

FUNDAMENTALS FOR REVITALISING A TOWNSHIP ECONOMY

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ABSTRACT

It is a widely acknowledged problem that South Africa's township economies are largely underdeveloped and have limited access to resources such as information and sound business service advice. According to World Bank (2015) report, the townships and the informal settlements of South Africa are similar in much of the developing world. However, there is something distinct about the South African townships and informal settlements. They are not rural, not fully urban, lying somewhat in limbo. Unlike most urban slums, they are geographically distant from urban economic centres. Although South African townships and informal settlements account for 38 percent of the country's working-age population, they are home to almost 60 percent of its unemployed. Thus, the lack of economic activity in township and informal settlements lie at the very heart of the South African development challenge (World Bank, 2015:2)

The informal sector is that part of the economy, which is covering the marginal livelihoods and survival activities, which are outside the reach of the regulatory bodies of the state. This sector has in fact always been seen as a temporary safety net for the unemployed and marginalized groups of people. Its contribution to national economies has been growing significantly in many developing countries. Informal sector creates employment for the majority of people whilst labour absorption capacity of the formal sector declines (Beeton, 2010).

This study uses both qualitative and quantitative research methods on a cross sectional data collected from a sample of 100 informal traders in Nelson Mandela Metropolitan townships. The results show that there exists a very strong entrepreneurial culture in the townships but this culture is constrained by a number of factors; namely; inter alia, business processes, marketing issues, finance, local and foreign competition, family business succession and lack of co-operative approach to business.

Keywords: Township economy, Informal Sector, Small businesses

INTRODUCTION

Townships are the communities in which most of the diverse South African population lives. Stemming out of the oppressive era of Apartheid, when black, coloured and Indian residents were prohibited from living within the suburbs, townships earned the reputation of being poverty-stricken areas where clean amenities and facilities were lacking. However, over the past few years, townships have emerged from these challenges as a culture-rich environment, home to a large spectrum of this Rainbow Nation.

Most of the townships, particularly in Port Elizabeth, are still made up largely of shacks – homes made by the inhabitants out of corrugated iron, wooden pallets, even paper and cardboard. Clearly, there remain economic challenges within these areas, which are usually located on the outskirts of a city's commercial and suburban centre. RDP (Reconstruction and Development Programme) houses are continuously being erected by the government, and this growth is exponential in Nelson Mandela Bay. These are made of bricks and concrete and usually have access to electricity and water.

Despite various challenges, any visitor to the South African townships will notice the vibrant spirit that permeates the homes and residents. This sense of community is commonly referred to as "Ubuntu". Port Elizabeth's extensive townships are no exception. These townships include Motherwell, Zwide, Kwazakhele, KwaMagxaki, New Brighton, and Walmer. Walmer Township is the only such community right within the suburbs of Port Elizabeth. The remainder of the townships are generally situated between the two Nelson Mandela Metro towns of Port Elizabeth and Uitenhage / Despatch. As a result, the residents are generally dependent on the busses and taxis as public transport.

Townships are an intrinsic part of the history and current-day culture of the South African community. Locals and visitors to Nelson Mandela Bay alike are urged to indulge in one of these guided tours for a first-hand glimpse of the local way of life.

1. Problem and its setting

Nelson Mandela Bay has high levels of poverty and unemployment with 44% of the economically active being unemployed and 38% of the total households are highly impoverished (Nelson Mandela Bay Municipality, 2015). The unemployment of Uitenhage contributes a significant amount to the unemployment rate of the Metro. This indicates the need to accelerate a poverty alleviation strategy as well as the implementation of programmes and projects with huge potential for growth and development. Uitenhage has a well-established industrial area but due to

limited number of firms in the area, this industry is unable to absorb the totality of the unemployed in the region. Thus, some of the challenges faced by the Metro are issues like high unemployment and dependency ratios as unemployment rate is at 36.3 percent versus 28.8 percent (the national average) and the high dependency on the automotive sector.

Other challenges entail the economic underperformance of the metro against other Metros and due to the rise in basic services such as water and electricity, the Metro has declined in competitiveness as an investment destination. Finally, due to economic downturn the region has experienced slow growth and the NMB's infrastructure is ageing and there is not enough investment to maintain it, this puts more pressure on business retention and investment attraction (Nelson Mandela Bay Municipality, 2015). Therefore, even though the Nelson Mandela Bay Metro is an important contributor to the economy of the province of Eastern Cape, the economy of the region continues to suffer and many of the youth that academically qualify to enter job market leave the region for Cape Town and Gauteng where there are job opportunities and no development takes place in the bay.

Looking at the challenges faced by the metro at large, it is important to invest and revitalise the township economy as this will encourage many of the discouraged and unemployed workers not to rely on the formal economy but to get up and set up their own Small Medium and Micro Enterprise (SMME). Furthermore, the revival of township economy will also boost investment into the townships as this is where the market is even for the formal economy.

2. Objectives of the study

The primary objective of this study is to explore the determinants of township entrepreneurship in Nelson Mandela Metropolitan areas. The secondary objectives are as follows:

- To analyse the demographics of the township entrepreneurs
- To analyse the determinants of incomes in the township businesses
- To explore the township business activities
- To analyse the constraints facing township businesses
- To provide recommendations on the fundamentals for revitalisation of the township economy

3. Research methods

This research is based on both the qualitative and quantitative research methods. Both quantitative and qualitative research methodologies were employed in this study. In order to

provide an accurate presentation of information face-to-face interviews with the owners of the small businesses were conducted. Face-to-face interviews provide an opportunity to observe and verify practically the procedures in place.

The fieldworkers asked questions beyond those included in the questionnaires. This was particularly aimed at gaining qualitative data. The strength of qualitative data is based on the fact that data collection is focused on naturally occurring, ordinary events in natural settings. Thus, the data have a strong handle on real life, have richness and holism.

3.1 Sampling procedures

Since this study is explorative in nature, a non-probability convenience sampling technique was applied. The researchers randomly selected the sample from the townships of the Nelson Mandela Bay, namely, Kwa Nobuhle, KwaMagxaki, KwaZakhele, Zwide and New Brighton. The researchers ensured that the respondents were drawn from different industrial sectors and that the sample is representative of the population active in this sector. The total number of questionnaires received is 100 and only two were not usable. This brings the total sample to 98.

3.2 Reliability of the research instrument

A structured questionnaire was used as a survey instrument. The questionnaire consisted of both closed and open-ended questions. In order to test for the reliability of the questionnaire a Cronbach alpha coefficient was used. The results of a Cronbach alpha coefficient are reported in table 1 below:

Table 1: Cronbach alpha coefficient

Average inter-item covariance:	10.395332545
Number of items in the scale:	60
Scale reliability coefficient:	0.8140

The closer Cronbach alpha coefficient is to 1 the more reliable an instrument is. The results show a Cronbach alpha coefficient of 0.81 meaning that the instrument used in this research can be considered reliable.

3.3 Triangulation

The purpose of triangulation in qualitative research is to increase the credibility and validity of the results. Several scholars have aimed to define triangulation throughout the years. For example, Cohen and Manion (1986:254) define triangulation as an “attempt to map out, or explain more fully, the richness and complexity of human behavior by studying it from more than one standpoint”. According to O’Donoghue and Punch (2003:78), triangulation is a “method of cross-checking data from multiple sources to search for regularities in research data”.

Denzin (1978) identified four basic types of triangulation, namely, data triangulation (involves time, space and persons), investigator triangulation (involves multiple researchers in an investigation), theory triangulation (involves using more than one theoretical scheme in the interpretation of the phenomenon) and methodological triangulation (involves using more than one method to gather data). In this study, the methodological triangulation was used, namely, use of questionnaires, interviews and observations.

3.4 Data analysis

Data is analysed both qualitatively and quantitatively. In this regard, the data was analysed using least squares regression model and analysis of variance (ANOVA) technique on a cross-sectional data. Qualitative responses helped to strengthen the quantitative findings. Furthermore, literature survey, both theoretical and empirical is presented in order to provide a conceptual framework of the study.

4. Presentation of empirical results

In this section of the paper we present the empirical results of the surveys amongst the small business owners in the townships of the Nelson Mandela Bay.

4.1 Demographic information of the respondents

Table 2: Gender

	Freq.	Percent	Cum.
female	63	64.29	64.29
Male	35	35.71	100.00
Total	98	100.00	

Survey data (2017)

More than half (64%) of the respondents were females. Involvement of women in the township economy has a long history which spreads from the days of the apartheid regimes and before. During the apartheid regime, most men worked away from homes in the mines. Women were left with children at home and had to support the meagre incomes of men from the mines. It is common in the townships to see women selling everything from bags to clothing including foods, fruit and vegetables. Up to this day many women sell at schools during break times and also in the streets as hawkers. It is therefore not surprising to see that women are in the majority of active township entrepreneurs in this study.

4.2 Age groups of the respondents

Table 2: Age

Variable	Obs	Mean	Std. Dev.	Min	Max
Age	98	42.92857	8.161072	21	52

Survey data (2017)

The minimum age of the respondents range anything between 21 and 52 years. The interest in this paper is on the magnitude of youth entrepreneurs versus adult entrepreneurs, namely those below 35 years and those above 35 years of age. The results are reported in table 3 below:

Table 3: Age groups of the respondents

Age <35						
	%	n	Mean	Std. Dev.	Min	Max
	16.0	16	28.5	4.242641	21	33
Age >35						
			Mean	Std. Dev.	Min	Max
	84.0%	82	45.7439	5.222957	38	52
Total	100%	98				

Survey data (2017)

From table 3 above it can be noted that the majority (84.0%) of the entrepreneurs in the township economy are beyond the youth age category of 35 years. Youth category constitutes only a small percentage (16%; n=16). Clearly young people are not attracted to township economic activities but would rather join job-seeking cohort. The shocking truth is that South Africa’s estimated 40+% youth unemployment rate is among the highest in the world. This is further compounded by a 16% decline in entrepreneurial skills among 18 – 34 year olds (GEM, 2011). Youth Unemployment rate in South Africa increased to 55.90 percent in the second quarter of 2017 from 54.30 percent in the first quarter of 2017. Youth Unemployment Rate in South Africa averaged 51.93 percent from 2013 until 2017, reaching an all-time high of 55.90 percent in the second quarter of 2017 and a record low of 48.80 percent in the fourth quarter of 2014 (tradingeconomics.com, 2017). Clearly township economy is not yet appealing to the youth in the Nelson Mandela Metro.

4.3 Education levels of the respondents

The respondents were asked to indicate their level of education. The results are indicated in fig 1 below.

Fig 1: Education levels of the respondents

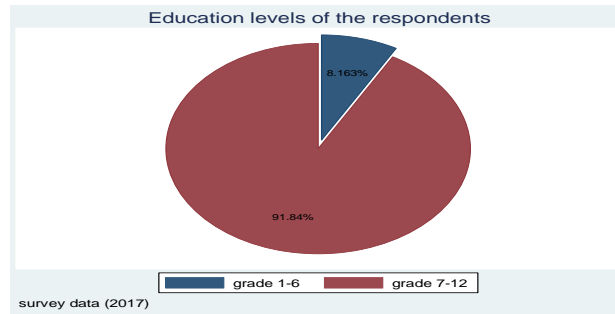


Fig1 above shows that the overwhelming majority (92%) has grade 7 to 12 education level whilst only 8% had a less than grade 7 level of education. It is pleasing to note that a large number of respondents are exposed to formal education system. Clearly these entrepreneurs had no opportunity to go to a university and found opportunities to better and improve their livelihoods in business activities. This finding fosters the idea that starting entrepreneurship at universities or institutions of higher learning is a mistake. Placing entrepreneurship only in the syllabuses of the universities assumes that everyone has an opportunity to enter the university. It is important to introduce entrepreneurship education at the school level so that when individuals for some reason(s) cannot access university education, individuals would have some foundation and solid background on entrepreneurship.

4.4 Forms of ownership

The respondents were asked to indicate their forms of businesses as forms of businesses are important in business processes. The results of business ownership are shown on table 4 below:

Table 4: Forms of ownership

	Freq.	Percent	Cum.
partnership	10	10.20	10.20
sole owner	88	89.80	100.00
Total	98	100.00	

Survey data(2017)

The overwhelming majority(90%) are sole owners of the businesses whilst 10% indicated that they operated as partners in business. These results reflect a lack of co-operative approach to business. Clearly small business owners in Nelson Mandela Bay are uncomfortable with working in partnerships or co-operatives. Through group work or working through co-operatives yields economies of scale amongst independent entrepreneurs. Further entrepreneurs can use joint purchasing (bulk-buying) and marketing strength. The co-operative enterprises combine the supply and demand of goods and services of its members, and thus increase their bargaining power in the market place. Despite these benefits most township businesses operate on sole proprietorship basis. There are a number of reasons for this; *amongst others*, is a lack of trust amongst the small business owners. People do not feel comfortable for others to know how much income they generate. Further there is a competitive spirit amongst the township entrepreneurs. Since a large number of them sell similar products they attract same customers. It then becomes the survival of the fittest. This competitiveness to some extent prevents working as a group. Although an African society is based so much on social cohesion and tradition which binds the community together, such togetherness and/or group cohesion is not witnessed in business setup but rather individualism.

4.5 Period of business

This question related to how long in the business has been running in number of years. Period of business is reported in table 5 below:

Table 5: Period of business

Variable	Obs	Mean	Std. Dev.	Min	Max
period	98	9.908163	8.632338	1	41

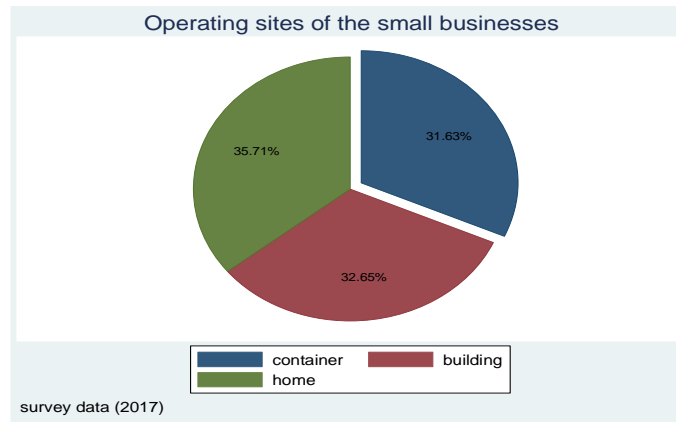
Survey data (2017)

Small businesses included in the sample had been operating from a period of one year to a maximum of 41 years. These are long standing businesses. Clearly there must be something right that these businesses are doing in order to last that long. Generally, about two-thirds of small businesses survive at least two years and about half survive at least five years (Business Facts, 2012). This means that the small businesses in the townships are resilient and can survive various types of economic situations. This is a survivalist sector and the entrepreneurs have no other alternatives. Their livelihood depends entirely on the survival of their businesses.

4.6 Business sites

Business sites are important in as far as the marketing of the businesses are concerned. Business sites of the respondents are reported in fig 2 below.

Fig2: Operating sites of the small businesses

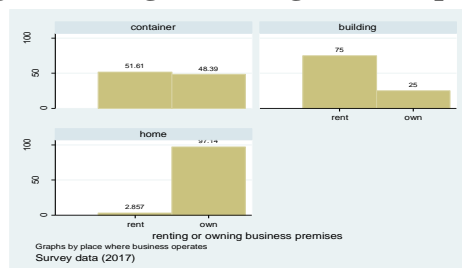


The operating sites of the township small businesses are almost equally spread but with a larger percentage (36%) being from home. Approximately one third operates from some old business buildings whilst the remaining one-third operates from containers. Those that use containers either rented a container or owning it. Those who operated from home were mainly living in RDP Houses (government subsidised house). It is pleasing to note that these entrepreneurs derive some economic benefit from subsidized government houses. This implies an improvement in social welfare through government housing provision in the Nelson Mandela Bay.

4.7 Renting or owning business sites

The respondents were asked if they owned or rented the spaces where they operated their businesses. This question seeks to determine the extent of the overhead costs faced by the small business owners in the townships.

Fig 3: Renting or owning business places

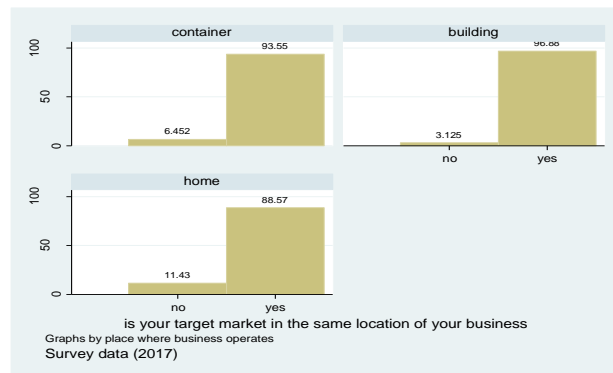


With the exception of home as a place for business, the majority of entrepreneurs rent the spaces where they operate, namely, buildings (75%) and containers (51%). The advantage with the business from home is saving on overhead costs. However, it is pleasing to note that whether the business is operated from home, container or building, the majority of the respondents mentioned that their businesses were located where their target markets are as seen fig 4 below:

4.8 Target markets and business location

As part of marketing of the businesses the places where these businesses are operating are important. The respondents were asked if their businesses were placed where their target markets were. The responses are indicated in fig 4 below:

Figure 4: Target market and business location

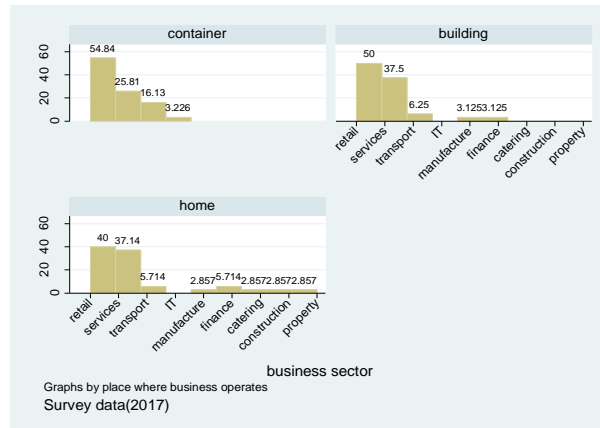


From figure 4 above it is clear that the township entrepreneurs operate within the spaces of their target market. Unlike street traders, these entrepreneurs save on storage as well as travelling costs. Usually the containers are located adjacent to the homes where the owners live.

4.9 Business activities and business places

Having described the business places as well as the target market proximity, the next was to determine which business activities take place in these spaces. The responses are reported below:

Fig 5: Business activities and business places



The majority (54%) of township businesses are in retail sector, followed by services sector and transport. These businesses are mainly run from home and in some old buildings in the townships. The reasons that most of township businesses are operated from homes are that there are less overhead costs. Further many of these entrepreneurs own these homes and therefore do not have to pay rent.

4.10 Family business succession plans

For most family businesses, planning for succession is the toughest and most critical challenge they face. Yet succession planning can also be a great opportunity to maximize opportunities and create a multi-generational institution that embodies the family’s values and mission for generations to come. In this paper, we explore the extent to which the township businesses plan for the succession in their businesses. The results are reported in table 6 below:

Table 6: Family business succession plan and passion in business

Succession plan	Rate family business passion			Total
	low	medium	high	
No	18	17	13	48
Yes	3	10	37	50
Total	21	27	50	98

Survey data (2017)

The split between those businesses with a family succession plan and those without a succession plan is almost equal; with those with succession plans being 51% and those

without being 49%. This scenario poses a high risk in the township entrepreneurship in that many businesses which were thriving during the apartheid era in the township are today in ruins. Nelson Mandela Bay locally owned township businesses have become shadows of their former selves, making not nearly as much money as they did in their heyday. Shop owners, street vendors and other business owners have taken quite a knock, with some forced over the years to close down, while others are hanging on by a thread. Once the vibrant economic hub of the city's most populous townships, the Njoli and Embizweni squares bear remnants of old business activity, with some unkempt buildings sporting faded logos of businesses that once stood there. Some of those that now stand are said to be barely making it. There are a number of reasons for this situation of which one of them is failure to make family succession plans for businesses. Absence of proper succession plans places the continuity of township businesses at risk.

Businesses succession is also informed by the extent of passion for business amongst the family members. In this paper we explored the extent of family passion for business by asking the respondents to rate the family passion for business from 1 to 3; 3 being high passion. In table 6 thirty-seven (37) of the businesses with succession plans in place also rated the family passion for business high.

4.11 Marketing strategies

Marketing strategies play an important role in the success of the business. It is important to explore what sort of strategies are used by township businesses. The responses are reported in table 7 below:

Table 7: Marketing Strategies

Marketing strategy	Freq.	Percent	Cum.
Wordofmouth	82	83.67	83.67
Printmaterial	10	10.20	93.88
Socialmedia	6	6.12	100.00
Total	98	100.00	

Survey data (2017)

The overwhelming majority (84%) of township businesses depend on word of mouth marketing strategy. As much as word of mouth is the least expensive way of marketing a business, it has its limitations in that the businesses remain constrained within their surrounding areas. These businesses cannot reach far places and this is a huge limitation in business expansion. It is no wonder that most township businesses have remained static

over so many years. In this day and age use of social media has taken over in many circles of the society and many people are having access to the social media. Nonetheless use of social media would constitute a cost to these small businesses because data is expensive in South Africa.

The evidence in table 8 below shows that a large number of respondents indicated that they cannot afford the data.

4.12 Data affordability

Social media depends on the availability as well as the cost of data. The responses with respect to the affordability of data amongst small business owners in Nelson Mandela Bay are reported in table 7 below:

Table 7: Data affordability

Data affordability	Freq.	Percent	Cum.
No	90	91.84	91.84
Yes	8	8.16	100.00
Total	98	100.00	

Survey data (2017)

The majority (92%) of the township entrepreneurs regard data as being unaffordable. It is a well-known fact that data is expensive in South Africa. This poses a constraint to the marketing strategies of the small businesses in the township. It therefore follows that in order to revitalise this sector negotiations and talks with the government’s communication department should be initiated as a strategy towards revitalisation of township economy.

With respect to competition the respondents were asked to indicate who their competitors were. The responses are shown in fig 6 below:

4.13 Competition

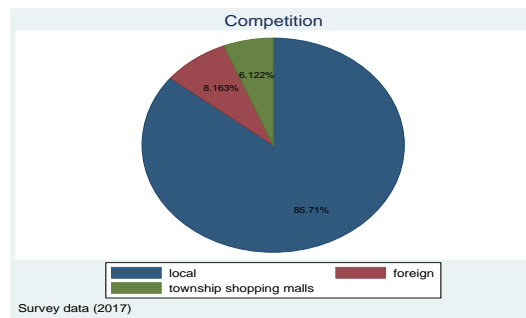


Fig 6: Competition in township businesses

The overwhelming majority (86%) indicated that they faced competition from local businesses. These local businesses sell similar products in the townships. It is no wonder that the township businesses fail to work in groups or a co-operative.

As reported earlier in this paper that the township businesses operate as sole owners and a very few operate in partnerships. Only a small fraction considered the township shopping malls as competition. This is due to the fact that most of the township business owners buy stock from the township malls and resell these from their own spaza shops. Township shopping malls bring stock closer to the township small businesses. This situation is ironic in the sense that instead of the large shopping malls in the township destroying small businesses, it is witnessed in many parts of the South African townships that a number of small informal street trading businesses emerge adjacent to these malls. These street traders capture those clients who are going to the malls through lower prices compared to the prices charged in the malls. To this end we assert a view that township shopping malls create spaces for a vibrant business environment in the townships. Adjacent to these township malls one would find informal businesses such as food stalls, tyre repairs, fruit and vegetables stalls, clothing, household goods, exhaust pipe repairs etc.

4.14 Annual average turnovers in township businesses

The respondents were asked to indicate their annual average turnovers in order to ascertain business performance in terms of income. The annual average turnovers are reported in table 8 below:

Table 8: Annual average turnover (2012-2016)

Variable	Obs	Mean	Std. Dev.	Min	Max
ave_income	98	50971.44	128226.9	2000	1230001

Survey data (2017)

The annual average turnovers of the township businesses range from R2000 to R1,2 million per annum. Form these figures it can be noted that the performance of the small businesses in the township is quite diverse and that they have a potential for wealth generation.

Figure 7: Annual average turnovers and period of business

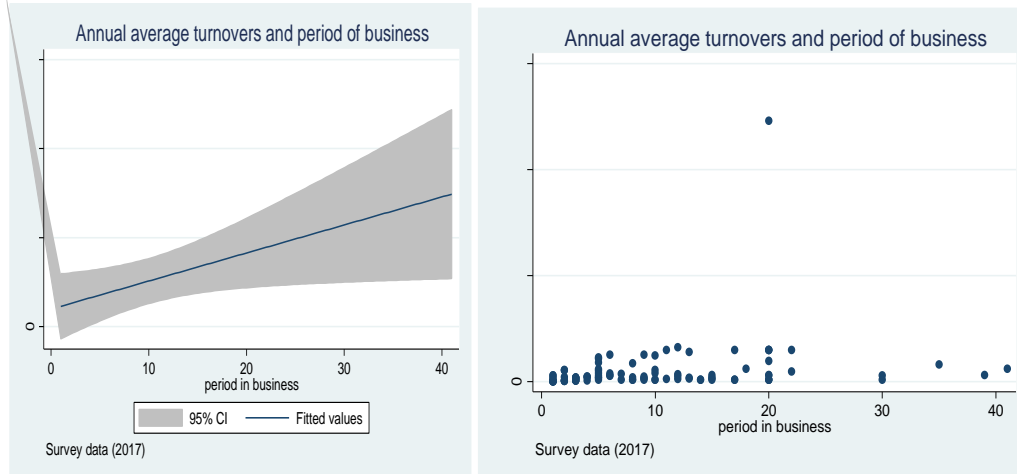


Figure 7 above (left panel) shows a positive relationship between annual average turnovers and period of the township businesses. The right panel shows that the majority of the business annual average turnover is below R500 000. However, there is only one case which makes around R1,2 million annual average turnover. Notwithstanding the potential for high income level it cannot be denied that generally the income of the township small businesses remains low.

Having outlined descriptive statistical analysis, the next section presents ordinary least squares (OLS) regression results and analysis of variance (ANOVA) technique results on some selected variables.

We use the annual average turnover of the township businesses as a proxy for business performance and/or success. Use of business turnover is an objective measure of the business performance. Most studies use objective measures such as business survival, sales revenue or growth and employment level or growth (Robinson, 1982; Solomon & Weaver, 1983; Chrisman, Nelson, Hoy & Robinson, 1985; Chrisman, Roy, & Robinson, 1987; Chrisman & Leslie, 1989; Chrisman & Frances, 1994; Lerner, 1996; Chrisman, 1999; Chrisman, Gatewood&Donlevy, 2002; Chrisman, McMullan & Hall, 2005). Some studies used all three types of measures (Chrisman, Roy, & Robinson, 1987; Chrisman, Gatewood&Donlevy, 2002). Due to difficulties and complexities for small businesses in the townships to workout net profits after taking care of all their costs, it was safer to work

with total sales as an objective measure for business performance in line with the rest of the other scholars.

The estimation technique that we use to model the township economy is ordinary least squares on a cross-sectional data. In order to detect any significant differences amongst the selected variables, analysis of variance technique (ANOVA) was performed.

The regression equation takes the following functional form:

$$\text{ave}Y_{it} = \delta\theta_{it} + \mu \tag{1}$$

where:

aveY_{it} = annual average turnover of each business over the last five years (2012-2016)

δθ_{it}= respondents entrepreneurial attributes

μ = stochastic error term

The entrepreneurial attributes used in the model are shown in equation 2 below:

$$\text{lave}Y_{it} = \beta\text{Gender}_i + \beta\text{age}_i + \beta\text{education}_i + \beta\text{period}_i + \beta \text{days_week}_i + \beta\text{site_daily}_i + \beta\text{person_ops}_i + \beta\text{reasons}_i + \beta\text{exp_bus}_i + \beta\text{salary}_i + \beta\text{trade_assoc}_i + \beta\text{water}_i + \beta\text{electricity}_i + \beta\text{similar_bus}_i + \beta\text{market_resp}_i + \beta\text{fam_inv}_i + \beta\text{fam_success}_i + \beta\text{lhours_day}_i + \mu_i \tag{2}$$

The ordinary least squares results are reported in table 8 below:

Table 8: Ordinary Least Squares regression results

DepVar laveY _{it}	Coef.	Std. Err.	t	P>t
gender	- 0.0780	0.30 68	- 0.254	0.8001
Age	0.046 1	0.01 96	2.35 1	0.0212**
education	- 0.3580	0.55 20	- 0.648	0.5186
period	0.038	0.01	2.04	0.0440**

	9	90	7	
days_ week	0.439	0.13	3.19	0.0020***
k	3	74	8	
site_daily	0.501	0.52	0.96	0.3385
	8	11	3	
person_ops	0.103	0.37	0.27	0.7836
	3	49	6	
reasons	0.651	0.28	2.28	0.0251**
	9	55	4	
exp_bus	1.263	0.56	2.23	0.0281**
	9	48	8	
salary	0.101	0.33	0.30	0.7612
	8	36	5	
trade_assoc	0.487	0.48	1.00	0.3191
	8	65	3	
water	0.326	0.33	0.96	0.3368
	6	80	6	
electricity	0.154	0.33	0.45	0.6505
	4	94	5	
similar_business	0.268	0.33	0.80	0.4212
	1	16	9	
market_research	0.446	0.21	2.09	0.0394**
	0	29	5	
fam_inv	0.143	0.21	0.67	0.5048
	6	43	0	
fam_success	0.199	0.35	0.56	0.5722
	9	24	7	
lhours_day	0.464	0.37	1.22	0.2248
	1	94	3	

Significance :***(1%),**(5%), *(10%)

Number of obs = 97 ;F(18, 79)= 306.07; Prob> F= 0.0000; R-squared = 0.9859; Adj R Squared = 0.9826; Root MSE = 1.3244

The results in table 8 above shows a positive relationship between annual average turnovers of the township businesses and the entrepreneurial attributes except for gender and education. This

means that males were likely to make higher average annual turnovers compared with their female counterparts. This sector is female dominated and most of these women have established long term standing connections and relationships with their clients. Involvement of women in the informal sector comes a long way in the history of South Africa. Women supported their husband's meagre incomes from wage labour with the proceeds from informal sector businesses (Ncwadi, 2003; Ncwadi, 2010). The fact that women realise lower annual average turnovers compared with men reflects constraints faced by women in this sector.

Age and annual average turnovers also have a positive relationship. Evidence from the data shows that most people who are operating in small business sector in the townships are beyond 35 years which is a cut off age for youth. The absence of youths in the small business sector in the townships is a major concern in view of the high unemployment amongst youths in South Africa. Kingdon and Knight(2001) raise a very important question regarding the South African informal sector and that is why do the unemployed not enter self-employment – is it voluntary or are they prevented by barriers to entry? Economic behaviour is always voluntary; economic agents invariably have at least some room for manoeuvre and choice. The real question is whether the available set of options is so limited as to render unemployment involuntary for practical and policy purposes. Flowing from the work of Kingdon and Knight(2001) one can approach the matter of limited involvement of the young people in the township businesses in a similar fashion as to whether our youth unemployment is voluntary or involuntary and also whether there are any barriers to entry in township small businesses or not. However, such investigation falls beyond the scope of this paper.

The relationship between education and average annual turnover can also be explained in relation to the age of the respondents. Since the majority of the people active in township businesses are beyond the age of 35, many of these people left school earlier in their lives and many of them never had an opportunity to be exposed to higher education. These results mean that the probability of the respondents with lower level of education to make higher incomes is higher than those with higher level of education. This finding reveals that the success in the township businesses is not merely dependent upon hard sciences taught at the institutions of higher learning but rather on informal arrangements. The township economy is about the battle for survival and only the fittest can survive in this environment. Thousands of people graduate from universities every year with qualifications that give them “soft skills” in the social sciences, but relatively few qualify with hard skills that have practical application. A person who has practical skills is just or even more employable than someone with high-level theoretical skills. This does not mean that social sciences are unimportant, but merely indicate that there is a relative oversupply of people in many social sciences disciplines. The regression results on

education reveal an important finding that township economy is not based on “soft skills” but rather on application and practical skills. People in the townships learn by doing.

Amongst the variables used in the above regression model, six of them are statistically significant, namely, age, period, reasons, willingness to expand business and market response, all at 5% level of significance. The number of days worked per week is significant at 1% level. In terms of period, the longer a period of business is the higher the probability of increasing the incomes of that business. This can only prove that the township businesses are bound together by long term relationships with the customers. Most of the customers are next door neighbours to these businesses. They bring goods and services at the door step of the communities and therefore save the people from having to travel to the stores far away in town. The customer is thus more than just a customer but is related to the business as a neighbour. In most African communities neighbours are bound together by traditions and relationships. This relationship is a cornerstone of a customer base for the township small businesses.

Reasons for starting a business are essential. This relates to the neoclassical theory of a firm which looks at the objectives of a firm (Ncwadi, 2010). In microeconomics, the objective of a firm is to maximise profits. The respondents were asked to state reasons why they started a business. Three alternatives were given as responses to these questions, namely, unemployment, desire to be own boss and identifying business opportunity. Overwhelming majority (69%) started the business due to unemployment, whilst (29%) indicated that they desired to be their own boss. Only a small fraction (2%) identified a business opportunity. Clearly people do not see business opportunity in the township but regard township economy as ‘an ugly step-sister’ of the formal economy. Township economy is regarded as serving the destitute, poor and unemployed, hence most youths do not see it as lucrative. Despite these different reasons for starting a business in the townships, the bottom line that connect all these various reasons is profit maximisation.

Willingness to expand the business relates to vision. Business success is infirmed by the vision of the business leader. This study finds vision and success positively and statistically related. This means that township businesses owners are looking beyond their current situation. Exploring the barriers to expand township businesses is essential in order to ensure that no barriers exist which will constrain such expansions.

The respondents were asked to rate their market responses where they are running their businesses. The ratings ranged from low to good. The results show a positive and statistically significant relationship between a good market response and the average annual turnovers of the businesses. The number of days worked per week is also positively related to average annual

turnover and is also statistically significant at 1% level. The number of days worked per week reflects an effort placed by the township entrepreneurs to make income. Approximately 48% of the respondents work full seven days per week.

The overall regression model is significant with the F-statistics greater than the critical F-stat at 1% level of significance. The R-squared and the adjusted R-squared is 98%; meaning that the model explains 98% variations in the dependent variable, namely, annual average turnover of the township businesses.

Having outlined the regression results it is important to detect whether there be any significant differences amongst the variables used in the ordinary least squares regression model above. The analysis of variance and covariance (ANOVA) was used to test for significant differences amongst these variables. The ANOVA results are reported in table 9 below:

Table 9: Analysis of variance and covariance

Source	Seq. SS	df	MS	F	Prob>F
Model	9755.07821	67	145.598182	93.42	0.0000***
gender	3492.90721	1	3492.90721	2241.24	0.0000***
age	6075.5209	9	675.057877	433.15	0.0000***
education	9.98663492	1	9.98663492	6.41	0.0168**
period	58.9502209	22	2.6795555	1.72	0.0833*
days_week	60.4329945	4	15.1082486	9.69	0.0000***
site_daily	.642629154	1	.642629154	0.41	0.5257
person_ops	1.0916078	1	1.0916078	0.70	0.4093
reasons	4.5478638	2	2.2739319	1.46	0.2485
exp_bus	4.02636127	1	4.02636127	2.58	0.1185
salary	.207588737	1	.207588737	0.13	0.7177
trade_assoc	.325563061	1	.325563061	0.21	0.6509
water	5.71724291	1	5.71724291	3.67	0.0650*
electricity	2.98227076	1	2.98227076	1.91	0.1768
similar_bus	.545940051	1	.545940051	0.35	0.5584
market_resp	3.14821847	2	1.57410923	1.01	0.3763
fam_inv	3.68172985	2	1.84086493	1.18	0.3208
fam_success	.47808998	1	.47808998	0.31	0.5838
hours_day	29.8851498	15	1.99234332	1.28	0.2744

Residual	46.7541729	30	1.55847243		
Total	9801.83239	97	101.049818		

*Significance :***(1%),**(5%), *(10%)*

Number of obs = 97 R-squared = 0.9952, Root MSE = 1.24839

Adj R-squared = 0.9846

In the above analysis, significant differences were found to be related to gender, age, education, period of business, number of days worked per week and access to water. The differences between males and females in terms of the annual average turnover is significant at 1% level of significance. Males’ annual average turnover is higher than that of females. Clearly the township economy has not yet responded favourably to women empowerment endeavours in South Africa.

There are also significant differences between the various age groups. The older folks’ annual average turnover was higher than that of younger than 35 years of age. The differences in terms of education are significant at 5% level. As mentioned from the OLS regression results, respondents with lower levels of education who also happened to be the older folks in the sample tended to obtain higher annual average turnovers compared to those who had higher level of education. The differences amongst the period of business and annual average turnovers are significant at 10% level, meaning that the businesses which were operating for longer periods had higher levels of annual average turnover compared with those which were running for shorter periods. The results also show significant differences with respect to the number of days worked per week at 1% level of significance. This simply means that the more days a business is open the higher the annual average turnover will be.

The last of these findings is water which is a proxy for infrastructure. The results suggest that there are significant differences in terms of annual average turnover with respect to access to water at 10% level of significance. This finding suggest that infrastructure plays an important role in the success of the township business. Water tariffs are high for small township businesses especially for hair stylists and fast food outlets. This finding calls for an exploration into how the local municipalities can balance the social goals of helping the poor communities and reduce poverty whilst at the same time they maintain their sustainability. Whilst this notion falls beyond the scope of this research it is important to point out that the role of the local municipalities in supporting the township economy can never be overemphasised.

5.Implications of the findings

Township economy plays an important role in the economy of the Nelson Mandela Bay. It is informal in nature and contributes towards the livelihoods of the peoples in this region. It serves as the basis for poverty alleviation for a large number of people who would have otherwise been immersed in extreme poverty. The townships in the Nelson Mandela Metropole are a mixture of shacks and RDP houses with a large population consisting mainly of unemployed youth. Like in many other parts of South Africa, the townships in the Nelson Mandela Metropole suffer from structural problems created by the Apartheid regime. A large number of township businesses which were prosperous during the Apartheid regime are now found to be laying in ruins. These businesses have completely shut down with their buildings falling apart. A large number of people depend on social grants or low wage work in the metro. At the same time, there is a growing number of foreign owned businesses which are thriving in the townships. Several xenophobic attacks have been witnessed in many townships of South Africa including Nelson Mandela Bay townships. In the centre of these xenophobic attacks is the claim that foreigners are competing away local township businesses with many people asserting a view that the foreigners charge lower prices compared to those of the locals. Given these scenarios it becomes essential to think around the way and the manner in which township economy can be revitalised in order to restore the once glorious township economy that was prevailing pre-1994.

In order to respond to the question of township economy revitalisation the paper began by exploring various definitions of entrepreneurship from various schools of thought. In the context of this study entrepreneurship is defined as who is starting or managing a business which is partly or wholly owned by the individuals. The business can be in any economic sector. The majority of small businesses in the metro are owned by sole proprietorship and only few are in partnerships. This means that the township economy lacks co-operative approach in business. This is a stark difference between foreign owned and South African owned township businesses(Ncwadi&Hikum, 2014).

The Nelson Mandela Bay township economy is female dominated yet females realise lower annual turnovers compared to their male counterparts. This is due to a number of constraints facing women entrepreneurs. Amongst others, women are faced with multiple tasks, namely, taking care of their households and seeing to children whilst men are much more connected and spend most of their time in business. With respect to age, people involved in the township businesses are beyond age 35 (youth age) despite the fact that a large number of youths are unemployed. A big question is why young people do not find township economy attractive despite high unemployment?

It is pleasing to note that the majority of township entrepreneurs have been exposed to formal education. Nevertheless, the evidence shows that township economy does not necessarily depend on 'soft' skills but on practical hard skills. Township entrepreneurs learn by doing, hence our OLS regression shows a negative relationship between education and average annual turnover. People are making it in the township businesses despite not being highly educated. Township businesses which have been operating for longer periods tended to make higher annual turnovers than the new start-ups. This is obvious in the sense that the businesses which have been running for long periods have established links and connections with customers who are loyal to them. This means that strategies for the sustainability of the township businesses are important. This research revealed that the majority of township businesses are in retail sector as well as services sector. This is mainly because of ease of entry into retail as well as services sectors. There are no special technical skills needed in these sectors. People sell fruit, vegetables, sweets, clothing, bags, jewellery etc. Those in the services sector run hairdressers, tyre repairs, exhaust pipes fittings etc. These businesses are run mainly from houses of the respondents. These houses are government subsidised houses (RDP houses). The implication of this is the social welfare improvement through government subsidy towards houses which are used as economic assets by the owners.

Like any other business, township businesses also need to do some marketing. This study revealed that most businesses use a word-of-mouth marketing strategy. The other forms of marketing, namely, print material and social media are not affordable by the respondents. Whilst word-of-mouth marketing strategy is affordable it has its limitations in that this marketing strategy cannot go far enough to reach customers in other areas. The main reason for using word of mouth marketing strategy is because most respondents feel that data is expensive and therefore cannot afford to use social media to market their businesses. This calls for a review of data costs in South Africa.

The respondents expressed a view that their competitors were mainly businesses that sold similar goods. However, township businesses do not compete on prices but rather use other forms of competition namely, customer relations. Very few intimated township malls and foreigners as competitors. This is simply because these businesses see the township malls as their wholesale. They buy their goods from these malls and resell these goods in their business outlets. Foreign owned businesses are also mainly mini-grocery stores with lower prices than locally owned shops. These foreign outlets also serve as wholesalers for some of the South African owned businesses. There is therefore a great potential for a closer working relationship with foreign owned shops provided appropriate policies can be in place to manage such relationships.

With respect to incomes of the township businesses, the results suggest that this sector has a potential for wealth generation. The minimum annual average turnover amongst the township businesses is R2000 whilst the maximum is R1,2 million. Clearly this sector provides an escape from abject poverty. Notwithstanding the potential for raising incomes and generate wealth a large number of township businesses are stuck with low income levels below R500 000 per annum. There is only one odd case where income per annum reaches R1,2 million. This township business is a role model for success in the township. It is amazing to note that in a poverty-stricken place where unemployment is high, yet there are small businesses that can raise high levels of incomes.

The determinants of incomes in township businesses are explained in the regression model. Our regression model shows that variables that best explain variations in the incomes are age, period of business, number of days worked per week, reasons for starting a business, willingness to expand the business and market response. The implication of this finding is that the township business' success depends upon the effort put by the owners in business activities as well as sustainability of these businesses. The longer the period the higher the turnover of the business. Willingness to expand business relates to visionary leader. This implies that township business owners are not just working from day to day but have future plans. These future plans serve as an impetus to work hard and keep going against all odds. It is concerning the fact that few young people are involved in the township businesses. This sector is still seen as a space for the destitute, poor and needy with which the young people do not want to be identified.

6 Recommendations

In order to revitalise the township economy of Nelson Mandela Metropolitan areas, it is important to consider certain important elements. These elements are infrastructure, forms of business, innovation (*proxied by willingness to expand business*), marketing, youth entrepreneurship, gender, family business succession and education. In the middle of these eight pillars is an entrepreneur. The entrepreneur is the manager who organises and bring together the other factors of production. Our recommendations relate to these aforementioned elements which are discussed in the following sub-sections.

6.1 Infrastructure

The first thing that needs urgent attention in revitalising the township economy is the provision of a good infrastructure. This study proved that businesses that had access to water had higher

incomes than those without access to water. As much as the local municipalities provide subsidies to poor household in water provision, it a well-known fact that townships have poor infrastructure. There are broken and leaking water pipes and sometimes these are left for longer periods without fixing them. This scenario compromises the benefits that should be obtained via subsidies.

6.2 Forms of business

We note that township businesses operate on sole proprietorship and this places a huge limitation in township businesses. These business miss out on benefits and discounts on bulk buying. This also limits the expansion of business since capitalisation of business depends on a single owner. In order to achieve a working togetherness in township businesses, training on handling competitiveness should be provided. Openness and trust amongst township businesses should be opened and encouraged. This can be achieved through gatherings such as '*Business Indaba*' in the township where dialogues on small business development are held.

6.3 Innovation

Businesses which wish to expand need to be supported through access to finance in order to expand their businesses. Both financial and non-financial assistantships ought to be provided to these businesses. This should be a joint effort of the local municipality as well as the ministry of small businesses. Expanding businesses need good and efficient marketing strategies.

6.4 Marketing

The township businesses depend on word of mouth form of marketing. Use of social media should be encouraged but this should also be accompanied by lower data costs. There is an urgent need to engage in talks and negotiation with mobile phones providers to consider affordable communications. However, government through the ministry of small businesses should urgently intervene in order to provide access to low cost data to small businesses. Access and training in using emails and IT in general is essential in order to revitalise the township economy.

6.5 Youth entrepreneurship

It is hard to understand why young people do not find township businesses attractive despite high youth unemployment in the Nelson Mandela Metropole. This sector consists mainly of the people beyond 35 years of age. This is despite the number of youth entrepreneurship programs in South Africa. Clearly the need for National Youth Development Agency (NYDA) should

start sensitising young people about the viability of the township businesses. The township businesses should be seen as the starting point for many would be entrepreneurs. Township economy needs a lot of patience. Therefore, desire to be rich quickly may discourage a lot of young people from participating in the township economy. Nonetheless NYDA can go a long way in creating incentives for young people to participate in the township economy.

6.6 Gender

Gender issues should be considered with respect to revitalising township economy. The majority of the participants in this economy are women but they are making lower incomes compared with their male counterparts. The ministry of woman and children should probe into how women may be empowered through small business development in the township. Further, family business succession should be taken seriously when thinking about revitalisation of the township businesses.

6.7 Family business succession plans

It has been noted in this study the majority of businesses are run from home. A home is where family is based. It is witnessed in many parts of the Nelson Mandela Bay metro and also throughout the country that most businesses that were well off during the apartheid regime are now in ruins. One of the obvious reasons to explain this is the lack or poor succession plans. As soon as the parents pass-on, the children are ill-prepared to take over the baton. The Nelson Mandela University Family Business Unit in conjunction with the local municipality should devise ways and means to sensitise and train township business owners on issues related to succession plans.

6.8 Education

Education is a key to success. Even though this study shows respondents with low levels of education are able to make it in the township economy. We assert a view that with education these businesses will perform even better. However, township entrepreneurs should be provided a hands-on training instead of a formal classroom situation. Finally, role models in township businesses should be made much more visible so that they can tell their story. Those businesses that make large sums of money per annum should be cited as examples of township business success stories.

7.Refrance

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