

Exploring business owners' perspectives of transition from the informal to the formal sector in a selected group, South Africa

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DECLARATION

I, **W. Potgieter**, hereby declare that this study titled “**Exploring business owners’ perspectives of transition from the informal to the formal sector in a selected group, South Africa**” is my work and that all the sources I have used or cited have been appropriately indicated and acknowledged using complete references.

A handwritten signature in black ink, appearing to be 'W. Potgieter', is written on a light grey rectangular background.

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I want to express my heartfelt gratitude to the following individuals and organisations whose support and guidance have been instrumental in the successful completion of this dissertation.

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ABSTRACT

This study seeks to explore business owners' perspectives when considering embarking on the transition journey from an informal to a formal business within a selected South African context. A wider understanding is sought of what is perceived as an informal business and a formal business by the business owners trading at the markets of the Aardklop National Arts Festival (that will be referred to as Aardklop in the remainder of this study) in South Africa. The fourth industrial revolution and the COVID-19 pandemic have pushed many informal business owners into survival mode, and subsequently having to get back into the market is a challenge, which led to an exploration into business owners' perspectives on the transition process from the informal to the formal sector.

The study is based on a qualitative research approach outlined within an interpretive paradigm. An exploratory research design was adopted for the study. A sample of 10 participants led to data saturation after they were purposefully selected and consented to voluntarily participate. The data for the study were collected through semi-structured interviews both face-to-face and via Microsoft Teams. Thematic analysis was conducted with the aid of Atlas.ti as a tool. Three main themes were generated from the data with sub-themes under each main theme. The main findings were that informal businesses offer flexibility and passion-driven work, and formalisation can lead to long-term growth and a more substantial contribution to South Africa's economy. The choice between informality and formality depends on individual goals and preferences, and both paths have their unique challenges and rewards.

The study concludes with managerial implications and recommendations that the researcher learned from the study. These recommendations might lead the way in supporting entrepreneurs' transition from the informal to the formal sector of the economy contributing to unemployment and job creation.

Keywords: entrepreneur, formal sector, informal sector, transition, business owner perspectives

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LIST OF ABBREVIATIONS

ADR - Alternative Dispute Resolution

BBBEE - Broad-Based Black Economic Empowerment

BRICS - Brazil, Russia, India, China and South Africa

CIPC - The Companies and Intellectual Property Commission

ERRP – Economic Reconstruction and Recovery Plan

FDI - Foreign Direct Investment

ILO - International Labour Organisation

IMF – International Monetary Fund

OECD - Organization for Economic Co-operation and Development

OHSA - Occupational Health and Safety Act

SARS - South African Revenue Service

SME – Small Medium Enterprise

VAT – Value-added tax

CHAPTER 1

NATURE AND SCOPE OF THE STUDY

1.1 INTRODUCTION

Globally, two broad types of economic sectors exist, which are the formal sector and the informal sector. In South Africa, the informal sector accounts for approximately 18% of the total GDP, with over three million workers participating in the informal economy (SME South Africa, 2022). The main difference between the formal and informal sectors in South Africa is the fact that the formal sector is registered and pays taxes to the government, whereas the informal sector is not registered for tax, is more cash-based and does not have formal agreements with employees and other stakeholders (SME South Africa, 2022).

According to Gape (2020), the business sector in South Africa is unable to absorb the annual growing number of entrants into the labour market. This results in more people migrating into the informal sector because of the lack of opportunities in the formal sector. Trends indicate major changes in people becoming entrepreneurs either to support their standard of living or counter the many challenges such as social stability, the crime rate and the cost of living (Gape, 2020). According to Haasje (cited in Gape, 2020), entrepreneurship is a critical factor in the development of a country's economy, especially in a developing country like South Africa, to encourage economic growth and exploit new opportunities.

Although the importance of the informal sector in the South African economy is acknowledged and various business growth cycles have been researched in SMEs, little is known about the 'what, why and how' owners perceive factors of transition from the informal to the formal sector. The purpose of this study is to explore the perceived owner factors, indicating their perspective on the transition from informal to formal small businesses in a selected group within the South African context.

Following the introduction to this study, the remainder of this chapter will provide the background to the study and the problem statement. The research objectives and questions were derived from the problem statement and guided the study throughout. The chapter continues by providing definitions of critical concepts in this study.

Headings like the research methodology, significance of the study and ethical considerations are also emphasised in this chapter. The chapter concludes with a chapter layout of the study.

1.2 BACKGROUND OF THE STUDY

The lack of job opportunities in South Africa has led people to start their own businesses. According to Laingh *et al.* (2021:808), the need for people to be employed is the motivation for starting a business. Lingthelm (2004) indicates that as far back as the 1980's it was the new and growing small businesses that were the ones creating most of the job opportunities. The importance of cooperation between large entities, development partners and the government were emphasised by former president Thabo Mbeki, who also reiterated that this relationship would play a vital role in ensuring that the benefit of economic growth filters down to the lower parts of the informal sector (National Treasury, 2006).

When deciding to become an entrepreneur one must decide whether it will be an informal or formal entry into the economic market (Laingh *et al.*, 2021:809). The high unemployment rate and small informal economies have been some of the factors that are barriers to entering the informal labour market (Davies & Thurlow, 2010:437). According to Rodrik (2008), the rising unemployment among low-skilled jobs is because of manufacturing's poor performance relative to skill-intensive services. Furthermore, the low profitability of formal manufacturing businesses is caused by the rise in import competitors. The formal sector has failed to keep pace when it comes to job creation with a labour force that is expanding (Hodge, 2009). It is thus up to the informal sector to form part of the solution when it comes to job creation. Looking at the formal and informal sectors in the context of this study, the focus will be on informal business owners' perspectives on the formalisation of their business.

1.3 PROBLEM STATEMENT

According to Gape (2020), the role of entrepreneurs is to be resourceful with labour, land and capital and to exploit opportunities within the market. The World Bank estimates that SMEs contribute 90% of all businesses globally and 50% of employment globally, with formal SMEs contributing up to 40% of GDP in emerging markets and providing 70% of employment (News24, 2022).

According to Kistruck *et al.* (2015:436), there is a growing stream of research that is exploring the transition of entrepreneurs from informal to formal markets. Most research that was done in the past focused on the transition to a formal business as a strategic choice by the entrepreneur that emphasised regulatory concerns. Informal markets provide a considerable scale of adaptability and flexibility; they are also limited to a certain extent when it comes to generating taxes and acquiring large-scale investments (Godfrey, 2011:231). A general assumption exists that an entrepreneur will transition from the informal market to the formal market because of the benefits relative to the costs (Siqueira *et al.*, 2014 & Webb *et al.*, 2014). This assumption about the transition from informal to formal markets has led to an incomplete understanding of the factors of how formalisation unfolds and whether it is still the general assumption to transition from an informal to a formal business in the South African context. Primarily, when transitioning from the informal to the formal market, it means that you are changing the way the business operates (Kistruck *et al.*, 2015:437).

The specific problem this study seeks to explore is the lack of knowledge regarding the owners' perspectives when considering embarking on the transition journey from an informal to a formal business. Understanding how and why informal entrepreneurs formalise their business has become an important research topic among researchers (De Castro *et al.*, 2014; Kistruck *et al.*, 2015). This raises the question of what exactly are the factors that play a role in the transition process from informal market trader to formal business owner, and what is the general perception of South Africans who trade at organised markets, such as Aardklop. These factors might bridge the gap between the factors enabling the transition from an informal to a formal business owner and also enlighten knowledge on perceptions of informal and formal business currently in selected areas in South Africa.

1.4 RESEARCH OBJECTIVES

1.4.1 Primary objective

The primary objective of this study is to explore the business owners' perspectives on the transition from the informal to the formal business sector in a selected South African context.

1.4.2 Secondary objectives

To achieve the above-mentioned primary objective, the following secondary objectives have been identified:

SO1: To explore the perceived differences between the informal and formal business sectors from an owner's perspective in a selected South African context.

SO2: To explore the business owners' transition perspectives and factors that influence the transition from an informal business to a formal business in a South African business context.

1.5 RESEARCH QUESTIONS

1.5.1 Primary research question

What are the perceived business owners' perspectives on the transition from the informal to the formal business sector in a selected area within South Africa?

1.5.2 Secondary research questions

To achieve the above-mentioned primary research question, the following secondary research questions have been identified:

SRQ1: How do business owners as entrepreneurs perceive and differentiate between the informal and formal business sectors in South Africa?

SRQ2: What are the business owners' perspectives of transition and the factors that will influence their transition from the informal sector to the formal sector in a selected South African business context?

1.6 DEFINITION OF KEY TERMS

The core constructs being proposed in search of relevant and quality literature are transition, informal sector and formal sector within the context of the general management sector which has been described in more detail in support of the problem statement later. These key terms will serve as a guide for any future discussion in this study (Oben, 2019:15).

1.6.1 Transition

The term transition is defined by the online Britannica Dictionary as “a change from one state or condition to another” (The Britannica Dictionary, 2023). In the case of this study, it refers to the transition from the informal to the formal business sector.

1.6.2 Informal sector

There is an extensive range of different terms used to refer to activities that are perceived to form part of the informal economy this includes words such as cash-in-hand, undeclared, and unregulated (Williams & Martinez, 2014:2). An Informal business is referred to by Merriam-Webster Incorporated (2023) as not strictly following a set of rules or regulations.

1.6.3 Formal sector

A formal business in a South African context is any business that is organised with employers that offer fixed terms of employment. Furthermore, formal businesses are registered, have regular working hours, pay salaries and also pay taxes (SME South Africa, 2022). They also include public corporations and private businesses.

1.7 SCOPE OF THE STUDY

The scope of the study focuses on business owners of market stalls in South Africa who consider the transition from the informal to the formal business sector. Specific reference will be made to exploring the owner factors and perspectives in the transition process.

1.7.1 Field of the study

General Management (GM) and more specifically change management (transition).

1.7.2 Sector under investigation

Small business sector, informal and formal business owners.

1.7.3 Geographical demarcation

This study will be conducted in Potchefstroom, North-West Province. Specifically, business owners who have taken part in the Aardklop National Arts Festival. The focus will be on the business owners who have considered the transition from the informal to the formal business sector and also on the owners' perspectives and factors on the transition process.

1.8 RESEARCH DESIGN AND METHODOLOGY

This portion presents a concise overview of the research paradigm, research design, and methodology employed in gathering responses to the study's research inquiries (refer to section 1.5). It also underscores the demographic studied, sampling methodologies, as well as the techniques for data collection and subsequent analysis.

Hesse-Biber and Leavy (2011:57) explain methodology as the bridge that combines the philosophical standpoint and method. It can be said that the methodology including the research design is the map that was followed by the researcher to conduct the research. The map in Figure 1 below explains the way the researcher collected data, analysed, described and explained the findings on the phenomena.

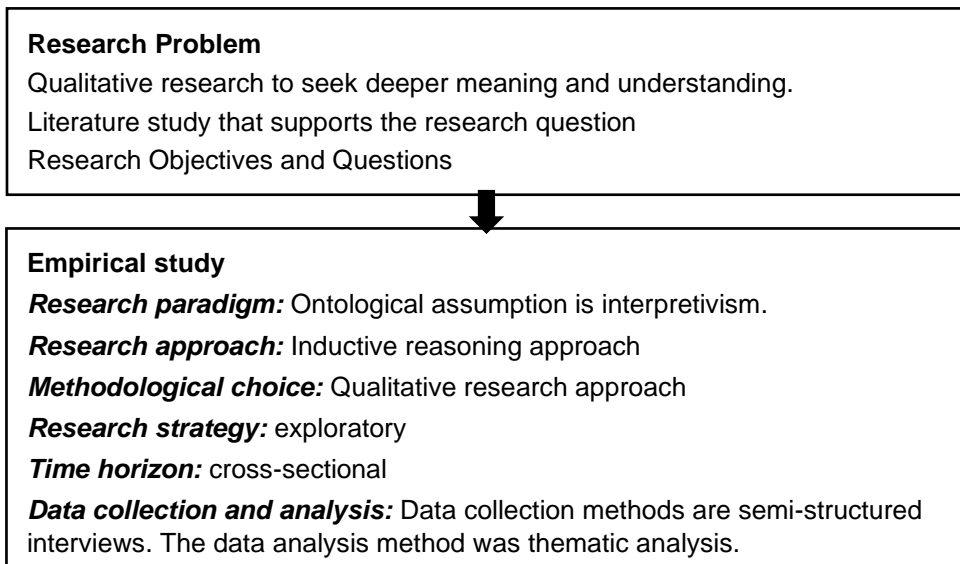


Figure 1: The map that was followed by the researcher to conduct the study.

1.8.1 Research paradigm

A research paradigm encapsulates a shared set of perspectives among researchers, outlining agreements on comprehending research problems, perceiving the world, and conducting studies (Rahi, 2017:403). The philosophical foundation of this study relies on ontological assumptions, which denote perceptions about the essence of reality (Saunders *et al.*, 2019:133). Serving as the bedrock, the research paradigm guides the researcher in methodically conducting the study. It aids in effective research execution and ensures the study's coherence for readers.

This study is grounded in the interpretivist paradigm. According to Hammersley (2013:26), the interpretivist paradigm fundamentally centres on comprehending knowledge within the realms of human and social sciences, where individuals interpret their surroundings and act, accordingly, detached from an objective reality. Interpretivists contend that reality isn't inherently fixed but rather socially constructed (Hesse-Biber & Levy, 2011). By adopting the interpretivist paradigm, this study seeks to delve deeper into the intricacies of the investigated problem within its unique context (Creswell, 2014:214), making it a fitting choice for this research endeavour.

1.8.2 Research design

Research designs are categorized into qualitative, quantitative, and mixed methods, delineating specific methodological paths within a research study (Creswell, 2014:295). This study has adopted an exploratory research design, aimed at elucidating and enriching the comprehension of a particular issue (Saunders et al., 2009:138-140). The choice of an exploratory research design is apt for this study as it provides a framework for the researcher to seek solutions to the research problem.

1.8.3 Research approach

The broader research approach employed for this study is the inductive approach. This approach reasons that there is a gap in the logical disagreement between the conclusion and the premises observed, the conclusion is being adjudicated by the observations that were made (Ketokivi & Mantere, 2010). This study starts with collecting data that explores the business owners' perspectives on the transition from the informal to the formal sector, the theory was generated and built and that is why an inductive approach is suitable for this study.

The inductive approach collects data to explore a specific phenomenon and the data is then used to build a theory. The inductive approach focuses on humanities and the importance of subjective interpretations, the inductive approach is most likely to be well-versed by the interpretivism philosophy.

1.8.4 Methodological choice

The methodological choice for this study was the qualitative research approach. According to Polkinghorne (1989:41), the distinctive elements of qualitative research are that it trusts words rather than numerical data and emphasises more on meaning-based rather than statistical forms of data analyses. These characteristics of qualitative research are reinforced by Saunders *et al.* (2019:179) confirm that in qualitative research, meanings are derived from words and images and not numbers.

The reason for selecting the qualitative research approach is because of the nature of the study which seeks to, explore the owners' perspectives. This research emphasises the opinions and experiences of participants, rather than numerical data.

1.8.5 Research strategy

The research strategy used to collect and analyse the data was an exploratory qualitative study design. The exploratory design is a good way of asking open questions to gather information and insight about a topic. If there is no pre-determined outcome for the study the exploratory study is ideal. This strategy is suitable for this study as this is evident in the research that seeks answers to “what”, “why” and “how” questions of the study (refer to section 1.5). These questions are secondary questions that originated from the main research question.

1.8.6 Time horizon

A cross-sectional time horizon was used to conduct this study. Cross-sectional studies involve the collection of data at a specific point in time, one can say it is a single “snapshot” at a specific point in time (Saunders *et al.*, 2019:212).

1.8.7 Study population and sampling

According to Rahi (2017:3), sampling is the method of selecting a few participants or samples from a larger population to become the core of predicting or estimating an outcome of a situation or outcomes of the larger group. Furthermore, Banerjee and Chaudhury (2010) explain that a sample is any part of the population that has been selected. The population for this study consists of informal market trader business owners who considered the transition from informal market traders to formal business owners. McMillan and Schumacher (2006:119) view a population as individuals who follow certain defined criteria with the purpose of simplifying the result of a study. Charles *et al.* (2008:216) state that a target population represents an entire group of people that the researcher intends to study.

The study focused on the market traders who attended Aardklop. Purposeful and convenient sampling was employed for this study. According to Creswell (2014:125), purposeful sampling can be viewed as a technique to select participants based on their knowledge of the phenomenon of the study. McMillan and Schumacher (2006:319) define purposive sampling as when research is done to acquire in-depth knowledge

on the understanding of a specific topic and valuable information is gained from participants.

The convenient sampling method was used for this study the reason for choosing this method is that all the participants will be in one place at a specific point in time. According to Dudovskiy (2012), convenience sampling is a detailed type of non-probability sampling method that depends on data collection from population members who are easily available to participate in the study. According to Nieuwenhuis (2020:92), the sample size depends on what the researcher wants to know, what will be useful and what will have credibility. The researcher must know when data saturation has been met in a qualitative study as it is an indicator of sample size.

1.8.8 Designing the data collection tool

For this research, the researcher developed an interview guide as a data collection tool comprising a list of questions that were valuable to answer the main research question of this study. The data collection for this study was through the use of Microsoft Teams interviews as well as physical interviews with the selected participants at Aardklop in Potchefstroom. The primary data collected for this study was from the responses of the participants. The exploratory nature of this study assisted the researcher in gaining valuable information from the participants who were familiar with the phenomena under investigation.

1.8.9 Collecting of data

According to Nieuwenhuis (2020:108), an interview is a two-way conversation in which the interviewer asks the participant questions to collect data and learn about the ideas, views, beliefs, opinions and behaviours of the participants. The aim of using interviews in this study was to see the world through the eyes of the participants and to gain information and knowledge on the research topic. The interviews were semi-structured. Interviews were recorded both online and in person, after consent was provided. Field notes were kept throughout the interviews that assisted the researcher with additional valuable information.

The benefit of using interviews for this study was because of its exploratory nature which allowed the researcher to gain some valuable information from the interviews. It was important to explain to the participants the importance of the study and if they believe that the topic is important. The interviews acted as a strategy to gain the best possible knowledge that cannot be found or gained in any other way. An interview schedule was designed, and interviews took place according to the schedule.

According to Saunders *et al.* (2019:437), in semi-structured interviews, the conversation starts with a pre-set list of themes, these themes should preferably comprise questions related to the phenomena that are being explored. More data was collected through probing to encourage the participants to elaborate on the topics. According to Cohen and Crabtree (2006:1), the characteristics of semi-structured interviews are that the interviewer engages in a formal interview with the respondents, and the interviewer follows a list of pre-prepared questions that must be covered during the conversation, usually in a specific order. From these pre-set questions, secondary questions may occur that can be of value. Questions were detailed and structured in advance. All the participants received the same set of questions.

All interviews were recorded which assisted with the accurate transcribing of the data collected. Consent was given by all the participants to record the interview (Annexure A). An interview schedule (Annexure B) was used to inform each participant when their interview commences. After the interview, the data was transcribed and given to the participants to confirm the accuracy this is called member checking.

1.8.10 Data analysis

In this study, the data collected was analysed using Atlas.ti. This software was considered suitable for data analysis due to its support for an interpretive exploratory theory approach, thereby enhancing the quality of the research outcomes (Smit, 2002:65).

To organise the data the researchers made use of thematic analysis to arrange the data into specific words, units and sentences. These codes were organised into categories of information. As the combined codes were reviewed, themes were

established. According to Creswell (2014), these themes are broad units of information that consist of several codes that form a common idea. Content-based analysis was used in this study. Content analysis has been defined as a systematic, replicable method for constricting many words of text into a reduced amount of content groups based on specific rules of coding (Stemler, 2001:126). Mouton (2006:108) describes the process of data coding as the breaking down of data into manageable themes, trends and relationships in order to understand the various constitutive elements that become apparent. The focus of this is to view the world through the eyes of the researcher's participants and their personal experience of the main constructs. Content analyses helped to allow the study to discover and describe content, place, people, action and events. The data was captured on the computer of the researched and could be easily retrieved.

1.9 TRUSTWORTHINESS

According to Nieuwenhuis (2020:143), trustworthiness is the testing of your data analysis, findings and conclusions. The researcher is reminded that the procedures for assessing trustworthiness must constantly be kept in mind. Validation in qualitative research, according to Kelliher (2005:123), depends on the demonstration of solid descriptive data so that the reader is led by the researcher to an understanding of the study. The credibility of the research was monitored by asking the participants to check their answers and that the researcher captured the interview discussion correctly. This process is called member checking. The data for this research is stored on a laptop computer that is password protected and backup files of all relevant documents were made and stored on Google Drive.

Trustworthiness is assured by using an interview schedule to validate that the interview has occurred. Guba (1981:80) explains trustworthiness in four criteria which are credibility, transferability, dependability and confirmability as indicated in Table 1 below. The criteria for qualitative research are placed as a naturalistic term.

Table 1: The four criteria of trustworthiness (Source: Bryman *et al.* 2019:44).

THE FOUR CRITERIA OF TRUSTWORTHINESS:		
<i>Credibility</i>	Credibility refers to the real problem that is being explored and presents a picture of what is actually being explored.	Member checking was used to monitor the credibility of the study.
<i>Transferability</i>	Transferability refers to the application of the research and how applicable it is to the environment and if it can be associated with other settings.	A detailed description of the study and the methods was provided.
<i>Dependability</i>	The dependability refers to if the same research and measure were done again would the same results be analysed?	Consensus discussions were held with the study leader and consistency in the study was monitored.
<i>Conformability</i>	Confirmability is the researcher's ability to recognise the shortcomings of the study and the results or effects it may lead to.	Meetings with the research supervisor were held to evaluate and assess the progress of the research. Voice recordings were transcribed, and an independent coding process was undertaken to compare these transcripts and codes with those conducted by the researcher.

1.10 ETHICAL CONSIDERATIONS

According to Neuman (2011:145), it is emphasized that researchers bear a professional and moral responsibility to conduct ethical research, irrespective of participants' levels of concern regarding ethical considerations. In adherence to ethical standards, ethical clearance for this study was obtained from the North-West University Business School.

There were written consent forms given to participants where they were permitted to voluntarily participate in the study (refer to Annexure 1). The participants signed the consent form before the scheduled interview.

All participants were guaranteed voluntary participation, and they were aware that they could withdraw from the study at any given time. The participant's confidentiality was respected, and everything being discussed in the process was confidential and was only used for academic purposes. The participant's identity was protected during the process and pseudo-names were given to the participants. Research participants have the right to control the availability of their personal information, they also understand how the information presented will be stored and shared (Weinbaum *et al.*, 2019:6). The research was conducted in an ethical and honourable manner, placing the participant's trust high on the priority list.

1.11 LAYOUT OF THE STUDY

Table 2: Layout of the chapters for the study.

Chapter one: Nature and scope of the study
In the first chapter of the study, the intention is to elucidate the context and present the issue under examination. It outlines the genesis of the research objectives and the guiding research questions. Additionally, this section delves into defining crucial elements integral to the study. Moreover, it furnishes a concise preview of the research's structure and methodology. The chapter culminates by addressing ethical considerations and presenting an overview of the study's layout.
Chapter two: Literature Review and theoretical foundation
The chapter discusses the theoretical foundation of this study. This chapter reviews relevant literature relating to the phenomenon under investigation for this study.
Chapter three: Research design and methods
This chapter encompasses an elucidation of the research design and the methodologies employed to obtain concrete insights into the research queries under investigation. It articulates the fundamental philosophical assumptions that

form the basis of the study and positions the research within the interpretive research paradigm. Furthermore, it elaborates extensively on the data collection and analysis methods utilized in this study. The chapter culminates by discussing the assurance of reliability and ethical considerations pertinent to the study.

Chapter four: Analysis, Interpretation and Findings

This chapter contains an analysis of the qualitative data obtained from the participants of this study. Atlas.ti was used to analyse the collected data.

Chapter five: Conclusion, Managerial Implications, Recommendations and Limitations

This chapter provides a summary of the main findings of the study. The chapter is followed by managerial implications, recommendations and limitations.

CHAPTER 2

LITERATURE REVIEW AND THEORETICAL FOUNDATION

2.1 INTRODUCTION

There is an increasing consensus that businesses should be transitioned from informal to formal (Devey *et al.*, 2006; International Labour Organization (ILO), 2014; Maduku & Kaseeram, 2019; De Soto, 1989; World Bank, 2015). In this debate, two participants are overstated, namely the government and employees. Opinions for formalisation place the focus on sufficient work, satisfactory wages and the broadening of government income. However, the interests of business owners are seldomly discussed. The informal sector is comprised of those who are employing themselves and those employed by informal businesses. Those employed informally by formal businesses are not included (Devey *et al.*, 2006). There were reiterations in earlier opinions that businesses informalise their manoeuvres because they do not want to pay tax (Thorp, 1990), but this shifted immensely, especially in the African economy's framework. This is because some operating informal businesses are survivalists, and it is suitable for them due to their inability to find a job or not having enough capital to formalise.

Value-added tax (VAT) is a form of tax that informal businesses pay, which is not claimed back because they don't have VAT registration numbers. It is clear that informal small businesses are already contributing to the economy, but it is the government that is not doing enough in order to make sure that the majority of these businesses is boosted, claiming it is less pricey for small businesses to function (Maduku & Zerihun, 2022). Informal small businesses, through self-employment and having personnel, creates a demand for formal businesses; they then grow and pay other taxes to governments that are not paid by informal firms. Informal small businesses offering employment to the unemployed contribute to demand creation in the economy by providing purchasing control to the unfortunate and disregarded. With the government not involving the owners of these small businesses, they respond by trying to remove these informal sellers from the streets (Maduku & Zerihun, 2022). Assuming that they do not remove or condemn them by not improving their set-up for

their business, these traders offer other services that may assist in the growth of these informal sellers.

The process to change the face of small and informal businesses is a multifaceted progression, whereby the nature of heterogeneous classes of informal workers or small businesses and their limitations, as well as their contribution potential to overall GDP, will have to be understood and acknowledged by policymakers (Maduku & Zerihun, 2022). After their formalisation, governments overemphasised the participation of informal small businesses to the gross domestic product (GDP). They are, however, failing to recognise the interests of the owners of this informal small business. The assumption made by policymakers is that informal business owners only want to survive with no objective for growth. The South African government has not been making enough efforts to make it worthwhile and suitable for small businesses, even if they had objectives for growth, particularly when it comes to the requirements pertaining to costs and procedures that are required for a business to be registered formally (Global Entrepreneurship Monitor (GEM), 2017).

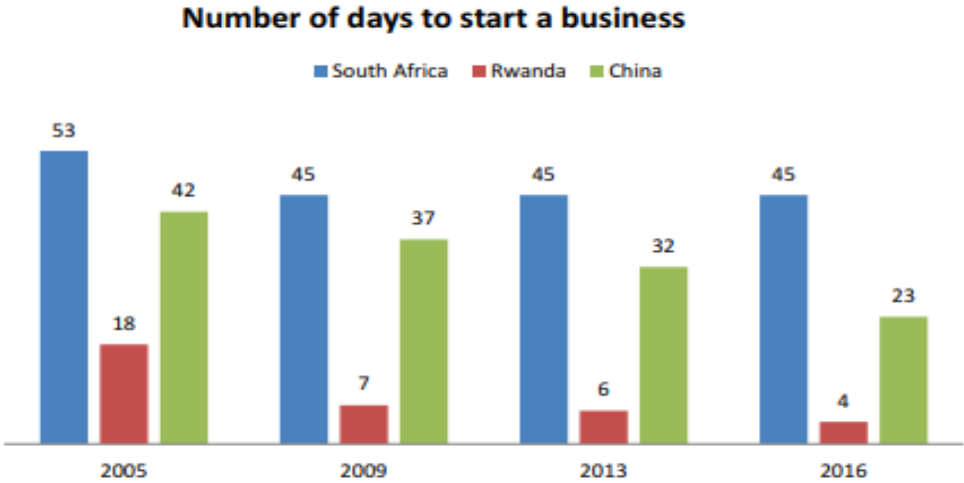


Figure 2: Number of days to register a business (Source: World Bank, 2018).

Figure 2 clearly shows how South Africa is still making it tough for businesses to start and register. The countries of choice were motivated by the fact that Rwanda is currently the fastest-growing economy in Africa, and China likewise on the global field, considering the last 10 years. As of 2016, only 4 days were needed for a business to

register and start operations in Rwanda, whilst in South Africa, one needs more than 40 days to do the same. The time that a business devotes to safeguard an operating license is just less than 40 days in South Africa, while the same process in Rwanda takes less than 20 days (World Bank, 2018).



Figure 3: Time required for preparing taxes (Source: World Bank, 2018).

As of 2016, statistics shown in Figure 3 indicate that businesses spend more hours in South Africa preparing taxes, compared to China and Rwanda. The information presented above explains that it is an incommodious process to administer taxes in South Africa in comparison to other countries involved. It is assumed by Thorp (1990) that some South African businesses might choose to function informally due to the difficulty and timeous methods of processing taxes.

South African small businesses are accountable for around 60% and formal businesses for 40% of employment creation in the country. The importance of this study relies on the importance of the Global Entrepreneurship Monitor (GEM), which clearly shows that small businesses contribute to 36% of the South African GDP. However, in South Africa, the rate of small businesses failing is more than those that are being started and as a result of high failure rates the growth rate of businesses is negative. From the policy front, little is being done. Processing days for taxes still takes time and the process for starting a business is still incommodious as shown in Figures 2 and 3.

2.2 THEORETICAL FRAMEWORK

2.2.1 Conceptual issues in the informal sector

It is important to clarify the informal sector. Keith Hart first developed the phrase “informal sector” in the early 1970s. He described it as subsistence activities and the poor (Hart, 1973:61). The definition of this term that was most quoted was the one from the International Labour Organisation’s Kenya Report (1972:6), in which informal activities are defined as a way of doing things, characterised by ease of entry; family ownership of enterprises; reliance on indigenous resources; small scale of operation; skills acquired outside of the formal school system; unregulated labour intensive; adapted technology; and competitive markets.

The definition of the term has evolved to a clear relationship between the informal and the formal sector. The informal sector points out that this economy is composed of different types of economies like trading, providing a service, collecting and manufacturing (Chen, 2012).

The informal economy can be separated generally into two categories of informal employment (Chen, 2012): 1) Self-employed in the informal sector, like workers in small unregistered or unincorporated businesses, own-account operators, unpaid family workers and also employers. 2) Wage employed in informal employment like workers who work in formal or informal firms or for households and do not have access to secure formal contracts. This study will explore the self-employed in the informal sector, which means it will be aimed at the owner's perspective of the transition from the informal sector to the formal sector.

2.2.2 Linkages between the informal and formal sectors

Devey *et al.* (2006) indicated that workers who are categorised as formal workers have employment attributes that are in line with informal work. This probes the importance of the formal and informal sectors and how they complement each other. Furthermore, the linkages as illustrated in Figure 1 raise interest in the transition from an informal to a formal business and ask if there is still a desire amongst entrepreneurs to embark on the transition journey.

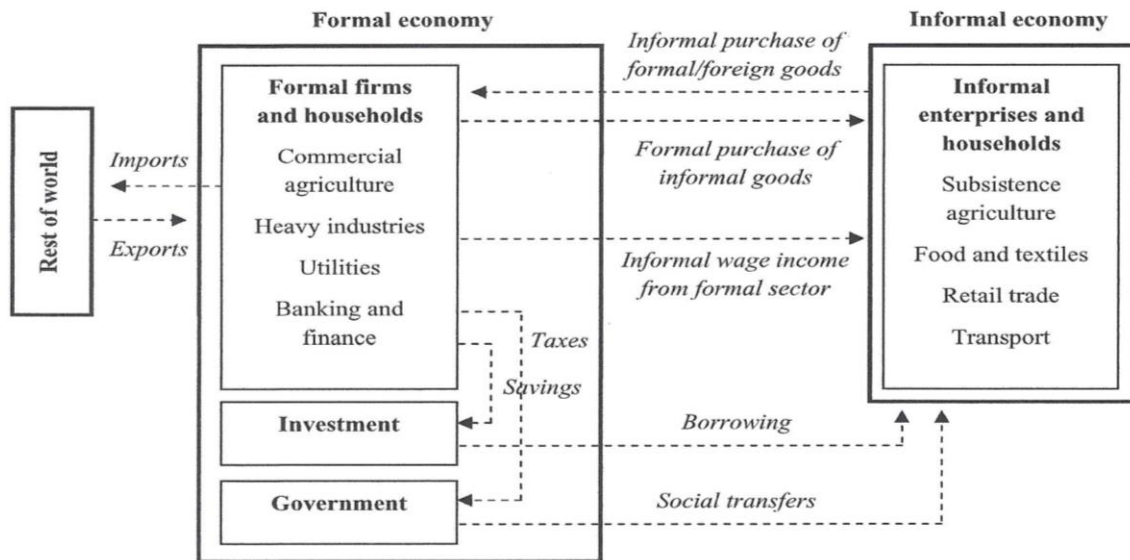


Figure 4: Linkage between the formal and informal economy of South Africa (Source: Economic Society of South Africa, 2010:442).

The linkages seen in Figure 4 illustrate how dependent the informal and formal sectors are on each other. The formal economy lends money to the informal economy and also allocates social transfers to the informal economy. The informal economy also receives wages that derive from the formal economy. The importance of these linkages in the context of this study is important because these linkages might have an impact on the need for business owners to transition from the informal sector to the formal sector.

2.2.3 Schlossberg's Transition Theory

This study is about the perceptions of informal business owners and perspectives on the possible transition from the informal to the formal sector. The Transition Theory of Schlossberg seems appropriate as an underpinning theory for this study. Schlossberg defined a transition as any occurrence or non-occurrence that results in changed routines, relationships, roles and assumptions. It is also important to remember that perception forms part of an integrated role in the transition. To understand the transition to a specific individual, the context, type and effect of the transition must be considered (Evans *et al.*, 1998).

Schlossberg identified four major sets of factors that influence a person's ability to cope with a transition: situation, self, support and strategies, which are also known as the 4 S's (Evans *et al.*, 1998).

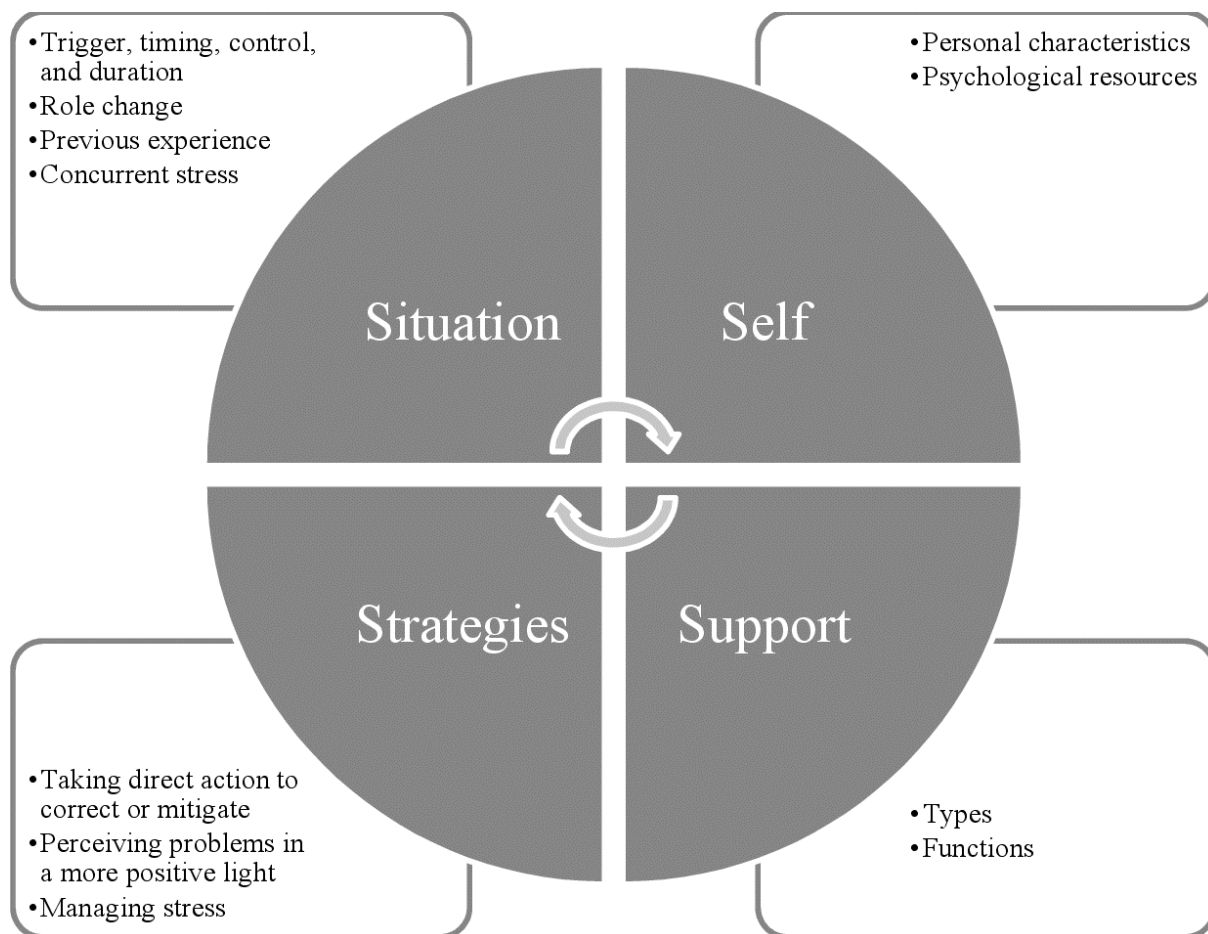


Figure 5: Schlossberg's "4S" transition model: Situation, self, support, and strategies (Source: Kenneth Derrick, 2019).

Figure 5 represents a summary of Schlossberg's 4S transition model. In the context of this study, the model will assist in identifying what triggers an informal business owner to transition to a formal business and when is the right time to transition. Are there certain characteristics that can be identified when looking at the informal business owners that can relate to Schlossberg's transition model? The support factors must also be identified and considered. What strategies will be used or have been used in the transition from an informal to a formal business? These factors of Schlossberg's model will assist in gathering information about the problem statement and the main research questions of this study.

2.3 A REVIEW OF PAST STUDIES DONE ON THE FORMALISATION OF INFORMAL BUSINESSES IN SOUTH AFRICA

The informal sector plays a significant role in the South African economy, employing a large portion of the population and contributing to economic growth. However, informal businesses face various challenges, including limited access to financing, lack of legal protection and limited growth opportunities. Formalisation of informal businesses can address these challenges, but it also involves various barriers. One study conducted by the International Labour Organization (2021) focused on identifying the barriers to formalisation in South Africa's informal economy. In the case of South Africa, a nation with a diverse economic landscape and a history of socio-economic disparities, the formalisation of businesses has been a topic of significant interest and research.

Numerous studies have delved into the challenges and barriers faced by informal businesses in South Africa during their transition to formal status. These challenges may include bureaucratic red tape, lack of awareness about formalisation processes, high compliance costs, and limited access to formal financial services. For example, research by Black *et al.* (2015) highlighted that limited financial literacy among informal entrepreneurs hindered their ability to navigate the formalisation process successfully.

Some studies have focused on specific sectors within the informal economy in South Africa, exploring the formalisation challenges unique to each sector. For instance, research by Dube and Mbatha (2019) examined the barriers faced by informal traders in the transition to formal status, shedding light on the need for tailored policies and support structures for this specific group.

Researchers and policymakers have proposed various interventions to promote business formalisation in South Africa. These recommendations often include simplifying registration processes, providing financial incentives for formalisation and improving access to business development support services. The study by Ngwenya *et al.* (2017) outlined a comprehensive policy framework aimed at encouraging more informal businesses to formalise and subsequently stimulate economic growth.

Past studies have also identified various factors that drive informality in South Africa. These factors include limited access to financing, lack of legal protection and limited growth opportunities (Etim & Daramola, 2020). Additionally, the high regulatory burden

and bureaucratic hurdles associated with formalisation can discourage businesses from formalising their operations (Florida, 2002). Informal businesses often face difficulties in accessing financing due to a lack of collateral and credit history, making it challenging for them to grow and expand their operations.

2.4 AN OVERVIEW OF THE SOUTH AFRICAN ECONOMY

2.4.1 Economic growth

South Africa, one of the largest economies in Africa, has experienced mixed economic growth in recent years (Kamer, 2022). The country has faced numerous challenges, including high unemployment rates, income inequality, poverty, corruption and policy uncertainty. These factors played a role in the economic performance of the country (IMF, 2023).

Before the COVID-19 pandemic, economic growth in South Africa had been relatively slow. In the years leading up to 2020, GDP growth rates were modest, often below 2%. However, the pandemic severely affected the global economy, including South Africa, leading to a contraction in economic activity in 2020 (South African Government, 2023). According to IMF (2023), shortages in electricity supply also played a role in inhibited growth in South Africa's economy. Since 2007, load shedding increased exponentially and in 2022 rise to about nine hours per day. This disrupted economic activities and increased operational costs for businesses, due to their reliance on costly diesel generators (Neethling, 2023). It has affected service deliveries in health, education and infrastructure such as water and IT (George, 2023). The South African government has implemented various measures to address economic challenges and stimulate growth (George, 2023). These measures include fiscal stimulus packages, infrastructure investment and efforts to attract foreign investment (South African National Treasury, 2020). However, the effectiveness of these initiatives in promoting sustained economic growth is subject to various factors such as political stability, policy implementation and global economic conditions (Isilow, 2019).

South African Government (2023) highlighted important sectors contributing to South Africa's economy including mining, manufacturing, finance, tourism and services. The mining industry, particularly gold and platinum, has historically been a significant

contributor to the country's economy. According to the analysis done by Loewald (2017), manufacturing plays a vital role in job creation and export earnings. It's worth noting that South Africa's economic growth is influenced by both domestic and global factors. Domestic challenges such as high unemployment, inequality and policy uncertainty can hinder growth prospects. Externally, factors such as global economic conditions, commodity prices and trade relations can impact South Africa's economy (World Bank, 2019).

2.4.2 Unemployment in South Africa

High unemployment rates exacerbate poverty and inequality with many South Africans, struggling to find stable employment, particularly in disadvantaged communities and among the youth (World Bank, 2016). The statement is a general observation about the impact of high unemployment rates on poverty and inequality in South Africa. The World Bank (2016) states the unemployment rate is highest among youths aged between 15 and 24, at around 66.5%. South Africa remains a dual economy with one of the highest and most persistent inequality rates in the world, with a consumption expenditure Gini coefficient of 0.67 in 2018 (World Bank, 2016). According to StatsSA (2023), a total of 32.9% of people are unemployed in South Africa, which is amongst the highest worldwide. These figures are 0.2% higher than in the last quarter of 2022. This comes as no surprise due to the implementation of stage 6 load shedding which is paralyzing growth and investment opportunities (Dludla, 2023).

South Africa as a BRICS (Brazil, Russia, India, China and South Africa) member profits from its communal power by way of consultation and support on financial problems (IMF, 2020). South Africa's rate of unemployment is behind that of its fellow 22 BRICS members, with Brazil's unemployment rate sitting at 11.6%, India at 8.5%, Russia at 4.6% and China at 3.6%. Even by evolving market standards, The International Monetary Fund (2020) emphasised that South Africa's unemployment statistics are high. In addition, the evolving market average is in the single digits, whilst South Africa's is on the top of 30% and more concerning, figures look even worse when observed through the prevalence of unemployed youth. The figure for youth unemployment is projected around 50%, while the developing average is close to 15%, which is concerning for the economy.

In order to address unemployed youth challenges, the South African government has announced the draft National Youth Policy for 2020-2030, which will contemplate escalating and analysing the employment of Broad-Based Black Economic Empowerment (BBBEE) to tackle the youth unemployment difficulties in the country. To enhance job creation, the World Bank (2018) suggests that South Africa's economy needs to grow immensely more than it has since 1994. Subsequently, the barriers to exclusion in land, capital and product markets delay progress in the growth of the economy. Racial and gender inequalities, amongst various other challenges, are still major in South Africa's labour market. The capability to find a job is still affected by the continuing legacy of apartheid, including the salaries received once employed. It is also seen that females find it harder to hold jobs and they receive less money when compared to men. With transportation costs being high, it can be regarded as a key obstacle to job search and employment in South Africa (Kerr, 2017; Loewald, Makrelov, & Wörgötter, 2021; Shah & Sturzenegger, 2022; Van Der Merwe & Krygsman, 2022).

2.4.3 Poverty and Inequality in South Africa

Poverty and inequality have been significant challenges in South Africa for many years. Addressing inequality in South Africa is a multifaceted challenge that requires comprehensive policies and social reforms (Murray & Shipp, 2019). The government, civil society organisations, and other stakeholders continue to work towards reducing inequality and creating a more equitable society. While there have been improvements in certain areas since the end of apartheid in 1994, these issues persist and continue to impact a large portion of the population. Some key points summarised by the International Monetary Fund (2020) regarding poverty and inequality in South Africa include: SA experiences high levels of poverty, with a significant portion of the population living below the poverty line, with the percentage of the South African population known as the "income poor" hardly changing since apartheid ended. Factors such as limited access to quality education, healthcare, housing and employment opportunities contribute to the prevalence of poverty.

South Africa also has one of the highest levels of income inequality globally and the lack of access to health care in South Africa is a reflection thereof (De Villiers, 2021). The distribution of wealth and income is highly skewed, with a small percentage of the

population controlling a significant portion of the country's resources and wealth. (IMF, 2020). Historical factors about racial disparities, particularly the legacy of apartheid, have contributed to racial disparities in income, wealth and access to resources (Oosthuizen, 2019). The majority of the impoverished population in South Africa is black, while wealth and economic opportunities tend to be concentrated among the white population. In the 1990s, South Africa started with an already raised inequality as the policy of apartheid excluded many people from economic prospects.

South Africa's Gini, an index measuring inequality, further increased in the early 2000s and has been high ever since (IMF, 2020). The South African government has implemented various social welfare programs, such as social grants, to address poverty and inequality. The World Bank (2021), together with the South African Government, released a report which assessed the country's social assistance programs and systems. However, the scale of these programs and their effectiveness in addressing systemic issues remains an ongoing challenge. Shortcomings were identified in the report and included restricted support to working-age adults and informal workers in particular; weak incorporation across programs and government agencies; and the system's inadequate ability to address household needs broadly (World Bank, 2021).

2.4.4 Education in South Africa

Education is a fundamental human right that is critical for personal and societal development (Russell *et al.*, 2019). In South Africa, however, access to quality education remains a challenge, particularly for disadvantaged communities and children with disabilities. Amnesty International (2020) states that South Africa's education system is characterised by crumbling infrastructure, overcrowded classrooms and relatively poor educational outcomes. The education system continues to be dogged by stark inequalities and chronic underperformance that have deep roots in the legacy of apartheid. For example, children in the top 200 schools achieve more distinctions in mathematics than children in the next 6,600 schools combined.

Children with disabilities also face significant barriers to accessing quality education, including discrimination, segregation and lack of inclusion (Russell *et al.*, 2019). Various studies have explored the accessibility of education in South Africa. One study done by Russell *et al.* (2019) found that the South African government has struggled

to address a highly unequal education system inherited from apartheid. Another study highlighted the challenges faced by learners from poor rural communities in accessing online teaching and learning platforms and resources (Landa *et al.*, 2021). The lack of information and communications technology (ICT) infrastructure in rural communities has further compounded the challenges of delivering education to these learners. Access to quality education is a crucial factor in addressing poverty and inequality (Amnesty International, 2020). Despite efforts to improve the education system, disparities persist, particularly between well-resourced schools and those in disadvantaged communities. Sibanda (2023), states it is convenient for the government and politicians to find excuses for damaged windows of a run-down school and make empty promises that they will build numerous schools in 2023, whilst blaming everything on burglary and destruction which they failed to prevent.

Along with infrastructure, children face other barriers, including a lack of adequate transport, which often influences not just their ability to access education but also has a safety aspect to consider. The majority of children in the lowest income groups in South Africa have to walk to school and when they arrive at school, they are often educated in overfull classes which has an impact on their learning effectiveness (Amnesty International, 2020). COVID-19 also played a large role in education inequalities, resulting in learners studying from their homes that are without resources, predominantly among pupils from poorer families (Sibanda, 2023).

2.4.5 Land Redistribution in South Africa

The issue of land ownership and redistribution has been a contentious topic in South Africa. The Natives Land Act initiated apartheid in South Africa in 1913, opening the continuing social and economic inequalities that prevail today (Chazkel, 2021). The government has initiated land reform programs aimed at addressing historical injustices and promoting economic inclusion. However, progress has been slow and complex.

Chazkel (2021) also stated that land reform and poverty reduction can only be successful and achieved with accountable and corruption-free government legislative frameworks.

The World Bank (2019) stated that South Africa has made substantial growth towards refining the welfare of its people since transitioning to a democracy in the 1990s.

Improvement towards poverty reduction is slowing down as the poverty rate has increased by 2% from 16.8% to 18.8% between 2011 and 2015. Inequality remains very high, whilst South Africa remains a two-fold economy, being one of the most unequal countries worldwide. The World Bank (2018) stated that efforts are being made to promote entrepreneurship among historically disadvantaged groups, including black South Africans, women and individuals from rural areas. Transformation and inclusivity are important aspects of entrepreneurship in South Africa to address the legacy of apartheid and create a more equitable business landscape. Furthermore, the poverty rate is the highest amongst black, unemployed and less educated South Africans (World Bank, 2018). For more than twenty years, the introduction of social grants was thought to tackle poverty and inequality. This refers to the governmental investments in health care services, education and social development entailing social support to helpless households. The World Bank (2018) added that social grants have reduced poverty potential since the increase in South African social aid has reduced poverty occurrence.

2.5 ENTREPRENEURSHIP IN SOUTH AFRICA

Gitonga (2023) states that entrepreneurship plays a crucial role in South Africa's economy. They not only generate opportunities for business and cause wealth accumulation but also influence the economy to create opportunities for employment and for new markets, products and services development (Gitonga, 2023).

Entrepreneurship was identified to bridge the poverty gap experienced by South Africa, remaining the main solution to the socio-economic problems encountered by the country. With enhanced entrepreneurship activities, more job opportunities will be delivered, improving the livelihood of families. Minaev (2016) explained that the Global Entrepreneurship Monitor (GEM) defines entrepreneurship as "any attempt at new business or venture creation such as self-employment, a new business organization or the expansion of an existing business by an individual, a team of individuals or an established business". Furthermore, Minaev (2016) revealed that entrepreneurship is one of the most vital economic mechanisms in the world with entrepreneurship acting as a platform for the social and economic growth of the country. Entrepreneurship has an impact on both the social and economic organisations of the country and forms a

resolution to many socioeconomic problems encountered by low-income and unemployment. Social entrepreneurship has gained momentum in South Africa, with entrepreneurs combining business objectives with a social or environmental mission. These initiatives aim to address pressing social challenges while also generating sustainable revenue. Social enterprises focus on areas such as education, healthcare, renewable energy, and poverty alleviation (SME South Africa, 2022).

GEM (2017) mentions that there are two basic categories of entrepreneurs. They are referred to as opportunity-driven and necessity-driven. Opportunity-driven entrepreneurs can be defined as those who try to take opportunities and benefit from business activities, while necessity-driven entrepreneurs, also called forced entrepreneurs, are characterised by hard work to enter entrepreneurship because they have no other source of income prospects. Many theories have been proposed by scholars to describe the entrepreneurship field.

South African entrepreneurs face various challenges, including regulatory barriers, limited access to markets and skills gaps (Murray & Shipp, 2019)

South Africa presents opportunities in sectors such as technology, renewable energy, agribusiness, tourism and creative industries (IMF, 2023). The growing middle class, increasing digital connectivity and a supportive ecosystem provide a fertile environment for entrepreneurial ventures.

2.6 SMALL AND MEDIUM ENTERPRISES (SMEs)

Small and medium-sized enterprises are the backbone of the South African economy. They contribute significantly to employment, accounting for a large portion of job opportunities in the country. SMEs also play a vital role in driving innovation and fostering economic resilience (Productivity SA, 2023). While development in the number of SMEs over the last 10 years has been low compared to economic growth, the contribution by small and medium enterprises (SMEs) towards South Africa's gross value-added (which is equivalent to GDP before taxes and subsidies) improved from 18% in 2010 to 40% in 2020. Makina *et al.* (2015) indicate that SMEs have various ways of contributing to economic growth. Mostly, they create jobs for the semi-skilled and unskilled employment groups that would otherwise have remained without work.

The importance of SMEs is recognised in many countries worldwide. The OECD (2009) reports that SMEs are key in generating employment, salaries, driving invention and growth. This is demonstrated by the fact that they employ more than half the working force in the private sector in Organisation for Economic Co-operation and Development (OECD) countries and account for 99% of private enterprises in the European Union. SMEs have also contributed notably to the Sub-Saharan African economies. In South Africa, SMEs played a part in 27% of GDP in 2006 (DTI, 2008) and, according to FinScope studies, they are key contributors in Southern African country's economies, although they display slower growth than their peers. It has been observed that in South Africa, small businesses don't grow and therefore their contribution to employment creation is faint (Rogerson, 2004). The majority of the small businesses go out of business within a short period (DTI, 2008). It was seen that for those recorded between the beginning of April 2005 and the end of March 2006, only 1% continued for another 1.5 - 2.5 years. It was reported in a study done by Fatoki & Odeyemi (2010) that three-quarters of South African small businesses are unsuccessful. Access to finance remains a challenge for many entrepreneurs in South Africa, especially those from disadvantaged backgrounds (OECD, 2009).

Although many aspects that prevent growth are mentioned in the literature, the absence of access to external financing is viewed as the most significant. This remains true for numerous economies in Sub-Saharan Africa and it is also reported by AfDB researchers Dauda & Nyarko (2014) that small firms are restricted by the absence of financial access. While government agencies and private sector organisations offer funding options, entrepreneurs often face difficulties in securing capital. In South Africa, one of the most discouraging constraints for small businesses is that of finances, with Fatoki & Odeyemi (2010) reporting that three-quarters of small business loan submissions are declined. As a result of an absence of external financial access, SMEs profoundly rely on funds generated from within, resulting in either slow or sluggish growth (Chittenden *et al.*, 1996). Carpenter & Petersen (2002) noted that small businesses constrained by external financial help are likely to show slower growth than firms that are heavily dependent on new share issues whose rate of growth is far more than what can be supported by internal finance. The South African government recognises the importance of entrepreneurship and has implemented various programs and initiatives to support aspiring entrepreneurs. These initiatives

include access to funding, business development support, skills training and incubation programs. The Small Enterprise Development Agency (SEDA) and the Small Enterprise Finance Agency (SEFA) are two government agencies that provide support and resources for entrepreneurs (SME South Africa, 2022). However, alternative funding sources, such as angel investors, crowdfunding platforms and impact investment funds are emerging to address this issue.

SME access to finance is determined by both macro and micro-level aspects. Financial sector expansion together with a sophisticated legal and institutional background is of importance in escalating access to small businesses at a macro-level (Beck *et al.*, 2011). Micro-level factors are no less important than business-specific and owner-specific features (Pissarides *et al.*, 2003; Nichter & Goldmark, 2009). Business-specific features including age and size are found to have a part in SME financial accessibility and owner-specific features such as age, gender and education are found to be of importance in determining accessibility and hence growth. Financial accessibility studies primarily focus on macro-level features, failing to account for vital firm-level features.

2.7 THE TRANSITION FROM THE INFORMAL TO THE FORMAL SECTORS IN SOUTH AFRICA

The transition of informal business owners to formal business owners can be influenced by various factors in South Africa. These factors often create barriers and challenges that make it difficult for informal businesses to transition to the formal sector. Some of the key inhibiting factors are explained in more detail.

2.7.1 Regulatory Complexities

The process of formalising a business in South Africa can be complex and troublesome. Informal business owners may face challenges in directing the legal requirements, obtaining licenses and meeting regulatory standards, which can discourage them from transitioning to the formal sector.

Transitioning a business from informal to formal status involves various regulatory complexities that entrepreneurs and business owners need to navigate (ILO, 2017). The term “informal business” typically refers to enterprises that operate outside the

legal and regulatory framework, often in the informal economy (SME South Africa, 2022), whereas the term “formal business” refers to any systematised business with employers offering fixed terms of employment. Formal businesses offer jobs with consistent hours, pay unvarying wages and pay taxes. These businesses are registered and protected. When an informal business decides to formalise, it must comply with a range of legal and regulatory requirements imposed by the government. The exact complexities can vary significantly depending on the country and region, but some common challenges in South Africa include that formalising a business in South Africa can be a complex process due to the country’s regulatory environment. Here are some key points to consider:

2.7.1.1 Legal system

South Africa has a mixed legal system that incorporates elements of both common law and civil law (ILO, 2007). The country’s legal system is also influenced by its history of apartheid and the need to address past injustices. The legal system plays a crucial role in formalising businesses in South Africa, providing the necessary legal framework and processes for business registration, operation and compliance.

This paper examines the key aspects of the legal system that impact business formalisation, including the role of legislation, regulatory bodies, and the judiciary. By understanding the legal landscape, entrepreneurs can navigate the complexities of establishing a business in South Africa and ensure adherence to relevant laws and regulations.

2.7.1.2 Legislation

When transitioning to a formal business in South Africa, it is important to be aware of the legislation that governs the formalisation process. South Africa has specific policies aimed at promoting formalisation, such as employment generation, the extension of social protection, a favourable regulatory environment, the promotion of labour rights, entrepreneurial and vocational training (ILO,2022). The Companies Act, No. 71 of 2008, is the primary legislation governing business formalisation in South Africa. It outlines the requirements for registering different types of companies, their management, reporting obligations and shareholder rights. The Act ensures transparency, accountability and legal protection for businesses and stakeholders (President of the Republic of South Africa, 2009:9). In addition to the Companies Act,

there are other laws and regulations that businesses must comply with when transitioning to a formal business. These include labour laws, tax laws and regulations governing trade (ILO, 2022). Compliance with these laws and regulations is essential to successfully formalising a business in South Africa.

2.7.1.3 Regulatory bodies

Regulatory bodies in South Africa are responsible for overseeing and enforcing laws and regulations that govern various aspects of business formalisation. These bodies include government agencies, industry-specific regulators and professional bodies. Their role is to provide guidance, monitor compliance and enforce regulations to create a fair and transparent business environment. The Companies and Intellectual Property Commission (CIPC) is a crucial regulatory body responsible for overseeing business registration and intellectual property rights in South Africa. The CIPC plays a pivotal role in processing company registrations, maintaining business records, and ensuring compliance with relevant laws (Companies and Intellectual Property Commission, n.d.).

Another regulatory body is the South African Revenue Service (SARS). When transitioning to a formal business, businesses must register with SARS, comply with tax obligations and submit regular tax returns. Industry-specific regulators also play a role in the formalisation process. For example, the Financial Sector Conduct Authority (FSCA) regulates financial services providers, ensuring compliance with laws and regulations in the financial sector (Kleitman, Cliffe Dekker Hofmeyr Inc., 2020). Similarly, the National Energy Regulator of South Africa (NERSA) regulates the energy sector, including licensing and compliance requirements. Professional bodies, such as the South African Institute of Chartered Accountants (SAICA) and the Law Society of South Africa also play a role in the formalisation process. These bodies set professional standards, provide guidance and regulate their respective professions to ensure ethical conduct and compliance with professional regulations (BOWMANS, 2018).

2.7.1.4 Business registration process

Business registration is a critical step when transitioning to a formal business in South Africa. The legal system prescribes a structured process for business registration, involving the submission of required documents to the CIPC. Entrepreneurs must prepare a memorandum of incorporation, and articles of association, and appoint directors and auditors (Ngobeni & Oosthuizen, 2017). Compliance with these requirements ensures proper incorporation and protection under the law (Companies and Intellectual Property Commission, n.d.). Business registration is essential for several reasons. Firstly, it provides legal protection for your business name and ensures that no one else can use it. Secondly, it enables businesses to access financial assistance and tax incentives (SME South Africa, 2022). Thirdly, it is a requirement for compliance with laws and regulations governing business operations in South Africa (ILO, 2021). Finally, it gives businesses credibility and legitimacy, which can be important when dealing with clients, suppliers and other stakeholders. In conclusion, business registration is a critical step when transitioning to a formal business in South Africa. It provides legal protection, enables access to financial assistance and tax incentives, ensures compliance with laws and regulations and gives businesses credibility and legitimacy. Working with professional advisors and legal practitioners can help ensure compliance with all relevant laws and regulations.

2.7.1.5 Compliance and reporting

The legal system imposes various compliance obligations on formalised businesses, including tax regulations, labour laws and industry-specific licensing requirements. Adherence to these regulations is vital to avoid penalties and legal disputes, and it ensures a transparent and ethical business environment. Compliance refers to the adherence to laws and regulations governing business operations in South Africa.

Compliance is essential for businesses seeking to formalise their operations as it ensures that they operate within the legal framework and avoid penalties and legal action (Kartal, 2021). Compliance requirements include registering the business, obtaining necessary permits and licenses, complying with labour laws and adhering to tax regulations (ILO, 2021). Compliance is also important for building trust with stakeholders, including customers, suppliers and investors. Reporting refers to the submission of financial and other information to regulatory bodies, such as the South

African Revenue Service (SARS) and the Companies and Intellectual Property Commission (CIPC). Reporting is essential for businesses seeking to formalise their operations as it provides transparency and accountability to stakeholder's actions (Kartal, 2021). Reporting requirements include submitting annual financial statements, tax returns and other regulatory filings (ILO, 2021). Reporting is also important for accessing financial assistance and tax incentives. There are several barriers to compliance and reporting, including high levels of bureaucracy, unsustainable fees, information asymmetry and a lack of incentives to formalise through business registration (ILO, 2021; Maduku & Zerihun, 2022). By prioritising compliance and reporting, businesses can build trust with stakeholders, access financial assistance and tax incentives and position themselves for success in the formal economy.

2.7.1.6 Dispute resolution

When transitioning to a formal business in South Africa, disputes may arise, and it is essential to have a dispute resolution mechanism in place. Formalising dispute resolution requires larger investments in human resource capacity to support the new formal system (Ahmed & Chowdhury, 2019). This means that businesses must be prepared to invest in the necessary resources to establish a formal dispute resolution mechanism. In South Africa, ADR has been formalised and made compulsory as part of the transformation of the South African labour relations system (Bendeman, 2007). This means that businesses must comply with ADR requirements when resolving disputes. The judiciary's role in business formalisation becomes evident in dispute resolution. In the event of conflicts between businesses, shareholders, or regulatory bodies, the courts play a significant role in interpreting the law and providing legal remedies.

2.7.1.7 Legal challenges

Legal challenges can have a significant impact on the formalisation of a business in South Africa. Despite efforts to streamline the business formalisation process, entrepreneurs still face legal challenges, including bureaucratic delays, complexities in interpreting regulations and navigating socio-economic transformation policies (Otto & Geldenhuys, 2019). Legal challenges can be costly for businesses seeking to formalise their operations. Legal fees, compliance costs and potential fines or penalties for non-compliance can place a financial burden on businesses (Kennedy, n.d). These costs

can affect the overall viability and profitability of the business, especially for small and medium-sized enterprises (SMEs) with limited resources. Legal challenges can lead to delays in the formalisation process. Bureaucratic bottlenecks, complex regulations and information asymmetry can prolong the time it takes to complete the necessary registrations, obtain permits and comply with legal requirements (Maduku & Zerihun, 2022). Legal challenges can create uncertainty and risk for businesses. Unclear or ambiguous regulations, inconsistent enforcement and changing legal landscapes can make it difficult for businesses to navigate the formalisation process with confidence (ILO, 2021). This uncertainty can deter potential investors, hinder business growth and limit access to financing and market opportunities. Legal challenges can impose a significant compliance burden on businesses. South Africa has a complex regulatory environment with numerous laws and regulations that businesses must comply with, including labour laws, tax regulations, and industry-specific regulations (Kleitman, Cliffe Dekker Hofmeyr Inc., 2020). Ensuring compliance with these requirements can be time-consuming and resource-intensive, diverting valuable resources away from core business activities.

2.7.2 Foreign Investment

Foreign direct investment (FDI) plays a significant role in shaping the economic landscape of countries. It involves the investment of capital by foreign companies in the host country's businesses. In this section, we explore the impact of foreign investments on the formalisation of a business, specifically focusing on the availability of factors of production, financial markets and the business environment. South Africa has a relatively open economy and welcomes foreign investment (Kleitman, Cliffe Dekker Hofmeyr Inc.; 2020).

Foreign investments can contribute to economic growth and development by injecting capital, technology and expertise into the formal sector of the economy. This can lead to job creation, increased productivity and improved competitiveness of local businesses. As foreign investors establish formal businesses, it can stimulate economic activity and contribute to the overall development of the country. Kleitman, Cliffe Dekker Hofmeyr Inc. (2020) states that foreign investments often bring with them knowledge, skills and best practices from other countries. However, there are restrictions on foreign ownership in certain industries, such as mining and banking.

Additionally, there are currency regulations that must be followed when bringing money into or out of the country. This transfer of knowledge and skills can benefit local businesses by enhancing their capabilities and improving their operations. Through partnerships, collaborations and technology transfers, local businesses can learn from foreign investors and adopt more efficient and effective business practices. Foreign investments can provide local businesses with access to international markets and networks (FOA, 2017). By partnering with foreign investors or becoming part of their supply chains, local businesses can expand their reach and tap into new markets. This can lead to increased sales revenue and growth opportunities for local businesses. Foreign investments can enhance the credibility and reputation of local businesses (Simon & Birch, 1992). Partnering with reputable foreign investors can provide a stamp of approval and instil confidence in customers, suppliers and other stakeholders. This can open doors to new business opportunities and partnerships.

Foreign investments can influence policy decisions and regulatory reforms in South Africa, often advocating for a favourable business environment, including simplified legislation, regulations and procedures (FOA, 2017). This can lead to reforms that make it easier for businesses to formalise their operations and navigate the regulatory landscape.

2.7.3 Business Vehicles

The choice of business vehicle can have a significant impact on the formalisation process. South Africa has several business vehicles, including sole proprietorships, partnerships, companies and trusts (Kleitman, Cliffe Dekker Hofmeyr Inc.; 2020).

Each business vehicle has its own legal structure, requirements and compliance obligations. It is essential to choose the right business vehicle, ensuring compliance with laws and regulations governing business operations in South Africa. Business vehicles can also impact liability and risk. For example, sole proprietorships and partnerships expose owners to unlimited liability, while companies and trusts offer limited liability protection (Maduku & Zerihun, 2022). Choosing the right business vehicle can help mitigate risk and protect personal assets.

Business vehicles also have an impact on access to financing. Formal businesses are more likely to access financing from banks and other financial institutions than informal businesses (FOA, 2017). Therefore, it is important to choose the right business vehicle

that can help businesses access financing and unlock growth opportunities. Business vehicles can also impact taxation. BOWMANS (2018) mentioned that different business vehicles are subject to different tax regimes, including income tax, value-added tax (VAT) and payroll taxes. By choosing the right business vehicle, businesses can optimise their tax position and minimise tax liabilities. Business vehicles can also impact compliance and reporting requirements. Companies, for example, are subject to more stringent compliance and reporting requirements than sole proprietorships and partnerships (Kennedy, n.d).

The correct business vehicles can help businesses navigate compliance and reporting requirements and avoid penalties and legal action.

2.7.4 Employment regulations

South Africa has strict labour laws that regulate issues such as minimum wages, working hours and employee benefits, and this is an important consideration when transitioning (Kleitman, Cliffe Dekker Hofmeyr Inc.; 2020). Employers must also comply with regulations related to health and safety in the workplace (Kleitman, Cliffe Dekker Hofmeyr Inc.; 2020).

Formal businesses in South Africa are required to provide written employment contracts to their employees and to comply with minimum wage regulations (Kennedy, n.d). The National Minimum Wage Act sets a minimum wage for all workers in South Africa, with different rates for different sectors. Formal businesses are also required to comply with working hour regulations with The Basic Conditions of Employment Act, setting out the maximum number of working hours per week, overtime pay and rest periods for employees. Any formal business in South Africa is required to comply with health and safety regulations, and The Occupational Health and Safety Act (OHSA) sets out the requirements for ensuring a safe and healthy working environment for employees, required to comply with unfair dismissal regulations.

Kennedy (n.d.) also mentions that The Labour Relations Act sets out the requirements for fair and lawful dismissal of employees, including the need for a valid reason and a fair procedure. Failure to provide written employment contracts can result in legal action and penalties.

2.7.5 Taxation

Taxation is a crucial aspect of any economy, as it provides the government with the necessary funds to provide public goods and services. However, taxation can also have an impact on the formalisation of businesses. Informal businesses often do not pay taxes or have limited tax obligations. Transitioning to formal status means complying with tax laws, including understanding corporate income tax, sales tax, value-added tax (VAT) and payroll taxes. This may involve acquiring a tax identification number, setting up tax withholding systems and keeping proper financial records (RSM South Africa, 2023). South Africa has a complex tax system that includes corporate income tax, value-added tax (VAT) and personal income tax (Kleitman, Cliffe Dekker Hofmeyr Inc., 2020).

Businesses must register for VAT if their annual turnover exceeds a certain threshold (Kleitman, Cliffe Dekker Hofmeyr Inc., 2020).

2.7.5.1 Tax Compliance Costs

Tax compliance costs refer to the expenses incurred by businesses to comply with tax regulations. These costs can be significant, particularly for small and informal businesses.

2.7.5.2 Tax Incentives

Alfaro (2014) states that tax incentives can also have an impact on the formalisation of businesses. Governments can use tax incentives to encourage businesses to formalise their operations by offering tax breaks or other benefits for formalising. These incentives can be particularly effective for small and informal businesses, which may not have the necessary resources to formalise their operations without government support.

2.7.5.3 Tax System Complexity

The complexity of the tax system can also have an impact on the formalisation of business, making it difficult for businesses to comply with tax regulations, particularly for small and informal businesses (Alfaro, 2014). This may discourage businesses from formalising, as they may not have the necessary resources or expertise to navigate the tax system. Therefore, simplifying the tax system can encourage businesses to formalise their operations, contributing to the formalisation process.

2.7.6 High Costs

As previously mentioned, a business involves registering the business with the relevant government authorities and complying with various regulations. While formalisation can offer businesses greater opportunities for survival, growth and access to financing, markets, and advertising possibilities, it also involves costs. Formalising a business often comes with increased costs, such as registration fees, taxes, compliance costs, and administrative expenses. Informal business owners, who may have limited financial resources, may find it difficult to bear these additional expenses (ILO, 2021). Aswani (2007) explains that a major financial wall to transitioning from informal to formal is the deficiency in accessibility to reasonable capital or credit and upholds that formalisation comes with several benefits, although there are several benefits to remaining informal.

There are various costs involved when formalising a business namely compliance costs and government costs. Compliance costs refer to the expenses incurred by businesses to comply with regulatory requirements. These costs can be significant, particularly for small and informal businesses (Van Elk & De Kok, 2014). The costs of formalisation can include legal fees, registration fees, and other expenses related to meeting regulatory requirements. The quality of government services can also impact the costs of formalisation. Many informal businesses associate formalisation with high regulatory burdens and harassment (ILO, 2016). Poor government services can make it difficult for businesses to navigate the formalisation process, leading to additional costs and delays. Therefore, improving the quality of government services can reduce the costs of formalisation and encourage more businesses to formalise their operations. Ultimately, reducing the costs of formalisation can encourage more businesses to formalise their operations, contributing to economic growth and development.

2.7.7 Access to Finance

Transitioning from an informal to a formal business involves registering the business with the relevant government authorities and complying with various regulations (ILO, 2021). Access to financing is crucial for businesses transitioning from informal to formal, as it provides the necessary resources to meet regulatory requirements and invest in formalisation processes. When businesses formalise their operations, they

often seek access to financing to support their growth and expansion (Zylfijaj *et al.*, 2020). However, the accessibility to finances can vary depending on the business environment and the formalisation process. Informal businesses typically have limited access to formal financial services and credit. Without access to affordable and adequate financing, they may struggle to invest in their businesses and meet the requirements for formalisation. Formalisation interventions can attract financial institutions and investors, making financing more accessible for formal businesses (Floridi *et al.*, 2020). The business environment plays a crucial role in determining the accessibility to finances for businesses when formalising. A favourable business environment, characterised by transparent regulations, efficient legal systems and supportive policies, can attract financial institutions and investors, making it easier for businesses to access financing (Zylfijaj *et al.*, 2020). On the other hand, a challenging business environment with high regulatory burdens and poor government services can hinder businesses' access to financing, making formalisation more difficult (ILO, 2016). Compliance costs can limit the financial resources available to businesses, making it more challenging to access financing. Therefore, reducing compliance costs can improve the accessibility to finances for businesses when formalising (Van Elk & De Kok, 2014).

2.7.8 Fear of Losing Informal Benefits

Some informal business owners may prefer to remain informal to maintain certain advantages, such as flexibility in operations, less regulation and potential tax evasion. Formalising an informal business in South Africa can be a daunting prospect for many entrepreneurs. The fear of losing the benefits associated with operating in the informal sector often acts as a significant barrier to formalisation. Informal businesses in South Africa often enjoy certain advantages, such as flexibility, lower tax burdens and reduced regulatory requirements. These benefits can create a sense of security and autonomy for entrepreneurs, leading to a fear of losing them upon formalisation (ILO, 2021).

Entrepreneurs may worry about increased taxes, stricter regulations and the potential loss of informal networks and relationships. Formalising a business requires compliance with tax obligations, registration fees and other regulatory costs. For many informal entrepreneurs, these financial burdens can be perceived as barriers to

formalisation. The fear of increased costs and the uncertainty of financial returns can discourage entrepreneurs from taking the necessary steps to formalise their businesses (Etim & Daramola, 2020).

2.7.9 Informal Social Networks

Informal businesses often operate within close-knit communities and informal social networks. The transition to the formal sector may disrupt these networks and lead to uncertainty and resistance. Informal networks are social structures that exist within an organisation that are not part of the formal hierarchy (Kerr & Mandorff, 2020). Wetshell (2021) states that these networks can be important for sharing information, building relationships and getting things done. Formalisation can lead to changes in communication patterns within the organisation. With centralised communication, it may be more difficult for information to flow through informal networks.

Formalisation can also impact power dynamics within the organisation. If decision-making is more centralised, it may be more difficult for individuals within informal networks to influence decisions. Informal networks are often built on trust and relationships. Formalisation can impact these relationships if it leads to changes in job roles or responsibilities. Formalisation can also impact the culture of the organisation. If the organisation becomes more bureaucratic, it may be more difficult for informal networks to thrive. Not all changes to formalisation will harm informal social networks if formalisation leads to more transparency and accountability, it may actually strengthen informal networks (Whetsell, 2021).

2.7.10 Perceptions and Attitudes

There may be cultural and societal attitudes that view informal businesses as legitimate or preferable ways of earning a living. This perception can discourage formalisation efforts. The formalisation of a business can have a significant impact on perceptions and attitudes within the organisation. A study published in the *Journal of Business and Psychology* found that perceived formalisation is positively associated with both voice and helping behaviour in nations with higher perceived uncertainty norms. This suggests that formalisation can facilitate positive behaviours in certain contexts (Fischer *et al.*, 2019). Another study published in the *Academy of Management Journal* examined the impact of formalisation on salespersons in different countries. The study found that formalisation can lead to increased role stress, which can negatively impact

organisational commitment and lead to work alienation (Agarwal, 1993). A study published by Sievert *et al.* (2020) in the *Journal of Public Administration Research and Theory* found that formalisation signals can decrease the attractiveness of a job and the organisation, which can negatively affect employee recruitment. An integrative review published by Salvie *et al.* (2022) in the *Journal of Small Business Management* found that informal entrepreneurs may recognise different types of formalisation opportunities, such as external circumstances or subjective ideas. This suggests that formalisation can impact the way that entrepreneurs perceive and respond to opportunities.

Informal entrepreneurs may recognise different types of formalisation opportunities, such as external circumstances or subjective ideas (Salvie *et al.*, 2022). This suggests that formalisation can impact the way that entrepreneurs perceive and respond to opportunities. Formal structure strongly shapes information search patterns within local government organisations. This suggests that formalisation can impact the way that individuals perceive and access information within the organisation (Sievert *et al.*, 2020).

2.7.11 Lack of Awareness

Some informal business owners may not be aware of the benefits of formalisation, such as improved access to markets, legal protections and potential growth opportunities. One consequence of the lack of awareness of formalisation is that entrepreneurs may miss out on the benefits and protections that come with formalising their businesses.

Without understanding the importance of formalisation, entrepreneurs may face barriers to growth and expansion (Van Elk & De Kock, 2014). Formalising a business can provide access to funding, contracts and partnerships that are often reserved for formal entities. Lack of awareness may limit opportunities for business development and hinder long-term success. The lack of awareness of formalisation can perpetuate the perception that informal businesses are less legitimate or trustworthy. This can affect relationships with customers, suppliers, and investors, leading to limited market opportunities and restricted growth. Informal businesses may face higher levels of vulnerability due to the lack of awareness of formalisation.

According to Van Elk and De Kok (2014), informal businesses may be more susceptible to exploitation, unfair competition and lack of recourse in case of disputes. Formalisation can provide a framework for legal protection and dispute resolution. Entrepreneurs who are unaware of the benefits of formalisation may also miss out on resources and support available through government programs, business networks and industry associations. These resources can provide valuable guidance, training and access to markets.

2.7.12 Bureaucratic Red Tape

Lengthy and cumbersome bureaucratic processes can be discouraging for informal business owners, leading them to avoid the formalisation process altogether. Bureaucratic red tape can have a significant impact on the formalisation of a business. Red tape refers to excessive or rigid regulations and procedures that can hinder or prevent action or decision-making. The bureaucratic red tape can create barriers to formalisation, which can limit the growth and development of businesses. It can create an administrative burden for entrepreneurs who want to formalise their businesses. The process of registering a business can be time-consuming and complex, requiring multiple forms and approvals. This can discourage entrepreneurs from formalising their businesses, which can limit their access to finance, markets and other resources (Sievert *et al.*, 2022).

Sievert *et al.* (2022) state that bureaucratic red tape can also create costs for entrepreneurs who want to formalise their businesses. The fees associated with registration and compliance can be a significant financial burden, especially for small businesses. This can discourage entrepreneurs from formalising their businesses, which can limit their growth potential. It perpetuates the perception that informal businesses are less legitimate or trustworthy. This can affect relationships with customers, suppliers and investors, leading to limited market opportunities and restricted growth (Salvie *et al.*, 2022). It can also create opportunities for corruption. When regulations and procedures are complex and opaque, it can be easier for bureaucrats to demand bribes or engage in other corrupt practices. This can create additional costs for entrepreneurs and limit their access to resources (Frederiksson, 2014).

2.8 SUMMARY

An in-depth review of the relevant literature assists in laying the foundation and bringing context to the perspective of business owners in South Africa. A variety of topics were discussed that provide a good narrative for the next chapter. The next chapter focuses on the path that was followed by the researcher to conduct the research and collect the data for the study.

CHAPTER 3

RESEARCH DESIGN AND METHODOLOGY

3.1 INTRODUCTION

In the prior chapter, pertinent literature concerning the phenomena was examined. This chapter delves deeply into the research design and methodology employed in this study. It begins by exploring the research paradigm that forms the foundation of the study, specifically focusing on the interpretive paradigm. The subsequent chapter expands on the research methodology and explains the reasoning for adopting a qualitative research approach and design to explore the subject matter. Details are provided about the specific population targeted, along with the sampling techniques and size. Finally, the chapter wraps up by discussing the trustworthiness of the study and ethical considerations.

3.2 RESEARCH PARADIGM

Research, as described by Ugwuowo (2016:4), amalgamates reasoning and experience, presenting itself as the most suitable method to uncover truths. To ascertain these truths, delving into the research paradigm pertinent to the current study becomes imperative. A research paradigm is a collection of beliefs that furnish theoretical frameworks guiding the purpose and execution of research (Corry *et al.*, 2018:1). Fraser and Robinson (2004:59) assert that a research paradigm constitutes beliefs about the occurrence of a specific research problem and the procedures suitable for exploring such issues. Rehman and Alharthi (2016:51) define a research paradigm as a theoretical framework and shared belief system aiding researchers in gaining insight into the realities of the world.

Corry *et al.* (2018:1) also emphasize that these belief sets encompass both epistemological and ontological assumptions. Epistemological assumptions pertain to the researcher's understanding of reality, whereas ontological assumptions concern the nature of reality itself (Rehman & Alharthi, 2016:51). The ontological perspective forms the foundation of the research methodology employed in this study.

This study operates within the interpretive paradigm. Interpretivist researchers posit that individuals differ from objects and cannot be studied in the same manner, given the constant variability inherent in humans and the environments they inhabit (Du Plooy-Cilliers et al., 2014:160). The interpretivist paradigm was deemed suitable for this study as it allows for the exploration of diverse perspectives on the phenomenon. Furthermore, it facilitates a comprehensive description of perspectives or phenomena by cautiously pursuing knowledge across varied situations without generalization (Nicotera, 2019:4). An advantage of the interpretivist paradigm lies in its ability to describe humans, objects, and events while gaining a profound understanding of these elements within a social context (Pham, 2018:3).

The social phenomena interpreted in this study is business owners' perspectives of transition from the informal to the formal sector in a selected group, in South Africa. This is why the interpretivist paradigm was considered for this study, as it allows the researcher to obtain an in-depth understanding of reality concerning business owners' perspectives of transition from the informal to the formal sector in a selected group, in South Africa.

3.3 RESEARCH APPROACH

The research approach, according to Misha and Alok (2018:1), involves the methods and techniques employed for conducting a research study. For this study, a qualitative research approach was adopted to explore business owners' perspectives on the transition from the informal to the formal sector in a selected group, in South Africa. The qualitative research method explores potential factors and experiences that little is known or studied about the phenomenon (Khan, 2014:224). Furthermore, Creswell (2014:32) refers to the qualitative research approach as one that explores and seeks to understand people's meaning of a social or human problem.

Lemon and Hayes (2020:604) contend that a qualitative research approach seeks to capture individual life experiences, fostering a nuanced understanding of the research problem. This approach was deemed suitable for this study as it aims to explore how business owners perceive the shift from the informal to the formal sector within the South African context.

3.4 RESEARCH DESIGN

The research design serves as the overall blueprint utilized by researchers to methodically amalgamate the various components of a study (Kabir, 2016:112). Essentially, it outlines the approach for gathering, measuring, and analysing data (Mishra & Alok, 2017:8). According to Saunders *et al.* (2009:138-140), an exploratory research design is employed to elucidate and enrich the understanding of a problem. Kabir (2016:160) suggests that an exploratory research design becomes relevant when previous studies are scarce or absent, making it challenging to predict the outcome of the research problem. Furthermore, Kabir (2016:160) notes that the focal point of an exploratory research design revolves around gaining insights and knowledge to pave the way for further investigation or exploration, particularly when research problems are in their initial investigational stages. This study found the exploratory research design suitable as it provided the necessary framework for obtaining answers to the research problem.

3.5 STUDY POPULATION AND SAMPLING

The target population of a study is the group of people from which information is required; this group has a set of elements that has one or more similar characteristics of interest (Siamah *et al.*, 2017:1611). Rahi (2017:3) refers to the population as the fundamental component of interest that the researcher wishes to comprehend. The study population for this study consist of business owners in a selected group in South Africa. The study's population is limited to the business owners who had stalls at Aardklop in Potchefstroom in the North West Province of South Africa.

According to Alvi (2016:10), the target population for a study should include all the members who meet the researcher's criteria for the study. The following inclusion criteria were used to select the participants of this study:

- The participant must be an informal business owner.
- The participant must have participated at markets before, specifically Aardklop in Potchefstroom.

3.6 RESEARCH PARTICIPANTS

A sample refers to the process of choosing a smaller subset of individuals from a larger selected population for investigative purposes (Alvi, 2016:10). Sampling involves the selection of specific elements from the population for examination (Rahi, 2017:3). The purposive sampling technique was used to select the participants of this study. The purposive sampling technique is the most commonly used form of non-probability sampling (Guest *et al.*, 2006:59). With this sampling technique, the population had equal opportunity to be selected for this study. The participants who took part in this study were regular traders at markets across South Africa and attended Aardklop. Participants were approached at the festival and contacted to confirm their participation in the study. It was important for those who formed part of the interview process to be informal business owners who started the business. In this way, the researcher engaged with the business owners on their perspective on the transition from the informal to the formal business sector.

The selection of the purposive sampling technique was fitting for this study, given the researcher's intention to employ an exploratory research design aimed at producing fresh insights into the research problem. Asiamah *et al.* (2017:1609) recommend that in qualitative research, researchers should gather a relatively small sample from a large population, comprising eligible members meeting specific criteria.

The study population for this study was purposefully selected and consisted of 10 participants who met the inclusion criteria. After the 10th interview, data saturation was observed and that was the time that an adequate amount of data was collected.

3.7 DATA COLLECTION PROCEDURE

The data for this study was collected through Microsoft Teams as well as face-to-face interviews with stall owners at Aardklop. The primary aim of the interview was to prompt the respondents to share their opinions, recount past experiences, and express their perceptions regarding specific occurrences (Wahyuni, 2012:73). Interviews were the appropriate data collection method for this study to obtain data that is accurate and has immediate effect. There were 10 exploratory interviews conducted with informal business owners.

All interviews were recorded for record purposes and accurate transcription purposes. Participants signed the Informed Consent Form before their interviews as per the request of the researcher (see Annexure A).

The interviews took place at different times, as agreed on between the researcher and the selected participant. Participants were only interviewed if they consented to participate in the study. All the participants were asked identical questions, all in the same sequence. Although the questions and sequence were the same, individual probing was done in reaction to important responses. The interview guide included questions that explored the informal business owners' perspectives on the phenomena. The questions included the demographical details of the participants like age, gender, province of origin and how long have they been in business. This information is not to discriminate against the participants, but rather to obtain background knowledge. Refer to Annexure B for the full interview guide with questions.

3.8 DATA ANALYSIS

Data analysis is fundamentally concerned with identifying distinct patterns within the dataset and serves as a valuable tool for advancing knowledge. Qualitative data analysis entails a comprehensive examination of language, discourse, verbal expressions and nonverbal communication to uncover deeper insights held by individuals. In this study, data analysis was conducted using Creswell's generic qualitative analysis approach, specifically Atlas.ti software, with a thematic focus (Creswell & Creswell, 2017:31). This process is uncovered in more detail in chapter 4 of the study.

3.9 TRUSTWORTHINESS

According to Du Plooy-Cilliers *et al.* (2014:258), qualitative research doesn't prioritize numbers; instead, it employs distinct criteria to assess the reliability of research outcomes. Lemon and James (2020:605) explain that qualitative researchers assess trustworthiness by questioning whether the findings can be considered dependable. Understanding the truth requires a profound examination of individual experiences

rather than seeking a universal truth, while simultaneously avoiding any influence from the researcher's biases. Trustworthiness in research hinges on the ability to faithfully replicate the meanings attributed by research participants to their experiences (Lincoln & Guba, 1985). Trustworthiness itself encompasses four key components: credibility, transferability, dependability and conformability (Gunawan, 2015:10).

The four key components are explained in more detail below:

- **Credibility:** To bolster the study's credibility, it underwent scrutiny through peer debriefing and evaluation by a seasoned study leader. Employing member-checks methods, the researcher validated the reliability of the research outcomes (Chowdhury, 2015:146,150; Creswell & Creswell, 2018).
- **Dependability:** The data analysis was rigorously conducted, and consensus discussions were held with the study leader to establish agreement on identified themes. The research focused on assessing consistency and the potential for replicating the research outcomes (Chowdhury, 2015:146,150; Creswell & Creswell, 2018:314).
- **Transferability:** The research's applicability to diverse contexts and its comparability to other studies were considered. The researcher provided a comprehensive description of the study and the employed methodology (Chowdhury, 2015:146,150; Creswell & Creswell, 2017:314).
- **Conformability:** To ascertain conformability, the researcher consulted with experienced peers who reviewed the research process, verified voice recording transcriptions, and conducted independent coding for comparison with the researcher's work (Chowdhury, 2015:146,150; Creswell & Creswell, 2017:314).

3.10 ETHICAL CONSIDERATION

Ethics pertains to the conduct of researchers in their interactions with participants and the safeguarding of participants' rights during the interview process. In the course of this research, before commencing the interviews, participants were given the choice to participate or decline, with a clear explanation that their names would not be disclosed. Confidentiality was rigorously upheld throughout the study. The researcher took all necessary precautions to respect the research site, ensuring that participants were

undisturbed after their involvement in the research study (Creswell, 2014:137). Additionally, the privacy of the participants was upheld thanks to the use of pseudonyms which shielded their identities. Consent to record the interviews was obtained from all participants, accompanied by an assurance that their discussions and information would remain strictly confidential. The research received ethical clearance (refer to Annexure D) from the North-West University ethical committee. Furthermore, the researcher also received written permission from Aardklop to approach participants of this event (refer to Annexure C).

3.11 SUMMARY

This chapter focused on the fundamental elements of research that provided a structured approach to the specific questions and objectives. The blueprint that was followed in the collection of data, analysis of data and how all of this was done ethically were explained in this chapter. The next chapter analyses and presents the data that was collected from the participants.

CHAPTER 4

ANALYSIS, INTERPRETATION AND FINDINGS

4.1 INTRODUCTION

The preceding chapter centred on detailing the research design and methodology utilized in this study. In contrast, this chapter delves into the analysis and interpretation of the qualitative data gathered from 10 participants through semi-structured interviews. The chapter commences with a description of data analysis, interpretation and discussion of findings integrated with the literature in relation to answering the main research question: The perceived business owners' perspectives on the transition from the informal to the formal business sector in a selected area within South Africa.

The researcher utilised Atlas.ti to import and analyse audio-to-text interview data transcripts. Themes were developed and narrowed down until the researcher was satisfied with the three main themes; codes were developed under each theme and are unpacked in the rest of this chapter.

Table 3 below presents the biographical information of the participants of this study. It provides information on the business description of the participants as well as the number of years they are in business.

Table 3: Biographical information of participants.

Participant	Pseudonym	Gender	Age	Business Description	Years in Business
1	P1	Male	32	Confectionary	13 years
2	P2	Female	40	Artist	1 year
3	P3	Male	61	Leather	17 years
4	P4	Male	57	Diesel Security	17 years
5	P5	Female	53	Roasted Nuts	7 years
6	P6	Male	69	Distillery	30 years
7	P7	Female	63	Fresh-water Pearls	7 years
8	P8	Female	54	Textiles	4 years
9	P9	Male	50	Leather	28 years
10	P10	Female	30	Jewellery	2 years

In the following sections, the discussion of the analysis process will be discussed in detail and how the main and sub-themes were selected.

4.2 THEMATIC ANALYSIS PROCESS

This study followed the thematic analysis approach. The analysis process that was followed in determining the main themes and sub-themes of this chapter is explained in Table 4 below.

Table 4: Steps of the analysis process.

STEPS OF THE ANALYSIS PROCESS	
PHASE	DESCRIPTION
Audio conversion to transcripts	The audio was transcribed using the Microsoft Word transcribing function that converted the recordings into text. The text was then checked for accuracy but not altered to change meaning. The transcribed files were added to Atlas ti.
Adding files to Atlas Ti.	Just to reiterate, using the newer version of Atlas ti. version 23. On the top left-hand side the button adds documents and add files were selected to add the documents. This process was repeated until all 10 documents were uploaded to Atlas.ti.
Concepts generation	<p>Concepts were created by analysis of all 10 documents simultaneously.</p> <p>Concepts were organised and ordered according to the token value that was allocated to each concept. For example: the concept <i>business</i> has 54 results that contain a total of 89 tokens.</p> <p>The decision to decide which concepts must be kept or which must be removed is based on a number of factors like token values but more importantly in line with the research title, objectives and questions.</p> <p>Concepts that occurred in the study were chosen if they were deemed to elicit a response or thinking process of the reader based on the research objective the researcher wants to achieve.</p>
AI Coding	The 10 documents were analysed by selecting the AI coding button and from the 10 documents were 157 quotations found to code.

	<p>Atlas.ti has generated 290 codes in 139 themes from the quotations.</p> <p>Atlas.ti was then instructed to instead of providing 139 themes to generate 10 themes.</p> <p>From the 10 themes, it was important to identify themes with similar meaning or even if certain themes can be merged. This led to the development of the three main themes that were used in this study.</p> <p>The sub-themes or codes were evaluated by means of their relevance to the study. Therefore, merging and deletion are required to reduce the number of sub-themes or codes under each main theme.</p>
Themes and Sub-themes	<p>The main themes and sub-themes were generated by using the above-mentioned process and were unpacked in the remainder of this chapter by supporting the themes and sub-themes with quotes from the participants.</p>

This process explained in Table 4 allowed the researcher to achieve a manageable amount of themes and sub-themes. This provides a code network that does not convey too much information and can be exported so that themes can be unpacked in a manner which allows for a logical flow without information overload while ensuring the continuous flow of the golden thread running through each.

4.3 LAYOUT OF THE STUDY'S THEMES

Three main themes and 22 sub-themes were found to influence the transition from the informal to the formal sector as perceived by informal business owners:

Theme 1: Perspectives on the Economy

- Economic Development
- Government Regulations & Policies
- Internal & External Factors
- Market Demand(s)
- Competition
- Internationalisation

Theme 2: Characteristics of a Business Owner

- Hobby/Passion
- Expertise
- Quality-Orientated & Personal Signature
- Enjoyment & Fulfilment
- Self-Confidence & Personal Motivation
- Opportunity-Seeker
- Pragmatism
- Adaptability & Personal Growth
- Growth Mindset
- Creativity & Innovation
- Collaboration
- Resilience & Perseverance
- Work Ethic & Accountability
- Autonomy & Flexibility

Theme 3: Business Management & Administration

- Entrepreneurship
- Informal-to-Formal Transition

The three main themes will be discussed and indicated with quotations as evidence from participants.

4.4 INTERPRETATION AND FINDINGS

4.4.1 Theme 1: Perspectives on the Economy

Overview

South Africa needs more people to enter the informal market with their skills and contribute to the economy rather than relying on opportunities from bigger companies or outside help. The biggest problem is that many companies have external investors who can quickly exit when they start losing, leaving South Africans without options. Transitioning from informal to formal business requires being goal-driven and expanding one's brand. Informal businesses face fewer demands from clients and less regulation but may need help to work with formal businesses that require specific credentials. Some challenges of formalising a business include dealing with audits, regulations and costs. South Africa's formal business environment is heavily regulated, while informal businesses have more freedom but face limitations and a lack of access to government funds. Knowing the market and demand are critical factors in the success of both informal and formal businesses. Internal factors, such as suppliers and product quality, and external factors, like the economy and competition, play a role in the decision to transition. Formalising businesses can lead to a healthier economy and more jobs. However, transitioning may be discouraged due to the economy, currency fluctuations and the burden of regulations. Expanding internationally requires paperwork, such as VAT registration and import-export permits. Challenges in various industries include competition, time commitment, financing and getting your name out there. Differentiating oneself and offering unique products or services is essential in a crowded market.

Figure 6 below provides a visual representation of the different sub-themes around the main theme "Perspectives on the Economy".

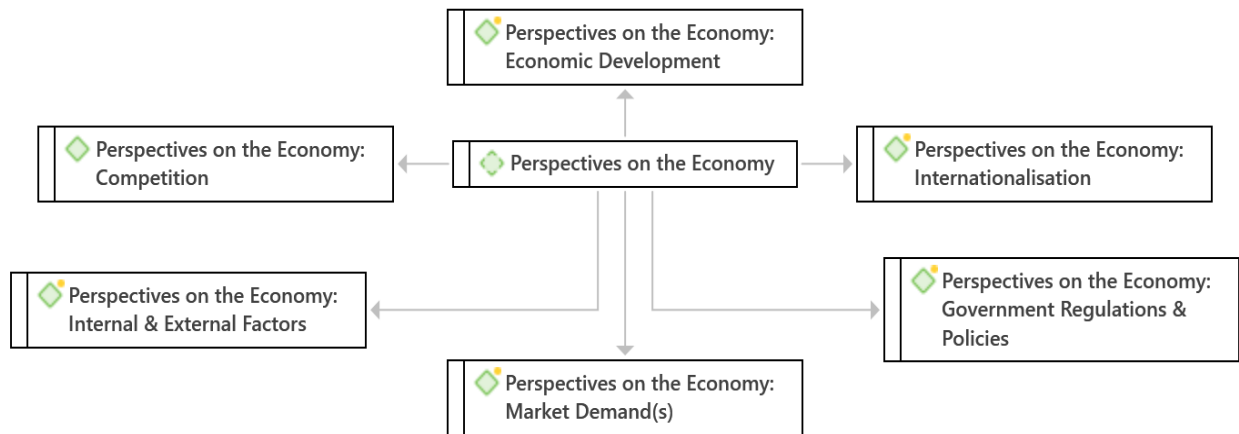


Figure 6: ATLAS.ti Category Code Network: *Perspectives on the Economy*

4.4.1.1 Perspectives on the Economy: Economic Development

For the participants, the informal sector can assist in developing the economy. This is confirmed by Loewald (2017), who indicates the importance manufacturing plays in the development of job creation in South Africa.

“Actually would; I think the biggest problem in South Africa right now is that everyone sits around and waits for opportunities from bigger companies, bigger companies, many of them have external investors, which are many of the times from other countries. So when they see they start losing, it's easy for them. They just exit. For us as South Africans, We can't just exit; we are here. So, I would definitely get more people involved in the private sector. Go informal. If you see you can grow, go formal. Let's grow the economy ourselves and stop waiting for outside help.”(P3)

“South Africa needs that because every second item you see comes from China, and we need more people to come into the markets with their skills and whatever they could do. And you know, let's change the world, let's change South Africa and make it a better country.”(P1)

“I think if we have a healthier, informal and small business formal sector, we will have a much healthier economy because there's going to be jobs that have more people in more jobs, so more households will have income.”(P5)

“When it comes to being goal-driven, I think if you have a business, you have to be goal-driven, whether it's a formal business or an informal business. But you would want to, if you want to go formal, you would want to expand your business

brand. Or, you know, if you want to develop a franchise, you would want to strive to achieve more and, like, make an active contribution to the economy, and I think that's probably why someone would want to transition from...informal to formal.”(P9)

It is clear in the responses from the participants that there is a great need for economic growth and development. There is a general sense amongst the data collected that if you want to become successful you need to be goal-driven and stop waiting for opportunities to come your way, but instead work together to grow the economy. It is thus important when you are a business owner that you make an active contribution to the economy whether it is in the informal or formal sector.

4.4.1.2 Perspectives on the Economy: Government Regulations & Policies

“OK, I think in South Africa, we've got a really big problem with the formalisation of businesses. I think they make it as difficult as they possibly can, but I suppose there's always a way. I think if you can get your marketing right and if you can get your quality Of your product Right. And you can get the right product to the right market. I think that is gonna determine everything. Then you will be prepared to go through all the other stuff that is so tough to formalise with the government and all the regulations and stuff. I think we all can do it. It's just one hell of a schlep. But I mean, I think if you start making money. That is the answer.” (P8)

The difficulty to formalise your business according to the participants is confirmed by the literature (refer to section 2.1). Figures 2 and 3 indicate the tremendous amount of days it takes just to register a business or even prepare taxes in South Africa (World Bank, 2018). Furthermore, the bureaucratic red tape when considering entering the formal market can be a barrier to entry. Sievert *et al.* (2022) state that bureaucratic red tape can also create costs for entrepreneurs who want to formalise their businesses.

“We were at a business summit two weeks ago, and they discussed they had a few speakers discussing ways of investing in your business and then in South Africa, a big limitation for a business to get money from government funds or lenders is, let's be honest, BEE each company had a set of rules when it comes to BEE or black investment so that does put your limitations on your company. If you start the way we start. So I think it brings down a lot of businesses.”(P1)

“Assistance, I mean, there's so many. If you want any government assistance, small business development, etc. It is big time, a lot of work to put in, and then, at the end of the day, it might not succeed. I mean, after COVID, I survived COVID and after COVID, they said people that have with the lockdown, and I was rejected.”(P4)

The difficulty in gaining access to finance is confirmed by these participants. This is also confirmed by the literature as being a barrier when it comes to surviving and expanding your informal business to a formal business (Zylfijaj et al., 2020).

“There's the health department. I don't know of many informal businesses that get visited by the Health Department regularly. So and then when you go higher, you want to supply certain stalls, you have to go through audits from Like FSA and stuff like depending on what sector you are in. So, informal guys never know the pain of an audit. And also the costs of audits, I mean, there's there are audits that Are 50,000 rand a year? So that's, I think it is also a limitation for informal traders, keeping them away from formal businesses because, you know, there are these costs involved.”(P5)

“Yes, for us, It worked well. But there are certain sectors where I would not transition. Let's be honest the red tape is sometimes. It's it's to an extent where it gets ridiculous for certain industries, so. But for us, it worked, especially because we don't handle dangerous food products, proteins, fats and stuff like that. We have a very stable. So it's a much easier transition into the formal sector where you have all the rules and regulations coming in, but there are there's lots of industries that I would keep small and manageable.”(P6)

“I think the South African formal business is quite regulated. I think your informal business is there's a lot of corners you can cut, and if you keep it small, you can be profitable without being policed or monitored by the government. So, I think, in a certain sense, It's much easier to do informal business in South Africa.”(P1)

“I think in the past, Umm, transitioning was common, but with the current economic environment, I think most businesses are on a survival strategy, you know, and I think a lot of businesses don't want to burden themselves with all the legislation or the legislative, you know, policies and rules by the government, so I don't think I necessarily would transition to a formal business. Yes. Also, I

don't think I've been long enough in the business, you know, to transition or to even consider transitioning.”(P10)

The amount of costs involved in formalisation poses a barrier to business owners embarking on the route to formalise their business. All these barriers to entry demotivate entrepreneurs to formalise their business. This leads to the loss of opportunities as well as the loss of more job opportunities that South Africa so desperately needs.

“You know, for me, there's no major difference because what you do for the informal, you do exactly actually the same for the for the formal business. So it is just a formality in which products must go to the informal environment or to the formal environment. So, really, I just think that in the formal environment, there are more documentation and more policies and like the registration, but otherwise, it's just more formal and aspects that you have to have to follow.”(P3)

There is a general assumption from the responses that the formal environment is more regulated and driven by compliance with relevant legislation and policies. This is a major barrier when considering transition.

4.4.1.3 Perspectives on the Economy: Internal & External Factors

“I think everybody because I mean although we have family members in key roles, There are other roles that you just can't do without, and it's a big issue. Do you get someone who's trained in this, or do you take someone and train them? Is it something you can train somebody in? Which I'm a big believer in training people because you're upskilling them. I think that's that. Yeah, that's a big internal factor for me. Externally, yeah with our country, there are quite a few unfortunate negative external factors, Eskom being one, crime being one. I think it will definitely stop them from transitioning because if you go bigger, how do you control, when load-shedding hits and you have, say, something in an electric pot or you have a cooling room, or I mean, you may have a small hatchery now you sit without electricity for two hours. How do you expand your hatchery without expanding your power generation?”(P9)

“Electricity was a factor, especially with load-shedding with my machine. If it's working under a lot of heat. So if the power goes off, I need to jump around, get the nuts out of the machine, put water in, and cool the copper drum. Otherwise,

if it cracks, I need to import the new one, which takes 3 months, and then I will be 3 months out of business. So, I invested in an inverter. I'm running my machine from an inverter. I don't have anything to do with Eskom's electricity for my machine.”(P5)

“When you look at the internal factors, you would obviously look things like you mentioned now at suppliers; you'll have to have suppliers that will always be able to supply that you don't run out of stock. Yeah, I think external factors are something which I've experienced, especially now in this year 2023, which was the fact that people don't have money anymore. So you know you can see business is hard. Yeah. So, I think that those are things that people will definitely look at when they decide to transition from informal to formal business.”(P2)

“I think the economy is the main thing. The situation we are in currently. Our rand. I mean, I buy at dollar price, rand/dollar. I don't want to commit at my age to having a shop, or staff. And if it's a down month, you still have to pay your rent, etcetera. What goes with it if you are in a shopping mall. But what I do, I've got a shopping mall in because I'm from Cape Town. I trade there every weekend. So I know all the surrounding towns that people come to me there. So I'm actually marketing the shopping centre as well. We have got little market there, but clients contact me, you can come and see me at the market. They know exactly where I am, so that's my weekend shop.”(P3)

“External factors, I would say it's just, first of all, it's the, your products. External big external factor is demand. You might think you have a great product, but do the clientele think that? Do you have enough demand for it so it actually grows and gets you somewhere?”(P8)

The internal factors can be controlled to a large extent, but the issue comes with the external factors that are very dependable on the government and its obligation to provide businesses with basic needs like water and electricity, which they miserably fail to achieve. This failure poses a great risk to any business owner whether in the formal or informal business sector. Additional expenses that must be incurred by businesses to generate their electricity lead to financial constraints that make it impossible to transition to the formal sector. Furthermore, despite the electricity problem, business in South Africa is difficult, with people struggling to make ends meet.

If you have a bad month at your business, salaries and rent must still be paid, and there is no additional support to assist with fixed monthly costs.

4.4.1.4 Perspectives on the Economy: Market Demand(s)

“Yes. and then. Just getting the right market for your product. For us, I would say it was a bit simpler because Cape Town has a big tourism sector, so we already knew we had a foot there. But then, when you move to the rest of the country, you don't know the rest of the markets. Everything doesn't sell as well in Other provinces; I just think it would. Other provinces see something that would look cheaper to a Cape Town customer and looks very expensive to a North West customer, or Gauteng or a Natal customer.”(P9)

“Yeah. What's the demand of the people around? And what I realised in my own environment is no one at any festivals - and I'm doing it every month a year, I'm doing a festival - is doing the hats I'm doing. That's what I'm doing. No one's doing it. This is my focus point as me as an entrepreneur and so but that's the informal part, but then it started to become more formal.”(P3)

“I felt that there was a need, and there was another business with the same concept. You know the need goes on, but there are no more garments available, and that's the way it started.”(P8)

“You have to first understand the two different areas. Because there's a for me, there's a big difference between the kind of people you're working with. On the one side, with the formal environment, you have to be patient. You have to make sure that your stuff is correct. In the informal environment, I supply, and the clients will not be as demanding as in the formal environment. So that's actually the two things that I can say, which is a difference between the two environments.”(P7)

“It's just my market wants me to be formalised. So, a farmer won't work with a guy that doesn't have a VAT number. And if you have a VAT number, you have to have certain credentials. So my market, mine, just think of it your, construction company, they all got VAT numbers. You know, if they can't get their VAT back, they're not going to do business with you, going to the next guy who is formal enough for them.”(P4)

Identifying your market footprint is important. The different perceptions of people in the different provinces play a role in the turnaround of your stock. The reason for that is that different factors in different provinces mean people are willing to pay more in certain provinces for products than in others. It is evident from the responses that it is sometimes more difficult to satisfy the needs of clients in the formal environment than it is to satisfy the needs in the informal environment. Some barriers for informal traders are also the fact that when doing business with certain people/businesses, they require you to be VAT registered. If you can't present them with a VAT number they won't do business with you and will go to the next business that is "formal enough" and can present a VAT number.

4.4.1.5 Perspectives on the Economy: Competition

"Before I started this business, it always looked so nice, you know, to have your own business, but you don't know all the background things that happen, yeah, that happens behind closed doors. So there's a lot of time that you have to put in. And if you don't put that time in, you won't see the results for it. There's also quite a lot of competition in the jewellery industry. You know, I think, as mentioned previously, in the current economic environment that we're living in, a lot of people are trying to do, or to have sidelines besides having their main full-time jobs, you know, just to generate an extra income, yeah, so. That was quite challenging for me, and obviously, a lot of businesses want to give the best possible product for the lowest possible price. So you have that also to worry about or to consider. Yeah. So that would be my challenges that I experienced."(P10)

"The challenges are financing and getting your name out there because there are so many people, and we are all doing the same thing. So you have to do something different that is quite challenging."(P7)

"To roast perfect nuts. There's a lot of competition, especially on caramelised nuts. And a lot of people are doing the same, so it's quite a challenge. Over the years, experience perfecting the perfect caramelised nuts, like we get just more customers than the other ones, so nobody is competition for us at shows."(P5)

One of the major challenges faced by participants was the tremendous amount of time and background work that goes into having your own business. A lot of informal

business owners don't operate the business as a primary source of income; it is an initiative that started due to the rise in the cost of living. The income generated is merely used to supplement their primary income. You have to work hard on the products that you sell and be unique; in this way, you will distinguish yourself above the rest and gain good market share.

4.4.1.6 Perspectives on the Economy: Internationalisation

"If you have to go informal, you wouldn't have experienced new, avenues into the world. Our next aim is now to enter the international market. We've been doing festival marketing throughout South Africa. Our product is in every little town in South Africa. Now we're going to expand to go to the world markets now."(P8)

"We're busy with the VAT registration. It has to be done, and I'm busy with import-export permits. Because there's a lot of people abroad that also would like to wear these pants, and there are some resellers and retailers abroad that's been asking me to export. So those are, that's the paperwork that needs to be done at the moment."(P8)

"We outgrew the informal; we basically outgrew outgrowing the commercial. Now we need to go internationally."(P8)

The formalisation of a business can sometimes be led by consumer demand. In the case of the above-mentioned participants, the demand for their products led to the phased transition to the formal sector. VAT numbers and export permits are applied for and this will lead to the development of new ventures, leading to a transition to formalisation. It is noted that market demand can sometimes force you to transition from the informal to the formal sector.

4.4.2 Theme 2: Characteristics of a Business Owner

Overview

Many of the business owners started their ventures informally and later transitioned to a formal business, with some even registering as an importer and exporter. They believe South Africa offers many opportunities, and starting informally is a natural way to begin a business. They emphasised the importance of taking risks and growing in order to see success. Many successfully transitioned from being an informal trader to a formal business. They also highlighted the need for goal-driven motivation, market research and quality products. The process of formalising their business involved aspects such as registration, “red tape” and growing their skills and resources. They acknowledge the challenges and learning curves associated with formalising their business but believe it was worth it for the growth and contribution to the economy. They also mentioned the role of passion and enjoying the work they do. They emphasise the importance of marketing and confidence for success and that informal business owners may be more focused on their passion and love for their job than solely making money. They highlighted the importance of teamwork and support from others, as well as the personal growth and lifestyle changes that came with formalising their business. They also find satisfaction in seeing the positive impact of their business by employing others. Overall, they encourage others to pursue opportunities in the informal market but also recognise the benefits of formalising for growth and success. They value the flexibility and freedom that comes with their current business setup.

Figure 7 below provides a visual representation of the different sub-themes around the main theme “Characteristics of a Business Owner”. This theme was the theme that stood out above the rest and is also the biggest theme in this chapter.

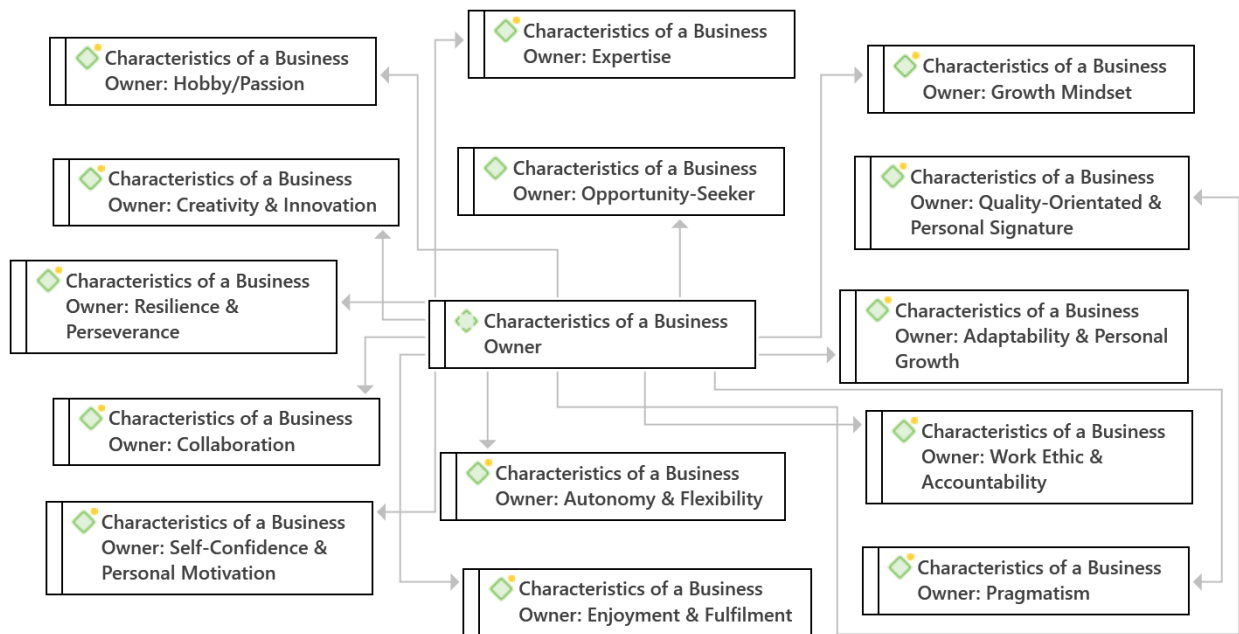


Figure 7: ATLAS.ti Category Code Network: *Characteristics of a Business Owner*

4.4.2.1 Characteristics of a Business Owner: Hobby/Passion

“Then, when I sat at home, I said, but listen, I have to start to do certain things with my hands.”(P9)

“So, I started with this as a hobby, and it just grew into this. Definitely, I started as a hobby, and we grew from there.”(P9)

“It was just basically interest, a hobby and then sort of providing extra income, and yeah, it's a nice business. I enjoy the people and, of course, the extra as well.”(P10)

“And it's just that this is my hobby. I want to enjoy it. Although it's grown, but I'm a phone call away. I have got my clients all over the country - Durban, Joburg - they phone me, we courier.”(P7)

“OK, so I've always loved drawing and painting and always wanted to do this, and when I got the opportunity the financial opportunity to do it, I took the leap of faith and just started doing it, and I'm busy doing courses and everything teaching myself so that is why I'm doing it.”(P2)

“I think formal business owners are more corporate types of people who are more structured and organised, and I think informal business owners are a bit

more happy-go-lucky. And maybe more in it for the passion and for the love of your job than for the money.”(P6)

“Look, the passion has grown into this so many things you can make, and you can't stop.”(P5)

“You have to decide your product what your passion is. Are you going to make it out there? Do your research. Don't just go into it, do research. I think that's very important.”(P10)

“I don't do it that much myself anymore. I do only four. And that's the part of the growing into the formal business. But I do it just to be in contact with your customers.”(P6)

For the majority of the participants, their business started as a hobby, doing things they enjoyed and were good at. At a later stage, it became a business that generated additional income for them or even became their primary way of generating income. It is important to do proper research to ensure that, when you start selling the products you make, you have done your market research in advance.

4.4.2.2 Characteristics of a Business Owner: Expertise

“Doctor Google actually taught me how to work with my hands on leather, so all the hats and belts and everything that you see here, I'm making them myself.”(P3)

“To roast perfect nuts. There's a lot of competition, especially on caramelised nuts. And a lot of people are doing the same, so it's quite a challenge. Over the years experience perfecting the perfect caramelised nuts, like we get just more customers than the other ones, so nobody is competition for us at shows.”(P5)

“Hand-made, YouTube and see how to do stitches, saddle stitches and all these funny things. So, I taught myself. And I actually enjoyed it.”(P8)

“You can do a small informal business with very basic financial skills, but when you do go formal, you need some more expertise. We were lucky in our business that my mother-in-law is very, very good with Finances. She knows the right people with finances so that transition wasn't too hard for us. But I mean, if you have a guy. With a small. I wanted to say a street corner Take Away he's going to struggle with that, you know.”(P9)

In the modern era, you can use the resources at your disposal as tools to learn more about the products you are making. The participants alluded to the fact that when someone goes more formal, financial management becomes very important; if they are not good with that, they must get someone to help them in different aspects.

4.4.2.3 Characteristics of a Business Owner: Quality-Orientated & Personal Signature

“You must have the owner's signature in the system. That's why you'll find me on shows where I can market it direct to the public.”(P4)

“You grow. You know, you do this little market, and then it's the next step. My first big market...it was I was quite scared buying all that stock. What's going to happen? I had an excellent turnover, but I think the main thing with my product... But mine. It is a very personal thing. And that's why I don't do social media as well because people copy my designs, et cetera, et cetera. And I enjoy the interaction with my clients. That's my business.”(P3)

“It's about quality. And then you also make the public part of you.”(P3)

“And my after-sales service. That's why it's one of the things that I don't have a website. I don't have all that extra hours that I need to put in there that people can contact me direct if there's a problem; each one of them get my business card. They can phone me, they can contact me. If any good thing goes wrong, it's personal service.”(P3)

“Quality is the main thing.”(P9)

“Because besides the demand that's pulling, South Africa has a history of the change of ownership of government, and we can show the world out there that there is people in South Africa that can produce a quality product. So we can show the people that South Africa got good skilled people and good quality.”(P1)

“It just it gives us the niche market that we wanted. We wanted to go for the niche market that still wants something hand made; most of our stuff is still hand cut, hand wrapped. And that's the market that we want. And if you go any bigger, you're going to lose that you just become another commercial product. We limited ourselves there, but it's intentionally.”(P8)

“And also it's a, it's a thing people would love to see the face behind the brand, and this has become a brand. So, the same thing with anything else. Let's, call it famous. If you want to that, that people love, they would like to meet the person behind it, and it's always like becoming a celeb, but I don't like to call it that.”(P8)

You must have your own identity as a business owner and be unique. One of the important factors that were also mentioned: when you are in the informal sector and you have a unique product, it is important to strategise your marketing approach as you risk your products being copied by other people.

Personal service and after-service are crucial factors that came to the fore. Some of the participants don't believe that websites do marketing but focus on quality and after-service. Handing out business cards when people buy from you is much more personal and then you rely on word-of-mouth marketing. You must ask yourself in which market you want to compete. Some business owners opt for the niche market because they believe it gives them a competitive advantage.

Showing presence when it comes to your brand is also important because people want to see the person behind the products. This forms part of your brand signature.

4.4.2.4 Characteristics of a Business Owner: Enjoyment & Fulfilment

“It makes you feel good if people come in and this is what they want, and they're happy to see it. And I see a lot of happy customers, and that's what you want. To find something that really fits them and they're happy that that's all what it's about, you know, it's a really good feeling.”(P10)

“So I'm just enjoying what I'm doing and, that is that the most important part for me, my whole lifestyle actually changed personally with this decision I made.”(P2)

“I've grown a lot during this process, and I've learned a lot about myself, and I think it's really rewarding to see that everything you've put in and if you look back as to, you know when you started, how much you've grown and how much you've learned in the process. It's I don't want to say it's not; it's just about that. But obviously, I mean, if you can make an extra income, yeah, I would definitely recommend or encourage people to enter the informal market. You also get to meet quite a lot of interesting people. Yeah. You never know; someday, they

might give, and they might cross your path again. And yeah, I think that I would definitely encourage people.”(P10)

“What it means is that there are people that are employed. The people that are employed, each of them looks after 11 other people, so it's a good feeling to know that there are people that wouldn't have had work that are now employed and that can look after their families and that that to me is quite a big thing. And it makes me feel proud, and love that.”(P3)

It was clear from the responses gathered from the participants that it is not only about the extra income but also about enjoying the process of growth and development. It is also fulfilling to play a part in job creation and providing opportunities to other people.

4.4.2.5 Characteristics of a Business Owner: Self-Confidence & Personal Motivation

“Yeah, you have to believe that you can do it and you have to get people to help you get to know things.”(P1)

“It sounds easy to say what the challenges were, but I think it was to motivate myself and to get hold of the means, the ways and means, how to do it and that.”(P10)

“No, it's actually for my mind because I do get the pension from the department from the government, and so just to keep myself busy. Because you're gonna sit down, then you're gonna die quickly.”(P7)

“Just kick open doors, and if you kick open one door, the second one is easier. I think it was more the biggest thing was motivation to get sales. If you get sales, it gives you confidence, and that creates positive feedback, and then you just carry on.”(P5)

“It takes time. In the beginning, you don't know anything; you don't know whether this is going to work. So the only way is to walk on water and just go out and go for it and do what you need to do. But I think the main thing is get a quality product, decide which your market are, try to penetrate that market and then you start with the formalisation that will come later.”(P10)

“Ohh, absolutely if you think of any entrepreneur, they all start with nothing. That's the reason why they're there is because they don't have any other way

out, and usually, they don't have capital. So the biggest thing is get the chance of doing stuff and get some resources from wherever family or friends or where you can get a loan. And just jump into the pool and start swimming. And I think that is the whole transition. From outside the pool. Jump in and start swimming until you get out on the other side and say, listen, I didn't die.”(P7)

“So, my biggest problem was marketing. I had to have the confidence to kick open doors and get to the market. This is not a product that's going to work over multimedia or over the internet. You have to look the guy in the eyes, and you have to greet him, and you have to show him what it does. So you have to be out there right in his workshop. Right. And I think in the beginning, my biggest problem was having the confidence to start kicking, and I didn't really know what I am talking about.”(P4)

“Yes, I would encourage people because it's very important for me to be happy in what to do. But if you can afford it, then I would encourage it. Otherwise, I wouldn't encourage it, and I would say take a more traditional approach and Go get a job.”(P2)

The factor that stood out in this code was that you will not immediately have a body of knowledge that explains everything. It takes time and a lot of assistance from other people to learn the skills and knowledge of the specific industry. It can take a leap of faith to gain enough confidence to take chances and seek opportunities. In some cases, you have to get out of your comfort zone and take a risk.

4.4.2.6 Characteristics of a Business Owner: Opportunity-Seeker

“I think South Africa is a place where there are so many opportunities, and the first place is to go and test. It is in the informal market. You're gonna spend so much time and money to get everything formalised before you start the business. I think it's a natural way of starting any business informal. And if it works. Formalise, so that's the answer.”(P9)

“I was just an agent, so he didn't pay me anything; he said there's an opportunity started off, and I mean, I've got nothing to lose. I just went into the first place, and I tried selling it and the 10th guy I sold it to took it, and I make a couple of bucks, and the next day I took it, and I made a couple of bucks, and I saw this opportunity.”(P4)

“I would encourage specifically our young people today to start with the informal environment and learn, take every opportunity that you can get hold of. Take that opportunity and go for it. You have to start, work small but work cleverly, but then you will come. You will end up maybe in a formal environment, but you have to start small in the informal environment to get. It’s everything that’s in your mind. It’s a mindset that you just have to make.”(P6)

“Leaving money for kids, let’s rather leave opportunities for them. There’s much opportunity. We’ve got four children, and everyone can find a hole in this business to do.”(P9)

“If there’s opportunity, what you can take then you have to make the effort and do the documentation that’s needed to be done. Because I also registered to, and that was a lot of actually a lot of documentation. What I had to do is to register to export and import products out the country. So I’m a registered importer and exporter as well, so I did that effort, but that is once again the satisfaction for myself, expanding from the informal to the formal environment where I see that, yes, there are certain things that with the only capacity is myself at home. And I can do it. Why not? And so I foresee if you just go and sit down formalise the things that you have to do, and then it will work.”(P3)

It is important to have the right mindset and be persistent in your approach. If you decide to formalise, make sure you identify “what” and “how” you will formalise. One of the participants mentioned that you must, instead of leaving an inheritance, leave opportunities. This can lead to wonderful opportunities if people provide opportunities for growth and development that can have a tremendous impact on the staggering unemployment rate in South Africa, as confirmed in the literature.

4.4.2.7 Characteristics of a Business Owner: Pragmatism

“I think in the past, Umm, transitioning was common, but with the current economic environment, I think most businesses are on a survival strategy, you know, and I think a lot of businesses don’t want to burden themselves with all the legislation or the legislative, you know, policies and rules by the government, so I don’t think I necessarily would transition to a formal business. Yes. Also, I don’t think I’ve been long enough in the business, you know, to transition or to even consider transitioning.”(P8)

The abovementioned alludes to the fact that most businesses are on a survival strategy. This confirms the statement in the problem statement of the study that raised the question, "Is it still a common assumption that business owners have a drive to transition to the formal sector?" This participant confirms that businesses in South Africa follow a survival strategy to exist.

"I don't want to go and borrow money. You can't borrow to buy stock. It's a whole nother scenario. So that's why I've grown gradually, but I think that's the main thing. If I put a million in now, I can tell you I can buy beautiful stock, and I can set up a different workshop scenario. But, more problems."(P10)

"But at the current moment, I have three sons, so expanding is not so much in my mind because there is not enough time to expand on that side."(P7)

"Absolutely. So we. We had the choice to expand, and then we've already also made the choice that you will still stay boutique."(P7)

"I don't want to expand my business. And I foresee that other companies are doing the same. They will stay as small as possible; they will rather industrialise more to stay small but with the outset more than."(P10)

It is clear from the responses that there is a general feeling of staying small but trying to deliver optimal output. This approach is mainly due to the numerous risks involved that come with expansion, especially in a South African context.

4.4.2.8 Characteristics of a Business Owner: Adaptability & Personal Growth

"Electricity was a factor, especially with load-shedding with my machine. If it's working under a lot of heat. So if the power goes off, I need to jump around, get the nuts out of the machine, put water in, cool the copper drum. Otherwise, if it cracks, I need to import the new one, which takes 3 months, and then I will be 3 months out of business. So, I invested in an inverter. I'm running my machine from an inverter. I don't have anything to do with Eskom's electricity for my machine."(P5)

"Yeah. And then you have to see, am I gonna go solar? Am I gonna go generator? Now we brought a specialised pot in from Turkey to do Turkish delight. Suddenly, Eskom hits, we have a generator, but it can't run that pot. So now, for three weeks, you can't run that product. Yeah, now you have to bring

in a gas-powered one. So now you have this mighty white elephant sitting there. And but now, as a formal trader, you write it off, and you just try to get your product as an informal trader I think you're not gonna take that risk in the beginning in any way to bring in that piece of equipment.”(P1)

You have to adapt, but be smart in your approach. When deciding to expand your business, make sure you do proper market research and take factors into account like load-shedding and if your business can accommodate the financial investment.

“You have to adapt on both sides. Your management skills., So you have to be strong on both sides, but you have to understand in your mind these clients work and how that other informal clients work. So that's a skill or management skill that you have to teach yourself how to work with people. You must understand people. If you're not able to understand those two, then you can close doors. Either close one door, the formal environment, or the informal environment.”(P6)

“The knowledge, the skills which my previous expertise in the Defence Force and what I'm doing now is totally two different environments and where did I get it so I had to communicate to have to go to people That's done this before, leather work. So, I taught myself, and I think that the experience that I had, specifically in the management environment, I sorted it out myself.”(P3)

It is important to understand people and try to predict how to satisfy their needs. That is an important part of adaptability and personal growth. Use past experiences and learn from them.

“You have to think what your customer wants, whether I like it or not. Whether I like this or not. It's what the customer wants. And if you clever enough to keep your ear on the ground and find out what people want, you can sell anything, and you can make a profit of everything. And you will be surprised how many professional people like attorneys are now doing these markets because of COVID or other reasons, and they had to jump out and do something and taken out of their comfort zones.”(P10)

“I've never been a boss. ...and all of a sudden, people call me boss, and it's interesting to be able to handle that and to be able to be a boss that strict and lenient at the same time. I don't have any experience in this. ...it's totally out of

my comfort zone. But I think that's ...what's pushing you to your limits. And I absolutely love that.”(P5)

“No, I think there's a big Mindset difference that you get when you start going formal because suddenly, you start thinking about the rate type. You start thinking about more investments, you start thinking about how to get into different markets, whether informal trader you are very set on your almost immediate. Yeah, and you almost have like a bubble that you supply, and you focused on that bubble. But suddenly, when you move to a formal business, and you want to expand, you have to expand your bubble. So then your mindset completely changes in terms of the red tape and the distribution and things like getting stock from bigger, bigger suppliers.”(P10)

You need to learn how to manage yourself when you are a business owner. This is an important factor even when you decide to transition to the formal sector; you need to consider different factors and you can only do this by being able to manage yourself.

4.4.2.9 Characteristics of a Business Owner: Growth Mindset

“Look, the more formal side is that you have to grow into it, and obviously, you grow, and as you grow, you have more red tape that ties to with you. You are registered for VAT. You're registered with SARS. You're registered with the bargaining council. Your employees need to be registered with the UIF Provident Fund. And that is just how you grow. And then, so far, we got all these things in place.”(P4)

“Yeah, look, everything started small. Starts small. So I think it was in my head as an idea, which was the informal part, I suppose. And until I can make it on my own after a year to see whether I can make money and make a living out of it. So I think that is the whole transition in my mind from informal to formal because I've got a background of maybe, say, for university, I understand the way of business I understand it works, so I understand that if I want to work with farmers or mines or construction oaks, I have to have a VAT number because they all want it. And then I looked dignified, or I looked like a proper professional company, although I wasn't.”(P4)

“When it comes to being goal-driven, I think if you have a business, you have to be goal-driven, whether it's a formal business or an informal business. But you

would want to, if you if you want to go formal, you would want to expand your business brand. Or, you know, if you want to develop a franchise, you would want to strive to achieve more and, like, make an active contribution to the to the economy, and I think that's probably why someone would want to to transition from...informal to formal.” (P7)

“Risk-taking absolutely. I think as an informal trader, If you don't have to take a risk, you don't as a formal trader. Even if you don't want to take your risk, sometimes You have to, and sometimes it pays off. Sometimes it doesn't. But yeah, you have to take the risk. Otherwise, you're either not gonna grow, or you're gonna stagnate.”(P1)

“So it's a steep learning curve every day and every week and every month, and it always challenges you and that's what's so nice.”(P2)

“Then, we started as a hobby. Just doing shows, and then we grew and grew, and now we're only doing big shows.”(P1)

“Look, basically, you all start informally, and then from there, you grow into commercialise. You can choose any direction you want to grow into. And from there, you just grow into whenever you grow into.”(P8)

“So, with a small business, there's not the line 'It's not my job.' It's not in a small business. If you think in that way. You'll never grow your business.”(P6)

“We outgrew the informal; we basically outgrew outgrowing the commercial. Now we need to go internationally.”(P5)

“If you have to go informal, you wouldn't have experienced new avenues into the world. Our next aim is now to enter the international market. We've been doing festival marketing throughout South Africa. Our product is in every little town in South Africa... Now we're going to expand to go to the world markets now.”(P8)

Having a growth mindset is an important part of being successful in your business. You need to be involved and know how the different mechanics of your business work. You will either know if you are to stay informal or sometimes you need to make that choice to formalise. In some cases, formalisation has different meanings to different participants. For some growing their business from their house, attending market and

growing into that business being their only source of income they have formalised. For other participants being VAT registered and paying taxes means they are formalised.

4.4.2.10 Characteristics of a Business Owner: Creativity & Innovation

“The thing is, if you are an entrepreneur, it's, there's, always avenues and ideas and different things that come to mind. And it never stops. So I don't think even well obviously with the demand I have to grow. But I think, being an outside-the-box thinker, I would have done it anyway.”(P1)

“And I can talk to them. I can tell them and we can do. As we talk along, I can do like a new design for them. Tell them we can change this to that to whatever, but other staff members are not gonna.”(P9)

“There was a need for this kind of garment, you know, 100% cotton, breathable, 100% South African. And we just went ahead and did it, and it's working.”(P8)

“But you have to know what to do. We, as entrepreneurs, we know each other quite well and you know, we see each other at every market or festival and some of the people have absolutely brilliant ideas and some of them are trying to do something that they think is a good idea.”(P9)

You need to be creative and think out of the box but in the same sense ensuring that the idea you have will generate revenue. There is a difference between an actual good idea and an idea that only you think is a good idea.

4.4.2.11 Characteristics of a Business Owner: Collaboration

“There's a lot of support amongst us, a lot of support.”(P9)

“I'm very open about sharing my knowledge. You know what not to do.”(P3)

“Support. Yes, definitely. On our own, we wouldn't have; you need contacts to grow.”(P1)

“And then your own people. When you go internal, you think about what do I have to do and can I do it alone. Or do I need people? How many people do I need? What skills do I need? Or can I teach them the skills?”(P5)

“I knew nothing of this. And let me tell you it is so interesting, but I knew nothing. So I've got really good people helping me. I sourced them by hand. The people in the factory that's grown from 8 to 30 in four years.”(P9)

“I can employ someone and put them here, but myself and my husband we're the faces. So we're a great team together.”(P9)

“Knowledge, teamwork. You and your partner need to be a team when you enter into the formal market, especially in your business working together, that is the main.”(P9)

In the business arena, networking forms an integral part of the success of any business. Seeking assistance from other business owners plays a great part in building your business and network relations.

4.4.2.12 Characteristics of a Business Owner: Resilience & Perseverance

“Yes, you have to have support. You can't do it on your own. You do have. I'm a very positive person. Nobody gets me down. But there are days that if I don't feel like it today, you get sort of stuck. You don't know what? What you're going to do next. I've got another range that I do, you know. Dig in there, you know, do something else.”(P7)

“Look, life is a challenge. Every day, you face different challenges. I say again, you face different challenges every day. You just have to work around your challenges and make the best of what you can. But don't drop the quality of your product.”(P6)

“I was in between a rock and a hard place because I lost my company, and I sold vehicles, trucks and that, and after that, it didn't work out so well. So, I wanted to do something on my own, and I was looking for an opportunity. But I mean, it was going tough at that time. And this was the opportunity I saw, and I just went for it, and it worked, so that was cool.”(P4)

“I think the first challenge is to overcome all the red tape. And make people believe that don't be afraid of red tape. Take the challenge on currently I've got a number for the product. I'm registered at the Department of Agriculture. If someone says it can't be done. They have the wrong one to take me on. I promise you we'll try to get it done.”(P4)

“I see a lot of new people coming in. Yes, it's stall fees over the weekend. There's a lot of expenses going into that, and it's extremely disappointing for a young without the knowledge that's trying their first to not have sales. And I'll

say to them, you must persist. Six months at least because your face is going to sell your product at the end of the day.”(P6)

“OK. I think one of the biggest things is that you must remember about your history; if you get to a place where you don't have money and you don't have sales and you get complacent and you really are in a hole. Remember that some time ago, you were able to do it and then just go and sit, plan your next move, keep calm and carry on. I think your history and your experience will tell you and drive you through these lots of holes. And I was in a lot of holes. And sometimes, I was so demotivated that I just want to stop everything, and I think the biggest thing was I've got my faith. But the other thing was to remember where you come from and remember that you can do it and you just need to work very, very, very hard. Yeah, belief, belief.”(P3)

It is important to keep a cool head during tough times. Planning forms an important part of any business owner's success. Don't be afraid to start with the process of formalisation; there is a lot of work that goes into it but if your business is right you will overcome those challenges. It is important to keep yourself motivated and surround yourself with a team that can support each other. As one of the participants said: when you are in a difficult situation and you want to give up, sit and think of where you started and how far you have come.

4.4.2.13 Characteristics of a Business Owner: Work Ethic & Accountability

“Nothing in life comes easy. You have to work, yeah, you have to work hard to achieve great things in life.”(P10)

“Some products don't work on some shows, so you will hear on markets and shows that people will say it's a bad show, but it's not always a bad show. It's the point that their product's not right for this show. Your mind needs to be set straight, and it's hard work. You don't get anything for free.”(P10)

“As I say again, it's hard work. As they say, you're a worker, you work 8 hours. You're a manager; you work 12 hours. You're the boss; you work 24 hours.”(P6)

“Well, maybe only that it's really hard work. It's 24/7. You're giving up a lot of comfort and a lot of personal comforts. You know, it's there's no stopping it. You can't pull your doors closed at 17:00 in the afternoon and watch TV. You just go on until the work is done.”(P9)

“Have the right product, and you need to know you must work for everything you want. You can't get, expect sitting and doing nothing and be successful.”(P2)

“Not always money. We started small, and we had a look at photos the other day; like five years ago, on the show, we had four plastic containers with nuts in them. Now, we have a stand with stainless steel bowls. We have a lot few lines of product we have. I think we have a very nice set-up, but it didn't come overnight.”(P5)

“And you need to know who to pull into your circle to help you with these things. And sometimes it takes a long time and sometimes you have to do a lot of these things all by yourself and you just work such long hours. But until you find the right person to help you in this transition, don't do it.”(P5)

“Before I started this business, it always looked so nice, you know, to have your own business, but you don't know all the background things that happen, yeah, that happens behind closed doors. So there's a lot of time that you have to put in. And if you don't put that time in, you won't see the results for it. There's also quite a lot of competition in the jewellery industry. You know, I think, as mentioned previously, in the current economic environment that we're living in, a lot of people are trying to do, or to have sidelines besides having their main full-time jobs, you know, just to generate an extra income, yeah, so. That was quite challenging for me, and obviously, a lot of businesses want to give the best possible product for the lowest possible price. So you you have that also to worry about or to consider. Yeah. So that would be my challenges that I experienced.”(P10)

“...as an informal trader, you're much more relaxed. The fact that I have people that are employed by me it is a bit stressful, and it took a long time for me to start to actually get people to work for me because I was so scared that something might happen and they might lose their jobs.”(P3)

As a business owner, you need to have a strong work ethic. The responses of the participants call up the old saying that nothing comes easy; you need to put in the time

and work very hard to achieve success. You need to take accountability for all aspects of the business and that is a big responsibility on its own.

4.4.2.14 Characteristics of a Business Owner: Autonomy & Flexibility

“It's informal. I want to do it at my own leisure time because I manufacturer as well. I do my designs. I've got a workshop that does all the set work, but I don't want to go into a formal business. And have all this 'schlep' with staff and government.”(P7)

“I knew I needed to make a living and I loved it. I really enjoyed working this way. I don't have a boss. I decide on my own time management. I can go on holiday when I want, and if you really work hard and the profits are good, You can make a lot of money.”(P5)

“I'm flexible. I can do it if I don't. Well, I work from Monday to Friday because I manufacture but if I don't feel like it today and I wanna, we want to go to the Waterfront or Houtbay or wherever we lock up and we go.”(P2)

“Yeah, because my husband he can work anywhere. If we go back now, we can take a break, a week. Spend it somewhere on the road. If I have a shop, you have to rush back there; you don't know what's happening that side. I'm just happy the way I'm doing it now.”(P2)

Being your own boss is very rewarding but with it comes a great responsibility. Because you have flexible time, good time management is essential. This is one of the codes that stood out under this theme: the fact that people prefer to stay informal because they don't have to report to a boss and can manage their own time. Hard work can lead to financial rewards. Whereas in the formal sector, more factors play a role in the flexibility of the business.

4.4.3 Theme 3: Business Management & Administration

Overview

Many, if not most, of the business owners enjoy working for themselves, being able to control their own time and make their own decisions. Some stated, having received financial support in the initial stages of their business endeavours, that they started small and informally, gradually growing their business. They noted the importance of cash flow and creating success through sales. Some prefer to stay informal to avoid the challenges of managing staff and dealing with government regulations. They believe in finding a need in the market and providing a unique product. They emphasised the need for hard work, knowledge and goal-setting in entrepreneurship. They mentioned the importance of word-of-mouth marketing and product knowledge. Transitioning to a formal business requires more capital, compliance with regulations and mindset changes. They believe in transparency, selling quality products and nurturing customer relations. Some mentioned the challenges of expanding and dealing with suppliers. They think that informal businesses have more flexibility and less government oversight. The business owners discussed the challenges and benefits of being an informal trader in South Africa. They mentioned the difficulty of dealing with red tape and the burden of formalising a business. However, they acknowledge that formalising a business is necessary for growth and to access certain benefits like claiming back expenses. They highlight the importance of understanding customer needs and market demand, as well as the need to take risks and invest in the business. Some interviewees also mentioned the limitations they face as informal traders, such as difficulty accessing funds and government assistance. They expressed satisfaction with their current business model but acknowledged the potential benefits of transitioning to a formal business, particularly regarding tax benefits and market expansion. Overall, they emphasised the importance of quality products, good after-sales service and adapting to customer preferences.

Figure 8 below provides a visual representation of the different sub-themes around the main theme “Business Management & Administration”.

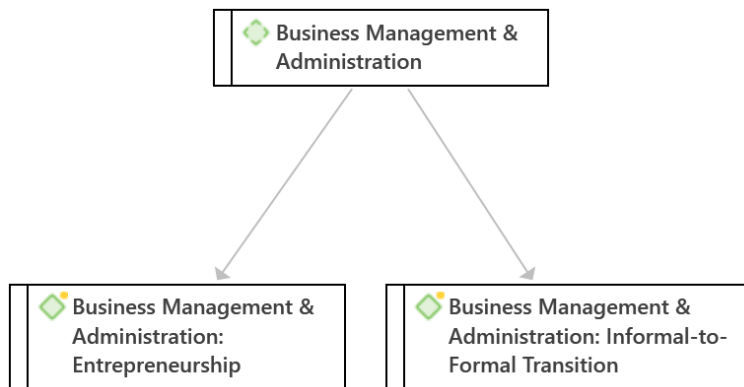


Figure 8: ATLAS.ti Category Code Network: *Business Management & Administration*

4.4.3.1 Business Management & Administration: Entrepreneurship

“But you have to know what to do. We, as entrepreneurs, we know each other quite well and you know, we see each other at every market or festival and some of the people have absolutely brilliant ideas and some of them are trying to do something that they think is a good idea.”(P3)

“I think, to start off, age does play a role in this. And I think that is just my guideline for the entrepreneurs, the youngsters. Start informal, but you can go with your knowledge, but you have to work up to you have to work clever. Your mindset must you must be focused. Yeah, don't waste time.”(P6)

“It was, I mean, Cape Town, So it rains throughout the winter. She didn't want to go out to a store to buy anything. So she tried to make something on the stove. And all the flops went to work. And then people said, why don't you start selling it? She's an entrepreneur through and through, so immediately, she jumped on it and went full out. And to the extent where she saw that this is going to become a new business.”(P1)

You establish relationships at festivals when attending markets. These relationships play a very important role when it comes to environmental conditions and the selling strategy. As an entrepreneur, you will embark on a specific market. Seeking knowledge and skills from more experienced market traders was also a very evident point in the interviews and that one must focus on creating good relationships with other entrepreneurs.

“There was a need for this kind of garment, you know, 100% cotton, breathable, 100% South African. And we just went ahead and did it, and it's working.”(P8)

"I felt that there was a need, and there was another business with the same concept. You know the need goes on, but there's no more garments available, and that's the way it started."(P8)

"So my husband said he would. He realised that I had talent, and he wanted to support me. So he said he will give me the financial support in the beginning to finance my business."(P2)

"And get someone aboard that that's also a little bit in capital strength."(P2)

"Ohh, absolutely if you think of any entrepreneur, they all start with nothing. That's the reason why they're there is because they don't have other way out, and usually, they don't have capital. So the biggest thing is get the chance to do stuff and get some resources from wherever family or friends or where you can get a loan. And just jump into the pool and start swimming. And I think that is the whole transition. From outside the pool. Jump in and start swimming until you get out on the other side and say, listen, I didn't die."(P7)

It is important to look at the market and identify a need. After identifying that need, it is important to get some sort of loan to use as startup capital, even turning to family and friends for any form of assistance.

The thing is, if you are an entrepreneur, it's, there's always avenues and ideas and different things that comes to mind. And it never stops. So I don't think even well obviously with the demand I have to grow. But I think, being an outside-the-box thinker, I would have done it anyway.(P3)

"I knew I needed to make a living and I, and I loved it. I really enjoyed working this way. I don't have a boss. I decide my own time management. I can go on holiday when I want, and if you really work hard and the profits are good, you can make a lot of money."(P7)

"I started with what I had, and I grew from that."(P1)

"Yeah, I must say I did a lot of work, research how to do it, how to do business, and even I spoke to I had to get hold of a bookkeeper. He helped me a lot, and since then, in 2006, when I started, he actually supported me ways and means how to start the informal leather business. So there's a lot of people that I had to approach and obviously research on the websites."(P3)

“It takes time. In the beginning, you don't know anything; you don't know whether this is going to work. So the only way is to walk on water and just go out and go for it and do what you need to do. But I think the main thing is get a quality product, decide which your market are, try to penetrate that market and then you start with the formalisation that will come later.”(P10)

“You must have the owner's signature in the system. That's why you'll find me on shows where I can market it directly to the public.”(P9)

When it comes to the management of their business, most entrepreneurs enjoy working for themselves and managing their time. It is apparent from the responses that you can't embark on a journey alone; you need assistance to manage your weak points, like financial advisors. An important factor of your success is also determined by the quality of products you offer that will determine your market.

“Actually would I think the biggest problem in South Africa right now is that everyone sits around and waits for opportunities from bigger companies, many of them have external investors, which are many of the times from other countries. So when they see they start losing, it's easy for them. They just exit for us as South Africans, we can't just exit; we are here. So, I would definitely get more people involved in the private sector. Go informal. If you see you can grow, go formal. Let's grow the economy ourselves and stop waiting for outside help.”(P6)

“I was just an agent, so he didn't pay me anything; he said there's an opportunity started off, and I mean, I've got nothing to lose. I just went into the first place, and I tried selling it and the 10th guy I sold it to took it, and I made a couple of bucks, and the next day I took it, and I made a couple of bucks, and I saw this opportunity.”(P4)

“I was working for a company that closed down with COVID. And we put up kiosks in Mosselbay, and then they were a stand just similar to ours roasting nuts, and we smelled it. My wife bought some nuts, and we got connected with the owner of the House of Nuts. He's from France. And we started chatting. And so he basically helped us, and I wanted my wife to get out of nursing. working shifts, night shifts and everything, and then we started a small kiosk.”(P5)

“...there was a boutique in town that closed down, and someone approached me and asked me if I don't want to start selling jewellery. I'm always looking for a new challenge. I looked into the jewellery, you know, side, and I tried. To look for suppliers and then yeah. Before I opened my eyes, I started a new business.”(P10)

What stood out from these responses was the fact that, sometimes, when you are forced to change your environment and you are under pressure to start something, you perform at your best. This alludes to the maxim: surviving tends to make people perform at their best. Keeping your eyes and ears open for opportunities and seizing the opportunity when it appears is vital.

“I think everything. I think you need cash flow. I think you need just to know that you can do it, so you need success, and the only thing the only way to create success is by having one or two or three sales and the 4th one and the fifth one and the 6th one and all runs up to Crescendo where you understand OK, this is working and I can go and buy the next stuff to sell.”(P5)

“No, the difference is you have to be on par with your business. You have to put in your time. You have to understand each and every operation of your business. You need to have your customer relations. With the business comes you do your marketing, you do your selling, you do your buying of your resources. You do your manufacturing, so your skills need to be developed in all avenues to have your end product.”(P3)

“To that, yes, yeah. So that was another big thing. When you mentioned media. I mean, we all that when we started, that was about the time when stuff like Facebook Just got big on advertisement, so it was something you had to learn, and it's not the skill that everybody has, and we realised that it keeps you very busy. Yeah, you spend a lot of time on social media trying to get the right post, trying to get clicks. Trying to get views.”(P10)

“Product knowledge is very important. We can't sell if you don't know your product.”(P1)

“It's by word of mouth; that's how you grow your business.”(P10)

“Ohh, I think the biggest part of my marketing is word-of-mouth, so the guys talk, so if they if you do a good job Saturday night over the fire when they braai with

their friends, they're gonna tell them about it and then Monday, I get the call, and that's the biggest way of penetrating markets or a community. So if you've got one guy, he's got a big mouth, he's gonna market you right through all his Friends, yeah.”(P5)

“And yeah, as I said, we never did anything of marketing. Our products just grew of word out of mouth. And everybody just comes back because we know our product. We've got a good after-sales, and for me it's business is not about sales; it's about after-sales. If you don't have after-sales in your business, your business won't grow.”(P3)

An important characteristic of an entrepreneur is that you must be involved in all facets of the business. Really dig deep into the products you sell and have excellent product knowledge. Selling the product, according to some, isn't the most important part; it is the after-sales that form an important part of the success of your business because that leads to word-of-mouth marketing of your products.

4.4.3.2 Business Management & Administration: Informal-to-Formal Transition

“Yeah, for me, informal is more as an entrepreneur to qualify yourself as an entrepreneur and do something. But then you have to do the type of research. What? What's the market in your own environment? Start small. What's a market where people are looking for something?”(P10)

“I think South Africa is a place where there are so many opportunities, and the 1st place is to go and test. It is in the informal market. You're gonna spend so much time and money to get everything formalised before you start the business. I think it's a natural way of starting any business informal. And if it works. Formalise, so that's the answer.”(P3)

“...why I still do markets is to listen to the customers and get the feel of what they want. And what they like or dislike.”(P6)

“Yeah, it's almost impossible to start with a formal business if you haven't had momentum. I think momentum is so important in any business.”(P7)

“Yeah. What's the demand of the people around? And what I realised in my own environment is no one at any festivals - and I'm doing it every month a year, I'm

doing a festival - is doing the hats I'm doing. That's what I'm doing. No one's doing it. And this is my focus point as an entrepreneur and so that's. But that's the informal part, but then it started to become more formal.”(P3)

There are still a lot of opportunities in South Africa and one must identify those opportunities. An important aspect that came from the transition to a formal business is that just because you are formal doesn't mean you cannot attend market festivals anymore. One participant emphasised the fact that they still attend markets because he wants to stay in touch with their target market and identify market needs and new trends.

“It's the basic thing of all the red tape you've got to go through, which I don't want to do. Look, it can work like I said, if I were 10,15 years younger, I would have done that. Open up a little shop. There's nice areas where it can work, but then again, it's going to affect my price. Because I work from home, I manufacture myself. I don't have a staff. I can keep my prices are the lowest in Cape Town, with the best quality. That's what pulls you through. I mean, I'm. My clients must be happy, and my quality reflects on my personal what I put in.”(P3)

Some entrepreneurs decide to stay in the informal sector just because of choice and because of all the red tape you need to go through to formalise. There are also a lot of costs involved when transitioning and you must make sure your business and you are ready for that next step.

“That's again just like the red tape; so many informal traders are not VAT registered. They work mainly on cash, so they do go under the radar a bit with a formal business I mean, there's stuff that you need to claim back, like equipment and stuff it's a big asset it's a big lot of money that you put out. So you would like to claim it back. So you have to think. Start thinking about that very carefully. You start looking at every invoice, where is every invoice make sure it's there as an informal trader you don't look at that so.”(P4)

“I think the South African formal business is quite regulated. I think your informal business is there's a lot of corners you can cut and if you keep it small, you can be profitable without being policed or monitored by the government. So, I think, in a certain sense, It's much easier to do informal business in South Africa.”(P10)

"I think in the past, Umm, transitioning was common, but with the current economic environment, I think most businesses are on a survival strategy, you know, and I think a lot of businesses don't want to burden themselves with all the legislation or the legislative, you know, policies and rules by government, so I don't think I necessarily would transition to a formal business. Yes. Also, I don't think I've been long enough in the business, you know to transition or to even consider transitioning."(P10)

"I think probably you know the tax brackets. Like I said, honestly if I say I haven't really looked into it because I'm not interested in moving from informal to formal, but I think that would probably also play a big role, which would definitely discourage me to go formal and then obviously the legislation compliance and everything happening so slow and time or yeah, time constraints in South Africa so. Yeah, I think that's probably the two main differences for me between the informal and formal businesses."(P2)

"You know, for me, there's actually no major difference because what you do for the informal, you do exactly actually the same for the for the formal business. So it just a formality which products must go where to the informal environment or to the formal environment. So, really, I just think that in the formal environment, there are more documentation and more policies and like the registration, but otherwise, it's just more Formal and aspects that you have to have to follow."(P3)

OK, I think in South Africa, we've got a really big problem with the formalisation of businesses. I think they make it as difficult as they possibly can, but I suppose there's always a way. I think if you can get your marketing right and if you can get your quality of your product right and you can get the right product to the right market. I think that is gonna determine everything. Then you will be prepared to go through all the other stuff that is so tough to formalise it with the government and all the regulations and stuff. I think we all can do it. It's just one hell of a schlep. But I mean, I think if you start making money. That is the answer.(P8)

"Well, my understanding of informal is what I'm doing right now. Being at a market or a festival and selling to the public. The way it moved to formal is the business was registered. I do supply shops, like Big Blue, which is a retailer of mine. And I think that moves it up to formal."(P3)

“That was during the transition and even now still. So informal. I think you operate smaller, so you don't always have that to worry about. So yeah, that's another thing that differs just you, don't you? You are an informal trader. You can keep things small, and it works, but when you go Formal, suddenly your supply is bigger, so you need bigger machinery and stuff like that.”(P1)

“I think, yeah, my personal opinion, I think it would be you; you'll need to be, you know, fully; that would have to be your full-time job if you want to transition. You'll also have to put in a lot of capital or money in order to comply with all the legislative rules that a business or formal business needs to comply with.”(P1)

“No, I think there's a big mindset difference that you get when you start going formal because suddenly, you start thinking about the red type. You start thinking about more investments, you start thinking about how to get into different markets, whether informal trader you are very you're very set on your almost immediate. Yeah, and you almost have like a bubble that you supply, and you focused on that bubble. But suddenly, when you move, to a formal business, and you want to expand, you have to expand your bubble. So then your mindset completely changes in terms of the red tape and the distribution and things like getting stock from bigger, bigger suppliers.”(P10)

“And know your markets know your market, know what you're into, know what the red tape is about.”(P10)

“Management. Yes, it's supply chain Management was a big one for us because suddenly now you don't have your, only your own delivery driver. Now you have to trust the Courier company. Things like that, but luckily, Courier companies and distribution in South Africa have come I think they saw the gap that informal traders also need, so luckily, that has become a very small problem to think about.”

“Yes, input costs were a big thing. Getting the right suppliers because obviously you don't just go in there and you just know the right people.”(P6)

There are different perceptions of what is an informal and what is a formal business to the participants. Some formalise as they grow the business or even personally as they develop their skills and knowledge. There are a lot more factors that play a role in your

business when you formalise; it is much more structured and you start following certain rules and regulations.

“So, for that transition to take place, basically, you need to be transparent. You need to sell quality. You need to keep up your name. You need to know what you do, and if there's a problem, solve it. If a customer isn't happy, make the customer happy. Don't avoid it; it's your business.”(P9)

“So basically, we just started with markets, and then we saw that we started moving into shops, and Then you get to a level where, first of all, your space gets too small, and you have certain needs in terms of Health and Safety. And then the natural transition happens into a factory where you control it.”(P6)

“Yeah, look, everything started small. Starts small. So, I think it was in my head as an idea, which was the informal part, I suppose. And until I can make it on my own after a year to see whether I can make money and make a living out of it. So I think that is the whole transition in my mind from informal to formal because I've got a background of maybe, say, for university, I understand the way of business I understand It works, so I understand that if I want to work with farmers or mines or construction oaks, I have to have a VAT number because they all want it. And then I looked dignified, or I looked like a proper professional company, although I wasn't.”(P4)

“No, no, definitely, it will open up doors if we are VAT registered, especially on big quantities because we're buying nuts one tonne. A tonne of nuts is almost 200,000. They are VAT registered. So, if I am VAT registered, I can claim it back. Yes, especially on the staying over, we booking in staying in guesthouses. So we have expenses on trips away from home. Everything will be benefit. I can benefit out of that.”(P5)

“It's gone from playing to working. And it's, it's something that I've really thought about. Do I want to do that? But in essence, there's no turning back. It's like a train going downward, and you can't stop.”(P5)

There was a lot of focus placed on the fact that being registered for VAT can be very beneficial for your business. As your business grows, not being registered for VAT can hinder your growth. Many businesses require you to have a VAT number, and if you don't have one, they won't do business with you. In some cases, you as a business

owner get to a crossroads where you must decide to formalise or not; in other cases, you are forced by the market to transition.

“The economy being what it is. I think a lot of even informal traders, they sometimes have a very great idea. But they scared to put capital into it. Because with the Economy, You always get that you're gonna lose. Everything and that's when we went over into formal. You always had that, we know, called school money, school fees. So when we had to do something big, you just had to close your eyes, put in the capital and hope it works.”(P3)

“Risk-taking absolutely. I think as an informal trader, If you don't have to take a risk, you don't as a formal trader. Even if you don't want to take your risk, sometimes You have to, and sometimes it pays off. Sometimes it doesn't. But yeah, you have to take the risk. Otherwise, you're either not gonna grow, or you're gonna stagnate.”(P10)

South Africa's economic environment makes it difficult for businesses to transition. People are afraid to take risks because of the volatility of the economic environment. It is, however, clear in responses that you have to take risks at some stage on your journey, be it in the informal or formal sector, otherwise you will struggle to achieve success.

“Look, the more formal side is that you have to grow into it, and obviously, you grow, and as you grow, you have more red tape that ties to with you. You are registered for VAT. You're registered with SARS. You're registered with the bargaining council. Your employees need to be registered with the UIF Provident Fund. And that is just how you grow. And then, so far, we got all these things in place.”(P6)

There are many more regulations as you formalise, but with that comes more opportunities for growth and development. As a formal business, you have the opportunity to upskill people and be involved in community initiatives.

4.5 CLOSING REMARKS

The discussion and data collected in this chapter were gathered from 10 participants who consented to participate in this study. The thematic content analysis identified themes and sub-themes that were interconnected. The three main themes were discussed along with the sub-themes under each main theme.

A remarkable observation when reading through the different quotes that were collected from the transcripts was the fact that, despite all the challenges these market traders faced, they still stayed positive. They enjoy their work and interacting with people. In order to be successful, you need to enjoy what you are doing and the rest comes with hard work and determination.

Considering the themes and sub-themes, quality data was collected that provided answers and recommendations to the main research question of this study. Reflecting on the responses from the participants, it is clear that business owners have different perspectives when it comes to transitioning. For some, it is an automatic process that the market leads you into a process to transition. Others have transitioned to a different state of their business when they are growing and not necessarily formalising.

The next chapter focuses on the conclusion of the study as well as some recommendations and managerial implications.

CHAPTER 5

CONCLUSION, MANAGERIAL IMPLICATIONS, RECOMMENDATIONS AND LIMITATIONS

5.1 CONCLUSION

In conclusion, the experiences and insights shared by South African business owners underscore the dynamic nature of the informal and formal business sectors within the country. The prevailing consensus among these entrepreneurs is the necessity for South Africa to encourage more individuals to enter the informal market and leverage their skills to contribute to the economy. This shift towards informality allows for a degree of autonomy and flexibility that is attractive to many, with an emphasis on the importance of seizing opportunities and taking calculated risks.

However, the transition from an informal business to a formal one is not without its challenges as supported by the findings in this study. Formalisation involves navigating a complex regulatory landscape, dealing with audits and incurring additional costs. Nevertheless, it's widely recognised that formalising a business can lead to a healthier economy, the creation of more jobs, and access to government funds.

The business owners also emphasise the critical role of understanding market dynamics and customer demands, as well as the need to provide quality products and services. Many interviewees shared their journey from informal traders to formal business owners, highlighting the value of goal-driven motivation, market research and maintaining a passion for their work. They acknowledge the learning curve associated with formalisation but believe it's worthwhile for the growth and contribution it offers to the economy.

A significant point of agreement among these entrepreneurs is the importance of marketing, confidence and the role of teamwork and support from others in their journey. They appreciate the flexibility and freedom that come with informal business setups but recognise the benefits of formalising their businesses for long-term success.

Ultimately, the South African business owners we've heard from value self-reliance, the ability to control their own time, and the freedom to make their own decisions. Their success stories reveal the possibilities inherent in the informal market, marked by passion and hard work. Transitioning to formal businesses requires more capital, compliance with regulations, and a shift in mindset, but it opens doors to tax benefits and market expansion.

In summary, these entrepreneurs have demonstrated that while informal businesses offer flexibility and passion-driven work, formalisation can lead to long-term growth and a more substantial contribution to South Africa's economy. The choice between informality and formality depends on individual goals and preferences, and both paths have unique challenges and rewards.

5.2 MANAGERIAL IMPLICATIONS

Transitioning from the informal to the formal sector can be a significant step for a business owner, and it comes with various managerial implications. This shift involves moving from an unregulated, often smaller-scale operation to a more structured, regulated, and documented business environment.

Business owners need to be aware of and adhere to tax laws, labour regulations, environmental standards and other relevant laws. This may require a thorough understanding of local, national and international regulations. It is important to establish good accounting systems and ensure that financial statements are prepared regularly.

It is important to note that, as a business formalises, some of the following important key operations of the business become essential:

- Human Resource Management:

As the business formalises, HR practices become essential. This involves hiring, training and managing employees in accordance with labour laws. It may also involve creating employee handbooks, implementing performance management systems, and offering benefits.

- Legal Protections and Contracts:

In the formal sector, it's important to establish legal protections. Contracts, including agreements with suppliers, customers and employees, should be clear, legally binding and regularly reviewed.

- Quality Control and Standardisation:

Formalisation often requires higher levels of product or service quality and standardisation. Business owners should implement quality control processes to ensure consistency and meet industry standards. Certification or accreditation may be necessary in certain sectors.

- Access to Financing:

Transitioning to the formal sector can improve access to financing options such as bank loans, venture capital or government grants. Business owners should be prepared to navigate the formal application processes and meet the requirements.

- Market Expansion:

With increased formality, businesses may be better positioned to expand into new markets. Managers should consider market research, marketing strategies and distribution channels to capitalise on growth opportunities.

- Risk Management:

Formal sector businesses may face different types of risks, including legal risks and market risks. Managers should implement risk management strategies, including insurance coverage and contingency plans, to mitigate these risks.

- Tax Planning:

Business owners must plan for taxation within the formal sector. This may involve understanding tax deductions, credits and incentives, as well as seeking professional tax advice to optimise tax liabilities.

- Technology and Data Management:

Businesses moving to the formal sector often benefit from modern technologies for data management, inventory control and customer relationship management. Managers should invest in and implement these technologies to streamline operations.

- Customer Relations and Service:

As businesses grow and formalise, maintaining strong customer relationships becomes more critical. Managers should focus on providing excellent customer service, soliciting feedback, and building a loyal customer base.

- Training and Development:

Continuous training and development of employees become essential in the formal sector. Managers should invest in skill development programs to keep the workforce competitive and adaptable.

Transitioning from the informal to the formal sector is a complex process, and managers need to be prepared for the associated challenges and opportunities. Seeking expert advice, consulting with legal and financial professionals, and networking with other business owners who have made a similar transition can be valuable in this process. Additionally, a well-thought-out business plan and ongoing adaptability are crucial for success in the formal sector.

5.3 RECOMMENDATIONS

Transitioning from the informal to the formal sector in the South African context can be a significant step for entrepreneurs and business owners. Some recommendations were concluded from the analysed data collected for both the informal and formal sectors:

- Market Research: Conduct thorough market research to understand the demand, competition and regulatory environment in the formal sector. This knowledge will help you tailor your business to the formal market's needs.
- Networking and Mentorship: It is important to establish good relationships with people. This can be a valuable asset to your knowledge development. It can even lead to attracting potential investors or lenders. Connect with experienced

entrepreneurs, industry associations and business networks. Mentorship and networking can provide valuable guidance and support during your journey in the informal as well as the formal sector.

- **Legal Compliance:** Ensure that your business complies with all relevant regulations and licensing requirements when entering the formal sector. Register your business with the appropriate government authorities and obtain any necessary permits.
- **Financial Management:** Implement sound financial management practices, including accounting, budgeting and financial reporting.
- **Skills Development:** Invest in training and development to enhance your skills and those of your employees.
- **Customer Relations:** Maintain and build strong customer relationships. Your customer service is key to your success especially when it comes to after service.
- **Marketing and Branding:** Invest in marketing and branding efforts to raise awareness of your business. This can help you compete effectively with established players.
- **Diversification:** Consider diversifying your product or service offerings to cater to a broader customer base. This can reduce risks associated with a narrow focus.
- **Continuous Learning:** Stay informed about industry trends, market shifts, and evolving regulations. Continuous learning is crucial for maintaining your competitiveness.

Remember that transitioning from the informal to the formal sector is a significant undertaking that requires careful planning and perseverance. You as a business owner determine your own success and if you will embark on the transition journey. The most important part of it all is to enjoy your work no matter if it's in the informal or the formal sectors.

5.4 LIMITATIONS

While this study made significant contributions, it's essential to note its limitations, which pave the way for future research. Firstly, its constraints were evident in the

research design and methodology, solely adopting a qualitative approach for data collection. Additionally, the study was confined to a small cohort of 10 participants. An expected constraint was the possibility of participants being hesitant to disclose business-related information. Consequently, the study's outcomes may not represent South Africa as a whole but rather a specific group within a particular region.

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ANNEXURE A: INFORMED CONSENT

SEMI-STRUCTURED INTERVIEW PARTICIPANT INFORMED CONSENT

DATE: _____

Please read, and if you consent, then place a tick (✓) in the box next to the statements below:

- I agree to participate in this study voluntarily.
- I understand that I am participating voluntarily, without being forced.
- I understand that I am free to withdraw participation in this study should I wish not to continue.
- I also confirm that the purpose of the study has been explained to me.
- I give my consent to be recorded.
- I also understand that any information obtained will be anonymised.

Participant number

Signature

Wessel Potgieter (28663888)
Student at NWU Business School

ANNEXURE B: INTERVIEW GUIDE

INTERVIEW GUIDE

Exploring business owners' perspectives of transition from the informal to the formal sector in a selected group, South Africa

Participant number.....

1. Welcome and introduce yourself and the study.
2. Express the purpose of the study and mention the interview process and ethical conduct rules.
3. Obtain consent to the interview process and voluntary participation, as well as POPIA.
4. Questions: Recording consent.

A) Demographics: Needed for Sample description and not to discriminate

- Age:
- Gender:
- Description of Informal business:
- Years in business:

B) QUESTIONS

1. When did you start your informal business? Why did you start it? (Provide reasons)
2. What are your perspectives of the transition from the informal to the formal business in South Africa? (Probe...What, Why, How ?)
<ol style="list-style-type: none"> a. Would you transition from informal to formal business? Why? b. What would a transition from informal to formal mean for your business?
3. What are the challenges you have experienced in becoming an informal business owner in South Africa?
4. What do you think are the main differences between an informal and a formal business?
5. How do the characteristics of the owner differ (if any) between informal and formal business in South Africa?
6. Would you encourage other people to enter the informal market? Why or why not?

7. What (internal and external) factors do you perceive as important to the prospective business owner when deciding to transition from an informal to a formal business owner in South Africa?

5. Closure: Mention follow-up if uncertainty (Member checking).
(Email address:.....)

THANK YOU FOR PARTICIPATING

ANNEXURE C: AARDKLOP CONSENT LETTER



E-mail: navrae@aardklop.co.za
E-pos: navrae@aardklop.co.za
Web: www.aardklop.co.za
Tel: 087 527 0023

CONSENT TO APPROACH PARTICIPANTS OF THE AARDKLOP FESTIVAL

20 May 2023

Dear Mr Wessel Potgieter

I hereby approve your request to approach stall owners who are exhibitors at the Momentum Beleggings Aardklop festival for your MBA studies at the North-West University Business School. The title of the study is: *"Exploring business owners' perspectives of transition from informal to formal sector in a selected group, South Africa"*.

This approval is granted to select possible volunteers as a sample group for your studies and that information gathered are for reseach purposes only.

Kind regards

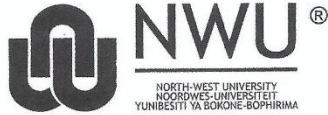
A handwritten signature in black ink, appearing to be 'A. Balia', written over a light blue horizontal line.

Aardklop nasionale kunstefees
Hoof uitvoerende beampte

DIREKTEURE · DIRECTORS

Prof. D. Balia (Voorsitter), Dr. I. Mahomed, Mnr. F. Strydom, Me. H. Hodgson,
Prof. D. Balia (Chairman), Dr. I. Mahomed Mr. F. Strydom, Ms. H. Hodgson,
Reg.nr. 2016/217055/08

ANNEXURE D: ETHICAL APPROVAL



Private Bag X1290, Potchefstroom
South Africa 2520

Tel: 018 299-1111/2222
Fax: 018 299-4910
Web: <http://www.nwu.ac.za>

Senate Committee for Research Ethics
Tel: 018 299-484
Feziwe.Mseleni@nwu.ac.za

31 May 2023

ETHICS APPROVAL LETTER OF STUDY

Based on approval by the **Economic and Management Sciences Research Ethics Committee (EMS-REC)** on, 23/05/2023 the Economic and Management Sciences Research Ethics Committee hereby **approves** your study as indicated below. This implies that the North-West University Senate Committee for Research Ethics (NWU-REC) grants its permission that, provided the special conditions specified below are met and pending any other authorisation that may be necessary, the study may be initiated, using the ethics number below.

Study title: Exploring business owners' perspectives of transition from informal to formal sector in a selected group, South Africa																															
Study Leader/Supervisor (Principal Investigator)/Researcher: Prof Y Du Plessis																															
Student: W Potgieter (28663888)																															
<table border="1" style="margin: auto;"> <tr> <td>N</td><td>W</td><td>U</td><td>-</td><td>0</td><td>0</td><td>6</td><td>2</td><td>0</td><td>-</td><td>2</td><td>3</td><td>-</td><td>A</td><td>4</td> </tr> <tr> <td colspan="3">Institution</td> <td colspan="5">Study Number</td> <td colspan="2">Year</td> <td colspan="5">Status</td> </tr> </table> <p>Status: S = Submission; R = Re-Submission; P = Provisional Authorisation; A = Authorisation</p>		N	W	U	-	0	0	6	2	0	-	2	3	-	A	4	Institution			Study Number					Year		Status				
N	W	U	-	0	0	6	2	0	-	2	3	-	A	4																	
Institution			Study Number					Year		Status																					
Application Type:	Risk: Minimal																														
Commencement date: 31/05/2023																															
Expiry date: 31/05/2024																															
Approval of the study is initially provided for a year, after which continuation of the study is dependent on receipt and review of the annual (or as otherwise stipulated) monitoring report and the concomitant issuing of a letter of continuation.																															

Special in process conditions of the research for approval (if applicable):

•

<p>General conditions:</p> <p><i>While this ethics approval is subject to all declarations, undertakings and agreements incorporated and signed in the application form, the following general terms and conditions will apply:</i></p> <ul style="list-style-type: none"> • <i>The study leader/supervisor (principle investigator)/researcher must report in the prescribed format to the EMS-REC:</i> <ul style="list-style-type: none"> - <i>annually (or as otherwise requested) on the monitoring of the study, whereby a letter of continuation will be provided, and upon completion of the study; and</i> - <i>without any delay in case of any adverse event or incident (or any matter that interrupts sound ethical principles) during the course of the study.</i> • <i>The approval applies strictly to the proposal as stipulated in the application form. Should any amendments to the proposal be deemed necessary during the course of the study, the study leader/researcher must apply for approval of these amendments at the EMS-REC, prior to implementation. Should there be any deviations from the study proposal without the necessary approval of such amendments, the ethics approval is immediately and automatically forfeited.</i>
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1

- *Annually a number of studies may be randomly selected for an external audit.*
- *The date of approval indicates the first date that the study may be started.*
 - n the interest of ethical responsibility, the NWU-SCRE and EMS-REC reserves the right to:*
 - *request access to any information or data at any time during the course or after completion of the study;*
 - *to ask further questions, seek additional information, require further modification or monitor the conduct of your research or the informed consent process;*
 - *withdraw or postpone approval if:*
 - *any unethical principles or practices of the study are revealed or suspected;*
 - *it becomes apparent that any relevant information was withheld from the EMS-REC or that information has been false or misrepresented;*
 - *submission of the annual (or otherwise stipulated) monitoring report, the required amendments, or reporting of adverse events or incidents was not done in a timely manner and accurately; and / or*
 - *new institutional rules, national legislation or international conventions deem it necessary.*

The EMS-REC would like to remain at your service as scientist and researcher, and wishes you well with your study. Please do not hesitate to contact the EMS-REC or the NWU-SCRE for any further enquiries or requests for assistance.

Yours sincerely,

**Mark
Rathbone**

Digitally signed by Mark Rathbone
DN: cn=Mark Rathbone, o=North-
West University, ou=Business
management,
email=mark.rathbone@nwu.ac.za,
c=ZA
Date: 2023.06.01 06:37:18 +02'00'

Prof Mark Rathbone
Chairperson: NWU Economic and Management Sciences Research Ethics Committee

ANNEXURE E: TURNIT IN REPORT

28663888:W_Potgieter-28663888-Turnitin.docx

ORIGINALITY REPORT

11 %

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INTERNET SOURCES

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2	H Maduku, M.F Zerihun. "Qualitative analysis of transiting from informal to formal sector: The case of manufacturing and service businesses in Gauteng province of South Africa", Cogent Economics & Finance, 2022 Publication	1 %
3	www.finmark.org.za Internet Source	1 %
4	uir.unisa.ac.za Internet Source	<1 %
5	Submitted to North West University Student Paper	<1 %
6	Christopher Sutter, Justin Webb, Geoff Kistruck, David J. Ketchen, R. Duane Ireland. "Transitioning entrepreneurs from informal to formal markets", Journal of Business Venturing, 2017 Publication	<1 %

ANNEXURE F: PROFESSIONAL EDITOR CERTIFICATE

RUAN FOURIE

CERTIFICATE OF EDITING

**Exploring business owners'
perspectives of transition from
the informal to the formal sector
in a selected group, South Africa**

by Wessel Potgieter

This document certifies that
the above-mentioned mini-
dissertation has been edited for
proper English language usage.



ruanfourie23@gmail.com

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