

BARRIERS TO SMALL INFORMAL BUSINESS DEVELOPMENT AND ENTREPRENEURSHIP: THE CASE OF THE EMFULENI REGION

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Abstract: The nature of being an entrepreneur encapsulates the essence of fully embracing opportunities and taking on new challenges and risks. Informal entrepreneurship is often taken for granted and hardly recognised as being a profession. This study aims at identifying the importance of entrepreneurship in the informal sector and the barriers that these entrepreneurs face on a daily basis in South Africa. As part of the methodology, both quantitative and qualitative approaches were used to analyse and interpret the data. Results from the study indicated that most of the informal entrepreneurs are necessity driven rather than opportunity driven and that some of the main barriers they face are crime, service delivery and lack of vacant land and premises. Possible solutions to these barriers include: providing areas for the entrepreneurs from which to operate and to make funding available for expansion and growth of their businesses.

Keywords: entrepreneurship, informal sector, barriers, Emfuleni Local Municipality, South Africa

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Introduction

Entrepreneurship is a term that can generally be defined as a process of starting a new business or venture in order to generate revenue (Andersson and Wictor, 2003). An entrepreneur is a key role player in an economy and, according to Sobel (2008) he or she is an agent of change. Entrepreneurship is not always an easy journey as it involves many challenges such as taking calculated risks in order to build a business to a successful level.

Informal entrepreneurship is more prevalent in developing countries than in developed ones (Cordova, 2013; Ptak and Sroka, 2014). The large number of informal entrepreneurs arises from a lack of jobs and infrastructure in developing economies (Terluin, 2003). Such entrepreneurs are defined as people establishing a business outside of the formal sector. There is a high risk in starting a business in the informal sector because of crime, lack of infrastructure and other barriers (Williams and Nadin, 2010).

Owning a small informal business, such as trading as a street vendor or small retail shops, comprises activities which could generate income; individuals are forced to take part in these activities for day to day survival. Informal businesses not only

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contribute to the local Gross Domestic Product (GDP) but also to the livelihoods of individuals who live in low income areas (Sassen, 2014).

According to Hillier (2000) activities which take place in the informal sector are similar to those that take place in the formal sector. The difference is that the first sector in many instances faces different barriers to the latter sector. Some of which includes lack of infrastructure and other recognised structures and systems such as formal advertisement, formal payment systems and in many instances are managed by a single person. This study will therefore investigate barriers experienced by informal entrepreneurs within the Emfuleni Local Municipal area, in South Africa. These barriers create many daily management challenges for the entrepreneurs. Finding solutions to some of the barriers identified could alleviate some of the day to day management issues.

Literature Review

Entrepreneurship is a “catalyst” for economic development through job creation which helps alleviate poverty and generates income in developing countries (Adenutsi, 2009). Not everyone can become a successful innovative entrepreneur, but in a developing country small entrepreneurs are just as important (Shane and Venkataraman, 2000). Some traits that characterise a successful entrepreneur include: strong leadership qualities, self-motivation (Balazs, 2002) and good networking ability (Baron and Markman, 2000).

Being an entrepreneur is considered a favourable career path as it not only provides an income to the owner or initiator, but in many instances provides employment to other individuals too (Miner, 1996). Developing countries are greatly in need of new entrepreneurs to help alleviate rising unemployment rates (Wennekers and Thurik, 1999). Developed economies demonstrate a high success rate for entrepreneurs, indicating that such values are prized and that an entrepreneurial culture exists in these economies (Stam, 2013). According to Meyer (2015b), unemployment is negatively related to entrepreneurship development, so that when entrepreneurial development is low, higher unemployment rates exist.

One of the indicators measuring entrepreneurship is the Global Entrepreneurship Index (GEI) which is used to analyse its level across various countries by analysing local and regional economies (Acs and Szerb, 2010). There are no African countries listed amongst the top ranked countries in the GEI rankings, which is a matter of concern. Some reasons for this could be the continent’s lack of entrepreneurial attitude concerning issues such as networking, risk acceptance, cultural support and quality of education (Ortmans, 2015).

Entrepreneurship has an important role to play in economic growth, especially in developing countries such as South Africa. Small and medium business entrepreneurs generate a substantial portion of GDP in developing economies (Eifert et al., 2005). Global data indicates that small businesses contribute to job creation, generate innovative ideas, and create new business models and new methods of trading goods and services (Kimenyi and West, 2012).

According to Statistics South Africa (2014), there has been an upsurge in South Africa's labour force between 2008 and 2014. The labour force grew from 14.6 million to 15.1 million. During this period the number of individuals employed has increased, but there was also a rise in the number of people who are unemployed, from 4.3 million to 5.1 million. This resulted in a higher unemployment rate, moving from 22.5 percent in 2008 to 25.1 percent in 2014. Fortunately, new figures released show a slight decrease to 24.5 percent as per fourth quarter 2015 data (StatsSA, 2016).

The youth of the country are experiencing even higher levels of unemployment, with the unemployment rate for youths between the ages of 15 and 24 years growing from 45.6 percent in 2008 to 51.3 percent in 2014. This has been the largest rise compared to other age groups (StatsSA, 2014). Many of these unemployed individuals have reverted to survival entrepreneurship within the informal sector. A survival entrepreneur is classified as an entrepreneur who has no choice but to establish a business(es) in order to survive, whilst an opportunity driven entrepreneur is an entrepreneur who has a desire to start up a business due to an opportunity or gap in the market (Schneider et al., 2010).

The informal sector is defined as those who are involved in the production of goods and services with the prime objective of employment and income generation for the person involved in the activity. Such businesses are usually low level businesses, with limited or no distinction between capital and labour, and typically have small scale factors of production. They are normally managed in a very casual way (ILO, 2001).

The informal sector is classified as a sector which does not pay tax and is not recognised as a normal source of income (World Bank, 2015). Types of businesses which would be classified as the informal business sector include spaza shops (a small business which mainly sells basic products such as bread, milk, airtime and other essential household goods (Mohammed, 2014), informal hairdressing, transportation (taxi services), informal manufacturing (carpentry) and building (bricklaying) to name just a few. These activities usually take place from rented premises and street corners (Williams, 2004).

The Existence of the Informal Sector in South Africa

South Africa is faced with high unemployment and poverty rates, causing many socio-economic challenges in the economy which in turn bring about the existence of the informal sector (Davies and Thurlow, 2009). As indicated, the rise in the unemployment rate plays a critical role in the existence of the informal sector, due to the limited number of employment opportunities forcing individuals to create their own jobs by starting their own small informal businesses. There are different reasons for the existence of the informal sector which include labour market flexibility, existence of profitable opportunities, lack of skills and funding to create more formal businesses and the choice of non-compliance with regulations

(Sethuraman, 1997). Many women in developing countries prefer the informal sector because it offers flexible participation and a work-life balance.

According to the Quarterly Labour Force Survey released by Statistics South Africa, approximately 2.3 million people were active in the informal economy during the second quarter of 2014. This rose to approximately 2.4 million in the first quarter of 2015 and to more than 2.6 million in the second quarter of the same year (StatsSA, 2015). Determining the contribution that the informal economy makes towards GDP is difficult as many activities are unrecorded, but it was estimated at about 28 percent of South Africa's GDP in 2012 (SALGA, 2012). However, many other sources state different statistics, confirming the level of difficulty in providing an accurate figure.

As previously mentioned, informal entrepreneurs face many barriers in the informal sector; the key issues are usually high levels of competition, crime, lack of infrastructure and lack of funding (Ikoja-Odongo and Ocholla, 2004). The considerable competition within the informal sector limits demand opportunities while the high levels of crime in the sector causes a number of constraints to growth and development (Gerxhani, 2004). Most informal entrepreneurs operate from land which they do not own or from rented premises and some operate as street vendors (activities which take place on the sides of the road), all of which are indicative of a lack of infrastructure in this sector (Sleuwaegen and Goedhuys, 2002). Grimm et al., (2011) reports on entry barriers such as lack of access to raw materials, limited client base, too much competition, access to credit, recruitment and access to personnel, lack of adequate locality, machines and equipment, management difficulties and "red tape" in the form of taxes and regulation.

Nonetheless, the informal sector is important for entrepreneurship development as this is frequently a stepping stone to a more formal business. As explained earlier, in many cases it is the only form of income for the people running the said informal businesses. The term used for such entrepreneurs is "necessity entrepreneurs" or entrepreneurs who are forced into "survival" entrepreneurship (Makhoba, 2010). Informal entrepreneurs are not normally opportunity driven entrepreneurs, those who pursue entrepreneurship due to opportunity and regardless of whether there are employment opportunities available to them (Williams, 2008). Many of these informal entrepreneurs need assistance to grow their businesses.

Methodology

Research Questions

The following research questions was investigated: 1) which barriers are experienced by informal entrepreneurs within the Emfuleni Local Municipal area, in South Africa, 2) are these barriers similar to other studies previously conducted and 3) what solutions can be recommended to improve the conditions of these barriers.

Research Design

Both qualitative and quantitative methods were used to conduct the research. Firstly, a literature review on entrepreneurship and informal entrepreneurs was undertaken. The quantitative aspect of the study utilised data from a previously conducted business survey. For the second part of the study a qualitative approach was used. This entailed using telephonic interviews in order to support the quantitative analysis and provide depth to the study.

Study Area and Sample

Emfuleni Local Municipality is one of three local municipalities forming the Sedibeng District Municipality situated in the Gauteng province of South Africa. It is the westernmost local municipality of the district, which covers part of the southern area of the Gauteng province, extending along a 120km axis from east to west. The Vaal River forms the southern boundary; its strategic location affords it many opportunities for tourism and other forms of economic development (Conley and van Niekerk, 2000). Vanderbijlpark forms the heartland of what was formerly known as the Vaal Triangle, renowned for its contribution to the iron and steel industry of South Africa (Turok and Borel-Saladin, 2013). The main economic sectors include manufacturing (40.8%), community services (22.3%), finance (16%), trade (7.4%), transport (4.4%), construction (3.5%), and electricity (3.3%) (AppLED, 2015). Table 1 summarises the key socio-economic indicators for the study area.

Table 1. Summary of key socio-economic indicators for the study area (Meyer, 2015a)

Indicator	Emfuleni area
Total population – 2014	731 000
Population growth 1996 to 2014 per annum	1.0%
Number of people in poverty (% of people living in poverty)	298 263 (41%)
Regional GDP (R 1 000 000)	R 32 700
Regional GDP growth 1996 to 2014 per annum	1.2%
Regional GDP growth in 2014	- 0.5%
Number of unemployed people 2014 (unemployment rate in brackets)	106 000 (36.4%)
Number of employed people 2014	180 050
Regional GDP per capita 2014	R 44 733
Average household size 2014	3.14
HDI 2014	0.66
Gini-coefficient 2014	0.60
Population density (people per square km) 2014	756
Household infrastructure index 2014	0.87
Composite crime index 2011	112.68
Location quotient for manufacturing sector 2014	2.61
Annual average income per capita 2014	R 131 628
Number of households with no formal income 2014	17.7%
Total exports 2014 (R 1 000 000)	R6 591
Total tourism trips to region 2014	480 625
Dependency ratio 2014	43.80
Youth unemployment rate 2014	45.0

Sample Frame and Procedure Method

The data used for the quantitative part of the study was obtained from a previous survey. The data has not been used before. A random sampling technique was used for this approach and the participants were grouped in terms of the criteria of owning an informal business in the Emfuleni region. A sample of 57 informal business owners was drawn from the area and used for the quantitative part of this study. The study aimed at collating entrepreneurs' perceptions in the informal sector on barriers they face. For the second part of the study, qualitative telephonic interviews were conducted with five randomly selected respondents from the original survey. The qualitative questionnaire was structured in such a manner that all participants were asked the same questions during interviews. Its aim was to provide a better and deeper understanding of the participants' perceptions regarding the research topic.

Measuring Instrument and Data Analysis

A quantitative approach was used to conduct the first part of the study. The original survey focussed on collecting primary data from business owners in the informal sector concerning various issues. For the purpose of this study only entrepreneurial related questions pertaining to barriers, different skills which could be applied and whether the local authorities are creating an enabling environment were used for the quantitative part of the study. Quantitative data was captured by using the Statistical Package for Social Sciences (SPSS), Version 21.0. A descriptive analysis was utilised to interpret the data. The second part of the study comprised a qualitative approach making use of an interview schedule as measuring instrument. The interview schedule was based on the literature study; ethical clearance was obtained prior to the actual interviews in order to check the validity and ethical considerations of the questions.

Results and Discussion – Quantitative Analysis

The quantitative results comprise the demographics and the perceptions of entrepreneurs regarding barriers and entrepreneurial skills required for success. Table 2 indicates that of the 57 informal entrepreneurs that were interviewed, 48 of the businesses are construction firms, accounting for 71.6 percent of the enterprises that formed part of the study. All other sectors are well below the highest reported type of business (construction), with manufacturing being second highest at a mere 5.9 percent. Most businesses from the sample were male owned at 72.9 percent. Female owned businesses comprised 23.7 percent whereas businesses with both male and female owners were 3.39 percent. Education levels are relatively high with 40.4 percent of the respondents having education levels surpassing Grade 12.

Table 2. Demographics of informal entrepreneurs

Type of business	(%)	Existence of Business	(%)	Education level	(%)
<i>Agriculture</i>	4.48	<i>6-12 months</i>	3.51	<i>Primary school*</i>	1.75
<i>Manufacturing</i>	5.97	<i>1-2 years</i>	10.5	<i>Grade 10*</i>	22.81
<i>Electricity</i>	2.99	2-3 years	38.6	Grade 12*	35.09
Construction	71.64	<i>3-5 years</i>	31.6	<i>Diploma</i>	21.05
<i>Trade</i>	4.48	<i>5-10 years</i>	15.8	<i>Degree</i>	15.79
<i>Transport</i>	2.99			<i>Post graduate</i>	3.51
<i>Community Services</i>	2.99				
<i>Tourism</i>	4.48				
Total	100		100		100

* In South Africa, primary school is attended by children aged 7 to 13 years. Grade 10 will be completed at the age of 16 years and grade 12 at the age of 18 years. If you pass the final exams in grade 12 you are finished with high school and can apply for tertiary education in a university or technical institution.

Table 3 indicates that crime and lack of service delivery are the dominant stumbling blocks or barriers in the Emfuleni informal sector, accounting for 32.93 percent and 23.17 percent respectively. Other barriers include lack of vacant land/business premises (15.85%) and a small local market (14.02%).

Table 3. Perceptions of entrepreneurs regarding barriers, enabling environment and areas of improvement in the business

Main barriers in the area	(%)	Enabling Environment by municipality	(%)	Required areas of improvement in the business	(%)
<i>Lack of infrastructure</i>	3.05	<i>Yes</i>	36.84	Unskilled, hard labour	31.2
<i>Lack service delivery</i>	23.17	<i>No</i>	63.16	<i>Technical skills</i>	14.3
<i>Production cost</i>	3.66			<i>Quality control</i>	22.7
<i>Labour legislation</i>	1.83			<i>Management</i>	7.79
Crime	32.93			<i>Transport/logistics</i>	5.19
<i>Small local market</i>	14.02			<i>Financial skills</i>	0.65
<i>Lack of vacant premises</i>	15.85				
<i>Logistics and Transport</i>	4.27				

The respondents were asked if they thought that the local municipality was creating an enabling environment for business development. A total of 63.2 percent of respondents indicated that the local municipality was not doing so. They were further asked which areas needed improvement for their business to grow; 31.2 percent replied they were in need of unskilled, hard labour workers. Other areas of improvement included quality control (22.7%), technical skills (14.3%) and management skills (7.79%).

From the quantitative analysis it is evident that most of the businesses that exist in the Emfuleni informal sector are in the construction sector, the area is male dominated and the majority of the business owners have attained a grade 12

certificate or higher. The main stumbling blocks were crime and the lack of service delivery in the area. All of the participants believe that marketing, financial, human resources, innovative/technology, risk taking, strategic planning, communication and general management skills are important proficiencies contributing to the success of an entrepreneur.

Results and Discussion – Qualitative Analysis

This section provides results and discussion from the qualitative aspect of the study. Five participants were randomly selected from the 57 respondents who participated in the quantitative part of the study. The qualitative analysis endeavoured to identify various themes of importance.

The types of businesses owned by the respondents included manufacturing, trade, logistics and construction. All respondents were male and renting premises at the time of the interviews. Four claimed they operate their business in order to survive while only one entrepreneur had started his business due to a gap in the market (opportunity-driven). Table 4 represents a summary of the qualitative data.

Table 4. Themes identified by informal entrepreneurs

Theme	Operational definition	Excerpts from interviews (respondent)
1) Strategies for attracting customers	This theme relates to the strategies/tools used by informal entrepreneurs to attract clients	<i>‘Service delivery is important and satisfying costumers at all times’ (1). ‘Proper service delivery’ (2). ‘Meeting costumers needs’ (3). ‘Build relations with costumers’ (4). ‘Do it right the first time’ (5).</i>
2) Marketing strategies	This theme relates to the different marketing tools which are used to attract costumers	<i>‘I use municipal connections, pamphlets and word of mouth’ (1). ‘I use social media, LinkedIn, I have a website’ (2).</i>
3) Characteristics of successful entrepreneurs	This theme relates to different type of characteristics required in order to be considered a successful entrepreneur	<i>‘Learning from other successful business entrepreneurs’ (2). ‘Hard work and determination’ (3). ‘Learning to keep up with the times’ (4). ‘Remaining humble and always being ready to learn something new’ (5).</i>
4) Stumbling blocks/barriers in conducting business	This theme takes into account the different stumbling blocks and barriers the entrepreneurs face in their region	<i>‘The municipality does not create an enabling environment for us’ (1). ‘There’s a lack of funding for businesses in the area’ (2). ‘High levels of crime in the area’ (3)</i>
5) Lacking skills of informal business owners	This theme relates to the types of skills that the entrepreneurs lack in and would like to learn	<i>‘I would like to learn marketing and financial skills’ (2). ‘I would like to learn leadership skills’ (4).</i>

1) Strategies for attracting customers: Most entrepreneurs mentioned that it is not an easy task to attract and keep customers. They started off by stating that good

service delivery is the best way to attract customers. Other respondents declared that meeting consumers' needs at all times is important for the future of a business.

2) *Marketing strategies*: "Marketing is about communicating the value of a product, service or brand to customers or consumers for the purpose of promoting or selling that product, service, or brand" (Mangold et al., 2009). The entrepreneurs stated that they market their businesses by offering their customers the best services. Respondents also market their businesses through word of mouth, pamphlets and social media.

3) *Characteristics of successful entrepreneurs*: It is crucial for an entrepreneur to possess the necessary skills in order to make his/her entrepreneurial venture successful. The entrepreneurs believe that a successful entrepreneur should have the right integrity, be humble, be willing to learn something new and have good work ethics. Other respondents believe that to become successful, one must be willing to learn from others and that hard work and determinations are also important.

4) *Stumbling blocks/barriers to conduct business*: The respondents stated that the municipality does not deliver proper services, does not create an enabling environment in the area and that service payments to the municipality are expensive. Some of the respondents mentioned that their businesses are not doing well and that there is a lack of funds. Load shedding (action taken by authorities to reduce the electricity supply) is a huge barrier in the area; because of it there is a lack of productivity and entrepreneurs cannot meet consumer needs on time.

5) *The lack of skills of informal business owners*: The entrepreneurs want to learn financial skills for their business. They believe that with the proper financial skills their business will grow. Some respondents would like to learn marketing skills in order to be able to make their businesses more attractive to new customers. Economic and leadership skills were also mentioned as skills that respondent's desire.

Theme 1, 2 and 5 is directly linked to the management and marketing side of the business and proper training and skills transfer can assist the entrepreneurs to grow their businesses.

Conclusion and Recommendations

The purpose of this research was to investigate the barriers which informal entrepreneurs face in the Emfuleni area situated within South Africa. The context of the research is that entrepreneurship is considered a viable option to grow an economy through job creation and innovation. As discussed in the literature review, entrepreneurship in informal sectors is generally necessity driven. The emergence of informal entrepreneurs is seen in many countries, due to a lack of formal employment opportunities, lack of funding in order to open more formal

businesses, and the consequent rising levels of poverty which perpetuates the need for the informal sector. This is currently the case in South Africa and specifically in the Emfuleni area, as demonstrated by this study. This is also the situation in many developing countries where formal employment is scarce. There are a number of barriers or stumbling blocks in the informal sector which these entrepreneurs face on a daily basis, but despite this, they still manage to survive. These barriers include issues such as lack of infrastructure, service delivery, crime and vacant premises. Some of these barriers were also identified in international research done by Sleuwaegen and Goedhuys (2002), Williams and Nadin (2010) and Grimm et al., (2011). It is unfortunately a reality that many of these entrepreneurs will never grow their businesses into more economically viable businesses without assistance. It should be the priority of all governments who face the challenge of large informal sectors to assist these necessity-driven entrepreneurs to become opportunity driven; this could be achieved by implementing the following:

- Skills training such as basic management and financial skills,
- Involvement of local government and local businesses as mentors,
- Tax relief and relaxation of rules and regulation for small informal entrepreneurs,
- Funding for small informal entrepreneurs,
- Aftercare and assistance for these entrepreneurs,
- Investment in education as well as technical skills training should be intensified,
- Local authorities should form a partnership with local businesses and communities, in order to formulate strategies for the community,
- Government support through business incubators,
- Entrepreneurship diversification in terms of entrepreneurial activities in different sectors, such as services, manufacturing and construction.

In addition to the abovementioned recommendations, further interventions regarding the barriers they face should also be undertaken and could include:

- Additional research to critically understand the informal entrepreneurs' needs,
- Government measures to create a favourable policy and regulatory environment for these entrepreneurs,
- Providing much needed access to infrastructure and services to the entrepreneurs; this could be done in the form of rental space for them,
- Creating additional safe areas for the entrepreneurs from which to sell their products and services,
- Providing them with market opportunities, such as, for instance, establishing a special marketing campaign using social media or even print media.

In conclusion, entrepreneurship has an important role to play in economic development because it can act as a tool in job creation. This is not only the case in South Africa but also in many other developing countries, so that the abovementioned recommendations can easily be applied to similar communities. Entrepreneurship should become a culture not only in South Africa but in other

developing countries; assistance to survival entrepreneurs should be provided in order for them to transform themselves into opportunity driven entrepreneurs. This could alter a developing economy from a traditional economy to a modern economy, ultimately assisting in poverty alleviation and job creation.

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BARIERY ROZWOJU MAŁYCH NIEFORMALNYCH PRZEDSIĘBIORSTW I PRZEDSIĘBIORCZOŚCI: PRZYPADEK REGIONU EMFULENI

Streszczenie: Istota bycia przedsiębiorcą obejmuje istotę wszechstronnych możliwości i podejmowania nowych wyzwań i zagrożeń. Nieformalna przedsiębiorczość jest często brana za pewnik i rzadko rozpoznawana jako zawód. Badanie to ma na celu identyfikację znaczenia przedsiębiorczości w sektorze nieformalnym oraz barier, na które na co dzień napotykać przedsiębiorcy w Afryce Południowej. W ramach metodologii, do analizy i interpretacji danych zostało wykorzystane zarówno podejście ilościowe, jak i jakościowe. Wyniki badania wskazały, że większość nieformalnych przedsiębiorców kieruje się bardziej koniecznością niż okazją oraz, że niektórymi z głównych barier, na które napotykać są przestępczość, dostarczanie usług a także brak wolnych terenów i pomieszczeń. Możliwe rozwiązania wymienionych barier obejmują: zapewnienie obszarów dla przedsiębiorców, z których można pracować i udostępnienie środków finansowych dla rozwoju i wzrostu ich firm.

Słowa kluczowe: Przedsiębiorczość, sektor nieformalny, bariery, Lokalna Gmina Emfuleni, Republika Południowej Afryki

壁壘非正式和創業的小企業發展：全區Emfuleni當地政府的案例

摘要：作為一個企業家的本質封裝的完全擁抱的機會，並採取新的挑戰和風險的本質。非正式創業往往是理所當然的，幾乎不承認為一種職業。這項研究的目的是確定創業的重要性在非正規部門和這些企業家面對南非每天的基礎上的障礙。作為方法的一部分，定量和定性方法來分析和解釋數據。從研究結果表明，大部分非正規企業家驅動的必要性，而不是機會導向及一些他們所面臨的主要障礙是犯罪，服務交付和缺乏空置土地和房產。到障礙可能的解決方案，其中包括：從哪個企業家運作，使供其業務擴張和增長提供資金方面。

關鍵詞：創業，非正規部門，障礙，Emfuleni本地市當地政府，南非