

Financial management challenges facing South African small business and informal retailer's in the township retailing environment

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Keywords

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Abstract

South African townships have a vibrant small business retailing sector which at some point was dominated by South African local traders. However, in recent times, the country has attracted foreign nationals who now trade in the South African townships. Some foreign nationals have done well in the small business retailing market to the detriment of the South African local small business retail entrepreneurs. The focus of this paper will be to identify what is causing foreign traders to outperform local traders.

The aim of this study is to understand the critical challenges (financial management & control factors) facing local traders in the township retailing environments. Primary research was conducted in two of Cape Town's townships, Delft and Eindhoven. A sample size of 75 local trader participants was selected and 55 participants responded in this study. The methodology used on this study is a quantitative research methodology, using a structured questionnaire as a research instrument and statistical analysis to analyse data.

The study found that most South African small business traders lack financial acumen to manage small business retail stores. Furthermore, the study revealed that most of local small business retailers have never had a business finance mentor in their entire trading life. The problem facing local traders is their retail financial illiteracy which manifests itself in their lack of understanding on the impact of financial decisions in their businesses.

It is recommended that the South African government, through its wholesale and retail training sector agency establish a targeted retail finance training and development programme to train local retailers on various aspects of small business retailing. There is also a need for a targeted funding model for potential and current local small business retailers which must be developed by the small business finance agencies in South Africa.

1. Introduction

The informal sector entrepreneurs in South Africa have limited ability to generate income due to their low business skills and low capitalisation of start-up and this reduces small business entrepreneurs to permanent survivalist business owners (Rolfe, Woodward, Ligthelm & Guimarães, 2010). Start-up capital is very fundamental in the development of the micro-enterprise sector in South Africa and in the other economies of the world. Without start-up capital small business enterprise new entrants are impeded to pursue businesses to their full potential (Rolfe et al., 2010). Rolfe et al. (2010:8) further noted that "While many of these businesses remain small, with only a few employees, they nevertheless provide a standard of living above the subsistence level".

According to Fotoki (2014: 923) "In countries ranking high in the Global Entrepreneurship Monitor (GEM) analysis, entrepreneurship and new SME creation is an integral and accepted feature of economic and personal life". Entrepreneurs in developed countries are motivated by opportunities while entrepreneurs in developing countries are motivated by necessity (Ligthelm, 2004). Preisendörfer, Bitz and Bezuidenhout (2012) also argues that the vast majority of informal entrepreneurs in South Africa are necessity driven with limited financial resources. South Africa's financial systems also do not appear to be adequate to support local entrepreneurs. However, internationally entrepreneurs have financial support, and they also have ability to use their own savings something that is lacking with South African entrepreneurs (Ligthelm, 2004).

The aim of this paper is to understand the challenges (financial management factors) facing South African small business retailers in township retailing environments. To explore this, we examine financial management & control factors of South African small business retailers in two specific townships in Cape Town; Delft and Eindhoven.

2. Literature Review

2.1 Entrepreneurship and Entrepreneurial Culture in South Africa

According to Ligthelm (2010: 150) "entrepreneurship in its strongest and purest form is at the level of small and medium-sized enterprises, where individualism, self-reliance and risk-taking are particularly prominent". Entrepreneurs with specific industry experience and those post matric education have likelihood of success compared to those who lack industry specific experience or post matric education (Preisendörfer and Bitz, 2012). The survival prospects of formal and informal of start-up entrepreneurs do not differ significantly in South Africa and when it comes to job creation formal start-ups are the ones that are likely to create more jobs (Preisendörfer, Bitz and Bezuidenhout, 2012). Choto, Tengeh & Iwu (2014: 99) observed that "contrary to the popular view that survivalist entrepreneurs venture into businesses primarily to obtain self-employment and sustain family needs". Even though South Africa grapples with the issue of unemployment (which affect mainly the youth) there is a need for the country to invest in entrepreneurial youth development programme (Gwija, Eresia-Eke, Iwu, 2014). The businesses that these entrepreneurs run in the townships have a role to play in the economy of South Africa even though they are small they create jobs in the long run (Preisendörfer, Bitz and Bezuidenhout, 2012).

The South African government has major role to play in creating entrepreneurial culture in the country (Gwija *et al.*, 2014). The government can do that by easing the financial implications of registering small business or star-ups as this could encourage more people such as South African youth to execute their entrepreneurial aspirations and contribute meaningfully in the economy of this country (Gwija *et al.*, 2014). Young entrepreneurs in South Africa should be exposed to seasoned entrepreneurs through learnership opportunities, in-service training and even voluntarily service opportunities (Gwija *et al.*, 2014).

Urban (2008: 175) suggests that "the effect of cultural values can also be seen in a broader sense; if a society does not provide sufficient jobs for certain ethnic groups, for example immigrants, those ethnic groups that are higher in individualistic values will be more prone to find their venture". In South Africa the typical South African entrepreneur is male, 25 - 44 years of age, lives in an urban area, is involved in the retail and wholesale sector and has a secondary or tertiary level of education (GEM).

2.2 Entrepreneurial Challenges in Informal Business Environments

Even though entrepreneurs struggle with external factors in their entrepreneurial endeavours, such as competition and rising costs of doing business in the small business micro-enterprise sector, they need to take ownership of their own development (Fatoki, 2014). Entrepreneurs need to be clear on training needs and developments needs and state clearly the pedagogy they wish training providers should use as a tool for learning (Fatoki, 2014). Small business enterprise entrepreneurs also need to have a positive mind set toward training and development (Fatoki, 2014). Economic challenges for small business entrepreneurs in the informal sector in South Africa affect both local African small business retailers and migrant retailers (Crush, Skinner and Chikanda, 2015). These retailers both lack access to debt finance but for different reasons (Crush *et al.*, 2015). For the migrant retailers, the reasons relate to being labelled a foreigner (at times an asylum seeker) and for the South African retailer the reasons relate to lack of audited financial and banking records for the small business (Crush *et al.*, 2015). However, even though these retailers both face economic challenges, the migrant retailers seem to thrive compared to their South African counterparts (Crush *et al.*, 2015).

South African small business retailers need to understand that businesses are built around relationships, something which migrant retailers have mastered (Xesha, Iwu and Slabbert, 2014). When you manage a small business as an entrepreneur you require interpersonal skills which means an ability to understand other business owners and being able to communicate with your customers (Xesha *et al.*, 2014). Furthermore, Döckel and Ligthelm (2005: 61) noted that "successful businesses show a positive correlation between business management skills and entrepreneurial conduct". Small business retailers in

township environments require market orientation towards their customers and competitors (Affendy et al., 2015). Affendy et al. (2015: 8) observed that “it is important for small business owners to serve customers where they have competitive advantage and also attend regularly to customer complaints”. Olawale and Garwe (2010:736) further noted that “Good customer care and efficient service are the hallmark of customer retention. Pricing decisions have to be considered carefully in order to beat competition as well as achieve lucrative profit margins”.

Informal retailing businesses in township environments create foundation for growth into small and medium size businesses in the formal retailing sector (Ligthelm, 2004). The entrepreneurial drive of informal business owners allows them to gradually transform their informal business into more formal business structures (Ligthelm, 2004). However, growth of the small business in township retailing environments is intertwined to the size of the market for the sector. Access to a larger market has a likelihood of positively impacting the growth of small businesses (McGaffin, Napier and Karuri-Sebina, 2015). McGaffin et al. (2015: 40) further noted that “Improving the operations and environments of township enterprises must be based on a systemic understanding of how and where these enterprises operate that considers: the quality of life, social capital, knowledge inputs, financing, suppliers, markets, infrastructure, business management skills, availability of specialised services, industry support and government policies”.

Ligthelm (2004: 50) observed that “In operating their businesses, informal retailers encounter serious problems that impact negatively on their profitability. These problems range from market realities, such as severe competition among informal retailers to a hostile external environment”. These informal retailers require training that is aimed at their needs not generic training that is meant for corporate employees (Olawale and Garwe, 2010). Entrepreneurial trainers and coaches must also be well-trained and be experienced in entrepreneurial thought and development and must make use of technology to advance the entrepreneurial thinking of small business retailers (Olawale and Garwe, 2010:736). Entrepreneurs require training in various aspects of running a business however “financial literacy” is one most critical aspect that entrepreneurs need to have full understanding (Eresia-Eke, 2013). It is through financial literacy that businesses are able to have management and financial accounts statements just so that one can be able to measure the accurate growth of the business. According to Ishiguro (2015: 56) “effective entrepreneurship education programs should encourage students to explore creative opportunities, to make the idea become a reality, and to receive practical training on the created idea”.

Entrepreneurs, even though they need training, but they must also be prepared to invest their own financial and human resources in the business they intend to start (Frid, Wyman and Gartner, 2015). Frid, Wyman and Gartner (2015: 11) observed that “if an entrepreneur is not willing to invest in their own new venture, then external investors are less likely to put their hard cash earned into it”. Also, according to Frid, Wyman and Gartner (2015: 11) “successful nascent entrepreneurs invest double the amount of personal funds into their efforts compared to nascent entrepreneurs who quit, and the proportion of household income they invest is four times greater”. There is undoubtedly a direct positive correlation between investing personal funds in the start-up of a small business and the success of that business as those entrepreneurs who invest personal funds have a higher chance of success compared to those who quit the entrepreneurial process (Frid, Wyman and Gartner, 2015). Financing your own small business venture is a difficult process especially for the poor or those classified as previously disadvantaged in South Africa because these groups of people are financially constrained (Frid, Wyman and Gartner, 2015). However, research has shown that the amount of funds you invest in your own venture tend to lead to success and also attract external investors and partners (Frid *et al.*, 2015). Entrepreneurs are not a homogeneous group they are diverse in their skills and purpose however they all recognise opportunities and are willing to take risks exploiting those opportunities (Osiri, and McCarty, Davis and Osiri, 2015). Osiri et al. (2015: 10) further noted that “entrepreneurship can occur in a variety of methods, such as launching new ventures, developing new products and/or services, or expanding existing operations”.

2.3 Access to Credit as a Challenge for Entrepreneurs

Investing in youth entrepreneurship in South Africa requires a parallel process of developing a micro-finance sector targeted at small business development and start-ups (Muris and Chikweche, 2013). It is when a country has a vibrant developmental microfinance sector that it can boost its entrepreneurial

culture and possibly make a contribution towards reducing poverty through entrepreneurial endeavours (Murisa and Chikweche, 2013). Murisa and Chikweche (2013: 23) further noted that “a thriving micro-finance sector, governments have proved to be a substantial source of funding, possibly at levels equal to or, in some cases, much higher than funding from investors and philanthropists from developed countries”. Venture Capital firms require preparedness from entrepreneurs who require funding as that preparedness separates those entrepreneurs with good business plans that are fundable from those that are not. That preparedness includes passion for the business that the entrepreneur is raising funds for and understanding of the market the entrepreneur wishes to enter (Chen, Yao and Kotha, 2009). However, entrepreneurs are also judged on business experience, motives and character when Venture Capital firms are looking at funding the entrepreneur’s business (Hmieleski and Baron, 2009: 485). This also means that even if the South African government is looking at implementing developmental funding programmes for entrepreneurs in the retail sector there has to be a criterion developed and used to assess entrepreneurs.

According to Ayandibu and Houghton (2017), starting a small business in a city requires a large sum of money which more often than not the entrepreneurs who are starting the business do not have to enable a start-up. Furthermore, the authors noted that entrepreneurs are therefore forced to look for markets outside the city where barriers to entry are low, however, operating outside the city comes with huge cost implications in the form of transportation of goods. The authors further noted that most potential entrepreneurs are people who struggle to make a living and see entrepreneurship as a gateway from poverty to a better life. However, due to financial constraints these potential entrepreneurs have no chances of accessing credit from the big banks as they do not have any forms of collateral required by the banks or other formal lenders (Ayandibu and Houghton, 2017).

Entrepreneurs who are already in business struggle with financial resources that will allow them to expand their existing businesses (Ayandibu and Houghton, 2017), furthermore, the authors noted that while the South African government (through department of Trade and Industry) has small business financial agencies such as Small Enterprise Development Agency (SEDA), National Empowerment Fund (NEF) and Small Enterprise Finance Agency (SEFA). These agencies also have requirements which entrepreneurs cannot fulfil and in the case of potential entrepreneurs they are even unable to access the information about these agencies and when they do, the information is too complex for their understanding given their low education standards.

The South African Small business market is much diversified as it operates in different industries including the small business retailing sector which is the focus of this paper. However, the small enterprise finance agencies offer credit as if they are dealing with a homogeneous group of entrepreneurs and industries. The credit terms offered to small business retailers cannot be the same as the terms given to small scale farmer. Ayandibu and Houghton, (2017) noted that South African small business owners also face challenges that affect their growth and survival just like their counterparts in other African developing countries. The South African market also face a unique challenge in that it has a large number of populations living in the rural areas where access to technology is a challenge. That means that a potential entrepreneur in the village is even more disadvantaged than the one in the city and this is where government support is required in creating ease of access to technology and electricity.

3. Research Methods and Analysis

This study identified a gap in the literature and evaluated the South African local small business retailers understanding of financial management control factors in the small business informal retailing sector. As a result, two research questions were developed:

What is the South African small business retailers understanding of financial management factors in small business retailing?

How can the South African small business retailers improve their understanding of financial management and control factors to succeed in small business retailing?

Location of the study: The two specific townships in Cape Town, Delft and Eindhoven were selected as the setting for this study.

The population of this study: The population of this study comprised of all the South African small business retailers trading in Delft and Eindhoven.

The sample of the study: The sample of the study comprised of 55 South African small business retailers and 75 foreign small business traders, obtained using simple random sampling technique. This sample size was targeted based on suggestions Sekeran and Bougi (2003).

Research Instrument: The research instrument used to collect the quantitative data was a closed-end questionnaire.

3.1. Data Analysis

In this study, quantitative data was collected and analysed using SPSS. Descriptive statistical analysis was used to present the results of the study and descriptive statistics assist in the summary and interpretation of data to reach the findings (de Vos et al., 2015:251). The findings are of value to researchers only if the information can be interpreted and used effectively (Wenger, 2007).

3.3 Validity and Reliability

Validity and reliability strategies used for this study included an applied sampling processes, reports on the number of respondents and non-respondents, descriptive analysis of all data, and reports on statistical significance testing (Creswell, 2015). For this study a sampling frame has been carefully chosen and representative sample selected to make sure that the study is valid, reliable and generalisable.

3.4 Ethical Considerations

In this study, the researcher applied for and was granted ethical clearance from the UKZN research office. The researcher issued consent forms to each and every respondent. The university code of ethics covers matters relating to confidentiality, anonymity, and the ability of the respondents to withdraw at any time during the study without any negative implications. These were strictly adhered to within this study.

4. Findings & Results

The township environments represent the informal economy of South Africa and when the foreign nationals began to trade in the township environments, they eroded the market that was previously exclusive to South Africans. The study focused on the financial management & control challenges affecting South African local small business retail entrepreneurs as this is area is very important in the success of any business. Among these factors were funding models of new stores (new entrants), banking, monthly turnovers and budget systems, financial advisory and financial literacy.

Table 4.1 Depicting How Local Trader Funded Their Start-up Business.

	Frequency	Percent	Valid Percent	Cumulative Percent
Bank Loan	4	7.3	7.3	7.3
Other - Family & Rentals	6	10.9	10.9	18.2
Own Funds	45	81.8	81.8	100.0
Total	55	100.0	100.0	

Table 4.1 above indicates that 81.8% of South African small business retailers mostly use their own funds to start a small retail business while very few (7.3%) use bank loans to start a business. Funding is viewed as a stumbling block for start-ups in small businesses. Potential new entrants might be discouraged to start a small business retail due to lack of funding options. In South Africa, banks usually ask for collateral and a business plan with financial projections for any business loans and locals South African small business retailers have lower level education and therefore unable to produce any business plans let alone produce collateral.

Table 4.2 Depicting Whether Traders Rent or Own Their Business Premises.

	Frequency	Percent	Valid Percent	Cumulative Percent
Neither	2	3.6	3.6	3.6
Own	34	61.8	61.8	65.5
Rent	19	34.5	34.5	100.0
Total	55	100.0	100.0	

Table 4.2 above, indicates that the majority, 61.8%, of local South African small business retailers own their stores. This means that they do not pay rental which is usually paid by those store owners who

rent their business premises. So, the local traders have some form of advantage when it comes to rental as the majority own their stores.

Table 4.3 Depicting the Bank used by the Local Trader.

		Frequency	Percent	Valid Percent	Cumulative Percent
	ABSA	5	9.1	9.1	9.1
	CAPITEC	15	27.3	27.3	36.4
	FNB	3	5.5	5.5	41.9
	NEDBANK	7	12.7	12.7	54.6
	NOT BANK	20	36.3	36.3	90.9
	POST OFFICE	1	1.8	1.8	92.7
	STD BANK	4	7.3	7.3	100.0
	Total	55	100.0	100.0	

Table 4.3 indicates that the majority, 36.3%, of local South African small business retailers do use any form of banking for their businesses. This is a lost revenue for South African economy as banking requires formalisation of the ownership of the small businesses. The table also shows that among those small business retailers who use a bank, the majority at 27.3%, prefer to use Capitec bank. In South Africa Capitec is a bank that has the lower income earners as its target market with very low banking fees.

Table 4.4 Depicting the Local Trader's Business Monthly Turnover.

		Frequency	Percent	Valid Percent	Cumulative Percent
	Less than R20 000	53	96.4	96.4	96.4
	R20 000 - R30 000	1	1.8	1.8	98.2
	R40 000 - R60 000	1	1.8	1.8	100.0
	Total	55	100.0	100.0	

Table 4.4 above, indicates that the majority, 96.4%, of local South African small business retailers have a monthly turnover of less than R20 000. This means that even if these small businesses were to be formalised, they will be exempted from paying any taxes as they are below the South African tax threshold for small businesses. Monthly turnovers are used in South Africa to classify businesses and this study reveals that township traders fall under the small business category.

Table 4.5 Depicting the Number of Times the Local Trader does Budgets for their Business.

		Frequency	Percent	Valid Percent	Cumulative Percent
	Daily	4	7.3	7.3	7.3
	Weekly	1	1.8	1.8	9.1
	Monthly	38	69.1	69.1	78.2
	Quarterly	3	5.5	5.5	83.7
	Annually	6	10.9	10.9	94.6
	Don't Budget	3	5.4	5.4	100.0
	Total	55	100.0	100.0	

Table 4.5 above indicates that the majority, 69.1%, of South African small business retailers do budgets on a monthly basis. There are very few, 5.4%, small business retailers who do not do budgeting at all for their small businesses. Budgeting should be the primary focus of managing the finances of the business in order to also project growth target. Small businesses in retailing requires a daily assessment of budget since they are likely to be doing daily and weekly orders.

Table 4.6 Depicting if the Local Trader has a Financial Advisor in their Business.

		Frequency	Percent	Valid Percent	Cumulative Percent
	No	49	89.1	89.1	89.1
	Yes	6	10.9	10.9	100.0
	Total	55	100.0	100.0	

Table 4.6 indicates that the majority, 89.1%, of small business retailers do not have a financial mentor or advisor to advise them on their business and finances. Business financing requires special skill

and formal business have highly qualified accountants to help manage the finances of the business. However small business cannot afford to pay for outsourced financial management.

Table 4.7 Depicting if the Local Trader has ever Received Business or Retail Finance Training.

		Frequency	Percent	Valid Percent	Cumulative Percent
	No	51	92.7	92.7	92.7
	Yes	4	7.3	7.3	100.0
	Total	55	100.0	100.0	

Table 4.7 indicates that the majority, 92.7%, of local South African small business retailers have never been trained on financial management for business. This is an area that would require urgent attention for traders because when business owners have not been trained on financial management then they make use of an external financial management consultant, which small business retailers cannot afford. Financial management and control are key aspect of managing any business, however, big businesses have the benefit of hiring the financial skill through the use of audit and finance advisory firms while small business owners need to acquire the skills for themselves. Charman, Petersen and Piper (2012: 50) further observed that, "the informal economy in developing countries such as South Africa provides an entry point for persons otherwise excluded from the formal labour market due to a lack of education and skills to pursue business opportunities or gain employment".

Table 4.8 Depicting Is Local Trader Offers Credit Sales to Their Customers.

		Frequency	Percent	Valid Percent	Cumulative Percent
	No	38	69.1	69.1	69.1
	Yes	17	30.9	30.9	100.0
	Total	55	100.0	100.0	

Table 4.8 indicates that the majority, 69.1%, of local South African small business retailers do not offer any form of credit to their consumers. Credit can either help the traders to sell more to their consumers, but it can also destroy the business when the credit is not paid by the consumer. Therefore, if credit is provided by small businesses it needs to be managed very carefully.

5. Discussion and Conclusion

This study focused on the financial management and control measures employed by the local South African small business retailers in their township retailing businesses. Although the results cannot be generalised for all South African townships, the data in the two townships provides an insight into the retail financial management understanding by local South African small business retailers.

The study has found these small business retailers are lacking in their understating of financial management control measures used by small businesses. The major problem facing local traders is their retail financial illiteracy which manifests itself in their lack of understanding on the impact of financial decisions in their businesses. It is recommended that the South African government, through its ministry of Small Business Development, assist with developing a strong business forum for South African small business retailers. The forum should assist in building strong business networks amongst local small business retailers. The forum should among other things develop a fund targeted specifically to assisting local traders with their funding and financial training needs. The researcher is aware that their small business funding agencies such as Small Enterprise Finance Agency (SEFA) but these are not specifically earmarked for small business retailers in township environments.

The study can conclude that even though the South African small business retailers lack understanding of financial management factors but they do have some low level of understating which has been gained through experience. This understanding can be improved through a targeted retail financial training and support of these traders. In most developed economies there is a clear support for small business development unlike the developing economies where policies regulating small business development are not well-developed (Webb, Ireland, and Ketchen, Jr, 2014). However, informal sectors differ across developing and developed economies.

The study recommends a targeted funding model for potential and current local small business retailers which must be developed by the small business finance and development agencies in South

Africa as these retailers face unique challenges. The current funding models are too generic and do not have and do not take into cognisance the unique challenges facing small business retail sector such as facing stiff competition from migrant small business retailers and retail sector specific barriers to entry.

It is also recommended that the South African government, through its wholesale and retail training sector agency (W&R Seta) establish a targeted retail finance training and development programme to train local retailers on among other things budgeting skills, cash flow management, stock management and rotation. Retail financial literacy is the biggest part of running a small business in the retailing sector and local traders need a thorough training on it.

6. Limitations and Direction for Future Research

The study was conducted in only two township of a huge metropolitan area and it does not represent all the township in the metropolitan area or South Africa. There other elements of this study that will have to be considered if this study was to be applied throughout all the metropolitan's townships.

While the primary objective of this study was achieved but a study for other sectors in the small business sector in South Africa should be conducted in order to have policy recommendations that are sector specific. Small business sector should not be treated as a homogeneous group.

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