# EXAMINING THE NATURE OF ENTREPRENEURSHIP WITHIN THE TOWNS AND RURAL AREAS OF SAKHISIZWE LOCAL MUNICIPALITY, EASTERN CAPE


**by**

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## ABSTRACT

Entrepreneurship plays an important role in societies around the world because it supports economic growth and creates job opportunities. This study investigated the nature of entrepreneurship in three distinct parts of Sakhisizwe Local Municipality, including a town within Sakhisizwe's former homeland area, rural communities within its former homeland area, and a town within an area characterised by large-scale commercial farms. The study sought to establish the share of adults in the different parts of the municipality involved in entrepreneurship, to identify factors that contribute to the decision to become an entrepreneur, and to examine strategies pursued by, and challenges experienced, different types of entrepreneurs. The study involved a random sample of 362 respondents and both quantitative and qualitative data analysis. Among the main findings is that the proportion of adults involved in enterprise in Sakhisizwe is higher than found by other studies for South Africa as a whole, but is especially high for those living in the town in the former homeland area. While those residing in rural communities also engage in enterprise, they are generally compelled to practice their enterprises in town, thus have the disadvantage of needing frequent transport. While residing in the town in the commercial farming area is not disadvantageous in the same way, the challenge is that the town itself is able to support relatively few entrepreneurs due to fewer people coming to town for their shopping.





**KEYWORDS:** Entrepreneurship, business owners, unemployment, profit, challenges, rural economy

## DECLARATIONS

**Declaration on previous submission:**

I, Noluvuyo Maliwa, student number 201607494, declare that this Dissertation titled "Examining the nature of entrepreneurship within the towns and rural areas of Sakhisizwe Local Municipality, Eastern Cape", submitted for the award of Master of Science in Agriculture: Agricultural Economics in the Faculty of Science and Agriculture at the University of Fort Hare, is my own work and has never been submitted for any other degree at this university or any other university.

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I, Noluvuyo Maliwa, student number 201607494, hereby declare that I am fully aware of the University of Fort Hare's policy on plagiarism and I have taken every precaution to comply with the regulations. This document has been submitted through a similarity detection software and the report was reviewed by my supervisor. I declare there is no plagiarism in this dissertation.



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Signature 

## DEDICATION

I dedicate this dissertation to my late mother Nozintombi Maliwa, late grandmother Funeka Maliwa and my aunt Ntombizandile Maliwa and to the rest of my family and friends who encouraged me to keep moving forward and not to give up.

## ACKNOWLEDGEMENTS

If it was not for my supervisor, I would not have completed this project and if not so it would have been a complete disaster and for that I convey my sincere gratitude to my supervisor Professor Michael Aliber. I am grateful for the family that I have for supporting me both financially and spiritually throughout the study. I also thank my very patient respondents who were always welcoming and willing to answer the questions for granting me their precious time to complete my questionnaires. Finally, I am thankful to the Lord for granting me the encouragement and patience of not to give up.

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## ACRONYMS

| | |
|---|---|
| APS | Adult Population Survey |
| CBD | Central Business District |
| ECSECC | Eastern Cape Socio Economic Consultative Council |
| GEM | Global Entrepreneurship Monitor |
| GM | Gross Margin |
| IDP | Integrated Development Plan |
| LM | Local Municipality |
| OLS | Ordinary Least Squares |
| Stats SA | Statistics South Africa |
| SMEs | Small and Micro Enterprises |
| SMMEs | Small, Micro and Medium Enterprises |
| TEA | Total Early-Stage Entrepreneurial Activity |

# CHAPTER ONE: INTRODUCTION

## 1.1 Background

Under the apartheid regime, the native reserves of what is now the Eastern Cape were deemed to be the self-governing 'homelands' of Transkei and Ciskei, and as such were meant to contribute to the fiction of 'separate development' (Beinart, 2001). With the demise of apartheid in 1994, the Ciskei and Transkei became 'former homelands', and were integrated into the new province of the Eastern Cape. But whereas in principle the Ciskei and Transkei no longer exist as units of governance or administration, in reality they still define the everyday reality of many rural South Africans. According to Westaway (2012), even after the formation of the Eastern Cape Province in 1994, little changed: large parts of the province have remained poor with few resources, a high unemployment rate, high levels of poverty and high dependency on government welfare services.




Since 1994 the national government has sought to introduce various rural development programmes, such as the Rural Development Framework of 1997, and the Integrated Sustainable Rural Development Programme of 2001. In 2009, rural development became more of a visible priority when the Department of Land Affairs was dramatically expanded under the new name, 'Department of Rural Development and Land Reform'. Not long after, the National Planning Commission released the *National Development Plan*, which devoted a whole chapter to rural development. The provincial government of the Eastern Cape has also sought to promote rural development, for example through the launch in 2010 of the *Eastern Cape Rural Development Strategy* (ECPG, 2010). The vision of these various plans and strategies has generally been to promote agricultural production and service delivery, and to try to integrate the former homelands into the wider economy.

Two of the threads that have run through the various statements and programmes regarding rural development are the importance of entrepreneurship, and the role of small towns. For instance, the RDP 'Framework Document' spoke of the need to support entrepreneurship in rural communities (ANC, 1994: § 4.3.1), especially on

behalf of rural women (ANC, 1994: § 4.4.7.1). The *National Development Plan*, similarly, speaks of the need to "boost mass entrepreneurship" (NPC, 2011: 119), and more specifically of the need for "Prioritised attention to … rural enterprise development" (NPC, 2011: 283), for example through training and lowering the cost of doing business. In terms of the role of small towns, the RDP was not very specific, but spoke of the need for strategies to address "the role of small and medium-sized towns", *inter alia* in rural development. More pointedly, the *National Development Plan* spoke of the need for, "A renewed emphasis on the developmental role of small towns in rural areas as job creation centres" (NPC, 2011: 284), and also "Developing a strategy to enhance the developmental role of small towns" (NPC, 2011: 289).

According to Gomezelj and Kušce (2013), entrepreneurship has been a global process and phenomenon in the last few decades and will become even more important in the coming years. Entrepreneurship around the world plays an important role in society, running businesses that support economic growth, create new jobs, and improve quality of life through the development of new products and services. Entrepreneurs take financial, psychological and social risks and spend time and effort to start their own business (Fatoki, 2019).



Many people are interested in entrepreneurship and even have the right support and funding, but few decide to take a step forward. The characteristics of a person, the behaviour of a person, the way or method in which a business is formed, and the characteristics of the environment in which a newly formed business operates are all important factors in business performance (Gomezelj and Kušce, 2013). Entrepreneurs are the most powerful and influential people in the company and play a dominant and important role in the development process (Parida *et al*., 2017).

However, Bowmaker-Falconer and Meyer (2022) observe entrepreneurial behaviour at various stages of the business start-up and maintenance process. According to Bowmaker-Falconer and Herrington (2020) these phases include potential entrepreneurs and early-stage entrepreneurs including, nascent entrepreneurs, owner-managers (those of new and established businesses) and discontinuers. GEM (2021) define nascent entrepreneurs as individuals who actively utilise resources to start a

business but have not yet reached the ‘birth event’. For Herrington and Kelly (2012), paying everyone, including the owner, for more than three months is considered a real business ‘birth event’. Established entrepreneurs own and manage an established enterprise that has been in operation for over 42 months. Finally, they identify people who have gone out of business or “discontinued” in the last 12 months.

As much as entrepreneurs are supposed to be leaders, there are factors that affect their firm vision and strategy. According to Meyer (2018) these factors may include; risk taking propensity; knowledge and information; unemployment and recognition of opportunity. In addition, according to SAB Foundation *et al. (*2017), other challenges include: weak economy, bureaucracy and red tape, large firm dominance, and the dual economy. Vodă and Florea (2019) believe that the entrepreneurial personality characteristics are of secondary importance and that they only partially contribute to the understanding of the firm's establishment process. The studies of the role of the environment have stated that studying environment factors (Mestre *et al.,* 2018) has prevailed as a more reasonable approach. Environmental determinants significantly affect the process of the firm's establishment. In the previous two decades, many models have been developed that included different factors influencing an enterprise’s establishment. Such factors may also be considered as the challenges faced by entrepreneurs. Such challenges that are usually encountered by entrepreneurs may include lack of; financial support; effective government policies and programs; education and training; business and professional infrastructure; openness and competitiveness in the domestic market; access to physical infrastructure; and cultural and social norms.



This study focuses on Sakhisizwe Local Municipality. Sakhisizwe Local Municipality is a largely rural area located within Chris Hani District Municipality in the Eastern Cape Province. According to ECSECC (2016), Chris Hani District has a wide range of agricultural and non-agricultural activities; as a result the contribution of this district is quite wide relative to that of neighbouring municipalities. Current activities in the municipality include: community services and trade, and agricultural activities such as subsistence maize and vegetable production and subsistence livestock rearing (including cattle, goats and sheep).

Indeed, a key ingredient to economic development is entrepreneurship. Entrepreneurs drive both the towns and rural areas directly and indirectly; in a direct sense, entrepreneurs may be traders who move goods from rural areas to towns, or the other way around. Indirectly, entrepreneurs may be producers who create the goods which traders' trade. The study will seek to reveal the nature of entrepreneurship in the rural areas and towns of Sakhisizwe, particularly in such a way as to understand whether the nature of entrepreneurship differs between Sakhisizwe's former Transkei half versus its other half. The hope is that in doing so, the research will contribute to a clearer understanding of how the rural economy functions, and therefore how rural development can better contribute to the eradication of poverty, inclusive development and improved economic growth. Overall, the vital importance of entrepreneurship may be that, it expands livelihood opportunities for both rural and town dwellers.

For purposes of this study, what is particularly interesting about Sakhisizwe is that it has distinct parts, namely the south-western part that was formerly part of the Transkei, of which the main settlement is Cala town; and the north-eastern part, which was formerly part of 'white rural South Africa' (in particular what was known as Elliot Magisterial District), and of which the main settlement was Elliot town, now known as Khowa. There is a common assumption that, relative to commercial farming areas, former homeland areas are economic dead-ends. On the other hand, casual observation suggests that at least the towns within the former homeland areas are alive with economic activity, in particular a wide variety of enterprises. This study will seek to understand how enterprises function within the different parts of Sakhisiwe, meaning both the former homeland versus former 'white rural South Africa' parts, as well as the towns versus the countryside.

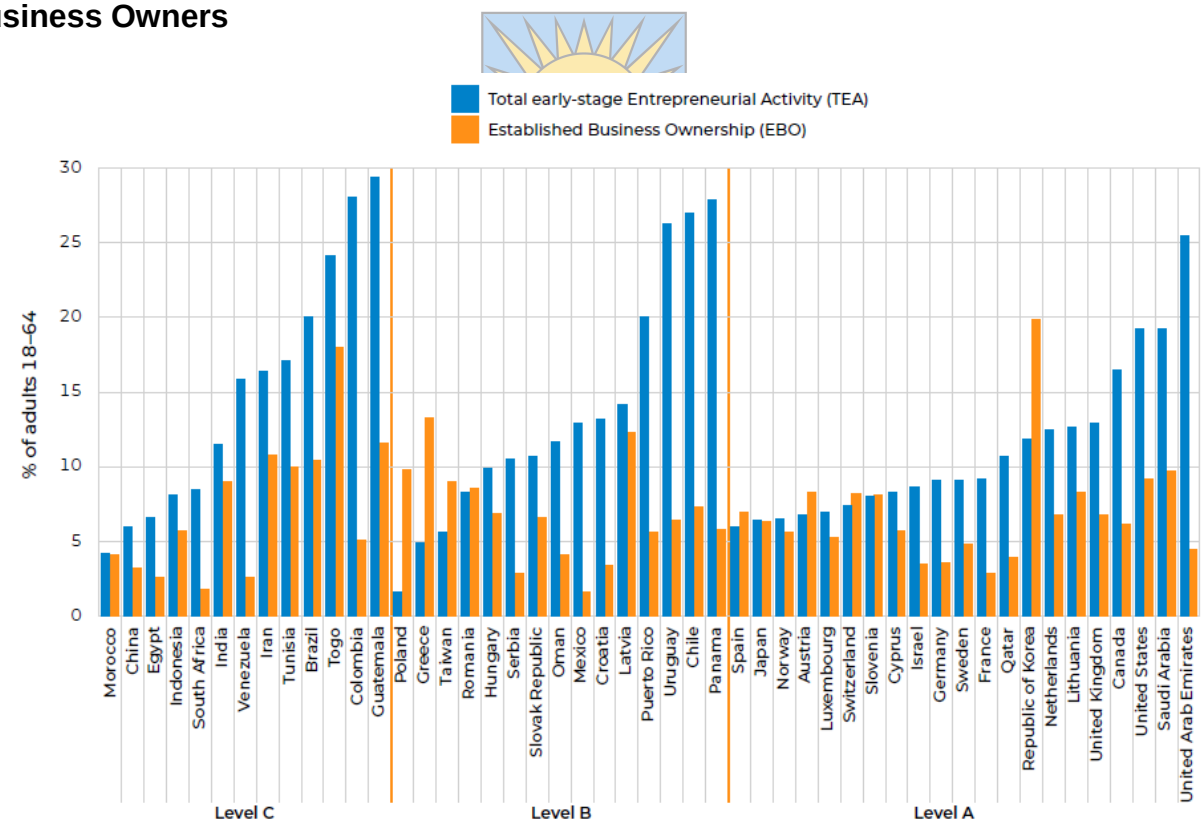


### 1.2 Problem statement

Entrepreneurship is regarded as a key driver of development, and rural entrepreneurship is likewise understood as key for rural development. However, there is a complex interaction between individuals and their environment, in the sense that when individuals initiate enterprise they contribute positively to the local economy, but the local environment may or may not be conducive to enterprise in the first place.

Moreover, South Africa is generally regarded as having a weak entrepreneurial culture (GEM, 2012:22). Evidently, figure 1.1 shows the level of early-stage Entrepreneurial Activity (TEA) versus Established Business Owners (EBO). From figure 1.1 South Africa is one of the countries that are categorized as 'Level C', a group that is recognised with low entrepreneurial contribution towards GDP (low income countries). Based on the diagram, the proportion of adults that start businesses is higher than the proportion of adults with established businesses in South Africa. This is not a good sign for entrepreneurship. This could mean that there is a higher rate of individuals that start businesses that eventually close down after some time. Moreover, from low income countries (Level C), South Africa has the lowest proportion of adults with established businesses.

**Figure 1.1 Total Early-Stage Entrepreneurial Activity (TEA) versus Established Business Owners**




Source: GEM (2022/23)

Furthermore, in GEM (2012) study of entrepreneurship across the African continent, GEM (Global Entrepreneurship Monitor) found that South African adults had relatively low levels of perceived opportunities and capabilities, as well as unusually low levels of 'early-stage entrepreneurial activity'. However, GEM 2022 report shows different results showing an increase in entrepreneurial activity. The proportion of adults who started their businesses increased from 11% in 2019 to 17% in 2021 before falling back to it fell back to 8% in 2022. What is less clear however is whether this is uniformly the case, or whether interest and engagement in entrepreneurship differs according to circumstance, such as spatial context. 'Rural areas' are one spatial context, but can be further disaggregated into the rural towns and the surrounding countryside (e.g. villages and farms), and indeed an important dimension is the role of entrepreneurs in articulating between towns and countryside.

According to Tacoli (2017), the interactions between 'rural' and 'urban' are an increasingly important component of livelihoods and production systems in most regions of the world. They are also, however, extremely diverse. Tacoli (2017) further explains that, this is largely because they reflect local and national socio-cultural and economic transformations, including the systems and institutions for the management of natural resources, the nature of agricultural production systems, the nature and location of manufacturing and services, as well as the shape of urban systems. At the micro level, they are also closely interrelated to differences in access to opportunities and assets based on gender, age and wealth (Van Deursen *et al*., 2021).



The purpose of the proposed study is therefore to bring to the surface these relatively unknown entrepreneurial dynamics, using the example of Sakhisizwe Local Municipality. By examining the nature and performance of entrepreneurs and entrepreneurship within and between the various parts of Sakhisizwe, one hopes to arrive at a better understanding of entrepreneurship within that rural economy.

## 1.3 Objectives of the study

The main objective of the study is to establish a deep understanding of entrepreneurship within and between the various parts of Sakhisizwe Local Municipality, thus providing insight into the nature of the rural economy.

The specific objectives are as follows:

- Establish the incidence of different phases of entrepreneurship in the adult populations of the distinct parts of Sakhisizwe Local Municipality.
- Examine factors that contribute to the decision whether or not to initiate an enterprise.
- Determine the types of entrepreneurial activities in the distinct parts of Sakhisizwe Local Municipality.
- Examine the strategies pursued by, and challenges experienced by, entrepreneurs in the distinct parts of Sakhisizwe Local Municipality.
- Assess what influences the performance of different types of entrepreneurs in the distinct parts of Sakhisizwe Local Municipality.



## 1.4 Research questions

The corresponding research questions are as follows:

- To what extent are adults in the distinct parts of Sakhisizwe Local Municipality involved in various phases of entrepreneurship?
- What factors contribute to the decision whether or not to initiate an enterprise?
- What are the types of entrepreneurial activities present in the distinct parts of Sakhisizwe Local Municipality?
- What strategies are pursued by, and challenges experienced by, entrepreneurs in the distinct parts of Sakhisizwe Local Municipality?

- What influences the performance of different types of entrepreneurs in the distinct parts of Sakhisizwe Local Municipality?

### 1.5 Delimitations of the study

This study is limited to a small portion of the former Transkei region of the Eastern Cape Province in rural areas of the Sakhisizwe Local Municipality. The project focused on two towns under this municipality, that is, Khowa and Cala, and the rural areas around Cala.

Another delimitation of the study is that, insofar as it involved interviews with entrepreneurs, this excluded enterprises which are merely local instances or branches of a 'chain', e.g. most supermarkets, banks and franchises.

Finally, this study was limited to Small and Micro Enterprises (SMEs).

### 1.6 Outline of the study

The dissertation is organised into five chapters. Chapter 1 present the introduction, covering the background, problem statement, objectives and delimitations of the study. Chapter 2 presents the literature review, covering issues such as entrepreneurship and rural-urban linkages. Chapters 3 and 4 present the methodology and findings, respectively, while Chapter 5 consists of discussion, conclusions and recommendations.

# CHAPTER TWO: LITERATURE REVIEW

## 2.1 Introduction

Chapter two reviews literature with an effort to explore and examine the different types of entrepreneurial activities and the strategies pursued by, and challenges faced by, entrepreneurs. This chapter also explores the phases of entrepreneurship as well as factors that influence an individual to initiate an enterprise. The chapter furthermore discusses methodological issues having to do with research on entrepreneurship.

## 2.2. The distinction between necessity and opportunity entrepreneurs

Before discussing the difference between necessity and opportunity entrepreneurship unemployment status is considered (Fairlie and Fossen, 2018). Therefore, individuals that are currently registered as unemployed are referred to as necessity entrepreneurs. In contrast, individuals with a different employment status, including those enrolled in schools/universities/ colleges, workers that earn salaries/wages or even those who are not currently looking for jobs are defined as opportunity entrepreneurs. Therefore, this means that in order for these entrepreneurs to be distinguished, the employment status needs to be known before starting a business.



According to Block and Sandner (2009), an alternative way of distinguishing the difference between necessity and opportunity entrepreneurs is by utilizing the information on how that individual exited the last paying job. According to this theory, an individual that lost a job due to the closing down of the company or dismissal is defined as a necessity entrepreneur. However, opportunity entrepreneurs are individuals that voluntarily their previous job.

## 2.3 Rural entrepreneurship

Traditional studies of entrepreneurship in rural regions have concentrated on the particulars of entrepreneurial dynamics in a less dense context. Some have differentiated between entrepreneurship in the rural areas and rural entrepreneurship, along these lines highlighting that these rely upon rural characteristics, for example, the accessibility of specific resources and the latter depends on a sort of entrepreneurship

that merely connects with the rural setting, yet that does not rely upon it (Korsgaard *et al*., 2015). According to Islas-Moreno *et al*. (2021) such a point of view resonates with discoveries in the literature that rural entrepreneurs do not vary from their urban counterparts. Islas-Moreno *et al*. (2021) notes that "a rural entrepreneur is someone living in a rural location and the difference between them and an urban entrepreneur may be found in the effects of rurality on the entrepreneurial process". Regardless of such a non-discriminating point of view, most of the studies that look at urban and rural entrepreneurship are one-sided towards urban area hypotheses, for example, those related with agglomeration economy, that is, localization and urbanization focal points (Bosma and Sterberg, 2014).

An excellent recent survey of the literature on entrepreneurship in rural Africa indicates that much of the research lacks any theoretical foundation; however, for that which does have a theoretical underpinnings, these "were borrowed from the extant psychological theories, resource-based view, economic theories and the social capital theory" (Boohene and Agyapong, 2018). The psychological and economic theories focus on identifying what personal traits contribute to an individual's aptitude as an entrepreneur, or tries to distil what characteristics contribute to the operation of a society's free market system. The so-called resource-based view is the one that most resonates with the purpose of the research proposed here; it concerns itself with the characteristics of the given context that do or do not contribute to performance and innovation among entrepreneurs. A typical example is that of recent study of rural entrepreneurship in KwaZulu-Natal:



This literature therefore has much in common with the relatively recent literature on 'entrepreneurial ecosystems', which is not particularly focused on rural areas, but which is well suited to them, in so far as it takes a broad view of contextual factors that either assist or frustrate the emergence and sustenance of entrepreneurship. (See e.g. Bate, 2021; Mason and Brown, 2014; Bowmaker-Falconer and Meyer, 2022).

A major contribution to the applied literature on entrepreneurship is that conducted over the past 20 years by the Global Entrepreneurship Monitor (GEM). Among other things,

over the years GEM has developed a set of fieldwork tools that allow one to make robust comparative assessments of the extent and nature of entrepreneurship (GEM 2021). These tools are drawn upon for the present research.

### 2.4 Phases of entrepreneurship

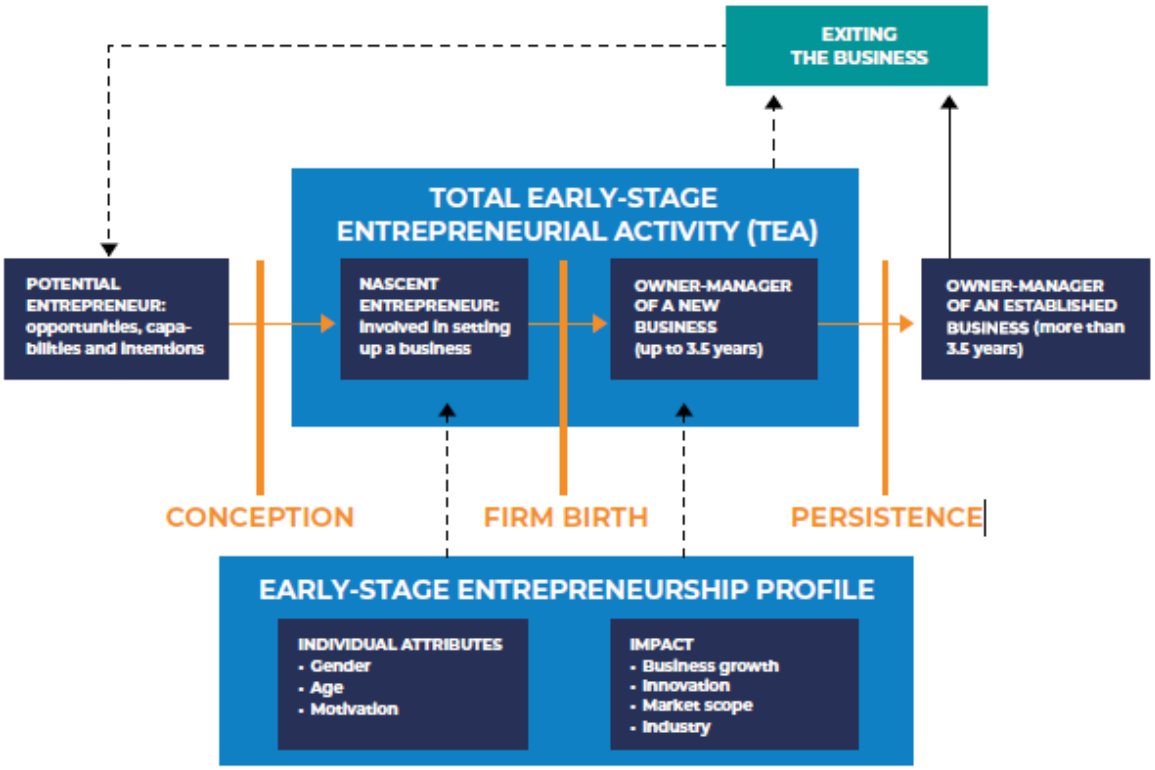
According to Herrington and Kelley (2012) these phases may include potential entrepreneurs and early-stage entrepreneurs including, nascent entrepreneurs, owner-managers (those of new and established businesses) and discontinuers.

Therefore, Bowmaker-Falconer and Herrington (2020) observe entrepreneurial behaviour at various stages of the business start-up and maintenance process. For them, paying everyone, including the owner, for more than three months is considered a real business 'birth event' (GEM, 2021). Individuals who actively utilise resources to start a business but have not yet reached the 'birth event' are known as nascent entrepreneurs. An individual who currently owns and operates a new business that pays salaries between 3 and 42 months is called a new owner-manager. The 42-month cut-off point was set for a combination of theoretical and operational reasons. The combined prevalence of nascent and new enterprise owner-managers can be seen as an indicator of the country's early-stage entrepreneurship.



Established entrepreneurs own and manage an established enterprise that has been in operation for over 42 months. Their enterprises have survived the liability of being new enterprises. A high percentage of established enterprise ownership may indicate positive conditions for an enterprise's survival. However, this is not always the case. If the country has a high level of established entrepreneurship and a low level of early entrepreneurship, this indicates a low level of entrepreneurial activity. Finally, GEM identifies people who have gone out of business or "discontinued" in the last 12 months. These people can go back to the entrepreneurial process. Figure 2.1 summarizes GEM's business processes and operational definitions.

Figure 2.1: GEM's business processes and operational definitions




Source: GEM (2022/2023)



## 2.5 Factors that influence an individual to initiate an enterprise

According to Meyer (2018), females are influenced to remain in business by various reasons including attitude towards growth factors, internal motivations such as contribution to the society, independence and family responsibilities. However, the research is based on general factors considering both females and males. These factors may include; desire for independence; need for achievement; self-confidence; locus of control; risk taking propensity; knowledge and information; unemployment and recognition of opportunity.

### 2.5.1 Desire for independence

Entrepreneurs find it difficult to adapt to existing systems and recognize their authority over them. But independence also includes taking responsibility for your evaluation and

your own life. According to a study by Chinyamurindi and Shava (2019) businesses founded for independence grow faster than businesses founded for other reasons.

### 2.5.2 Need for achievement

The need to achieve was demonstrated by a motivational theory based on the achievement of (Carruthers *et al.,* 2019) this theory was particularly well suited for the interpretation of entrepreneurial theory (Farouk *et al.*, 2014). According to Booysen (2014) people with high performance requirements can evaluate specific tasks and perform them well. Performance needs are one of the most important aspects of entrepreneurship (Levie and Autio, 2013; Neneh and Van Zyl, 2014)

### 2.5.3 Self-confidence

Self-confidence is a trust in your own abilities. It shows a belief in the ability to control the events of life (Carruthers *et al.,* 2019). Awareness of self-efficacy may be one of the most characteristic personality traits of entrepreneurs (Farouk *et al.*, 2014).

### 2.5.4 Locus of control



According to Urban (2015) the locus of control is an individual's perception of their ability to influence the course of life. Individuals with this trait believe that they can influence their lives. People who focus on internal control appear to be more entrepreneurial than those who do not focus on internal control (Širec and Močnik, 2010; Botha, 2019). Shane *et al.* (2003) proposed measuring the locus of control and understanding it as an internal-external function. Several studies have confirmed that entrepreneurs are more capable of internal control than others (Khan *et al.,* 2013). Internally motivated people create surviving companies Zhou and De Wit (2009) and faster-growing companies (Lee and Tsang, 2001).

### 2.5.5 Risk taking propensity

Risk-taking tendency is a very important aspect of entrepreneurship and refers to people who are prone to risk in situations that may be unsafe (Booysen, 2014 and Botha, 2019). Acceptance of economic, social and psychological risks is part of the

entrepreneurial process. Entrepreneurs hate uncontrollable risks, but often fall into dangerous situations due to excessive self-confidence and belief in their good sense (Levie and Autio, 2013). Risk tolerance is also a factor that includes other personality traits (Botha, 2019).

### 2.5.6 Knowledge and information

Some people enter the business with limited knowledge, experience, and skills. Botha (2019) believes that the initial confidence in an individual's knowledge and skills requires the accumulation of information and experience. Knowledge, experience and skills give entrepreneurs access to other resources (Cruz *et al*., 2013), and the more knowledge they have, the easier it is to achieve entrepreneurial success (Davidsson 2008). McMullen and Shepherd (2006) investigated knowledge and previous employment experience as a factor in entrepreneurship. Entrepreneurs are generally unaware that lack of knowledge can lead to unused business opportunities, miss opportunities for an enterprise's growth, and increase productivity and thus competitiveness. Entrepreneurs often need an outside consultant to show how to add new value (Ruzzier *et al.,* 2020). Initially, entrepreneurs are often alone in running a company. They are supported by some consultants, but as the number of employees grows and the size, complexity, and geography of the company change, entrepreneurial management skills become more valuable. Typical business experience includes the skills needed to take advantage of business opportunities, including sales, negotiation, leadership, planning, decision making, problem solving, organization and communication skills (Shane, 2003).



### 2.5.7 Unemployment

According to Musa and Simasinghe (2013) the relationship between entrepreneurship and unemployment has created complex puzzles. The view, called "unemployment push" or "refugee impact," suggests that the decision to become an entrepreneur is a response to unemployment or a perception that future employment prospects are not clear. An alternative view is that entrepreneurship helps reduce unemployment by starting a new business. The first view suggests a positive relationship between

entrepreneurship and unemployment, while the second view suggests a negative relationship. Moreover, in each view, the causal relationship between entrepreneurship and employment is reversed. The first view suggests that high unemployment encourages more people to become entrepreneurs, while the second view suggests that people's choice to become entrepreneurs is unemployment at the macroeconomic level.

### 2.5.8 Recognition of opportunity

The ability to identify good business opportunities from an individual perspective is also beneficial for becoming a successful entrepreneur Botha (2019). The ability to identify and select the right opportunities to start a successful business is one of the most valuable skills of a successful entrepreneur Shane *et al.* (2003). Recognizing opportunities is also the most important part of the entrepreneurial process. Often, the entire entrepreneurial process begins with this action (Baron, 2007).

### 2.6 Challenges faced by entrepreneurs

The challenges usually encountered by entrepreneurs may include; financial support; government (policy and programs); education and training; business and professional infrastructure; openness and competitiveness in the domestic market; access to physical infrastructure; and cultural and social norms.



### 2.6.1 Financial support

Financial support includes the availability of various institutional, formal and informal sources of funding for new and growing businesses, which is, banking system, venture capital, informal investment etc. Small and Micro-Enterprises usually have a hard time getting financial support. Both banks and venture capitalists (they are the most common small business funders) are highly selective in funding. For this reason, public funds are often used to bridge the equity gap in small enterprise projects (Meuleman and De Maeseneire, 2012).

### 2.6.2 Government policies and programs

In addition to providing financial support, government policy must consider making the application process during the start-up process simple and business-friendly. It then should provide support for growing dynamic entrepreneurs and incentives for new businesses in the early stages of growth (Radas and Božić, 2009).

Institutions limit and control individuals' actions through rules, granting or denying permits, and monitoring activities. Effective and efficient institutions include a regulatory systems consisting of laws, rules and regulations, and government policies that encourage certain actions and limit other actions. Laws and regulations can define the responsibilities of SME owners, assign ownership and reduce the risks associated with starting a new business. Institutional gaps arise in situations where the formal institutional environment of a country is inefficient and ineffective. These gaps lead to instability and unpredictability in the business environment and negatively impact Small and Micro-Enterprises through crime and corruption (Estrin *et al.*, 2013; Mthimkhulu and Aziakpono, 2015; Yukhanaev *et al.,* 2015).



### 2.6.3 Education and training

The quality of entrepreneurial education and training is essential (Booysen, 2014). This refers back to the numerous programs of formal training such as entrepreneurship programs and training of employees of Small and Micro-Enterprises. Having external links with different enterprises and having linkages with research and academic institutions is extremely useful in the process of obtaining knowledge as well (Radas and Božić, 2009). But, in most cases newly founded enterprises do not have access to quality entrepreneurial education and training hence most small newly established businesses fail.

### 2.6.4 Business and professional infrastructure

Most established businesses do not have time to mentor small upcoming businesses and some may see them as potential competitors. This negative impacts on the development of these new businesses because they do not have practical experience. Hence, the accessibility and quality of business, technical and legal infrastructure,

required by start-ups and growing enterprises are also essential (Jacobs, 2019). For the achievement of the entrepreneur, the numerous experts of their social network (friends, relatives, friends, etc.) and numerous established business owners are important for their performance (Obokoh and Goldman, 2016). Through the availability of a beneficial business environment, newly established enterprises are enabled to develop and survive.

### 2.6.5 Access to physical infrastructure

Entrepreneurs have to effortlessly get access to physical infrastructure, which include telecommunications, transportation, power and utilities supply. Lagace and Bourgault (2003) and Zain and Kassim (2012) show in their studies the factors that influence a company's competitiveness. In addition, it shows that a company's competitiveness has a positive impact on its business performance.

### 2.6.6 Cultural and social norms

Cultural and social norms, which are, preferences and dislikes of an entrepreneurial activity, may have an impact on entrepreneurial activities. More new businesses will emerge in a society where culture respects those who have succeeded in new businesses. Areas where entrepreneurs and potential entrepreneurs can meet to discuss ideas, problems, and solutions usually have more companies than in other areas (Antončičetal, 2018).



## 2.7 Types of entrepreneurial activities

According to ECSECC (2016), the current activities in this municipality include community services, trade, agricultural activities such as maize and vegetable production, subsistence livestock rearing, etc.

### 2.7.1 Agricultural activities

The agricultural sector of Sakhisizwe Local Municipality can be divided into two types, such as subsistence and commercial farming. Raising cattle, goats and sheep is common in both commercial and subsistence farming in the municipality. Sakhisizwe

Local Municipality is likely to have a high agricultural production, but this possibility has not yet been fully explored. This municipality also has a high proportion of fertile soil for crop production. However, this potential remains underutilized in most parts of the municipality. According to Sakhisizwe IDP (2018/19), production of the municipality is characterized by mostly small communal farming units that produce specific crops and other agricultural outputs especially in the Khowa region. Agriculture faces challenges even though it is the second largest contributor to employment and GVA in the municipality. Such challenges may include, low rainfall, temperature variations, shallow soils lack of irrigation systems as well as lack of security in the farms which may result to stock theft and robbery Sakhisizwe IDP (2018/19).

### 2.7.1.1 Crop production

According to the Human Settlement Sector Plan for Sakhisizwe Local Municipality (2018) maize is classified as the most common crop cultivated by smallholders in the communal areas and is mainly cultivated throughout the municipal area. Other important crops cultivated by smallholders are pumpkins, beans and sorghum. On other small farms, potatoes, onions and pumpkins are cultivated primarily for personal use, while spinach, cabbage and beans are cultivated for consumption and sale. Beetroots, carrots and butternut (minor crops) are cultivated primarily for family consumption.



### 2.7.1.2 Livestock production

Livestock production is an important source of income for both communal and commercial farmers in Sakuhishizwe Local Municipality. Sakhisizwe Local Municipality is also primarily characterized by communal livestock production. The main type of stock that are bred are often cattle, goats and sheep. The mixed veld types of the municipality give a competitive advantage for livestock rearing. The municipality has an ample of high-quality pasture suitable for livestock production such as cattle, goats, sheep and pigs. Cattle and goats can be found in large parts of the municipality. This type of farming is known as subsistence livestock production within Sakhisizwe Local Municipality (Human Settlement Sector Plan for Sakhisizwe Local Municipality, 2018).

### 2.7.1.3 Trading

The main concentration of trading and retail facilities and services is mainly in municipal town areas. Retailing is characterized by formal and informal trade. Trading (formal and informal) is considered a source of income for most members of the Sakhisizwe community. While SMEs are growing significantly in Cala town, primarily in the services and retail sectors, Khowa is declining in the business sector. Due to the low disposable income and density in rural areas, the limits needed to make a business feasible are rarely reached. Therefore, most rural businesses are small businesses that trade only the most basic consumer commodities and foodstuff.

Currently, Sakhisizwe Local Municipality has a number of large stores, mainly owned by Indians and Chinese in urban areas, such as Spar, Boxer supermarkets, other small shops, taverns and hardware. There are also gas stations, bed and breakfast, and light industries like bakeries. The informal sector in Sakhisizwe is characterized by a thriving regional whose enterprises are primarily informal in nature. Informal trading is the fundamental part of the public transport and is especially important in the central business district (CBD) of major city centres. Major informal activities include the selling of livestock such as chickens, fruits and vegetables, cooked meals such as pap, rice, vegetables and meat (such as chicken, pork, beef, etc.) usually at taxi ranks.



## 2.8 Methodologies used for studying entrepreneurship

Research into rural-urban linkages mostly follows two main approaches. The one is a case study approach of a particular place, which often combines various methodological elements, such as household surveys, entrepreneur and farmer surveys, value chain analyses, and key informant interviews, sometimes complemented with an analysis of administrative data. The other approach came to the fore in the 1980s and has been relatively rare since, namely regional growth models in which important sectors and inter-sectoral linkages are set up as systems of equations (e.g. Hazell and Röell, 1983; Bell *et al*., 1982; Haggblade *et al.,* 1989; Hazell *et al.,* 1991). These latter studies are also usually of a particular place, but as the name suggests that place is a region, often comprising relatively large numbers of settlements.

The idea of the case-study approach is that it is grounded in the particulars of the place on which it is focused. A number of different fieldwork activities are necessary to understand the different pieces as well as how they fit together. A good, typical example is Gushu's study of Metema Town in North West Ethiopia, the purpose of which was to understand the role of the town in the development of the rural areas surrounding it. Gushu stated, "Small towns and their surrounding rural areas are a part of the same functional economic system and, as a result, numerous different types of economic linkages exist between them" (Gushu, 2014: 2).

Methodologically, in order to conduct this research and to identify the different types of business activities that link Sakhisizwe rural and urban areas, data will be collected from both primary and secondary sources. In the collection of primary data, questionnaire and personal observations will be conducted in sample rural and urban areas and interviews will also be conducted with responsible personnel. Three sets of questionnaire pertaining to rural households, urban households and traders will be prepared.



## 2.9 The contribution of entrepreneurship towards economic growth and development

According to Dhaliwal (2016), economic development is a process whereby the economy of the country improves over time. This improvement can be measured with the per capita income of the country. The economic growth and development can be affected by entrepreneurship. The role played by entrepreneurship in different countries varies depending on various aspects such as; available resources, political system etc (Dhaliwal, 2016). For instance, developed and advanced countries play a significant role in influencing the people of under developed and developing countries to explore and utilize the available resources such as capital, labour and technology through entrepreneurship.

Furthermore, according to Ranjan (2018), entrepreneurs from under developed and developing countries are less conducive and innovative due to the lack or limited funding opportunities, lack of skills and business opportunities. In such countries businesses do not emerge and grow into established businesses. This also limits

entrepreneurs from adapting to the innovations introduced by “innovative” entrepreneurs from the developed countries.

However, entrepreneurship plays an important role in the development of the country. For instance, entrepreneurship creates job opportunities. This participates in cabbing unemployment which is one of the major problems faced by the majority of under developed and developing countries (Hameed and Irfan, 2019). The more individuals enter entrepreneurship more job opportunities are created. Normally, as time passes these enterprises would grow meaning that more employees will be required by these enterprises therefore more and more job opportunities would be created. In this way, business owners play an important role in reducing the crisis of unemployment in the country. This in turn contributes towards the economic growth of the country. However, the unemployment rate of graduates is continuously growing because the available employment opportunities cater for drastically low percentages of these graduates. Therefore, some graduates decide to start their own businesses. In this way, self-employment is a direct way to cab unemployment and contribute to economic growth.

Entrepreneurship also promotes the development of infrastructure (Barba-Sánchez and Atienza-Sahuquillo, 2018). According to Dhaliwal (2016), entrepreneurs assist to remove regional disparities through opening up businesses in less developed areas. The establishment of these businesses leads to a large number of public benefits such as roads, transportation, education, etc. Starting new businesses in less developed areas therefore leads to more development of under developed or developing regions. This therefore promotes balanced regional development. When the new entrepreneurs grow at a faster rate, considering increasing competition in and around developed cities, they are forced to set up their enterprises in the smaller towns away from big cities. Therefore, this assists in the development of under developed areas.

Entrepreneurs always look out for better opportunities. They ensure that they exploit and explore greater opportunities that will add value to their businesses. Their drive to exploit new opportunities brings in new products and services. This also enhances the skills of entrepreneurs including marketing skills that will assist in promoting the mobilization of the products and services and therefore increasing sales. According to

Doran *et al*. (2018), the development and growth of their businesses therefore results to an increasing of gross national product (GNP) and per capita income of the country. An increase in gross national product and per capita income of the country is a true reflection of economic growth.

## 2.10 Summary

The research aims to evaluate the nature of entrepreneurship in distinct parts of Sakhisizwe. The literature reveals that there are numerous entrepreneurial activities in this municipality. These activities include agricultural and trading activities. However, trading is the most dominant entrepreneurial activity. Entrepreneurs enter the business industry for different reasons including: desire for independence; need for achievement; self-confidence; locus of control; risk taking propensity; knowledge and information; unemployment and recognition of opportunity. However, they also encounter a variety of challenges including: lack of financial support; government (policy and programs); education and training; business and professional infrastructure; openness and competitiveness in the domestic market; access to physical infrastructure; and cultural and social norms. In addition, entrepreneurship plays a vital role in developing the economy and enhancing economic growth. This may include; the creation of job opportunities, development of infrastructure and an increase in GNP and income per capita of the country.

# CHAPTER THREE: RESEARCH METHODOLOGY

## 3.1 Introduction

Research methodology according to Kumar (2018), is a process which is aimed at solving the research problem. It encounters research methods which are usually used in research projects when collecting data for the purpose of studying the research problem. The main reason behind research methodology is not only identifying the research methods to be used but also provides the reasons as to why a certain research methodology is used. In this study both qualitative and quantitative methods are used, which allows for triangulation. Data collection procedures, ethical issues and description of the study area are also discussed.

## 3.2. Rationale for selecting the study area

Sakhisizwe Local Municipality is considered the smallest local municipality in the Eastern Cape, taking approximately 6% of its geographical area. As mentioned in the introduction Sakhisizwe has two distinct parts, namely the south-western part that was formerly part of the Transkei, of which the main settlement is Cala town; and the north-eastern part, which was formerly part of 'white rural South Africa' (in particular what was known as Elliot Magisterial District), and of which the main settlement was Elliot town, now known as Khowa. It is one of the local municipalities that have high unemployment rate in the province. Therefore, this makes it one of the provinces with high formal and informal entrepreneurs. The entrepreneurial activity of the municipality was one of the reasons for selecting Sakhisizwe Local Municipality.



## 3.3. Description of the study area

This research was conducted in Sakhisizwe Local Municipality, which is located at the northeast corner of Chris Hani District Municipality, which itself is in the north-central part of South Africa's Eastern Cape Province. The Municipality is interesting in that it comprises two distinct parts: the part that used to comprise much of what had been Cala Magisterial District, which was part of the Transkei homeland, and of which the main town is Cala; and the part that used to comprise most of Elliot Magisterial District,

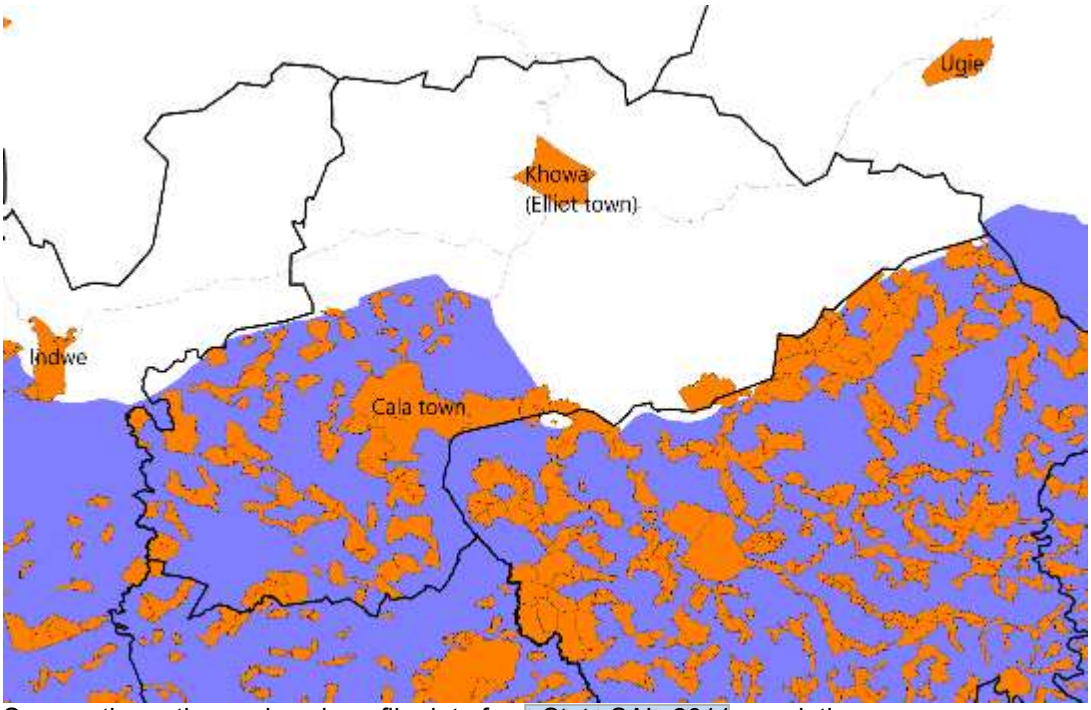
which was part of the Republic of South Africa, and of which the main town was Elliot (now known as 'Khowa'). In terms of their rural parts, the Cala part of Sakhisizwe comprises numerous small villages surrounded by small fields and communal grazing, which provide for smallholder and subsistence production, whereas the Elliot part comprises commercial farmland in which the main activities include maize, potatoes, sheep and cattle.

Figure 3.1 shows the position of Sakhisizwe relative to other municipalities of the Eastern Cape, while Figure 3.2 focuses on Sakhisizwe itself. The position of Sakhisizwe is indicated with a red outline. In the latter, the areas highlighted in orange are 'main places' as designated in the 2011 census, whereas the area shaded in blue was regarded as part of the Transkei.

Figure 3.1: Map showing the position of Sakhisizwe Local Municipality

Source: Htonl, 2016

Figure 3.2: Map showing the heterogeneous makeup of Sakhisizwe



Source: the author, using shapefile data from Stats SA's 2011 population census



According to the 2011 population census (Stats SA, 2013), in that year Sakhisizwe Local Municipality had a total population of approximately 62 000. Roughly half of this population resided in the two towns, Khowa and Cala, each of which was home to about 14 500 people. The table reveals that the big difference between the Cala and Elliot parts of Sakhisizwe is that in Cala the rural population is twice that of the urban population, whereas in Elliot the rural population is only one fourth as great as the urban population. What this also implies is that the Cala part of the municipality has a larger and denser population, particularly in its rural areas but also overall.

Table 3.1: Disaggregation of the population of Sakhisizwe Local Municipality

| Area | People | Households | Household share |
|---|---|---|---|
| Elliot urban | 14 376 | 3 780 | 23% |
| Elliot rural | 3 499 | 741 | 5% |
| Cala urban | 14 520 | 4 165 | 26% |
| Cala rural | 31 187 | 7 465 | 46% |
| Total | 63 582 | 16 151 | 100% |

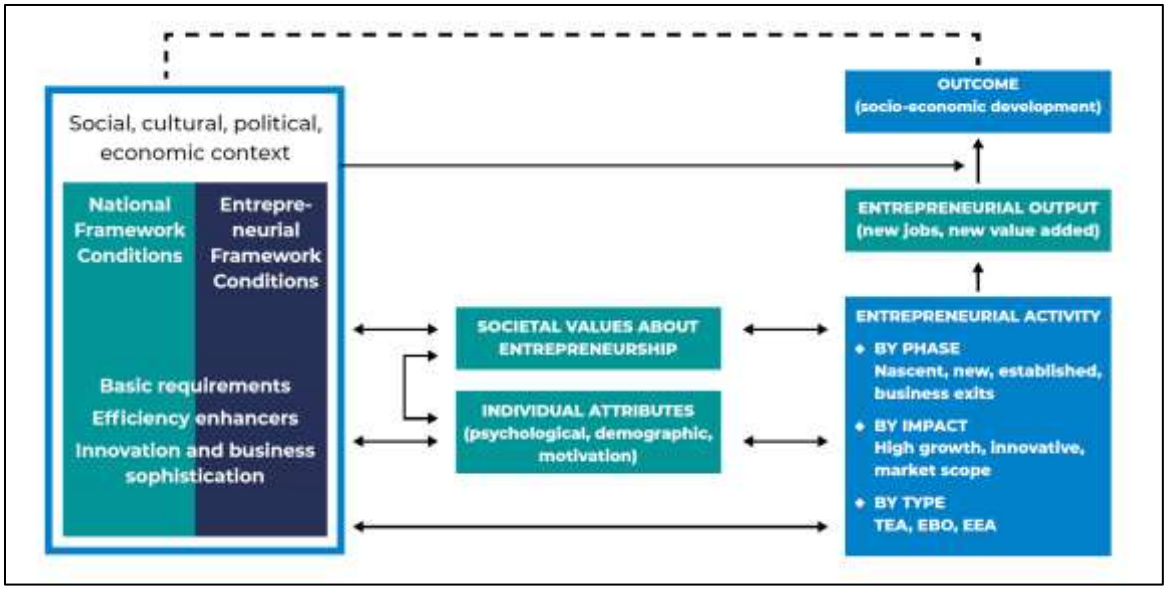
Source: calculated from Census 2011 data (Stats SA, 2013)

Estimating the respective geographical areas using Google Earth, and combining with the 2011 census data, the population densities are 12 persons/km$^2$ and 53 persons/km$^2$ for the Elliot and Cala parts of Sakhisizwe, respectively.

### 3.3 Conceptual framework

The conceptual framework underlying the proposed study is drawn from GEM (2021). The key idea is that enterprise development and environment/context are inter-related. The left-hand side of the diagram in Figure 3.3 represents the context, which itself has various aspects or dimensions. In addition to those alluded to in the diagram such as “social”, “political”, and “economic”, for purposes of the proposed study one would add spatial context, in particular town versus rural, and former homeland versus former ‘white rural South Africa’. The box to the lower right in Figure 3.3 represents the entrepreneurial activity taking place, which can be disaggregated in different ways, not only by phase but also by impact, type including the entrepreneurial output such as job creation, value addition etc. The importance of phase is that nascent entrepreneurship contributes in particular to local economic development, and is also indicative of a context which is hospitable to entrepreneurship. The proposed research is expected to show how the nature and extent of entrepreneurship vary according to the different spatial contexts within Sakhiszwe Local Municipality.

Figure 3.3: Conceptual Framework




Source: GEM (2021: 22)

### 3.4 Research philosophy, approach and design

This section visualizes how data will be collected, analysed and for how long. In addition, approaches and philosophies will be discussed. According to McLachlan and Garcia (2014), "adopting a philosophical perspective prior to conducting data collection helps guide us with a theoretical view of the social world that necessarily enriches our research endeavours". Therefore, the philosophical vantage of the research is positivism meaning it is believed that 'there is one reality that we can know' and the research approach is inductive meaning observation based rather than deducing truths through logic based on premises.



The overall design of the proposed research is mixed methods in which quantitative and qualitative data and analysis are combined. Mixed methods are used for the purpose of reducing any limitations which may arise when using only one type of methodology (Collins *et al.* 2012). According to Creswell, mixed methods does not merely mean that one uses both qualitative and quantitative methods, but they are used in such a way as to complement one another: "Mixed methods research is more than simply collecting and analysing both kinds of data; it also involves the use of both approaches in tandem

so that the overall strength of a study is greater than either qualitative or quantitative research" (Creswell, 2009: 4).

Within this broad approach, the nature of the data collection is largely cross-sectional, meaning that data will be collected more or less simultaneously from the main units of analysis, which are households and entrepreneurs.

### 3.5 Data collection and analysis plan

#### 3.5.1 Overview

The table below summarises the specific objectives, data collection approach objective and data analysis/interpretation tools required based on the specific objectives.

Table 3.2: Summary of the data collection and analysis plan by specific objective

| Specific objectives | Data collection approach | Data analysis/ interpretation |
|---|---|---|
| 1. Establish the incidence of different phases of entrepreneurship in the adult populations of the distinct parts of Sakhisizwe Local Municipality | Random sample of households and adults within households using adapted version of GEM's Adult Population Survey questionnaire | • Descriptive statistics<br>• Two proportion z-test |
| 2. Examine factors that contribute to the decision whether or not to initiate an enterprise. | Random sample of households and adults within households using adapted version of GEM's Adult Population Survey questionnaire | • Logit models |
| 3. Determine the types entrepreneurial activities in the distinct parts of Sakhisizwe Local Municipality. | Scoping of enterprises and businesses | • Descriptive statistics |
| 4. Examine the strategies pursued by, and challenges experienced by, entrepreneurs in the distinct parts of Sakhisizwe Local Municipality, including t-he extent to which enterprises give effect to rural-urban linkages. | Non-probability sample of entrepreneurs using customised questionnaire | • Descriptive statistics<br>• Qualitative analysis |

| | | |
|---|---|---|
| 5. Quantify the performance of different types of entrepreneurs in in the distinct parts of Sakhisizwe Local Municipality | Non-probability sample of entrepreneurs using customised questionnaire | • Ordinary least squares |

### 3.5.2 Data collection methods

The content below further explains the three data collection methods which used in the study. These include, Adult Population Survey (APS), scoping of enterprises and survey of entrepreneurs.

***Adult Population Survey***

This is an instrument used to measure the level and the nature of entrepreneurial activities around the world (Herrington and Kelly, 2012). The aim is to study the role of the individuals in the entrepreneurial cycle/phases. This also includes the individuals with the motivation to start businesses; their entrepreneurship-related attitudes as well as steps taken to start and run a business. According to Herrington and Kelley (2012), this is measured using the key indicator of GEM such as, the total early-stage entrepreneurial activity rate (TEA). The TEA measures the total number of adults between the ages of 18 and 64 years who are in the process of starting or just started businesses. In this study, Adult Population Survey was conducted through a random representative sample of 300 adults using adapted version of GEM's Adult Population Survey questionnaire.



***Scoping of enterprises***

The researcher checked the types and numbers of various types of enterprises in Sakhisizwe, focusing on the towns (Cala and Khowa), but not exclusively so. The scoping assisted in getting a sense of the overall economic make-up of the area, while also creating a sampling frame that serve as the basis for further fieldwork. However, the database of enterprises developed from the scoping exercise and continued to expand through later phases of data collection.

***Survey of entrepreneurs***

The survey aimed to collect data from entrepreneurs located in different parts of the municipality. Participants were selected using a combination of purposive sampling (e.g. based on the scoping exercise indicated above) and snowball sampling. For the towns, two strategies were used. These include, identifying a subset of business from the scoping exercise that can be interviewed, and the use of snowball sampling to interview entrepreneurs in the townships around Elliot and Cala town who may have been missed in the scoping.

***Sampling strategy***

For the APS, multi-stage stratified random sampling was used in which there were two stages. The first stage was a random selection of what Stats SA calls 'sub-places' and 'small areas'; larger sub-places are subdivided into small areas while others are not. Within the former Transkei part of Sakhisizwe, 5 urban and 5 rural sub-places/small areas were selected, and the same within the other part of the Municipality.

A sample of 300 respondents was interviewed from each of the three areas of Sakhisizwe, that is, Elliot urban, Cala urban and Cala rural excluding Elliot rural. Elliot rural was excluded during the fieldwork planning because it was discovered that Elliot rural does not contain rural main places or sub-places (see Figure 3.2 above), with the exception of Mhlwazi (38 households) and Elithuthu (67 households), which are both along the border with Ngcobo Local Municipality to the south, and which were later confirmed to be more integrated logistically with Ngcobo than with Sakhisizwe.



The hope was that when the researcher embarked on fieldwork, she would be able to perhaps identify pockets of rural settlement in Elliot rural that were not recognized by the Stats SA population census, however this was not the case. Those people that continue to reside in Elliot rural are either commercial farmers or their workers, both of which are seemingly fewer in numbers now than in 2011. For instances, according to Stats SA's Community Survey of 2016, as of that year the number of households living in the commercial farming areas of Sakhisizwe was only 214, as opposed to the figure of 741 from the 2011 census.

Therefore, interviews were only conducted in Elliot urban, Cala urban and Cala rural where 100 respondents were interviewed from each area. Thereafter, the researcher used purposive sampling during the scoping process targeting entrepreneurs using only the Entrepreneur Survey Questionnaire. The Entrepreneur Survey Questionnaire was compiled using the GEM questionnaire and was adapted to fit the description of Sakhisizwe Local Municiplaity. Finally, 62 entrepreneurs were interviewed during the scoping of enterprises in the streets of Elliot and Cala towns. Therefore, the entrepreneur database was compiled using both the Adult Population Survey and Entrepreneur Survey questionnaires. The pictures below show the study areas were interviews were conducted from Elliot urban, Cala rural and Cala urban. The white patches indicate areas in which the study was conducted.

Figure 3.4: Map showing the location of the randomly selected Elliot fieldwork sites

Figure 3.5: Map showing the location of the randomly selected Cala rural fieldwork sites


Figure 3.6: Map showing the location of the randomly selected Cala urban fieldwork sites

***Sample size targeted and realised***

For the Adult Population Survey, the sample size was determined using Slovin's Formula, whereby $n = N/(1+N*e^2)$, where n is the minimum sample size, N is the size of the population, and e is the margin of error. Assuming a margin of error of 5% and using an estimate of the number of adults (18 to 65 years-old as per GEM's usual approach for the APS) in Sakhisizwe of 31 684, n = 395 ≈ 400.

As for the entrepreneur survey, this was more difficult because there was no rough estimate as to the size of the population, i.e. the number of entrepreneurs in Sakhisizwe. Moreover, this is meant to be a non-probability sample, in which case sample size is not a critical issue. Ideally, however, the study aimed for a minimum sample size of 300, of which 100 in each part of Sakhisizwe. However, the researcher interviewed 362 respondents. Where 300 respondents were interviewed using both the Adult Population Survey and Entrepreneur Survey questionnaires and 62 respondents were interviewed using the scoping mechanism along with an Entrepreneur Survey Questionnaire. During data collection a maximum of 2 adults were interviewed per household; however the majority of households were comprised of only one permanent adult.



Table 1.3: Number of entrepreneurs interviewed

| Area type | From APS | From Entrepreneur survey | Total |
|---|---|---|---|
| Elliot urban | 11 | 21 | 32 |
| Cala rural | 9 | 12 | 21 |
| Cala urban | 17 | 29 | 46 |
| Total | 37 | 62 | 99 |

The table above shows a number of entrepreneurs interviewed from different area types using different questionnaires such as Adult Population Survey (APS) and Entrepreneur survey questionnaires. For the APS questionnaire the researcher intended to collect data from 400 respondents, however 300 respondents were interviewed. Thereafter, the scoping mechanism was used to collect data from 62 respondents who are

entrepreneurs. In total, 362 individuals were interviewed and 99 were entrepreneurs (current business owners).

### 3.5.3 Analysis

***Specific objective 1: Establish the incidence of different phases of entrepreneurship in the adult populations of the distinct parts of Sakhisizwe Local Municipality***

Both this specific objective and the next rely on data collected by means of a version of GEM's Adult Population Survey (APS). One of the key features of the APS is that the questionnaire includes a series of questions according to which one can distinguish different types of entrepreneurs according to 'phase'. GEM attaches particular importance to 'nascent entrepreneurs', because the more of these that are present, the greater the contribution of entrepreneurship to local economic development. At the same time, as indicated above, the more of these that are present, the more conducive the area must be – whether by design or accident – to emerging enterprises.

The APS allowed the researcher to determine the shares of sub-sampled adults from different parts of Sakhisizwe that can be associated with different enterprise phases, for example, those that are nascent entrepreneurs and current business owners. To determine the incidence of different phases of entrepreneurship in the adult populations in distinct parts of Sakhisizwe, z-test for different proportions was used, whereby z is a standard normal variable which is calculated as:

$$z = \frac{p_1 - p_2}{SE}, SE = \sqrt{p(1-p)\left(\frac{1}{n_1} + \frac{1}{n_2}\right)}, \text{and } p = \frac{p_1 n_1 + p_2 n_2}{n_1 + n_2}, \text{where}$$

- z is the test statistic
- $p_1$ and $p_2$ are the proportions one is comparing between the two subsamples (e.g. the share of adults in urban Sakhisizwe that are nascent entrepreneurs versus the share adults in rural Sakhisizwe that are nascent entrepreneurs)
- SE is the standard error of the z statistic

- $n_1$ and $n_2$ are the sizes of the two subsamples from Cala and Elliot.
- p is the overall proportion in the two subsamples, calculated as the weighted average of the proportions from the two subsamples.

The two-sided p-values were then calculated as a basis for knowing the significance level at which one can reject the null hypothesis of no difference between the two proportions.

***Specific objective 2: Examine factors that contribute to the decision whether or not to initiate an enterprise***

The APS resulted in a dataset in which some respondents turn out to be involved in entrepreneurship and others are not. This allowed the researcher to run a regression based on the logit which seeks to identify what factors influence whether or not an adult is in fact entrepreneurial. If we define Ent = (1,0) where 1 indicates the person is an entrepreneur, 0 if not, then we can for instance operationalise a model as follows:

$$\mathrm{Ent}_i = \alpha_0 + \alpha_1 \mathrm{Age}_i + \alpha_2 \mathrm{Gender}_i + \alpha_3 \mathrm{Edu}_i + \alpha_4 \mathrm{HHSize}_i + \alpha_5 \mathrm{HHH}_i + \alpha_6 \mathrm{Areatype}_i + \varepsilon_i$$



where:

- $\mathrm{Ent}_i$ = 1 if the person is an entrepreneur, 0 if not an entrepreneur
- $\alpha_i$ is the intercept and $\alpha_{1\text{-}k}$ are the coefficients
- $\mathrm{Age}_i$ is age of respondent i
- $\mathrm{Gender}_i$ is gender of respondent i
- $\mathrm{Edu}_i$ is the number of education in years of respondent i
- $\mathrm{HHSize}_i$ is the household size of respondent i
- $\mathrm{HHH}_i$ indicates whether respondent I is a 'household head' or not
- $\mathrm{Areatype}_i$ represents the area where respondent i resides, either Elliot urban, Cala rural or Cala urban

- $\varepsilon_i$ is the stochastic error term.

The sign and significance of the estimated coefficient on the FHL dummy in particular provides an idea whether and how the spatial context contributes to the likelihood of an adult being an entrepreneur. In the same manner, we can use other dependent variables in association with the same regressors, for example to determine what conditions the likelihood that an adult is a nascent entrepreneur where 'NAS' is nascent, for example:

$$\mathrm{NAS}_i = \alpha_0 + \alpha_1 \mathrm{Age}_i + \alpha_2 \mathrm{Gender}_i + \alpha_3 \mathrm{Edu}_i + \alpha_4 \mathrm{HHSize}_i + \alpha_5 \mathrm{HHH}_i + \alpha_6 \mathrm{Areatype}_i + \varepsilon_i .$$

***Specific objective 3: Determine the different types of entrepreneurial activities in the distinct parts of Sakhisizwe Local Municipality***

This specific objective is purely descriptive. No statistical tests were needed, because in principle this would be a census, not a sample.



***Specific objective 4: Examine the strategies pursued by, and challenges experienced by, entrepreneurs in the distinct parts of Sakhisizwe Local Municipality,***

This specific objective is mostly descriptive. The researcher evaluates the strategies used by the majority of current business owners of Sakhisizwe. Thereafter, the study reveals the challenges encountered by these current business owners. This specific objective uses data that was collected using the APS, Entrepreneur Survey questionnaires and data collected using the scoping mechanism.

***Specific objective 5: Quantify the performance of different types of entrepreneurs in the distinct parts of Sakhisizwe Local Municipality***

This specific objective depends on the same data collection exercises used for the previous specific objectives. It involves regression analysis using Ordinary Least Squares in which enterprise net income is a function of various types of explanatory

variable, such as the type of enterprise, demographic characteristics, and importantly, the type of area in which the enterprise is mainly based (i.e. former homeland versus not), and whether the enterprise is largely based on interfacing between town and rural areas. In somewhat general terms the model can be depicted as:

$$\begin{aligned} \mathrm{NI_i} = \beta_0 + \beta_1 \mathrm{Trading/Retailing_i} + \beta_2 \mathrm{Producing/manufacturing_i} \\ + \beta_3 \mathrm{Providing\ a\ service_i} + \beta_4 \mathrm{Age_i} + \beta_5 \mathrm{Gender_i} + \beta_6 \mathrm{Edu_i} \\ + \beta_7 \mathrm{Areatype_i} + \varepsilon_i \end{aligned}$$

where:

- $\mathrm{NI_i}$ is the average monthly net income of enterprise i
- $\beta_0$ is the intercept and $\beta 1$ to $\beta k$ are the slopes
- $\mathrm{Trading/Retailing_i}$ is a dummy variable indicating if enterprise i is involved in trading and retailing
- $\mathrm{Producing/Manufacturing_i}$ is a dummy variable indicating if enterprise i is involved in producing and manufacturing
- $\mathrm{Providing\ a\ service_i}$ represents if enterprise i is a service providing business
- $\mathrm{Age_i}$ is an age of respondent i
- $\mathrm{Gender_i}$ is gender of respondent i
- $\mathrm{Edu_i}$ is the number of education in years of respondent i
- $Areatype_i$ represents the area where respondent i resides, either Elliot urban, Cala rural or Cala urban
- $\varepsilon_i$ is the stochastic error term.

The results in respect of the estimated slope coefficients on Areatype will hopefully contribute to a better overall picture of the nature of enterprise in the different parts of Sakhisizwe. Another version of this model was also tried, however, in which the

dependent variable is the number of employees per enterprise, inclusive of the main entrepreneur her/himself.

### 3.6 Ethical issues

The study involved fieldwork involving interaction with human beings, therefore the following principles of ethical research were observed:

***Informed consent***

This is a vital step whereby the participants were informed about the procedures, possible risks and benefits of participating in the project. This was communicated in their language, that is, IsiXhosa to ensure that they fully understand the process. The purpose of this step in research was for participants to decide whether they want to be part of the research or not considering the procedures that were followed, possible risks and benefits.

***Confidentiality***

All participants were given a right to decide on whether the researcher should conduct the interviews in their workplace or not. This is essential when conducting the research project in order to build trust between the researcher and participants. This also helps in maintaining the participants' dignity and also feels respected with ability to be in control of the project.



***Voluntary participation***

When conducting the project through interviews no one was forced to participate in the project. Every participant participated according to his/her willingness. This furthermore means that participants were allowed to withdraw anytime they felt to do so, by all means freedom was allowed.

### 3.7 Summary

The chapter presented above shows different approaches that were utilized during data collection as well as different data analysis tools and models used after data collection during data analysis. Data was collected using different questionnaires and different

approaches. Adult Population Survey questionnaire was utilized during household interviews whereas Entrepreneur Survey questionnaire was used during household interviews and scoping.

Different analysis tools were used for different specific objectives for different purposes. Some of the analysis tools or models that were used include Logit and Ordinary Least Squares. There are ethical issues that had to be cleared during data collection and they include informed consent, confidentiality and voluntary participation. Therefore, respondents participated according to their willingness and were not forced or manipulated to do so.

# CHAPTER 4: RESEARCH RESULTS

## 4.1 Introduction

This chapter presents and discusses the findings of the study. It is based on the sample survey that was conducted of 362 adult respondents using two questionnaires, the first of which was an adapted version of GEM's Adult Population Survey (APS) questionnaire, and the second of which was a questionnaire developed by the researcher in order to look more deeply into the circumstances of those respondents who turned out to be entrepreneurs (the 'entrepreneur survey'). The Adult Population Survey questionnaire was adapted from GEM's APS questionnaire targeting people between ages 18 – 65 years with or without businesses whereas entrepreneur survey questionnaire focuses on business owners. The questionnaire was adapted to fit the nature of Sakhisizwe Local Municipality comprised of many rural areas. The researcher and enumerator team conducted interviews from rural and urban areas of Cala as well as urban areas of Elliot in Sakhisizwe Local Municipality.



The chapter begins by looking at the demographic characteristics of the respondents. Thereafter, the chapter is organized according to the study's specific objectives. First, the chapter establishes the incidence of different phases of entrepreneurship in the adult populations based on three different area types, namely 'Cala rural', 'Cala rural', and 'Cala urban'. Then, the chapter examines factors that contribute to the decision whether or not to initiate an enterprise Logit regression. Thereafter, examines the strategies pursued and challenges experienced by these entrepreneurs. Finally, the performance of different types of entrepreneurs in the distinct parts of Sakhisizwe Local Municipality is quantified and analysed using Ordinary Least Squares.

## 4.2 Basic demographics by area type

This section presents the characteristics of adults who were interviews as part of the Adult Population Survey (APS) in different area types of Sakhisizwe Local Municipality. The demographic characteristics of these individuals are summarized in Table 4.1 below:

**Table 2.1: Demographic characteristics of adults living in different parts of Sakhisizwe as per the Adult Population Survey**

| Variable | Options provided | Response (%) | | |
|---|---|---|---|---|
| | | Elliot urban | Cala rural | Cala urban |
| Gender | Female | 49 | 46 | 58 |
| | Male | 51 | 54 | 42 |
| Age | 18-30 | 43 | 20 | 33 |
| | 31-45 | 23 | 41 | 40 |
| | 46-65 | 24 | 39 | 27 |
| Marital status | Single | 78 | 64 | 68 |
| | Married | 22 | 36 | 32 |
| Household head | Yes | 39 | 60 | 54 |
| | No | 61 | 40 | 46 |
| Number of household members | 0-4 | 39 | 65 | 48 |
| | 5-9 | 48 | 30 | 45 |
| | 10 and above | 13 | 5 | 7 |

Note: because each of the three subsamples consisted 100 observations, the figures can be read as either the number of observations or percent of the subsample having that characteristic



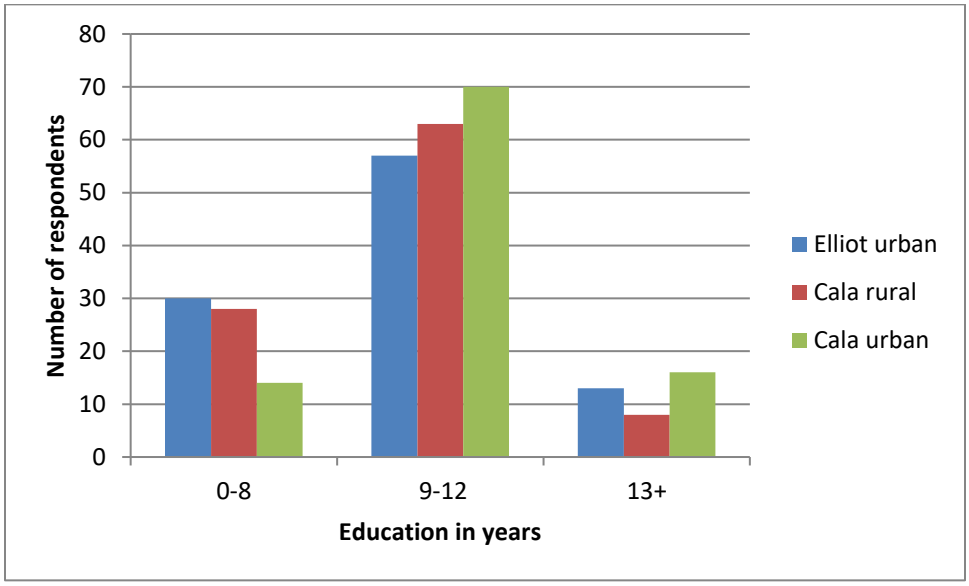
The summarized demographic results shown in table 4.1 above indicate that both Elliot urban and Cala rural have the highest share of males compared to females, however the difference is not extreme. In addition, Cala urban has the highest share of females compared to males. Therefore, gender distribution of the sample presented above is closely related to that of the 2011 census information conducted by Statistics South Africa (Stats SA, 2011). As mentioned above, the sample included individuals with ages between 18 and 65 years. The age distribution of the sample indicates that individuals residing from Elliot urban are especially young compared to Cala rural and Cala urban. In contrast, Cala rural sample is slightly older than the age distribution of the other two study areas.

Based on the age distribution results, one can also conclude that Elliot urban has the lowest share of married individuals because it is dominated with younger individuals. In

general, the majority of individuals indicated that they were single. This included everyone who indicated that there were widowed or divorced because there was a very small share of those individuals, approximately 2% for all the study areas. Age distribution can also be a factor in household headship, as a result Elliot urban dominated by younger individuals has the lowest percentage of individuals who indicated that they were household heads. Similarly, Cala rural that was noted to have older individuals has the highest percentage of individuals who are household heads.

Lastly, the highest percentage of household members ranging between 10 and above is 13% in Elliot urban. This is quite interesting because rural areas are usually associated with larger household sizes than urban areas. For example, General Household Survey (2021) stated that rural households are usually extended comprised of biological parents with their children, in-laws, aunts, uncles, cousins and grandparents. What this suggests is that Elliot and Cala town are not just 'rural towns', but are demographically distinct from Cala rural in the same manner that the more distant cities are.

**Figure 4.1: Level of education of respondents in Elliot urban, Cala rural and Cala urban**

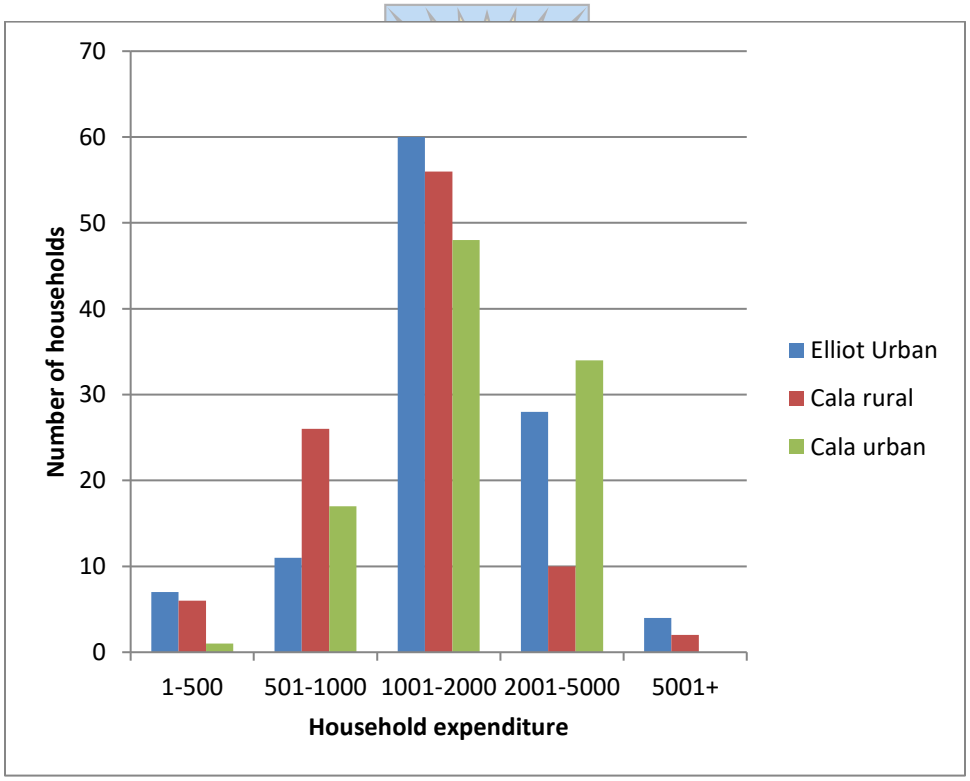



The sample included individuals with no schooling, those who spent 9-12 years and 13 years or more in school. Individuals with no schooling spent 0 years while those who spent 1-8 years are those who went to primary school, 9-12 years went to high school

and those who spent 13 years or more are those who have higher education depending on the years they spent in tertiary. The education background of the sample is different from the highest level of education of the Sakhisizwe Local Municipality population if it is compared to the 2011 census information (Stats SA, 2011). According to Statistics South Africa (Stats SA, 2011), the highest level of education of the majority of individuals was secondary school while the majority of the sample spent 9-12 years in school meaning that they went to high school. These results indicate that the level of education has improved over the years.

Household expenditure and level of education in years are shown on the bar graphs below.

**Figure 4.2: Household expenditure per month in Elliot urban, Cala rural and Cala urban**




Based on the results presented above one can conclude that Cala urban is best off, followed by Cala rural then Elliot urban. This is contradicting the idea that people in former homelands are usually worse off. The relationship between household expenditure per month and area type seems to be complex because one cannot

conveniently conclude that people residing from former homelands spend less compared to the former white areas. Cala urban may be best off because urban areas offer individuals with more employment and self-employment opportunities, as well as better access to the resources needed by the household.

### 4.3 Incidence of different phases of entrepreneurship in the adult populations of the distinct parts of Sakhisizwe Local Municipality

In this section, the researcher establishes the incidence of two different phases of entrepreneurship in the adult populations of the three main area types of Sakhisizwe Local Municipality. The proportions of adults who are nascent or actual entrepreneurs are then compared between the different area types using the two proportion z-test, in other words, to determine whether any differences observed are statistically significant and can thus be generalized to the population of Sakhisizwe.

The table below shows the measured proportions of adult respondents who are nascent or current business owners according to geographical area.



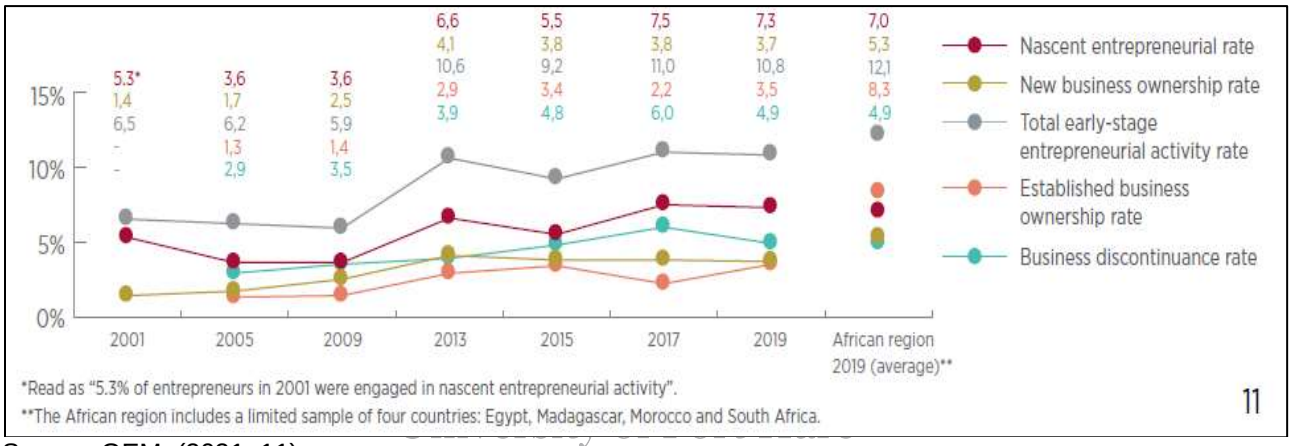
**Table 4.2: Proportion of adults who are nascent entrepreneurs and current business owners in Elliot urban, Cala urban and Cala rural**

| | Proportion of nascent entrepreneurs | Proportion of current business owners |
|---|---|---|
| Elliot urban | 8% | 11% |
| Cala rural | 7% | 9% |
| Cala urban | 16% | 17% |

It shows that Cala urban has a higher proportion of both nascent entrepreneurs and current business owners (currently active entrepreneurs) than the other two area types, whereas there is little to distinguish these two area types from one another. However, it is important to note that the designation of area type refers to the respondents' place of residents, which is not necessarily the same as where they conduct their enterprise. To be clear, all of the Elliot urban entrepreneurs conduct their enterprises in Elliot town, and all of the Cala urban entrepreneurs conduct their enterprises in Cala town. By contrast, all but 3 of the 9 Cala rural entrepreneurs conduct their businesses in Cala

town. In a similar vein, one can see from Table 3.1 above that, of the 42 entrepreneurs interviewed in Cala town as part of the entrepreneur survey, 12 reside in rural areas, not in town itself. Thus there is an asymmetry: those residing in towns can and do conduct their enterprises in those same towns, whereas those residing in the rural hinterland of Cala generally conduct their enterprises in Cala town as well. The z-test for different proportions was utilized to determine if there is a significant difference between the three area types.

**Figure 4.3: Estimated entrepreneurial activity rates amongst the South African adult population in 2001-2019**




Source: GEM (2021: 11)



Figure 4.3 shows the estimated entrepreneurial activity rates amongst the adult population in South Africa from 2001 to 2019 according to GEM. The purpose of the figure is to give the entrepreneurial background of South Africa. The figure indicates that in 2019 the entrepreneurial activity rates for nascent, new and established business owners were 7.0%, 5.3% and 3.5%, respectively. According to GEM (2022:193) since 2019 the proportion of adults starting new businesses increased from 11% in 2019 to 17% in 2022 but fell back to 8% in 2022. These rates are low compared to the findings of this study for Sakhisizwe Local Municipality. The difference is especially stark for established business owners, which according to the GEM figures changed little between 2013 and 2019.

What could be the explanation for these differences? One possibility is that in terms of entrepreneurial activity, Sakhisizwe could be simply doing better than the rest of South

Africa. However, on the face of it this is difficult to believe; certainly, Cala town does not look particularly different from other former homeland towns across the Eastern Cape. Another possibility is that there was some flaw in the APS conducted as part of the present research, or just represents a chance deviation from the truth, as is always a possibility with inferential statistics. Yet a third possibility is that the GEM estimates are too low; as unlikely as this sounds, given GEM's vast experience and general credibility, South Africa has a history according to which doubt is cast upon the results of large-scale, professionally-executed surveys. A good example is the bitter dispute that arose in 2010 and 2011 between Adcorp, a large labour recruitment agency which produced its own labour statistics, and the then Statistician General and head of Statistics South Africa, Mr Pali Lehohla; the dispute related to the size of South Africa's informal sector (with obvious implications for the true unemployment rate), which Adcorp claiming about 6.1 million people versus Statistics South Africa's estimate of 2.1 people (see e.g. Salgado, 2011).

Concerning the proportion of adults who qualify as nascent entrepreneurs, two of the three comparisons reported below are statistically significant. First, the difference between urban areas of Cala and Elliot is significant at the 10% level, meaning there is less than a 10% probability that the conclusion of a difference between the two proportions in the population is incorrect. Furthermore, the difference between Cala urban and Cala rural is significant at the 5% level.



**Table 4.3: Z-test for different proportions for nascent entrepreneurs and current business owners based on the Adult Population Survey**

| | Nascent entrepreneurs | | Current business owners | |
|---|---|---|---|---|
| | Z stat | p-value* | Z stat | p-value* |
| Elliot urban vs Cala urban | -1.7408 | 0.0817 | -1.2227 | 0.2214 |
| Elliot urban vs Cala rural | 0.2685 | 0.7883 | 0.4714 | 0.6374 |
| Cala urban vs Cala rural | 1.9948 | 0.0461 | 1.6820 | 0.0926 |

* Note that these 'p-values' are not to be confused with the 'p' defined in section 3.4.3 above. That latter p was the overall proportion of the sample having a particular characteristic, and is used in order to calculate the Z statistic; the p-values in the table above, however, are the two-tailed probabilities taken from the standard normal distribution table showing the chance that the associated Z statistic (or its negative) could have been observed even if the true difference between the proportions was zero.

Altogether, it appears quite certain that Cala urban has a more entrepreneurial culture than either Cala rural or Elliot urban, or that it is more conducive to enterprise, or both. For current business owners, the only difference that is statistically significant is that between Cala urban and Cala rural, where the difference is significant at the 10% level. However, given the evidence emerging here to the effect that the Cala part of Sakhisizwe is more dynamic entrepreneurially than the Elliot part, it is also appropriate to consider a one-sided test, whereby the null hypothesis is that the proportion of adults in Elliot urban who are entrepreneurs is less than or equal to the corresponding proportion in Cala urban. The one-tailed p-value for such a test is 0.11, meaning one is just shy of being able to reject the null at the 10% significance level.

Utilising the results from the APS questionnaire and the estimated number of adults by Stats SA (2017), the researcher estimated the number of entrepreneurs for Elliot urban, Cala urban and Cala rural. The table suggests that the numbers of entrepreneurs in Cala urban and Cala rural are fairly similar, and greatly outnumber those in the Elliot part of the local municipality. Although no extrapolated value for Elliot rural is ventured, because no fieldwork was conducted which could result in an estimate of the share of adults there who are entrepreneurs, it must necessarily be very low, thus its absence has no bearing on the overall conclusion, i.e. that the Cala parts of Sakhisizwe are home to much larger numbers of entrepreneurs than the Elliot parts, but not only because these parts are home to more adults.



**Table 4.4: Extrapolated number of entrepreneurs in the three distinct parts of Sakhisizwe Local Municipality**

| Area | Share of adults who are entrepreneurs (APS) | Estimated number of adults* (Stats SA, 2017) | Extrapolated number of entrepreneurs |
|---|---|---|---|
| Elliot urban | 11% | 8 151 | 897 |
| Elliot rural | ? | 339 | ? |
| Cala urban | 17% | 8 981 | 1 527 |
| Cala rural | 9% | 13 521 | 1 217 |
| Total | N/A | 30 992 | >3 640 |

* Note: The Community Survey of 2016 does not actually enable one to distinguish the Cala part of the municipality from the Elliot part. However, Elliot rural can be assumed to be covered by Stats SA's 'farm areas' designation for the 'geographical type' indicator and Cala rural can be assumed to be covered by the 'tribal/traditional types' designation. The estimated total number of adults residing in 'urban areas' was then split between for the Elliot urban and Cala urban areas in proportion to the relative number of urban households from the 2011 population census (see Table 3.1).

### 4.4 Factors that contribute to the decision whether or not to initiate an enterprise

This section addresses the second research objective, which aims to identify the factors that contribute to an individuals' decision to initiate or own a business. The researcher applies a Logit model using Gretl statistical software to identify which factors have a statistically significant relationship with the decision to initiate a business. The model was run using robust standard errors in order to avoid the problem of heteroskedasticity.

To be more precise, there are two Logit models, the first of which seeks to identify factors contributing to the decision to become a nascent entrepreneur, and the second of which does the same in respect of the decision to become an actual current business owner. The models differ in their dependent variables but share the same explanatory variables. The explanatory variables comprise mainly demographic characteristics of the respondent, but importantly, also two dummy variables which collectively capture in which part of Sakhisizwe the respondent resides.



The importance of the exercise is that, while one can see from the previous section how the propensity to start an enterprise differs according to area type, it is not clear as yet whether this is because of the area type itself, or due to the fact that demographic characteristics tend to differ between areas. Multiple regression analysis in principle can enable one to distinguish influences which otherwise might be confounded.

Table 4.5 presents the regression results for nascent entrepreneurship. Given that estimated coefficients are difficult to interpret for Logit regressions, the anti-log of the estimated coefficients (that is, the constant e raised to the power of the co-efficient in question) is also included, meaning the rate at which the odds ratio changes in relation to a unit increase of the explanatory variable in question. For the case at hand, the odds ratio is the ratio of the probability of being a nascent entrepreneur (call this P) relative to

the probably of not being a nascent entrepreneur (i.e. 1 – P), thus in short, P / (1 – P). The asterisks on the far right of the main table indicate the significance level at which the null hypothesis of no relationship can be rejected, where * indicates the 10% level, ** indicates the 5% level, and *** indicates the 1% level.

**Table 4.5: Logit results for nascent entrepreneurship**

Dependent variable: Nascent
Standard errors clustered by 3 values of Areatype

| | *Coefficient* | *Std. Error* | *Z* | *Anti-log* | *p-value* | |
|---|---|---|---|---|---|---|
| Const | −5.97739 | 0.889822 | −6.718 | | <0.0001 | *** |
| Gender | 0.222280 | 0.101122 | 2.198 | 1.248921 | 0.0279 | ** |
| Age | 0.0272174 | 0.0202243 | 1.346 | 1.027591 | 0.1784 | |
| Maritalstat | 0.122718 | 0.319737 | 0.3838 | 1.130566 | 0.7011 | |
| HHead | 0.0901719 | 0.209140 | 0.4312 | 1.094362 | 0.6664 | |
| NoofHHmembers | 0.112251 | 0.00775964 | 14.47 | 1.118794 | <0.0001 | *** |
| Eduinyrs | 0.163040 | 0.0260313 | 6.263 | 1.177084 | <0.0001 | *** |
| Cala_rural | −0.179366 | 0.101705 | −1.764 | 0.8358 | 0.0778 | * |
| Cala_urban | 0.623674 | 0.0823342 | 7.575 | 1.86577 | <0.0001 | *** |

| | | | |
|---|---|---|---|
| Mean dependent var | 0.103333 | S.D. dependent var | 0.304902 |
| McFadden R-squared | 0.076300 | Adjusted R-squared | -0.013968 |
| Log-likelihood | −92.09639 | Akaike criterion | 202.1928 |
| Schwarz criterion | 235.5268 | Hannan-Quinn | 215.5331 |



Number of cases 'correctly predicted' = 269 (89.7%)
f(beta'x) at mean of independent vars = 0.305
Likelihood ratio test: Chi-square(8) = 15.2148 [0.0551]
n = 300

Speaking of the regression overall, the McFadden R-squared is very low, however the 'Count $R^{2}$' – i.e. the share of dependent variable observations correctly predicted by the model (see e.g. Gujarati and Porter, 2009: 563) – is a very satisfying 89.7%, suggesting a model with high explanatory power.

One can see at a glance that there is a statistically significant relationship between the decision to become a nascent entrepreneur and the following five explanatory variables: gender (5% significance level), number of household members (1%), education in years (1%), whether or not the person resides in Cala rural (10%), and whether or not the

person resides in Cala urban (1%). This is not to say that age, marital status, and household headship are unimportant, but there is no statistical evidence here that they are.

The results can be further interpreted as below:

The anti-log value of 1.249 associated with the gender variable suggests that, holding the other variables constant, women have 25% greater odds of being nascent entrepreneurs than men.

An additional household member is associated with an increase in the odds of being a nascent entrepreneur of 12%, controlling for the other variables included in the model.

An additional year in education increases the odds of being a nascent entrepreneur by 18%, holding constant the other variables included in the model.

In consideration of area types, the odds of being a nascent entrepreneur are 16% less for those residing in rural areas of Cala than for those residing in Elliot urban, while the probability is 87% greater for an individual residing in the urban areas of Cala relative to the urban areas of Elliot.



Moving on to current business owners, Table 4.6 below presents the regression results. In this case, all but the gender variable is statistically significant: age, household size, years of education and whether or not one lives in Cala urban are all significant at the 1% level; whether or not one resides in Cala rural is significant at the 5% level, and marital status is significant at the 10% level.

**Table 4.6: Logit results for current business owners**

Dependent variable: Currentlyownabus
Standard errors clustered by 3 values of Areatype

| | *Coefficient* | *Std. Error* | *Z* | *Anti-log* | *p-value* | |
|---|---|---|---|---|---|---|
| Const | −5.43244 | 0.927541 | −5.857 | | <0.0001 | *** |
| Gender | 0.0414866 | 0.258948 | 0.1602 | 1.042359 | 0.8727 | |
| Age | 0.0257484 | 0.00580090 | 4.439 | 1.026082 | <0.0001 | *** |
| Maritalstat | −0.379349 | 0.221371 | −1.714 | 0.684306 | 0.0866 | * |
| HHead | 0.852938 | 0.370659 | 2.301 | 2.346530 | 0.0214 | ** |
| NoofHHmembers | 0.139617 | 0.0488420 | 2.859 | 1.149833 | 0.0043 | *** |
| Eduinyrs | 0.158165 | 0.0449416 | 3.519 | 1.171359 | 0.0004 | *** |
| Cala_rural | −0.264191 | 0.128895 | −2.050 | 0.767826 | 0.0404 | ** |
| Cala_urban | 0.333331 | 0.0243094 | 13.71 | 1.395609 | <0.0001 | *** |

| | | | |
|---|---|---|---|
| Mean dependent var | 0.170000 | S.D. dependent var | 0.376260 |
| McFadden R-squared | 0.095563 | Adjusted R-squared | 0.029757 |
| Log-likelihood | −123.6961 | Akaike criterion | 265.3921 |
| Schwarz criterion | 298.7262 | Hannan-Quinn | 278.7325 |

*Evaluated at the mean
Number of cases 'correctly predicted' = 247 (82.3%)
f(beta'x) at mean of independent vars = 0.376
Likelihood ratio test: Chi-square(8) = 26.1396 [0.0010]
n = 300



The results can be further interpreted as follows:

The anti-log 1.026 suggests that an additional year to an individual's age increases the probability of an individual to own a business by 2.6%, *ceteris paribus.* The marital status of an individual impacts the probability of an individual to own a business. Based on the results, if an individual is married the probability of owning a business is 32% less than if the person is not married. The anti-log value of 2.347 associated with the household headship related whether an individual owns a business or not suggests that, holding the other variables constant, being a household head increases the odds of being a current business owner by 135%. An additional household member is associated with an increase in the odds of being a current business owner by 15%, controlling for the other variables included in the model. An additional year of education increases the odds of being a current business owner by 17%, holding constant the other variables included in the model. In consideration of area types, the odds of being

a current business owners are 23% less for those residing in rural areas of Cala than for those residing in Elliot urban, while the probability is 87% greater for an individual residing in the urban areas of Cala relative to the urban areas of Elliot.

According to the econometric findings, more or less the same demographic features contribute to the whether or not one is a nascent entrepreneur or becomes a current business owner, which makes sense. Crucially for the present study, place of residence features significantly for both, with a clear ordering whereby, controlling for other influences, residing in Cala urban increases the chances of being a nascent or actual entrepreneur, and residing in Cala rural reduces the chances of being a nascent or actual entrepreneur, with Elliot urban in between.

### 4.5 Types and frequencies of different types of entrepreneurial activities in the distinct parts of Sakhisizwe Local Municipality

This section presents an overview of the types of enterprises found in Sakhisizwe Local Municipality. It begins by providing a 'visual description' of Elliot and Cala towns and of the entrepreneurs who ply their trades there.



As mentioned in Chapter 3, Sakhisizwe Local Municipality contains two small towns, i.e. Cala and Elliot towns. Although the populations of the two towns are more or less the same, the broader the Cala area is dominated by people living in rural areas around the town, while the Elliot area's population is concentrated in the town, mainly in what are commonly referred to in South Africa as 'townships' or 'locations' (Pernegger and Godehart, 2007). Whereas Cala town is surrounded by villages, most of which can only be accessed by gravel roads, Elliot town is largely surrounded by large-scale farms, most of which can also only be accessed by gravel roads. However, to get from Cala town to Elliot takes approximately 30 minutes on a good, paved road.

Apart from small-scale agriculture in Cala and large-scale agriculture in Elliot, virtually all of the visible black-owned enterprise found in Sakhisizwe takes place in one or the other town. What this means is that rural dwellers who operate an enterprise almost always travel from their village home in order to operate the enterprise in town.

Both of Sakhisizwe's towns have a mix of business activities including trading, producing/manufacturing, and provision of services. In Elliot town, the vast majority of businesses and entrepreneurs are found along an 800 metre stretch of the high street, Maclear Road. Most of the businesses are white-owned in formal structures, with a small number of black-owned businesses in formal structures, as well as black entrepreneurs operating from municipality-built kiosks along the pavement. The density of enterprise in Cala town is generally much greater. Entrepreneurs are concentrated along about 500 metres of Titsa Road, however a number of the streets that transect Titsa Road are also populated by shops and street-based entrepreneurs. Amongst these entrepreneurs, those who are street hawking have self-made structures such as shacks, others have containers, and others operate from the same type of kiosks found in Elliot town. Still other entrepreneurs along the streets place their merchandise on tables, or put their products on a tarp or sheet on the pavement.

The table below shows the breakdown of interviews conducted according to the three main business types and by area type. Given the sampling approach – which combined the random sampling from the Adult Population Survey and the convenience sampling from the enterprise survey – the figures in the table cannot be interpreted as a statistically accurate representation of what exists in the study site, nonetheless it can be regarded as a fair representation.



**Table 4.7: Number of entrepreneurs by sector**

| | Trading/ retailing | Producing/ manufacturing | Providing a service | Total |
|---|---|---|---|---|
| Elliot urban | 17 | 4 | 11 | 32 |
| Cala rural | 10 | 7 | 4 | 21 |
| Cala urban | 18 | 7 | 21 | 46 |
| Total<br>*Row %'s* | 45<br>*45.5%* | 18<br>*18.2%* | 36<br>*36.4%* | 99<br>*100.0%* |

### 4.5.1 Trading and retailing

Literature review revealed that, according to ECSECC (2016), trading is one of the entrepreneurial activities in Sakhisizwe Local Municipality. In both Elliot and Cala towns

of Sakhisizwe Local Municipality the dominating business type is trading and retailing. Trading and retailing consists of small shops, such as tuck shops, of which many are owned by what appear to be immigrants from China or the Indian subcontinent, as well as hawkers/street vendors. Hawkers/street vendors dominate the retailing business type in both Elliot and Cala towns. The tuck shops mostly sell groceries and other basic household goods while the street vendors sell fruit and vegetables, jewellery, clothes, shoes, and live poultry.

Business owners operating in the streets of Elliot and Cala (including those who currently have fixed shelters built by the municipality as well as those who put their merchandise on tables or on the ground) initiated their businesses for different reasons such as unemployment, some wanted to be their own bosses, some inherited the businesses from their parents and saw it as the right path to follow, lastly some could not get into university due to financial constraints. These street vendors operate in different spaces: some work next to taxi ranks, selling items such as fruit, vegetables, 'fat cakes', juices, and water; others sell next to the main road, including those who braai meat and hawkers selling bags, jewellery, fruit and vegetables; and others conduct their businesses next to supermarkets such as Spar and Boxer, where they take advantage of especially heavy foot traffic.



**Table 4.8: Nature of the trading and retailing business types in Elliot urban, Cala rural and Cala urban**

| Area type | Tuck shops | Hawker | Livestock feed | Total |
|---|---|---|---|---|
| Elliot urban | 4 | 12 | 1 | 17 |
| Cala rural | 3 | 7 | 0 | 10 |
| Cala urban | 3 | 15 | 0 | 18 |
| Total<br>*Rows %'s* | 10<br>*22.2%* | 34<br>*75.6%* | 1<br>*2.2%* | 45<br>*100.0%* |

The majority of the retailers (75.6%) were involved in street vending, whereas the smallest percentage was that of co-operatives selling livestock feed. The researcher

took a few pictures to give the reader a visual idea of the nature of trading and retailing businesses in Elliot and Cala towns.


*Picture 4.1: A group of mini-shops or 'supermarkets' in Elliot town mostly owned by Chinese and Indians*

*Picture 4.2: Jewellry sold by a street hawker in Cala town*


*Picture 4.3: A hawker selling shoes and backpacks in the streets of Cala next to Spar*


*Picture 4.4: Vegetables sold next to the Spar in Cala town*

*Picture 4.5: A woman selling fruits and sweets in a kiosk built by the municipality (taken in Cala town)*

*Picture 4.6: Chickens sold in the streets of Cala*

*Picture 4.7: A hawker selling take-aways in the main street of Elliot town*

### 4.5.2 Producing and manufacturing

According to the survey conducted, just under one fifth of the small-scale entrepreneurs in Sakhisizwe belong to the category of producers/manufacturers. However, this figure is skewed by the fact that the fieldwork did not consider agricultural production; from the secondary data available, in particular the Community Survey of 2016, there are possibly 300 or 400 small-scale black agricultural entrepreneurs in Sakhisizwe, versus the approximately 800 non-agricultural producer/manufacturer entrepreneurs estimated based on the researcher's fieldwork. (From Table 4.7, the shares of entrepreneurs from Elliot urban, Cala urban and Cala rural involved in manufacturing / production are 4/32 = 12.5%, 7/21 = 33% and 7/46 = 15%, respectively; these were multiplied by the corresponding extrapolated numbers of entrepreneurs by area type from Table 4.5.)

The entrepreneurs who were surveyed under this category differ. This category is illustrated through the cases of tailors and builders/contractors.

***Sewing and tailoring***

The researcher interviewed a total of five respondents involved in the tailoring business, three of which were women and two were men. One respondent buys fabric for making t-shirts and hoodies and prints those t-shirts and hoodies at customers' requests. Another respondent makes women's dresses. The other three respondents make school uniforms. Of these three making school uniforms, two work individually and the third works as part of a group of six women. None of the tailors that were interviewed had employees, they work in containers in the CBD very close to the main road and they were all using electric sewing machines.



The group of six women who make school uniforms together occupy a container close to the main road of Cala town (see Picture 11 below). They order most of their materials from nearby towns such as Queenstown. Ordering locally and focusing on manufacturing school uniforms that are in regular demand eliminates the risk of ordering a bulk of materials that might not be liked by the customers. The collaboration between the six women also eliminated competition between them. Moreover, the fact that these tailors went through training is what makes their business more feasible. By contrast,

the other tailors found in Cala urban work individually, do not undertake book keeping, and have not had the benefit of formal training in tailoring.

Respondents involved in sewing and tailoring indicated that they struggle to get highly demanded fabrics locally. The best option to improve their standards and meet the demands of their customers is to order their materials from China, one respondent noted. But this option turned out to be unworkable for most tailors because they say that if you order from China it can take four to five months for the materials to arrive. This meant a long gap in time between purchasing materials and receiving income based on the use of those materials, with which small-scale entrepreneurs struggle to cope. However, the tailor that makes female dresses mentioned that she opted to buy fabrics from Johannesburg and Durban. A risk mentioned by tailors is that they may order fabric which turns out not to be appreciated by potential clients, forcing the tailor to mark it down in order to get rid of it. To solve this problem, the majority of tailors sew on order and buy materials for specific orders to avoid buying stock that will just sit there.

*Pictures 4.8 and 4.9: A group of six women with a business making school uniforms in Cala town*

***Construction***

Travelling through the Cala part of Sakhisizwe one observes a fair number of homes under construction. There appears to be a sizeable informal construction sector. Nine builders/contractors who reside in Sakhisizwe Local Municipality were interviewed, all of whom were men. Some of these respondents were interviewed in their own homes, some were just passing by the road carrying their construction tools such as tape measures, spirit level etc. and some were in their construction sites. Before the interviews started the researcher ensured that these constructors originated from Sakhisizwe Local Municipality and were really constructors. Most of these individuals move from one place to another, even from one province to another, depending on where they find clients. They say that this can be very inconvenient for their households as they have to constantly leave their families for some time to other parts of the province or country. On a brighter note, house builders say that in many cases they do not need to pay for rent, groceries or even transport costs, as all such costs are the responsibility of the client. However, the builders must have their own tools.

In most cases, the client in question is someone wishing to build a new house. After a client and builder agree on a plan, the builder usually accompanies the client to the hardware store to ensure that the client purchases the correct materials, and the transport of the materials is usually undertaken by the hardware store or by a third-party. Thus in effect the builder is selling his labour and expertise, and may have limited capital outside of basic hand tools. None of the builders interviewed underwent any formal training, rather they learned on the job from other builders for or with whom they worked for a while.



### 4.5.3 Service providers

When walking in the streets of Sakhisizwe the researcher observed various service providers. The researcher managed to interview 36 service providers including tavern owners, restaurants/takeaways, painters, grass cutters, car washers, photographers, shoe repairers and salon operators. The majority of service providers found in both Cala and Elliot are salons. In Cala town these salons are mostly located close to the main

road in converted containers (see Picture 4.10), while in Elliot salons operate in buildings also located close to the main road.


*Picture 4.10: Salon containers in Cala*

The salon business is dominated by women. The majority of these women salon owners have lost hope in finding better jobs or educational opportunities. For example, according to a 19-year-old woman respondent:

> *"…I could not find a school to further my studies after matric so I saw this business as an opportunity to make money to support myself and my family. I doubt I will ever look for school now because I make enough money to support myself and my family, even though I am facing many challenges in this business".*



However, this young woman was actually an exception, in that most of the other salon owners interviewed are school dropouts, meaning they did not finish high school. The 19-year-old woman did not mention anything about affordability but the fact that she did not meet the minimum university requirements. She also mentioned that if she made it to university she would have applied for NSFAS or other bursaries. In the towns of Cala and Elliot finding a job or starting a business after matric is seen as a norm. None of these business owners went through training or studied financial or business management courses.

In contrast to most of the salon owners, there was an individual in Cala town who declared to be enjoying his business. This individual decided to initiate a business within his field of study, that is mechanical and electrical engineering. He has a company that installs boreholes, plumbing and other related activities. The success of his business is clearly determined by the knowledge and experience gained from his studies. Out of all the businesses surveyed, this business seems to be more lucrative, and it also creates more jobs. What also set this respondent apart is that he is one of the few entrepreneurs interviewed who runs his business on the side while being employed as an electrical engineer. This may also show that having a job can be an asset to an entrepreneur, because it can provide some capital which can be invested in the enterprise.

### 4.5.5 Motives for starting a business

The table below summarises why respondents' motives for starting their businesses. Based on the literature reviewed, according to Meyer (2018), females start and remain in businesses for various reasons. However, the research expanded and focused on more general factors that include both females and males. According to Mahadea (2002), a mixture of push and pull factors compel individuals to initiate businesses. In this study, the majority of business owners were pulled into different business opportunities because of unemployment. According to Musa and Simasinghe (2013), unemployment can be viewed as one of the major factors motivating individuals to start businesses. Some of these individuals only relied on social grants or had no alternative source of income at all before starting their business.



**Table 4.9: Motives for starting businesses in Elliot urban, Cala rural and Cala urban**

| Area type | Take advantage of opportunity | Unemploy-ment | Combination of both (the first two) | Employed but seeking better opportunities | Other | Total |
|---|---|---|---|---|---|---|
| Elliot urban | 10 | 20 | 2 | 0 | 0 | 32 |
| Cala rural | 8 | 9 | 3 | 1 | 0 | 21 |
| Cala urban | 15 | 25 | 4 | 1 | 1 | 46 |
| Total<br>*Rows %'s* | 33<br>*33.3%* | 54<br>*54.5%* | 9<br>*9.1%* | 2<br>*2.0%* | 1<br>*1.0%* | 99<br>*100.0%* |

Based on the information in Table 4.9 above, 54.5% of the surveyed individuals decided to venture into entrepreneurship due to the lack of stable employment opportunities. Out of 99 business owners, 33 (33.3%) stated that they initiated their businesses to take advantage of a perceived business opportunity; we can refer to these as 'opportunity entrepreneurs'. Only 2% of these individuals are currently running their businesses while they are currently employed. Overall, the majority of these entrepreneurs initiated their businesses due to unemployment and they see their enterprises as a survival strategy for themselves and their families.

### 4.5.6 Enterprise longevity

Respondents were asked when they started their enterprises. The table below summarises the number of years they have been in business. About half of business owners in Sakhisizwe Local Municipality have been in business for six years and above, which suggests a reasonable degree of durability. Only 6% have been in business for less than one year. Additionally, only one respondent closed down within less than a year in business; this business owner had a car wash in Elliot town but decided to close down due to Covid-19.



**Table 4.10 Enterprise longevity**

| Area type | Number of years | | | | |
|---|---|---|---|---|---|
| | < 1 | 1-2 | 3-5 | 6+ | Total |
| Elliot urban | 1 | 8 | 4 | 19 | 32 |
| Cala rural | 1 | 6 | 5 | 9 | 21 |
| Cala urban | 4 | 6 | 12 | 24 | 46 |
| Total<br>*Row %'s* | 6<br>*6.1%* | 20<br>*20.2%* | 21<br>*21.2%* | 52<br>*52.5%* | 99<br>*100.0%* |

### 4.5.7 Job creation

Entrepreneurs create jobs not only for themselves, but often for others a well. Table 4.11 below shows the number of employees per area type. About one-third (34%) of the

respondents did not have employees, whereas slightly more (37%) reporting having 1 or 2 employees, and just more than a fifth (22%) had 3 to 5 employees.

**Table 4.11: Number of employees per area type**

| Area type | Number of employees | | | | |
|---|---|---|---|---|---|
| | 0 | 1-2 | 3-5 | 6+ | Total |
| Elliot urban | 8 | 12 | 10 | 2 | 32 |
| Cala rural | 10 | 6 | 4 | 1 | 21 |
| Cala urban | 16 | 19 | 8 | 3 | 46 |
| Total<br>*Rows %'s* | 34<br>*34.3%* | 37<br>*37.4%* | 22<br>*22.2%* | 6<br>*6.1%* | 99<br>*100.0%* |

Based on these data, the research estimates that, in addition to the approximately 364 entrepreneurs in Sakhisizwe (Table 4.5), these entrepreneurs collectively employ roughly 1 to 6 and above additional people, earning an average of R2500 per month.

## 4.6 The strategies pursued by, and challenges experienced by, entrepreneurs in the distinct parts of Sakhisizwe Local Municipality



This specific objective seeks to understand the challenges faced by Sakhisizwe Local Municipality business owners as well as the strategies they use for the survival of their businesses. The researcher began by asking the business owners the strategies they used individually. The majority of respondents used similar strategies depending on the type of business. For example, the advertising strategy of business owners selling fruit and vegetables would not be the same as the one who sells clothes or shoes. After the researcher was satisfied with the answers about the challenges, she went on and asked about several strategies these business owners utilised individually to keep their businesses running. Similarly, business owners from Sakhisizwe faced different challenges. For example, a street vendor staying and selling in town does not face transport costs as the one staying in rural areas but selling in town.

According to the research the majority of business owners face a variety of challenges, including robberies, access to clean drinking water, access to toilets, shelter and storage. These challenges are not exclusive to Sakhisizwe Local Municipality, but are

similar to those identified in other areas of South Africa by other scholars such as Willemse (2018). In the case of Sakhisizwe the majority of business owners face similar challenges and use similar strategies to sustain their businesses. However, business owners in Elliot town faced an additional challenge, which is the relatively small size of the population nearby, meaning a relatively small consumer base. This section explores various strategies used by business owners to keep their enterprises going these as well as the challenges they face in depth.

### 4.6.1 Strategies pursued by business owners found in Sakhisizwe Local Municipality

Below are the strategies used by entrepreneurs to keep their day-to-day business activities running. The strategies are not categorized in any manner such as place of business or town. This is because the majority of these entrepreneurs both from Elliot and Cala towns use similar strategies.



***Accessibility***

Firstly, working or conducting their businesses in town is one of the main strategies used by business owners so they can be easily accessible to their customers. As a result almost all the respondents were allocated or working at the centres of their respective towns. One of the respondents from Elliot town indicated that,

> *"Working in the CBD is one strategy that keeps my business running. As you can see I am surrounded by offices such as the municipality offices, banks like FNB, salons and I am close to the main road. My takeaway business is running smoothly as a result my food is always sold out, raining or not."*

The majority operate next to the main road and some target areas close to supermarkets. A lady selling fruits and vegetables close to USave indicated that,

> *"I have been in this business for more than 5 years and I have been using different spots that are neither close to the main road nor to the supermarkets. However, it is my first time conducting my business close to*

*a supermarket and I can see the difference. One of the advantages of selling close to USave is that I get to keep peoples' groceries when they want to go inside USave or even around town and in exchange they will buy fruit or vegetables that cost R10 or more. Another advantage is that I get many customers because everyone who goes inside USave sees my stock and they get impressed by the good quality and affordability of my products."*

### *Advertising*

Majority of respondents clearly stated that advertising is one of their leading strategies of entrepreneurship utilised by business owners of Sakhisizwe Local Municipality. The majority of business owners involved in trading and retailing business type pay attention to the way they present the products, which itself is a form of advertising. For example, street vendors have a way of displaying their fruits and vegetables on their tables every day, as a result some seem like they follow a particular pattern when they put their merchandise. Salon owners make sure that they put big signs outside their caravans to grab the attention of their potential clients passing by. This also includes those who sell clothes and/or shoes. As a result, a hawker selling shoes next to Spar showed the researcher how he puts his merchandise to attract his customers (*see picture 4.3*). He also indicated that was the pattern he used every day.



### *Planning*

This is another strategy used by a few business owners of Sakhisizwe. Some business owners revealed that before starting their businesses they drew up a plan and are currently using their drafted plans to direct their businesses to being profitable. These business owners indicated that planning is a very critical and important tool to drive a business to success because the business owner is able to set goals for the business. This also enables them to notice when they are unable to meet their goals and identify the problems that hinder them from doing so. However, the majority of entrepreneurs who indicated that they also planned before and during their businesses indicated that planning did not work out for them because what they planned did not materialise. They

also indicated that planning is a waste of time because entrepreneurship is constantly changing. In contrast, current business owners from the informal sector also use planning as a strategy to run their daily business activities. For example, a woman selling takeaways said that she only cooks according to the number of orders to avoid cooking extra food.

***Reinvestment***

Reinvesting to the business is one of the most difficult strategies used by a few business owners. This is a difficult strategy for most business owners, especially street vendors and salon owners, because their profit margins are very modest and are need for day-to-day sustenance of themselves and their families. However, business owners who make more income, such as those in construction, claim that they save and reinvest their income in the business by buying new and improved machinery.

***Good customer care***



The majority of entrepreneurs in Sakhisizwe say that the secret to keeping the businesses running is good customer care and building good relations with ones customers. Some of the business owners offer benefits (e.g. discounts) to regular customers in order to gain their trust and loyalty. Sometimes they give their products to their loyal customers on credit, but this may be disadvantageous to the business as some may not pay them back. Sometimes they gift their regular customers with an extra item after buying more or buying only at their stall. Those who provide services such as hairdressing and painting, noted that providing good services is their way of gaining customers because they advertise their work by producing attractive hairstyles or doing a good job painting a house.

***Bookkeeping***

Bookkeeping is a strategy that is used by a few of these business owners to track errors, failures, and mistakes as well monitor the productivity and profitability of their businesses. Some business owners indicated that they use this method for their businesses while the majority did not. The majority of traders said that they are in need of training because they do not know how to record their business activities, however

others said they do not have time to write down such activities and do not understand the importance of bookkeeping.

### 4.6.2 Challenges experienced by entrepreneurs in the distinct parts of Sakhisizwe Local Municipality

#### *Access to clean water*

In both towns of Sakhisizwe lack of basic facilities such as water and sanitation seems to be a challenge to the majority of business owners. As a result this makes the work of these business owners difficult and uncomfortable. This is even worse for street vendors who need water as an essential ingredient to prepare their takeaways or those who need to wash fruits and vegetables before they sell to their customers. To deal with the problem the majority of these business owners bring buckets and bottles of water from home. According to Feeley *et al.* (2011) this is one of the major problems faced by the majority of business owners in the trading and retailing sector, especially street vendors. Limited access to clean water by business owners especially street vendors raises health concerns of both street vendors and customers.



#### *Access to toilets*

In addition to the access to clean drinking water, a closely related challenge was indicated by business owners from Cala and Elliot towns is access to toilets. Jacobs (2019) and Zain and Kassim (2012) in the literature reviewed indicated that access to infrastructure is one of the key factors that contribute towards the performance of an entrepreneur. The majority of the surveyed business owners indicated that they did not have access to toilets, which are necessities for a decent work place. The most affected business owners are women, as they cannot relieve themselves in public spaces as men frequently do. These women business owners indicated that they bring buckets to use as their toilets or they go hide behind 'the mountains' or nearby shelters. This includes business owners that live in town or closer to their business areas as it is too much admin to go back and forth to their households for using bathroom. As much as this is a real heath concern it is also not a good image for business. Over 50% of business owners in Cala indicated that they do not have access to toilets. Of those who

do have access to toilets, many complained that they are usually dirty, unhygienic or even closed due to lack of water. This too, just like the unavailability of water, poses health risks to both business owners as well as their customers. The majority of business owners suffering from this problem are street vendors. Hence Kamau and Mitullah (2022) state that street vendors are major contributors to the public health problem. This is also because most of their surroundings are dusty and untidy and some of these business owners do not observe food and personal hygiene.

***Shelter***

Even though the municipality has provided some of the street vendors with shelter, this remains a challenge to some business owners as they are still waiting for their shelters from the municipality. In the meantime, many of these business owners have built their own shelters using zinc, plastic or tents and umbrellas to protect themselves and their products from rain, sun or wind. Some of these structures are not strong enough to withstand strong winds and heavy rains, as a result they are easily destroyed resulting in a loss of profit.



However, even the street vendors who currently have shelter claim that the shelters are very small and not conducive for most of their businesses (see e.g. Pictures 4.3 and 4.5). For example, street vendors who braai meat or livers noted that they still need to braai their meat outside because the kiosks are too small are not suitable for braai, which is impossible when it is windy or rainy. Some complain that these shelters make it difficult for them to advertise their products properly. They claim that they need wider stalls or shelters to accommodate their merchandise or activities. One of these business owners noted that he did not want those one of the usual municipal-provided kiosks,

> "*I do not want those shelters, because as you can see my stall is very big as compared to those shelters. If I accept the shelter it would mean that I am limiting myself and the potential of my stand. This shelter will just limit my advertising strategies; the customers will not see all of my products, my sister. So no thank you, I don't even want to be considered for a shelter, I am fine on my own".*

Even so, some still regard the lack of shelter as a serious problem that needs urgent attention.

***Storage and transport***

According to the study, storage is not a challenge for most tuck shops or small shop owners in Elliot and Cala towns; however it is a challenge for the street vendors and salon owners. Lack of storage is a problem especially for those street vendors who currently do not have shelters to carry out their day to day business activities, and it is even worse for those selling perishable products such as meat, livers, takeaways, fruits and vegetables. As a result, these entrepreneurs are unable to stock in bulk because of lack of storage space and refrigerators to store their products so they can last longer. The majority of these street vendors indicated that they have to purchase supplies daily and preferably ensure that their goods are finished before going home, or otherwise they will get spoilt. Some street vendors have to carry their products home after the business day is over, and carry them back to their stalls the next morning. This is costly to the vendors because some have to pay the public transports/taxis for the large plastics and bags they carry around every day. This on its own has a negative impact on their enterprises. Some of the entrepreneurs that stay in rural areas even have to hire transport to carry their merchandize to town from rural areas and back home. This has a huge impact on their profits as they have to pay additional transport costs.



***Robberies***

For those who currently have shelter to carry out their day-to-day business activities, storage also remains a problem because when they leave their products behind they are risking their goods being stolen. Even some salon owners who currently work in containers complain of robberies, despite the fact that these containers are robust structures (see e.g. Picture 4.10); these entrepreneurs have to carry home their salon equipment such as driers, relaxers etc., and bring them back the following day. Secure and safe shelters are a key to the productivity of street vendors and may appear to be better appealing working environments for the vendors. According to Kamau and

Mitullah (2022), most street vendors are facing similar challenges and they operate in places that lack service and infrastructure provision.

***Access to capital***

Many scholars such as Bukaliya and Aleck (2012) have noted that lack of capital to start or grow enterprises is one of the major challenges that hinder growth of businesses and it needs to be addressed. Bukaliya and Aleck (2012) state that many traders or business owners lack access to funding (including loans) because they are deemed to be incompetent or do not meet the requirements such as business registration and collateral. Thus, lack of funding is noted to be a severe challenge faced by these business owners. Moreover, business owners from Sakhisizwe indicated that to supplement their businesses they borrow money from other private financial sources such as loan sharks or use their little savings. This is quite expensive for these small business owners as they have to repay the money with interest at a given time agreed to by the business owner and the financial institution.

According to some respondents these loan sharks tend to be very dangerous, exploitive and manipulative because they charge high interest rates that they know borrowers cannot easily repay. If borrowers fail to repay with interest, the loan sharks will repossess their furniture or home ware until they can afford to pay back the money with interest. Such sources of loans seem to be sustaining their businesses for a short period of time but cannot be relied on to develop businesses and sustain their livelihoods.



***Population size***

The majority of business owners in Elliot complained that business is very slow in Elliot compared to other towns with larger population sizes. Some also indicated that there are days they would go back home without selling any of their products. For example, a clothing store owner replied angrily as follows when asked about the number of customers he gets per week:

> *"As you can see there are no customers in the store. Do you see anyone entering the shop and buying? I am even thinking of closing the store, and you*

*come here asking a lot of questions about the number of customers I get. This town is dead, there are few people in this town, so no customers. Days, even weeks, go by without getting any customers, so I don't know the number of customers I get per week. Some just come in to view the clothes and not buy anything. As you can see I am working alone, I had to let go of my two employees because we are not making any profits. So to answer your question I roughly get 2 to 3 customers per week".*

***Competition***

The majority of business owners indicated that they are facing a lot of competition. In both Elliot and Cala towns there are many stands located very close to each other selling the same or similar products. Moreover, in both Elliot and Cala towns, enterprises tend to be grouped by their business types. For example, stands that braai livers and meat are closely located to each other, whereas salons are in another area, stands that sell clothing items are near one another, fruit and vegetable hawkers also tend to be clustered as well. According to Ben (2021) fast-food restaurants are always found next to each other, however this phenomenon does not only include fast food restaurants. Ben (2021) reveals that competitors choose to cluster for various reasons such as fairly splitting the market, access to supply and resources etc. In contrast, business owners from Sakhisizwe indicated that the location of their competitors make it difficult to make profit, especially when you are new in the business. This is because many customers are loyal to particular venders or service providers. Business owners indicated that the trading and retailing sector is saturated. For example, there are many hawkers, salons selling the same products and providing similar services, presumably due to low barriers of entry.



### 4.6.3 Advantages enjoyed by Cala and Elliot entrepreneurs

Despite the challenges faced by the entrepreneurs, there are advantages that encourage them to continue with their businesses regarding their business areas. Some of the business owners noted not paying rent and their locations are their advantages.

***No rent***

Some business owners indicated that they are not paying any rent which is very advantageous for them. This includes business owners that are currently using kiosks provided by the municipality and a few business owners that decided to buy containers for their businesses. This includes some tuck shops, salons and restaurants. Not paying rent is one of the advantages that encourages them to continue with their businesses as they consider themselves very lucky because they do not have to spend their profits on rent like the majority of other business owners. A salon owner explained that she did not regret using her lump sum of money she saved when she was employed to buy herself a container because it would have been difficult for her pay rent monthly. She said;

> *"Buying a container for my business was the best decision because I do not have to pay rent. It would have been difficult to pay rent because of the type of business I am in. It is not guaranteed that at the end of each month I will get a certain amount because the number of clients per month is not guaranteed as well as income".*



Another respondent noted that, *"As a construction worker rent is the least of my worries because home owners who are far from where I reside provide me with free accommodation and meals throughout the building period. So the revenue is only for my personal use".*

From the comments provided by these business owners, it is clear that not paying rent helps them to maximise their net income.

***Business location***

In Cala town, most business owners indicated that their location guarantees the number of customers. For example, a business owner selling takeaways at a taxi rank is guaranteed to be having more potential customers compared to a person located towards the end of the street. Moreover, the majority of business owners were operating next to the main road to target more customers passing by the road. This helps them to advertise their products and therefore attract more customers. In addition, a woman in

Elliot selling braai meat indicated that selling close to a tavern was one of her advantages because people come from the tavern to buy meat from her.

## 4.7 Quantifying the performance of different types of entrepreneurs in the distinct parts of Sakhisizwe Local Municipality

This section seeks to answer the fifth research question, which aims to measure the performance of entrepreneurs in Sakhisizwe Local Municipality. The researcher applies an Ordinary Least Squares (OLS) model using Gretl to identify which factors have a statistically significant relationship with the businesses' net income. Two variations of the model are run which differ in terms of how they apply heteroskedasticity-robust standard errors. In the first, for which the results are shown in Table 4.13, the approach to the standard errors is the commonly applied 'HC1', which is a version of White's heteroskedasticity-consistent covariance matrix estimator (HCCME) in which a degrees-of-freedom correction is applied (Cottrell and Luchetti, 2022). However, because the dataset on which this analysis is based comes from respondents residing in three distinct areas, the model was also run (Table 4.14) using the "cluster-robust" variance estimator, which provides for a heteroskedasticity-consistent covariance matrix estimator in which the variance of the disturbance terms may differ according to cluster. In both cases, nine observations were dropped from the data because they were clear outliers and were removed in order to not distort the analysis.



**Table 4.12: OLS showing the performance of businesses through net income using heteroskedasticity-robust standard errors (HC1)**

Model 1: OLS, using observations 1-99 (n = 90)
Missing or incomplete observations dropped: 9
Dependent variable: Netincome
Heteroskedasticity-robust standard errors, variant HC1

| | *Coefficient* | *Std. Error* | *t-ratio* | *p-value* | |
|---|---|---|---|---|---|
| Const | 5937.81 | 2243.41 | 2.647 | 0.0097 | *** |
| Trading/Retailing | −1762.84 | 1453.25 | −1.213 | 0.2286 | |
| Producing/Manuf | 4648.26 | 2185.95 | 2.126 | 0.0365 | ** |
| Age | 14.3017 | 41.2039 | 0.3471 | 0.7294 | |
| Gender | −2428.15 | 1301.31 | −1.866 | 0.0656 | * |
| Eduinyrs | 120.923 | 100.227 | 1.206 | 0.2311 | |

| | | | | | |
|---|---|---|---|---|---|
| Cala_rural | 1988.74 | 1727.47 | 1.151 | 0.2530 | |
| Cala_urban | −2035.03 | 1201.14 | −1.694 | 0.0940 | * |

| | | | |
|---|---|---|---|
| Mean dependent var | 5272.889 | S.D. dependent var | 6080.858 |
| Sum squared resid | 2.19e+09 | S.E. of regression | 5168.594 |
| R-squared | 0.334361 | Adjusted R-squared | 0.277538 |
| F(7, 82) | 6.383668 | P-value(F) | 5.33e-06 |
| Log-likelihood | −893.0474 | Akaike criterion | 1802.095 |
| Schwarz criterion | 1822.093 | Hannan-Quinn | 1810.159 |

For the first model, based on heteroskedasticity robust standard errors, the R-squared is a respectable 33%, meaning that model explains one third of the variation in net income. The p-value associated with the all-slopes-zero null hypothesis is $5.33x10^{-6}$, which is far below 1%, virtually ruling out any possibility that the model lacks genuine explanatory power.

There are three explanatory variables which are significantly different from zero, namely the dummy variable for Producing/manufacturing (significant at the 5% level), the dummy variable for Gender (significant at the 10% level), and the dummy variable for Cala urban (also significant at the 10% level). The estimated slope coefficients can be interpreted as follows:



Involvement in producing/manufacturing is associated with a net income that is R4648 higher relative to involvement in providing a service., holding other variables constant;
Being a female business owner negatively impacts the net income by R2428, holding other variables constant.
Residing in Cala urban is associated with a net income that is R2035 lower than residing in Elliot urban, holding other variables constant.

The results for the second regression, using the clustered approach for the heteroscedasticity-robust standard errors, are presented in Table 4.14. The results are similar to those from the first model, and in no way inconsistent with them, adding some confidence to the overall interpretation. As before, the R-squared indicates that the model accounts for about one third of the variation in the dependent variable, and the p-

value associated with the F-test for the regression is very far below the 1% significance level.

**Table 4.13: OLS showing the performance of businesses through net income when standard errors are clustered by area type**

Model 2: OLS, using observations 1-99 (n = 90)
Missing or incomplete observations dropped: 9
Dependent variable: Netincome
Standard errors clustered by 3 values of Areatype

| | *Coefficient* | *Std. Error* | *t-ratio* | *p-value* | |
|---|---|---|---|---|---|
| Const | 5937.81 | 2756.38 | 2.154 | 0.0342 | ** |
| Trading/Retailing | −1762.84 | 2944.99 | −0.5986 | 0.5511 | |
| Producing/Manuf | 4648.26 | 5241.06 | 0.8869 | 0.3777 | |
| Age | 14.3017 | 73.2702 | 0.1952 | 0.8457 | |
| Gender | −2428.15 | 404.399 | −6.004 | <0.0001 | *** |
| Eduinyrs | 120.923 | 161.963 | 0.7466 | 0.4574 | |
| Cala_rural | 1988.74 | 1058.21 | 1.879 | 0.0637 | * |
| Cala_urban | −2035.03 | 359.065 | −5.668 | <0.0001 | *** |

| | | | |
|---|---|---|---|
| Mean dependent var | 5272.889 | S.D. dependent var | 6080.858 |
| Sum squared resid | 2.19e+09 | S.E. of regression | 5168.594 |
| R-squared | 0.334361 | Adjusted R-squared | 0.277538 |
| F(7, 2) | 5.17e+16 | P-value(F) | 1.93e-17 |
| Log-likelihood | −893.0474 | Akaike criterion | 1802.095 |
| Schwarz criterion | 1822.093 | Hannan-Quinn | 1810.159 |



As with the first model, there are three variables which are statistically significant, namely the Gender dummy (at the 1% level), and both area-type dummies, i.e. the dummy for Cala rural (which is significant at the 10% level) and that for Cala urban is significant at the 1% level). The corresponding estimated slope coefficients can be interpreted as follows:

- Being a female business owner negatively impacts net income, which declines by R2428, holding other variables constant.
- Residing in Cala rural is associated with a net income that is R1988 higher than residing in Elliot urban, holding other variables constant.
- Residing in Cala urban is associated with a net income that is R2035 lower than residing in Elliot urban, holding other variables involved in the model constant.

Although one might have wished for more statistically significant explanatory variables, for our purposes what is particularly important about these regressions is what they tell us about the importance of area type. And this is not necessarily what was expected. Up to now, the evidence has suggested that of the three areas examined, Cala urban is the most auspicious for enterprise, and Cala rural the least, to the extent that people residing in Cala rural are the least likely to engage in enterprise, and yet when they do so, they actually conduct their enterprise in Cala town. However, these regression results suggest a different angle, whereby, controlling for other influences, enterprises of those who reside in Cala rural are associated with higher net income than those of people who reside in Elliot urban or Cala urban. In fact a simple comparison of means supports this surprising finding: the mean net incomes for entrepreneurs residing in Cala rural, Elliot urban, and Cala urban are R8600, R5050 and R3900, respectively. But at the same time the variability of net incomes follows a similar pattern, whereby the standard deviations of net income for Cala rural, Elliot urban, and Cala urban are R8200, R5200 and R4600, respectively. One plausible interpretation of these results is that, yes, residing in a rural village some distance from town does indeed discourage many people who might otherwise wish to start a business, however there are nonetheless some talented individuals residing in these areas who are more than able to compensate for the disadvantage posed by the location of their home. The other side of the coin is those residing in Cala town, for whom starting a business (e.g. as a hawker) is relatively easy, meaning that the ranks of entrepreneurs based in Cala town are swollen with marginal enterprises that would not be viable or at least worthwhile if the person lived further afield.



### 4.8 Summary

This chapter presented the findings from the study according to its research objectives / research questions. These findings can be summarised as follows:

- *To what extent are adults in the distinct parts of Sakhisizwe Local Municipality involved in various phases of entrepreneurship?*

Approximately 7% to 16% of adults in Sakhisizwe are nascent entrepreneurs, and 9% to 17% are actual entrepreneurs (i.e. 'current business owners'), with Cala urban having the highest concentration of entrepreneurs, and Cala rural having the lowest, concentration; having said that, the difference between Cala rural and Elliot urban is very slight. Overall, these figures are high relative to GEM's estimates for entrepreneurship in South Africa. One curious note is that even though the share of adults in the rural areas of Cala is relatively low, the extrapolated total number of entrepreneurs residing in these areas is relatively high, owing to the fact that, as in most former homeland areas, the rural population greatly exceeds the town-based population. (In the Elliot part of Sakhisizwe, by contrast, the rural population scarcely exists, which is why the survey was not also conducted there.)

- *What factors contribute to the decision whether or not to initiate an enterprise?*

  While the statistically significant influences on nascent versus actual entrepreneurship differ somewhat, overall the decision to initiate an enterprise is positively influenced by being a male, by being a household head, by being older, by having a large household size, and by being more educated; holding constant the influence of these factors, residing in the rural areas of Cala decreases one's proclivity to start a business, while residing in or close to Cala town increases one's proclivity to start a business.



- *What are the types of entrepreneurial activities present in the distinct parts of Sakhisizwe Local Municipality?*

  Three main types of enterprises were identified, namely trading (e.g. hawking), producing or manufacturing, and provision of services. While each of these enterprise types is evident among respondents from all three area types, there were some differences. For instance, among entrepreneurs residing in Cala urban, the most common type of enterprise is service provision, whereas among residents of Cala rural and Elliot urban, the most common type of enterprise is trading/retailing. Having said that, these differences are not necessarily statistically significant at any level.

- *What strategies are pursued by, and challenges experienced by, entrepreneurs in the distinct parts of Sakhisizwe Local Municipality?*

  Entrepreneurs use a number of strategies to maintain and/or advance their businesses, however foremost among these is to conduct one's enterprises from a site where there is abundant foot-traffic. This is why by and large entrepreneurs conduct their enterprises in town even if they reside in a rural area outside of town. This is also why conducting a business in Elliot town is seen as less auspicious than doing so in Cala town, i.e. because although the two towns have roughly the same numbers of people, Cala town has more people passing through it on a daily basis because it is relatively accessible for large numbers of rural people. To the extent some people continue practicing their enterprises in Elliot town rather than in Cala town, it is presumably because their homes are in Elliot town, just as those residing in Cala's rural villages cannot so easily relocate their homes. Among the numerous challenges identified by respondents, a notable number have to do with the lack of services available in town, such as water and sanitation.

- *What influences the performance of different types of entrepreneurs in the distinct parts of Sakhisizwe Local Municipality?*



  The econometric results were inconclusive, apart from the fact that it would seem that manufacturing / production is more lucrative than other enterprise types, and from the fact that, in terms of net income, it is disadvantage to be a woman. Meanwhile, on the face of it the econometric results suggest that residing in a rural community in Cala contributes to a higher net income, however this interpretation is doubtful. A more plausible interpretation is that the disadvantage of residing in Cala rural discriminates against large numbers of rural dwellers trying to establish marginal enterprises, which is far easier among those residing in one or the other town.

# CHAPTER 5: DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

## 5.1 Introduction

Sakhisizwe Local Municipality has a fair share of adults that are nascent or current business owners (actual entrepreneurs and currently running their businesses). These individuals originate from different backgrounds with different personal traits and attitudes. Therefore, these entrepreneurs start their businesses based on different reasons and different opportunities. Furthermore, such entrepreneurs conduct different enterprises due to different attitudes, personal traits and opportunities. However, these entrepreneurs encounter various challenges when they conduct their day to day entrepreneurial activities. Hence they perform differently compared to each other. Their performances could be influenced by different opportunities and limitations encountered by these entrepreneurs. This chapter presents discussion and conclusions based on the findings of the research. The researcher thereafter proposes recommendations which may be utilised by the business owners, Sakhisizwe Local Municipality and/or the South African government to improve the nature of businesses found in rural and urban areas of Cala and Elliot.



## 5.2 Discussion

Firstly, the study seeks to investigate the extent in which adults in the distinct parts of Sakhisizwe Local Municipality are involved in various phases of entrepreneurship. The results showed a fair amount of adults who are nascent entrepreneurs, and actual entrepreneurs (i.e. 'current business owners'), with Cala urban having the highest concentration of entrepreneurs, and Cala rural having the lowest concentration; having said that, the difference between Cala rural and Elliot urban is very slight. The results showed figures that are relatively high compared to GEM's estimates for entrepreneurship in South Africa. This could have different meanings such that Sakhisizwe Local Municipality might be doing better than the rest of South Africa. These results may be validated by the fact that the municipality has high unemployment rate and therefore the majority of adults start businesses to get income to sustain themselves. This dissertation showed that engaging in entrepreneurship enables

respondents to sustain their livelihoods in an environment that is otherwise lacking in economic opportunities. The majority of entrepreneurs surveyed do not have tertiary education, and live in households characterised by high levels of unemployment and few alternative sources of income.

Secondly, the study seeks to examine factors that contribute to the decision whether or not to initiate an enterprise. Based on the research results the decision to initiate an enterprise could be influenced by gender, household headship, age and household size holding all other things constant. All these demographic factors influence one's decision to start a business for the purpose of generating income to sustain the individual's household. For example, being a household head might put an individual under pressure of generating income for the purpose of supporting the household beneficiaries. With the high unemployment rate entrepreneurship seems to be the answer to many people. Similarly, having a larger household size puts one under pressure to look for more opportunities to generate income and again out of the few opportunities entrepreneurship seems to be the option. In contrast, an individual's to decision could be influenced to not start a business. For example, residing in the rural areas of Cala decreases one's interest to start a business. This could be due to various reasons including the distance travelled from rural areas to towns, not having relevant customer base in rural areas etc.



Thirdly, the study investigates the types of entrepreneurial activities present in the distinct parts of Sakhisizwe Local Municipality. Three main types of enterprises were identified, namely trading (e.g. hawking), producing or manufacturing, and provision of services. While each of these enterprise types is evident among respondents from all three area types, there were some differences. For instance, among entrepreneurs residing in Cala urban, the most common type of enterprise is service provision, whereas among residents of Cala rural and Elliot urban, the most common type of enterprise is trading/retailing. These activities are influenced by the opportunities, abilities, personality traits etc. of individuals. For example, hawkers start businesses according to their abilities and affordability and restaurants might be initiated due to individual's personal traits.

Fourthly, the study investigates the strategies pursued by, and challenges experienced by entrepreneurs in the municipality. Entrepreneurs use a number of strategies to maintain and/or advance their businesses, however foremost among these is to conduct one's enterprises from a site where there is abundant foot-traffic. This is why by and large entrepreneurs conduct their enterprises in town even if they reside in a rural area outside of town. This is also why conducting a business in Elliot town is seen as less auspicious than doing so in Cala town, i.e. because although the two towns have roughly the same numbers of people, Cala town has more people passing through it on a daily basis because it is relatively accessible for large numbers of rural people. To the extent some people continue practicing their enterprises in Elliot town rather than in Cala town, it is presumably because their homes are in Elliot town, just as those residing in Cala's rural villages cannot so easily relocate their homes. Among the numerous challenges identified by respondents, a notable number have to do with the lack of services available in town, such as water and sanitation.

Lastly, the study investigates factors that influence the performance of different types of entrepreneurs in the municipality. The econometric results were inconclusive, apart from the fact that it would seem that manufacturing / production is more lucrative than other enterprise types, and from the fact that, in terms of net income, it is disadvantage to be a woman. Meanwhile, on the face of it the econometric results suggest that residing in a rural community in Cala contributes to a higher net income, however this interpretation is doubtful. A more plausible interpretation is that the disadvantage of residing in Cala rural discriminates against large numbers of rural dwellers trying to establish marginal enterprises, which is far easier among those residing in one or the other town. The key focus of this study was the influence of geography, in particular population sizes of both Cala and Elliot towns of Sakhisizwe Local Municipality. The study shows that population size and geography influence is one of the main aspects driving profitable businesses in Sakhisizwe Local Municipality. As a result when comparing the two towns Cala has a reasonable number of entrepreneurs compared to Elliot. Cala also has a variety of business types compared to Elliot. The fact that Cala has both rural and urban areas both consisting of larger populations than Elliot with only locations and few farmlands on the outskirts makes Cala very competitive in terms of entrepreneurship. Despite the

challenges faced by all the business owners they are still eager to continue with their businesses.

### 5.3 Conclusions

After investigating the extent of involvement of adults in Sakhisizwe Local Municipality in various phases of entrepreneurship, the results showed a fair amount of adults who are nascent entrepreneurs and actual entrepreneurs (i.e. 'current business owners'). The results show that Cala urban is having the highest concentration of entrepreneurs, and Cala rural having the lowest concentration. However, the difference between Cala rural and Elliot urban is very slight. Therefore, Cala urban has more adults involved in various phases of entrepreneurship compared to Cala rural. The results showed figures that are relatively high compared to GEM's estimates for entrepreneurship in South Africa and therefore Sakhisizwe Local Municipality might be doing better compared to the rest of South Africa.

While examining the factors that contribute to the decision whether or not to initiate an enterprise, demographic factors such as gender, household headship, age and household size were found as factors influencing one's decision to start a business. Whereas, residential areas are factors tend to influence individuals against entrepreneurship. Therefore, in Sakhisizwe Local Municipality initiating an enterprise is influence by demographic factors, residential area and maybe the level of responsibility.



Furthermore, there are various types of entrepreneurial activities taking place in Sakhisizwe Local Municipality. These types can be classified into three categories such as trading (e.g. hawking), producing and manufacturing as well as provision of services. With each of these enterprise categories it is evident that among respondents from all three area types, there were some differences. For instance, among entrepreneurs residing in Cala urban, the most common type of enterprise is service provision, whereas among residents of Cala rural and Elliot urban, the most common type of enterprise is trading/retailing. Therefore, it can be concluded that micro entrepreneurial activities taking place in Cala and Elliot are trading, producing and manufacturing as

well as provision of services. However, the most dominant business type is the trading and retailing sector whereas the majority of business owners are street vendors.

The study also went through the strategies pursued by, and challenges experienced by entrepreneurs in the municipality. Entrepreneurs use a number of strategies to maintain and/or advance their businesses, however foremost among these is a need to conduct one's enterprises from a site where there is abundant foot-traffic. This is why by and large entrepreneurs conduct their enterprises in town even if they reside in a rural area outside of town. Entrepreneurs from this municipality also perform other activities such as bookkeeping, advertising to ensure that they keep in track of the net inflows and outflows of the business, to also keep their businesses vibrant and attracting more customers. To enhance the entrepreneurial status of Sakhisizwe Local Municipality more strategies need to be introduced and enforced to develop a sustainable entrepreneurial base and a promising entrepreneurship status.

From the results of the study, it can be concluded that the performance of the study area in terms of entrepreneurship is influenced by the location of the enterprise. The main objective of the study is to establish a deep understanding of entrepreneurship within and between the various parts of Sakhisizwe Local Municipality, thus providing insight into the nature of the rural economy. Government has long spoken of the large populations of the former homeland areas as a problem to be solved, e.g. through outmigration to the cities (Presidency, 2007), or via land reform (MALA, 2001). However, the study proved otherwise concerning entrepreneurship in Sakhisizwe Local Municipality. This municipality consists of two towns that are closely located but have different geographical influence and/or population sizes. Cala area consists of both rural and urban areas both with larger population sizes. This seems to work as an advantage for Cala business owners as they get more traffic and have better opportunities to expand their businesses. Larger population sizes from rural areas of Cala also conduct their businesses in Cala town while others come from rural areas to shop in Cala town. This creates more traffic for Cala business owners. Whereas, Elliot has lower population size compared to Cala and this works as a disadvantage for current business owners

and those who are working on starting their businesses. As a result some of the existing business owners are considering closing down due to fewer customers.

Moreover, the dissertation has also explored different types of business activities and identified challenges and strategies used by the business owners of Sakhisizwe Local Municipality. While Cala entrepreneurs demonstrate positive attitudes, innovation and resourcefulness towards entrepreneurship, Elliot entrepreneurs are losing hope. They state that because of low population size they have few customers, as a result some days they go back home without selling anything. Therefore, while the Cala business sector seems to be growing the Elliot business sector is not.

### 5.4 Recommendations

Sakhisizwe Local Municipality should assist its business owners especially street vendors by constructing decent shelters and storage facilities which they can utilise for their business activities. Alternatively, the municipality can construct vending stalls for different activities separately. For example, the municipality can construct large stalls to accommodate street vendors that sell fruit and vegetables, stalls for tailors, and for those who buy and sell clothes. The municipality can also provide caravans for those that sell takeaways. In addition, the Sakhisizwe Local Municipality should provide essential public utilities such as clean drinking water, public toilets, garbage collection and electricity. This would encourage productivity of these small business owners and create a safe and clean environment for both business owners and customers.



In order to improve the quality and standards of the small business owners, their capacities and skills need to be strengthened through training in credit, customer handling, provision of information on bookkeeping, financial management and infrastructure. Moreover, for small business owners to be recognized, they need to associate and constitute themselves into well-known and organized associations which would assist them fight with the challenges they are currently facing in order to improve the current state they are working on. The Department of Health should also work with small businesses especially street vendors selling takeaways, fruits and vegetables to ensure that health regulations and hygiene are followed. This would help to avoid health

risks that may affect both business owner and customers if health regulations are not being followed.

The South African government should recognize small businesses as they are dominating in the business industry. They should also be considered by government in terms of funding and skills development just large formal businesses. The government or business financial institutions should consider focusing on young business-oriented individuals as they may be the future of entrepreneurship. Sakhisizwe Local Municipality business owners should also consider formalising their businesses. This would make it easier for them to thrive while working under recognition and support by government and other private institutions. However, the regulations designed by such institutions or government would need to be designed in a way that would be sustainable and favourable towards small business owners. Moreover, these regulations should consider the ideas and interests of small business owners in order to develop stainable regulations that would strengthen the livelihoods of business owners.

### 5.5. Limitations of the study

This study is limited to a small portion of the former Transkei region of the Eastern Cape Province in Sakhisizwe Local Municipality. The project focuses on two towns under this municipality, that is, Elliot and Cala, and the rural areas around those towns. Participation was limited to adults from both rural and urban areas of Cala and Khowa. Insofar as this involved interviews with entrepreneurs, this excluded enterprises which are merely local instances or branches of a ‘chain’, e.g. most supermarkets, banks and franchises. This study is also limited to Small and Micro Enterprises (SMEs).



### 5.6. Areas for further research

Research can be conducted on the impact of entrepreneurship on the level of unemployment as well as the contribution towards economic growth and economic development. Furthermore, research can also be conducted on the roles played by government and private sector to support micro and start-up entrepreneurs. In addition, steps taken to support and promote youth entrepreneurship and women empowerment also need to be investigated. Lastly, a thorough and updated research on necessity

versus opportunity entrepreneurship as well as linkages between rural and urban entrepreneurship can also be conducted.

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## ANNEXURES

### Annexure 1: Entrepreneur Survey Questionnaire

**Understanding entrepreneurship and the rural economy in the context of rural-urban linkages within Sakhisizwe Local Municipality, Eastern Cape**

University of Fort Hare
Together in Excellence

# ENTREPRENEUR SURVEY QUESTIONNAIRE



**Department of Agricultural Economics and Extension**

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**Alice 5700**

**South Africa**

**Maliwa Noluvuyo**

**IMPORTANT NOTICE TO THE RESPONDENTS**

Please carefully follow the instructions and sincerely answer the questionnaire for the purpose of fulfilling the objectives of the study. Remember, your participation is **VOLUNTARY** and you are allowed to stop me any time when you do not want to go on with the interview.

Please fill in and mark with an "X" where necessary.

**1. DEMOGRAPHICS**

1.1 Gender: FEMALE ( ) MALE ( )

1.2 Age: _____

1.3 Marital status _____

1.4 Household size _____

1.5 Are you a household head? _____

1.6 How many household heads? _____

1.6 Please mark one of the following statements, which characterize the monthly net income of your business.

Much less than average ( ) A bit less than average ( ) Average ( ) A bit higher than average ( ) Much higher than average ( ) Relatively average ( )

1.5 Highest level of education _____



1.6 The name of the area in which you live. _____

1.7 The name(s) of the area(s) where your enterprise(s) is/are based.

_____
_____

1.8 What is your history of employment?

_____
_____
_____

**2. SUPPLY**

2.1 How do you sell your produce?

_____
_____

2.2 What is the type of market do you supply?

_____

_____

2.3 How much quantity do you supply per month? _____

2.4 Value supplied per month? _____

2.5 What are your selling arrangements?

_____

_____

2.6 What are your selling price arrangements?

_____

2.7 What are your payment arrangements? _____

_____

2.8 What is the distance to your market? _____

2.9 What form of transport do you use? _____

Table 1: Please fill in the following table and mark with an "X" where necessary.

| **ACCESS TO RESOURCES** | | |
|---|---|---|
| 3.1 Do you have access to market information? | YES | NO |
| 3.2 Do you have access to storage? | YES | NO |
| 3.4 Do you have access to credit? | YES | NO |
| 3.5 Do you have access to Education and training? | YES | NO |
| 3.6 Do you have access to transport? | YES | NO |
| **Please rate the quality of the resources you have access to** | | |
| 3.7 Rating of quality of market information (1= poor; 5 excellent) | | |
| 3.8 Rating of quality of storage (1= poor; 5= excellent) | | |
| 3.9 Rating the quality of packaging facilities (1= poor; 5 excellent) | | |
| 3.10 Rating of quality of credit (1= poor; 5= excellent) | | |
| 3.11 Rating of quality of training (1= poor; 5= excellent) | | |
| 3.12 Rating of quality of transport (1= poor; 5= excellent) | | |



**4. FACTORS THAT INFLUENCE AN INDIVIDUAL TO INITIATE AN ENTEPRISE**

4.1Why did you initiate an enterprise?

_____

_____

_____

_____

_____

_____

**5. CHALLENGES FACED BY ENTREPRENEURS**

5.1 What are the challenges experienced by your enterprise?

_____
_____
_____
_____
_____
_____

**6. STRATEGIES USED BY ENTREPRENEURS**

6.1. What are the strategies used to keep the business running?

_____
_____
_____
_____
_____
_____

**7. ADDITIONAL INFORMATION ABOUT THE ENTERPRISE**

7.1 Which year was the business founded? _____

7.2 Are there any family members employed in the business?

Yes ( ) No ( )



7.3 If yes, how many? _____

7.4 What is your role in the business?

_____
_____

7.5 What are the advantages of operating in your area?

_____
_____
_____
_____
_____

7.6 What are the disadvantages of operating in your area?

_____
_____

_____
_____
_____

7.7 Do you own multiple enterprises? If yes, how many? _____

7.8 Where are your enterprises based?

_____
_____
_____

7.9 How many employees do you have in your enterprise(s)?

_____
_____

7.10 Is your business registered?

Yes ( ) No ( )

7.11 If no, why?

_____
_____



7.12 Have you received funding? If yes, please specify.

_____
_____

7.13 How much profit have you made as compared to when the business was founded?

_____
_____

**********THANK YOU **********

## Annexure 2: Adult Population Survey questionnaire

### ADULT POPULATION SURVEY QUESTIONNAIRE

**Questionnaire number: ……**

University of Fort Hare
Together in Excellence

**Evaluating the nature of entrepreneurship within the towns and rural areas of Sakhisizwe Local Municipality, Eastern Cape**

| | |
|---|---|
| **Date of interview** | |
| **Start time** | |
| **Name of the village** | |

Table 1: Please fill in the following table and mark with an "X" where necessary. Please note that, only potential entrepreneurs should fill in this table. Current business owners should skip to table 3 and discontinuers should skip to table 4.



| **BLOCK 1:** NASCENT ENTREPRENEURS | | | | |
|---|---|---|---|---|
| **1A1.** Are you, alone or with others, currently trying to start a new business, including any self-employment or selling any goods or services to others? | YES | NO | DON'T KNOW | REFUSED |
| 1A2. Are you, alone or with others, currently trying to start a new business or a new venture for your employer as part of your normal work? | YES | NO | DON'T KNOW | REFUSED |
| CONTINUE THE BLOCK IF RESPONDENT ANSWERED "YES" OR "DON'T KNOW" TO QUESTIONS 1A1 OR 1A2, OTHERWISE SKIP TO BLOCK 2 | | | | |
| **1B.** Over the past twelve months have you done anything to help start this new business, such as looking for equipment or a location, organizing a start-up team, working on a business plan, beginning to save money, or any other activity that would help launch a business? | YES | NO (skip to BLOCK 2) | DON'T KNOW | REFUSED (skip to BLOCK 2) |
| **1D1.** Will you personally own all, part, or none of the business? | ALL (Skip to question 1E1) | PART | NONE (Skip to BLOCK 2) / DON'T KNOW | REFUSED (Skip to question 1E1) |
| **1D2.** How many people, including yourself, will both own and manage this new business? | DON'T KNOW | REFUSED | VALID RANGE 2-1000 _____ | |
| **1E1.** Has the new business paid any | YES | NO | DON'T KNOW | REFUSED |

| | | | | |
|---|---|---|---|---|
| salaries, wages, or payments in kind, including your own, for more than three months? "Payments in kind" refers to goods or services provided as payments for work rather than cash. | | (Skip to question 1F) | | (Skip to question 1F) |
| **1E2.** What was the first year the founders of the business received wages, profits, or payments in kind from this business? | VALID RANGE 1800-2018<br><br>(Skip to 1F) | NO PAYMENTS YET<br><br>(Skip to 1F) | DON'T KNOW | REFUSED<br><br>(Skip to 1F) |
| **1E3.** Did the founders of this business receive any wages, profits or payments in kind from this business before 1 January 2018? | YES | NO | DON'T KNOW | REFUSED |
| **1F.** What kind of business is this? What will it be selling? How would it be listed in a business directory, such as the phone book yellow pages? (WRITE THE MOST COMPLETE POSSIBLE DESCRIPTION OF THE BUSINESS.) | _____<br>_____<br>_____<br>_____<br>_____ | | | |

| | | | | | |
|---|---|---|---|---|---|
| **1G1.** Will all, some, or none of your potential customers consider this product or service new and unfamiliar? | ALL | SOME | NONE | DON'T KNOW | REFUSED |
| **1G2.** Currently, are there many, few, or no other businesses offering the same products or services to your potential customers? | MANY | FEW | NONE | DON'T KNOW | REFUSED |
| **1G3.** Have the technologies or procedures required for this product or service been available for less than a year, or between one to five years, or longer than five years? | LESS THAN 1 YEAR | BETWEEN 1-5 YEARS | LONGER THAN 5 YEARS | DON'T KNOW | REFUSED |
| **1G4.** What proportion of your customers will normally live outside your area? | MORE THAN 90% | 76 TO 90% | 51-75% | 26-50% | 11-25% |
| | 10% or less | NONE | DON'T KNOW | | REFUSED |

ASK QUESTION 1H1 ONLY IF RESPONDENT ANSWERED "YES" , "DON'T KNOW" OR "REFUSED" TO 1E1, OTHERWISE SKIP TO 1H2

| | | | |
|---|---|---|---|
| **1H1.** Not counting the owners, how many people are currently working for this business? Please include all exclusive subcontractors, meaning people or firms working ONLY for this business and not working for others as well. | VALID RANGE 0-1 000 000<br>_____<br>people | DON'T KNOW | REFUSED |
| **1H2.** Not counting owners, how many people, including both present and future | VALID RANGE 0-1 000 000 | DON'T KNOW | REFUSED |

| | | | |
|---|---|---|---|
| employees, will be working for this business five years from now? Please include all exclusive subcontractors, meaning people or firms working ONLY for this business, and not working for others as well. | _____ people | | |
| **1K1.** Are you involved in this start-up to take advantage of a business opportunity or because you have no better choices for work? | TAKE ADVANTAGE OF OPPORTUNITY | NO BETTER CHOICES FOR WORK (Skip to BLOCK 2) | COMBINATION OF BOTH OF THE ABOVE |

| | | | |
|---|---|---|---|
| HAVE A JOB BUT SEEK BETTER OPPORTUNITIES (Skip to BLOCK 2) | OTHER SPECIFY _____ _____ _____ _____ _____ _____ (Skip to BLOCK 2) | DON'T KNOW (Skip to BLOCK 2) | REFUSED (Skip to BLOCK 2) |

| | | | | | | |
|---|---|---|---|---|---|---|
| **1K2.** Which one of the following, do you feel, is the most important motive for pursuing this opportunity? | GREATER INDEPENDENCE | INCREASED PERSONAL INCOME | JUST TO MAINTAIN INCOME | NONE Specify _____ _____ _____ _____ _____ _____ | DON'T KNOW | REFUSED |



Table 2: Do you own an enterprise? If yes, please fill in the following table and mark with an "X" where necessary. Please note that, both nascent and owner-managers should fill in this table.

| **1. REGISTRATION** | | |
|---|---|---|
| 3.1 Have you registered your business with the Companies and Intellectual Property Commission (CIPC)? | YES | NO |
| 3.2 Are you registered with the South African Revenue Service (SARS)? | YES | NO |

Table 3: Do you own an enterprise? If yes, please fill in the following table and mark with an "X" where necessary. Please note that, only current business owners should fill in this table. Nascent entrepreneurs should go back to table 1 and potential entrepreneurs and discontinuers should skip to table 4.

| | | | | | | |
|---|---|---|---|---|---|---|
| **BLOCK 2:** OWNER-MANAGERS | | | | | | |
| **2A.** Are you, alone or with others, currently the owner of a business you help manage, self-employed, or selling any goods or services to others? | YES | NO | DON'T KNOW | REFUSED | | |
| ASK QUESTION 2C ONLY IF RESPONDENT ANSWERED "YES" (1) TO QUESTION 2A AND "YES" (1) TO QUESTION 1B, OTHERWISE SKIP TO LOGIC BEFORE QUESTION 2D1 | | | | | | |
| **2C.** Is this the same business as you referred to in the previous questions, or is it a different business? | SAME BUSINESS (Skip to BLOCK 3) | DIFFERENT BUSINESS | DON'T KNOW | REFUSED | | |
| CONTINUE THE BLOCK IF RESPONDENT ANSWERED "YES" (1) OR "DON'T KNOW" (-1) TO QUESTION 2A, OTHERWISE SKIP TO BLOCK 3<br>INTERVIEWER NOTE: Insert "perhaps…" if "don't know" in question 2A | | | | | | |
| **2D1.** Perhaps we were not clear on what we mean with a "business." If you personally share in the profits of selling any goods or services to others that can be a business.) Do you personally own all, part, or none of this business? | ALL (Skip to 2E2) | PART | NONE (Skip to BLOCK 3) | DOESN'T APPLY (Skip to BLOCK 3) | DON'T KNOW | REFUSED (Skip to 2E2) |
| **2D2.** How many people, including yourself, will both own and manage this new business? | DON'T KNOW | REFUSED | VALID RANGE 2-1000 _____people | | | |
| **2E2.** What was the first year the founders of the business received wages, profits, or payments in kind from this business? | VALID RANGE 1800-2016 _____ (Skip to 2F) | NO PAYMENTS YET (Skip to 2F) | DON'T KNOW | REFUSED (Skip to 2F) | | |
| **2E3.** Did the founders of this business receive any wages, profits or payments in kind from this business before 1 January 2021? | YES | NO | DON'T KNOW | REFUSED | | |
| **2F.** What kind of business is this? What will it be selling? How would it be listed in a business directory, such as the phone book yellow pages? (WRITE THE MOST COMPLETE POSSIBLE DESCRIPTION OF THE BUSINESS.) | _____<br>_____<br>_____<br>_____<br>_____ | | | | | |
| **2G1.** Do all, some, or none of your potential customers consider this product or service new and unfamiliar? | ALL | SOME | NONE | DON'T KNOW | REFUSED | |
| **2G2.** Currently, are there many, few, or no other businesses offering the same products or services to your potential customers? | MANY | FEW | NONE | DON'T KNOW | REFUSED | |
| **2G3.** How long have the technologies or procedures used for this product or service been available? Less than a year, between one and five years or longer than five years? This should be counted from the current date | LESS THAN 1 YEAR | BETWEEN 1-5 YEARS | LONGER THAN 5 YEARS | DON'T KNOW | REFUSED | |

| | | | | | |
|---|---|---|---|---|---|
| **2G4.** What percentage of your annual sales revenues usually come from customers living outside your country? Is it more than 90%, more than 75%, more than 50%, more than 25%, more than 10%, or 10% or less? | MORE THAN 90% | 76 TO 90% | 51-75% | 26-50% | 11-25% |
| | 10% or less | NONE | DON'T KNOW | REFUSED | |
| **2H1.** Not counting the owners, how many people are currently working for this business? Please include all exclusive subcontractors, meaning people or firms working ONLY for this business and not working for others as well. | VALID RANGE 0-2 000 000 _____ people | DON'T KNOW | REFUSED | | |
| **2H2.** Not counting owners, how many people, including both present and future employees, will be working for this business five years from now? Please include all exclusive subcontractors, meaning people or firms working ONLY for this business, and not working for others as well. | VALID RANGE 0-1 000 000 _____ people | DON'T KNOW | REFUSED | | |
| **2K1.** Did you become involved in this firm to take advantage of a business opportunity or because you had no better choices for work? | TAKE ADVANTAGE OF OPPORTUNITY | NO BETTER CHOICES FOR WORK (Skip to 2L) | COMBINATION OF BOTH OF THE ABOVE | | |
| | HAVE A JOB BUT SEEK BETTER OPPORTUNITIES (Skip to 2L) | OTHER SPECIFY _____ _____ _____ _____ _____ _____ (Skip to 2L) | DON'T KNOW (Skip to 2L) | REFUSED (Skip to 2L) | |
| **2K2.** Which one of the following, do you feel, was the most important motive for pursuing this opportunity? | GREATER INDEPENDENCE | INCREASED PERSONAL INCOME | JUST TO MAINTAIN INCOME | NONE Specify _____ _____ _____ _____ _____ _____ | DON'T KNOW | REFUSED |
| **2L.** Did you start this business? Were you one of its first owners and managers? | YES | NO | DON'T KNOW | | REFUSED | |



Table 4: Please fill in the following table and mark with an "X" where necessary. Please note that, only potential entrepreneurs and discontinuers should fill in this table. Nascent entrepreneurs should go back to table 1 and owner-managers should go back to table 3.

| **BLOCK 3:** POTENTIAL ENTREPRENEURS AND DISCONTINUERS | | | | | |
|---|---|---|---|---|---|
| **3A.** Are you, alone or with others, expecting to start a new business, including any type of self-employment, within the next three years? | YES | NO | DON'T KNOW | REFUSED | |
| **3B.** Have you, in the past 12 months, sold, shut down, discontinued or quit a business you owned and managed, any form of self-employment, or selling goods or services to anyone? | YES | NO | DON'T KNOW | REFUSED | |
| **3C1.** Did the business continue its business activities after you quit? | YES | NO | BUSINESS CCONTINUED BUT ACTIVITIES CHANGED | DON'T KNOW | REFUSED |
| **3C2.** What was the most important reason for quitting this business? | Opportunity to sell the business | | | | |
| | The business was not profitable | | | | |
| | Problems getting finance | | | | |
| | Another job or business opportunity | | | | |
| | The exit was planned in advance | | | | |
| | Retirement | | | | |
| | Personal reasons | | | | |
| | An incident | | | | |



**DEMOGRAPHICS**

1.1 Gender: FEMALE ( ) MALE ( )

1.2 Age: _____

1.3 Marital status _____

1.4 Household size _____

1.5 Are you a household head? _____

1.6 How many members make up your permanent household, including you? _____

1.7 What was the total household expenditure in the last month?
R0 ( ) R1 - R199 ( ) R200 - R399 ( ) R400 - R799 ( ) R800 - R1 199 ( ) R1 200 - R1 799 ( ) R1 800 - R2 499 ( ) R2 500 - R 4 999 ( ) R5 000 - R9 999 ( ) R10 000 or more ( ) DO NOT KNOW ( ) REFUSED ( )

1.8. What is the highest level of education you have completed?

No schooling ( ) Highest grade ( ) Number of years in tertiary ( )

1.9 What is the name of the city in which you live? _____

**********THANK YOU **********