMEs sector in the informal sector. One needs to note the below photograph was taken with full consent from the participants that appears on the picture. This was done with an aim to clearly portray the current status of SMMEs in the informal sector and the type of environment that these enterprises operate in on a daily basis.

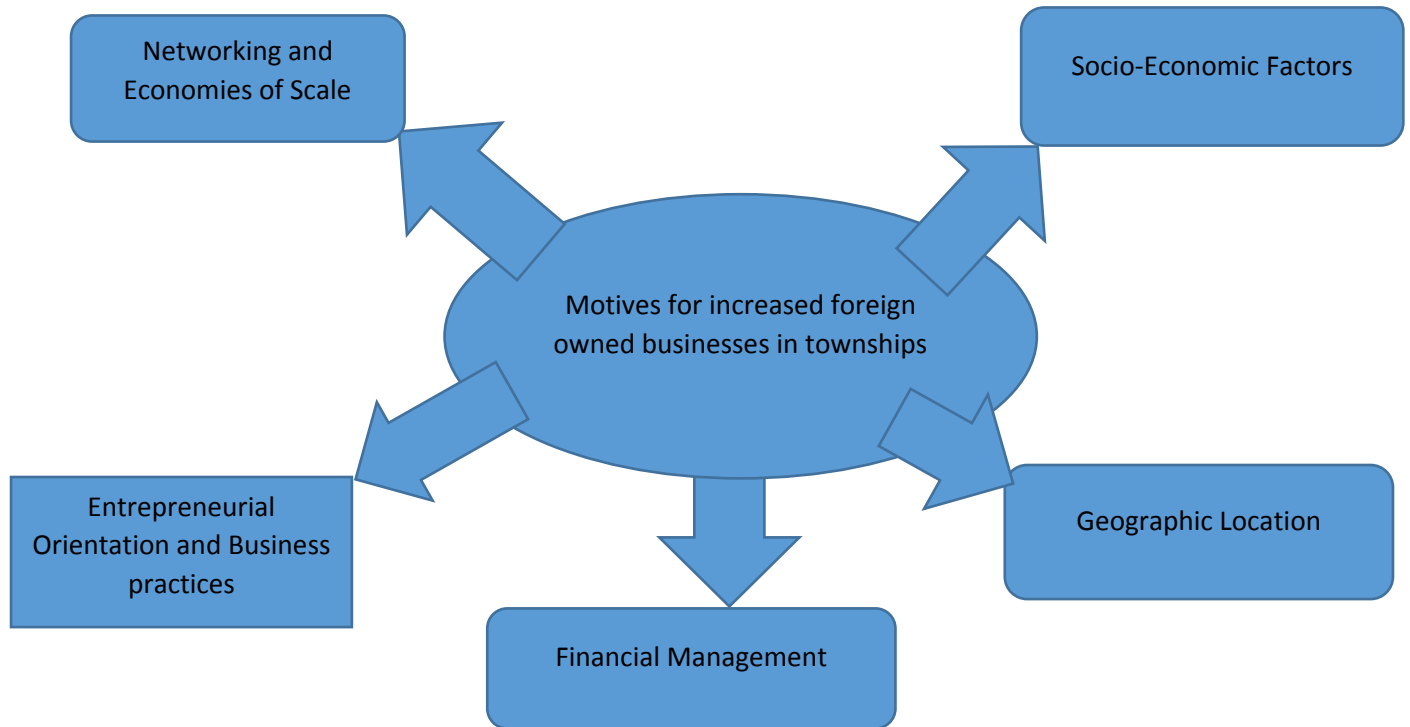
Photographs 2.1: Informal and SMME in South Africa



2.8 Theoretical Framework

Constructed from the working paper of Lamb & Kunene (2017), the following is a proposed framework in support of the above concept mapping that seeks to address

and answer the research questions and objectives of the study and thoroughly discuss some of the predominant challenges as faced by SMMEs in KMT.



The above diagram was constructed from the working paper of Lamb and Kunene (2017) in pursuit of finding the strategies contributing to the success of foreign-owned SMMEs in KwaMakhutha Township. Therefore, the researcher intends to use it as a theoretical framework that will support the above concept mapping in answering the research questions and objectives as set out by this study. The reason for this choice is that this framework contains important aspects that are in line with the main research areas of this study and when used together with the above concept mapping, they can successful help the researcher in gathering important information that will help to clearly address the problem at hand as proposed by the study and be able to conclude by offering recommendations as to how the problem can be resolved.

2.8.1 Networking and Economies of Scale

Apart from the above-mentioned challenges (on the concept mapping) as experienced by SMMEs in the informal sector, the issue of networking and economies of scale is also the additional predominant challenges as experienced by SMMEs in the informal sector. This enables foreign business owners to effectively communicate the business opportunities available within the country with other people from their country of origin.

This is done through the use of strong family ties among foreign individuals. Foreign shops make strategic investments, and according to Liedeman et al. (2013), perform group purchasing and work in terms of economies of scale in order to better their products and prices. For a local business situated in the informal township of KMT, this imposes difficulties for them to gain such networks and excess to the economies of scale. As a result, this put them way behind FOBs in terms of competitiveness and innovative standards as compared to FOBs. It can be said that the critical attribute of the foreign entrepreneurial community within townships is the formation of the consistent clan-based social network, which South African is short. Moreover, these high networking skills and economies of scale enable foreign businesses to gain much market power. As a result, this gives them the ability to sell their goods and services at a much high rate compared to local businesses.

Apart from good business skills that foreign business people hold, they somehow have an amazing interpersonal relation and a great sense of humor that enables them to create good customer relations with local customers. This is witnessed by their sympathetically business practice of enabling customers to take what they need on credit and pay month end. Since KMT is filled with the population of low-income earners, and most of them are dependent on government support such as grants, pensions, this type of deals makes their lives easier during the hard times of the month. However, this is hardly the case for local businesses. They do not give people goods on credit because they always fear that they might not pay, and they tend to judge all customers based on a single experience of certain customers who did not pay for the goods they took on credit.

It is with the notion that foreign business owners are more successful than local ones and are continuously accused of coming to the country to steal jobs because of the lower prices that they charge for both their labor and goods and services that they offer. This has posed a high threat to local businesses, which has led to an increasing number of foreign attacks (Xenophobia), which will be discussed later on the study under the socio-economic factors. The following is the diagram based on the previous results of the research findings with regards to the networking and economies of scale. The following diagram was formulated after having analyzed the data gathered from the respondents using the NVivo system. The reason for the inclusion of this information is because of the relevant link it has to this study. It is with the fact that the

issue of the increasing number of illegal immigration has had critical implications on the economy of the country because of the illegal business activities that these individuals embark on. As a result, the researcher has deemed it necessary and relevant to have these research findings included in this study as it possesses information relevant to the study.

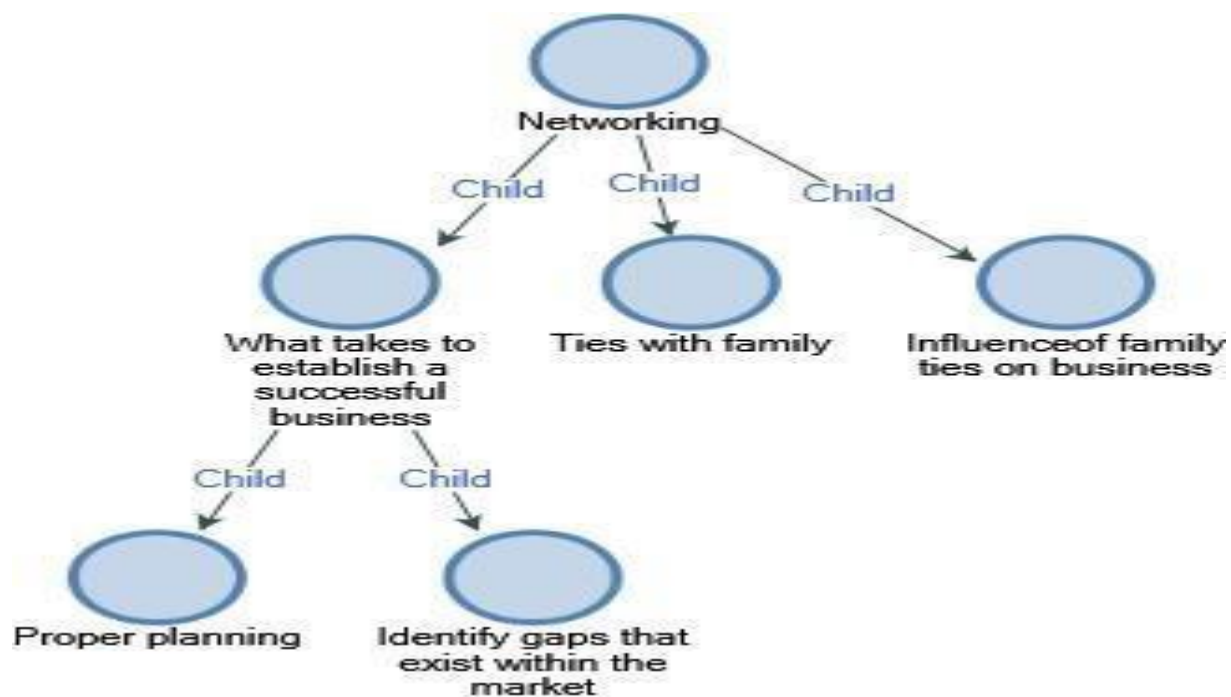


Figure 2.3: Networking and Economies of scale

The above is the networking model based on the responses of the interviewees concerning the issue of networking and economies of scale for their businesses. It depicts the important aspects that contribute to the success of FOBs because of their proper use of this mode of entry into the business world, specifically in KMT. Respondents revealed very important ideas and advantageous tips on the importance of networking when establishing or running a business in a foreign environment. With reference to the above diagram, it can be said that FOBs are based on strategic plans, which includes proper planning, identifying gaps that exist within the market, which local businesses are short of. In addition, the findings revealed that foreign individuals have strong family ties and most of their businesses are influenced by the members within their families. For example, if one member within their family is running a business in one of the townships in a foreign country, he/she will then look out for the

gaps within that township and if there are any, then they will just call another family member back home to come and fill that space.

They also support each other financially, if the other member of the family or the relative who want to start the business is short in capital, someone who already have their business/s up and running will borrow that person the money to get the business off the ground and of greatest importance, they buy in bulk. As a result, they save on costs. Unlike local businesses, foreign business individuals properly plan for their business before executing it. They consider the issues of funding and whether the goods and services they want to offer will add value to the customers. That in return, minimize the risks of loss due to no demand for the goods and services being offered. It can be said that this is one of the challenges faced by local businesses. Also, they tend to sell goods and services that are of no value to customers and do not consider the importance of networking and economies of scale, (Lamb and Kunene, 2017).

2.8.2 Entrepreneurial Education and Business Practices

Almost twenty years after democracy, there is growing economic activity in the informal sector (Schneider, 2014). The small local businesses (spaza) in KMT can be seen as an example of entrepreneurial activity offering an entry point to many that are excluded from mainstream economic activities. With the pressures of people within and from beyond the borders of SA, the informal sector, in particular, have become bigger and far more competitive (Schoonhoven & Romanelli, 2010). Not only has it been pointed out that spaza shops have contributed to a reduction in unemployment and poverty but also, foreign businesses are a rising dominant force in the spaza market (Charman, Petersen, and piper, 2015).

As the entrepreneurship paradigm expands, it is increasingly acknowledged that organizations, per se, can behave in entrepreneurial manners (Dess, Lumpkin, & McGee, 2013). For Stevenson and Jarrillo (2009), a firm is to be labeled as entrepreneurially fit if its behaviors and processes are oriented towards the recognition, assessment, and exploitation of opportunities, independently of its directly controlled resources. EO has emerged as a major construct in strategic management and entrepreneurship literature over the years (Rauch, Wiklund, Lumpkin, & Frese, 2009). Thus, empirical studies have largely found that firms with more EO perform

better (Wiklund, 1999; Zahra & Covin, 1995). However, the magnitude of the relationship seems to vary from one study to another (Wiklund & Shepherd, 2005). Whilst foreign businesses possess some features of EO, but the overall number who practice this within KMT is very low. This is due to the lack of business knowledge of entrepreneurs, especially in townships.

Business practices consist of four components, namely, record keeping, maintaining a cashbook, inventory management and appropriate use of financial information (Chebelyonn Dalizu, Garbowitz, Hause & Thomas, 2011). Record keeping is a vital function of any business, as it is a vital aspect of basic financial management administration. Through this function, the entrepreneur is able to track sales and profits. Most people in the townships are illiterate and they lack business skills and knowledge of how to conduct businesses, which then make it difficult for them to adopt and adapt to such business practices. Findings suggest that local businesses fail to maintain this practice (Chebelyon et.al. 2011).

As discussed above, EO is of the greatest importance for every entrepreneur whether operating a big or small business as it serves as the key to success and higher performance. It can be said that developing entrepreneurs such as those in the informal sector (townships) need to be taught about such valuable business skills so as to better perform and try to combat all the critical social factors that occur due to the absence of EO in their businesses. Moreover, government intervention is of the greatest importance at this point. This paper will now take an in-depth focus on the important components of business practice as indicated above.

Important components of Business Practice

2.8.2.1 Record Keeping

It is with the greatest fact that most, if not all businesses in the informal sector (townships) do not do nor keep any records of their business, (Dickey, 2010). Rather, they just take the received cash of the day as it is, count out the expenses from the profit made and that how it goes day after the other. There has been some research into the matter as to why small businesses fail. Dickey (2010) reports that small businesses fail because more often than not, cash flow is not properly managed. The point made is that when a business starts or expands; more money needs to be invested for a while and gives the business owner very little in return.

According to Hall (2015), the most well-known set of reasons for failure are the following: one man dominates rather than leading employees and who makes decisions despite their hostility; a nonparticipating board exists, which reinforces a one-man rule; the top team, with respect to its skills base, is unbalanced; a weak finance function occurs; lack of management depth and no-one above in the combination of chairman and chief executive roles awakes or directs or warns one about any caution. The overall argument regarding the failure of small businesses is that small businesses will most likely employ poor financial information, respond badly to changes and may allow their gearing to rise to levels that convert normal business hazards into constant threats. This is common to local businesses in KMT.

Buckley (2001) reports that in the last quarter of the twentieth century many new businesses were started and still more are failing year by year. Furthermore, business owners may have displayed a good deal of confidence and enthusiasm in opening their business, but they still also experience a high mortality rate. Kinunda-Rutashobya & Olomi (2005) state that small and medium-sized enterprises are starting to play an important role in striving to develop businesses throughout most of African countries. The article by the Small Business Advisor (2012) also indicates that thousands of businesses fail every year, ranging from small, medium-sized, and big. Most surveys conducted on small business indicate that the primary reasons why businesses fail include bad stock control, bad customer relations, bad personnel relations, lack of staff training and bad budgeting. According to Kuratko, Hornsby, Naffziger, and Hodgetts (2009), the US Department of Commerce reported in 1995 that crime and its effects are a major issue for small business owners. The United Chamber of Commerce stated in 1995 that 30% of all small business failures resulted from the cost of employee dishonesty within the business. In addition to this, small businesses are more likely to suffer from business crime than large businesses.

2.8.2.2 Maintaining a Cashbook

Macleod, as quoted by Ladzani and van Vuuren (2002) believes that a considerable number of small businesses fail just before many of them start to operate. This is caused by a lack of preparedness and failing to accurately estimate the cost of starting and running one's own business. They further emphasize that training alone may not

be the only solution that can help small businesses succeed, but that constraint such as the lack of financial resources, lack of access to markets, lack of support services, and low literacy levels should also be addressed. If small businesses are said to fail just before they even kick out, it is clear that maintaining a cashbook would even be more difficult. This can be strongly related to KMT, which is a township filled with illiterate people, who hardly understand the importance of maintaining the cashbook nor keeping the records for their businesses. This is one of the main contributors to the failure of businesses in townships.

Drodskie (2009) points out that small enterprises, particularly those located in townships and former black areas, face obstacles very different from those located in white areas. Many small business owners around townships have poor credit records. One of the reasons for this is that they do not have easy access to cheque-books, which in turn means that in many cases the small business owners are not able to pay their premiums by debit order. This places a heavy burden on the business as it affects negatively on the cash flow for the particular month in which the premium falls. Instead, they are required to pay the annual premium up front. Furthermore, Drodskie (2009) adds that small businesses in townships and former black areas face difficulties because of the lack of title deeds to the property. Drodskie points out that ownership of property will be one of the most effective ways to boost the business owner's capability in a specific small business organization.

2.8.2.3 Inventory Management

This is one of the critical issues that lead to the failure of the smallest businesses, especially in townships. They lack the necessary skills to manage their inventory and as a result, their businesses tend to fail to sustain even for a period of two years. Entrepreneurs need to plan for their entire business operations and in that planning, inventory planning and management should be of their first priority. According to Jonsson and Mattsson (2008), planning is one of the critical factors in attaining good inventory control. Planning can be also described as a future approach in which the inventory is strategized and controlled.

Inventory control planning assists in arranging physical count requirements to cover preparations for spreadsheets used to evaluate inventories at year-end, (Ivanov,

2010). Gupta, Gopalakrishnan, Chaudhari, and Jalali (2011) believed that failure to involve suppliers in inventory planning could raise failure to balance current inventory requirements with future demands. Moreover, inventory control-planning needs to be regarded as a solution when experiencing fruitless expenditures on inventory stocks. This exercise requires a wide understanding of the implementation of inventory control planning from the acquisition phase to storage and up to the distribution phase, (Zhang, Prajapati, and Peden, 2011). It is unfortunate as this is less practiced in township businesses.

2.8.2.4 Appropriate use of Financial Information

In addition to the critical factors mentioned above that mostly lead to the failure of SMMEs in townships, it can be said that they are also faced with the challenge of not knowing how to make appropriate use of financial information within their businesses. Developing SMMEs is a key driver of government's strategic economic development, poverty alleviation and job creation strategy (SA DTI, 2008). Small businesses offer a great redistribution effect and help to restructure society (Njiro, Mazwai, and Urban, 2010). Therefore, it is of the greatest importance for small business owners to be able to understand, use, and analyze their financial information on a continuous basis. As previously mentioned, the following diagram is extracted from the researcher's previous paper, which was formulated after having analyzed the respondent's responses to the business practice aspect.

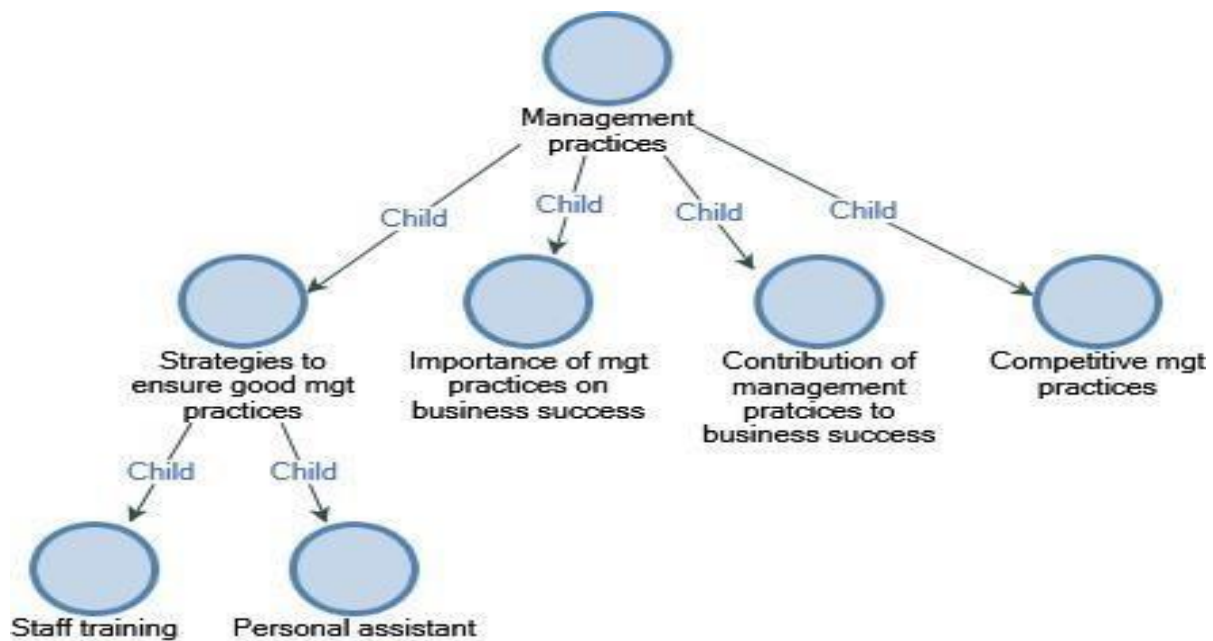


Figure 2.4: Entrepreneurial Education and Business Practices

According to the above diagram, in order to ensure effective management practices are being exercised within your business, one should have staff training in place, and a personal assistant. According to respondents, a well-trained staff knows what is expected of them and that means they hold a very positive mindset and attitude at all times. And with that combination, employees work to their very best and that means business is heading towards success and achieving its goals. Running a business is a very complex duty that calls for patience and dedication and no matter how much you know what you doing, we all need a helping hand at certain times. In terms of the Personal assistant, these are people who work in the background to ensure that everything is done and according to plan. According to the respondents, personal assistants are usually more knowledgeable about the daily operations of the business over the owner of the business. In addition, they are very useful in helping the owner of the business to get everything done and on time.

Management practices are very important for every business. Different business owners choose different management practices for their businesses. However, good management practices lead to the competitive running of the business and the understanding of what and how is the business (in terms of its operations), (Ngcongo, 2017). Management practices reflect the way one conduct the business and that is very important for the success of every business. Small business owners need to fully

understand their businesses and how to run it, by making sure the business is being run by ethical standards to ensure that everything is being done in a way that leads the business to the profit maximization position.

2.8.3 Financial Management

A more critical challenge is that of practical financial understanding from entrepreneurs. Studies by Liedeman et al. (2013), Charman et al. (2015), and Basardien et al. (2014) all highlights financial management as a skill that must be understood and practiced by informal businesses in order to attain success. Components such as record-keeping, financial planning, appropriate use of financial information, and efficient management of inventory levels and cashbooks are of greatest importance to the success of SMMEs operating in townships. Basardien et.al (2014) found that FOBs maintained aspects of these practices whilst locals did not and reflected negative experiences financially by locals due to over-investment in inventory and over-capitalization. Financial information allows the entrepreneur to make important decisions on business activity and productivity. Due to lack of financial knowledge and practical skills, small businesses in townships such as that of KMT face difficulties of managing their financial activities and that add to the competitive disadvantages they have compared to FOBs. The following diagram portrays the important aspect of Financial Management as per the responses that were given by the respondents. The reader needs to note that these findings are used with the purpose of providing the arguments and opinions of the previous findings from the chosen respondents about the strategies contributing to the success of FOBs in the informal sector. However, the reader needs to further note that they must not be confused with the findings that are to be presented for the study at hand as they are from different participants who will be expressing their different views as proposed by the researcher.

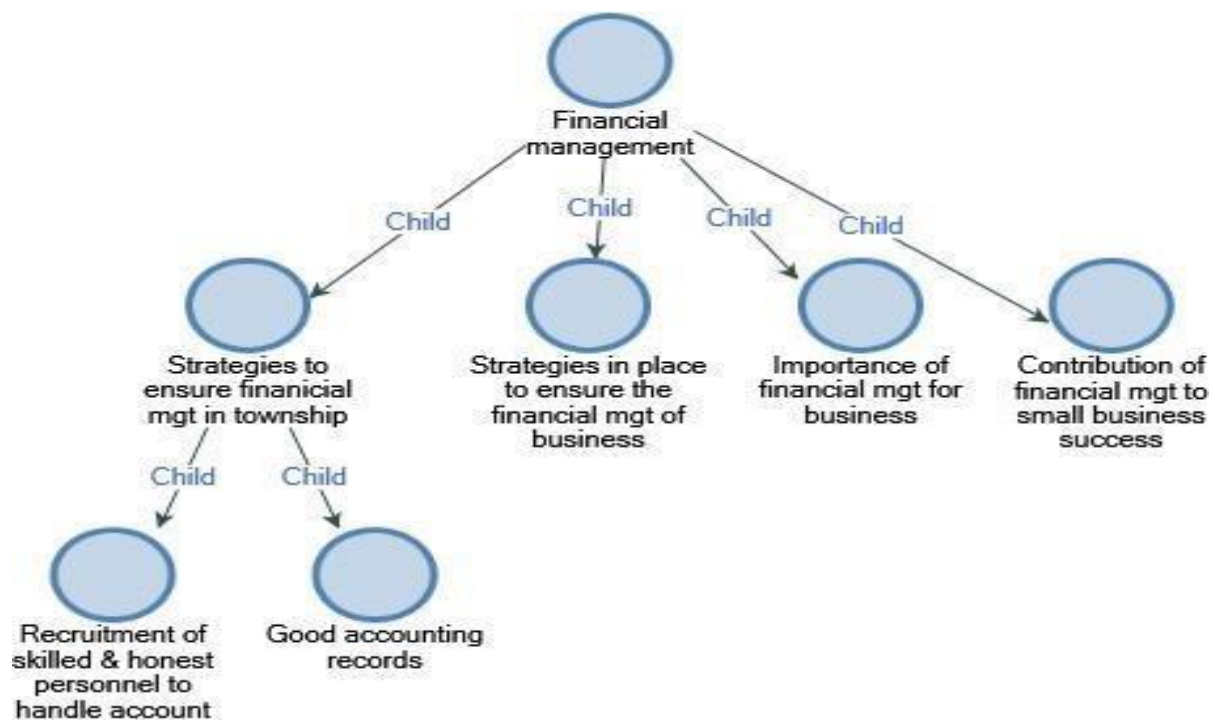


Figure 2.5: Financial Management

The backbone of every business is its finances. The entire business activities are directly related to making a profit. With every business having its expenses, it is vital that the business is able to generate the profit to enable a stable balance between its liabilities and net income. Finance is also referred to as the provision of money at the time when it is needed. The finance function is the procurement of funds and their effective utilization in business concerns. The concept of finance includes capital, funds, money, and amount. But each word is having a unique meaning. Studying and understanding the concept of finance becomes an important part of each and every business operations. Finance may be defined as the art and science of managing money. It includes financial service and financial instruments. Therefore, the management of the business's finances are of the greatest importance, (Lamb and Kunene, 2017)

With reference to the above diagram, the recruitment of skilled and honest person to handle the accounts of the business and good accounting records are one of the strategies to ensure good financial management, especially for the businesses operating in the informal sector. It can be said that these strategies are short for locally owned businesses in the informal sector. This is due to the fact that they lack

entrepreneurial education, which would have provided knowledge on how to adopt and practice such strategies in their businesses. However, FOBs can be said to be successfully utilizing these strategies within their businesses. As a result, they are found to be more successful as compared to local businesses. According to the above diagram, FOBs fully understand the importance of the above-mentioned components which enables them to better understand the importance of handling their finances, (Lamb and Kunene,2017).

2.8.4 Geographic Location

The geographic location is of the greatest importance to the success of the business. According to (Charman et.al, 2015) almost in all townships and neighborhoods, foreign shops function within and place operations in direct opposition, sometimes right next to local informal shops. He also maintains that most asylum seekers rent premises whilst local entrepreneurs work out of their actuals homes. As most townships fall out of range from formal retail shops, many of the aforementioned literature advocates that special distribution is an important factor for the success of foreign informal businesses, including Charman et.al (2015). A successful business is one that is located in a competitive geographic location, where the target market can be easily reached, and the business can make successful use of its resources. However, SMMEs in townships seem to struggle when it comes to choosing good locations for their businesses. For example, in most cases, local people usually build up small shacks to operate and that means only people living close by that place can buy from that shop and others have to travel long distances to get what they need and that they are unable to target the entire population with their geographic location strategy that will accommodate the entire population within their geographic operational area.

2.8.5 Socio-Economic Factors

Changes in social trends impact on the demands of consumers for products and services. The average level of education possessed by consumers affects their attitudes and interests with regard to products and services offered by SMMEs (Rogers, 2016). With low levels of education found in most developing countries, Rogers (2016) suggests that SMMEs must include more detailed, graphic and clarified information when advertising and promoting their products and services, as the

spoken language of the community is a significant factor with regards to advertising and promotion of products and services. However, Young and Collin (2010) contend that SMME activities are clearly understood by consumers because owner-managers have to carefully consider the social environment that their small business operates in since entrepreneurial activities are social phenomena. SMMEs need to adapt their marketing and sales strategies to correspond with the needs of their demographic population as well as the social trends of these target populations. Chilisa and Preece (2010) state that an enterprise is established on the basis of resolving a social problem or to address market failure. Much emphasis with regard to the values of the enterprise must be on the communities they serve, as these communities serve as the crucial part of the stakeholder group, and their attitudes and opinions are based on their satisfaction with the type of products and services offered.

Townships tend to be dominated by residential housing for relatively low-income people, which defines the 'buying power' and (to a large extent) the skills profile of people living in a township. These factors have a primary influence on the business opportunities within the township and hence on the real estate requirements. Social issues include a wide variety of different issues. Amongst those, is the predominant pandemic issue of HIV/AIDS, Xenophobia, which have caused the everlasting tension between South African communities and foreign business owners, (Mafukata, 2015). Another important factor is the effect of poor health on citizen's motivation and potential entrepreneurship, in light of the highest HIV/AIDS infection rate in the world being in SA (Chao, Szrek, Pereira, & Pauly, 2014). Socio-economic factors have been in existence for many years and affecting individuals in different countries. One can argue that the government needs to take a stand and intervene in ensuring that these factors are being taken care of. For example, the issue of xenophobia that causes tensions between South Africans and foreigners because of the fear that foreign individuals are here to take people's jobs and all business opportunities. The following is an in-depth discussion on some of these social issues.

2.8.5.1 Dislikes of Asylum seekers leading to Xenophobia in Townships

Notwithstanding the country-wide fatal xenophobic attacks in 2008 and 2015 in SA, the underlying causes remain unclear. However, competition for scarce resources and business contestation appear to run supreme. The discourse, both in politics and in

academia, about the causes of the conflict has continued unabated as unfinished stories. For this reason, SA is blamed for not making progress in combating xenophobic attacks following the 2008 incidences (Loots, 2013). “It is also not clear as to what extent has SA done to transform its society in its two decades of democracy because persistent poverty and unemployment cannot be excluded from the driving forces for xenophobic attacks” (Sosibo, 2015, p.2). However, Wilkinson (2015, p.1) argued that “most foreign nationals own formal and informal business in South Africa”.

Other authors are of the opinion that the South African perceptions that foreigners are job takers and a threat to the country’s scarce resource, is a myth (Fuller, 2008; Kalitany & Visser, 2010; Maistry, 2015; Harrison, 2015) which is yet to be tested. However, Minister Pravin Gordhan asserts that the popular myth of foreigners stealing South African jobs can be curbed through partnership-based interventions by government and businesses. Such interventions could include government support to improve local business through small medium enterprises. In recent years, though, the government embarked on campaigns with slogans in most local communities and townships, calling on South Africans to stop the attacks in order to calm the situation rather than to introduce durable strategies to reduce tensions. Government campaign through print, audio and visual media too made a negligible impact on the xenophobic status quo. Poverty and lack of access to resources can only affect the powerless and desperate (Neocosmos, 2008). The people that are suffering from poverty and unemployment are likely to be confused and desperate to the extent of developing hatred against successful foreign nationals. Perceptions and sentiments such as these have seemed to perpetuate tension that unfolded into violent abuses across SA.

The last ten years have seen growing public awareness of violent attacks against foreign shopkeepers in SA, especially those who run spaza shops (Charman & Piper, 2016). Notably, most xenophobic attacks have occurred in poor, black urban settlements called townships that were created as dormitories for cheap labor under apartheid (Fauvelle-Aymar & Segatti, 2011), and which remain the first point of settlement for most migrants into the city, including those from the rest of Africa. As the most densely populated and often poorest areas in the country, townships have high levels of unemployment and significant levels of informal economic activity. Central to the informal economy of the township is the spaza shop, or neighborhood

grocery or convenience store, which is the second most common form of informal micro-enterprise in South African townships after alcohol retail establishments known as 'shebeens' (Charman et al., 2015).

In the last ten years, the spaza sector has witnessed the rise of foreign ownership, principally by migrants from the rest of Africa, but also by Bangladeshi and other South Asian migrants (Charman et al. 2015). This change of ownership has influenced township life in several ways, and is often cited as one reason behind the xenophobic attitudes and attacks evidently in SA, especially since 2008. Hence, popular explanations of violence against foreigners include allegations that foreign migrants are taking jobs, women, state grants and other social opportunities that rightly belong to South Africans only. After the large-scale attacks on more than hundred small businesses in Port Elizabeth in 2013, the Global Post reported that 'many people accuse "foreigners" of taking their jobs or of putting South African shopkeepers out of business by undercutting their prices' (Conway-Smith, 2013). Similarly, in 2012, the Somaliland Press reported that mobs tell Somalis to leave SA, in part because they 'fear that they will take their jobs, townships, businesses and eventually their country' (Hussein, 2012).

According to Duponchel (2013), xenophobia in SA cannot be clearly understood without a review of the global apartheid context which continues to characterize the life of most South Africans. The origins of xenophobia in SA is older than the outbreaks of 2008, traceable to the immediate post-1994 period. The concept of xenophobia means a dislike of or prejudice against people from other countries (Lerner, Roberts & Matlala, 2009). For SA, the concept is necessarily linked to racism and acts of brutal violence against foreign nationals by frustrated South Africans (Harris, 2002; Mbembe, 2015; Rabkin, 2015). The latter continues to receive poor and inadequate service delivery in the contexts of claims that they have to share the limited resource with foreign nationals. Linking the acts of xenophobia to the color of the victims in SA has agitated the suggestion that it is actually Afrophobia. At its height, xenophobic attacks in SA have appeared to exclusively involve African immigrants.

African immigrants from countries such as Nigeria, Zimbabwe, Mozambique, Somalia, and Egypt have been on the receiving end of the xenophobic attacks, which is also consistent with their characterization as the most successful small and micro-business

entrepreneurs operating in cities, townships and other localities. These sentiments have held notwithstanding the apparent successes of the formal and informal business owned by foreign nationals of other countries other than Africa. Hence, xenophobia in the South African context has become synonymous with violent abuses and attacks against African immigrants (Olukoju, 2008; Oloyede, 2008; Lerner, Roberts & Matlala, 2009; Francis & Nyamnjoh, 2010). Indeed, African immigrants in SA are labeled by derogatory names such as “Makwerekwere”, “makhalangas” or “magrigambas”, while in other parts of the country they are characterized as “Mekgaritswana”, “Makula”, “Mapafo” and “Makgaretein”. According to Buthelezi (2009, p.14), all these names are offensive against foreign nationals, largely those from Africa

Offensive names such as Mekgaritswana, Mapafo, and Makgaretein are linked to the business foreign nationals’ operations in most local communities. Their business operations normally involve door-to-door selling of goods such as curtains, comforters and some zinc materials. Apparently, these names also signify hatred of African foreign nationals (Solomon & Kosaka, 2014). Most attacks appear to be linked to frustration over government failure to deliver post-apartheid South Africa’s promise of a better life for all (Bobb, 2008; Ilesanmi, 2008; Nell, 2008; Olowu, 2008; Rabkin, 2015). Xenophobia in SA is generally characterized as hatred and racist attitudes against African foreign nationals (Solomon & Kosaka, 2014). Hence, Harrison (2015) asks whether or not recent xenophobic attacks are characteristic of “swart gevaar”. SA has a history of political violence which was always associated with blacks; and, xenophobic abuses too are taking the same shape and character.

2.8.5.2 HIV/AIDS

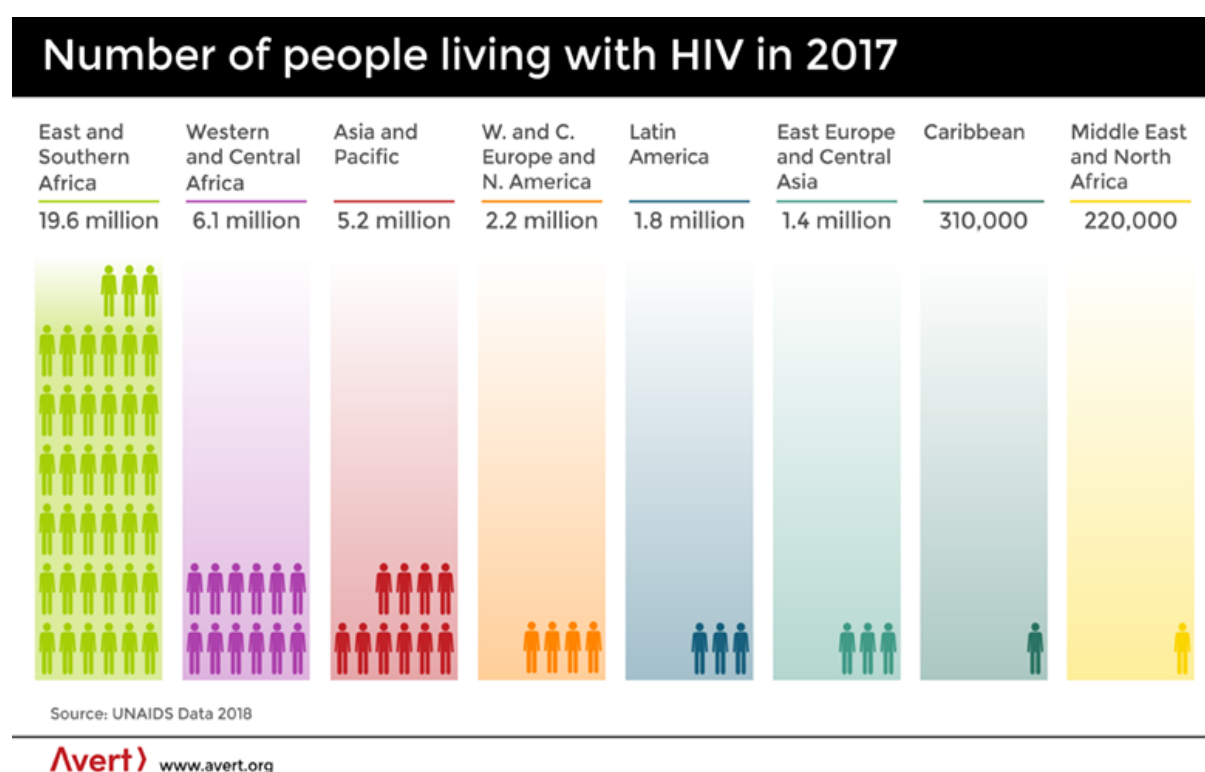
Townships are one of the worst informal sector filled with a high population of unemployed individuals and that, in most cases gives them enough time to embark on unprotected sexual activities. As a result, there is an increasing number of citizens suffering from HIV infections. The issue of HIV/AIDS falls under macro environmental issues. One can argue that these are issues that no living individual have control over. Management can exert no control over exogenous problems that manifest themselves in the economic, sociodemographic, political, technological and international spheres. The most prominent problems influencing SMME success in this environment are the

state of the economy, compliance with legislation, resource scarcity, HIV/AIDS, crime and corruption and rapidly changing technology, (Lamb and Kunene, 2017).

The entrepreneurs in the previously disadvantaged townships, for example, experienced problems with understanding the impact of technological development and the state of the economy on the success of their business (Brink, 2014). The responses from the study conducted on townships for the 16th Annual Conference of Small Enterprise Association of Australia and New Zealand depicts that “variables such as high-interest rates, inflation, crime, HIV/AIDS and new government legislation would negatively affect the success of their businesses” (16th Annual Conference of Small Enterprise Association of Australia and New Zealand, 2003). KMT is one of the less developed townships, with poor intervention from the government in assisting developing and improving the healthcare facilities. As a result, it is one of the townships filled with a number of citizens who are affected by HIV/AIDS and that add to the number of potential business individuals going to waste, (Bromley, 2010).

According to the World Health Organisation (2017), 36.9% people were living with HIV, 21.7 million people were receiving antiretroviral treatment by end 2017, and 59% of people living with HIV were receiving antiretroviral treatment in 2017. Since the start of the epidemic, an estimated 77.3 million people have become infected with HIV and 35.4 million people have died of AIDS-related illnesses. In 2017, 940,000 people died of AIDS-related illnesses. This number has reduced by more than 51% (1.9 million) since the peak in 2004 and 1.4 million in 2010, (UNAIDS, 2018). The vast majority of people living with HIV are located in low- and middle- income countries, with an estimated 66% living in sub-Saharan Africa. Among this group 19.6 million are living in East and Southern Africa which saw 800,000 new HIV infections in 2017, (UNAIDS, 2018). The following table depicts the number of people living with HIV in the year 2017.

Table 2.3: Number of people living with HIV: UNAIDS (2017)



Global new HIV infections have declined by just 18% in the past seven years, from 2.2 million in 2010 to 1.8 million in 2017. Although this is nearly half the number of new infections compared to the peak in 1996 (3.4 million), the decline is not quick enough to reach the target of fewer than 500,000 by 2020. While new HIV infections among children globally have also declined, from 270,000 in 2010 to 180,000 in 2017 (35%), reports indicate that this is far less progress being made than previously thought and there is much more that needs to be done to improve knowledge of HIV and HIV testing among adolescents and young adults, (UNAIDS, 2018).

The following is the socio-economic diagram generated from the responses of the participants of the previous research findings on the predominant social issues that they encounter on their daily operations.

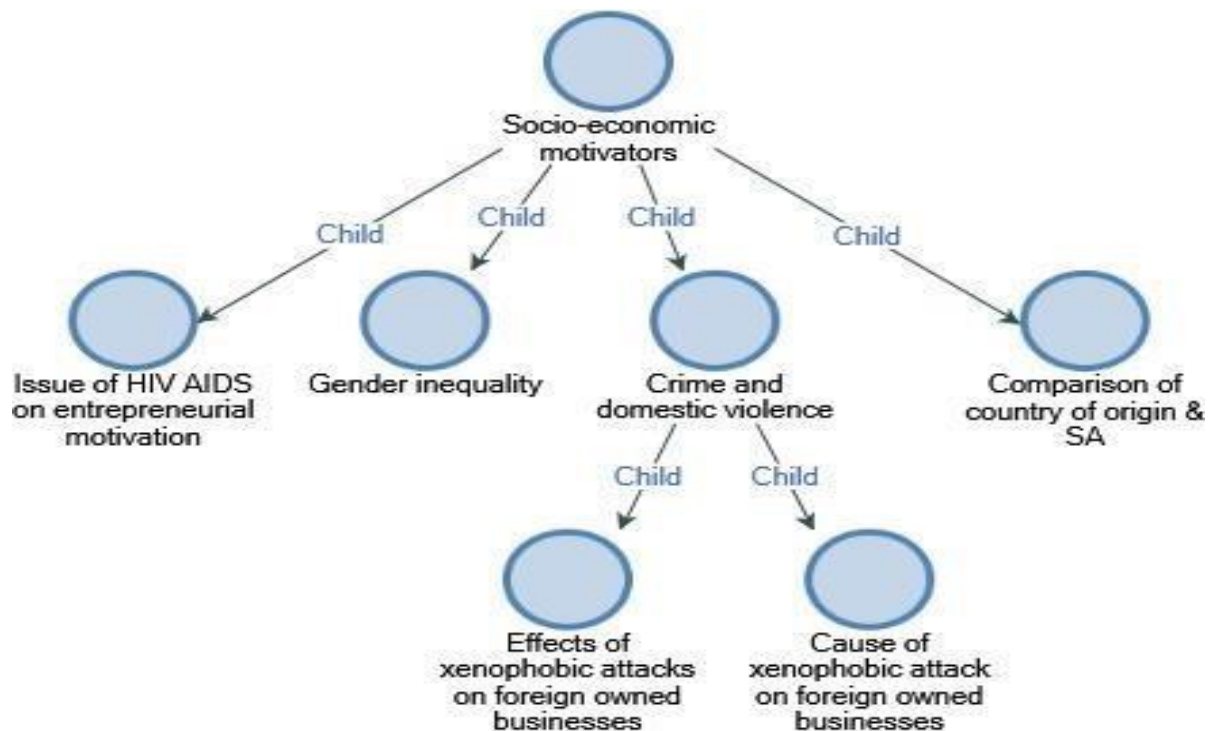


Figure 2.6: Socio-Economic Factors

The social impacts of every country have some effects on the establishment and running of businesses. As indicated in the diagram above, some of the critical social-economic factors are the issues of HIV/AIDS, gender inequality, crime, and domestic violence and of greatest importance, the issue of xenophobic attacks. It can be said that the more such factors increase within the country, the fewer the chances of success for businesses operating in areas highly affected by those factors. In terms of HIV/AIDS, this disease affects one's moral and motivation towards starting their own business. When a person is sick with HIV/AIDS, they lose hope and fear to die, therefore, they do not think about starting a business. People affected with HIV/AIDS tend to be negative about life and do not want to embark on productive activities, such as establishing businesses of their own because of this notion that once you sick with HIV/AIDS you are going to die. However, others have different opinions about HIV/AIDS in relation to a business establishment, (Ngcongo, 2017).

2.9 Conclusion

The SMME sector is key in achieving economic growth and decreasing unemployment. Government, having realized the importance of the SMME sector, have implemented a variety of support structures for SMMEs with the aim of improving

the operations of these enterprises. Despite these government support schemes, SMMEs still experience many challenges resulting in the dismally less performing SMME sector. The leading challenges that SMMEs in SA experience are the increased level of poverty and unemployment, competition with foreign-owned SMMEs, limited access to sources of funding and the use of public resources, and lack of entrepreneurial education. In addition to these, are the motives for increased FOBs in townships which accelerates the challenges as experienced by SMMEs in the informal sector and these include: Networking and economies of scale, entrepreneurial orientation and business practices, financial management, geographic location, and socio-economic factors.

The chapter discussed the entire literature of the research that covered all aspects of the research objectives as proposed by this study. Important topics and subtopics were discussed in pursuit of answering the research questions of the study. The main purpose of this chapter was to provide in-depth views and arguments of other researchers who have conducted research on the similar research question or related research concept. The following chapter will look at the research methodology used in gathering data for the study (Chapter 3).

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

Research is an ordered and methodical approach to explore answers to unanswered questions thereby producing a conclusion that hopes to bring a resolution. We have sketched out our exploration question and research targets in Chapter one, expanded on the existing literature in Chapter two. Therefore, the purpose of this chapter is to: discuss the research philosophy in relation to other philosophies; expound the research strategy, including the research methodologies adopted. Research is defined as being solution centered where one must collect and interpret data to attain this solution (Saunders et al., 2015). A more comprehensive definition defines research as being a systematic, organized, objective, critical investigation into an explicit problem that is conducted with the aim of finding solutions to the problem (Sekaran, 2006).

3.2 Research Design

According to Hair, Celsi, Money, Samouel, and Page (2011) research design is the fundamental direction for executing the project. The researcher must choose a design that will provide appropriate information as per the research questions or hypotheses in the study and the research design must allow the researcher to complete the study in the most effective manner (Hair et al., 2003). The research design prepares the process of assembling and analyzing data that is specific to the research objectives and in harmony with the theoretical foundation of the research (Sekaran and Bougie, 2016). Sekaran and Bougie (2010) add that in order to simplify the researcher's understanding of various designs, research designs are grouped into three types, namely: exploratory research design; causal research design; and descriptive research design.

Exploratory research design is undertaken when the researcher has minimal knowledge about the problem, opportunity or situation at hand and there is no available information on how related problems or research issues have been resolved in the past years (Cavana, Delahaye and Sekeran, 2001). According to Hair et al. (2003), exploratory research is undertaken to determine new relationships, themes,

ideas or patterns and is not intended to test research hypotheses. Exploratory research design depends more on qualitative techniques than on quantitative approaches (Hair et al., 2003).

Causal research is undertaken to test the cause-and-effect relationship (Bougie and Sekaran, 2010). Hair et al. (2003) state that causal research tries to show a causal relationship between variables, meaning that a change in one variable results in a consistent change in another variable.

Lewis, Thaunders, and Thornhill (2011) state that, a descriptive research design is used to obtain data that describes the characteristics of the research topic of interest and it answers the who, what, how, where and when questions. Descriptive studies should represent data in a significant way to help researchers achieve a clear understanding of the characteristics of the group in a given situation, to think systematically about all aspects in that situation, to suggest ideas for further research and to make assured, easy to follow decisions (Hair et al., 2003).

For the purpose of this study, Exploratory research design will be adopted. The reason for this choice is the fact that this research design relies more on qualitative approach which is the research approach adopted by the study. Combined together, the chosen research design and approach will enable the researcher to critically explore all the challenges as experienced by SMMEs in KMT and offer suggestions as to how these challenges can be dealt with and be prevented from incurring in the future.

3.3 Research Philosophy

It is with the notion that every researcher needs the guidance of some sort to rigorously ensure that the study is conducted properly from the inception till the end. As a result, there are different models in place to help the researcher clearly sketch out the research methods and designs that will be utilized in this study. Developed by Saunders et al., (2015), the following is the research onion that will be utilized by the researcher with an aim of guiding the research design process and other research methods that will be used in collecting data for the study. In support of the below model, the research procedure model (Doran, 2014) will also be utilized to further simplify the research design and methods that will be adopted by the study.

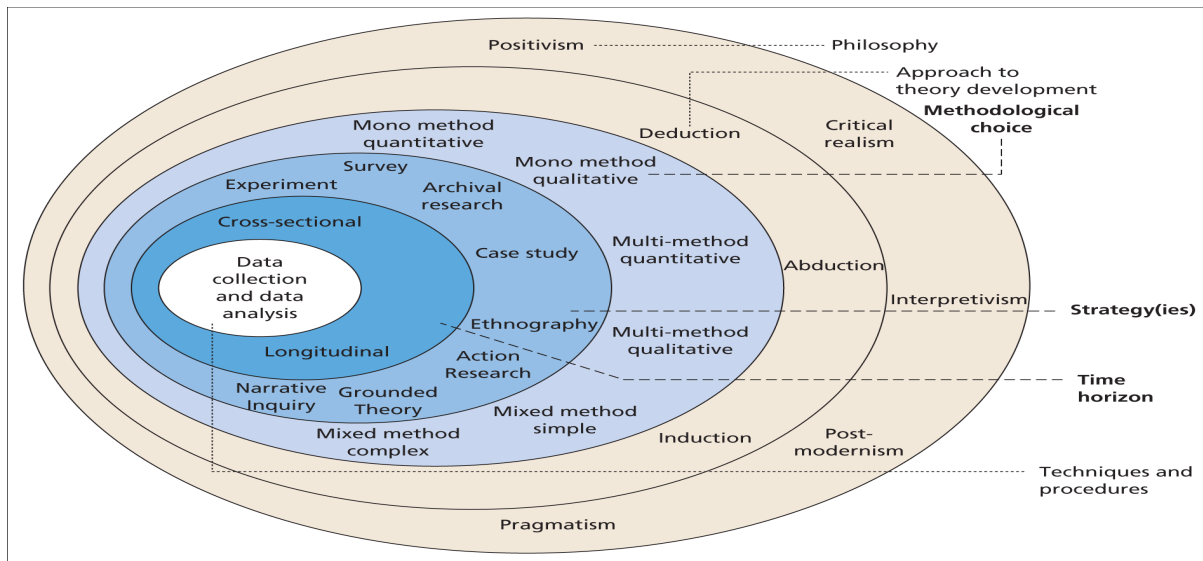


Figure3.1: The research onion (Saunders et al., 2015)

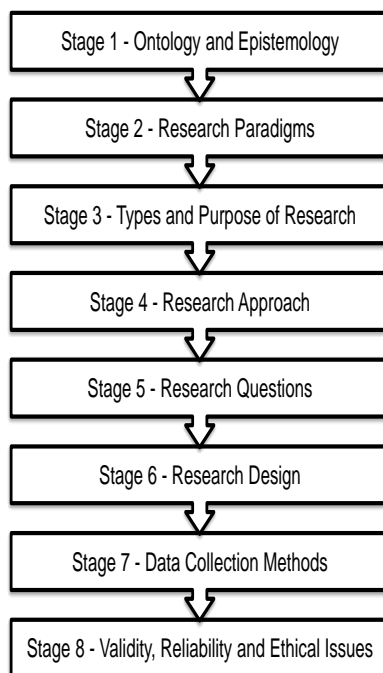


Figure3.2: The research procedure (Doran, 2014)

The basis of the research methods is the research philosophy which determines all downstream decisions and research positions such as the research and data collection methods (Easterby-Smith et al., 2012; Saunders et al., 2015). As per the research procedure model above (3.2), in order for one to begin explaining the

development of the research design framework, the discussion of Ontology and Epistemology is mandatory. Cited on the unpublished working paper, Ally (2018) commented that “the validity of a study governs its contribution to knowledge and by rigorously linking the data to theory through philosophical perspectives can increase the study’s’ validity” (Easterby-Smith et al., 2012; Thietart, 2001,).

3.3.1 Ontology and Epistemology

The relationship between Ontology and Epistemology has always been very intricate but they are mutually independent. Ontology refers to assumptions about the nature of reality, this may differ from one person to the other and from the type of research tools that one is adopting for his or her research. Nevertheless, your ontological assumptions shape the way in which you see and study your research. Your ontology, therefore, determines how you see the world and, therefore, your choice of what to research for your research project, (Thomas and Hardy, 2011). Ontology is described as the science of being and incorporates philosophical principles about the “nature of reality” (Saunders et al., 2015). According to Bryman (2004) Ontology concerns the philosophy of existence and the assumptions and beliefs that we hold about the nature of being and existence. Ontology relates to whether we believe there is one verifiable reality or whether there exist multiple, socially constructed realities (Patton, 2002).

According to Morgan (2007), Epistemology is the theory of knowledge and the assumptions and beliefs that we have about the nature of knowledge. How do we know the world? What is the relationship between the inquirer and the known? Epistemology concerns assumptions about knowledge, what constitutes acceptable, valid and legitimate knowledge, and how we can communicate knowledge to others (Burrell and Morgan, 2015). It has also been defined as “*the nature of the relationship between the knower or would-be knower and what can be known*” (Guba and Lincoln, 1994). More simply epistemology is described as the “theory of knowledge”. With the aim of rigorously researching and offer the findings on the challenges as experienced by SMMEs in the informal sector of KMT, this study will adopt the ontological research perspective. Having noted the differences between the Epistemology and Ontological perspective, the researcher has deemed it more suitable for the study to adopt the ontological perspectives as will enable the ease of describing the challenges as experienced by these enterprises in the informal sector of KMT as one of the socially

constructed phenomenon. In addition, it will allow the researcher to analyze the reality and the nature of the challenges as faced by these enterprises through mutual lenses from participant's responses as to how some of the human minds have constructed this social phenomenon. This will further allow the researcher to draw up a link as to how this has grown from individual reality (from the very first person who believed that SMMEs in the informal sector of KMT are faced with the mentioned challenges) to the group-shared reality (the current number of people who also believe on the same reality).

3.3.2 Research Paradigms

A review of literature from leaders in the field leads to a deep understanding of the meaning of a research paradigm. For example, "in *The Structure of Scientific Revolutions*, American philosopher Thomas Kuhn (1962) first used the word paradigm to mean a philosophical way of thinking", (Kivinja and Kuyini, 2017, p.1). Research paradigms have been described as, the practices and beliefs that determine the manner in which researchers select the questions they are researching and the methods used in the research (Morgan, 2007). Various paradigms have been developed over the years. However, this study will place its focus on the two conflicting and frequently used paradigms.

3.3.2.1 Positivism

Positivism (also known as logical positivism) holds that the scientific method is the only way to establish truth and objective reality. Positivists assume that reality is fixed, directly measurable, and knowable and that there is just one truth, one external reality. In addition, they claim there is a single, objective reality that can be observed and measured without bias using standardized instruments, (Crotty, 2010). The term 'positivism' was coined by Auguste Comte to reflect a strictly empirical approach in which claims about knowledge are based directly on experience; it emphasizes facts and the causes of behavior (Bogdan & Biklen, 2003). Positivism typically applies the scientific method to the study of human action. This paradigm has been criticized for its rigidity and rationalism and it has been observed that results emerging from experiments frequently result in inconclusive, unexpected or conflicting results (Huczynski and Buchanan, 2007).

3.3.2.2 The Constructionist/Interpretivism

Constructionist and interpretivism are related concepts that address the understanding of the world as others experience it. Constructivists differ from the positivists on assumptions about the nature of reality, what counts as knowledge and its sources, values and their role in the research process, (Mertens, 2009). Cited from the working paper of Ally (2018, p.35) “*Interpretivism posits that reality is a social construct that is subjective and as a means of inquiry depends on the perspective of the human* (Collis and Hussey, 2013; Remenyi et al., 1998). *Interpretivism acknowledges that it is impossible to separate facts from beliefs and values, as the understanding of these facts is dependent on the event and the individual* (Cousin, 2005; Creswell, 2003; Doran, 2014). *It has been stated by Saunders et al. (2015) that the aim of interpretive research is to establish richer, new interpretations and understanding of the social contexts and worlds. Interpretivism recognizes that the researcher cannot be an objective observer as they assign meaning to the world they live in*” (Farquhar, 2012). Below is the tabulated summary of the differences between the interpretivism and positivism paradigms.

Table 3.1: Differences between the interpretivism and positivism paradigms (Doran, 2014; Saunders et al., 2015)

	Positivism paradigm	Interpretivism paradigm
Ontological orientation (theory of the nature of social entities)	Objectivism – the researcher and reality are separate	Constructivism - the researcher and reality are inseparable
Epistemology	Objective reality exists beyond the human mind	Knowledge of the world is intentionally constituted through a person’s lived experience
Principle correlation to the role of theory in relation to research	Deductive (testing of theory)	Inductive (generation of theory)
Type of research methods	Quantitative research	Qualitative research
Sampling requirements	Large numbers selected randomly	Small number of cases
Validity	Certainty: data measures reality	Defensible knowledge

Reliability	Replicability: research results can be reproduced	Interpretive awareness: researchers recognize and address the implications of their subjectivity
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Having discussed the two paradigms, the researcher ought to adopt the interpretivism paradigm. As the study is based on the socially constructed phenomenon, this will enable the researcher to twin up with the reality of the challenges as experienced by the SMMEs in the informal sector of KMT. This will be done through the inner understanding of all the participant's lived experiences and describe all the links from the ground up based on what is observed. The challenges as experienced by the SMMEs in KMT are pursued from lived experiences and perceptions of SMMEs. Ally (2018) further notes that *"The interpretive perspective is perfect for business and management research as business situation are deeply complex and unique which reflect a particular set of circumstances and interactions involving individuals coming together at a specific time"* (Saunders et al., 2015). With all the mentioned, it follows that the data collection approach will be qualitative.

As mentioned above, apart from the interpretivism and the positivism paradigm, there are various other paradigms that were developed by other researchers. However, for the purpose and with the aim of answering the research questions and objectives as set out in this study, they were not all discussed in depth, except the one that has been adopted by the study. Nevertheless, for the reader's own further knowledge on this paradigms, below is the tabulated summary of all those and explained.

Table 3.2 Comparison of selected paradigms (Chilisa, 2011)

	POSITIVIST / POSTPOSITIVIST PARADIGM	CONSTRUCTIVIST/ INTERPRETATIVE PARADIGM	TRANSFORMATIVE/ EMANCIPATORY PARADIGM	POSTCOLONIAL/ INDIGENOUS RESEARCH PARADIGM
Reason for doing the research	To discover laws that are generalizable and govern the universe	To understand and describe human nature	To destroy myths and empower people to change society radically	To challenge deficit thinking and pathological descriptions of the former colonized and reconstruct a body of knowledge that carries hope and promotes transformation and social change among the historically oppressed
Philosophical underpinnings	Informed mainly by realism, idealism and critical realism	Informed by hermeneutics and phenomenology	Informed by critical theory, postcolonial discourses, feminist theories, race-specific theories, and neo-Marxist theories	Informed by indigenous knowledge systems, critical theory, postcolonial discourses, feminist theories, critical race-specific theories and neo-Marxist theories
Ontological assumptions	One reality, knowable within the probability	Multiple socially constructed realities	Multiple realities shaped by social, political, cultural, economic, race, ethnic, gender, and disability values	Socially constructed multiple realities shaped by the set of multiple connections that human beings have with the environment, the cosmos, the living and the non-living
Place of values in the research process	Science is value-free, and values have no place except when choosing a topic	Values are an integral part of social life; no group's values are wrong, only different	All science must begin with a value position; some positions are right, some are wrong.	All research must be guided by relational accountability that promotes respectful representation, reciprocity, and rights of the researched
Nature of knowledge	Objective	Subjective; idiographic	Dialectical understanding aimed at critical praxis	Knowledge is relational and is all the indigenous knowledge systems built on relations
What counts as truth	Based on precise observation and	Truth is context-dependent	It is informed by a theory that unveils illusions	It is informed by the set of multiple relations that one has with the universe

	measurement that is verifiable			
Methodology	Quantitative; correlational; quasi-experimental; experimental; causal comparative; survey	Qualitative; phenomenology; ethnographic; symbolic interaction; naturalistic	Combination of quantitative and qualitative action research; participatory research	Participatory, liberating, and transformative research approaches and methodologies that draw from indigenous knowledge systems
Techniques for gathering data	Mainly questionnaires, observations, tests, and experiments	Mainly interviews, participant observation, pictures, photographs, diaries, and documents	A combination of techniques in the other two paradigms	Techniques based on philosophic sagacity, ethnophilosophy, language frameworks, indigenous knowledge systems, and talk stories and talk circles

3.4 Research Methods

Welman et al. (2005) state that research methodology considers and provides meaning behind research methods and research techniques, and has a broader scope than research methods, which in turn, have a wider scope than research techniques. The research design provides a basis for the research methodology and data collection and data analysis (Leedy and Omrod, 2005). Research design is defined as the blueprint of a research project that utilizes suitable tools and methods (Babbie and Mouton, 2001). Creswell (2014) defines research methodology as a strategy and process for the study that spans the steps from extensive expectations to comprehensive procedures of data collection, analysis, and interpretation.

Research methodology provides a guideline of data collection for research projects. Welman et al. (2005) state that research methodology considers and provides meaning behind research methods and research techniques, and has a broader scope than research methods, which in turn, have a wider scope than research techniques. The research methods and techniques used in this study assisted the researcher to take into account past research findings on SMMEs and to further research the issues related to the challenges as experienced by SMMEs operating in the informal sector, using KMT as the study site.

There are three (3) research methodology: quantitative, qualitative and mixed methods (Creswell, 2014). Cavana et al. (2001) state that qualitative research is generally based on evidence collected from people's values, beliefs, and interpretations about the topic being studied. A qualitative approach has to do with the quest for pattern from observation and the development of clarifications to theories for the pattern over a series of hypotheses (Bernard, 2011). It starts with observations, which leads to theories being articulated towards the conclusion of the study, an outcome of the observations (Goddard & Melville, 2004).

Quantitative research is based on unbiased observations, accurate measures, statistical analysis and provable truths that identify human behavior for researchers to control and predict. The quantitative approach emerged from an objective examination of existing theories and knowledge to formulate hypotheses and analyze data (Bryman & Bell, 2015). Mixed methods approach has to do with integrating both quantitative and qualitative methods for data collection (Creswell, 2014). The inductive research approach usually results in the adoption of qualitative research and qualitative research examines, the relationships and meanings between participants by utilizing analytical procedures and multiple data collection methods, in order to generate a conceptual framework (Saunders et al., 2015; Cooper et al., 2006).

Hence, the reader needs to note that the qualitative approach was chosen based on the selected philosophical position. According to Creswell (2014), a qualitative method is an approach for exploring and understanding the meanings that individuals or groups ascribe to a social or human problem. The process of research involves emerging questions and procedures, data typically collected in the participant's setting, data analysis inductively building from particulars to general themes, and the researcher making interpretations of the meaning of the data. "The final written report has a flexible structure. Qualitative research uses a naturalistic approach that seeks to understand phenomena in context-specific settings, such as real-world setting [where] the researcher does not attempt to manipulate the phenomenon of interest" (Patton, 2001, p. 39). If this study were to adopt the quantitative research method, a reduced understanding of, the consequences and degrees of challenges as experienced by SMMEs in the informal sector would result, diminishing the value of the study. As a result, the study will become obsolete as many studies have identified

the challenges experienced by SMMEs, but none have examined this concept from the perspective of SMME owners in KwaMakhutha.

3.5 Research Strategy

When conducting research, there are many possible ways of gathering information from participants. Birley and Moreland (1998) describe data collecting as part of a project where many researchers feel that the “real” research occurs. There are different research strategies that one can choose from depending on the type of research that one is conducting. It is very important that the type of research strategy that is being chosen is in line with the research method and all other research paradigms that will be adopted in the study. As the qualitative research method was selected and the study is exploratory, based on the interpretivism paradigm, the following are the subsequent research strategies that the researcher deem suitable to select from for the study :

3.5.1 Case Study

Case study research is most suited to remarkable, uncharacteristic or rare cases and involves the in-depth study of a minor sample to produce a description of a social construct (Eriksson and Kovalainen, 2008; McCutcheon and Meredith, 1993). It is also described as a form of inquiry that is detailed and occurs in a natural setting where the case subject determines the scope of research and could be an event, individual, process, association or organization (Yin, 2009). Due to excessive detail involved which limits the sample size and introduces bias, a broad definition of the study, and the fact that it does not seek to comprehend temporal or dynamic processes, this research strategy was not chosen for the study.

3.5.2 Focus groups

Focus groups are open group interviews that capitalize on interaction and communication between research participants to generate data (Kitzinger, 1995). This research strategy was not chosen due to the fact that participants (SMME owners) might withhold information in the presence of other participants as they might view them as potential competitors, the researcher lacks training on managing group dynamics and the balancing of power (Saunders et al., 2015). In addition, influencing

participants to attend the session could be a challenge and also focus groups do not allow for total anonymity.

3.5.3 Action Research

Action research intends to bring about change to the existing problem situation and it is where the subjects are active participants in the research (Tharenou et al., 2007). Action research has been described as “an emergent and iterative process of inquiry that is designed to develop solutions to real organisational problems through a participative and collaborative approach, which uses different forms of knowledge, and which will have implications for participants and the organisation beyond the research project” (Saunders et al., 2015). Action research was not chosen for the study because it necessitates an increased level of access, which cannot be obtained as the researcher is not part of any of the SMMEs in the sample. Also, this research project does not entail instituting positive change, in a direct manner, on subjects.

3.5.4 Ethnography

Ethnography requires the researcher to immerse themselves in the social world of the subject group to study their culture or social world (Saunders et al., 2015). Realist ethnography utilizes an objective positivistic stance to report detailed realities while interpretive ethnography is more subjective (Tharenou et al., 2007). Critical ethnography intends to explain and explore the effect that power has on the subject. Social interactions or culture are not part of this research project, rendering ethnography discordant with the outcomes of this study.

3.5.5 Grounded Theory

Grounded theory is a highly flexible method that aims to develop theory inductively that is grounded in the data, which is derived from meaning attributed to the world by social actors. Based on the data gathered by the researcher, it is adapted constantly. The reason why the grounded theory was not chosen for the study is that it is a method that is time intensive in nature. A significant amount of literature exists that enables the researcher to accomplish the objectives of the study using an inductive process which is less time intensive.

3.5.6 Interviews

An interview is a conversation for gathering information. A research interview involves an interviewer, who coordinates the process of the conversation and asks questions, and an interviewee, who responds to those questions. Interviews can be conducted face-to-face or over the telephone. The internet is also emerging as a tool for interviewing, (Gubrium, J.F & Holstein, J.A., 2001). Interviews aim to understand the social actuality through “*exploration via the personal experience of prevailing cultural understandings*”, thus revealing “*the personal construction of the individual’s world*” (Gray, 2013). This method primarily utilizes unstructured, semi-structured and in-depth interviews to collect copious amounts of data that consist of the experiences of participants in their natural environment.

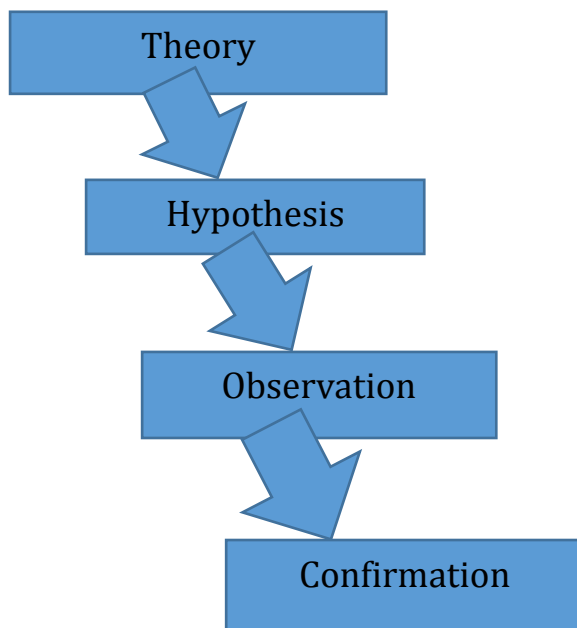
The interview research strategy was selected as the data collection technique for the following reasons:

- 1) Interviews are better suited to this research project in terms of time and resource constraints. Methods like the grounded theory are time intensive making them unsuitable.
- 2) This study aims to comprehend the lived experiences of the participants (SMME owners) and interviews allow for the usage of a small sample size.
- 3) The subject matter, in nature, is not sensitive therefore it is improbable that any barriers will form which could inhibit honest and open responses

3.6 Theory Development Approach

In research, we often refer to the two broad methods of reasoning as the deductive and inductive approaches, (Burney and Mahmood, 2006). Deductive reasoning works from the more general to the more specific. Sometimes this is informally called a "top-down" approach. The conclusion follows logically from premises (available facts). In addition, The deductive approach necessitates the formulation of a theoretical foundation, by the researcher, to test a hypothesis or theory. Deductive research is said to be more suitable for research areas that are mature (Antonius, 2003; Maylor et al., 2016; Saunders et al., 2015). Below is the clear graphical representation of the Deductive approach.

Deductive Research Approach (“Top-Down”)



In contrast, Inductive reasoning works the other way, moving from specific observations to broader generalizations and theories. Informally, we sometimes call this a "bottom-up" approach. The conclusion is likely based on the premises. Involves a degree of uncertainty, (Muhammad and Jilani, 2008). Below is the graphical representation of the Inductive Approach., followed by the table that portrays critical differences between the deductive and inductive research approach.

Inductive Approach (“Bottom-up”)

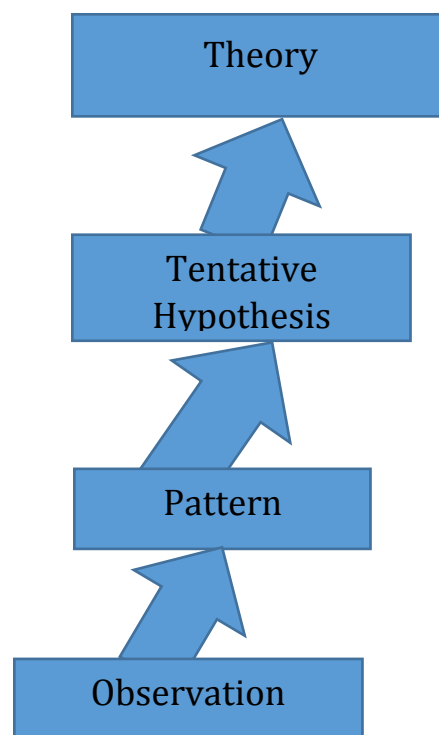


Table 3.3: Critical differences between the inductive and deductive approaches (Doran, 2014; Saunders et al., 2015)

Deductive Approach	Inductive Approach
Scientific principles	Gaining an understanding of the meaning humans attach to events
Moving from theory to data	A closer understanding of the research context
The need to explain causal relationships among variables	A more flexible structure to permit changes of research emphasis as the research progresses
The collection of quantitative data	The collection of qualitative data
The application of controls to ensure the validity of data	A realization that the researcher is part of the research being undertaken.
The operationalism of concepts to ensure clarity of definition	Less concern with the need to generalize.
A highly structured approach	
The researcher is independent of what is being researched	
The necessity to select samples of sufficient size in order to generate a conclusion	

It is with the notion that many previous existing kinds of literature have developed different theories on the challenges that are experienced by the SMMEs in the informal sector. Having discussed some of these theories on the literature review, this study will then have to discuss the implication of these theories in relation to the research topic. Therefore, for the purpose of this study, deductive reasoning will be adopted because the study is planned as per the deductive figure above starting with theory and working all the way to confirming all the findings. For further knowledge on these approaches, above are some of the differences between deductive and inductive research approach.

3.7 Population

Cavana et al. (2001) define population or target population as the entire group of people, events or things of interest the researcher wishes to investigate. The majority of spaza shops are unregistered, informal businesses mostly do not adhere to the municipal rules for conducting business in residential areas and as a result, there is no exact number of how many they are (Ligthelm, 2008). Moreover, these businesses are situated in the informal sector where the daily business practices represent the informality of this sector. The informal economy refers to the existence and activities of informal businesses (and their employees) outside the legal and institutional regulatory framework. The concept refers to enterprises and workers that are unregistered and unincorporated (Statistics South Africa, 2010). In its broadest interpretation, the informal economy encompasses illegal activities such as crime and tax avoidance and activities that, apart from the non-compliance with specific national and local laws, are otherwise legal such as street trading (Ligthelm, 2008). Therefore, the researcher would like to highlight that the target population for this study is unknown because of the unavailability of the information about these businesses in the informal sector since they are not registered with the government.

3.8 Sample Design

Sampling technique simply refers to the approach by which a sample for a study is arrived at. According to Hair, et al. (2003) sampling is the process of selecting a number of elements from the population so that its characteristics or properties would enable the researcher to generalize to the rest of the population. Saunders et al. (2015) explain that a need to sample is crucial to the researcher as it saves time and it is easier to organize and manage the data collected from fewer people. Sampling is begun with the clear recognition of the population in terms of the time, geographical boundaries and elements (Sekaran, 2006).

3.8.1 Sampling Procedure

A sample is the chosen group of individual units from a population that a researcher selects and generalizes it to the population (Brink et al., 2006; Neuman, 2003). There are two main forms of designs; probability and nonprobability sampling techniques (Sekaran & Bougie, 2014). Sekaran and Bougie (2014), further clarify that probability sampling occurs when the population elements possess a known or nonzero chance

of being selected as a subject. With probability sampling, Cavana et al. (2001) state that the elements in a sample are of importance and must be representative of the population, that is, the elements in the population have an equal chance of being selected as subjects in the sample. The elements in nonprobability sampling, on the other hand, do not have a known chance of being selected. With non-probability sampling, Cavana et al. (2001) explain that not every element of the target population has a chance of being selected, meaning that the researcher has no assurance that each element of the population will be represented in a sample.

For the purpose of this study, the nonprobability-sampling technique was adopted. The reason for this choice is with the fact that most, if not all, SMMEs operating in KwaMakhutha township are not officially registered with the government and as a result, the municipality does not have the exact number of these businesses. In addition, Purposive sampling was adopted to choose participants for qualitative data through the use of semi-structured interviews. The reason for this choice is because the purposive sampling technique entails the selection of the sample on the basis of what is necessary to achieve the research objectives. This technique focusses on the selection of information cases that are information-rich, rather than the samples statistical representation.

There are many subsets of purposive sampling such as; extreme case sampling, homogeneous sampling, critical case sampling, typical case sampling, and maximum variation sampling.

For the purpose of this study, maximum variation sampling was selected as it allows for maximum variation in the data collected, hence promoting the attainment of a wide variety of viewpoints resulting in the identification and exploration of the most prevalent challenges faced by SMMEs in KMT.

3.9 Sample Size

As a result of the adoption of the qualitative research method, there is no fixed sample size, rather it is steered by the theoretical content of the study (Saunders et al., 2015). The sample size is determined by the achievement of research objectives, available resources, and credibility (Creswell and Creswell, 2017).

According to Hitchcock, Nastasi, Summerville, Meredith (2010), where key participants are the subject of the study, it is advisable that eight become the sample size for the study. It is believed that with this number, saturation would have been reached, with the possibility of increase depending on whether theoretical saturation has been achieved. Miles and Huberman (1994) define saturation in qualitative research as the phase when no new substantive information can be acquired. Therefore, as much as it was difficult to identify the exact target population for this study but this chosen number, as proposed by the rule of thumb will enable the researcher to know the focus for the research in terms of the targeted population. The informal enterprises are also included because they form a large majority of the SMMEs in the city and they have been excluded in most previous studies done in the country concerning SMMEs as they are said to have limited potential for growth and development. The SMME owner-managers were randomly approached at their places of operation and interviews were conducted directly by the researcher.

3.10 Research instrument- Interviews

Interviews are defined as, a dialog between two or more than two people where the interviewer has to; develop a relationship with the interviewee, ask questions that are unambiguous and succinct and listen intently (Saunders et al., 2015). There are three types of interviews: structured interviews, unstructured interviews, and semi-structured interviews. Interviews may be more or less structured: a completely structured interview is akin to a questionnaire, in that all questions are predetermined, although a variety of answers may be expected; a completely unstructured interview is more like a conversation, albeit one with a particular focus and purpose.

“Semi-structured interviews fall between these poles, in that many questions or at least themes will be planned ahead of time, but lines of inquiry will be pursued within the interview, to follow up on interesting and unexpected avenues that emerge” (Blandford, 2013). Semi-structured interviews offer topics and questions to the interviewee. With the realization of how complex the targeted research environment is and the targeted population, semi-structured interviews will be of the greatest instrument in collecting the needed information because it will enable the researcher to use the semi-structured interview’s techniques in getting the best information from the respondents. Moreover, this type of interview is designed with the purpose of

obtaining ideas and opinions from the interviewee and follow up on the important and interesting points as they arise, (Zorn, 2003). Therefore, it was deemed the perfect research instrument for this study as it seeks to address the challenges such as access to sources of funding and the use of public resources, lack of entrepreneurial education, high competition from foreign-owned SMMEs respectively as experienced by the SMMEs in the informal sector. Through the use of the semi-structured interviews, these factors will be fully unpacked enabling the researcher to draw a valid conclusion on the causes, effects and offer recommendations on how these challenges can be addressed and resolved.

3.11 Administration of the Research Instrument

The following aspects were taken into consideration when designing the interview schedule:

- I. Background information: The relevant literature on the subject was analyzed and synthesized in the form of the literature to provide the researcher with the required background information. Similar research instruments with similar objects were used to crosscheck the research instrument. The researcher's interview technique was improved by studying appropriate literature by Kvale and Brinkmann (2015) and seeking advice from experienced researchers.
- II. As the basis of the interview schedule, open-ended questions were utilized with probing questions to cover or mature themes if required. Double-barrelled questions, leading questions, and loaded questions were not included in the interview schedule.
- III. Themes were established based on the literature review, research questions, and research objectives. A week prior to the interview, the interview schedule was provided to the participants allowing them to grasp the research focus which increases the reliability and validity of the study and enabling participants to gain confidence in what they will say (Saunders et al., 2015).

3.11.1 Transcription and Recording

With permission from participants, an audio recording was used to transcribe the interviews. Audio recording also allows the researcher to concentrate on non-verbal cues during the interviews and the recordings can be stored and reviewed. Video

recording has the possibility of being perceived as intrusive which could affect the responses of participant hence it was not used.

3.12 Time Horizon

All studies differ, and so is their time horizon in which they can be conducted and represented. There are different types of time horizons, namely: Longitudinal and cross-sectional. The study's time horizon is longitudinal, a representation of a subject is done over a period, while the latter is the representation of a subject at a certain instant of time. The cross-sectional time horizon has been chosen due to the time constraints and the objectives of this study.

3.13 Data Analysis

Any inquiry irrespective of its approach are usually evaluated by peers, readers, and sponsors or grant providers (Krefting, 1991). Therefore, it is of the greatest importance for a writer to ensure that data gathered is being controlled and correctly analyzed before sending it out for people to read. Thematic analysis will be used as the method of data analysis as it is the most commonly used method for the analysis of qualitative data. Thematic analysis was implemented using Saunders et al. (2015) four-step approach:

1. Getting familiar with the data: This involves the transcription of the interviews and writing self-reflective memos. These transcripts were then read with the purpose of finding common themes and patterns.
2. Data coding involves the allocation of codes to each data extract according to the meaning of the extract, to make the data amenable for analysis. Based on the recurring patterns and themes and according to the literature, categories of meaning were formulated. Relevant information was then allocated to a relevant category using a code. This forms a data unit.
3. Theme identification and relating data: This involves the minimization of the lists of code into a brief list of codes by gathering the codes produced in the last step with the aim of identifying themes and relating the data.
4. The refining of themes and testing of propositions: every theme generated was tested to ensure the appropriateness of the codes within each theme and

to ensure that the set of themes are meaningful and coherent. Similar themes were combined, while themes that are less-represented were removed and themes that were broad were divided into various themes.

3.14 Verification of Data

Many authors who have utilized the qualitative approach for their research have commented on the success of this approach. The use of reliability and validity are common in quantitative research and now it is reconsidered in the qualitative research paradigm (Golafshan, 2003). However, this paper did not adopt this in analyzing data quality control of the study. There has been an emergent of other qualitative analytic methods that can be used to analyze data for qualitative research. The evaluators of research endeavor usually adopt some trustworthiness criteria that are agreed in the literature in relation to existing research approaches such as qualitative, quantitative and mixed methods of research. Trustworthiness is defined as a methodological (research design, data gathering, data analysis) accuracy (soundness) and adequacy of the research inquiry (Holloway & Wheeler, 2002).

Each research approach employs different evaluation criteria to ensure the rigor of the inquiry. For example, quantitative researchers put into consideration the reliability, objectivity, and validity (i.e. internal and external) as a means of ensuring the trustworthiness of the inquiry. In contrast, qualitative researchers consider dependability, credibility, transferability, and confirmability as trustworthiness criteria for qualitative investigation (Guba, 1981; Schwandt, Lincoln, & Guba, 2007). For the purpose of this paper, the above four mentioned criteria: dependability, credibility, transferability, and confirmability were used for analyzing the trustworthiness of this study.

3.14.1 Credibility

Credibility is defined as the confidence that can be placed in the truth of the research findings (Holloway & Wheeler, 2002; Macnee & McCabe, 2008). Credibility is essential in ensuring that the research is trustworthy (Shenton, 2004). To increase the credibility of the study, the researcher maintained a high level of confidence from the data

gathered, which was the indication of the truthfulness of the information provided by the respondents, all participants were given the freedom to speak out their thoughts the way they deemed necessary and fairly expressing their views, participants were assured that their participation was voluntary using informed consent, assurance of no harm notices to participants and voluntary participation.

3.14.2 Transferability

Transferability refers to the degree to which the results of qualitative research can be transferred to other contexts or settings with other respondents – it is the interpretive equivalent of generalizability” (Bitsch, 2005; Tobin & Begley, 2004). In addition, transferability deals with the reader gaining an understanding of the context and background information which enables judgment concerning the transferability of the findings to other situations (Saunders et al., 2015). According to Bitsch (2005), the researcher facilitates the transferability judgment by a potential user through ‘thick description’ and purposeful sampling. It can be said that the importance of research is to be able to transfer information from one context on the particular setting to the other. This enables the researcher to get different ideas or feel of the information from different perspectives. For this study, the results can be transferred from the context of being the study based on KMT but to a business-wise context that seeks to address the strategic differences between the FOBs and local businesses and the challenges that they are faced with as they are operating in the informal sector.

3.14.3 Dependability

According to Bitsch (2005), dependability refers to the stability of findings over time. Dependability involves participants’ evaluation of the findings, interpretation, and recommendations of the study such that all are supported by the data as received from informants of the study (Cohen et al., 2011; Tobin & Begley, 2004). Dependability is established using the following strategies: an audit trail, code-recode strategy, stepwise replication and peer examination (Chilisa & Preece, 2005; Kretting, 1991; Schwandt et al., 2007). This is the most important aspect of data control in qualitative research as it seeks to point out the importance of keeping data in stable conditions over time. Therefore, as a researcher, it is important to understand that as time goes,

some data may change, to avoid that change, it important to keep dependable data all the time. To ensure that the dependability of the study, the following was done in accordance with the literature, (Shanton, 2004):

- i. The research design was chosen and described in detail
- ii. All the particulars of the fieldwork were discussed
- iii. Reflective assessment of the research was performed

3.14.4 Confirmability

Confirmability refers to the degree to which the results of the inquiry could be confirmed or corroborated by other researchers (Baxter & Eyles, 1997). Confirmability is “concerned with establishing that data and interpretations of the findings are not figments of the inquirer’s imagination, but are clearly derived from the data” (Tobin & Begley, 2004, p. 392). Studies suggest that confirmability of qualitative inquiry is achieved through an audit trail, reflexive journal, and triangulation (Bowen, 2009; Koch, 2006; Lincoln & Guba, 1985). According to Bowen (2009), an “audit trail offers visible evidence from process and product that the researcher did not simply find what he or she set out to find”. The truthfulness in data is the ability of another party other than the researcher to confirm the data gathered. This study seeks to align the following aspect of confirmability to provide confirmable information to the best way possible.

3.14.4.1. Practice reflexivity/reflexive journal

Confirmability also can be established using a reflexive journal (Koch, 2006; Wallendorf & Belk, 1989). Wallendorf and Belk (1989) described a reflexive journal as reflexive documents kept by the researcher in order to reflect on, tentatively interpret, and plan data collection. The researcher is required to keep a reflexive journal and in this journal, content should include all events during the field, personal reflection in relation to study such as ‘ah’ phenomenon that arises during the processes of investigation. The researcher is required to keep all electronic records (tape recorded) and non-electronic (i.e., field notes, documentary materials) during the whole investigation. These records help to cross-check the data and writing of the final report of the study.

3.15 Bias

Bias is described as a divergence in the truth in the following phases; data collection, data analysis and interpretation of results; which can result in incorrect conclusions established from the data, due to presuppositions or other hindrances to objective analyses (Saunders et al., 2015). Cited from the working paper of Ally (2018) semi-structured interviews bias is classified into three categories:

1. Participation bias: This bias occurs when participants agree to partake in the interview. Those participants willing and those unwilling are suggestive of a bias that ought to be considered.
2. Response Bias: Is the bias that results from the interviewees' perception of the interviewer. The cause of response bias could be an intrusive interview process causing a reluctance to provide information. This form of bias was mitigated by:
 - a. Emphasizing that participation is voluntary
 - b. Clearly explaining the significance of the study so that honest responses could be obtained
 - c. Assuring all participants that all data collected is confidential and private
3. Interviewer bias: Is the bias of the participant in response to the questions which stems from the interviewer imposing attitudes and beliefs on the participant or during the interpretation of the data. To circumvent interviewer bias the following was done:
 - a. The researcher subdued All cultural or personal beliefs pertaining to the content of the interview.
 - b. All preconceived notions were overlooked by the researcher.
 - c. The researcher ensured that the participant adequately understood all interview questions and given a chance to respond in any way in which they understood the questions.
 - d. All interview questions were formulated in a simple manner to facilitate easy understanding and reasonable accommodation for illiterate participants was provided in terms of assisting them in clearly phrasing the interview questions to allow ease of understanding to all participants.
 - e. An interview schedule was given to each participant which assisted them in clearly understanding the purpose of the interview and a chance to raise any questions they may have about the interview.

3.16 Limitations to the Study

One of the predominant limitations of the study is costs. Since the researcher will be conducting the study in her area of residence, this will work on the advantage for the researcher in terms of lessening the costs of traveling, as opposed to if the study was conducted somewhere else other than the chosen study site, where costs of traveling would have been the challenge. However, the researcher will incur the transport costs of traveling from one place to the other where the respondents will be to conduct interviews. In addition, the admin costs of printing the interview questions in preparation from the actual interviews with the respondents.

3.17 Ethical Considerations

Ethical consideration forms the basis for the research and provides an indication of how the study would be conducted. Research ethics refers to a well-recognized set of moral principles that describe the expectations of ideal conduct towards those that participate in the research (De Vos, 2011). The following ethical consideration was accounted for in the study:

3.17.1 Voluntary Participation

Prior to the commencement of the interview, participants were clearly informed that their participation was completely voluntary with the right to withdraw anytime without the need to justify themselves.

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3.17.2 confidentiality, privacy, and anonymity

De Vos (2011) notes that anonymity must be guaranteed and maintained so that participants are divulged information without worrying about privacy, confidentiality, and prejudice. The researcher intends to make sure that all the participants that will be recruited to participate in the study are aware of their rights, including the right to keep their information confidential and private. The researcher achieved this by using pseudonyms to ensure the privacy and confidentiality of participants

3.17.3 Benefits

Regarding the research outcomes or participation, the researcher did not imply any idealistic benefits. The researcher also made it clear that no financial rewards will be given for participation.

3.17.4 Overall steps taken to ensure all above accounted for ethical considerations were achieved

All the information about the collection of the data was disclosed on the informed consent form that set out all the ethical procedures that were going to guide the researcher in conducting the study. This included all the ethical permission from the relevant authorities, such as the gate keeper's letter that was obtained from the municipal councilor that served as the consent given to the researcher to conduct the study in KMT. Ethical clearance was applied for from the Research Ethics Committee of the University of KwaZulu-Natal and approval was given to undertake the study, with the issuance of a formal letter in this regard.

3.18 Conclusion

The research philosophy and its implications on the development of the research strategy and methodology were described in this chapter. The following aspects, in accordance with the objectives of the study, were justified and described:

- Selection and adoption of research strategies
- Data collection
- Data analysis techniques

Based on the philosophical underpinnings, research objectives and methodological foundations of this research project the sampling technique was chosen. This chapter also explained the measures used to decrease bias and sustain the validity-related and ethical integrity of the research project. The design considerations of the research instrument (semi-structured interview schedule) were outlined. Chapter 3 was the design plan of the data analysis and collection phase. This chapters' findings will be explained in Chapter 4.

CHAPTER FOUR

RESULTS, DISCUSSION, AND FINDINGS

4.1 Introduction

In this study, Challenges, as experienced by SMMEs, specifically in KMT, were investigated. The literature has assisted in guiding how the research was conducted leading to the data collection process as depicted in chapter three. The literature review; provides the familiarity of important themes that relate to the objectives of the study, motivation for the study and provides a background for the study that relates to earlier studies and existing theory. Within this chapter, a comprehensive overview of the findings of this study, including the discussion and analysis of these findings were presented. These findings stem from the data obtained from the eight semi-structured face-to-face interviews which are in accord with the synthesis of the literature (Chapter 2). They are presented in a way that shows the predominant factors behind the challenges as experienced by SMMEs at KMT. The objectives of the study looked at whether lack of access to sources of funding and the use of public resources are the factors behind the development and success of SMMEs, to describe whether lack of entrepreneurial education is the factor behind the development and success of SMMEs, and to explore whether the increasing number of FOBs is the factors behind the development and success of local SMMEs in KMT. The chapter which follows provides a conclusion and recommendations linking the overall findings to the objectives of the study.

4.2 Analysis Procedure-Thematic

The research aimed at understanding the perspective of local SMME owners who have lived the experience regarding the challenges as experienced by businesses in the informal sector and high competition as posed by FOBs in KMT. Thematic analysis was selected as the data analysis method to achieve this aim. Thematic analysis is the process of identifying patterns or themes within qualitative data. Braun & Clarke (2006, p.78) suggest that it is the first qualitative method that should be learned as 'it provides core skills that will be useful for conducting many other kinds of analysis'. The codes and categories are made up of preterminal or emerging themes (from

literature), researcher perspectives and professional definitions. Inductive thematic analysis was used, meaning the data was coded, or categorized for analysis, without fitting it to a pre-determined coding frame. This ensured the analysis process was driven by the data collected during the evaluation process rather than any analytic preconceptions, (Braun and Clarke, 2006). In conjunction with the chosen thematic analysis approach, latent approach was used to describe the level of themes identified with an aim to ensure that the analysis and discussion of the findings are presented in a manner that “looks beyond what has been said and start to identify or examine the underlying ideas, assumptions, and conceptualization”, (Braun and Clarke, 2006, p.2813). The identified themes will first be analysed in a descriptive form (with the data organized to show patterns in a semantic content) before progressing to an interpretative form, which attempted to look beyond the surface of the data (where the broader meaning and ultimate implications of the themes/patterns are deduced often via engagement with literature), (Frith and Gleeson, 2004; Braun and Klarke, 2006). The following table presents all the participant’s details.

4.2.1 Details of Participants

A detailed description of the participants and the type of SMME they own or manage are provided in Table 4.1

Table 4.1: Participant and interview details

Participant	Position	Type of Business	Number of employees	Years in Business	Entrepreneurial experience	Level of education	Growth rate (% y/y)	SMME Classification	Word Count
1	CEO	Fast food Kitchen	20	15 years	8 years	Tertiary	100	Medium	1047
2	Owner/Manager	House Renting	8	5 years	2 years	Matric	70	Small	1205
3	Founder/Owner	Barber-Shop	30	9 years	6 years	Secondary	20	Very Small	1264
4	Owner Manager	Supermarket	35	21 years	13 years	Matric	60	Medium	1282
5	CEO	B&B	40	10 years	10 years	Tertiary	65	Medium	763

6	Owner-manager	Clothing shop	25	12 years	18 years	Matric	40	Medium	809
7	Owner-manager	Furniture shop	45	18 years	15 years	Matric	55	Micro	955
8	Owner Manager	Internet Cafe	35	7 years	20 years	Tertiary	45	Medium	826

4.3 Research Objectives

This section presents an in-depth discussion of the participant's responses on the challenges as experienced by SMMEs in the informal sector at KMT. This is done in line with the research objectives. To begin the presentation of the findings, the researcher has summarised and graphically presented these challenges as illustrated in Figure 4.1.

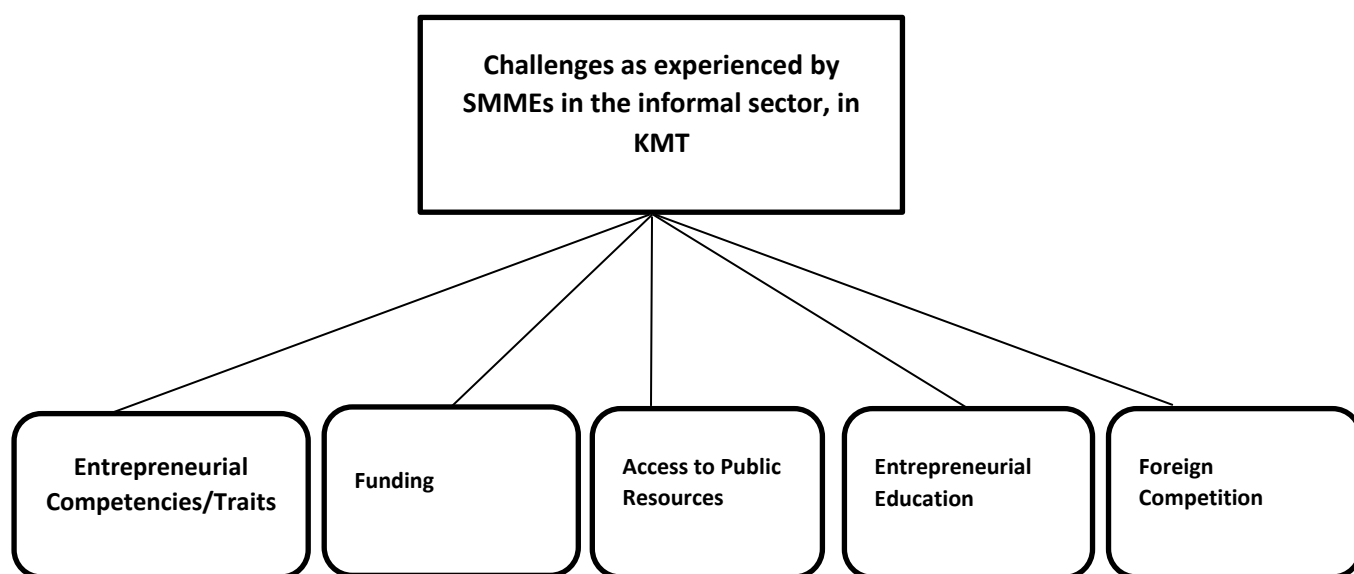


Figure 4.1: Graphical representation of the challenges as experienced by Small, Medium, and Micro-sized Enterprises in KwaMakhutha Township

4.3.1 Entrepreneurial Competencies/Traits

To establish a business, one needs to possess and portray some entrepreneurial competencies/traits as to whether they will be able to establish and successfully run the business. This serves as the indication of their required capabilities to establish a

successful business venture. “Business provides the necessary financial support to the country for it to chart a growth path. The person responsible for the successful performances of the business is called the entrepreneur and the skills, knowledge, and ability required to run and get the fruitful results from the business successfully is called the competency”, (Kaur and Bains, 2013, p.31).

During face to face in-depth interview, participants expressed differing views on what they personally think are entrepreneurial competencies/traits to establishing a successful business in this case with relation to KMT. However, these are deemed as one of the challenges by SMME owners operating in KMT because if not properly understood or implemented to best support the development or operation of the business, they can pose a great risk to a competitive running of the business. It is with the notion that what we think is what we become, therefore, the skills (Entrepreneurial competencies/traits) that we possess from birth or acquire in our professional capacity can either be utilized in a manner that can build or destroy what we seek to establish. With regards to this, Participant 1, who is the owner of the fast food kitchen in KMT stated:

A person needs to be passionate and determined to start a business given the fact that the business will operate in a less developed environment and that means there will be high chances of failure. However, with a high level of enthusiasm, determination, and passion about the business, one can be able to make it. To establish a business in a less developed environment it calls for lots of patience, as there are lots of challenges that one needs to go through.

In support of this, participant 4, who is an owner of the supermarket commented that:

Starting a business is a big achievement for many entrepreneurs but maintaining it is a huge challenge. There are many challenges that every business face, whether they are big or small. This includes hiring the right people, building a brand, etc.

The comments clearly indicate that as much as entrepreneurial competencies/traits can be very important and much needed when establishing a business, especially in

the informal sector like that of KMT. However, the need to fully understand them and the implications they can have in your business is very important as failure to do so can result in potential risks for the business. Therefore, entrepreneurship requires certain strategic skills for profitable functioning.

4.3.2 Funding

Finance is one of the foundational means to get the business off the ground. Without finance, it is impossible to establish a business. Access to finance has been extensively investigated and identified as one of the major challenges affecting SMMEs, both locally and internationally. It has also been noted to be extremely complex and difficult to solve (Mutezo, 2005). According to participants, they all had to go through different challenges to access funding and for some of them, they had to approach even their family members for assistance.

During an in-depth interview with the participants, they all commented that access to funding is of the greatest challenge for entrepreneurs in KMT. They mentioned their sources of funding for their businesses. The bulk of participants further commented that financial institutions, particularly commercial banks, have extremely strict criteria, time-consuming admin processes, and procedures when funding SMMEs. In support of this, the following is what one of the participants had to say with regards to this:

- *Local Counselor- who was very inspired by the business idea presented by the interviewee*
- *Bank Loans-of which it was very hard to get it from because of the interest rate*
- *Donations from the local churches and personal savings (of which the interviewee has already saved up to 50% as the startup capital). According to the interviewee, she had to sacrifice a lot just to get the funding, [Participant 1- Fast food business owner]*

In support of this, another participant commented as below:

Bank loans-I had to apply for a loan from the bank to secure the things I needed for my day running of the business. For the basic needs of the

business, I had a startup capital that I had saved up for. Also donation contributions from my family and friends who believed in my idea and deemed it worthy to invest in. The bank loan was a bit difficult to get since I am operating in an area that is less developed and I am renting the space instead of owning it. As for donation contribution from my family members came with lots of questions of which I answered clearly and convinced my family that this is a good business idea, [Participant 6- Clothing business]

With the above comments, it is very clear of how of a challenge it is for SMMEs to obtain funding for their businesses. What makes it be even more challenging is the fact that most entrepreneurs from KMT are illiterate and as a result, they hardly understand all the process explained to them and to gather all the required information and documentation as required by the financial institution for the funding application processes. This reluctance by banks to grant funding to SMMEs stems from the fear that start-ups, at the existing stage of the business cycle, encounter numerous expenses in the form of the domain and business registration, rental, technical, stationary and further expenses. Findings in the literature also support this by concluding that 75% of finance applications submitted by promising South African SMMEs are rejected (Foxcroft et al., 2002; Naudé and Havenga, 2005). Another study conducted by Statistics SA showed that just two percent of start-up SMMEs succeeded in achieving finance from lending organizations (Statistics South Africa, 2014). On the contrary, from the viewpoint of the lending organization, research shows that the following factors make SMMEs high risk which impacts their ability to obtain finance; an asset base that is small and the high failure rate of SMMEs in SA (Hlatswayo, 2012a; Agwa-Ejon and Mbohwa, 2015). Another study has also stated that the following factors hinder the ability of SMMEs to obtain finance; incompetence in presenting proposals and business plans and deficiency of credit history (Ndege, 2015). Regarding these finance requirements, this is what participant 3 who is the founder and owner of the barbershop had to say :

Firstly, there was a lot of admin and confusing procedures that one needed to go through to be deemed deserving to get that funding. Lack of information regarding available funding options for start-ups, due to the fact that most of the

population from townships are illiterate and therefore we are not very informed about the important information on how we can upskill ourselves. Also, drafting a business plan or proposal or rather a business plan was the hardest part because one needs to make sure it is convincing for a business person who will read it and actually take it into consideration in terms of whether you qualify for funding or not.

Previous research findings by Ally (2018), on his working paper looking at factors limiting the success, growth, and sustainability of SMEs in Ladysmith reported that SMEs mostly experience more hardship when trying to access funding during start-up and growth phase. The findings further revealed that another study shows that the challenge of access to finance is severe during the growth and start-up phases, which was reinforced by the opinions of views Participants 1 and 8 and 10 (Ramukumba, 2014). The restriction to access to finance in the start-up and growth phases has been supported by findings in the 2010 Finscope survey of SMMEs in SA (Grundling and Kaseke, 2010). The below responses were cited from the previous Ally (2018) working paper and not that of the researcher in support of the mentioned statement:

We used the banks and we used IDC. Recently, after our company has grown, finance has not been a problem as we have; a good track record of success, an established asset base and a strong and experienced management team,
[Participant 8]

I also feel that after our business has grown and matured it is easier to obtain finance from the banks, [Participant 1]

Despite the fact that banks have become the first resort when entrepreneurs need funding, family members and friends have become the main sources of funding for most SMMEs in KMT. A number of participants expressed their gratitude to their family support who stretched out their hands and assisted them in terms of investing in their businesses to get it off the ground. Below is what participant 7 who owns a furniture shop stated with regards to this:

Self-Funding- to kick start your business, you must have been saving for it and that is exactly what I did. Family and Friends-These are the first people to present your business idea to. If it presented well, then these are the first people to assist financially to get your business actively running given they have means to assist.

As much as some entrepreneurs may have the privilege to be assisted by their family and friends and got donations from local counselors and their churches for funding assistance, however, this is not the case as some had to save and use their personal savings of which they had planned for other purposes to fund their businesses. Below is what participant 8, who is the owner of the internet café had stated with regards to this:

I have always had a vision to establish my own business. Therefore, I started saving for it through personal savings. My business was started solely from my personal funding. However, the business I have needed lots of capital and as a result, I had to extract even from my future savings for my children's education.

Access to finance is one of the biggest challenges as faced by SMMEs and other businesses, not only in SA but all over the world. extensive research results by (Mutezo, 2005), (Chimucheka, 2014), (Abor & Quartey, 2012) show that most black SMME owners perceive access to funds as a major constraint to expanding their businesses. This situation is aggravated by the following factors: lack of collateral on the part of the entrepreneurs, bad credit or no credit history and “an exaggerated risk factor” as perceived by the banks. Chimucheka (2014) reiterates this point by stating that research carried out by Fataki and Garwe (2014) concluded that the lack of financial resources was the second most important contributor after education and training to the failure of SMMEs in SA (Chimucheka, 2014).

In another study done by Chimucheka and Mandikapha (2015) on challenges facing SMMEs in Nkonkobe municipality, almost all the respondents agreed that access to finance was their biggest challenge. In addition, respondents admitted that financial institutions were reluctant to offer them credit because firstly, they had no confidence

in the entrepreneurs' abilities to run successful ventures and secondly, the entrepreneurs had no collateral (Mutezo, 2005).

4.3.3 Access to Public Resources

Despite finance being the most needed resource in establishing the business, public resources also play the biggest role in the establishment and sustainability of the business. According to Philip (2009), public resources are an economic or productive factor required to accomplish an activity, or as a means to undertake an enterprise and achieve the desired outcome. Three most basic resources are land, labor, and capital; other resources include energy, entrepreneurship, information, expertise, management, and time. Running a business in a less developed environment like that of KMT place a business at the greatest risk as access to some of the public resources means one has to pay for them first. For example, if one requires the portion of land, a certain amount of money must be paid to the leader of the community known as "induna". Participant 6 stated that:

KwaMakhutha is largely owned by a community leader known as "induna", with that being said, for every business opportunity one has, it has to go through this leader. His approval to the use of land comes at a price of which affect one's finances. The issue of gravel roads and water shortages affect one's day to day running of things as the roads make it hard to transport goods to and from the business. And the water shortage often times affect our customer service in terms of delivering on time.

In support of this, Participant 1 also stated

The issue of land is of greatest challenge for someone who wishes to start a business in a community like that of KMT. There is a lot of admin process and protocols that one needs to follow. For example, one needs to pay some money to the community leader (known as induna). In addition, there is a lack of access to water and electricity. There are often times when one needs to go out just to get these basic resources. Nevertheless, these resources are of greatest need for the type of Business that I run.

Without the ease of access to public resources make it difficult for businesses to operate competitively as some businesses are dependent on these for their day to running. Also, the poor infrastructure development is one of the challenges as faced by the businesses operating in KMT, these include poor roads developments and access to water and sanitation. This is supported by Participant's 6 comments as highlighted below

*KwaMakhutha is largely owned by a community leader known as "induna", with that being said, for every business opportunity one has, it has to go through this leader. His approval to the use of land comes at a price of which affect one's finances. **The issue of gravel roads and water shortages affect one's day to day running of things as the roads make it hard to transport goods to and from the business. And the water shortage often times affect our customer service in terms of delivering on time.***

There have been many issues about the issue of robing electricity. There are people who perform such illegal activities known as "izinyoka", they are able to manipulate electricity cables so that one can continuously use electricity without having to pay for it in the cost of the those who pay for it. This has also been raised by participants as it affects their daily operations as they have pay double the expense for electricity because of those who do not pay for it. Below is what participant 3 had to say about this matter:

Running a business in the informal sector is a challenge of its own because of the lack of infrastructure development and most importantly, there are lots of challenges that one come across when trying to access public resources. In KMT, we are faced with the issue of the unavailability of water as it sometimes just run out for the entire day and we do not even get the notice prior to it going off. We are using meters, and as a result, one is limited to certain meters that can be consumed per day. The high cost of electricity as people are now robbing electricity and don't pay for it is continuously increasing.

In support of this, participant 5, stated

The issue of getting water has always been the most challenging issue, especially in KMT. In addition, people are now robbing electricity and do not pay for it and as a result, business is paying more for electricity, which then increases their expenses. Also, gaining access from the government has become so expensive and as a result, it has become difficult to access it

It with this notion that public resources comes from nature and should be freely accessible. However, this is not always the case, the need to pay for these resources has become prevalent these days. This was of greatest concern by lots of participants and voiced out that they have to pay even for the resources that they believed should be made freely available such as water. As a result, entrepreneurs have to make every sacrifice there is because water is more than just a resource but water is water life and a necessity to keep both the business and people operating productively.

We live in a world where everything costs money, we pay even for the things that should be granted to us for free. As I run the internet café, I need electricity on a daily basis for my business to operate. Therefore, having electricity is of the greatest priority and of which I have to pay for on an ongoing basis. If I am making less income, my business is at the greatest risk of failure as computers need electricity to operate and printing machines to work, [Participant 8].

Despite the challenge in accessing public resources by entrepreneurs in KMT, they are also found to be less deserving to be granted access to such resources. This is due to their projected potential growth and their ability to sustain their businesses over a period of time. Participant 4 commented on some of the issues that sometimes lead to entrepreneurs being not granted access to the use of public resources. Below is what he fully stated on this matter:

I think it is the question of the sustainability of the business. In addition, the issue of founder/owner dependence. Many of the businesses are surviving mainly because they are too dependent on the owner or the founder of the business. And as a result, in the absence of the owner/founder of the business,

the business fails to operate successfully. Therefore, some businesses are deemed not worth being given access to the use of public resources. Also, running a business in a less developed township like that of KwaMakhutha is a challenge on this own as it still lacks vital public resources as needed when running a business and for the citizens themselves.

With the above statement, it is clear how entrepreneurs need to also portray some positive qualities of success and potential growth. This will enhance their chances of being considered for the available funding and be deemed deserving to be granted access to the use of public resources.

4.3.4 Entrepreneurial Education

It is in the best interest for every business to be run with someone who has knowledge about it. The better you know something, the better you perform at it. Entrepreneurial education seeks to provide entrepreneurs with the knowledge, skills, and motivation to encourage entrepreneurial success in a variety of setting. It can be stated that the quality of education determines the ability of entrepreneurs to compete in the market (Van den Ban, 2004). This is one of the biggest challenge for SMMEs owners in KMT as most of them were not given a privilege to upskill themselves through education. As the world evolves, so are the entrepreneurial qualities required to run a successful business, especially in a less developed environment. Below are some of the responses that were given by the participants in describing the importance of entrepreneurial education.

Entrepreneurial education is very important in any business as it enables one to have basic knowledge and skills of how to run a business. In addition, this enables one to know his/her competitors and how to tackle the challenges that may arise within the business. Apart from the mentioned, entrepreneurial education enables a business owner to identify their customers, gaps in the market and be proactive. Moreover, one needs to further equip themselves by attending business seminars, workshops as they offer more information and give business owners a chance to socialize and share important information on how to improve the business [Participant 1].

It is very important for a person to develop his/her knowledge on a chosen business career. Entrepreneurial education is very important as it equips an entrepreneur with skills on how to tackle challenges that might come along with running that particular business. Entrepreneurial education not only it gives you knowledge on how to run your business, but it strengthens your knowledge and capabilities as an entrepreneur and gives you strength and technical know-how in terms of competing with your rivals [Participant 7].

With regards to the above comments, it clearly stands out how important entrepreneurial education is to the entrepreneurs in KMT even though most of them did not get a chance to equip themselves entrepreneurially. However, as much as most of them were not privileged to get a chance and further their studies in terms of the business they wanted to pursue, this was the opposite case for some of the participants. Below is what participant 1 and 8 had to say respectively as the privileged ones to further their education in terms of their business ventures.

Having got the chance to go to a tertiary and study, gave me the advantage of having the entrepreneurial background which gives the entrepreneur better skills of how to run a business. When faced with any challenges, the entrepreneur is able to use the knowledge gained to tackle any problem. It gives one the proactive mind to come up with better strategies of how to improve the business and keep it competitive against its competitors.

In support of the above statement, Participant 8 also stated that:

Entrepreneurial education is the key to a successful business. One need to at least enroll for a short course that educates about the business that one is running and most importantly, how to handle different types of customers. I have personally had the advantage to enroll for the following courses: time Management, money management, and customer management which better enabled me to run my business competitively.

Despite the fact that entrepreneurial education can assist in having the entrepreneurial knowledge on how to run the business but it can also advance one in terms of knowing the technical know-how of keeping up with technological changes as one of the

influential factor in running a competitive business. Participant 7 supported this by stating in his comment about how technology assists one in running the business, this commented is highlighted below.

*It is very important for a person to develop his/her knowledge on a chosen business career. Entrepreneurial education is very important as it equips an entrepreneur with skills on how to tackle challenges that might come along with running that particular business. **Entrepreneurial education not only it gives you knowledge on how to run your business, but it strengthens your knowledge and capabilities as an entrepreneur and gives you strength and technical know-how in terms of competing with your rivals.***

Running a business is a very challenging task to do and without the proper knowledge of how to run the business and positively sustain it, makes it harder for entrepreneurs in KMT. This can be proven by the competitive differences between the business that is run by the owner who has knowledge about it as opposed to one operated by someone who holds no knowledge whatever about it. Below is what some of the participants had to say on this regard:

According to Participant 3, *The following are some of the critical challenges of running a business without any knowledge about it:*

- *Lack of planning, finding the right customers*
- *Time management*
- *Developing the vision and long term goals of the business*
- *Finding the right business location for your business*
- *Finding good employees to work with*
- *Dealing with competition*
- *Lack of mentor*
- *Poor business management*
- *High risk of failure and fear of change*

In support of this, participant 5, stated :

The first challenge is that your business can be mastered by someone else. And as a result, you might lose your business to someone else. An inability to oversee problems that can harm the business from the distance, as a result, one can end up spending much money to a business that is not even generating income. Without any knowledge about the business one is running, there are high risks of failure due to the inability to identify possible threats, the inability to compete with rivals. Of greatest importance, the lack of proper financial management which might place a high risk of failure for the business. Operating a business in an environment like that of KMT calls for an open-minded individual who is able to strategize, persevere, work two times hard to build and promote a competitive brand and to achieve that, one needs Entrepreneurial education.

Participant further supported what participant 3 and 5 had mentioned by stating:

There are countless challenges that one may encounter when trying to run a business without any knowledge about it, which can include failing to take your business to another level (potential growth). It is easy to make careless mistakes that might cost you in the future as an entrepreneur but it is very hard to find strategic means to amend those mistakes. One may also need to understand the target market for his/her business. Also, a business may collapse easily when encountering problems, because the business does not have an entrepreneurial background.

Every business owner whether running a big or small business needs an understanding of how to run the business. This can be acquired through entrepreneurial education which can enhance one's knowledge, skills and capabilities to successfully establish and sustain a business. In this light, SMME operators in KMT are still struggling to achieve this as most of them believe that they are too old to go back to school and actually get an education in terms of the businesses that they are running as they were previously unable to access such opportunities during the apartheid period.

Despite the challenges that one may encounter when running a business without any knowledge about it, the business could also face competitive threats due to lack of knowledge. A bulk of participants commented on some of the critical threats that the business could face due to the lack of entrepreneurial education by the owner.

Lack of Marketing strategies can be a threat to a business ran with no entrepreneurial education. The business owner will not be able to sell out his/her business to potential customers through the use of marketing strategies. This will lead to rivals being more competitive and gaining lots of customers for their business. In addition, as opposed to a business running with full knowledge about it, it can lead to even less product knowledge for all the goods and services being offered [Participant 7].

Participant 5 further added to this by stating:

If one is running a business but does not have knowledge about it, is at a competitive risk of competing with rivals who have an entrepreneurial educational background. And once that has become the case, that means the business will be competing with highly competitive businesses. In addition, the entrepreneur would not know how to handle and manage business finances and that will put a business at risk of operating in bankruptcy.

Entrepreneurs need to understand the importance of getting the knowledge first before embarking on any business venture as this will not only equip them in terms of being knowledgeable about the business but help them minimize the risks of making the wrong decision when deciding to start the business at the very first place.

4.3.5 Foreign Competition.

In SA, it is widely held that the migration of foreign nationals into the country is both rampant and illegal. Realistic estimates of migration based on triangulation from a variety of data sources indicate that two to three million foreign nationals currently live in SA, Citizen Rights in Africa Initiative (2009). This number includes both documented and undocumented migrants, along with refugees and asylum seekers, and is a

relatively small fraction of South Africa's total population of 57 million. Most international migrants come from the African region, including significant numbers of refugees and asylum seekers, totaling over 576 000. Predominantly, immigrants hail from Zimbabwe, Mozambique, the Democratic Republic of the Congo, Angola, Somalia, Rwanda, and Malawi, many of whom come in search of economic opportunities or have fled conflict and persecution in the region, (Landua and Segatti, 2009). This continuous increase of illegal asylum seekers has posed a huge threat to the survival of businesses in SA as a country, especially those operating in townships. This is witnessed by the high competition that they pose on the running of local businesses. All eight participants expressed their views with regards to what they think are the factors that constitute high competition amongst foreign and local businesses. Quoted from their direct statement, below are some of the comments by participants with regards to this matter:

One of the greatest common factors is the issue of product pricing. FBO owners tend to offer goods and services at low prices which pose a high competition on local business. They are able to keep up with the changing trends within the market as opposed to local businesses [Participant 5].

In support of this, Participant 3 added by stating as shown below:

Most foreign-owned are unregistered with the government like the spaza shops and markets around the townships, the majoring of these businesses are informal and they do adhere to the rules and regulations of conducting business in an informal sector. As a result of this high number of FOBs within townships, the threat of high competition has been posed on local businesses. This stems from the low prices that they charge for their goods and services which makes local businesses less profitable and competitive and they are given high preference by local customers.

Apart from the high competition that FOB pose on local businesses, they are said to be other challenges that they find themselves experiencing due to the existence of foreign national businesses.

FOBs have strategies to build a strong bond with customers even if they are not from their country of origin by calling them with nice names like “my friend”, of which in Zulu is “mngane wam”, which means that someone is very close to you. They also allow customers to take goods on credit and collect their money month end, which makes customers to prefer them over local businesses. Also, they have a wide product range, customers are able to get everything in one place and at low prices [Participant 1].

Despite the high competition being posed by foreign businesses on the running of local businesses, foreign nationals have become victims of attacks by local individuals. Studies show that these attacks are of the result of anger and frustration of how these businesses have challenged locals operators in terms of keeping the business competitive and strategy implementation. Below is how participant 2 commented on this:

we have had so many cases on foreign attacks by South African citizens, especially in townships. And this was because South Africans believed that foreign individuals are taking over most industries and they have become predominant business owners all over the country living South Africans with no jobs. As a result, they are seen as taking out the bread out of the South African’s mouths because they charge very low prices for their labor and as a result, they have become the most preferred businesses on the market.

The rapid and extensive transition in spaza ownership has been recognized in research that seeks to understand the political violence directed at foreigners, such as the xenophobic attacks since 2008. Within the context of a generalized opposition to foreign nationals who conduct business in the townships, it has been argued that foreign-owned shops have been targeted in coordinated acts of violence, sometimes with the tacit endorsement of the community (Crush, Ramachandran, and Pendleton, 2013). There are also indications of government complacency, failures in the justice system have meant that crimes against foreigners often go unpunished (Gastrow & Amit 2012)

Participant 1 commented as follows with regards to different strategies that are employed by foreign individuals on their businesses to which makes more competitive than local businesses:

Participant 6 commented on the strategies that are utilized by foreign business owners:

The FOBs have a personal marketing strategy as opposed to locally owned businesses. This means they form relationships with their customers, allowing them to buy on credit and pay month end. This does not only grow a relationship between them but also lets the customer invite more people to buy at that particular shop. Word of mouth marketing grows FOBs more than anything.

Despite the challenges that foreign national businesses pose on the running of local businesses, the entire group of participants answered 'yes' on the last question of the interview when asked to express their views on whether FOBs have better strategies to stay competitive. Below are all of their comments on the last question that was posed to them respectively:

Yes, the above mentioned are some of their greatest strategies that foreign business owners use to stay competitive. In addition, they strategies, plan and support each other, and less can be said for local businesses. However, local businesses need to learn from foreign business owners as opposed to feel threatened by them all the time. They should try to adopt the strategies that they use to improve their own businesses [Participant 1].

Yes, FOBs have much better strategies that they use within their businesses, which includes charging very low prices as compared to local businesses which give them preference by customers. In addition, they are able to support other business owners from the country of their origin in terms of sharing costs and by the means of buying in bulk. Moreover, they are able to create and maintain very strong customer relations with customers within their place of operation, and less can be said for local business owners [Participant 2]

Yes, one of the main strategies, as mentioned above, is charging very low prices for their goods and services. In addition, their businesses are found at every corner of the street which makes them easily accessible to all customers, and that exactly what the customers want, they want more choices to choose from, access to goods and services at their doorstep and at a good price. Other than running business shops, they also sell goods such as unique pots, curtains, tables, bedding sets which they personally go door to door and sell to customers, for such goods, they give customers on credit and pay half by half at the end of the month. Therefore, customers get everything they need at their convenience as oppose to local operators [Participant 3].

Yes, they do have, as mentioned above they outstay local businesses from potential business opportunities because of their ability to first conduct proper research about the business they wish to tap on. In addition, they work hand-in-hand with each other which allows them a great chance of socializing amongst themselves in terms of sharing strategic ideas and charging of prices for the goods and services that they offer. They also buy in bulk and share whatever delivery costs incurred. They hold very strong family ties and assist each other in every way possible, which is something that does not exist on the working culture of local business owners [Participant 4].

Yes, they understand that they have to spend money to get money, they are not afraid to take risks to ensure that their customers are happy at all times. They buy in bulk and always on the loop on what is new on the market, and less can be said for local businesses [Participant 5].

Yes, they do, not only do they have better strategies, but they also know how to articulate them accurately. Local businesses need to learn one or two things from FOBs for them to grow [Participant 6].

Absolutely, with their low pricing strategy and the ability to create good relations with people from all ages has made them predominant business owners in townships across SA. They are able to come up with innovative business

strategies to keep their businesses running smoothly and be able to attract customers and create a strong and loyal customer base [Participant 7].

Absolutely, however, as I run a much different business at KwaMakhutha township, I do not get to witness FOB competition at first hand. Nevertheless, it is no secret that FOB has better strategies in place to stay competitive, that includes buying in bulk, and charging lower prices [Participant 8].

SMMEs play a very crucial role in the economic growth of the county through job creation and making goods and services be closely available to people. However, with all the government's initiatives to assist these business, it is unfortunate that they still lack efficiency due to managerial incompetence and are denied finance due to a high-risk status and lack of creditworthiness (Nemaenzhe, 2010). Research has shown that an increase of a single percentage in business size increases the survival prospects by 7% (Stokes, Wilson and Wilson, 2010). It can thus be noted that the size of SMMEs contributes to its success, where bigger SMMEs are more capable of achieving enhanced efficiencies and exploiting market opportunities.

Below picture was taken from one of the foreign shops in KMT, with permission from the owner of the shop to clearly indicate the state of SMMEs in KMT.



Photograph 5.1: Foreign-owned business in KwaMakhutha Township

4.4 Conclusion

With the use of Deductive research approach and thematic analysis, data collected from semi-structured interviews with eight different SMMEs owners from KMT was

presented and analyzed and discussed in accordance with the literature. The relationship between the research findings and questions were determined. The most prominent challenges as experienced by SMMEs in KMT were clearly identified and discussed, which included lack of access to funding and the use of public resources, lack of entrepreneurial education, and foreign competition. The next chapter will be the conclusion and recommendations of the study.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents conclusions and recommendations. The effort was made to ensure that each objective was addressed in accordance to the research questions as set out by the study. This chapter outlines the research objectives and the way they were accomplished. This entails concluding the study, presenting findings-based recommendations and offering recommendations for further research.

5.2 Summary of the findings

Research has shown that; 70% to 80% of businesses fail within their first five years, 63% of businesses fail within their first two years and just 1% of businesses that commence with under five employees grow to employ in excess of ten people (Friedrich, 2016). Therefore, it can be said that regardless of government initiatives in assisting SMMEs, these businesses are still faced with many challenges and fail to stay competitive and sustainable over a certain period of time. Despite a wide variety of government support initiatives for SMMEs, SA is plagued with extremely low levels of entrepreneurial activity (Herrington et al., 2016). This poses a huge competitive threat not only to the business owners themselves but to the overall economy of the country as these enterprises play a major role in economic contribution. SMME has been witnessed in contributing highly to economic growth through employment creation to combat poverty and crime. It then becomes crucial to have a comprehensive understanding of the challenges that these enterprises experience whilst offering recommendations as to how these can be overcome. This study aimed to 1 To ascertain whether lack of access to sources of funding and the use of public resources are the factors behind the development and success of SMMEs, 2 To describe whether lack of entrepreneurial education is the factor behind the development and success of SMMEs, 3 To explore whether the increasing number of FOBs is the factors behind the development and success of local SMMEs in Kwa-Makhutha Township

5.3 Conclusions

5.3.1 Conclusions aligned Objective One: To ascertain whether lack of access to sources of funding and the use of public resources are the factors behind the development and success of SMMEs.

SMMEs are still faced with different challenges at different levels and in accordance with the geographical locations in which they operate. Access to the sources of funding the use of public resources are one of the predominant challenges as faced by SMMEs in KMT. This was proven by the research findings of the study and information on existing literature. With a high level of the illiterate population within this township, they struggle to even get all information on the sources of funding that could assist in getting business resources. With strict regulations from the financial institutions, SMME owners are unable to get funding because they do not meet the set requirements to qualify for funding from these institutions. Also, apart from not meeting the set requirements, business operators fail to provide all the relevant documentation as required by the financial institutions when applying for funding. It can be said that KMT is not experiencing this challenge on its own, a study conducted by Ally (2018, p.79) on Factors limiting the success, growth sustainability of SME in Ladysmith also commented and stated “access to finance, another major challenge for SMEs in Ladysmith, stems from the inability to acquire finance or obtaining finance at exorbitant interest rates and other inimical conditions. This challenge mostly affects start-up SMEs, while better established SMEs are not exempt from it. Smaller less established SMEs are usually coerced into using finance at high-interest rates or the use of short-term finance as a substitute for long term financing. This affects the profitability and efficiency of the SME, making access to finance an empirical threat to Ladysmith based SMEs”

Living in an informal sector like that of KMT is a challenge of its own, reported a bulk of participants. This is because of the challenges they have to bare. Apart from the challenge of access to funding, access to the use of public resources is said to be another prominent challenge. Strict procedures that one needs to follow make it hard for SMMEs to have ease of access to these resources. Having community leaders as councilors and ‘Induna’ who requires a certain amount of money for full approval of ownership is also a barrier to business establishments in the informal sector. This was

supported by almost all group of participants, who mentioned all the difficult processes that one needs to go through just to gain access to these resources, this has made the development and success of SMMEs in KMT difficult to achieve. This challenge extends itself to the extent that poor infrastructure is also a challenge for some SMMEs in KMT. This is witnessed by the poor road conditions which make it difficult for businesses to transport goods from one place to the other. Ally (2018, p.79) further support this on his study by stating that “local infrastructure, an impediment for SMEs in Ladysmith, originates primarily from faults in power, telecommunications systems, and transport routes. The poor state of the local infrastructure impedes business activities and reduces the revenue and profitability of SMEs, by necessitating increased capital and operating expenses to invest in solutions that mitigate these infrastructural deficiencies”.

5.3.2 Conclusions aligned to Objective Two: To describe whether lack of entrepreneurial education is the factor behind the development and success of SMMEs.

The primary challenge to SMME establishment and success in KMT is lack of entrepreneurially informing information for entrepreneurs. The township is very disadvantaged as most of its population is illiterate, which hinders informed decision making by entrepreneurs. This has further led to a lack of potential growth that could have been acquired given entrepreneurs were entrepreneurially educated. With foreign operators being strategic and entrepreneurially equipped, this puts local businesses at risk in terms of being able to compete competitively. This has triggered high competition amongst local and foreign businesses. The vulnerable feeling by local operators due to the existence of foreign businesses has led to hatred and steered brutal xenophobic attacked against foreign individuals.

5.3.3 Conclusions aligned to Objective Three: Is the increasing number of foreign-owned businesses the factor behind the development and success of SMMEs.

The increase in the number of FOBs has led to an increase in the level of crime, corruption within the country. Most importantly, they have given rise to high unbearable competition on local operators. With different strategies that they employ in their businesses, they are not only able to attract customers but to maintain them, which

enables them to build their own client base. They have dominated most of the townships including KMT, forcing lots of local operators to shut down as they are failing to compete with these businesses. In a spaza shop study conducted in Delft South, a township in Cape Town by Charman et al. (2012), he commented that many of the foreign shops appeared to have positioned their business to compete directly with established South African businesses, foreigner's shops were cheaper and they clearly used price discounting as a strategy to capture the market from existing stores. The foreign-run shops also were better stocked and appeared to be generally favored by local consumers. Charman et al. (2012, p.23) further maintained that "it is important to understand the organization and entrepreneurial dimensions of this market 'takeover'". Liedeman (2013) investigated why certain migrant groups, such as Somalis in the case of Delft, had been able to take control of the spaza market so swiftly and successfully. He conducted an ethnographic study of spaza owners in a sub-area of the original Delft research site.

In terms of numbers of shops, this sub-area reflected the major shift in the ownership of spaza shops from South African to foreign nationals. In late 2010 this particular sub-area contained 30 spaza shops, with South Africans owning 17 (57%) of these and foreign nationals 13 (43%). By July 2012 there was a 22% decrease in the total number of spaza businesses operating in the sub-area (dropping from 30 to 23) but a 31% growth in foreign ownership (from 13 to 18). Twelve (70%) of the initial seventeen South African shops had closed permanently; this included businesses that had been in existence for up to 10 years. The majority of the foreign-run shops had been operating for less than 18 months.

With regards to the above mentioned, the previous research findings clearly support the research findings of this study by providing existing literature that proves how and why FOBs are more successful than local businesses as one of the research aim that was proposed by this study. The study further revealed that the business approach and scale of operations of foreign-run spaza shops contrast markedly with the predominantly micro- or small-scale, 'survivalist' business approach of most South African spaza shops. An important difference is the role of social networks. In the case of the Somali shopkeepers, clan-based social networks play a key role in enabling a more competitive business model. The networks provide various services, including:

- access to cheap labor (recruited from Somalia);
- enforcement of contractual agreements by the network, with clan elders overseeing business deals;
- strategic investment in geographical areas to establish Somali strongholds;
- group purchasing to secure discounts and operational economies of scale; and facilitating micro-finance by organizing investments and business partnerships.

5.4 Research Implications

The aim of this study is to raise awareness of the challenges that SMMEs in KMT are faced with that hinders the establishments and success of these businesses, hence adversely affecting the economy. The findings from this study can be used by policymakers within the government to improve the efficacy of government support for SMMEs. This research would interest; the Ethekewini Local Municipality, The Department of Trade and Industry (DTI) and its subsidiaries that are assigned with implementing government policies regarding SMMEs. Trade and Industry KZN (TIKZN) that functions to promote trade and investment in KZN will also benefit similarly. This research would also be of value to the public and private academic institutions and other organizations that provide business incubation or training to managers or entrepreneurs. These institutions can use the results of this study to develop or improve the syllabi for entrepreneurs or managers by focusing on common shortfalls in business and addressing educational gaps. SMME managers or owners could also benefit by exploring the research to comprehend the business environment and to take precautions against the common factors that hinder the growth and sustainability of businesses resembling theirs. The research will also provide recommendations to avoid failure and spur growth. Macro-economic issues such as low-growth and unemployment can be improved with a healthy SMME sector (Harris et al., 2005). With positive economic decisions from all levels, the informal sector can be improved.

The outcomes of this study would be valued by researchers as the study is conducted in a specific location (KwaMakhutha) and it provides a detailed understanding of the business environment in which SMMEs function in KwaMakhutha. This perspective has the potential to lead to innovative insights and can be used as a basis for extended

research into the spatial variation of the challenges that SMMEs experience, as well as policies that can be used to alleviate these challenges and improve the SMME sector.

5.5 Recommendations

This section will provide practical examples and recommendations that can be adopted when faced with similar challenges and for further research on the research problem:

5.5.1 Recommendations: Access to Finance and the use of public resources

Owners and manager of SMMEs should engage in studies that focus on entrepreneurship or business to improve their management and marketing capabilities, and their ability to formally document their business structure, business objectives and growth allowing for increased profitability and growth. This would also facilitate their ability to access finance. Such studies would also increase their professionalism, formality and business processes hence enhancing competitiveness. Access to finance for SMMEs should receive government facilitation by incentivizing investments into start-ups and SMMEs. This can be achieved by government permitting tax breaks to investors and lending organizations that support entrepreneurial endeavors. Also, the government should enable simpler compliance by moving all processes online and by allowing real-time feedback for all business-related transactions such as applications. This would reduce the cost and administrative burden caused by regulatory compliance. The government needs to intervene in terms of eradicating all the ridiculous processes and payment that are demanded by community leaders and councilors in exchange for a certain public good or service as they are deemed unnecessary and posing hardships on the entrepreneurs who are the pursuit of starting their own businesses.

5.5.2 Recommendations: Entrepreneurial Education

In developing countries, it is important to integrate entrepreneurship education into the overall poverty reduction strategy. Malaysia has for many years included the development of entrepreneurship skills in its economic plans, with the goal of contributing to the eradication of poverty in the country, and entrepreneurship education continues to be on the national agenda. Its recent poverty eradication plans

and the New Economic Agenda (2010) include entrepreneurship skill development programmes as a means to combat poverty in disadvantaged communities, particularly targeting ethnic minorities, (Panigrahi, 2018).

Unfortunately, many of the least developed countries (LDCs) do not mainstream entrepreneurship education into their poverty reduction strategies. However, there are some notable exceptions. Rwanda has made efforts to target entrepreneurship education to women and rural populations, as part of its economic development and poverty reduction strategy. Other countries, such as Mozambique, have begun to address entrepreneurship education as a poverty alleviation strategy through technical cooperation projects involving the United Nations and donors, (Panigrahi, 2018), it is recommended that SA adopt such strategies to improve the economic state of the country and empower the SMMEs, especially in the informal sector. The government should offer courses or mentorship programs with the aim of improving entrepreneur characteristics and promotes the growth of SMMEs.

5.5.3 Recommendations: Foreign Competition

SMME managers and owners should engage in business networking with the aim of improving the performance of their businesses. Market-based disadvantages that result from SMME size can be overcome by forming buying groups to gain greater bargaining power. Also, SMME owners and managers should focus on improving their interpersonal and leadership skills to enhance employee performance and to gain a loyal customer base that is not price-sensitive. This will result in the formation of a competitive advantage which is essential in competing with larger competitors. We have seen how foreign businesses use their competitive skills to be successful, it is recommendable that apart from seeing them as strong competitors, local businesses need to learn the skills from these businesses. They can do that by adopting the different strategies contributing to the success of FOBs. By doing that, they will be able to successfully compete with foreign businesses operating in KMT and other businesses in close townships.

5.6 Recommendation for further studies

The validity of the study could be improved by conducting a similar qualitative study with a larger sample. This may yield additional findings. Since the phenomenon under study varies spatially, an equivalent study can be performed in alternate locations within SA to more accurately assist in the execution of government support systems regarding SMMEs. To decisively comprehend the causes of failure of SMMEs, a similar study can be conducted on SMMEs that have failed.

5.7 Conclusion

The study has unpacked the challenges as experienced by Small, Medium and Micro-sized enterprises in the informal sector, using KMT as the study site. The findings have supported the research objectives that were set out by the researcher. Lack of access to sources of funding and the use of public resources, lack of entrepreneurial education and increased foreign competition were identified as the predominant challenges as faced by these enterprises. Access to funding is the first critical resource for one to get his or her business off the ground and with this being one the biggest barrier for entrepreneurs who wish to pursue their business endeavors in the informal sector, it limits the number of potential businesses being established. With the forever increasing number of illiterate population in KMT, this has opened up a gap between the local and foreign individuals who possess very useful knowledge on how to run their businesses. These differences have opened up the gaps between foreign and locally owned businesses as they are seen to be more competitive and strategic which makes it difficult for local businesses to compete with them. In addition, Existing literature shows that these are international challenges, with other developing countries still facing these challenges for their SMMEs.

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COLLEGE OF LAW AND MANAGEMENT STUDIES

SCHOOL OF MANAGEMENT, INFORMATION TECHNOLOGY AND GOVERNANCE

Master of Commerce (Leadership Studies) Research Project

Researcher: Mbali Keith Ngcongco (Tel: +27624792766)

Supervisor: Dr, Emmanuel Mutambara (Tel: +27 31 260 8104)

Dear Respondent,

My name is **Mbali Keith Ngcongco** a Masters (Leadership) student at the Graduate School of Business and leadership of the University of Kwa-Zulu Natal (UKZN). You are invited to participate in a research project entitled “Challenges as experienced by Small, Medium, and Micro-sized Enterprises in the informal sector, KwaZulu-Natal, South Africa: The case of KwaMakhutha Township”. The aim of this study is to determine all the critical challenges contributing towards the unsuccessful SMMEs within KwaMakhutha Township by gathering information from the business owners within this township on the research problem as identified by this study.

Through your participation, I hope to understand the perceptions of business owners and be able to determine whether lack of access to sources of funding is the factor behind the development and success of SMMEs, whether lack of entrepreneurial education is the factor behind the development and success of SMMEs, and whether the increasing number of foreign owned businesses within townships is the factor behind the development and success of SMMEs. The results of the interview are intended to contribute to expanding academic knowledge in the field of business development and management. Management within the government sector of South Africa can also use the information in the study to enhance practice.

Your participation in this project is voluntary. You may refuse to participate or withdraw from the project at any time with no negative consequence. There will be no monetary gain from participating in the interview. Confidentiality and anonymity of records identifying you as a participant will be maintained by the Graduate School of Business and Leadership of UKZN. Your responses will not be used for any purposes outside of this study.

Data collected will be stored during the study and archived for 5 years. After this time, all data will be destroyed.

If you have any questions or concerns about participating in the study, you may contact me or my supervisor on the numbers provided above.

The interview should be about 20 minutes long. Your time to take part in this interview is highly appreciated.

Sincerely

Investigator's signature

Date: 18 May 2018

UNIVERSITY OF KWA-ZULU NATAL
GRADUATE SCHOOL OF BUSINESS AND LEADERSHIP

Master of Commerce (Leadership) Research Project

Researcher: Mbali Keith Ngcongo (Tel: +27624792766)

Supervisor: Dr, Emanuel Mutambara (Tel: + 27 31 260 8104)

CONSENT

I, (Full names of participant) hereby confirm that I understand the contents of this document and the nature of the research project, and I consent to participating in the research project.

I have been given an opportunity to ask questions about the study and I have had answered to my satisfaction.

I understand that I am at liberty to withdraw from the project at any time, should I so desire. I declare that my participation in this study is entirely voluntary.

I hereby consent / do not consent to have this interview recorded.

If I have any further questions/concerns or queries related to the study, I understand that I may contact the researcher at 214516364@stu.ukzn.ac.za or the phone number provided above.

If I have any questions about my rights as a study participant, or if I am concerned about an aspect of the study or the researcher, then I may contact:

HUMANITIES & SOCIAL SCIENCES RESEARCH ETHICS ADMINISTRATION

Research Office,

Westville Campus

Govan Mbeki Building

Private Bag

X 54001

Durban

4000

Kwa-Zulu Natal, SOUTH AFRICA

Tel: (+27 31) 2604557

Fax: (+27 31) 2604609

Email: HSSREC@ukzn.ac.za

Signature of Participant

Date

Interview Guide

Topic: Challenges Experienced by Small, Medium, and Micro-sized Enterprises (SMMEs) in the informal sector in Kwa-Zulu Natal, South Africa: The case of KwaMakhutha Township.

Section A: Access to Sources of funding and the use of public resources

1. In your own words, what does it take for a person to establish a successful business in a less developed environment?

2. Who are the sources of funding for your business?

3. What challenges did you encounter when trying to access funding for your business?

4. What are the major challenges that hinders access to the use of public resources?

Section B: Lack of Entrepreneurial Education

1. In your own words, how can you describe the importance of entrepreneurial education?
2. What are the challenges of running a business without any knowledge about it?
3. What are the competitive business threats for a business being run with no entrepreneurial education as oppose to the business ran with full knowledge about it?

Section C: High Competition from foreign owned SMMEs

1. What factors do you think constitute to high competition amongst foreign and local businesses?
2. What challenges does foreign owned businesses pose on the running of local businesses?

3. Do you think foreign owned business owners have better strategies that they use to stay competitive?

I appreciate the time you took for this interview.

