



**BEYOND SEED FUNDING: THE CHALLENGES OF INFORMAL SMALL BUSINESSES IN THE  
WINELAND DISTRICT OF THE WESTERN CAPE PROVINCE**

**By**

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## DECLARATION

I, **HAZEL GCOBISA NXOZI**, declare that the contents of this thesis represent my own unaided work, and that the thesis has not previously been submitted for academic examination towards any qualification. Furthermore, it represents my own opinions and not necessarily those of the Cape Peninsula University of Technology.

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**Signed**

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**Date**

## **ABSTRACT**

This study sought to ascertain why, and the extent to which informal small businesses struggle to grow in spite of receiving seed funding. The study also examined factors that influence the growth of these businesses, as well as support structures that are available to them, and how helpful the seed funding was.

Although government has provided infrastructure, finance and equipment for informal small businesses in rural areas, it appears that small businesses that received seed funding do not grow so that they become sustainable, and can contribute to job creation and poverty alleviation. Hence, the study is significant.

The study adopted a quantitative research approach, using questionnaires that the researcher distributed to 60 entrepreneurs who received seed funding in the Winelands District of the Western Cape.

Predominant findings from the study included a lack of finance and insufficient seed funding, instability of businesses, limited business space, crime, as well as a lack of infrastructure, marketing, coaching and mentoring, business management skills and transport. The study recommends that the government should release funding in portions to monitor business development instead of providing once-off payments; it should build warehouses in each local municipal area where informal business owners can keep their stock safely; and it should provide permanent structures for them from which these entrepreneurs can operate their businesses.

This study recommends infrastructure provisioning in terms of marketing tools, computers, transport and safety and security measures for all seed funded small businesses in the Cape Winelands District Municipality. Further, it promotes establishment of forums and partnerships between successful informal small businesses and those that are struggling to grow so that they may share and explore new business strategies and opportunities through networking.

The study also recommends that informal business owners should seek professional advice, guidance and training in terms of how to operate their respective businesses effectively, while the government should provide flexible policies that allow them to determine what support each business requires. Government should also increase seed funding amounts to cover infrastructural development at least, and should appoint officials or incubators to support these businesses.

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## **DEDICATION**

This dissertation is dedicated to my family: my mother, my late sister Bukiwe Nxosi, my husband and my kids

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## **CLARIFICATION OF BASIC TERMS**

- **Challenges**

The Oxford Dictionary (2010:230) describes the term as a difficult task that tests something's ability. In the context of this study, the term is used to describe difficult factors that hinder the growth and sustainability of rural small businesses that have received seed funding in the Winelands District of the Western Cape Province, South Africa.

- **Growth**

Nieman and Nieuwenhuizen (2009:292) suggest that the term means expanding the amount of trade that a business currently undertakes. Barringer and Ireland (2010:480) segregate the term into two spheres, namely internal and external growth; internal growth means that a business uses its own expertise and business practices, while external growth implies that a business relies more on external factors to grow. In the context of this study, growth means a business's ability to growth both internally and externally.

- **Informal small businesses**

Ligthelm (2013:57) defines an informal small business as any business that is unregistered whilst operating in a residential site or as a street vendor. In the context of this research, an informal small business is any unregistered business such as a salon and spaza shop.

- **Seed funding**

According to Francis (2018), seed funding is the fuel upon which a business operates. When a business first starts it takes time before it makes profits, hence it requires funding to meet its expenses until it begins to make profits. In the context of this study, seed funding is money that the Cape Winelands District Municipality provides to informal small businesses in the area

## CHAPTER ONE

### INTRODUCTION AND BACKGROUND

#### 1. INTRODUCTION

A significant number of small businesses in South Africa (SA) hardly ever grow to become sustainable businesses, while it is common knowledge that small businesses, generally, fail within the first five years of operating. Titus (n.d:1) concurs and states that a vast 95% of small businesses fail within the first five years of their existence, while over 50% fail within their first year. Furthermore, one of the reasons why small businesses fail is owing to low profitability. Although various studies have found that small businesses fail because of a lack of finance, their failure rate continues to increase rapidly. Nyamao, Patrick, Martin, Odondo and Simeyo (2012:5807) estimate that more than 40% of small businesses fail within the second year of their existence. Informal small businesses that have received seed funding in the Winelands District are a case in point.

Ligthelm (2013:57) contends that a reason why informal small businesses do not grow is that they survivalist entrepreneurs who lack business acumen and mind-sets usually start these. Ngorora and Mago's study (2013:9) agreed that a lack of finance is the main factor that hinders rural entrepreneurship in the Nkonkobe Municipal area. In addition, poor transport systems, corruption, a lack of marketing initiatives, a lack of equipment, small markets and distant markets also hinder rural entrepreneurship in the Nkonkobe Municipal area. Rural people in the Nkonkobe Municipal area face serious marketing challenges, as they have poor transport facilities and infrastructure.

The purpose of this study was to investigate challenges that influence growth amongst informal small businesses that received seed funding in the Winelands District in the Western Cape Province, South Africa. The study's sub-research objectives included exploring factors that affect the growth of informal small businesses that received seed funding in the Winelands District. The study used a quantitative research approach by collecting data from participants via questionnaires, considering the nature of the research question. The population of this study comprised entrepreneurs that received seed funding in the Winelands District. The researcher obtained a database of informal small business owners from the Cape Winelands District Municipality, and then conducted random sampling, as all the respondents had the same chance of participating. To analyse the generated data, the researcher categorised the respondents' feedback thematically based on the amount of seed funding they received, and thereafter the content was analysed. The results of this research manifested in recommendations that would help to foster the growth of informal small businesses in the Winelands District of the Western Cape Province by continuous seed funding, and how best to use it.

The rest of this introductory chapter includes a rationale for the study; background of the study; statement of the research problem; research question; and research objectives. The chapter also reviews relevant literature pertaining to the study's key words, and presents the research strategy. The document uses the terms informal small businesses, seed funding and small business inter-changeably.

## 1.1 RATIONALE FOR THE STUDY

Entrepreneurship has transformed a considerable number of industries. However, the informal small business sector remains unchanged owing to different factors, notwithstanding underpinning factors such as a lack of entrepreneurial skills, financial challenges, and business performance. Consequently, small informal businesses find it hard to grow their businesses. Although government has intervened in terms of offering both financial and pedagogical support to small businesses, informal small business owners hardly grow their businesses.

Given the foregoing, it was the intention of this study to investigate challenges that influence the growth of informal small businesses that received seed funding in a particular district in the Western Cape province. Although many studies have considered rural entrepreneurship challenges, for example, Agbenyegah (2013:1-479) and Chinomona and Mazirir (2015:835-850), it seems that little has been said about challenges that impact the growth of those organisations that have received seed funding, particularly those located in the Winelands District of the Western Cape. This study is quantitative in nature.

## 1.2 BACKGROUND OF THE STUDY

Globally, informal small businesses are a cornerstone for national economies (Turyakira, 2012:1). Even in the United States of America, the small business sector contributes significantly to job creation (Turyakira, 2012:1). Small businesses in the Organisation for Economic Co-operation and Development (OECD) countries accounted for over 90 % of businesses, contributing over 65 % of new jobs created in 2014 (Yusuf, Din & Jusoh, 2014:1). Simeyo, Martin, Nyamao, Patrick and Alphonse (2011:8290) opine that in Kenya small businesses contribute 20% to the country's Gross Domestic Product (GDP). To reiterate the significance of small businesses globally, the World Bank and various aid agencies tend to foster job creation and poverty alleviation by developing small businesses. Notwithstanding the significance of informal small business for national economies, it seems that informal small businesses, which experience challenges that endanger their existence, mostly drive the livelihood of national economies (Agbenyegah, 2013:1). These challenges include, but are not limited to a lack of training and education, a lack of finance, and negative attitudes (Chinomona & Mazirir, 2015:6). Mwobobia (2012:112) also points out similar challenges, namely a lack of finance, discrimination, and problems with government officials.

Comparing and contrasting the views of Mwobobia (2012:112) to those of Chinomona and Mazirir (2015:6) show that the challenges that informal small businesses face is a direct consequence of the business owner

and government officials. Firstly, the business owner has often not received relevant business training and, secondly, government officials are unwilling to support and assist informal small businesses. Mkubukeli (2016:72) supports these claims. Furthermore, there seems to be an underlying assumption that the reason why informal small businesses do not grow is attributable to the challenges that they face. The underlying assumption that one may draw from Mboniyane and Ladzani's (2011:550) study, which explored factors that hinder the growth of small businesses in South African townships, pointed out the following as reasons for the stagnant growth of small businesses: a lack of finance, a lack of support, internal weakness, and a lack of business acumen.

Notwithstanding the pervasive scholarship on the challenges of rural entrepreneurship (Agbenyegah, 2013:1-479; & Chinomona and Mazirir, 2015:835-850), it seems that little has been said about factors that challenge the growth of informal small businesses that received seed funding, particularly those located in the Winelands District of the Western Cape. In other words, adequate research was not conducted in this respect. Therefore, this study focused on challenges in the informal small business sector that received seed funding in the Winelands District of the Western Cape.



### 1.3 STATEMENT OF THE RESEARCH PROBLEM

Folmer, Dutta and Oud (2010:367-396) observe that entrepreneurship development programmes focus on urban and surrounding areas, and suggest that entrepreneurship programs should also reach rural areas to accelerate business growth within those areas. Although government has attempted to provide infrastructure, finance and equipment for informal small businesses in rural areas, it seems that small businesses with seed funding do not grow substantially to sustain themselves, and contribute to job creation and poverty alleviation. Despite receiving seed funding, Ligthelm (2013:57) points out that one of the reasons why informal small businesses do not grow is because survivalist entrepreneurs who lack business acumen and business mind-sets are mainly the ones who establish these concerns. Confirming the foregoing, a study that Mboniyane and Ladzani (2011:550) conducted explored factors that hinder the growth of small businesses in South African townships, and they pointed out that the reasons for the stagnant growth of small businesses are a lack of finance, lack of support, internal weakness, and a lack of business acumen. Informal small businesses face similar challenges that stagnate their growth (Agbenyegah, 2013:1; Mwobobia, 2012:112; Chinomona & Mazirir, 2015:6). Therefore, the challenges that informal small businesses face is the result of their stagnate growth, hence a majority of informal businesses have a shorter life span and do not contribute substantially to job creation. Despite financial support from the government, informal small businesses in rural areas continue to face barriers to growth.

### 1.4 RESEARCH QUESTION

The research question, which guided the study, is:

To what extent do informal businesses that have received seed funding struggle to grow?

#### 1.4.1 Sub-research questions

In a quest to answer the main research question, the following are sub-research questions:

- What factors influence the growth of informal businesses that received seed funding?
- How do the above-mentioned factors affect the growth of informal businesses that have received seed funding?
- How does the seed funding policy affect the growth of informal businesses?
- To what extent does government provide further support to informal businesses that received seed funding?

## 1.5 OBJECTIVE OF THE STUDY

The main objective of this research was to ascertain the extent to which informal business that have received seed funding struggle to grow.

The following sub-objectives were formulated because of the study's main objective:

- To explore factors that influence the growth of informal small businesses that received seed funding in the Winelands District of the Western Cape;
- To determine how these factors affect the growth of informal small businesses that have received seed funding;
- To determine the effect of the available support structures and policies for informal small businesses in the Winelands District of the Western Cape; and
- To investigate how helpful seed funding is, and how the informal small business owners use it in the Cape Winelands.

## 1.6 RESEARCH DESIGN

This section outlines the research study's methodology for its data collection.

### 1.6.1 Research methodology

Many would argue that the type of question that the research aims to address influences its research methods. This study's main research question is, to what extent do informal businesses that have received seed funding struggle to grow in the Winelands District of the Western Cape? Therefore, this study adopted a quantitative research method. A quantitative research method is best utilized to transform social reality into numbers by the assignment of objects, events or people, while it is also suitable when a researcher is statistically orientated and, therefore, assigns numbers to observations (Brynard & Hanekom, 2006:36; Dun, 2010:42). To employ this method, the researcher designed a questionnaire containing a list of questions to elicit specific information from participants.

### 1.6.2 Research population

Generally, population in research refers to every participant that has an equal chance to participate in a particular study. Brynard and Hanekom (2006:10), and Gravetter and Forzano (2009:128) concur, stating that population in research contextualises the people that have equal opportunities to participate in a study. Therefore, the population of this research comprised small businesses that had received seed funding, accessed via the Cape Winelands District Municipality's database. These entrepreneurs are located in different areas within the district.

### 1.6.3 Sampling design

This section outlines the research study's sample population, while it also explains the sample frame, sampling technique, and sample size.

#### 1.6.3.1 Population under study

Although it would have been meaningful to include an entire population in a single study to draw a larger conclusion, selecting the entire population may present time and financial constraints (Brynard & Hanekom, 2006:10; Gravetter & Forzano, 2009:128). Hence, this study's population comprised 60 small businesses that had received seed funding in the Cape Winelands District.

#### 1.6.3.2 Sample frame

In general, a sample frame refers to criteria used to select potential participants from a population. This study's sample frame consisted of entrepreneurs that had received seed funding from the Cape Winelands District Municipality between the 2015 – 2018 financial periods.

#### 1.6.3.3 Sampling technique

This study adopted census systematic method, which is a method that collects and records the data about the members of the population. According to Alvi (2016:16), only a finite population uses census techniques. Hence, census method was suitable in this case to allow all listed entrepreneurs in the studied area an equal opportunity for selection. It also helps the researchers avoid an unconscious bias, which may surface in the collected data.

Furthermore, the database also stored the contact details of all the entrepreneurs. Therefore, upon data collection all entrepreneurs were contacted telephonically to schedule an appointment to collect data.

#### 1.6.3.4 Sample size

The list of small businesses that received seed funding from the Cape Winelands Municipality between the financial years 2015 – 2018 provided the study's sampling frame. The total number of businesses on the database totalled 60. All the participants were potential interviewees, and hailed from the following local municipalities within the Cape Winelands district:

- Drakenstein Municipal Area – 10;
- Stellenbosch Municipal Area – 13;
- Witzenberg Municipal Area – 13;
- Breedevalley Municipal Area – 13; and
- Langeberg Municipal Area – 11.

### 1.7 ETHICAL CONSIDERATIONS

According to Gray (2009:69), and Blumberg, Cooper and Schindler (2011:114), ethical considerations refer to the manner in which the research should be conducted, whilst adhering to ethical standards. Blumberg *et al.* (2011:115-118) opine that ethical considerations comprise a set of principles that guide the researcher, and include but are not limited to those outlined below.

- **Benefits:** This concept means that prior to engaging the participants in the study, the researcher should reveal to all participants the study's benefits and implications of participating in it. He/she should also mention the study's objective/s. Therefore, to obtain the participants' interest in this study; the researcher communicated these to the potential participants to ensure that she obtained their informed consent.
- **Informed consent:** Informed consent refers to the participant agreeing to take part in the interview and survey. In obtaining consent for this study, a consent letter was obtained from Cape Winelands District Municipality.
- **Right to privacy:** This refers to one's personal information protected from public scrutiny. According to the European Journal of Business and Social Science (2012:77-86), a person's right to privacy entails that such a person should have control over his or her personal information, and should be able to conduct his or her own personal affairs relatively free from unwanted intrusions.

The researcher informed the respondents that they had the right to decide not to participate, and could withdraw their participation at any given time. In addition, their details would be treated with the utmost confidentiality.

Upon receipt of the consent letter accompanied by the database, the researcher contacted small business owners that had received seed funding to schedule an appointment.

## 1.8 SIGNIFICANCE OF THE RESEARCH

As stipulated in the literature review, informal small businesses contribute significantly to job creation and the livelihood of national economies. The significance of this study was to ascertain the extent to which informal businesses that had received seed funding struggle to grow, particularly those in the Winelands District. Given the pervasive scholarship on informal small businesses, recent studies indicate that there is an insufficient amount of research on this subject; hence, the reason for conducting this study. Additionally, this study is significant, as it contributes to the body of knowledge. Furthermore, this study will also position the researcher as an emerging researcher. In short, once a scholarly article is published in an accredited journal, this will increase the research output of the Cape Peninsula University of Technology, as this study was done in partial fulfilment of the requirements of the Mtech: Business Administration degree.

## 1.9 SCOPE OF THIS STUDY

This contextualizes the study's delineation and limitations.

### 1.9.1 Delineation

Although it would be meaningful to cover a larger spectrum of the population to participate in the research, time and finance was a constraint, hence the research only focused on informal small businesses that had received seed funding from the government in the Winelands District of the Western Cape province of South Africa. According to Simon (2011:2), delineating a study sets boundaries for the researcher. Furthermore, this study only focused on small businesses owners that had received seed funding from the Cape Winelands District Municipality, and any financial support from private banking institutions or personal equity.

### 1.9.2 Delimitations

Given time and financial considerations, this study was conducted with small business owners who received seed funding in the Winelands District of the Western Cape Province. This study only focused on 60 small businesses that received seed funding between the 2015 and 2018 financial years in the geographic location mentioned above.

### 1.10 EXPECTED OUTCOMES

The anticipated outcomes of this research culminated in a series of recommendations for both government and informal small businesses owners to assist them to transform the informal small business sector.

### 1.11. SUMMARY

The chapter set the tone of the study by identifying and articulating the study's research problem, research questions and objectives. It highlighted the most salient components of the research methods, and noted the anticipated outcomes and significance of the study. The next chapter focuses on a review of relevant literature.

## CHAPTER TWO

### LITERATURE REVIEW

#### 2.1 INTRODUCTION

Chapter One introduced the study briefly by outlining a background to the research problem, the problem statement, research questions and research objectives. The purpose of this chapter is to review current literature pertaining to challenges that informal small businesses face in the Winelands District of the Western Cape province, and to determine factors, which affect the growth of informal small businesses that received seed funding in the Cape Winelands District. The chapter also examines how seed-funded informal small businesses the Cape Winelands District can become sustainable, and determines support structures available to these businesses.

A literature survey enables a scholar to expose a certain gap within the topic of interest (Welman, Kruger & Mitchell, and 2006:34). The afore-mentioned authors also describe unpublished theses, books, journal articles and electronic sources as means to source literature. Hence, to achieve the study's objectives, the researcher used current and relevant literature, which relate to challenges to the growth of informal businesses.

This chapter comprises the following sub-themes:

- Literature review;
- Different categories of businesses in South Africa;
- The need for small businesses in South Africa;
- Stages of growth of informal businesses;
- Growth strategies for informal businesses;
- Challenges to the growth of businesses that received seed funding;
- Factors that affect the growth of informal small businesses; and
- Support structures available for informal small businesses.

## 2.2 LITERATURE REVIEW

This section presents an overview of informal businesses, challenges that they face, as well as factors that affect their growth. Furthermore, the section highlights the sustainability of informal businesses, and availability of support structures for these businesses.

### 2.2.1 Informal small businesses

According to Ligthelm (2013:57), an informal small business is any business that is unregistered, and operates either in a residential area, or as a street vendor. In the context of this research, an informal small business is any business that is unregistered such as a salons or spaza shop. The terms informal small businesses and small businesses are used interchangeably throughout the research study.

### 2.2.2 Challenges for informal small businesses in South Africa

Many would agree that informal small businesses do not grow to become sustainable, then to contribute substantially towards job creation and poverty alleviation. Ligthelm (2013:57) supports this notion by asserting that one of the reasons why informal small businesses fail in this respect is because these concerns are established predominately by survivalist entrepreneurs who lack business acumen and business mind-sets. Despite on-going support for informal small businesses, it seems that both national and international economies are mostly driven by informal small businesses that experience a variety of challenges that endanger their existence (Agbenyegah, 2013:1). These challenges include, but are not limited to a lack of training and education, a lack of finance, and negative attitudes (Chinomona & Mazirir, 2015:6). Mwobobia (2012:112) also points out similar challenges, namely a lack of finance, discrimination, and problems with government officials. There are little literary sources on challenges to the growth of informal small businesses, specifically in the Cape Winelands District. Hence, this study investigated these challenges, particularly amongst those businesses that received seed funding.

### 2.2.3 Factors that affect the growth of informal small businesses

Nyamao, Patrick, Martin, Oondo and Simeyo (2012:5807) estimate that more than 40% of small businesses fail within their second year of existence. Additionally, the reason for this is the small businesses' inability to manage their working capital. Nyamao *et al.* (2012:5808) define working capital as the management of short to long assets in a manner that maximizes a business's profitability. Ngugi (2013:13) examined the influence of intellectual capital and the growth of SMEs in Kenya and found that intellectual capital components, innovativeness, structural capital, managerial skills, and entrepreneurial skills have a significant impact on the growth of SMEs. It seems that small businesses fail mainly owing to their inability



to manage their businesses, and because of their lack of managerial competencies. Hence, the aim of this study was to investigate factors that influence the growth of informal businesses that received seed funding, specifically in the Winelands District of the Western Cape Province of South Africa.

#### 2.2.4 Sustainability of informal small businesses

The significance of small businesses for national economies has long been a widespread phenomenon. This phenomenon has caused policy makers to gain interest in the small business sector. For instance, policy makers in the United Kingdom (UK) have long since established favourable policies for small businesses (Hoffman *et al.*, 1998:37) Walker and Preuss (2008:1600) also note that the significance of policy makers to better align their policies with small businesses and encourage buying from small businesses, can increase their sustainability. Hence, policy makers should establish policies that foster growth to enable sustainable small businesses. Furthermore, small businesses also need to ensure that they are well trained and ready to manage a business, given the fact that most small businesses fail to grow owing to limiting challenges such as an inability to manage their working capital and so forth. This study investigated how informal small businesses that have seed funding can become sustainable.

#### 2.2.5 Support structures available for informal small businesses

The debate around availability of support structures for small businesses shows different perspectives. Despite this, support is available to aspiring and existing entrepreneurs, regardless their sector (Mkubukeli & Tengeh, 2015:18). However, the failure rate of small businesses continues to increase rapidly. Hence, Berger and Udall (2002:32) opine that a vast majority of small businesses fail to receive financial support owing to their lack of access to public capital markets. It seems that most small businesses receive support from government entities more than they do from private institutions. Therefore, this study sought to ascertain to what extent informal businesses that received seed funding struggle to grow in the Cape Winelands District.

### 2.3 DIFFERENT CATEGORIES OF BUSINESSES IN SOUTH AFRICA

This section describes the different categories of business in South Africa.

#### 2.3.1 Survivalist enterprises

People forced into becoming entrepreneurs owing to their circumstances are usually those who engage in survivalist business activities. “Necessity entrepreneurs” usually start and manage these survivalist enterprises. This type of enterprise has a turnover that is below the minimum poverty standard, and in many cases requires little seed capital to start it. One drawback about this type of business is that the owner lacks

fundamental principles to manage and grow a business (DTI, 1995:5). Hence, this study focuses on survivalist (informal) business owners in the Cape Winelands District.

### 2.3.2 Micro enterprises

A micro enterprise comprises of a minimum of five employees and generates a minimum turnover of one hundred and fifty thousand rand (National Small Business Act of South Africa, 1996). A significant proportion of these enterprises are not Value Added Tax (VAT) registered, do not have permits and lack general accounting practices. A considerable sum of these enterprises has limited capabilities, including financial challenges. This differs from survivalist enterprises, which usually has one owner operating it, while its turnover figure is difficult to estimate owing to the entrepreneur's hand-to-mouth mentality.

### 2.3.3 Small enterprises

This sector contributes to domestic economy proportionally in contrast to the two preceding types of enterprises. For instance, this sector comprises businesses that employ between 5 and 50 workers. Furthermore, the income that these enterprises generate is a minimum of R5 million. Additionally, many of these enterprises are in industrial areas, and are formal entities. The owner in most cases is the manager of the business (South Africa. DTI, 1995:5).

### 2.3.4 Medium sized enterprises

The National Small Business Amendment Act 26 of 2003 (South Africa, 2003) declares a medium enterprise an entity that employs more than 100 employees on a full time basis. Furthermore, this enterprise's turnover does not exceed R5 million as opposed to a small enterprise. However, SMMEs tend to differ in terms of industry. For instance, in the mining sector, a junior mining company might consist of 200 employees and generate R30 million annual turnover, whilst having a net present value of R18 million (South Africa, 2003). In other industries a business has over 100 employees and generates an annual turnover of R4 million with a net present value of R4 million, which is also considered a medium enterprise.

### SMME classification (South Africa, 1996)

Sector/sub-sector in accordance with standard industrial classification	Size or class	Total full-time equivalent of paid employees Less than:	Total amount turnover Less than:	Total gross asset value (fixed property excluded) Less than:
Agriculture	Medium	100	R4.00m	R4.00m
	Small	50	R2.00m	R2.00m
	Very small	10	R0.40m	R0.40m
	Micro	5	R0.15m	R0.10m
Mining and Quarrying	Medium	200	R30.00m	R18.00m
	Small	50	R7.50m	R4.50m
	Very small	20	R3.00m	R1.80m
	Micro	5	R0.15m	R0.10m
Manufacturing	Medium	200	R40.00m	R15.00m
	Small	50	R10.00m	R3.75m
	Very small	20	R4.00m	R1.50m
	Micro	5	R0.15m	R0.10m
Electricity, Gas and Water	Medium	200	R40.00m	R15.00m
	Small	50	R10.00m	R3.75m
	Very small	20	R4.00m	R1.50m
	Micro	5	R0.15m	R0.10m
Construction	Medium	200	R20.00m	R40.00m
	Small	50	R5.00m	R1.00m
	Very small	20	R2.00m	R0.40m
	Micro	5	R0.15m	R0.10m

Retail and Motor Trade and Repair Service	Medium	100	R30.00m	R5.00m
	Small	50	R15.00m	R2.50m
	Very small	10	R3.00m	R0.50m
	Micro	5	R0.15m	R0.10m
Wholesale Trade, Commercial Agents and Allied Service	Medium	100	R50.00m	R8.00m
	Small	50	R25.00m	R4.00m
	Very small	10	R5.00m	R0.50m
	Micro	5	R0.15m	R0.10m
Catering, Accommodation and other Trade	Medium	100	R10.00m	R2.00m
	Small	50	R5.00m	R1.00m
	Very small	10	R1.00m	R0.20m
	Micro	5	R0.15m	R0.10m
Transport, Storage and Communication	Medium	100	R20.00m	R5.00m
	Small	50	R10.00m	R2.50m
	Very small	10	R2.00m	R0.50m
	Micro	5	R0.15m	R0.10m
Finance and Business Service	Medium	100	R20.00m	R4.00m
	Small	50	R10.00m	R2.00m
	Very small	10	R2.00m	R0.40m
	Micro	5	R0.15m	R0.10m
Community, Social and Personnel Service	Medium	100	R10.00m	R5.00m
	Small	50	R5.00m	R2.50m
	Very small	10	R1.00m	R0.50m
	Micro	5	R0.15m	R0.10m

## 2.4 NEED FOR SMALL BUSINESS (INFORMAL) IN SA

South Africa's unemployment rate is twenty five per cent (Statistics South Africa, 2014). In many parts of the world small businesses is the leading creator of new jobs both in developed and developing societies (Agupusi, 2007:2; Fatoki & Garwe, 2010:729; Fatoki & Odeyemi, 2010:128). This explains why the South African government has identified the informal sector as having prospects of assist to get rid of poverty and unemployment (CIGS, 1998:3). This sector's rapid growth needs to maintain a standard with the labour force's growth (Nieman and Nieuwenhuizen (2009:275).

### 2.4.1 Growth

In the context of this research, growth is conceptualised as informal businesses that have been operating for a period of three years, and have consequently transcended from a survivalist and micro-phase to a small business phase. Naman and Slevin (1993, cited in Altinay & Altinay, 2008:24) opine that the barometer of growth varies from author to author, clouded with complexities. There is no universal criterion to measure growth, as many authors use multiple determinants to do so.

Consistent components used to measure growth consist of changes in sales, employment, assets, productivity, and net profit (Fatoki & Garwe, 2010:730). According to Crijns and Ooghe (1997:53), growth occurs when enterprises exceed customer expectations and generate more sales. Basu and Goswami (1999:26) concur with Crijns and Ooghe (1997:53), and state that growth has a lot to do with a business's profit levels. Conversely, Birley and Westhead (1990:22) considered certain characteristics of growth, including turnover amount, total workforce, and the business's sustainability. According to Altinay and Altinay (2008:24), growth consists of actual seed capital and the difference thereof to the current sales turnover.

Von Broembsen *et al.* (2005) argue that the establishment of entity is a two-phase process, consisting of the start-up and new firm phases. On the one hand, the start-up phase usually takes 3 months to identify an idea to execute. Conversely, the new firm phase takes place after a period of between three and four months, when the new venture starts to trade. Von Broembsen *et al.* (2005) further state that an established enterprise is one that pays its workforce through a salary or wage system for more than 3 months..

Given the preceding definitions, it seems that growth is the increase in either sales, profits, turnover, or workforce. In contrast, only a select few small businesses grow and create employment, while a vast majority do not (Jones & Tilley, 2003:2). Analysing the views of Fatoki and Garwe (2010:730), Jones and Tilley (2003:2), and Von Broembsen *et al.* (2005), these studies define and measure growth. However, none of them considered challenges to the growth of informal businesses that received seed funding in the Cape Winelands District. Therefore, this research identified a gap in the literature regarding the challenges to the growth of informal businesses that received seed funding in the aforementioned geographical area.

Churchill and Levis (1983, cited in Fatoki & Garwe, 2010:730) mention five categories of growth, which include but are not limited to existence, survival, success, take-off and resource maturity. Fatoki and Garwe (2010:730) argue the categories by explaining that business survival emerges once a business proceeds to stage-two in the mentioned categories of growth. This is because a vast number of new enterprises in South Africa fail to transition from one stage to another.

Drawing from the views of Churchill and Levis (1983, cited in Fatoki & Garwe, 2010:730; Jones & Tilley, 2003:2), one therefore poses the question: what are challenges to the growth of informal business in the Cape Winelands? In answering this question, one can draw from the works of various authors in this regard (Peberdy & Crush, 1998; Hay, 2008; Rogerson & Rogerson, 2011; Khosa & Kalitanyi, 2014).

The above authors reveal that a large number of small businesses in South Africa operate within a survivalist range, while only a select few SMEs reflect prospects to grow. Nonetheless, the intention of this study is not to investigate challenges to the survivalist and to micro businesses, but rather to focus on challenges that hamper the growth of informal small businesses in the Cape Winelands District.

#### 2.4.2 Characteristics of businesses that grow

The purpose of this section is to describe characteristics of businesses that grow. The table below highlights these.

**Table 2.1: Characteristics of business that grow**

Market domination in certain niche market.
Ability to be innovative quicker than growing firm.
The uniqueness of differentiating with competitors.
Product-oriented regarding quality, branding and value to customer.
Ability to be flexible and gain opportunity or reduced threats.

Adapted from: Crijns & Ooghe (1997:56)

The above table mentions characteristics of business that grow. Other characteristics include those shown in the table below.

**Table 2.2 Characteristics of growth**

<b>Characteristics</b>	<b>Meaning</b>
Process of growth	Wickham (1998:223) mentions five stages of growth comprising the growth process.
Financial growth	Total assets, profits, sales, and an increment in the return of investment indicate financial growth.
Strategic objectives	Strategic objectives include changes that transpire owing to the movement of the business in the life cycle (Crijns &Ooghe, 1997:63).
Structural growth	According to Nieman and Nieuwenhuizen (2009:281), structural growth is positive changes within the business owing to its managerial competencies.
Organisational growth	Wickham (1998:224) opines that in organisational growth these changes occur because of the business's culture and dynamics, as well as its diversity management.

The above table highlights different types of growth, with the type listed on the left side, and the meaning thereof on the right side. The following section describes the stages a business experiences.

## 2.5 STAGES OF GROWTH

This section describes the stages of growth. According to Nieman and Nieuwenhuizen (2009:282), a business experiences at least one of the following stages of a business cycle: pre start up; start-up; growth; maturity; and decline. The following figure illustrates these life cycle stages.

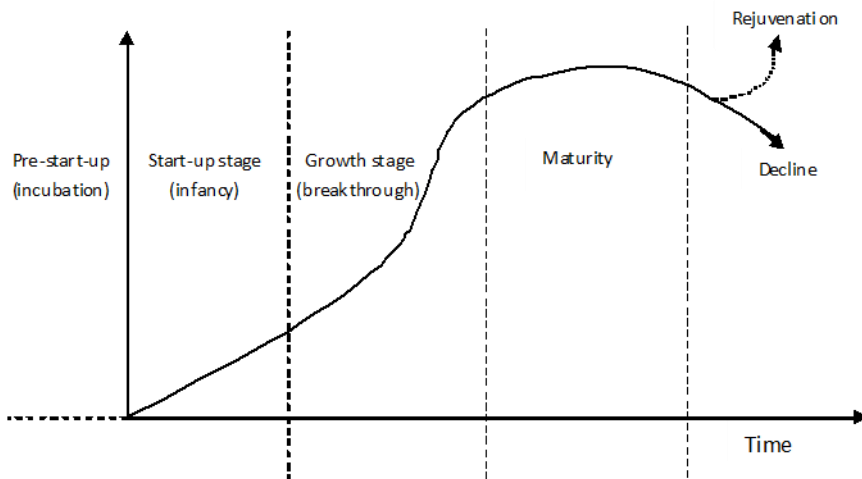


Figure 2.1: The stages of venture

(Adapted from Nieman & Nieuwenhuizen, 2009:282)

### 2.5.1 Phase one: Pre-start-up phase

In this phase, the entrepreneur gathers the required resources including the business's modelling and strategy. Storey (1994:123) notes that these resources determine the business's start-up.

### 2.5.2 Phase two: Start-up phase

In this phase, the entrepreneurs experience break-even; if not, he or she will not make a loss or profit. This is why when starting up, one should consider availability of funds; timing and then proceed to start the business.

### 2.5.3 Phase three: Growth phase

In this stage, entrepreneurs experience a rapid increase in sales and profits and in most cases they still have limited resources. Moreover, growth also imposes a set of challenges such as dealing with administrative backlogs, cash-flow problems, production and delivery, and staff appointments.

### 2.5.4 Phase four: Maturity stage phase

In this phase, the responsibility of the entrepreneur is to ensure that there is centralization and departmentalization, while the entrepreneur reaches a point where he/she delegates some responsibilities to staff members.

### 2.5.5 Phase five: Decline phase

This last stage is characterised by entrepreneurs failing to manage the business successfully, hence the decline in sales. The only option left in this last stage is diversification or innovation.



This section discussed the business life cycle, which comprises the following phases: pre start-up phase; start-up phase; growth phase; maturity phase; and decline phase. The following section considers growth strategies available for informal businesses.

## 2.6 GROWTH STRATEGIES AVAILABLE FOR INFORMAL BUSINESSES

As mentioned earlier, growth occurs when there are increases in sales; profit expansions in trade; and increases in company assets. Moreover, the company also grows when its structure expands. According to Nieman and Nieuwenhuizen (2009:292), there are two basic growth strategies: external growth strategy; and internal growth strategy.

### 2.6.1 Internal growth

Using this strategy, entrepreneurs rely on their own capabilities and resources to manoeuvre the market share, turnover, and customer base (Nieman & Nieuwenhuizen, 2009:292).

### 2.6.2 External growth

Using this strategy, the entrepreneur tries to expand the business by using horizontal, vertical, and lateral integration strategies. On the one hand, horizontal integration occurs when the entrepreneur integrates a business below or above its value chain. Conversely, vertical integration is a strategy where entrepreneurs decide to acquire either a competitor or a supplier of their business. On another note, lateral integration occurs when the business takes over a business that either supplies it, or is its patron (Nieman & Nieuwenhuizen, 2009:293).

Based on the above, informal businesses can use strategies to grow their business, but they do not. The next section discusses challenges that may prevent informal businesses from growing.

## 2.7 CHALLENGES TO THE GROWTH OF BUSINESSES THAT RECEIVED SEED FUNDING

This section describes challenges that entrepreneurs face in growing their business even though they received seed funding.

### 2.7.1 Informal small businesses

According to Ligthelm (2013:57), an informal small business is any business that is unregistered, and operates residential arrears, or as a street vendor. In the context of this research, an informal small business is any business that not registered such as salons and spaza shops. The dissertation uses the terms informal small businesses and small businesses interchangeably throughout the document.

Many would agree that informal small businesses do not grow until they can become sustainable and contribute substantially to job creation and poverty alleviation. Ligthelm (2013:57) concurs, and points out that one of the reasons why informal small businesses do not grow is because informal small businesses mostly survivalist entrepreneurs who lack business acumen and business mindsets, establish them. Despite continuous support for informal small businesses, it seems that both national and international economies are mainly driven by informal small businesses, which experience challenges that endanger their existence (Agbenyegah, 2013:1). These challenges include but are not limited to a lack of training and education, and a lack of finance and negative attitudes (Chinomona & Mazirir, 2015:6). Mwobobia (2012:112) also points out similar challenges, namely a lack of finance, discrimination, and problems with government officials. There is little literature about the challenges to the growth of informal small businesses, specifically in the Cape Winelands District. hence the aim of this study is to investigate the said topic.

### 2.7.2 Registration and taxation

Kristiansen (2008, cited in Chikamhi, 2011:32) states that most businesses in SA are complex. Hudson (2004, cited in Chikamhi, 2011:33) opines that developed countries register a business quickly, but SA it can take up to more than four weeks. Even complying with tax obligations is expensive. However, if entrepreneurs have a turnover of less than R 350 000 per annum, then they are exempt from paying company taxes.

### 2.7.3 Lack of access to bank loans

According to the NCR (2012: 55), people in SA often borrow funds to establish their businesses. FinMark Trust (2006, cited in Fatoki & Garwe, 2010:731) asserts that more than two per cent of small businesses have access to funding facilities. Inconsistent income and a lack of credibility are the main reasons why commercial banks do not assist informal and small businesses. According to Rath (2011), informal businesses fail because of limited funds and resources. Rogerson (2010:22) argues that the main impediments that informal businesses face are their inability to secure funds, and to generate sufficient cash. The essence of generating a cash flow is to re-invest in the business to obtain more resources, equipment, inventory, and so forth, which poses a persistent challenge to informal businesses. The GEM report states that new enabling funding models should be developed for informal businesses (GEM, 2013:38).

#### 2.7.4 Limited business space

A lack of business space is a major challenge for rural entrepreneurship (Mugobo & Ukpere, 2012, cited in Khosa & Kalitanyi, 2014:210). On the one hand, Fatoki and Garwe (2010:731) mention that limited business space has a negative influence on the success of a new venture. Conversely, a study by Chikamhi (2011:54) revealed how difficult it is to locate a business close to its market.

### 2.8 FACTORS THAT AFFECT THE GROWTH OF INFORMAL SMALL BUSINESSES

According to Nyamao, Patrick, Martin, Odondo and Simeyo (2012:5807), forty per cent of informal businesses fail within less than two years. The main reason for this is owing to a lack of financial and working capital management. Hence, Nguri (2013:13) investigated the impact of human capital and the growth of informal business in a district in Kenya. The afore-mentioned study reported that human capital has tremendous benefits in respect of growing an informal business. It seems that informal businesses consistently fail for different reasons. However, of these reasons, the main one is their inability to maintain and manage their businesses successfully. Hence, this research investigated factors that influence the growth of informal small businesses that received seed funding, specifically in the Cape Winelands District.

#### 2.8.1 Sustainability of informal small businesses

This section describes factors that influence the sustainability of informal small businesses, since the significance of small businesses for national economies, has been a widespread phenomenon for long. In fact, policy makers have become interested in it because of this sector. For instance, policy makers in the United Kingdom (UK) have long set policies that favour small businesses (Hoffman *et al.*, 1998:37) Walker and Preuss (2008: 1600) also note that it is important for policy makers to align their policies with small businesses, and to encourage buying from small businesses to increase their sustainability. Policy makers should establish policies that foster growth in the small business sector as means to increase sustainability within the sector. Furthermore, small businesses should also ensure that they are well trained and able to manage a business, since most small businesses fail to grow owing to their inability to manage working capital, and so forth. Therefore, this study investigated ways for informal small businesses to become sustainable.

### 2.8.2 Access to capital

Businesses require capital to afford them growth. However, the lack of capital, and to acquire it in the first place, pose serious implications for informal businesses, because no financial institution is willing to assist these business owners. It seems that financial institutions discriminate against informal small business owing to their nature. In a different study, Tengeh and Nkem (2017) cited in Tengeh and Murakwami (2017:65) state that the problem is not necessarily because of a lack of finance, but rather because of limited access to formal finance. A number of factors, including limited information, no records of performance, and a lack of collateral to secure bank loans, inhibit reasonable access to formal finance.

Fatoki and Garwe (2010:731) opine that without capital, informal businesses find it hard to grow their businesses. Given that a vast majority of informal business owners do indeed have the appropriate registration documents, financial institutions are reluctant to assist these entrepreneurs (Khosa & Kalitanyi, 2014:213). Hence, it is unjust to discriminate against these entrepreneurs owing to their informality. No wonder Rogerson (2010b:38) states that there is little support from government to assist these entrepreneurs.

### 2.8.3 Competition

Businesses in the same trade compete with one another, which may affect them both negatively and positively (Khosa & Kalitanyi, 2014:209). Khosa and Kalitanyi (2014:212) further explain that competition threatens a significant number of informal entrepreneurs. Almost everywhere in the world informal businesses operate from hand to mouth, and not necessarily as a business that intends to grow. This could be attributable to many factors, including entry mode, which is low in requirement criteria, as practically anybody can operate an informal business, often causing the industry to stagnate and, therefore, the high number of competitors.

### 2.8.4 Sales fluctuation

Inconsistent informal business operations and the several challenges that they face, cause their sales to fluctuate. According to Khosa and Kalitanyi (2014:209), sales fluctuate in every kind of business owing to climate changes. For instance, a company may record higher sales in summer than in winter. In addition to this, one may find that during the festive season the retail industry may record its highest turnover than ever before during that particular year. Another reason for sales fluctuation may be owing to a particular business's positioning. For example, informal businesses may be many in one particular road, with no or little differentiation strategy, which could also cause sales to fluctuate.

### 2.8.5 Business skills

Business principals are necessary for the growth of any business. Niemand and Nieuwenhuizen (2009:10) opine that business skills consist of being creative, innovative, and showing signs of high growth and strategic objectives such as marketing of the anticipated business. Many informal businesses fail to display these skills, and hence they face certain business challenges.

Based on the aforementioned, it seems that since these business owners do not have the required skills at their disposal, it might be wise for them to seek outside support to help grow their businesses.

## 2.9 SUPPORT STRUCTURES AVAILABLE TO INFORMAL SMALL BUSINESSES

The debate surrounding the availability of support structures for small businesses was considered from different perspectives. Despite this backdrop, support structures are available for aspiring and existing entrepreneurs, regardless their sector (Mkubukeli & Tenge, 2015:18). However, the failure rate of small businesses continues to increase rapidly. In this regard, Berger and Udell (2002:32) argue that a vast majority of small businesses fail to receive financial support owing to their lack of access to public capital markets. It seems that most small businesses receive support from government entities more than they do from private institutions.

There are available support structures in SA, but they are not easy to access. For instance, the Department of Mineral Resources (2006:1-43) lists institutions that help to empower small businesses. These support structures include but are not limited to the National Youth Development Agency (NYDA), the National Empowerment Fund (NEF), and the Industrial Development Corporation (IDC). According to Shen and Gunson (2006:427), some states do offer business owners support, but government support remains inadequate.

Therefore, the aim of this study was to explore factors, which influence the growth of informal small businesses, as well as available support structures, and how helpful these are for businesses that received seed funding in the Winelands District of the Western Cape Province.

### 2.9.1 Seed funding offered to small businesses

Seed funding is capital needed to start or expand a business, and is often obtained in exchange for an equity stake in enterprise, but in this case the money is granted by government. Francis (2018:1) classifies seed funding as the fuel on which a business runs. During the start-up phase, profits are likely to be low; hence, the organisation needs financial aid to cover its expenses until its cash flow becomes sustainable.

The reason why funding that these small businesses receive is called seed funding is because the amounts range between R15 000 and R30 000, while investments for seed funding usually range in the tens of thousands to hundreds of thousands, unlike venture capital investments, which can be millions of Rands.

With the arguments presented above, this chapter acknowledges the views that government aims to address small business challenges. Abdulaziz and Worthington (2013:5) declare that government has acknowledged that the SME sector faces financial constraints, and cannot access financial aid in developed and emerging countries, which may negatively affect those attaining national goals. Government schemes and programmes have been executed to ensure that SMEs can access financing. , government schemes and programs have been executed.

Vera and Onji (2010:12) and Ono and Uesugi (2009:2) reveal that most of the literature reveals that banks are the main external capital provider for the SME sector for the advanced, as well as developing countries.

Mensah (2004:3) explains that government introduced official schemes to increase the flow of financial assistance for SMEs, which sometimes occurs done with support from donating agencies. Such programs and schemes have the potential to improve SMEs' access to additional credit. Although he reveals the significance of the government finance schemes, Jennings of Urban Ministry's article entitled, *Pros and Cons of Receiving Government Funding*, argues that when you bring investors into your business, you grant them a certain measure of control over the business. You are also subject to restrictions in terms of fund usage, irrespective how officious and challenging these are. Government grants come with rules and regulations, and budget constraints are issued each year, which affects the availability of funds to cover all businesses in need.

The country's economy also depends on SMEs' growth, as Fatoki and Odeyemi (2010:6) state that governments throughout the world focus on the development of the SME sector to promote economic growth. Promotion of small business development is a helpful way to address unemployment, which works together with influencing potential small businesses for job creation (FinMark Trust, 2006:1).

SME financing has been a major issue across the African continent. Gbandi and Amisshah (2014:10) state that government introduced financing schemes and programs in Nigeria over the years to overcome financial constraints. The authors further argue that proper financing of SMEs is essential to promote and leverage small and medium enterprise development in Nigeria. Fatai (2009:5) concurs, and says that one of the major challenges that SMEs face is that of capital to finance their operations.

Government seed funding for small businesses should assist to address finance issues in South Africa. Rogerson (2008:7) highlights the ability to access funding, skills and business management skills, training, and accommodative rules and regulations as key strategic elements that support the three pillars to promote entrepreneurship, strengthen the facilitating environment, and enrich enterprise level capacity and

competitiveness. The investigation in this section links to the analysis offered above, while it ties the arguments by exploring the challenges and disadvantages of receiving seed funding. In her study, Kay (2018:6) concludes that proposals are typically more involved and difficult to coordinate, while reporting requirements are specific and can be time-consuming. Sherman (2017:1) argues that landing a government grant is a good deal, as one does not have to pay the money back, and government sometimes helps grant recipients network with each other. However, compiling a good proposal is so challenging that some freelance writers specialize in writing grant proposals for others.

According to Mason (2008: 1), even in countries in Europe, the government has moved from enhancing the availability of loans to finance SMEs, since government intervention shifted during the 1990s to provide venture capital instead. European Union and Member States introduced loan guarantee schemes in order to address insufficient loan financing opportunities.

## 2.10 SUMMARY

The purpose of this chapter was to survey literature pertaining to the challenges that informal small businesses face; examine factors that affect the growth of informal small businesses, and to determine circumstances that favour informal small businesses' growth; the support structures available to informal small businesses. On the one hand, the literature revealed that the challenges to the growth of informal business compromise of registration and tax; lack of access to bank loans; and limited business space. Conversely, the survey suggested that the factors that affect the growth of informal business are unsustainability; competition; sales fluctuation; access to capital; and a lack of business skills. The literature also noted that notwithstanding government interventions to support small business, this support is, however, limited in scope.

The following chapter presents the study's research approach.



## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 INTRODUCTION**

The previous chapter reviewed existing literature pertaining to the challenges that informal small businesses face in the Winelands District of the Western Cape Province. This chapter focuses on the study's research design and methodology. According to Greenfield (2002:3), research methodology is a practice that the researcher uses to collect and analyse data so that the research can answer the research question. It is also a guideline of how to collect and analyse data, and how to work or to solve a research problem. The research design and methods that the chapter presents include the research population, sampling, data collection and analysis techniques.

#### **3.2 RESEARCH QUESTIONS**

Chapter One presented the problem statement, while Chapter Two reviewed current, relevant literature. The study's main objective was to ascertain the extent to which informal businesses that received seed funding struggle to grow.

The sub-objectives, outlined below, sought to attain the research study's main objective:

- To explore factors that influence the growth of informal small businesses that received seed funding in the Winelands District of the Western Cape Province;
- To determine how these factors affect the growth of informal small businesses that received seed funding;
- To determine the effect of support structures and policies for informal small businesses in the Winelands District of the Western Cape; and
- To investigate how helpful the seed funding is, and how informal small business owners used it in the Cape Winelands.

#### **3.3 RESEARCH DESIGN**

According to Mouton (2006:107), research design is a set of guidelines that specifies methods to collect and analyse data. It is also a framework to ensure that the collected information can work on or solve the research problem. This section explains the method that the research study used to collect and analyse data.

### 3.4 QUANTITATIVE RESEARCH METHOD

According to Brynard and Hanekom (2006:36), a quantitative method is more statistically orientated and, therefore, assigns numbers to observations, whereas a qualitative method seeks a detailed understanding of a particular incident. In addition, Brynard and Hanekom (2006:36) point out that the type of question that the research aims to address influences the research methods that the study uses. The main research question that guided this study was to ascertain the extent to which informal businesses that received seed funding struggle to grow in the Winelands District of the Western Cape Province. Therefore, this study utilized quantitative research methods. The reason for choosing a quantitative research approach is that it enumerates the problem by way of generating data that can be transformed into usable statistics. This method was also used to generalize results from a larger sample population by quantifying the respondents' attitudes, variables, opinions, and behaviours. The sample size of this research comprised 60 businesses, hence the researcher was able to figure out the number of businesses that certain factors affected, which resulted in the delay of their business's growth.

Conversely, the qualitative approach is primarily fact-finding research, which is used to uncover trends in thoughts and opinions, whilst delving deeper into the problem. It was not suitable for this study, as it is best used for a small sample size.

### 3.5 POPULATION UNDER STUDY

In research population is the sum of members' groups with similar characteristics that can allow the researcher to obtain information and from which units of analysis are selected. Brynard and Hanekom (2006:55) and Flick (2007:85) concur, stating that population refers to a group of people with equal opportunities to participate in a study. In line with these authors' definition of a population, this research study's population comprises of the following:

- Informal small businesses that received seed funding from the Cape Winelands District Municipality between the 2015 – 2018 financial years;
- The database consists of 60 entrepreneurs that operate different small businesses from 5 local municipalities around the Cape Winelands District;
- The study was located in the Drakenstein, Stellenbosch, Witzenberg, Breedevalley and Langeberg local municipalities; and
- The database of seed funding businesses was obtained from the Cape Winelands District Municipality, and these amounted to between R15 000 and R30 000.

### 3.6 SAMPLE FRAME

According to Bryman (2004:87), a sample frame is a criterion that is followed to weed out potential participants from a population, since it is time consuming and expensive to target an entire population for a study. This

research study's sample frame comprised entrepreneurs that received seed funding from the Cape Winelands District Municipality between the 2015 and 2018 financial years.

### 3.7 SAMPLING TECHNIQUE

The researcher utilised census systematic method as it refers to the quantitative research method in which all the members of the population are enumerated, and according to Alvi (2016) only finite populations use census techniques. Hence, census method was suitable in this case, as the database comprised 60 entrepreneurs, which gave each listed entrepreneur an equal chance of selection. It is also fair for the researchers to avoid an unconscious bias that would affect their data collection.

### 3.8 SAMPLING CRITERIA

Many researchers agree that it is difficult to select an entire population owing to time and cost factors. Sampling is a process, which selects a participant based on certain characteristics. The Cape Winelands District Municipality assisted the researcher with obtaining the study's sample. The sample consisted of informal small businesses that received seed funding in the Winelands District of the Western Cape Province. Using the database list of informal small businesses with their contact details attached, this study employed the census sample method. This meant that every person on the list was selected (Polonsky & Waller, 2011:140); hence, all the entrepreneurs on the data base were selected for this study.

### 3.9 INTERVIEW PROCEDURE

Prior to the interview, the researcher telephoned all the entrepreneurs and scheduled an appointment to collect data, which would ensure that the participants would be available. The process of data collection began questionnaire distribution. Participants had to tick an appropriate box for each question. This helped the researcher to gather first-hand information, and to compare and contrast with the existing literature about challenges to the growth of informal small businesses that received seed funding in the Winelands District of the Western Cape. The researcher used an interview guide that had a checklist pertaining to the questions. The respondents answered each question satisfactorily. The researcher distributed, waited and collected the questionnaires in order to assist in case participants struggled to understand a question. In line with research ethics, the researcher requested the respondents to participate in the study on a voluntary basis, informed them that they could refuse to answer any question that they did not want to answer, and that the information would be treated strictly confidentially.

### 3.10 QUANTITATIVE DATA COLLECTION AND ANALYSIS

Data collection is a process of collecting information from humans or machines (Dorsten & Hotchkiss, 2005:30). Zikmund *et al.* (2010:186) assert that a study should utilize a survey to collect quantitative (questionnaire) data, as it is a quick, cheap, efficient and accurate means of accessing information about a population. The researcher transcribed and grouped participant feedback into patterns, and analysed the content later.

### 3.11 COLLECTION OF SECONDARY DATA

The researcher collected secondary data from previous researchers using journal articles, unpublished Master's and PhD theses, conference papers, and government publications. The aim was to position this thesis in line with the recent literature. Compare current findings to past literature

### 3.12 RELIABILITY AND VALIDITY

#### 3.12.1 Reliability

Reliability means to rely on, to depend on, or trust the validity of a study's data (The South African Concise Oxford Dictionary, 2002:987). Furthermore, reliability is the extent to which obtained scores may be generalised to different measurement occasions, and measurement tests (Welman & Kruger, 2001:139). Therefore, to ensure that this study was reliable, the researcher submitted the interview guides to the Cape Peninsula University of Technology's registered statistician for suggestions and recommendations.

#### 3.12.2 Validity

Validity is "legal and official acceptance of the data" (Oxford Advanced Learners' Dictionary, 2010:1648). Validity is the accuracy and truthfulness of scientific findings. According to Glaser and Strauss (1967), Leininger (1991), and Lincoln and Guba (1985), other studies have used the following in other studies as alternative terms for validity: credibility; trustworthiness; credibility; truth; value; applicability; and consistency. To ensure that this study is valid, a supervisor was assigned to supervise the researcher. The supervisor verified whether the researcher derived the research problems, research questions and data collection methods from the literature. In addition, the Higher Degree Committee at the Cape Peninsula University of Technology checked to ensure that the study is valid.

### 3.13 ETHICAL CONSIDERATIONS

Saunders *et al.* (2001:130) state that "...ethics refer to the appropriateness of your behaviour in relation to the rights of those who become the subject of your work, or are affected by it". Furthermore, Cooper and Schindler (2001), as cited in Herbst and Coldwell (2004:18), postulate that ethics comprise norms that guide moral choices about behaviour and relations with others, while the goal is to ensure that the research activities do not cause anyone any harm. Hair, Celsi, Money and Samuel (2011:55) state that business researchers face ethical considerations and possible dilemmas throughout the research. Ethical issues include but are not limited to coercing participation; causing potential physical or psychological harm; maintaining privacy; and informing the subjects about the nature of the research. As a prerequisite of the Cape Peninsula University of Technology's Research Ethics Committee, the researcher drafted letters, which sought permission from subjects to conduct the research (See Appendix B). The researcher informed them of the nature of the study in advance, and did not force them to take part in the research. The researcher assured the participants that the data would be treated with strict confidence, anonymity, and that their personal details would not be published. Lastly, the researcher presented the findings honestly, and without misleading others or misrepresenting any facts.

### 3.14 CHAPTER SUMMARY

Chapter Three outline the study's research methodology, and the approach that the researcher selected for the study. It reflected on quantitative research methods, the research population and sample, validity and reliability of the study, ethical considerations and data analysis. Subsequently, the next chapter discusses details of the data analysis, the methods used to analyse the data, research findings and a discussion thereof.

## **CHAPTER FOUR**

### **DATA PRESENTATION AND DISCUSSION OF FINDINGS**

#### **4.1 INTRODUCTION**

The aforementioned chapter discussed the study's research methods. As stated earlier, the study's main objective was to explore challenges to the growth of informal small businesses that received seed funding in the Winelands District of the Western Cape Province. The study's sub objectives were to investigate factors that influence these businesses' growth; how does the seed funding policy affects this growth; and to determine to what extent government provides further support to informal businesses that received seed funding in the Cape Winelands District. In order to answer these objectives, data was collected by way of structured questionnaires, distributed in five municipal areas of the Cape Winelands, namely Drakenstein, Stellenbosch, Witzenberg, Breedevalley and Langeberg.

Using the SPSS system, the chapter presents and discusses the study's quantitative data under the following sub headings: demographics, factors that influence growth, how these factors affect growth, effects of the seed funding policy, and government support.

#### **4.2 SECTION A: DEMOGRAPHICS**

This section describes the participants' demographics, which include gender, age bracket, level of education, business industry, number of employees and number of years that they exist, as these may have an influence on the respondents' business performance.

#### 4.2.1 Respondent's gender

Table 4.1 below shows that the majority of the respondents are females, namely fifty two percent (50%), and that forty eight percent (48%) are males. These findings support Nsengimane's (2017:89) assertion that women involvement in entrepreneurial activities is encouraging, because it shows that they are economically empowered and active in spite of few or no opportunities for employment.

**Table 4.1: Respondent's gender**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Female	31	51.7	51.7	51.7
	Male	29	48.3	48.3	100.0
	Total	60	100.0	100.0	

Kourilsky and Walstad, (1998:88) state that both males and females exhibit a low level of entrepreneurship knowledge. Females, however, are more aware of their deficiencies in this knowledge area than their male counterparts are. Both genders believe that further education can improve business knowledge and understanding challenges. Although both genders showed an interest in starting a business, females are less likely than males (62% vs. 72%) to start a business of their own. This study is contrary to what the researcher stated above, as in this case female entrepreneurs were more than males, which means that the number of female business owners is more than males in the Cape Winelands. Kourilsky and Walstad (1998:89) add that other than providing jobs, both males and females believe in the importance of giving back to the community. This study agrees that this was the case in the Cape Winelands.

#### 4.2.2 Respondent's age bracket

In an attempt to establish respondents' age group, the questionnaire gave respondents an opportunity to choose their age bracket from a few. The question sought to determine the entrepreneurs' age group. At the time of the research two percent (2%) of the respondents were younger than 24 years of age, fifteen percent (15%) were between 25 and 35 years of age, fifty percent (50%) were 36-49 years old, while thirty three percent (33%) were fifty years and older.

These findings effectively contradict Nkem (2017:22) and Nsengimana's (2017:89) report, which states that young people generally perform better than their older counterparts in managing their businesses, as they are more energetic and handle industry challenges and demands better too. The authors further argue that engaging in entrepreneurial activities helps young people to achieve economic freedom, which in turn reduces their reliance on state welfare. In addition, entrepreneurship among the youth contributes to greater self-esteem, whilst they also become more productive within their families, and society, in general. In this study a majority of the respondents did not fall into the youth category, as the youth only accounted for 17% of the 60 respondents. The government should ensure that young people are aware of and can access their support systems.

**Table 4.2: Respondent's age**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Under 24	1	1.7	1.7	1.7
	25 - 35	9	15.0	15.0	16.7
	36 - 49	30	50.0	50.0	66.7
	50 Plus	20	33.3	33.3	100.0
	Total	60	100.0	100.0	

#### 4.2.3 Respondent's highest qualification

Formal education is not the essence of entrepreneurial success; it greatly enhances the prospect of success. It also enhances positive entrepreneurial thinking and action, which naturally translate to much-needed employment creation (Nicolaidis, 2011:1044).

The respondents selected their highest level of education from the list that appeared on the questionnaire. Thirty two percent (32%) of the respondents confirmed that their highest level of qualification was below Matric, while forty eight percent (48%) indicated that they have Grade 12; seventeen percent (17%) had a diploma qualification; and three percent (3%) had an Honour's and/or Master's degree. This indicates that most of the respondents are educated, which should enhance their decision making skills. Nsengimana (2017:115) found that the respondents in his study perceived that adequate education and training would improve their productivity.



**Table 4.3: Respondent's level of education**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Master's	1	1.7	1.7	1.7
	B.Tech/Honour's	1	1.7	1.7	3.3
	Diploma	10	16.7	16.7	20.0
	Matric	29	48.3	48.3	68.3
	Below Matric	19	31.7	31.7	100.0
	Total	60	100.0	100.0	

#### 4.2.6 Establishing the industry

The purpose of this section was to establish, which industry dominated the informal small businesses that received seed funding from the Cape Winelands District Municipality between the 2015 and 2018 financial years. Therefore, the following table shows data that the researcher captured from the questionnaires. Eighty seven percent (87%) of the respondents reported that their companies are in the service industry, while thirteen percent (13%) were in the manufacturing industry. Since the majority in this study are women, the findings concur with Fisk and Thébaud (2015:187) cited in Nsengemana (2017:91), as they claim that women focus their respective businesses in the retail and services industries, while men focus on creativity, innovation and industrialisation. These entrepreneurs stated that they struggle with finances, and it is difficult for them to obtain the required capital to engage in big industrial businesses, while seed funding amounts are also minimal.

**Table 4.4: Business industry**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Service	52	86.7	86.7	86.7
	Manufacturing	8	13.3	13.3	100.0
	Total	60	100.0	100.0	

**4.2.7 Number of employees in the business**

The purpose of this question was to establish the number of employees that each entrepreneur employed. The question revealed that most of the entrepreneurs manage their own businesses, a majority of fifty percent (50%) of the respondents indicated that they had between 0 - 3 employees, while forty three percent (43%) had 4 - 5 employees, and seven percent (7%) had 6 – 10 employees. The majority of these entrepreneurs meet Venter, Urban and Rwigema's (2008:183) criteria of a sole proprietorship, who is an individualistic person that exercises full control, makes all the decisions, and benefits from all the profits and/or loses. To be able to hire more employees these entrepreneurs need to grow their businesses and acquire entrepreneurial skills to take care of human resource requirements. The results of a study that Choto (2015:68) conducted indicate that survivalist entrepreneurs who enrolled and completed business incubation programs have the potential to employ between 11 and 50 people compared to those who do not enrol in the programs, and who employ between 1 and 10 people. It is imperative for informal small businesses to gain access to incubation and other entrepreneurial training and coaching programmes.

**Table 4.5: Number of employees**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	0 to 3	30	50.0	50.0	50.0
	4 to 5	26	43.3	43.3	93.3
	6 to 10	4	6.7	6.7	100.0
	Total	60	100.0	100.0	

#### 4.2.8 Experience in operating an informal business

The purpose of this section was to determine how long have these informal businesses had been operating. The findings indicated that a majority of fifty five percent (55%) of the respondents had been operating their businesses for more than five years, thirty-two (32%) for more than three years, and only thirteen percent (13%) for less than 3 years. The objective was to determine the number of years that informal business have existed, since these business face many challenges in respect of their growth. The literature survey revealed that forty per cent of informal businesses fail within a period of less than two years. In addition, the reason for this failure lies in the lack of financial and working capital management (Nyamao, Patrick, Martin, Odondo & Simeyo 2012:5807). This study shows that some of the businesses are stable in spite of the little assistance that they received from the seed fund, which is encouraging considering the challenges that they face in the start-up phase of their business life cycle. On a different note, Nsengimana (2017:116) states that a lack of business experience is less critical than a lack of entrepreneurial skills or a lack of education and training. One's number of years in business does not guarantee any sustainability or success.

**Table 4.6: Number of years in the business**

		Frequency	Percent	Valid Percent		Cumulative Percent
Valid	More than 3 years	19	31.7	31.7		31.7
	Less than 5 years	8	13.3	13.3		45.0
	More than 5 years	33	55.0	55.0		100.0
	Total	60	100.0	100.0		

### 4.3. SECTION B: FACTORS THAT INFLUENCE GROWTH

#### 4.3.1 Book-keeping consistency

The objective of the question was to determine whether the respondents audit their respective businesses, as it is an effective measure to manage the organisation's business effectively. According to the table below, fifty-five percent (55%) affirmed that book-keeping is important, while twenty-eight percent (28%) were uncertain, and seventeen percent 17% did not engage in book-keeping.

According to Tengeh and Mukwarami (2017:66), handling financial records covers all aspects of keeping accounting records, which is a vital function of any business. The authors also mention that accounting records will be far easier if business owners used computers to record their transactions, and prepare their year-end financial records. The fact that 45% of the respondents do not do bookkeeping consistently places their business at risk, making it difficult to ascertain their financial position.

**Table 4.7: Book-keeping consistency**

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	3	5.0	5.0	5.0
Disagree	7	11.7	11.7	16.7
Uncertain	17	28.3	28.3	45.0
Agree	15	25.0	25.0	70.0
Strongly Agree	18	30.0	30.0	100.0
Total	60	100.0	100.0	

#### 4.3.2 Use of separate business account

This section presents the findings from the interviews, which sought to uncover how the business recorded money, and whether the respondents used their personal bank accounts for the business's money. Eighty three percent (83%) said that they had opened business bank accounts, while seventeen percent (17) used their personal bank accounts. This finding shows that most of the respondents have business accounts. These findings are in line with a study that Nkem (2017:56) conducted, which reported that businesses managed or operated by respondents who had at least a university degree, were well organised and kept

proper financial records; an aspect in which their less educated counterparts tended to be lacking. In this study, more than 60% of the respondents had a Grade 12 and/or higher education qualification, which at least made impacted the way they handled and managed their businesses.

A sole trader is not legally required to have a business bank account and can use a personal bank account for both business and non-business transactions. However, it is advisable that the business owners should open a second personal bank account for business to avoid risks of using business money for personal needs.

**Table 4.8: Business bank account availability**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	3	5.0	5.0	5.0
	Disagree	7	11.7	11.7	16.7
	Agree	18	30.0	30.0	46.7
	Strongly Agree	32	53.3	53.3	100.0
	Total	60	100.0	100.0	

#### 4.3.3 Keeping business records

This section sought to determine whether business owners recorded their business transactions as means to establish a culture of organised and effective record keeping. Proper management of financial records assists to monitor the financial performance of the businesses, while it is also a tax obligation.

All the respondents agreed that record keeping is important, and that it is a requirement for funders to be able to monitor the business's progress. This indicates that the business is in good standing. Tengeh and Nkem (2017) cited in Mukwarami and Tengeh (2017:65) argue that the problem is not necessarily a lack of finance, but rather limited access to formal finance. A number of factors, including limited information, no records of performance, and lack of collateral to secure bank loans, inhibit reasonable access to formal finance.

**Table 4.9: Record keeping**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Agree	29	48.3	48.3	48.3
	Strongly Agree	31	51.7	51.7	100.0
	Total	60	100.0	100.0	

#### 4.3.4 Difficulties to start a business

This section revealed whether the literature was correct in asserting that finance is a major obstacle to starting a business. Table 4.10 below shows that ninety percent (90%) of the respondents agreed that finance is one of the biggest challenges that they encounter when starting a business. This finding concurs with Khosa (2014:79) and Tengeh (2011:7), who state that finance is a major obstacle to starting a business, both in developed and less developed countries.

Similarly, Ngorora and Mago (2013:2) claim that in rural areas, there is a lack of access to information; hence, rural entrepreneurs do not have knowledge about starting a business and accessing start-up funding. They also lack information about micro-lending and seed funding opportunities; however, this study has specifically focused on informal businesses in the Cape Winelands that received seed finding, making the finding contradictory. The above authors further mention that the situation amongst rural businesses is worsened by a lack of access to financial assistance from banks, which resonates with the current research study.

Cumming *et al.* (2014) state that challenges that entrepreneurs face might negatively impact a country's economy, citing that "1% increase in new business start-ups lead to a 24% improvement in the GDP in the subsequent year, reduce unemployment by 13%, and increase exports by 3%". Kganyago and Kazemi (2016:261) note that South Africa's interest rate, which is flexible (around 12.9%), may encourage entrepreneurs to start and grow their businesses.

**Table 4.10: Financial challenges to start the business**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	3	5.0	5.0	5.0
	Disagree	3	5.0	5.0	10.0
	Agree	36	60.0	60.0	70.0
	Strongly Agree	18	30.0	30.0	100.0
	Total	60	100.0	100.0	

#### 4.3.5 Business operates as survivalists

According to Ligthelm (2013:57), one of the reasons why informal small businesses do not grow is because survivalist entrepreneurs, who lack business acumen and business mindsets, are mainly the ones who establish these. In this study, a majority of the respondents agrees with Lighthelm, though a number of entrepreneurs who were not sure, whether or not they fit the survivalist profile. Forty five percent (45%) of the respondents agreed that they are survivalists, thirty five percent (35%) disagreed, and twenty percent (20%) were not sure. Choto, Tengeh and Iwu (2014:93) state that survivalist entrepreneurs should be provided with the necessary support in terms of entrepreneurship development programs, and must not be discriminated against, as most communities depend on their goods and services; hence, they also contribute towards the country's economic development.

**Table 4.11: Survivalist businesses**

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	3	5.0	5.0	5.0
Disagree	18	30.0	30.0	35.0
Uncertain	12	20.0	20.0	55.0

Agree	24	40.0	40.0	95.0
Strongly Agree	3	5.0	5.0	100.0
Total	60	100.0	100.0	

#### 4.3.6 Lack of business achievements is a challenge

In order for entrepreneurs to succeed, they need proper and strategic planning on how to manage staff, inventory, finances, and how to control the production of goods and services (Redondo & Camerore, 2017:284). An entrepreneurial venture should be managed well enough to produce the organisation's desired outcomes (Horan, O'Dwyer & Tiernan, 2011:117).

This question sought to determine whether the business owners are able to set targets and achieve them. However, the pace of growth has been slow because of challenges that the industry faces. Table 4.12 indicates how the informal businesses that have received seed funding experience goal setting challenges in their business, as seventy three percent (73%) of the respondents agreed that they do not achieve their goals, fifteen percent (15%) disagreed, and twelve percent (12%) indicated that they do not always achieve, or do not achieve their business goals. The literature survey also concurs that inconsistency of informal business operations coupled with the several challenges that businesses face cause their sales to fluctuate. According to Khosa and Kalitanyi (2014:209), all businesses experience sales fluctuations owing to climate changes.

Seed funded informal small businesses in this study may improve their business performance if government supports them in the required fields. Mkubukeli (2016:91) recommends that the South African government should provide potential small-scale mining entrepreneurs with relevant training and/or education by establishing a business incubation programme for emerging small-scale mining entrepreneurs, which can determine the support that small-scale miners require to enable these entrepreneurs to plan for their business, and to conduct feasibility studies. The same principle applies to the respondents of this study in respect of the kind of support that they need.

Ngorora and Mago (2013:10) found similar results in their study, and argue that centres should be created to provide mentoring with other successful entrepreneurs, as well as forums for entrepreneurs in rural areas to share information with other entrepreneurs to acquire information and access new opportunities. Local municipalities should facilitate community network building and partnerships.



**Table 4.12: Lack in business achievements**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	9	15.0	15.0	15.0
	Uncertain	7	11.7	11.7	26.7
	Agree	32	53.3	53.3	80.0
	Strongly Agree	12	20.0	20.0	100.0
	Total	60	100.0	100.0	

#### 4.3.7 Business performance is consistently poor

Entrepreneurs must operate their businesses as efficiently and as effectively as possible, regardless of the size of the businesses. They should be hands-on because when owners are involved in the business's operations, they are more likely to deliver on strategy and meet targets. Entrepreneurs should also build relationships with suppliers and customers. In this way, they will keep abreast of new trends, and improve their products and services to satisfy their customers (Kabangele, 2019:133). Creativity and innovation has the potential to grow a business. Chinomona and Mazirir, 2015:6) and Mwobobia (2012:112) add by stating that business performance is most challenged by a lack of support and discrimination from government officials, scarcity of training and entrepreneurial education, insufficient capital and finance, as well as negative attitudes and competition problems.

Drawing from the research study's survey responses, it is evident that forty eight percent (48%) of the respondents have experienced small increases in their businesses, which indicates that the business performance is growing. Thirty two percent (32%) agreed that they experience poor business performance, and twenty percent (20%) was uncertain because the business fluctuates. Seemingly, some of the entrepreneurs suffer in silence, as seen in the 20% of uncertain respondents, whose businesses performance is poor, while they also lack entrepreneurial education and training, which may result is no confidence and low self-esteem. Maritz *et al.* (2015:57) define "entrepreneurship education programs as any educational program or process of education for entrepreneurial manners and skills, which help in developing personal qualities". Van Gelderen *et al.* (2015:219) classify entrepreneurship education as one of the most important components of the entrepreneurship ecosystem to enhance business operations and mechanisms, as well as business creation stability.

**Table 4.13: Poor business performance**

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	3	5.0	5.0	5.0
Disagree	26	43.3	43.3	48.3
Uncertain	12	20.0	20.0	68.3
Agree	16	26.7	26.7	95.0
Strongly Agree	3	5.0	5.0	100.0
Total	60	100.0	100.0	

#### 4.3.8 Financial constraints are main obstacles

Every business requires some sort of support, whether institutional, family or financial. The government and private financial service providers should enable existing entrepreneurs to access financial support to expand and exploit their business ideas. Suppliers (mostly entrepreneurs) should not only accommodate large companies, but SMMEs as well, in terms of price and demand. Due to limited access to finance, many SMME owners operate without support. Receiving support could enable businesses to break through limitations that impede their growth (Kabangele, 2019:134).

Based on the responses shown in Table 4.14, sixty three percent (63%) of the businesses are struggling because of finances, twenty two percent (22%) is uncertain, and the minority, fifteen percent (15%), disagreed with the above statement. Financial support from the government and private sector, and access to financial aid would positively influence business growth for the businesses in this study. On a different note, Kabangele (2019:134) also mentions that owing to the high risks, high costs and low returns associated with businesses, it is apparent that banks do not want to give credit to businesses that might fail or stagnate. Entrepreneurs should be creative about finance, and not only depend on banks to provide it. They should explore other financing options such as (but not limited to) family and friends, and other financial institutions. Choto, Tengeh and Iwu (2014:100) agree that intervention programs that aim to assist entrepreneurs and SMEs' development should include all stages of entrepreneurs as it helps to improve business performance. Regardless of the size of the enterprise, its impact should not be underestimated as long as it has a positive contribution towards the reversal of the high level of unemployment and poverty in South Africa.

**Table 4.14 Finance as a major barrier to business growth**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	9	15.0	15.0	15.0
	Uncertain	13	21.7	21.7	36.7
	Agree	26	43.3	43.3	80.0
	Strongly Agree	12	20.0	20.0	100.0
	Total	60	100.0	100.0	

#### 4.3.9 Transport challenges

Forty seven percent (47%) of the respondents experience transport challenges, while thirty two percent (32%) do not have any transport problems, and twenty one percent (21%) were uncertain. The results of this study concur with Anthopoulou's (2010) findings, indicating that a lack of communication, poor infrastructure and transport challenges affect entrepreneurial activities. This confirms Gore and Fal's (2010) argument, which states that South Africa's worst transport infrastructure ruins the culture of entrepreneurship. Respondents in this study pointed out that at times they fail to meet their customers' demands owing to transport challenges that they face in their business operations.

Nsengimana (2017:123), Tengeh and Mukwarami (2017:68), as well as Ngorora and Mago (2013:4) found similar results, indicating that respondents perceived transport to be a barrier to their business growth. These authors found that transport facilities for businesses in rural areas should be improved to make their business operations more practical, and to increase their entrepreneurial activities. Respondents agreed that transport costs for goods and merchandise from wholesalers or suppliers constitute another major expense.

**Table 4.15: Transport challenges affect the business negatively**

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	9	15.0	15.0	15.0
Disagree	10	16.7	16.7	31.7
Uncertain	13	21.7	21.7	53.3
Agree	25	41.7	41.7	95.0
Strongly Agree	3	5.0	5.0	100.0
Total	60	100.0	100.0	

#### 4.3.10 Lack of marketing system

According to Table 4.16 below, the majority of respondents, namely forty eight percent (48%) of them agreed that they lack access to marketing, while forty percent (40%) have access to marketing, and twelve percent (12%) were uncertain. Ngorora and Mago (2013) argue that rural entrepreneurs in the Nkonkobe municipal area faces serious marketing challenges, including poor transport infrastructure, unfair treatment and services from government officials, and insufficient equipment, while limited and distant markets hinder success in their businesses. Kabangele (2019:133) found similar results, stating that entrepreneurs should be able to market (advertise) their businesses in order to effect a turnover. In this way, the demand for products and services will encourage more entrepreneurs to enter the market, and boost business performances, generally. These findings are in line with Lee and Suzanne (2000:121) who mention that chances are too small to enable potential entrepreneurs to take advantage of the limited opportunities that exist in rural areas. This limits entrepreneurs from exploiting certain opportunities in rural areas.

**Table 4.16: Lack of marketing access**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	6	10.0	10.0	10.0
	Disagree	18	30.0	30.0	40.0
	Uncertain	7	11.7	11.7	51.7
	Agree	19	31.7	31.7	83.3
	Strongly Agree	10	16.7	16.7	100.0
	Total	60	100.0	100.0	

#### 4.3.11 Business space is a challenge

Table 4.17 below reveals that a majority of the respondents, namely sixty eight percent (68%), indicated that limited business space is a challenge for business operations, whereas twenty seven (27%) disagreed and stated that they do not need more space to run their business, and five percent (5%) were uncertain. A lack of business space is one of the major challenges for rural entrepreneurship (Mugobo & Ukpere, 2012, cited in Khosa & Kalitanyi, 2014:210). Ngorora & Mago (2013:8) concur and mention that unavailability of storage facilities limits the capacity of rural businesses, and it is impossible to provide sufficient supply, as they do not have space to store raw material, inventory, equipment, as well as a bulk of products. Entrepreneurs cannot meet their customers' demands, since they only produce small quantities owing to a lack of storage space.

On the one hand, Fatoki and Garwe (2010:731) state that limited business space has a negative influence on the success of a new venture. Conversely, a study by Chikamhi (2011:54) revealed how difficult it is to locate a business successfully, and close to its market.

**Table 4.17: Lack of business space affects the business negatively**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	13	21.7	21.7	21.7
	Uncertain	3	5.0	5.0	26.7
	Agree	22	36.7	36.7	63.3
	Strongly Agree	19	31.7	31.7	95.0
	Strongly Disagree	3	5.0	5.0	100.0
	Total	60	100.0	100.0	

#### **4.3.12 Competition as a constraint to growth**

This question sought to consider whether competition affects business growth.

Competition is a challenge that causes informal businesses to either grow or collapse, since it is easy to start, and anyone can initiate it. Khosa and Kalitanyi (2014:212) further explain that competition threatens a significant number of informal entrepreneurs. The table below summarises the interview findings based on the respondents' verbatim responses, which generally state that competitors that charge less, or render poor and cheap services, become a major challenge, as most of the customers opt for cheaper services. Sixty two percent (62%) of the respondents agreed that competition affects their business growth negatively, while twenty five percent (25%) disagreed, and thirteen percent (13%) were uncertain whether competition influences their growth.

Respondents indicated that it is a challenge for them to compete with entrepreneurs from urban areas owing to a lack of infrastructure, transport to access markets, and suppliers from rural areas. Hookoomsing and Essco (2003) cited in Ngorora and Mago (2013:6) found out that a lack of confidence and assertiveness affect rural entrepreneurs, which this study also revealed.

**Table 4.18: Competition affecting business growth**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	3	5.0	5.0	5.0
	Disagree	12	20.0	20.0	25.0
	Uncertain	8	13.3	13.3	38.3
	Agree	25	41.7	41.7	80.0
	Strongly Agree	12	20.0	20.0	100.0
	Total	60	100.0	100.0	

#### 4.3.13 Crime as a challenge to growth

Generally, South Africa's crime rate is high, which also affects the growth of informal businesses. Hunter and Skinner (2011:23) state that crime is growing in South Africa, and this has serious obstacles to business growth. As much as the Cape Winelands is not a high crime zone in the Western Cape, Worcester and Stellenbosch, two Winelands towns, appeared in the list of the 10 worst burglary precincts in 2018, with statistics of 595 burglary cases reported. As shown in Table 4.19 below, sixty percent (60%) of the respondents agreed that crime influences their businesses, while thirty percent (30%) disagreed, and ten percent (10%) were uncertain.

These findings are contrary to Kabangele's (2019:133) study, which reported that many entrepreneurs gave crime a low rating in terms of importance, though the author states that rising crime levels in South Africa hinder the expansion of investment and employment. He recommended that there should be an investment-friendly and crime-free environment (where property rights are respected) in order to achieve high levels of savings and investments, as well as steady gains in productivity. Local government should continue to work together with private security organisations to free society of crime.

**Table 4.19: Crime prevents businesses from growing**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	3	5.0	5.0	5.0
	Disagree	15	25.0	25.0	30.0
	Uncertain	6	10.0	10.0	40.0
	Agree	29	48.3	48.3	88.3
	Strongly Agree	7	11.7	11.7	100.0
	Total	60	100.0	100.0	

#### 4.3.14 Business management skills

This study has proven that government assistance has a positive influence on informal businesses' growth. A majority of the respondents agreed that the government had granted them seed funding, trained some of them, while others have yet to attend the training courses. Fifty three percent (53%) of the respondents disagreed that a lack of business management skills has affected their business' growth; forty two percent (42%) agreed that this has affected them, and five percent (5%) were uncertain, though they have yet to attend business management training.

Quite a number of researchers concur with the opinion that business management skills play a vital role in the growth of informal businesses. Martin (2015:323) states that business management skills provide entrepreneurs with skills that include gage in proper decision-making, setting goals, human resources management, finance management, accounting, marketing, customer relations, negotiation skills, growth management and compliance with regulations. It is important for entrepreneurs to acquire these skills. As much as the majority of respondents did not agree that a lack of business management skills affects their business, this lack of skills may be the reason why their businesses do not grow. Niemand and Nieuwenhuizen (2009:10) agree that business management skills consist of creativity, innovation, strategic objectives such as marketing, and planning the future of the business. Many informal businesses fail to display such skills and end up not growing. Rogerson (2010b:18) and (Rolfe *et al.*, 2010) mention that limited business skills challenge a business's innovation and growth. Despite this, a considerable number of entrepreneurs in the informal sector start their businesses without receiving training in these vital skills and subsequently suffer as the business grows



Referring to entrepreneurship as a subject in schools, Mnde Nchu (2015:52) suggested that they would like the use of real business examples or stories; the use of fictitious stories does not make the subject close to real life. Successful entrepreneurs should be invited to give talks, keynote addresses and even to teach learners Business Studies. Based on this, learners who dream of becoming entrepreneurs will be able to start businesses that have potential to grow.

**Table 4.20 Lack of business management skills affects business growth negatively**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	3	5.0	5.0	5.0
	Disagree	29	48.3	48.3	53.3
	Uncertain	3	5.0	5.0	58.3
	Agree	15	25.0	25.0	83.3
	Strongly Agree	10	16.7	16.7	100.0
	Total	60	100.0	100.0	

#### 4.3.15 Access to financial aid

Choto, Tengeh and Iwu (2014:99) claim that entrepreneurs from different categories and sectors experience a common financial challenge to operate their businesses. The authors maintain that most entrepreneurs struggle to obtain funding owing to a lack of accomplishment and security, which financial institutions require. This study's findings concur with the above literature, as the respondents showed in response to the above question concerning access to finance. Table 4.21 below indicates that a majority of the respondents, namely fifty five percent (55%) agreed that a lack of security is an obstacle when applying for credit, while forty percent (40%) said that they did not require credit, and five percent (5%) were uncertain about the matter. However, agreeing with Choto, Tengeh and Iwu (2014:99), Ngorora and Mago (2013:4) recommends that rural entrepreneurs should seek assistance from business agencies and banks to access financial assistance, especially since they lack collateral. To promote entrepreneurship financial institutions need to reach out to their clients. FinMark Trust (2006, cited by Fakoti & Garwe, 2010:731) states that only 2% of SMMEs can access bank loans in South Africa, since they do not have credit records and/or collateral.

Choto (2015:70) notes that there is a gap in equipping small business owners with skills to compile successful funding applications. Incubators, as well as business schools could play a substantial role in developing small businesses by including them in their incubation programs, and equipping them with skills to compile successful funding applications, which may increase their chances to access finance.

**Table 4.21 Lack of security to apply for credit facility**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	12	20.0	20.0	20.0
	Disagree	12	20.0	20.0	40.0
	Uncertain	3	5.0	5.0	45.0
	Agree	26	43.3	43.3	88.3
	Strongly Agree	7	11.7	11.7	100.0
	Total	60	100.0	100.0	

#### 4.3.16 Business inventory bought on credit

An overwhelming majority of seventy three percent (73%) of the respondents stated that they did not buy stock on credit, as they do not believe in credit purchases, while seventeen percent (17%) indicated that they do buy stock on credit, and ten percent (10%) were uncertain about the question. It was encouraging to learn that a majority of the respondents do not purchase stock on credit, because debt can affect the business's growth negatively.

**Table 4.22 Buying stock on credit is a challenge to growth**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	15	25.0	25.0	25.0
	Disagree	29	48.3	48.3	73.3
	Uncertain	6	10.0	10.0	83.3
	Agree	6	10.0	10.0	93.3
	Strongly Agree	4	6.7	6.7	100.0
	Total	60	100.0	100.0	

#### 4.3.17 Stock sold on credit

Seventy two percent (72%) of the respondents indicated that they do not sell stock on credit, hence they disagreed that selling stock on credit affects their business growth, while seventeen percent (17%) agreed that selling stock on credit affects their business, and eleven percent (11%) were uncertain, as they indicated that they are not directly affected by this statement. Ngorora and Mago (2013:9) mention that rural entrepreneurs from the Nkonkobe municipal area were negatively affected by bad debt recovery from customers owing to the non-payment of loans, and businesses inability to repay their loans. Selling stock on credit may influence business failure when debt recovery is poor, or non-existent.

**Table 4.23 Selling stock on credit is a challenge to business growth**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	21	35.0	35.0	35.0
	Disagree	22	36.7	36.7	71.7
	Uncertain	7	11.7	11.7	83.3
	Agree	6	10.0	10.0	93.3
	Strongly Agree	4	6.7	6.7	100.0
	Total	60	100.0	100.0	

#### 4.3.18 Debt collection

According to Table 4.23 below, only twenty three percent (23%) of the respondents said that they are affected by debt collection challenges, while fifty five percent (55%) disagreed with the statement, and twenty two percent (22%) were uncertain about debt collection challenges.

The fact that 72% of respondents do not operate on credit is beneficial for their businesses, as this will avoid debt repayments. The few that do engage with credit should learn about the consequences of selling on credit, while they should also be equipped with skills that offer credit cost effectively.

**Table 4.24 Debt collection recovery is a challenge and it affects business growth**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	18	30.0	30.0	30.0
	Disagree	15	25.0	25.0	55.0
	Uncertain	13	21.7	21.7	76.7
	Agree	10	16.7	16.7	93.3
	Strongly Agree	4	6.7	6.7	100.0
	Total	60	100.0	100.0	

#### 4.3.19 Competition as a challenge

The more competition entrepreneurs face, the better the quality of services that they provide. It is crucial for government to foster an entrepreneurial environment that encourages entrepreneurs to take risks, be innovative and compete fairly by implementing appropriate policy measures Kabangele (2019:136).

According to Table 4.24 below, a majority of forty seven percent (47%) of the respondents indicated that they have do not have a negative attitude towards competitors. Thirty three percent (33%) said that they do not have a great relationship with their competitors, and twenty percent (20%) stated that they do not have anything to do with their competitors. Hence, for this group of entrepreneurs competition is not a major factor. Competition might have both negative and positive effects on a business (Khosa & Kalitanyi, 2014:209). The authors mention that competition poses a threat to a significant number of informal entrepreneurs.

**Table 4.25 Negative attitude towards competitors**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	6	10.0	10.0	10.0
	Disagree	22	36.7	36.7	46.7
	Uncertain	12	20.0	20.0	66.7
	Agree	13	21.7	21.7	88.3
	Strongly Agree	7	11.7	11.7	100.0
	Total	60	100.0	100.0	

#### 4.3.20 Costs of rental affects business growth

Most informal businesses operate in their own homes, hence Table 4.25 shows that forty five percent (45%) of the respondents indicated that they disagreed that rental costs affect them. Twenty seven percent (27%) said that rental costs do affect them, while twenty three percent (23%) were uncertain, and five percent (5%) did not respond to the question. Based on this research data, the assumption is that the respondents do not envisage their businesses growing increasingly large, especially since 68% of the respondents were content with operating from their home garages, and it appears that 23% of them may be suffering in silence. This finding concurs with Ngorora and Mago's (2013:8) findings that rural entrepreneurs from the Nkonkobe municipal area are less affected by limited storage space, which may be caused by a lack of warehousing facilities. This may be the case with the Cape Winelands entrepreneurs, affecting their confidence to operate bigger businesses.

Nsengimana (2017:147) recommended to entrepreneurs in Kigali that they should try to work together in associations or cooperatives as means to grow their businesses, better afford shop rents, reduce transport costs through bulk shipping, and enjoy incentives that cooperatives receive, including lower taxes and interest rates. This strategy should suit respondents in this study.

**Table 4.26 Rental fee affects business performance**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	15	25.0	26.3	26.3
	Disagree	12	20.0	21.1	47.4
	Uncertain	14	23.3	24.6	71.9
	Agree	10	16.7	17.5	89.5
	Strongly Agree	6	10.0	10.5	100.0
	Total	57	95.0	100.0	
Missing	System	3	5.0		
Total		60	100.0		

#### 4.3.21 Business shelter

According to a study, which Asoba (2016:113) conducted, he recommended that the City of Cape Town's municipality management should erect permanent weather proof stalls at selected markets to minimise damages costs as a result of wind and rain. The results from Table 4.26 below indicate that this recommendation would apply to Cape Winelands informal businesses. Fiftyfive percent (55%) of the respondents agreed that they are affected by a shortage of shelter, where they can operate their business, while forty percent said that they (40%) are not affected by this factor, as they operate from their home garages, and five percent (5%) were uncertain. Operating a business from home limits these business owners' business growth, and they will not be able to purchase additional equipment or stock, even if they had the finance to do so. They require permanent structures to better optimize their business concerns.

**Table 4.27 Weather conditions affect business running**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	15	25.0	25.0	25.0
	Disagree	9	15.0	15.0	40.0
	Uncertain	3	5.0	5.0	45.0
	Agree	24	40.0	40.0	85.0
	Strongly Agree	9	15.0	15.0	100.0
	Total	60	100.0	100.0	

#### 4.3.22 Racism impact on business growth

Forty seven percent of the respondents (47%) indicated that they disagreed with the statement that racism affects their business growth, while thirty three percent (33%) agreed, saying that it does, and twenty percent (20%) were uncertain. The general perception is that the Western Cape is a racist province in South Africa, but racism does not appear to be dominant amongst informal businesses in the Cape Winelands.

**Table 4.28 Direct effect of racism**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	19	31.7	31.7	31.7
	Disagree	9	15.0	15.0	46.7
	Uncertain	12	20.0	20.0	66.7
	Agree	7	11.7	11.7	78.3
	Strongly Agree	13	21.7	21.7	100.0
	Total	60	100.0	100.0	



### 4.3.23 Customer loyalty in the business

According to Kabangele (2019:137), successful entrepreneurs should not only provide employment, but should also consider extending their services to disadvantaged communities as a means of 'giving back'. Entrepreneurs should continue to have fair and non-discriminatory job placements. At the same time, they should remunerate employees fairly. These findings are not in line with the findings of the study, as the majority of respondents disagreed that they have challenges retaining loyal customers.

As shown in Table 4.28 below, fifty two percent (52%) of the respondents disagreed with the statement that it is difficult to retain loyal customers, while forty eight percent (48%) agreed that due owing to certain deficiencies, it is difficult to retain regular customers. Ngorora and Mago's (2013:6) study established that rural entrepreneurs sell products on credit in order to retain customers. However, credit dealings affect their business growth negatively, as customers do not always repay their credit, while some delay payment. This way of retaining customers is not good, and prevents business growth. Walker and Preuss (2008:1600) suggest that it is imperative for policy makers to better align policies for small businesses, and to encourage buying from small businesses to increase their sustainability.

**Table 4.29 Retaining consistent customers is a challenge**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	15	25.0	25.0	25.0
	Disagree	16	26.7	26.7	51.7
	Agree	22	36.7	36.7	88.3
	Strongly Agree	7	11.7	11.7	100.0
	Total	60	100.0	100.0	

### 4.3.24 Create employment

When small businesses are unable to create employment, it becomes a loss to the government and the country itself. Tengeh and Mukwarami (2017:62) highlight that the South African government recognizes and supports the participation of Small, Medium and Micro-sized Enterprises (SMMEs), particularly in the informal small business economy as means to address the country's acute unemployment problem. The literature shows that in many parts of the world small businesses are considered to be a leading creator of new jobs,

both in developed and developing societies, according to Agupusi (2007:2), Fatoki and Garwe (2010:729) and Fatoki and Odeyemi (2010:128). This explains why the South African government has identified the informal business sector as having prospects to ameliorate poverty and unemployment (CIGS, 1998:3). As shown in Table 4.29, an overwhelming majority of eighty percent (80%) shows that job creation chances are limited owing to certain challenges that their businesses experience, while fifteen percent (15%) disagreed with the statement, and five percent (5%) were uncertain. This finding is a serious concern that affects the country's economy, since most researchers find that entrepreneurship boosts economies by creating employment.

It is crucially important to promote entrepreneurship for economic opportunities for the unemployed. Unemployment is a result of low aggregate demand. Instead of making people employable only when they are educated (supply side), the government should offer incentives, or refine them so entrepreneurs can employ more people in their businesses (Davis, 2002: 11). The higher the growth or productivity, the bigger the demand for labour is. Employment transforms peoples' lifestyles for the better, and reduces the likelihood of them engaging in criminal behaviours.

Globally, informal small businesses are a cornerstone for national economies (Turyakira, 2012:1). Even in the United States of America, small businesses contribute significantly to job creation (Turyakira, 2012:1). Small businesses in countries within the Organisational for Economic Co-operation and Development (OECD) accounted for over 90% of businesses, contributing over 65% of new jobs created in 2014 (Yusuf, Din & Jusoh, 2014:1). According to Statistics South Africa (2014) and Herrington, Kew and Kew) (2009), South Africa has been described as a country where poverty is high, and this is unacceptable.

**Table 4.30 Job creation chances are limited**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	6	10.0	10.0	10.0
	Disagree	3	5.0	5.0	15.0
	Uncertain	3	5.0	5.0	20.0
	Agree	41	68.3	68.3	88.3
	Strongly Agree	7	11.7	11.7	100.0
	Total	60	100.0	100.0	

#### 4.3.25 Crime affects business negatively

Table 4.30 below shows that fifty percent (50%) of the respondents agreed that their respective business had been affected by criminal activities, while forty five percent (45%) disagreed and not yet been affected by crime, and five percent (5%) were uncertain. Criminal activities increased in the Western Cape in 2018, but few were reported in Cape Winelands towns. Of the worst 10 burglary precincts in non-residential areas in 2018, Paarl recorded 392 burglaries, and Stellenbosch 334 from an overall 2929 cases reported in the Western Cape province. For residential areas, Stellenbosch recorded 1023 cases, and Worcester 858 from an overall 8976 cases recorded in the Western Cape.

**Table 4.31 Theft, burglary and robbery challenges**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	9	15.0	15.0	15.0
	Disagree	18	30.0	30.0	45.0
	Uncertain	3	5.0	5.0	50.0
	Agree	26	43.3	43.3	93.3
	Strongly Agree	4	6.7	6.7	100.0
	Total	60	100.0	100.0	

#### 4.3.26 Business infrastructure

Table 4.31 shows that sixty three percent (63%) of the respondents agreed that their business infrastructure is not satisfactory and that it affects their growth, while thirty percent (30%) disagreed and seven percent (7%) were uncertain. Business comprises basic facilities, services and structures called infrastructure. It is common to think of infrastructure as physical things, but basic software and services also form part of infrastructure (Google).

A majority of the respondents used seed funding to improve infrastructure in their businesses by buying basic equipment. Gwija *et al.* (2014a, b) cited in Choto, Tengeh and Iwu (2014:96) identified possible solutions for challenges that entrepreneurs face, including improving small business support infrastructure, building

networks, and establishing government policies for small businesses. Government structures responsible for economic development in the Cape Winelands municipality should consider these recommendations.

**Table 4.32 Lack of infrastructure is a challenge to growth of the business**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	9	15.0	15.0	15.0
	Disagree	9	15.0	15.0	30.0
	Uncertain	4	6.7	6.7	36.7
	Agree	25	41.7	41.7	78.3
	Strongly Agree	13	21.7	21.7	100.0
	Total	60	100.0	100.0	

#### 4.4 SECTION C: THE WAY THAT THESE FACTORS AFFECT GROWTH OF SMALL BUSINESSES THAT RECEIVED SEED FUNDING

##### 4.4.1 Safety and security affects business growth

Based on the respondents' feedback shown in Table 4.32, fifty three percent (53%) agreed that safety and security impacts business growth, forty two percent (42%) disagreed, and five percent (5%) were uncertain. As mentioned earlier, the Cape Winelands has had its share of burglaries, involving breaking in to business properties to steal valuable equipment, stock and technology items. These criminal acts are costly, causing damage to buildings, livelihood and the business's growth. Informal business owners cannot afford security systems; hence, funders should assist in this respect.

**Table 4.33: Crime has a negative impact on business growth**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	9	15.0	15.0	15.0
	Disagree	16	26.7	26.7	41.7
	Uncertain	3	5.0	5.0	46.7
	Agree	22	36.7	36.7	83.3
	Strongly Agree	10	16.7	16.7	100.0

##### 4.4.2 Sales turnover results are not good

A majority of the respondents, as shown in Table 4.33 below, reported that sales turnover is not good. Forty seven percent (47%) agreed with the statement, while forty one percent (41%) disagreed and twelve percent (12%) were uncertain. According to Altinay and Altinay (2008:24), the definition of growth is the actual seed capital and the difference after current sales turnover. Should sales turnover be poor, the business will fail to grow, which may at times be because of seasonal changes. Khosa and Kalitanyi (2014:209) agree that sales fluctuate in all businesses owing climate changes.

In this case, a lack of entrepreneurial skills may affect sales turnover negatively. This study's findings show that technical skills, business management skills and individual entrepreneurial skills are challenging for seed funded informal small businesses of the Cape Winelands.

**Table 4.34: Business does not grow owing to sales turnover**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	3	5.0	5.0	5.0
	Disagree	22	36.7	36.7	41.7
	Uncertain	7	11.7	11.7	53.3
	Agree	28	46.7	46.7	100.0
	Total	60	100.0	100.0	

#### 4.4.3 Lack of performance affects goal setting

Forty two percent (42%) of the respondents indicated that a lack of performance affects business goals, while forty percent (40%) disagreed and eighteen percent (18%) were uncertain. Due to challenges that informal businesses face, their lack of performance affects goal setting because they cannot meet their achievements consistently.

**Table 4.35: It is difficult to set business goals with stagnant performance**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	9	15.0	15.0	15.0
	Disagree	15	25.0	25.0	40.0
	Uncertain	11	18.3	18.3	58.3
	Agree	25	41.7	41.7	100.0
	Total	60	100.0	100.0	

#### 4.4.4 Saving and investing profit is difficult

Fifty eight percent (58%) of the respondents agreed with the above statement, while twenty five percent (25%) disagreed, and seventeen percent (17%) were uncertain. A majority of the respondents agreed that it is difficult for them to save or invest their profits, as their business does not always perform well. The money that they make is usually only enough to operate the business.

**Table 4.36: Business performance does not allow for investments or savings**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	3	5.0	5.0	5.0
	Disagree	12	20.0	20.0	25.0
	Uncertain	10	16.7	16.7	41.7
	Agree	29	48.3	48.3	90.0
	Strongly Agree	6	10.0	10.0	100.0
	Total	60	100.0	100.0	

#### 4.4.5 Influence of financial assistance for sustainability of the business

The table below shows that seventy three percent (73%) of the respondents agreed that financial support plays a role in their business growth, while 15% disagreed, and seven (7%) were uncertain, 5% did not respond to the question. The results show that the informal businesses' seed funding made a positive impact. The literature reveals that aspiring, as well as existing entrepreneurs have support structures to assist them, regardless of their sector (Mkubukeli & Tengeh, 2015:18). As much as government support structures provide financial assistance to the informal businesses, this study has shown that the seed funding is not sufficient to grow the business, since a lack of funding was identified as a major problem in this respect. Choto (2015:100) suggests that the banks should assist with reducing the entrepreneurs' financial problems. In order to develop entrepreneurs and improve their business ventures, they should grant loans at lower interest rates and avail special funds for exceptional business cases.

**Table 4.37: Business financial support plays a vital role in growth of small businesses**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	3	5.0	5.3	5.3
	Disagree	6	10.0	10.5	15.8
	Uncertain	4	6.7	7.0	22.8
	Agree	38	63.3	66.7	89.5
	Strongly Agree	6	10.0	10.5	100.0
	Total	57	95.0	100.0	
Missing	System	3	5.0		
Total		60	100.0		

#### 4.4.6 Lack of business management skills

This section explores the impact of a lack of business management skills in business growth. Choto, Tengeh and Iwu (2014:93) assert that challenges that entrepreneurs face in operating their businesses, has a negative influence, hindering their contribution to economic growth and development. These challenges include scarce skills, deficient entrepreneurial mindsets, funding challenges, and insufficient training and support (Choto, Tengeh & Iwu, 2014, cited in Organization for Economic Co-operation and Development (OECD), 2010).

Based on this study's findings, informal businesses in the Cape Winelands experience the same challenges post seed funding. According to the findings shown in Table 4.37, less than 57% of the respondents agreed that a lack of business management skills affects their business growth, while 32% disagreed and 11% were uncertain whether their businesses fail owing to a lack of business management skills. Hence, Choto, Tengeh and Iwu (2014:96) suggest that survivalist entrepreneurs need business incubators to assist them to build an entrepreneurial mind-set. Furthermore, the informal small business sector requires more training, coaching and mentoring once they are granted seed funding.



**Table 4.38: Growth is affected by the lack of business management skills**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	9	15.0	15.0	15.0
	Disagree	10	16.7	16.7	31.7
	Uncertain	7	11.7	11.7	43.3
	Agree	28	46.7	46.7	90.0
	Strongly Agree	6	10.0	10.0	100.0
	Total	60	100.0	100.0	

#### 4.4.7 Staff turnover is a challenge

Table 4.38 below shows that fifty percent (50%) of the respondents agreed with the above statement, while thirty eight percent (38%) disagreed, and 12% were uncertain. It is difficult for the informal business owners to retain their experienced staff owing to a lack of business capacity to maintain them. Birley and Westhead (1990:22) considered certain growth characteristics, which included the turnover amount, the total workforce, and the sustainability of a business. Sustainability will be easier if the business is able to keep its staff for longer.

**Table 4.39: Staff turnover owing to low rate and unavailability of wages and fair working conditions**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	6	10.0	10.0	10.0
	Disagree	17	28.3	28.3	38.3
	Uncertain	7	11.7	11.7	50.0
	Agree	27	45.0	45.0	95.0
	Strongly Agree	3	5.0	5.0	100.0
	Total	60	100.0	100.0	

#### 4.4.8 Lack of marketing access resulting in failure to reach the market

Based on results shown in Table 4.39 below, sixty three percent (63%) of the respondents agreed with the above statement, while thirty percent (30%) disagreed, and seven percent (7%) were uncertain. The majority of the respondents indicated that they lack marketing skills and access, culminating in their business failure, as marketing is one of the business pillars that encourage growth. Hence, it is critical for them to be assisted with business incubators. According to Tengeh and Lose (2015:7(10), “Business incubators are mostly regarded as companies that assist the development and growth of SMEs by proving various services such as, access infrastructure, marketing, financial support and networks”. Fatoki (2014:8) elucidates that in order for entrepreneurs to conquer a competitive advantage in the market, they need funding. The results of this study indicate that networks would support, inspire and encourage informal small businesses in a cost-effective way.

**Table 4.40: Marketing skills and systems is a challenge for business growth**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	9	15.0	15.0	15.0
	Disagree	9	15.0	15.0	30.0
	Uncertain	4	6.7	6.7	36.7
	Agree	28	46.7	46.7	83.3
	Strongly Agree	10	16.7	16.7	100.0
	Total	60	100.0	100.0	

#### 4.4.9 Complications for business registration causes growth delays

Choto (2015:99) argues that most entrepreneurs operate in the informal sector owing to a lack of information, and unclear procedures to follow when registering their businesses. Government should make the process easier and clearer, and minimize any unnecessary steps.

In agreement with the literature, some of the entrepreneurs in this study reported that they found it difficult to follow the business registration process. Table 4.40 below shows that forty five (45%) of the respondents agreed with the above statement, while fifty percent (50%) disagreed, and five percent (5%) were uncertain. Business registration should be easier for informal small business owners, as it opens the doors for entrepreneurs to access financial and other forms of assistance. Ngorora and Mago (2013:10) recommend that promoting start-up businesses and restructuring of business registration procedures should support rural entrepreneurship.

**Table 4.41: Challenges in business registration process impact business growth**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	21	35.0	35.0	35.0
	Disagree	9	15.0	15.0	50.0
	Uncertain	3	5.0	5.0	55.0
	Agree	23	38.3	38.3	93.3
	Strongly Agree	4	6.7	6.7	100.0
	Total	60	100.0	100.0	

#### 4.4.10 Negative attitude towards competitors

A majority of the respondents indicated that competition does not affect their business growth directly. According to Table 4.41 below, sixty two percent (62%) of the respondents disagreed with the above statement, while thirty eight percent (38%) agreed that the low rate pricing of competitors affects their businesses negatively. Competition might influence businesses both negatively and positively (Khosa & Kalitanyi, 2014:209). Based on the literature, it is not necessary for respondents to have a negative attitude towards competitors, as competition encourages them to take the business seriously and to be productive.

According to the study's findings, the only thing that makes competition bad is when a competitor charges far less for the same type of service. Khosa and Kalitanyi (2014:212) further explain that competition threatens a significant number of informal entrepreneurs, as shown in this study.

**Table 4.42: Competition results in unpleasant relationships with others**

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	27	45.0	45.0	45.0
Disagree	10	16.7	16.7	61.7
Agree	17	28.3	28.3	90.0
Strongly Agree	6	10.0	10.0	100.0
Total	60	100.0	100.0	

#### 4.5 SECTION D: SEED FUNDING POLICY AFFECTING THE GROWTH OF INFORMAL BUSINESSES

Table 4.42 below shows that the majority of the respondents, namely forty eight percent (48%), reported that they received seed funding. They mentioned that they are restricted from accessing financial assistance in the Cape Winelands, which affects their businesses' growth. Thirty two percent (32%) said that the restrictions have little influence on their businesses' growth, and twenty percent (20%) indicated that they do not see any negative effect of restrictions to access financial assistance, affecting business growth. According to the respondents, the government should adjust some laws and regulations such as (but not limited to) licensing, permits and surety bonds that place serious restrictions on the ability of entrepreneurs to operate their businesses. Ngoroa and Mago (2013:9) concur and claim that rural entrepreneurs will succeed when government regulatory systems improve to provide flexible policies, which may create better business growth opportunities. The authors further recommend that rural entrepreneurs require coaching in business management, access to knowledge and advice, and guidance. They should be equipped with skills in financial management.

#### 4.5.1 Restrictions on accessing financial assistance affect business growth

According to the NCR (2012: 55), people in SA often borrow funds to establish their businesses. FinMark Trust (2006, cited in Fatoki & Garwe, 2010:731) asserts that more than two per cent of small businesses have access to funding facilities. Of the reasons why commercial banks choose to neglect informal small businesses, is the inconsistency of their income and lack of creditability. Based on Ngorora and Mago's (2013:4) findings, potential entrepreneurs in rural areas are deterred by the lack of a guarantee to access financial assistance from financial institutions. The respondents also reported that limited access to financial institutions affects them, while available government funding also presents restriction challenges. They further mentioned that the seed funding that they received did necessarily meet their basic needs for the business.

**Table 4.43: Impact of seed funding policy on business growth**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Not at all	12	20	20.0	20.0
	Little	19	31.7	31.7	51.7
	Strongly	29	48.3	48.3	100.0
	Total	60	100.0	100.0	

#### 4.5.2 Blueprint on government financial assistance affects growth of the business

Kay's (2018:6) study concludes that business proposals are typically more involved and difficult to coordinate. Reporting requirements are specific and can be time-consuming.

This study's results concurred with Kay (2018), as shown in Table 4.43 below. Forty seven percent (47%) of the respondents agreed with the statement that the blueprint on government grants for informal small businesses affects the growth of the business. They mention that it is not easy to access financial assistance because of the processes involved to qualify, while mentoring is not available in this regard. Twenty five percent (25%) stated that they were not affected at all, while seventeen percent (17%) reported that they are slightly affected, and eleven percent (11%) was uncertain.

Choto, Tengeh and Iwu (2014:96) concur and opine that the South African government's regulations have created massive administrative requirements, which are costly for someone who is starting a business. Implementation of these laws discourages potential entrepreneurs from starting sustainable businesses

(World Bank, 2010). International evidence in this respect shows that the regulatory environment has a greater motivation on new entrepreneurial ventures growth and sustainability. Choto (2014) emphasizes the need for national government to allocate sufficient funding for business support programs.

**Table 4.44: Blueprint on government financial assistance limits business functioning**

	Frequency	Percent	Valid Percent	Cumulative Percent
Not at all	15	25.0	25.0	25.0
Little	10	16.7	16.7	41.7
Uncertain	7	11.7	11.7	53.3
Strongly	19	31.	31.7	85.0
Very strongly	9	15.0	15.0	100.0
Total	60	100.0	100.0	

#### 4.5.3 Sufficiency of seed funding to cover basic requirements

Based on respondents' feedback shown in Table 4.44, sixty two percent (62%) of the respondents indicated that the seed funding is sufficient to cover the business's basic needs. Ten percent (10%) were uncertain whether it is sufficient or not, while twenty three percent (23%) said that it covers their basic needs, and five percent (5%) claimed that it is not sufficient at all. Based on the information shared by the respondents, the seed fund has helped them to buy start up equipment, but some of them said that it was not enough to replenish stock and pay staff; hence, their businesses cannot be sustainable. According to Rath (2011:18), informal businesses fail owing to limited funds and resources. This appears to be the case with seed funded informal businesses in the Cape Winelands.

**Table 4.45: Seed fund covered only basic start up of the business**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Not at all	3	5.0	5.0	5.0
	Little	14	23.3	23.3	28.3
	Uncertain	6	10.0	10.0	38.3
	Strongly	27	45.0	45.0	83.3
	Very strongly	10	16.7	16.7	100.0
	Total	60	100.0	100.0	

#### 4.5.4 Alignment of government business development policies with informal businesses

Based on the responses shown Table 4.45 below, sixty one percent (61%) of the respondents strongly agreed that government development policies are aligned with informal businesses, while seventeen percent (17%) disagreed, twelve percent (12%) were uncertain, and ten percent (10%) said that they were a bit convinced that government policies are aligned with the informal businesses. Even the literature reveals that policy makers in the United Kingdom (UK) have long set policies that are favourable to small businesses (Hoffman *et al.*, 1998:37). Walker and Preuss (2008:1600) also note the significance of policy makers better aligning their policies to small businesses and encouraging buying from them to increase their sustainability.

The Minister of Business Development even encouraged non-South Africans to share their success strategies with their South African counterparts (Mbata, 2015:18). Ngorora and Mago (2013:2) claim that information



networks and communication infrastructure are also poor in rural areas. If the government can improve access to information and communication channels to reach rural entrepreneurs, then challenges affecting the growth of informal businesses will decrease because they will be able to contribute to the government's plans in this regard.

**Table 4.46: Government business development policies are aligned with informal businesses**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Not at all	10	16.7	16.7	16.7
	Little	6	10.0	10.0	26.7
	Uncertain	7	11.7	11.7	38.3
	Strongly	31	51.7	51.7	90.0
	Very strongly	6	10.0	10.0	100.0
	Total	60	100.0	100.0	

## 4.6 SECTION E: EXTENT OF GOVERNMENT SUPPORT/POLICY TO INFORMAL BUSINESSES AFTER SEED FUNDING RELEASE

### 4.6.1 Provision of business management skills is available to seed fund beneficiaries

Based on the feedback in Table 4.46, thirty percent (30%) of respondents stated that government support is available once they release the seed funding. Twenty seven percent (27%) of the respondents reported that they received little government support, while twenty two percent (22%) were uncertain, and twenty one percent (21%) said that they did not receive any government support. It is crucial for small informal business owners to be equipped with business and financial management skills in order for their businesses to grow and be sustainable to create employment. Choto's (2015:68) study proved that there is a relationship between the number of employees that entrepreneurs who completed the incubation program hired compared to those who did not participate in the program. About 70% of the respondents were not convinced that they received sufficient business management skills, hence their stagnant business performances. Government should enrol informal business owners into incubation programmes for them to be able to grow their businesses and create employment.

A number of researchers have cited the need for business management skills for informal entrepreneurs. Similar findings by Ngorora and Mago (2013:10) suggest that government should prioritize entrepreneurship education with the intention to develop informal small business owners by providing skills, enterprise awareness, business attributes and behaviours. They should extend these courses to the public for those who wish to pursue entrepreneurship as a career option. With their new skills, existing entrepreneurs will be able to address pressing needs in their business operations, and be in a position to train aspiring entrepreneurs. In agreement, Chinomona and Mazirir (2015:6) state that informal business challenges include but are not limited to a lack of training and education, a lack of finance and negative attitudes.

**Table 4.47: Business management skills received after seed funding**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Not at all	13	21.7	21.7	21.7
	Little	16	26.7	26.7	48.3
	Uncertain	13	21.7	21.7	70.0
	Strongly	9	15.0	15.0	85.0
	Very strongly	9	15.0	15.0	100.0
	Total	60	100.0	100.0	

#### 4.6.2 Lack of mentoring and coaching is a challenge

Ngorora and Mago (2013:10) suggest that rural small business entrepreneurs lack business management skills, coaching and guidance, information and advice. Table 4.47 below shows that fifty percent (65%) of the respondents concurred that there is a lack of mentoring and coaching from government, while twenty five percent (25%) indicated that there is no lack at all, and ten percent (10%) was uncertain. The majority of respondents stated that the government does not provide them with mentoring, which the literature states will prevent business growth.

Morrison *et al.* state that there is considerable evidence that entrepreneurial ventures that lack relevant entrepreneurial skills, technical skills, management experience, and are inflexible tend to fail. Hence, Tengeh and Lose (2015: 7-10) state that entrepreneurial skills shared by business incubators with incubated entrepreneurs, help them to become well developed and balanced in their business operations.

**Table 4.48: Lack of mentoring can prevent a business from growing**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Not at all	15	25.0	25.0	25.0
	Little	9	15.0	15.0	40.0
	Uncertain	6	10.0	10.0	50.0
	Strongly	26	43.3	43.3	93.3
	Very strongly	4	6.7	6.7	100.0
	Total	60	100.0	100.0	

#### 4.6.3 Involvement of government officials in informal businesses

Mwobobia (2012:112) points out that challenges that informal businesses face are because of a lack of finance, discrimination and problems with government officials. According to Table 4.48 below, fifty five percent (55%) of the respondents strongly believe that government officials are visible and involved in informal businesses, while eighteen percent (18%) were uncertain, and seventeen percent (17%) said that they are a bit visible, and not to their satisfaction. Ten percent (10%) said that they are not visible at all. It will make a huge difference to these businesses if trained government officials were entirely available to them. Considering Mwobobia's (2012:112) views, it seems that some of the challenges that informal small businesses face are because of government officials and their unwillingness to support and assist them, which is cause for concern. This contradicts this study's findings, as a majority of the respondents claimed that government officials are visible.

**Table 4.49: Visibility of business officials in informal business for site visits and advice**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Not at all	6	10.0	10.0	10.0
	Little	10	16.7	16.7	26.7
	Uncertain	11	18.3	18.3	45.0
	Strongly	27	45.0	45.0	90.0
	Very strongly	6	10.0	10.0	100.0
	Total	60	100.0	100.0	

#### 4.7 SECTION F: SEED FUNDING

##### 4.7.1 The amount of seed funding that the Cape Winelands Municipality grants informal small businesses

Table 4.49 below shows that sixty eight percent (68%) of the respondents stated that they received R25 000, seventeen percent (17%) said that they received R30 000, twelve percent (12%) mentioned R20 000, and three percent (3%) said that they received R15 000.

Informal businesses received seed funding amounts of between R15 000 and R30 000 per entrepreneur between 2015 and 2018.

**Table 4.50: Actual seed funding received**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	15000	2	3.3	3.3	3.3
	20000	7	11.7	11.7	15.0
	25000	41	68.3	68.3	83.3
	30000	10	16.7	16.7	100.0
	Total	60	100.0	100.0	

**4.7.2 Financial year of seed fund**

Table 4.50 below shows that forty three percent (43%) of the respondents received seed funding in the 2015/2016 financial year, while twenty percent (20%) received it in 2016/2017, and thirty seven percent (37%) received it in 2017/2018.

**Table 4.51: Seed fund received 2015/2016, 2016/2017, 2017/2018**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2015	26	43.3	43.3	43.3
	2016	12	20.0	20.0	63.3
	2017	22	36.7	36.7	100.0
	Total	60	100.0	100.0	

### 4.7.3 The business function that used the money

Table 4.51 below shows that eighty three percent (83%) of the respondents spent their seed funding on business equipment, while eight percent (8%) spent it on maintaining their business infrastructure, seven percent (7%) bought inventory, and two percent (2%) spent it on other business functions.

Ngorora and Mago, (2013:4) recommend that the government should focus on providing equipment and developing infrastructure to support profitable businesses. The government should heed the literature recommendations to boost informal business growth by providing funding for equipment and maintenance, and not merely for start-ups.

**Table 4.52: Seed funding usage**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Maintenance	5	8.3	8.3	8.3
	Equipment	50	83.3	83.3	91.7
	Inventory	4	6.7	6.7	98.3
	Others	1	1.7	1.7	100.0
	Total	60	100.0	100.0	

#### 4.7.4 Expectations for further support other than funds

Table 4.52 below indicates that fifty percent (50%) of the respondents claimed that they do not expect any further support from the government other than funds; while the other 50% said that they expect more support from government. Based on the outcomes of this study, there is a lot that the government can offer to support informal businesses beyond seed funding such as stability of the business, limited business space, crime, a lack of infrastructure, business management skills and transport.

Choto (2015:40) indicates that entrepreneurs who participated in the incubation program had access to better and improved technology, which empowered them to compile business documents that helped to operate their businesses effectively and stay competitive. Tengeh and Mukwarami (2017:72) found that a lack of management skills and business training, coupled with inadequate knowledge of financial accountability, continue to be challenges that affect the growth of spaza shop owners. They also recommended that the City of Cape Town Council and the private sector should offer refresher, business, training workshops throughout the year, and reach out to spaza shop operators. They mention further that the trainers should engage in regular follow-up visits to spaza shops to monitor the use of accounting books and application of managerial skills. Informal businesses in the Cape Winelands District municipality require these support mechanisms following seed funding. This support will improve the growth of informal small businesses, while coaching and networking will enhance business development, even with limited funding.

**Table 4.53: Non-financial government support needed**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	30	50.0	50.0	50.0
	No	30	50.0	50.0	100.0
	Total	60	100.0	100.0	



## 4.8 SECTION F: OPEN ENDED QUESTIONS

### 4.8.1 How did you communicate your expectations to the funder?

- Six (10%) of the respondents stated that they mentioned on their business plans that they needed funding for more space for the business.
- One (1.7%) respondent mentioned that she told the funder during a business skills training course that she required mentoring to assist with business growth.
- Seventeen (28%) respondents communicated their expectations during funder site visits, where the funders could see the conditions, which prevented the business from growing, including a lack of finances, transport, space, and a shortage of staff.
- One (1.7%) respondent (1.7%) requested meetings with funders to discuss the fact that he did not have transport to buy stock and to access the market.
- Twenty seven (45%) respondents stated that it is not applicable to them, as they do not expect any further assistance from the government other than finance.
- Five (8.3%) respondents did not communicate their expectations to the government.
- Two (3.3%) respondents communicated their expectations telephonically, as these were emergency cases; one had experienced burglary and theft, while the other had to deal with a racism attack.
- One (1.7%) respondent had weekly briefings with the funders after receiving the seed funding, where they discussed business performance and expectations.

### 4.8.2 How do you measure the performance of your business?

- Twenty respondents (34%) agreed that their businesses performed poorly; some said that the business was near closure, and others said that they no longer had a business.
- Twelve (21%) respondents rated their business's performance as average, and that they have stable and loyal customers.
- Four (7%) respondents mentioned that their businesses fluctuate in terms of the money they had at their disposal, and the number of customers they had for each month.
- Six (10%) respondents disagreed with the opinion that the businesses are experiencing growth challenges, as they mentioned that their businesses are growing. They said that they constantly receive new clients and increased orders, and one of them mentioned that his business was one of the top rated car wash businesses in the Drakenstein municipality.
- Fifteen (25%) respondents stated that their business's growth was slow, and their sales turnover was down because of a lack of capital and infrastructure.
- Two (3.3%) respondents mentioned that their business is seasonal, though during the season it performed on average.

#### 4.8.3 Are there any other challenges affecting growth of the business?

Replying to this question, one respondent mentioned different challenges at a time.

- Sixteen (27%) respondents mentioned that a lack of finance is a major challenge for their business's growth.
- Sixteen (27%) respondents indicated that they need space to run their businesses, as most of them operate from garages at home, and they do not have space for their equipment and for storage.
- Two (3%) respondents said that crime is one of the challenges that they face, having had break-ins, robberies and burglaries.
- Three (5%) respondents reported a lack of mentoring and coaching causing their business's failure.
- Nine (15%) respondents cited a lack of business and financial management training as a challenge.
- Six (10) respondents claimed that a lack of infrastructure such as buildings, storage facilities, computers, machinery, more advanced equipment, more materials, and access to marketing as major challenges.
- One (1.7%) respondent mentioned that he lacks marketing skills, and wanted training in this area.
- One (1.7%) respondent said politics amongst municipal officials affect the support that they require.
- Six (10%) claimed that competition was a challenge, as it placed them under pressure, and affected their pricing. They said that they lower prices to obtain tenders, but this disadvantages them in terms of a loss of profits.
- Seven (12%) respondents stated that transport is a challenge, as they hire transport to reach their market, and to deliver products for their catering service.
- One (1.7%) respondent said that saving and investing is a challenge, as she also used profits to take care of the family.
- Three (5%) respondents claimed that Government coaching took too long, causing their businesses to fail.
- Two (3%) respondents stated that the seed funding should increase to afford them to buy enough equipment and material to start the business.
- Three (5%) respondents mentioned that retaining loyal customers is a challenge. They opined that having contracts with big companies or factories would ensure commitment and stability in their businesses.
- Two (3%) respondents cited a lack of access to financial facilities as a challenge; and because they did not have security, they were unable to obtain financial assistance to sustain their businesses.
- One (1.7%) respondent did not have any challenges to report.

- Three (5%) respondents said that rental cost is a challenge, as they used of their profits to pay for it.
- Two (3%) stated that stagnant growth is a challenge, as they cannot set any targets or goals for their businesses.
- Six (10%) respondents cited water restrictions as a challenge that affects their business operations, as they about R1 000 daily on water.
- Two (3%) respondents mentioned that weather conditions influence their business operations; hence, they require a shelter structure for production purposes.

### **Summary of questions 4.8.1 – 4.8.3 (open questions)**

The majority of respondents confirmed that their business performance is consistently poor, while some businesses fluctuate and others are seasonal. A minority mentioned that growth is slow.

The major challenges that they experience on a daily basis include a lack of finances, business space / shelter, coaching and mentoring, business training and marketing skills, infrastructure, competition, transport and rental costs, loyal customers and increasing crime.

Some of the respondents communicated to the funder about further support requests through site visits, during skills training and briefings, telephonically, and mentioned in their business plans.

Seemingly, most of the entrepreneurs share common challenges, which aligned with the literature survey, as several researchers had cited similar findings. All of these researchers proposed recommendations to assist informal small businesses who received seed funding from Cape Winelands Municipality.

Ngorora (2013:9) found that the following aspects hinder growth, and prevents rural entrepreneurship from succeeding in the Nkonkobe Municipal area: small and distant markets; corruption, a lack of marketing initiatives, and scarcity of equipment. Due to poor transport infrastructure, rural entrepreneurs in the Nkonkobe Municipal Area face serious marketing challenges. Choto (2015:40) claims that entrepreneurs should join business incubation, as it will help them to access technology and business networks, address funding challenges, and improve their business skills and expertise.

## 4.9 CONCLUSION

The rationale for this research was that a majority of informal small businesses that have seed funding do not grow to a point where they can become sustainable. Hence, this study investigated challenges to the growth of informal small businesses that received seed funding in the Cape Winelands District in the Western Cape. To achieve this, the study adopted a quantitative research method. The researcher designed a questionnaire containing a list of statements to elicit specific information from the informal business owners who received seed funding. The data was analysed and presented in tabular form.

The main objective was to ascertain why informal small businesses that received seed funding in the Winelands district struggle to grow. This main objective was reached by accomplishing the following sub-objectives:

- Factors influencing business growth that were identified include books and recording keeping, financial constraints, transport, marketing, business space, competition, crime, access to credit facilities, and staff turnover;
- The effect of factors mentioned above on the growth of informal businesses includes: financial management failure; limited funds for business operations; including money to pay salaries; no means of transport to access the market; unavailability of business space results in business limitations; when a competitor's pricing is low it destroys one's business; a lack of safety and security prevents the business from progressing owing to theft and burglary; when their business does not perform well it is difficult to retain experienced staff; and a lack of basic infrastructure;
- Government support structures and policies were analyzed and the findings included a lack of access and restrictions to qualify, as well as a blue print to manage financial assistance / grants received. There is a gap between the alignment of government business development policies and the informal businesses, as well as mentoring and coaching, which means complete involvement of government officials; and
- The research investigated how helpful seed funding is, and how informal small business owners used it. The findings indicated that the government granted between R15 000 and R30 000 to the small business, but this was not sufficient, as it only covered basic needs such as equipment and machinery. The respondents stated that there is still a need for funds to assist them with business operations (inventory, materials, and human resources), and more infrastructure in terms of workshops, storage, computers, machinery and more advanced equipment, and access to marketing.

Section F presented and interpreted open-ended questions about the seed funding and business performance. Data was gathered from questionnaires that the informal small business owners who received seed funding from the Cape Winelands District municipality completed between the 2015 and 2018 financial years.

This study found that government support in the form of training and funding was available for the informal small business owners of the Winelands to develop their businesses. Nevertheless, it was not enough to operate their businesses successfully owing to limited business space and other factors. The findings of this study further revealed that even though almost 50% of business owners have been operating for more than 5 years already, and 55% of the respondents are educated up to Matric and above, they are still experiencing financial challenges and could not raise capital to invest in their respective businesses. Based on the feedback given by respondents, the government is doing everything in its ability to support informal small businesses to grow by providing training and seed funding.

An outstanding finding was that the informal business owners used the seed funding to buy equipment, and expressed that they expected further assistance from the government other than finance. They also mentioned that they required more and sufficient space for their business operations. Most of the respondents confirmed that their business performances were constantly poor, while some mentioned that the growth was slow. The major factors that hinder the success of informal small businesses that received seed funding were: blueprint on government financial assistance; business management and marketing skills; safety and security; and coaching and mentoring. Conversely, competition does not directly affect a majority of these businesses. Another concern that the respondents expressed related to difficulties to create jobs or to retain staff owing to the business's financial instability.

Chapter 5, the final chapter, provides possible recommendations and concludes the dissertation.

## **CHAPTER FIVE**

### **CONCLUSION AND RECOMMENDATIONS**

#### 5.1 INTRODUCTION

The previous chapter presented the findings and discussion of this research. The aim of this chapter was to provide a conclusion of the entire dissertation. The aim of this chapter is to conclude the key findings of this research, and to suggest future research. Furthermore, this section ended with a list of sensible recommendations.

#### 5.2 A BRIEF EXPOSITION OF THE DISSERTATION

The aim of this dissertation was:

- To explore factors that influence the growth of informal small businesses that received seed funding in the Winelands District of the Western Cape Province;
- To determine how these factors affect the growth of informal small businesses that received seed funding;
- To determine the effect of the available support structures and policies for informal small businesses in the Cape Winelands; and
- To investigate how helpful the seed fund is, and how the informal small business owners in the Cape Winelands used it.

##### 5.2.1 Chapter one

The purpose of this chapter was to state the rationale for this research. Chapter one demarcated the research problem, followed by the main and sub-research questions. Thereafter, objectives were clearly stated, as well as the methods to attain these objectives. Moreover, the significance of this research was also contained in chapter one. In summary, chapter one laid the foundation for this research.

##### 5.2.2 Chapter two

Chapter two highlighted the research field in terms of recent studies conducted on informal small businesses. In so doing, this chapter surveyed the literature, using the research questions. The purpose was to answer the research question using literature that was compared with the findings of this research. The literature concurred with the findings, namely that there are indeed several factors that impact the growth of informal small-businesses.

### 5.2.3 Chapter three

In chapter three, the aim was to describe the methodology undertaken to answer the research questions. The methodology used in this research was quantitative in nature.

### 5.2.4 Chapter four

The purpose of this chapter was to present the findings and a discussion of this study.

### 5.2.5 Chapter five

Chapter five concludes the study by highlighting key findings, and thereafter listing sensible recommendations. The final chapter also recommends future research.

## 5.3 KEY FINDINGS

The aim of this section is to present the most outstanding findings that emerged from this research. The key findings are presented below.

### 5.3.1 Finding one: factors influencing the growth of informal small businesses that received seed funding

The factors affecting growth of these informal small businesses include but are not limited to: a lack of finance, instability of businesses, limited business space, crime, a lack of infrastructure, marketing skills and transport.

### 5.3.2 Finding two: how these factors affect the growth of informal small businesses that received seed funding

Business owners are unable to hire enough staff owing to their inability to pay salaries. Business cannot operate efficiently because of a lack of funds to buy inventory and to pay for day-to-day operations; they cannot operate a business without proper financial management and entrepreneurial skills, resulting in poor performance; and business owners cannot approach big companies for work owing to a lack of space.

### 5.3.3 Finding three: support structures available for informal small businesses

A vast majority of informal small businesses stated that they do receive support from government in the form of seed funding and training, but their businesses could not grow further owing to a lack of mentoring and coaching although they had seed funding. Government policies hinder access to financial assistance, resulting in business failure.

#### 5.3.4 Finding four: how helpful is the seed fund, and informal small business owners use it

The seed fund was helpful, as a majority of the business owners used it to buy equipment and machinery. Most of them said that the amount though was not enough for start-up businesses, as there were lots more that they needed to make the business stable and sustainable.

#### 5.4 PROBLEMS AND LIMITATIONS OF STUDY

One of the challenges that the researcher encountered during distribution and collection of the questionnaires was that participants took longer than the scheduled time. It seemed that the business owners were frustrated and wanted to share all their struggles in detail on the questionnaire. This resulted in an extended period of data collection.

The research was limited to informal small businesses that received seed funding in the Cape Winelands District between the 2015 and 2018 financial years.

#### 5.5 RECOMMENDATIONS

This section provides a list of recommendations for each key finding that the previous section highlighted.

##### 5.5.1 Recommendation one

- To deal with the lack of finance, since the seed funding only covers basic business needs such as machinery and equipment; the government should provide loans to rural small businesses to finance their operations. The government should provide guidance in respect of these loans, and monitor them. They can be given at periods of the business's development instead of the entrepreneur receiving a once-off payment.
- Government should build warehouses in each local municipal area for informal business owners to store their stock safely, as well as permanent structures for them to operate their businesses.
- The government should provide infrastructure in terms of marketing tools, computers, transport and safety and security measures to all seed funded small businesses.

##### 5.5.2 Recommendation two

Given the challenges that informal small-business owners face in terms of poor business management which results in bad performance, this study recommends that the Cape Winelands District municipality should build forums and partnerships between successful informal small-businesses and those that are struggling to grow so that they may share and explore new business strategies and opportunities through networking.



The researcher recommends that government should also invite the private sector to invest and form partnerships with these informal small businesses with the intention of grooming them and granting them financial assistance.

### 5.5.3 Recommendation three

One of the findings was a lack of coaching and mentoring up until the business is sustainable. The researcher recommends that the informal business owners should receive proper advice, guidance and training in terms of how to operate their businesses effectively. They need regular visits and thorough monitoring to identify gaps and challenges that may hinder business growth.

Government should provide flexible policies that allow them to determine what support is necessary per individual business. Granting the same standard amount of money to every informal small business does not help, as some of the businesses have more start-up needs than others. This will lead them to provide more realistic essential support to the informal businesses.

#### 5.5.4 Recommendation four

Informal small business owners agreed that they received seed funding of R15 000 to R30 000, which they used to buy equipment. Some of the equipment was not enough to expand the business. If government is serious about improving small businesses, they need to increase seed fund amounts to cover at least infrastructural development. Government should also appoint officials or incubators to support the businesses until they become sustainable, bearing in mind that the informal business cannot obtain loans from banks or other financial institutions owing to a lack of security and business stability.

Other researchers with similar findings proposed recommendations that may assist the informal small businesses who received seed funding from the Cape Winelands District municipality.

Kabangele (2019:136) said that though there are existing signs of government initiatives towards supporting entrepreneurship, there is a need for those initiatives to be effective, efficient and publicized, as many entrepreneurs do not receive any support from government institutions and do not seem to be aware that they could. Therefore, organisations such as SEDA, Khula, NEF and IDC, amongst others, should extend their support campaigns and outreach programmes, especially to the townships. The support should involve not only financing entrepreneurs, but should also offer practical assistance to students enrolled in entrepreneurship education institutions and anyone else willing to be involved in entrepreneurial practices.

Mnde Nchu (2015:98) recommended that entrepreneurship education in high schools should offer practical activities, which can give learners exposure to start their own businesses and acquire the necessary entrepreneurial skills to become successful entrepreneurs. Government should organise for local business owners, as well as experts from the field, to host talks and workshops to improve on the teaching of the subject. The government should also involve stakeholders in tertiary institutions, as well as in the business world, in the training.

Frese and Gielnik (2014:98) mentioned that business situations are complicated, unpredictable and change requirements during the business procedure. Hence, entrepreneurs must build specific personality features to be capable of facing this situation, while the entrepreneur must act as a leader, investor, inventor, accountant, marketing specialist and top seller.

Stott, Stone and Fae (2016:951) identified that entrepreneurs should find a mentor who will help them to access funding owing to risk of failure aligned to them, since financial institutions are reluctant to lend money to new ventures.

Government should re-assess its strategies and systems. It is empirically evident that informal small businesses can contribute to economic development, which may lead to job creation and poverty reduction. More resources should be realised towards entrepreneurship training and education.

## 5.6 FUTURE RESEARCH

This study considered challenges to the growth of informal small businesses that received seed funding in the Cape Winelands District. The most outstanding challenges to the growth of these informal small businesses include a lack of finance, instability of businesses, limited business space, crime, lack of infrastructure, marketing skills and transport.

Notwithstanding the fact that informal small business owners noted that they did receive seed funding from the government, future research should investigate to what extent the seed funding benefits these informal small businesses owners. There is a trajectory that if they were completely supported in terms of mentoring and coaching, they would experience minimal financial challenges. Moreover, future research should be geared towards discovering possible ways to rescue informal small businesses that received seed funding.

## 5.7 CONCLUDING REMARKS

The rationale for this research was the fact that a vast majority of informal small businesses never grow to become sustainable although government supports them. Hence, this study investigated challenges to the growth of informal small businesses that received seed funding. The main question guiding this study was: to what extent do informal businesses that received seed funding struggle to grow?

To achieve this, the researcher designed a questionnaire containing a list of statements to elicit specific information from the informal business owners that the most outstanding findings were lack of finance, instability of businesses, limited business space, crime, lack of infrastructure, marketing skills and transport.

Additionally, all of the informal small business owners stated that they did receive support from the government; however, most of the time government policies are bureaucratic, making processes difficult for informal small business owners to follow.

These recommendations would assist informal small businesses to mitigate their business challenges. This study proposes that future research should investigate to what extent the support benefits informal small businesses that received seed funding from that government.

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