Enterprise Propellers (EP) and Identity of SMMEs, Informal Business and Cooperatives in Gauteng Province of South Africa[*]

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Abstract: For the enterprise development policies to be applied there is a need to understand the real factors that can propel it. Entrepreneurial thriving among Small, Micro and Medium Enterprises (SMMEs), informal sector as well as cooperatives in South Africa, need support in order to grow, create employment and meaningfully contribute to the development of the country. This article reports on the findings from a baseline study conducted in the Gauteng Province on the general state of SMMEs, informal sector and cooperatives. Specifically, the article aims to profile those SMMEs, informal sector and cooperatives, as well as to identify their basic needs that should be addressed by relevant stakeholders for their survival and growth. In South Africa, SMMEs, informal sector and cooperatives, remain the cornerstone for the survival of thousands of South Africans, both in rural and urban areas. Generally, the classification of those businesses in the correct categories in order to qualify for subsidy or sponsorship poses a lot of challenges, especially in the big conglomerations (Johannesburg and Pretoria) of the Gauteng province. In South Africa as well as in many other parts of the world, the classification of the SMMEs remains incongruent due to a number of factors, including the size of the countries' economies, the differences in the business environment as well as their changing conditions. A research team met to discuss the design of the study, and descriptive data were collected in order to provide a good understanding of the sampling units. A sample of 1000 SMMEs, informal sector and cooperatives, was used to carry out the study. Purposeful and convenience sampling methods were used to select the respondents. A questionnaire was designed, then sent to the Gauteng Department of Economic Development (GDED) to ensure that all the necessary profiling data was captured before its usage. The questionnaire was filled by the respondents with the presence of the field workers. A company called STRATKON was used to handle the data inputting and the SPSSX was used to analyze it. The study found that the current definition of SMMEs, according to the 1996 Act, makes it difficult to know the real identity of these businesses; hence, it suggested different categories and presented other features apt to rightly direct the aid and support towards these businesses. Recommendations to various and relevant stakeholders were formulated.

Keywords: enterprise propeller (EP); SMMEs; informal business; cooperatives; Gauteng province

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1. Introduction

Out of nine provinces that make up South Africa, the Gauteng province is the smallest in square kilometres (18,176) in the country, but the largest economy and the most populated as a result of mainly hosting two major metropolises (Johannesburg & Thwane, Pretoria). According to Stats South Africa (2015), the province's contribution to the national GDP is 38%, which is 60% of its fiscal revenue, and the province is the main gateway for business to other provinces. In 2006, the FINSCOPE study revealed that there were an estimated 1 053 818 small business entrepreneurs in Gauteng province (recent figure is needed), from an estimated population of 6 653 000 people, which means that there is one entrepreneur for every six people. Ten years later, BER StatsSA (2016), reports that the whole South Africa counts 2 251 821 small businesses, of which 667 433 are formal while 1 497 860 are informal. Despite this big figure and a clearly shown interest in SMMEs, studies on small businesses have not paid attention to the categories of cooperatives and informal sector, which are big contributors to that GDP of the province and one of the main sources of sustainable livelihood of the communities mostly in the rural areas of the province.

There is a continuous relevance of studying and researching on SMMEs, informal sector and cooperatives in South Africa, and for the purpose of the current study, we are moved by two major reasons: firstly that the majority of the people of the country, remain non-participants in the main economy, but in small businesses that are poorly identified. This contributes to the ongoing debate about the SMMEs. Secondly, to provide basic information from which policymakers such as government and the private sector can start from to provide support to the small businesses, informal sector and cooperatives.

Scholars are unequivocal about the importance of small businesses. Because small enterprises outnumber big companies by a large margin, they therefore create employment for many more people. Furthermore, small businesses constitute a source of innovation and competition in economic sectors and contribute to poverty alleviation. The definition of SMMEs varies from nation to nation and sometimes, different defining criteria are used. For instance, in Kenya, the concept is referred to as MSMEs (micro, small and medium-sized enterprises), where a micro enterprise has a maximum number of 10 employees, and 10 to 50 employees of a small enterprise, while a medium enterprise counts between 50-100 employees (The Banking Association South Africa, 2017). In South Africa, the National Small Business Amendment Act (26 of 2003), provides an updated definition of small business and groups them into five major categories as established by the original act (SMMEs Act, 1996). Those categories are:

- Industry sector;
- Size of class;
- Number of paid employees;
- Turnover; and
- Value of assets (excluding fixed property).

In the whole South Africa, the Gauteng Province counts the most of informal SMMEs (31%) and this informal sector has grown at 14.7% between 2008 and 2015 (BER StatsSA, 2016). This provincial growth was the second best behind the Limpopo Province that grew at 34%.

With regard to the cooperatives in South Africa, the DTI defines them as "autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratic enterprise" (Thaba & Mbohwa, 2015). These organizations have a number of values that inform their existence and functioning:

- Self-help;
- Self-reliance;
- Self-responsibility;
- Democracy;
- Equality;
- Equity; and
- Solidarity.

In the tradition of their founders, cooperative members believe in the ethical values of:

- Trust;
- Honesty;
- Openness;
- Social responsibility; and
- Caring for others.

This article aims to shed more light on the state of SMMEs, informal sector as well as the cooperatives in the Gauteng Province. The article also discusses the mechanisms and interventions that are needed for their growth and sustainability. The business research investigation that will be followed will allow a better understanding of what is happening in the SMMEs, the informal and cooperative sectors so that the province is capable of assisting these businesses. We therefore hope to collect data that will inform policies and strategies in order to grow the SMMEs, informal sector and cooperatives in the Gauteng.

The article is arranged in the following manner: the next section discusses the literature review on SMMEs, informal sector and cooperatives in the province,

followed by the methodology used to carry out the study. Findings will be presented in section three of the article, followed by their discussions. The article ends with a conclusion and recommendations.

2. Literature Review

2.1. Formal and Informal Sectors in SMMEs

In 2014, the South African government established a Ministry of Small Business Development in recognition of the role small businesses play in economic growth, innovation driving and unemployment alleviation. The main aim of this department was, and it remains to "facilitate the promotion and development of small businesses" (BER, 2016). It means that the ministry should help the SMMEs to grow and prosper through the necessary interventions from a clear understanding of the state of SMMEs and their needs.

This move can be contextualized as a means to navigate away from the previous regime, and its economic system that was mainly centred in the hands of a few parastatals and multinational corporations (Finn, Leibbrandt & Oosthuizen, 2014).

It has been confirmed that SMMEs play a major role in the alleviation of poverty, improving living conditions as they use huge work force and are regarded as pioneers of implementing new concepts (Kuratko, 2016). However, though they are seen as such, (Arafat El-Mobayed, 2006; Mahembe, 2011; Murimbika, 2011), posit that the majority of the SMMEs perform very poorly and some of them die in their early stages.

The concept of SMMEs in South Africa as defined in the Small Business Act of 1996 is widely criticized for encompassing a wide range of small businesses that should not be part of it. Some of these businesses are formal, while the majority of them are not even registered for VAT purpose (The DTI, 2008). Small businesses range from medium-sized enterprises such as established businesses with a possibility of employing more than 100 people, to informal micro-businesses owned and run by a single individual. This range is very wide, and in the context of providing support, it usually leads to confusion concerning the channelling of the government's support.

A large majority of small businesses are found in the lower range where they can take the form of street vendors, backyard manufacturing and services, weekend and evening jobs or occasional home-based jobs (Berry, 2002), and the pity is that they have a very low potential for growth and creating employment (The DTI, 2008). This is where the government intervention is required in relation to its policy as documented in the 1995 white paper on SMMEs development. This policy provided action plan that focused on:

- Increasing financial and non-financial support;
- Creating a demand for the products and services provided by the SMMEs; and
- Reducing regulatory constraints (The DTI, 2008).
- This action plan gave birth to institutions such as:
- Small Enterprise Development Agency (SEDA);
- The Small Enterprise Finance Agency (SEFA);
- The National Youth Development Agency (NYDA);
- Technology and Innovation Agency (TIA) and finally;
- National Empowerment Fund (NEF) (Booyens, 2011).

The financial support has been identified as one of the main challenges faced by the SMMEs in South Africa, and the third worse behind the competition and space to operate from (Agwa-Ejon & Mbohwa, 2015).

2.2. Focus on the Gauteng Province

This section relates the situation of SMMEs in South Africa, with a more focus on Gauteng Province. With 46% of the SMMEs, the Gauteng province is a host of nearly half of South Africa's formal SMMEs, while other provinces enjoy a high number of SMMEs in the informal sector, due to hawkers and informal traders. This concentration of SMMEs in the region, justifies further the reason for undertaking the current study, and why further studies are needed.

In Small Business Survey, 2010, a comparison about the home of SMMEs owners between Gauteng and Limpopo has shown that 23% of them resided in Gauteng, while 9.8% resided in Limpopo, thereby putting the province on the top of the SMMEs ownership in the country.

Increase in SMMEs

In the whole South Africa, since 2008, the number of SMMEs has increased from 2.18 million to 2.25 million in 2015Q2, and this implies a percentage increase of 3%. The Gauteng province alone experienced the second highest growth of 14%, behind Limpopo that had 34% (BER, 2016). The remainder of the provinces has increased significantly below 10%, which may be the cause of slow economic growth.

Awareness of Government's Supports

Support structures have been established throughout the country, in order to provide adequate information about the state of SMMEs. It has been argued that many SMMEs in South Africa, suffer the lack of information about the availability of the government support schemes. However, according to FINSCOPE 2010, the upper Business Sophistication Measure (BSM) - discussed later - segments, were aware of the support organizations at 70% of BSM level 7, while BSM level 6, was

aware of these supports at 57%, compared to 38% of BSM level 5. In the whole country, higher awareness was observed in the Free State province (64%), while Gauteng came in second position with 62%, and in relation to the importance of this awareness, we consider this level as extremely low.

The worst scenario, however, is the poor marketing run by these governments supporting schemes. Mago and Toro (2013), point out that among those SMMEs that are aware of these supporting schemes, the majority of them do not know how and where the programs operate. An aggressive campaign is then needed for the businesses to benefit from these systems, and we will formulate a recommendation concerning this issue towards the end of this article. Once again, this issue of awareness justifies the undertaking of the current study.

In the Gauteng province, there is Gauteng Economic Development Agency (GEDA), as well as Gauteng Enterprise Propeller (GEP) (NCR, 2011) that are responsible for this awareness.

Types and Size of the Business

The majority of small businesses in Gauteng were service providers (34.2%), compared to 78.2% in Limpopo that were in retail. In the Gauteng province, the size of the small businesses was higher than any other province, while Limpopo has the smallest size of small business (NCR, 2011). Please refer to Annexure 1 for the definition of the SMMEs in South Africa, according to the small business act 1996.

The implication of this on information solutions can help mitigate the GEDA or GEP is that more loan applications for capital will be requested from the Gauteng province than in Limpopo, where the probability of BSM 1 and 2 type businesses was at 29.2% and 31.4% respectively (Turner, Varghese & Walker, 2008). In Gauteng, the probability for BSM 6 and 7 type small businesses were highest (11.8% and 9.0%) respectively, which implies that business owners in Gauteng are likely to be able to secure a financial loan compared to those in Limpopo (Agwa-Ejon & Mbohwa, 2015).

Financing issues

Njiro, Mazwai and Urban (2010) lament that in the Gauteng province; the financial institutions are not reaching out to SMMEs. In fact, it has been established that most of the capital (56.5%) come from the business owners themselves, 14% from friends or relatives, while 20.5% comes from bank loans. Government support was found to be 3.3%, 2.8% by ventures and 2.2% comes from grants (Njiro, Mazwai & Urban, 2010). This raises some fundamental questions about how these SMMEs can develop if the provided government's support is not reaching them. Secondly, where does the money that was supposed to help SMMEs go?

Unable to access these funds, some young people make recourse to their servings and or borrow from friends and relatives rather than borrowing from the formal financial sector. However, it is not established if the repayment is accompanied by interest, and if yes, of how much. While this may be regarded as a way of solidarity and support, and a quick solution to a problem, one would wonder how this way supports the economic growth of the country, if the money from the banks and financial institutions is not in circulation. Hence, Rogerson (2008) argued that a high segment of unbanked SMMEs in Gauteng indicates the need for further development by the banks of this market.

2.3. Cooperatives in Gauteng

Thaba and Mbohwa (2015) posit that in South Africa, cooperatives have been in operation since the 1800s in the form of stockvels (informal cooperatives mainly formed by blacks). Today, cooperatives operations consist of people putting money together on a regular basis, such as monthly or quarterly in order to be used for a social cause such as funerals, birthday parties, weddings and family gatherings.

In its early establishment, the South African democratic government took the cooperatives very seriously as part of the economic drivers' structures and poverty alleviations. In this regard, former President Thabo Mbeki (1999), said: "The government will place more emphasis on the development of a cooperative movement to combine the financial, labour and other resources among the masses of the people, rebuild our communities and engage the people in their own development through sustainable economic activity".

In present days, cooperatives bridge the gap between the first and second economy as people are encouraged to form cooperative enterprises, and it was proven that they contribute to poverty alleviation and lowering the unemployment rate (Thaba & Mbohwa, 2015).

3. Methodology

3.1. Research Design

Methodology in research refers to the systematic, theoretical description of the methods applied to conduct an investigation on a particular topic (Khosa and Kalitanyi, 2015). For the purpose of the current study, a group of researchers met to decide on the design and how to conduct the study. The team acknowledged the existence of data from a previous study conducted by FINSCOPE funded by FINMARK SMME in 2006. This study gathered relevant data, which needed improvement and adaptation to the situation of the moment. Since this study contained information about SMMEs, informal sector as well as the cooperatives, it was judged a useful source of information and a supporting tool to the current

study. Descriptive data were collected in order to contextualise the study, and this information consisted of profiling the SMMEs, informal sector and cooperatives with a more focus on Gauteng province.

3.2. Sampling Method

Sampling consisted of totalling all the SMMEs, informal sector and cooperatives from the collected data and from the Gauteng province. FINSCOPE 2006 reported 5 579 767 SMMEs operating in South Africa, and 1 053 818 in the Gauteng province.

To complete the sampling, the sampling frame for SMMEs was requested from the GDED, its agencies as well as the Department of Trade and Industry (DTI). Though the data seemed to be outdated, it was considered for the period it was collected, while a more updated information was being sought. However, a listing for the informal sector and cooperatives proved to be even more challenging and almost delayed the attainment of the sample units required. With the emphasis on the informal sector, a sample of 1000 units was agreed upon as reflected in the table below.

Table 3.1. Sample determination

SMMEs		COOPERATIVES		TOTAL
Formal	Informal	Formal	Informal	1000 sample size
30%	70%	50%	50%	
210	490	150	150	1000

The table below provides various municipalities that were sources of information about SMMEs, informal sector and cooperatives according to the initial plan.

Table 3.2. Municipalities that provided information

	West Rand (5LMs)	Sedibeng (3LMs)	Metsweding (2LMs)	City of Joburg (30LMs)	Tshwane (14LMs)	Ekurhuleni (39LMs)
Formal SMMEs 250	50	50	50	34	34	34
Informal SMMEs 250	50	50	50	34	34	34
Formal Coops 250	50	50	50	34	34	34
Informal Coops 250	50	50	50	34	34	34
Totals	200	200	200	136	136	136
Grand total (planned)						**1008**

For the purpose of identifying the sampling units, the above regions in the Gauteng were contacted in order to request assistance in data collection. For the purpose of data analysis in the current study, Metsweding and Tshwane were combined and SMMEs, informal sector and the cooperatives constituted the units of investigation for the study. Officers from the economic development cluster of local municipalities, advised on where to find the interviewees. However, in some cases

and with great difficulty, the local structure invited members of the businesses to be interviewed at a central location. Purposeful and convenience sampling techniques were used in the study.

3.3. Questionnaire Design

The study made use of the previous experience of the study conducted in Orlando East, West and Zola in Soweto, to identify the financial and non-financial needs of SMMEs. Furthermore, studies conducted by FINSCOPE in 2006 and 2010 at national level and in the Gauteng province, were consulted to inspire the drafting of the questionnaire.

The questionnaire was drafted before the members of the research team provided inputs. This draft was put to the GDED to ensure that all the profiling information is included. Due to the existence of many variables arising from the nature of the study, closed ended questions were mostly used in the questionnaire. This implies that the information collected was not meant to explain why certain things happened in a certain manner but to merely describe behaviour or certain business practices and so forth. The questionnaire was pilot-tested in Johannesburg and final advice was taken and incorporated in the final draft.

3.4. Data Collection

The field workers for data collection were mostly 3rd year entrepreneurship students from the University of Johannesburg and one Master of Commerce student. A total number of 10 students were carefully interviewed and selected based on availability and the ability to conduct the interviews, before they underwent a five hour training for them to master the work and avoid survey errors.

Data were collected by filling the questionnaire with the presence of the interviewers. This method was preferred over drop and collect method (to avoid complaisance and delays in the process) and telephonic interviews as not everyone in the sample had access to a telephone or their telephone numbers were not known. This method also allowed interviewers to use prompts, observe the undesired behaviours of cheating and trying to please the interviewers; and they could also settle difficult interviewees. Furthermore, clarifications over "difficult" question (s) could be provided.

Below, we summarize further research methodology pertinent to the data collection process:

The interviewers possessed extensive experience since three-quarters of them have been working with the researcher in other studies such as the ones conducted for GDED.

Completed questionnaires were checked for quality of data or mistakes. Those with errors and mistakes were returned to the interviewers for data recollection. Those interviewers who did not match up to the expectations were requested to leave.

The timing of the interviews was between 09:00 and 16:00, which offered all the interviewees to be reached at their operating spots. However, due to security reasons, all interviewers had to leave the areas by 15:30.

Besides the questionnaire and its information, the interviewers were also capable of recording other information from observations and indirect comments from the interviewees. This additional information was captured during the meeting between both the researchers and interviewers.

The central administration of the municipalities wrote activity reports about the research activity and the respondents' attitude towards the research, during which a lot of interesting revelations were observed. For instance, if the ANC was not popular in a particular area, there was a resistance and reticence to participate with attitudes of "whose problem is it?" while pointing out the undelivered service promises. This was a serious limitation in the study.

3.5. Data Processing and Analysis

Due to time constraint, data processing was outsourced as follows:

STRATKON handled all the data inputting using their preferred service provider;

"Under Hill Business Solutions", a private sector organization with excellent service delivery records, did data analysis.

Data cleaning was done to ensure data integrity, after which SPSS 21 version was used to analyze it. One of the main approaches for analyzing data was to develop a business sophistication measure (BSM) on the data collected, in order to be used to cross-tabulate the SMMEs, informal sector and cooperatives into various categories. This would assist in better understanding their profiles across all study variables. The content of this process is comparable to market segmentation, a marketing process consisting of subdividing a large heterogeneous market into smaller homogenous groups of customers with similar characteristics in order for the business to serve them efficiently.

Similarly, the BSM needed proper identification of discriminating variables.

Principal component analysis was used to identify variables to be used in the BSM analysis. This process reduced the number of variables to only include those, which would offer a significant discrimination or explanation between segments of SMMEs, cooperatives and the informal sector;

The business sophistication concept was used in the process of profiling of SMMEs, informal sector and cooperatives, with an assumption that these sectors

operate on a continuum of a number of factors that determine business sophistication.

Despite being a broad approach, the business sophistication is usually based on business practices, and the existing economic and business infrastructure for doing business. For instance, the FINSCOPE study used a total of 25 factors for this purpose of business sophistication. This suited their study, but was not found to be appropriate for the current study. It was believed that fewer factors which were not inter correlated would better cluster the different sectors in a number of BSMs. To summarize, the development of the BSM analysis involved the following:

Nine questions were selected for the business sophistication measure model. These were discussed by the steering committee to ensure consensus and for the final results to be accepted as useful and valid;.

Sophistication scores on a scale of 1 to 6 where 1 is "least sophisticated" and 6 is "most sophisticated" were allocated to the responses to the selected questions;.

In some instances respondents chose the "refuse/do not know" option or values were missing. In such instances, the final BSM score was calculated on the average of only the questions the respondents answered.

Questions were given equal weighting. A simple average was used to calculate the final BSM score;

Small businesses, informal sector businesses and cooperatives with the lowest BSM scores were placed in group 1 and those with the highest scores were placed in group 7;

The same approach used in the FINSCOPE study in using PCA was simulated in the current study. This provided validation of the research results as accepted methods were used.

4. Findings of the Study

This section will be presented as follows: First, the results regarding the profiling of the three sectors (SMMEs, informal sector and cooperatives) will be given, followed by a discussion and policy recommendations to suggest ways to support these entrepreneurs to develop, be sustainable and grow. The rationale of adopting this approach was the desire to provide a framework for detailed policy and strategy for adequate interventions.

By adopting this approach, we also aim at highlighting the difference between the current study and that conducted by FINSCOPE, both of which are different in terms of purpose, scope and unit of analysis.

4.1. Summary of the BSM

The information contained in the section below, summarizes the information across all BSMs. Despite the significance of these results, it is worth noting that a proper assessment and interpretation in the right context and at the right level is necessary. This assessment and contextualising the results will involve depicting issues around formality and informality of business undertakings and adding descriptions of the nature of cooperatives. With this undertaking, we are therefore making further differentiation between this study and others and thereby making a rich contribution to the body of knowledge in this exciting field.

Along with the above, we need to clarify our conceptualization of what these BSM categories mean in the context of the SMMEs so that we remain relevant to the current government discourse at national and provincial levels. The question here is, which official government classification should be used to match the BSM categories 1 to 7? While this remains unanswered question, South Africa is not alone. Speaking about South Africa, Jackson (2015) appends that the categorization of SMMEs, both nationally and internationally remains a difficult process for both researchers and academics.

As mentioned earlier, small businesses in South Africa are defined according to the Small Business Act (South Africa, 1996). If this definition is used, it will result in only four categories that can be used, that is micro, very small, small and medium enterprises. This, we argue is good but it forces many different types of entrepreneurs to be grouped together making it difficult to understand the fine differences needed for support interventions.

It is our belief that previous impact studies conducted in the Gauteng Province should have shown that the use of the SMMEs definition has led to strategies that are not appropriate, resulting in low impact from the interventions made. Frequently, people ask why so much money is being spent on promoting SMMEs, the informal sector and cooperatives when the desired impacts are not being realized? In our view, this is mostly a result of using the wrong segmentation model and therefore inappropriate service offerings are made to the target market. Worse still is that with the lack of useful descriptions, profiling market segments policy and strategy are based on uninformed data and consequently are later seen as disjointed, resulting in low achievement of impact.

We therefore chose to use the following subdivisions, with a hope of including all the categories of SMMEs, thereby making easy the assessment for policy formulation and channelling of support:

- Survivalist entrepreneurs;
- Very small enterprises;
- Micro enterprises;

- Small enterprises;
- Medium enterprises.

Below is our attempt to insert these subdivisions into the various and right categories in the BSMs. An attempt needs to be made to come up with a model in order to address this matter, yet this can only be done after the study and not before. This means that the BSM categories used in this study will have to make sense of the segmentation of entrepreneurs in the SMMEs space, which includes the informal sector and cooperatives. Below is a model to align the BSM categories:

Table 4.1. Categorization of SMMEs

SMMEs Categories	BSM Category
Survivalists	1,2 (Lower end)
Very small entrepreneurs	3 (Lower medium)
Micro enterprises	4 (Medium)
Small enterprises	5 (Lower upper)
Medium enterprises	6 and 7 (Upper end)

As pointed out above, this will be justified after the results are analyzed and will contribute to the current theory on the definition of SMMEs according to the Small Business Act of 1996. In the meantime, this categorization is believed to be reasonable and will be used throughout this study. The information below presents a summary around the profiling variables.

4.2. Business Profiling

This section is very important as it describes the type of businesses inside the various BSM classifications of SMMEs, the informal sector and cooperatives. The nature of businesses, income levels, location of businesses and the effort needed to conduct businesses (distance, assistance and the number of hours of business) are discussed. To remain relevant in the context of the national classification of the SMMEs (Small business act of 1996), this profiling will show, whenever possible, the similarities between our classification and that of the act.

4.2.1. BSM and Business Involvements

SMMEs

It should be noted here that the small business act 1996, classifies the businesses according to the industries they operate in. This section seeks information about the types of the businesses the respondents are involved in.
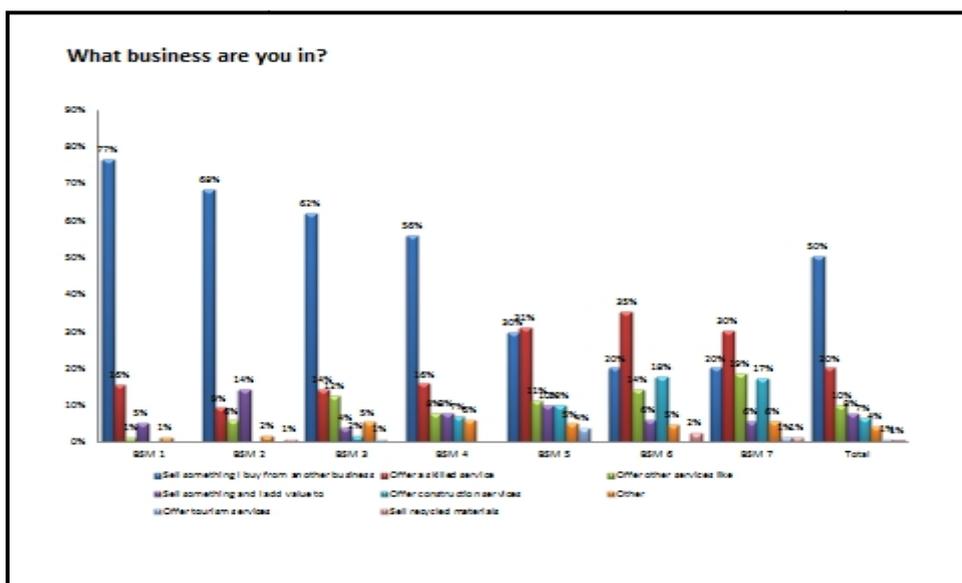

Figure 1. Business involvement

From the above Figure 1, the following information is reflected:

Generally, 50% of all SMMEs are involved in buying and reselling activities.

BSM 1 (77%) to BSM 4 (56%) is involved in trading, and this trade implies buying something at a given cost and selling it at another given price, plus a mark-up. Linking production to consumption has always been known to be a critical function and a cornerstone of trade among entrepreneurs and this is reported as having been very common among Africans in South Africa before apartheid policies. It is then interesting to see that this function is still recognized despite many comments about the lack of entrepreneurship among Africans and so it is encouraging to see that this still exists even in the low BSMs. Our appeal to the national and the GDED is to examine whether this practice can be upgraded to better fit the modern business operations.

Though all BSMs depict entrepreneurial orientation, this seems to be limited at the lower levels as very low value-addition is carried out at these levels. Since this entrepreneurial orientation is very common from BSM 1 to 7, it should inform the

direction of the policy in order to encourage entrepreneurs to add value so that their products can sell at higher prices on the market. The realization of this observation, government's opinion of technological orientation is necessary, especially if it is paired with a close collaboration with the institutions of higher learning to produce that instrument. It is our conviction that the Gauteng province can make a big difference in developing and supporting SMMEs, informal sector and cooperatives by developing the appropriate technologies.

From the figure above, we further notice that 20% of the respondents are involved in the fields of hairdressing, plumbing, electrical, painting, landscaping and day-care centres and this is more common in BSM 5 to 7 (small and medium enterprises). As mentioned above, entrepreneurs from these segments have attained higher educational levels. Nevertheless, business training is required.

It is also observed that 10% of BSM 5 to seven (small to medium businesses) do more business in areas such as car washing, gardening, transport, catering and events. The numbers of entrepreneurs in BSM 1 to four are very low and yet these types of business areas do not require highly developed skills.
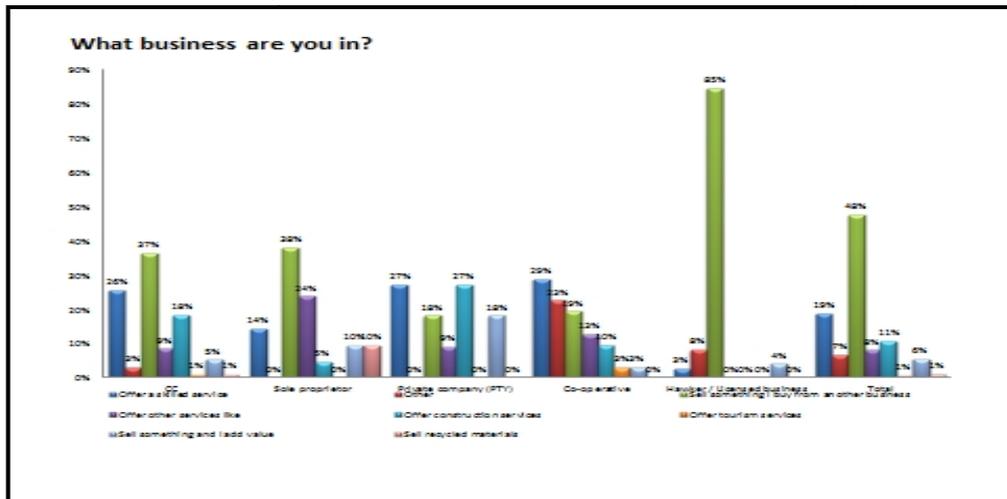
Cooperatives

Figure 2. Types of business involvement by the cooperatives

The figure above depicts a picture that cooperatives seem to offer more specialized services (27%) than close corporations, sole proprietors and private companies. However, as seen from the figure 2, cooperatives are not much involved in the construction sector and can thus not be included in the public works programs, which is unfortunate. However, they can involve any other type of the business in South Africa.

It was expected that cooperative members would be mostly found in trading than in any other sector where 95% are in trading. The current study confirmed such expectation, which demonstrates consistency of the study and data integrity.
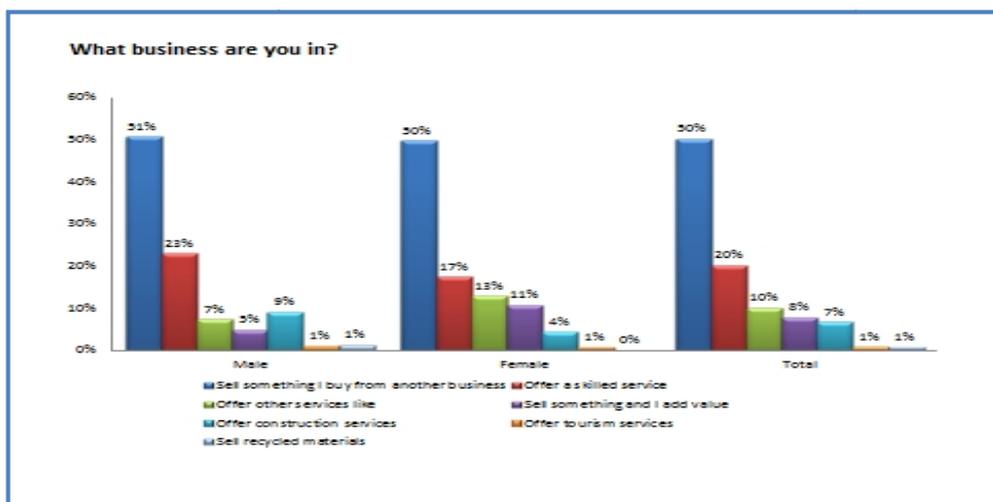

Figure 3. Gender involvement into small businesses

In our attempt to discover the identity of the SMMEs, the role of women's involvement was investigated and the results are shown in the figure 3 above:

The most interesting finding is that there is no difference between men and women in business involvement, as they are both equally represented in trading.

With regard to the skills in providing services, the percentage varies between men and women to the extent of 23% and 17% respectively. This suggests that GDED needs to offer more skills training programs for women. 11% of women tend to add more value than their male counterparts, while there are half as many women in construction (4%) compared to men (9%).

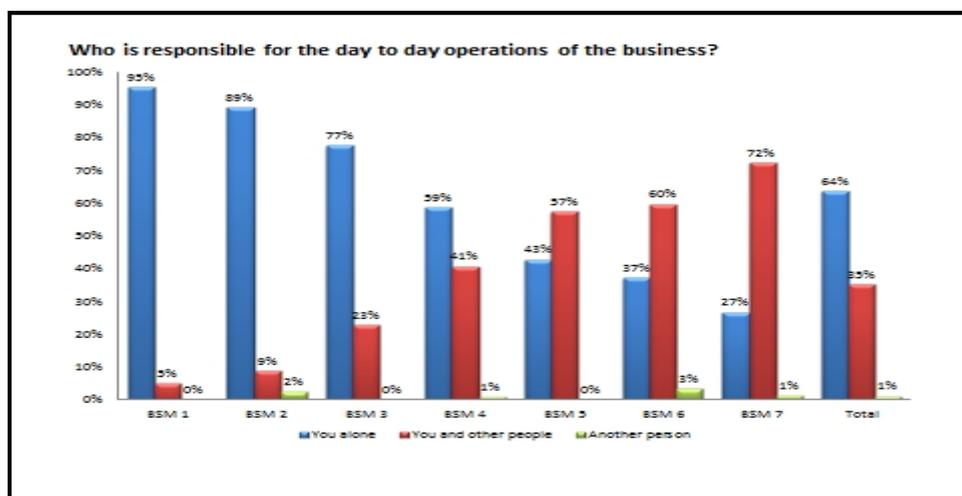### 4.2.2. Number of People Running the Business

Figure 4. BSM number of people running business

To begin this section, an important note to make is that the small business act, 1996 uses the number of full time employees as one of its criteria. The current study found this as an important criterion to profile the SMMEs and cooperatives in the Gauteng province.

Some entrepreneurial theories support the view that an entrepreneur stands better chances of succeeding and make an income, if he/she runs many businesses to realize multiple sources of income. This would make sense across all levels of BSMs. To some extent, this research study supports this view as many respondents reported being engaged in additional activities like subletting. Moreover, if more entrepreneurs are involved in running several businesses at once, the higher the likelihood of them is pursuing other business opportunities.

The figure above shows that overall 64% of entrepreneurs run their businesses alone with 35% indicating that they use another person. This suggests that the likelihood of pursuing other business opportunities is low due to a total involvement in the primary business as well as limited human resources. This is also an indication of the size of the business.

A closer examination of the information reflected in the table below, suggests that different BSMs shows that BSM 1 to 4 (survivalists up to micro enterprises) are one-man operated businesses. This ranges from 95% of the survivalist level to 59% of micro enterprises. Consequently, this fact limits the entrepreneurs in terms of pursuing other business ideas.

However, BSM 4 to 7 (micro to medium) show the opposite trend in that 41% to 72% uses another person for running his or her businesses. This gives these entrepreneurs some capacity to analyse and pursue other business ideas. In other words, these businesses are also creating employment, and it would seem that this is the group that needs the business growth support provided by the GEP as an agency of the provincial government.
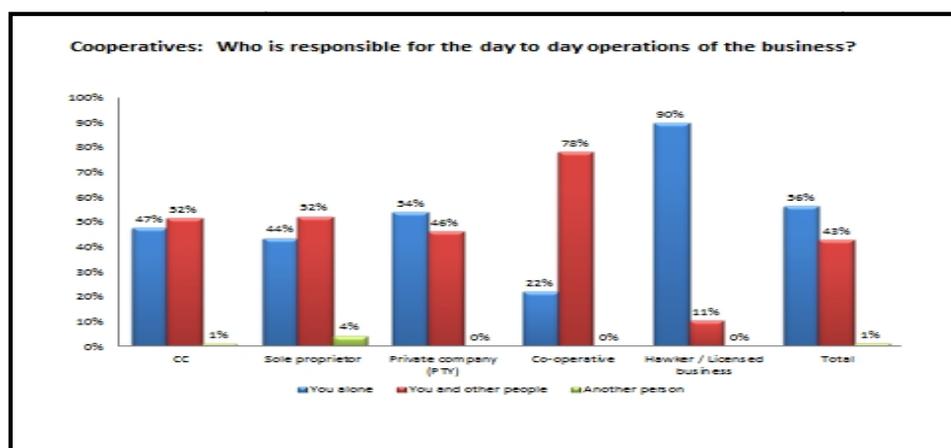
Cooperatives

Figure 5. Persons operating the business as cooperatives

Cooperatives are a collective and 78% involve more than one person running the business, suggesting a likelihood of success with a diversity in management.

Only 22% of the cooperatives are run by one person alone. This suggests a high level of trust invested in that individual, and we believe that a research comparing the success between those run collectively, and those run individually, would be interesting. We suggest that this can be a topic for future research.

Informal vs. formal sector: People responsible

Concerning the informal sector, the percentage of a single person running the business is 81% as compared to 58% in the formal sector. As much as this trend was expected, it is a sign of an existence of a business that adds little value in the second economy, an example of a survivalist business. This is shown in the figure below. The question becomes how can this informal sector be more entrepreneurial to exploit more business opportunities or expand their business operations for increased sales?
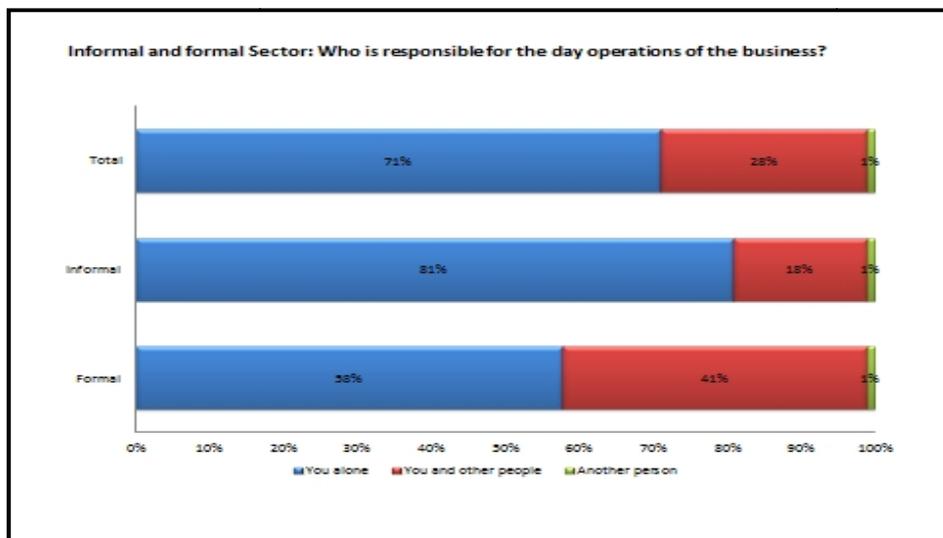
Figure 6. Responsible person for operation of business

From the figure 6 above, it clearly appears that from BSM 4 and 5 (micro and small enterprises) businesses start to involve other people in the running of the enterprise. This is the point of internal entrepreneurial equilibrium (IEE), and which determines the level at which an enterprise will have the desired propensity and ability to create wealth and employment. This also implies that not much should be expected from survivalists and very small businesses with regard to employment creation, let alone tax payment. The corollary of this is that the main engines of growth will exist mostly at BSM 5 to 7 (small to medium enterprises). Once again, resources as well immediate support solutions should be directed to these categories, while the strategies of interventions to the lower categories are being formulated. Taking into account this information, this article retains the question that was posed in the baseline report as follows:

At what level(s) should growth and support interventions be targeted? Furthermore, what type and level of interventions should be implemented to move the enterprise categories from low to high BSMs? This is the *raison d'etre* for the SMME research observatory, to provide clear indications on policy and strategy for GDED.

Sales Turnover in 2011

4.2.3. Sales and Profit Analysis

This section uses profitability criteria, to profile the SMMEs, informal sector and cooperatives at the various levels of BSMs, with the expectation that the highest sales and profitability will be from formal business and largely among the small and medium enterprises. It is worth noting that the small business act 1996, also use "Total turnover" as one of its criteria to define small businesses. Figure 7 below profiles the BSM on sales and profitability.
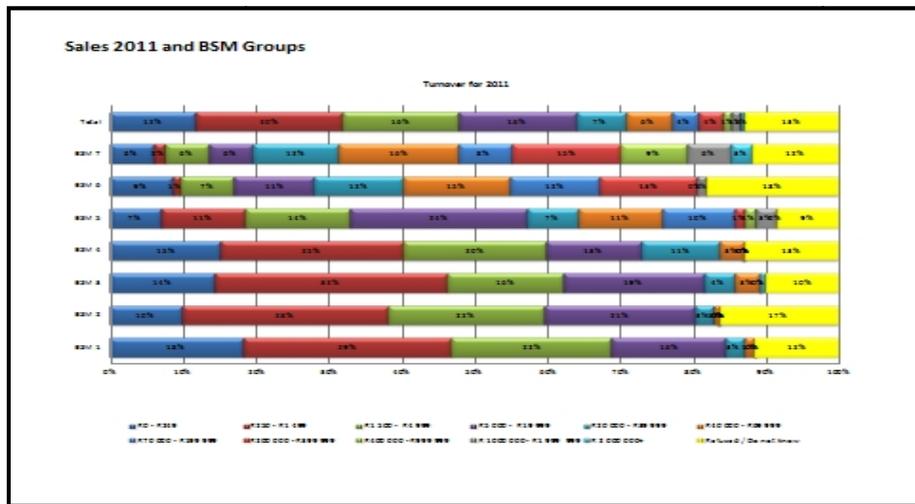

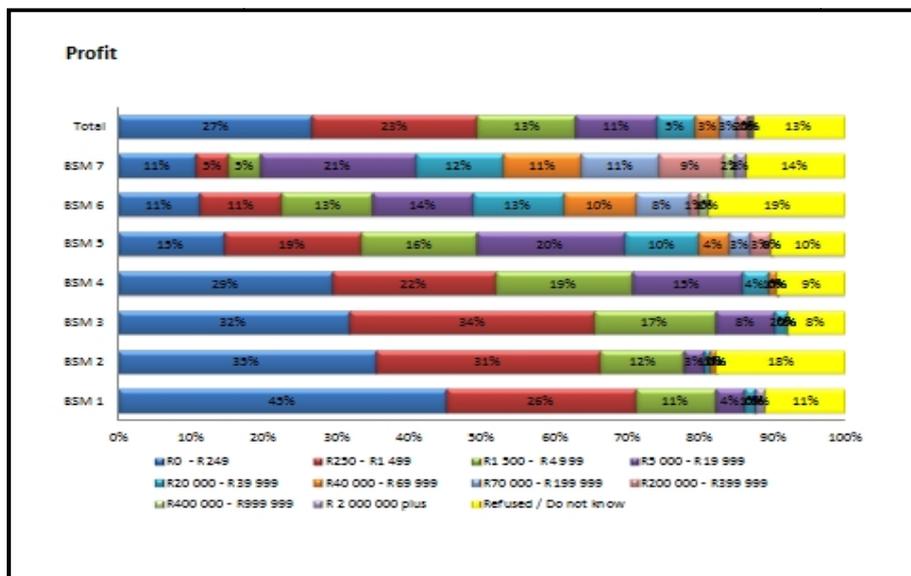**Figure 7. Sales in BSM made in 2011**

Figure 8. Profit

It is usually difficult to analyze sales revenue made by the various enterprises, as the respondents tend to skirt the issue in this regard. For this study, we can report the following:

The overall picture is that 16% made sales of R1 500 to R4 999,

20% made R250 to R1 999, 28% in BSM 2, 32% in BSM 3, 25% in BSM 4. It was expected that the real figures would not be revealed, and it transpires in this information.

Sales in the range of R5 000 to R9 999 was reported as follows; 16% in BSM1, 21% in BSM 2, 19% in BSM 4.

The research shows that information on sales was not freely given as 56% did not want to give the information.

This always makes it difficult to conclude on sales made my SMMEs.

The analysis on profitability indicates the same limitation as the above analysis on sales. However, the findings show that lower BSM categories (1−4) make more profits than BSM 5 to 7, hence we conclude that due to the high cost of doing business in Gauteng, higher margins are only possible when entrepreneurs operate as survivalists or very small enterprises and informal businesses. On the other side, the profits in the higher BSM categories are affected by licenses from the local municipalities, DTI and other compliance issues. Once again, it is worth noting that

when information on sales and profitability is collected, there is a lot of hiding that takes place unless accounting records are investigated.
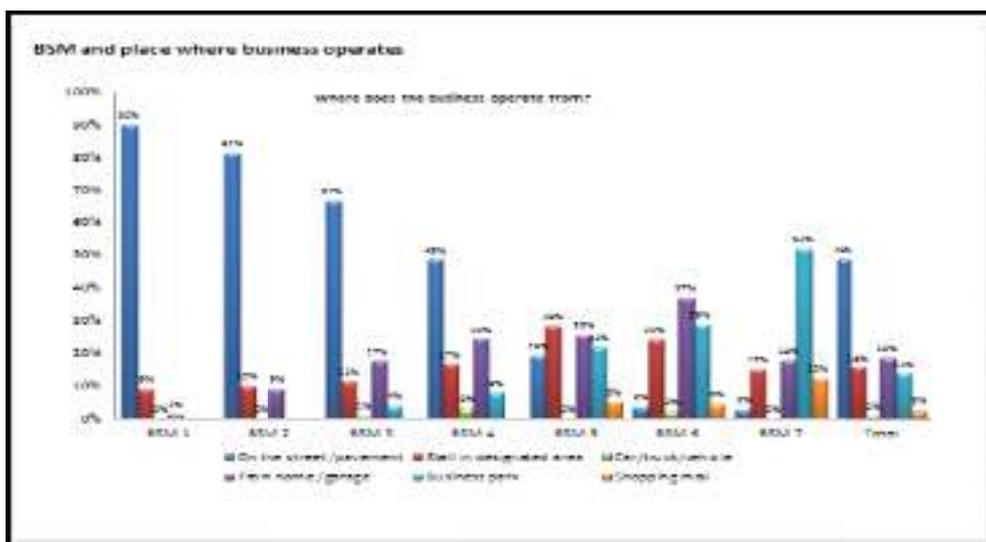
4.2.3. Where do you do your Business?

Figure 9. Location of business operations in BSMs

The other important factor of consideration in deciding on business sophistication was the place or location of the business. In a number of times, government at all levels has used this criterion, among others, to determine who must receive support and interventions and thereby raising the potential for growth. In 2009, when the GEP financed some studies, it was ascertained that business premises where the main issue hindering the growth of entrepreneurs in some Soweto areas of Orlando East, West and Zola. Figure 9 above pints the following picture:

Forty-nine percent of respondents in BSM 1 to 4 (survivalists, very small and micro enterprises) operate on the streets.

Sixteen percent have stalls in designated areas and these are in BSM 3, 4, 5 and 6.

Nineteen percent operates from home (BSM 4, 5 and 6). There are positives in operating a business from home, such as reducing the rental costs or other fees involved when operating in designate municipal areas. However, this could also indicate the type of business that is not formal.

Operating in shopping malls is low and more commonplace in BSM 7.

Looking at cooperatives and other forms of businesses, the following picture emerges in terms of location.
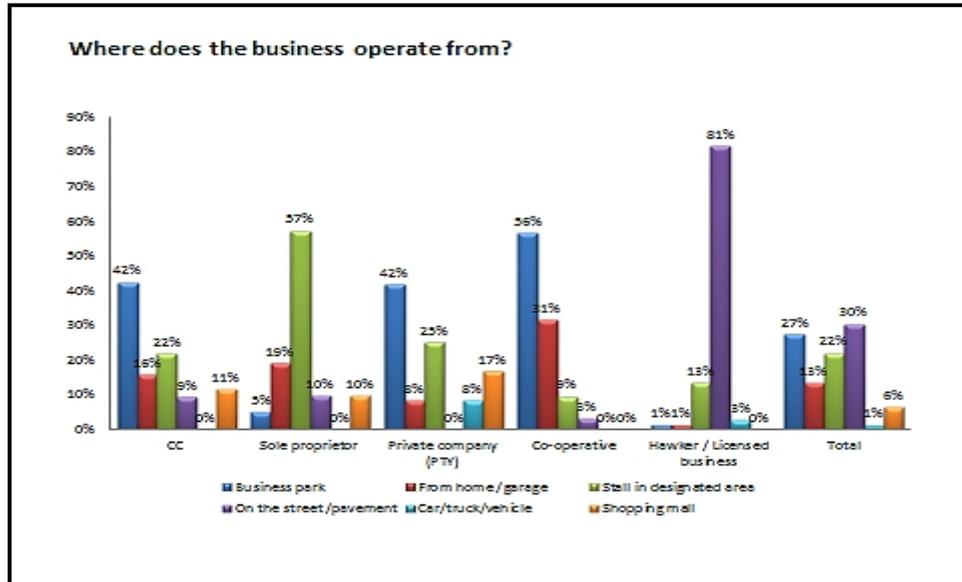
Figure 10. Where cooperatives operate from

Fifty six per cent of cooperatives operate in business parks with 31% operating from home. This is expected in the start-up years and considering the type of business.

Eighty one per cent of hawkers operate on the streets.

Forty two per cent of closed corporations and Ptys operate in business parks.

The creation of incubators in these business parks is thus one way GDED can grow the SMMEs in BSM 5 to 7. These businesses were operating from the Business Park already, and this very much encouraging as they have made things easier in terms of accessing them and identification of all their needs.

Fifty seven per cent of sole proprietors operate in the streets and these could be informal businesses, as they do not have to register. However and sadly, this situation is much similar to that of other African countries whose economies and level of competitiveness are far below that of South Africa as pictured below.

In Malawi, Kamuzu Banda built a market in Lilongwe for the informal sector to sell their products to tourists. He recognised the importance of the informal market and created a market linkage intervention.

*In Dar- es- Salaam, Tanzania, the informal market is lined up in Soweto Road. These businesses offer construction, carpentry, food services and more, and are open to buyers and not harassed by authorities. This is the **Jua kali** informal sector, which has made a huge contribution to the Kenyan economy.*

In Uganda, the informal sector businesses line the street from Entebbe airport to Kampala and these sell food to foot traffic, vegetables, curios and so forth. These businesses open from 08:00 and close past midnight. These businesses are thriving and vibrant!

In Zambia, the Soweto market exists where the informal sector sells products from water to the most expensive boerewors from South Africa to spare parts for cars. This is a place where people go for anything they need.

4.2.5. Business Infrastructure

In the current study, business infrastructure section can be compared to the section of Total value of assets of the organization that was used in the definition of small business act of 1996. The facilities available for the operation of a business are as expected. For example, BSM 1, 2, 3 and 4 operate in poorer conditions than their counterparts in BSM 5 to 7. The table below provides a summary:

Survivalists, very small and micro enterprises (BSM 1-4) have very poor access to the following:

Storage space;

Meeting rooms;

Poor business policies and plans like business and marketing plans, vision and mission statements, staff training plans, financial records, postal addresses, security guards, VAT registration. Surprisingly, they also do not have business bank accounts.

On the other hand, access to business facilities was slightly higher, but at a very low level for BSM 5 and 6. Only BSM 7 had reasonable access.

We sadly observe the fact that the aspects where the business is poor in, are the ones that are critical for running a successful business.

Table 4.2. Access to Facilities

Which of the following does your business have access to?

	BSM 1	BSM 2	BSM 3	BSM 4	BSM 5	BSM 6	BSM 7	Total
Running water	65%	75%	80%	75%	83%	96%	95%	80%
Electricity	30%	44%	40%	55%	84%	92%	93%	60%
Toilets inside	44%	66%	53%	49%	53%	53%	51%	54%
Toilets outside	9%	16%	26%	37%	79%	90%	92%	47%
Storage Room	6%	12%	29%	42%	54%	64%	77%	39%
A kitchen	5%	28%	23%	32%	44%	63%	63%	36%
Meeting / boardroom	2%	7%	15%	25%	42%	56%	53%	27%
A written business plan	2%	10%	18%	22%	32%	54%	63%	27%
A vision or mission statement	0%	0%	3%	10%	25%	67%	93%	25%
Written financial records	0%	0%	3%	10%	15%	43%	80%	19%
Written training plan for staff	0%	0%	0%	11%	22%	42%	72%	18%
Written marketing plan	0%	0%	1%	5%	17%	49%	71%	18%
Postal address	0%	0%	0%	5%	17%	37%	71%	16%
Phone / cell phone	0%	0%	1%	7%	7%	27%	61%	13%
Security guards	0%	0%	0%	1%	9%	33%	45%	11%
VAT registration	0%	1%	3%	6%	7%	23%	44%	11%
DTI registration	0%	0%	0%	0%	4%	10%	43%	7%
Business Bank Account	0%	0%	1%	1%	6%	15%	27%	6%

5. Conclusion and Recommendations

The main aim of this article was to discover the real identity of the SMMEs, informal sector and cooperatives in the Gauteng province of South Africa. To achieve this, the study conducted a Business Sophistication Measure (BSM), which culminated in categorizing those businesses in five different categories (Survivalists, very small, micro, small and medium), which correspond to seven different BSM categories (lower end (1 and 2), lower medium (3), medium (4), lower upper (5), and upper end (6 and 7).

It was then found that from medium to upper end categories of the SMMEs, the informal sector and cooperatives are worthy of support due to:

A variety of businesses they are involved in

Create more employment, as they involve other people in their businesses. In fact, 41-72% of these businesses use other people in these categories of 4-7 of BSM.

Growth is likely possible from BSM 5 to BSM 7.

Surprisingly, lower BSMs make more profit than upper BSMs due to higher cost of operating business, and high profit margins are possible when one operates as survivalist or very small.

The study discovered that 49% of SMMEs (BSM 1-4) operates from the streets, while BSM 7 operates in the shopping malls.

Finally, BSM 1-4 operates in poor conditions without the necessary facilities such as running water, storage, etc., while BSM 5-7 have reasonable access to decent facilities.

In brief, these are the characteristics of the SMMEs, informal sector and cooperatives as the 2016 baseline study reports. These findings constitute a paramount discovery that can support policy makers as well as funders to channel their aids for the development of these businesses.

We therefore recommend that supporting institutions become aware of these needs so that they can respond accordingly.

The study mentioned the lack of awareness of the support structures by the businesses, as the highest awareness rate being about 62%. It is recommended that these structures intensify their awareness campaign in order to efficiently support the businesses.

Another major issue uncovered in the study was the unwillingness of businesses to reveal their financial information. It is also recommended that the concerned shareholders run educational sessions about the importance of government having this information, and run trainings for all the necessary needs of the SMMEs.

Due to importance in job creation and driving completion by BSM level 5-7, it is recommended that supporting structures strength their interactions with these businesses and support them as they show potential for growth.

It is also recommended that once this report and the other area reports are completed, a GDED strategic planning workshop be held to distil all the relevant findings so that inputs can be made to guide the current Gauteng SMME Policy and Development Strategy.

It is important to make these strategies live documents, as they are a means of responding to current challenges and aligning them for a vision and strategic fit.

Concluding remark: A policy needs to be put in place to guide just how long an entrepreneur should be assisted in starting up, establishing their business and growing to higher levels. Once the expected time frame has been reached a critical review should be conducted to determine whether support should continue or stopped. Strategy will give more credence to the GDED support initiatives. This would also make it easy to monitor the performance of the various GDED agencies meant to develop and promote SMMEs. Cooperatives and the informal sector.

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