

**The effectuation logic of new business entrepreneurs' transition from  
owning an informal to a formal business**

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## **Abstract**

In dealing with uncertainty inherent to entrepreneurship, the informal new business entrepreneur transitions to formality in an effort to grow, but little research has understood the behavioural decision-making logics used to transition to formality. Entrepreneurial theories such as effectuation are most suited to assist entrepreneurs in venture creation and transitions in the midst of uncertainty, particularly in the volatile South African context.

This study explores the transition process of the informal new business entrepreneur through an effectuation behavioural decision-making logic lens. Through the use of 12 semi-structured interviews with transitioned new business informal entrepreneurs, data was gathered for the purposes of understanding the transition process. The study found that the transitioned entrepreneurs employ a hybrid approach of both causation and effectuation behavioural decision-making logic as a means to transition to formality. Although there is a hybrid approach to the decision-making, effectuation is still the dominant behavioural decision-making logic used by the transitioning entrepreneurs.

The study contributes to understanding the transition process by providing a conceptual framework to guide private and public sector collaborations with informal entrepreneurs in an effort to assist the transition process by practically understanding the hybrid approach adopted by the entrepreneurs and increase the low entrepreneurship rates in South Africa.

## **Keywords**

Informal entrepreneur, Effectuation, Causation, Transition process

## **Declaration**

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other University. I further declare that I have obtained the necessary authorisation and consent to carry out this research.

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Date: 1 December 2020

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# **CHAPTER 1: INTRODUCTION TO THE RESEARCH PROBLEM**

## **1.1 Introduction to the Study**

This study sets out to explore the transition process of the informal new business entrepreneur to a formal new business entrepreneur through the use of effectuation behavioural logic in the South African environment.

Through this exploratory study, the study took to understand the need for the research through theoretical and business lenses, with this chapter detailing the purpose of the study, research questions, the importance of the study and concluding by providing the structure to the rest of the research paper.

## **1.2 Background to the Research Problem**

The incidence rate of entrepreneurship in South Africa has been characterised as low, with only 11.9% of South Africans showing entrepreneurial intentions (Bowmaker-Falconer & Herrington, 2020). South Africa is facing urgent development challenges with a low forecasted Gross Domestic Product (GPD) and sluggish growth for the future, with much work still having to be done in developing entrepreneurship as an economic driver and source of job creation within the country (Bowmaker-Falconer & Herrington, 2020). Informal entrepreneurship and the informal sector account for a sizeable part of the South African economy, representing between 7 – 13% of GDP, with other sources claiming its contribution to be higher and reaching as high as 23.59% in 2025 (ACCA, 2017). Although the informal entrepreneurship contributes positively to the economy, the low rates of entrepreneurial action and total early-stage entrepreneurial activity (TEA) (a Global Monitor Entrepreneurship (GEM) indicator that measures individual participation in the initial entrepreneurial cycle) at 10.8% (Bowmaker-Falconer & Herrington, 2020) could be interpreted to suggest that there is a low transition from informal entrepreneurial businesses to formal entrepreneurs creating new formalised businesses. Despite the significance of the early-stage entrepreneurial activity, there is limited research on how these informal entrepreneur transition to formal entrepreneurship through behavioural logics.

Prior research on the informal sector has mainly focused on the factors contributing to informality such as the negative perceptions surrounding informality, the lack of sound governance and weak institutions, the law evasion that is usually included in the context of the informal sector as well as how informality undermines competition and firm expansion (Distinguin, Rugemintwari, & Tacneng, 2016; OECD, 2019). Economic inequality has also been well characterised and linked to the informal sector in many developing countries, and has acted as a barrier to formal entrepreneurship due to corruption, injustice, and the prevalence of unequal opportunities effectively shaping the informal culture and norms (Al-Mataani, Wainwright, & Demirel, 2017; Xavier-Oliveira, Laplum, & Pathak, 2015). However, this has not hindered the expansion of the informal sector in the volatile developing countries across the world.

Research has shown that the environment in which an entrepreneur operates, including the regulatory and social environments, has an impact on the behaviour of the individual when deciding on the entrepreneurial journey (Al-Mataani et al., 2017). Therefore, entrepreneurs (whether formal or informal) who have been adapting to changing uncertain environments (such as those faced in developing countries) have used their networks and resources, including their cognitive reasoning skills in the formation of new businesses and their legitimacy (Fisher, Kotha, & Lahiri, 2016; Kalinic, Sarasvathy, & Forza, 2014). Kalinic et al. (2014) and Fisher et al. (2016) state that these entrepreneurs make investment decisions up to their affordable loss, and consider different alternatives until an “acceptable level of decision-making as opposed to maximisation behaviour” is reached, because financial resources are critical to the survival of the new business. This demonstrates that some informal entrepreneurs apply effectuation behavioural methods in the exploration of new business in determining their affordable loss, based on their limited resources and may be in need of assistance when transitioning to formality.

Given the rapidly changing institutional and environmental context, as well as the resource constraints in developing economies such as South Africa, the use of entrepreneurial decision-making along the lines of effectuation behavioural logic is critical to new business creation and when aiming to increase the transition rate of informal entrepreneurs to ensure sustainable businesses, and business growth with

limited available resources (Cai, Guo, Fei, & Liu, 2017; Shepherd, Williams, & Patzelt, 2015).

Due to the complexity of these informal standards, the transition process cannot be considered a linear nor a predictable process. The transition process is considered fragile and sensitive, due to the behavioural logics that support the informal sector with increasing uncertainty along the entrepreneurial journey (Jiang & Tornikoski, 2019; Sutter, Webb, Kistruck, Ketchen, & Ireland, 2017). Theories such as effectuation have been favoured, and found more beneficial in environments characterised by uncertainty and instability, because the theory provides entrepreneurs with more flexibility, adaptability, and agility to be able to navigate these environments (Jiang & Tornikoski, 2019; Reymen et al., 2015). South Africa as an emerging economy is characterised by instability and uncertainty. Garcia-lorenzo et al. (2018) show that transitional informal entrepreneurs create new identities and social positions for themselves, and they are more likely to experiment and form new relationships through their transition process to formality. Therefore, it can be suggested that informal entrepreneurs would employ effectuation behavioural logic in transitioning into formality, as this logic is best suited towards their entrepreneurial experience. It also allows for adaptability in their decision-making due to the temporal sensitivity of the informal sector and uncertainty of the South African economy.

The benefits of formalisation can encourage informal entrepreneurs to successfully transition into formality, with such benefits as opportunities to grow their businesses, and thereby accessing capital and other resources. This requires more strategic decision-making abilities in the process to formalisation, which benefits from a more collaborative and flexible decision-making approach (Reymen et al., 2015). As part of the strategic decisions in growing a new business, informal entrepreneurs are likely required to formalise their approach in order to further grow their business, therefore requiring additional resources and capabilities, supportive and strategic collaborative networks, engagements with their stakeholders as well as their ability to deal with unforeseen contingencies as and when they arise. The transition to formalisation is not only based on a cost versus benefit perspective, but is a multi-dimensional continuum along which the path to formalisation unfolds (De Castro, Khavul, & Bruton, 2014; Williams, Martines-Perez, & Kedir, 2017). In the South

African business context, transitioned informal entrepreneurs can further assist South Africa's efforts to address the escalating unemployment rate through job creation, and positively driving the economy through innovative businesses (ACCA, 2017).

To summarise, the researcher makes suggestions about how effectuation can be triggered into use by the transitioning informal entrepreneur, but falls short as to describing the process that determines how effectuation behavioural logic is used to transition from informality to formality. Prior studies of the use of effectuation in new business creation and the transitional entrepreneurial journey have provided some insights, but they have studied its uses at a single point in time, or have viewed new business creation as a single observation and not a processual one (Jiang & Tornikoski, 2019). Therefore, the study will aim to bridge the gap in knowledge of the entrepreneurial effectuation behavioural logic through the transition process of the informal entrepreneur to formality.

### **1.3 Research Problem**

New business creation and entrepreneurship is a dynamic process, with different entrepreneurial stages comprising the potential entrepreneur, nascent entrepreneur, new business entrepreneur, as well as the established business entrepreneur, during which the entrepreneurs develop decision-making logic while conducting different activities (Bowmaker-Falconer & Herrington, 2020; Jiang & Tornikoski, 2019). Furthermore, entrepreneurs may transition across the independent phases of the entrepreneurial process and in-between the formal and informal sector over time, otherwise noted as the "in-between entrepreneur processes" (De Castro et al., 2014; Garcia-lorenzo et al., 2018; Williams & Shahid, 2016). However, little research has understood as to what decision-making and behavioural tools are employed (Packard, Clark, & Klein, 2017), and the processes the informal entrepreneur has to follow in order to transition to formality.

Effectuation Theory has become a popular decision-making behavioural logic within the entrepreneurial field, as it is used in new business creation, but little is known as to "when and why" entrepreneurs utilise effectuation behavioural logic through the

entrepreneurial process, or how it unfolds along the transition process in creating a new formalised businesses (Jiang & Tornikoski, 2019). Reymen et al. (2015) further reiterate that the understanding of the evolution of effectual decision-making logic overtime in the entrepreneurial journey is still underdeveloped, as a processual approach is needed to expand the understanding, hopefully unpacking the relationship between effectuation and the transitional process of new business creation.

Informal entrepreneurs and the informal sector are characterised by both the necessity and opportunity entrepreneur, who are governed by their own sets of standards, values, and perceptions (Garcia-lorenzo et al., 2018; Kistruck, Webb, Sutter, & Bailey, 2015). These inform and influence the decision-making of the informal entrepreneur, and their sector's practices, which differ when compared to those of the formal entrepreneur and sector (Sutter et al., 2017). However, it can be suggested that these entrepreneurs would employ effectuation behavioural logic in their new business creation by employing their given set of means, engaging in strategic alliances, negotiating in pre-commitments with stakeholders, and avoiding risks when it is more than the entrepreneur's affordable loss (Jiang & Tornikoski, 2019). For example, some informal entrepreneurs are motivated to start a business, and calculate the size and potential of their new business based on the extent or limitation of their resources, their need for a higher standard of living, and their ability to move up the socio-economic ladder. During this process, they develop creative ways to overcome any limitations they encounter (Garcia-lorenzo et al., 2018; Xavier-Oliveira et al., 2015).

Through the use of effectuation behavioural logic as the decision-making basis of informal entrepreneurs, this research may offer a glimpse into how the South African informal entrepreneurs transition out of informality into formality.

#### **1.4 Research Questions**

The main research question is centred on how the informal new business entrepreneur transitions into formality through the use of effectuation behavioural logic.

Although there has been an increased interest to study the informal sector, more is to be explored on how the individual entrepreneurs utilise their behavioural logic and their decision-making process in the effort to transition.

The present study looks at the transition process through four of the five principles of effectuation, which are noted as the means, the affordable loss of the entrepreneur, pre-committed strategic collaborations, the ability to leverage of contingencies and controlling the future as guiding principles (Fisher, 2012; Sarasvathy, 2001). Sub-research questions will be posed based upon the chosen four principles of effectuation. The researcher addressed the following research questions:

- a) Research question 1: How do the informal new business entrepreneurs use their available means as resources required for transition?
- b) Research question 2: How do the informal new business entrepreneurs plan what they are willing to lose or risk during the transition process?
- c) Research question 3: Do the informal new business entrepreneurs make use of strategic collaborations during the transition process?
- d) Research question 4: How do the informal new business entrepreneurs handle entrepreneurial challenges as they transition?

## **1.5 Research Aims**

The study aimed to understand the transition process through the following research objectives and approaches:

- Empirical study of the transition process through an effectual lens, contributing to the understanding of the process;
- Contribution to the exploration of the use of Effectual Theory through the transition process by providing examples of how it is used in the transition process by informal entrepreneurs;
- Introducing the transitioned informal entrepreneurs; and
- Contribute to the theoretical understanding of behavioural decision-making in dynamic and uncertain context such as developing countries by the transitioning informal entrepreneur through a dynamic conceptual model.

## **1.6 The Significance of the Research**

The study was motivated by the urgent need to increase the low rate of new business development, innovation and tax-generating entrepreneurial activity in South Africa in an effort to grow the economy, and increase the sustainability and transition rate of the informal new business entrepreneur to formality (Bowmaker-Falconer & Herrington, 2020). Business formation rates and new business registrations are steadily decreasing in the wake of the Covid-19 lockdown regulations, which in turn is severely affecting formal and informal new business formations (Fazio, Guzman, & Stern, 2020). Although the full impact numbers due to Covid-19 on new business formation are not yet known for the South African market, enterprise development companies such as Black Umbrellas and Raizcorp are reporting a sluggish report of new business formations. These organisations are known for assisting transitioned entrepreneurs through enterprise development programmes, creating over a 1000 businesses, and contributing to over 11,000 new jobs, the payment of taxes, and increasing the GDP (Black Umbrellas, n.d.).

Increasing entrepreneurs' legitimacy to provide them with access to funding or mentorship through the strategic collaborative platforms facilitates formalisation (Wang, Thornhill, & De Castro, 2017) and the transition of informal businesses. Sutter et al. (2017) convey that transitioning to formality for an informal entrepreneur in a developing economy can help them access infrastructure, capital, inform about regulations, and assist them to be able to adhere to these regulations as well as transform how they operate. Registering the business can increase legitimacy thereby resulting in both increased financial and human resources, as well as access to training and government support. These formalised businesses have a pivotal impact in driving economic growth (Bowmaker-Falconer & Herrington, 2020). The formalisation process also reduces the businesses' probability of failure (Wang et al., 2017; Williams et al., 2017). Legitimacy also implies that businesses are compliant with the necessary regulations such as the payment of taxes, that they are in possession of the correct licences and documentation, and thereby contribute to the general welfare of society as a whole (Kistruck et al., 2015).

## **1.7 Research and Academic Contributions**

The central objective and ultimate contribution of this research is to shed new insight on the multi-dimensional transitional process of how informal new business entrepreneurs determine to transition from an informal business toward formality through the use of effectuation behavioural logic. In doing so, the research took a critical step in reducing the knowledge gap in literature between what is known and what one needs to know about this transition process, as research understands little as to when and why effectuation is used by entrepreneurs in new business creations (Siqueira, Webb, & Bruton, 2016). The study highlighted the fragility of the transition process, and the effectuation entrepreneurial behaviour logics necessitated to support the transformation. It also illustrated the reshaping of these new understandings, relationships, rules, and acquiring the resources that assist the entrepreneurs to transform the formalised entrepreneurial identities (Packard et al., 2017; Sutter et al., 2017) as highlighted by the overall research question.

Literature should draw more attention to informal entrepreneurial activities in developing and transitional economies (Al-Mataani et al., 2017) such as the South African context of this study. In order to contribute to the development of the transitional process of informal entrepreneurs and effectuation behavioural logic, Cai, Guo, Fei, and Liu (2017) confirm that it is necessary to empirically examine effectuation in different contexts such as the present one examined in this study, thus contributing valuable information to the informal economy literature, and developing adequate business practice support. The sub-questions will be addressed in Chapter three.

## **1.8 Scope of the Research**

As entrepreneurship research is broad in its relevance (Fisher et al., 2016), the scope of the research was restricted to theoretical arguments on assessments made of South African entrepreneurs who have voluntarily transitioned out of the informal sector to formality, to embark on the entrepreneurial process through the use of effectuation behavioural logic. The entrepreneurial process comprises the potential entrepreneurs – those who have entrepreneurial intentions; the nascent

entrepreneurs – entrepreneurs who are actively starting a new enterprise, but have not yet made any payments such as salaries or supplier payments; the new business entrepreneurs – those who are running a business and have started making payments for periods of more than three months, but less than 3.5 years; and finally the established business entrepreneurs – those who have been running a business and making payments for more than 3.5 years, according to the Global Monitor Entrepreneurship (GEM) entrepreneurial phases (Bowmaker-Falconer & Herrington, 2020). This research focused on the transitioned informal new business entrepreneurs who have formalised their business within the past five years. The reversion of transitioned entrepreneurs back into the informal sector will not apply.

## **1.9 Conclusion**

This chapter has introduced the research paper through highlighting the importance of the informal sector in developing economies. It also explained that this is an underdeveloped topic; and it introduced the practical business need for the transition of the informal new business entrepreneur with the use of effectuation behavioural logic to increase entrepreneurial activity within the country which can contribute to driving economic growth. The informal sector will only continue to grow in developing economies as the greater the misalignment between the formal and informal sector, the higher the level of informality in developing economies (Williams et al., 2017; Williams & Shahid, 2016).

The remainder of the research proceeds as follows: Chapter 2 presents the literature review developing the research questions. Chapter 3 highlights the research questions, and defines the purpose of the research, with Chapter 4 outlining the research methodology and data collection. Chapter 5 presents the results of the exploratory study undertaken, detailing the evidence that explored the study. Chapter 6 discusses the findings of the results of the study, with the final chapter, Chapter 7 concluding on the transition process of the informal new business entrepreneur to formality.

## **CHAPTER 2: LITERATURE REVIEW**

### **2.1 Introduction to the Literature Review**

This chapter reviews the literature pertinent to the transition of the informal new entrepreneur through the lens of the South African informal landscape. The chapter further develops the relationship between effectuation behavioural logic and the transition of the informal entrepreneurs in an under-researched field of study.

### **2.2 The South African and Emerging Markets' Informal Sector**

Due to the informal sectors' lack of regulation, it has been difficult to study and analyse this sector, which is particularly concerning when one considers its dominance in emerging markets (Dau & Cuervo-Cazurra, 2014; Welter, Smallbone, & Pobo, 2015). The informal sector is characterised by businesses that produce for sale, or offer a service, but do not have a complete set of formalised accounting records, and are not registered with the government for tax or other regulated deductions (OECD & ILO, 2019). Prior literature has shown that there is an increasing acknowledgement that entrepreneurs operate partially or fully within the informal sector, especially at the start of a new business venture (Williams, 2014).

The informal sector, by definition, is representative of economic activities, jobs, and entrepreneurship that are considered outside of formal boundaries, directed by the prescriptions of the informal structures and boundaries (such as its informal standards, values, and perceptions) that fails to declare monetary transactions to the state (Siqueira et al., 2016; Sutter et al., 2017). A prominent literature view that is characterised by informal entrepreneurs, is that they fail to legally register their businesses, pay and generate taxes, qualify for labour benefits, and do not qualify for any capital funding and infrastructure funding in their enterprises (Al-Mataani et al., 2017; Sutter et al., 2017; Williams et al., 2017). Therefore, they may contribute to low rates of new business creation, and the transition levels of informal entrepreneurs in South Africa. While the regulation may be laborious, the current state of the informal sector represents a challenge to governments globally, as non-

compliance with official regulation by failing to register these informal enterprises with the government for tax purposes is deemed formally illegal.

Previously, this sector has been ignored by management scholars, but it represents almost half of the GDP in emerging economies, it accommodates more than 60% of workers in the world, and provides a great deal of fluidity and adaptability for the entrepreneurs and workers (De Castro et al., 2014; International Labour Organisation, 2018). This is a reflection of the fact that the informal sector is dominant in many developing and emerging markets, with little signs of contracting in the near future, as it creates employment, has the ability to provide skills, entrepreneurial opportunities, strengthens social networks, and it contributes in the alleviation of poverty by offering alternative ways to generate income. Behavioural factors influencing the transition from informality towards formality pertain to the challenges caused by limited resources, lack of awareness, benefits versus cost analysis, the relationships that have been built and trust formed (OECD & ILO, 2019). Based on this, informal entrepreneurs, much like formalised entrepreneurs, practise the principles of effectuation, as they rationalise between their means in the context of their limited resources, their affordable loss with regard to such resources, and their pre-commitments in the form of their relationships and networks in determining whether to transition out of informality and formally register a new business.

This sector also includes a variety of various business activities, including street vendors selling food items or clothing, repair workshops, and businesses selling household goods (OECD & ILO, 2019). The sector also includes entrepreneurial interactions between the entrepreneurs' beliefs of the opportunity and the environmental uncertainty to act on the presented identified opportunity (Bowmaker-Falconer & Herrington, 2020). Research argues that the informal and the formal sector have different customer bases, and productivity levels, and that the informal entrepreneurs are generally less educated (Distinguin et al., 2016), while Siqueira, Webb, and Bruton (2016) claim that these informal entrepreneurs have high entrepreneurial ability and sensitivity due to their ability to "test the waters" on entrepreneurial opportunities. They state that such entrepreneurs are therefore not less educated nor less productive, thereby alluding to the complexity of this sector.

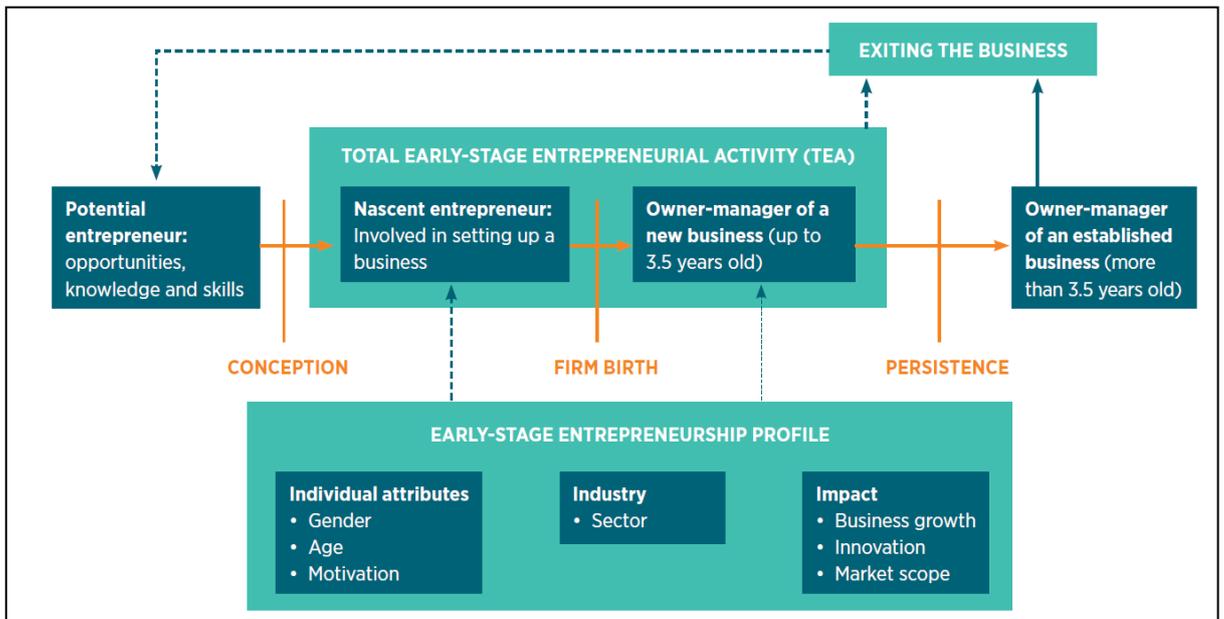
The informal sector currently employs about 61.2% of the world's population through these different entrepreneurial phases, while 40.2% of South Africans represented in that worldwide population form part of the informal sector (OECD & ILO, 2019). The cautious regulation of this sector by government can also be attributed to the significant employment the informal sector provides (Distinguin et al., 2016). This implies that governments shy away from regulating the informal sector too strictly, as it is an additional avenue for job creation, thereby easing the demands made of governments to provide such employment or social support.

South Africa is the landscape country of this study. It faces high unemployment rates of over 30%, rising inequality, disappointingly low scores of new business development, low scores of entrepreneurial self-belief regarding their own capabilities, and arduous labour laws (Herrington & Kew, 2018; Statistics South Africa, 2019). This implies that transitioning entrepreneurs can find it hard to enter formal business ventures, limiting their access to financial support or aid, training and education, technological infrastructure, and government support (Fatoki, 2014). The South African government has created measures such as the National Informal Business Upliftment Strategy to assist in the process of formalisation and the reduction of the informal sector (OECD & ILO, 2019). Though entrepreneurship rates are lower in developed economies than developing economies due to increased alternative job opportunities and higher levels of competition in the entrepreneurship space (Bosma et al., 2020), developing countries employ larger numbers of people working in the informal sector, and concurrently, have lower rates of formalised businesses as seen through the TEA indicator.

### **2.3 Entrepreneurial Processes and Activities**

The GEM 2019/2020 report describes the phases of the entrepreneurial process as a pipeline, where one stage advances to the next through the entrepreneurial process. GEM describes these processes and entrepreneurial phases as the potential entrepreneur, the nascent phase, the new business, and the lastly, the established business (Bosma et al., 2020), with the focus of this research being the new business entrepreneur. Figure 1.1 illustrates the various entrepreneurial stages referred to by GEM, and the criteria and definition of this study. While the informal

sector's activities are not limited to those noted in section 2.2, it can also include activities of entrepreneurs who are categorised as per the GEM definition. Included are those who are in the process of developing their business ideas before formalising their enterprise, but who choose to avoid the possible sunk cost associated with formalisation through registration (Siqueira et al., 2016).



**Figure 1: Entrepreneurial process**

**Source: Bowmaker-Falconer & Herrington, (2020)**

The potential entrepreneurs are those who believe they have a good business opportunity and the required skill set and experience to start the business, but they may lack the intention to start a business (Bowmaker-Falconer & Herrington, 2020; Herrington & Kew, 2018). In this phase, the entrepreneurs will assess the opportunity, risk, and associated rewards of perusing the new venture against that of seeking or holding on to employment (Bowmaker-Falconer & Herrington, 2020). These potential entrepreneurs assess their resources and affordable loss, and weigh up the risks and contingencies of starting a business, but do not eventually commit to it whether formal or informal. These entrepreneurs are not included as participants in the present study, as it would be difficult to determine their transition behaviours, as they have not yet reached a final decision as to whether they will become entrepreneurs.

Nascent entrepreneurs are defined as entrepreneurs who have been actively involved in a not yet fully-fledged business or start-up for at least three months (Bowmaker-Falconer & Herrington, 2020; Garcia-lorenzo et al., 2018). While these entrepreneurs tackle high levels of uncertainty due to partially compiled information, nascent entrepreneurs who are in the process of establishing a new business must navigate the right entrepreneurial path with the information, resources, and networks that they already have (Brinckmann & Kim, 2015). The nascent informal entrepreneur has not been included in the study due to the limited duration of the enterprise's existence, and the limited experience of the entrepreneur who may not have fully utilised the effectuation behavioural logic at this time to develop entrepreneurial skills.

The new and established business entrepreneurs are those who have gained the actual experience of running a business. The new business entrepreneurs are those who have operated a business and made supplier or salary payments for longer than 3 months, but less than 3.5 years (Bowmaker-Falconer & Herrington, 2020; Herrington & Kew, 2018). Their enterprises may eventually progress into an established business, where the entrepreneur typically has been operating in the same capacity and the same enterprise for longer than 3.5 years (Herrington & Kew, 2018).

The new business entrepreneurs have been chosen as the participants in the present study, as the business has been established and effectuation behavioural logic has been in effect through the use of their means or resources, their networks, and they were able to determine their affordable loss to develop their business and transition. The established business entrepreneurs have not been selected to participate in the present study, as they would have had to test their memories regarding the start of their businesses and what had motivated them at the time, or what challenges they had faced those years ago.

Entrepreneurial activities can be defined as the nexus of the presence of profit generating opportunities with those of entrepreneurial individuals through the process of discovery, identification, and "exploitation of opportunities" (Bylund & Mccaffrey, 2017; McMullen & Dimov, 2013; Shane & Venkataraman, 2000),

irrespective as to whether it was in the informal or the formal sector. Although entrepreneurship is a broad topic (Shane & Venkataraman, 2000), an entrepreneur is noted as someone who is actively involved in starting a new business with the purpose of wanting to grow the business, while also still dealing with uncertainty (Williams, 2014). Williams (2014) differentiates between informal and formal entrepreneurs as being the purposeful declaration or non-declaration of those monetary transactions to the government.

The informal sector is characterised by a multitude of entrepreneurs whose activities are considered legal, while the governance and compliance structures of their enterprises are not, with growing literature trying to differentiate the informal sector from the formal one (Al-Mataani et al., 2017). Informal entrepreneurs also have aspirations to grow their businesses much like formal entrepreneurs do. However, it has been noted that while some entrepreneurs transition and formalise their businesses, the majority of the small businesses in South Africa have a high failure rate as they tend to lack the necessary financial and management skills, and they do not have access to funding and training, resulting in the low rate of successful new business creation within the country (Fatoki, 2014; Yamakawa, Peng, & Deeds, 2015). This could be a contributing factor to the low entrepreneurial rates noted, as many potential entrepreneurs may give up their intention to launch a business when they see others fail, or they may have started and failed in a business already and thereafter lack the courage to launch another business. Not enough new businesses being started, become successful, and growing also leads to many entrepreneurs not endeavouring to move towards the formalisation of their enterprise.

Appreciation of the demographics and participants of entrepreneurship is an imperative step in understanding entrepreneurial activity in both the informal and formal sectors. Globally, men are more likely to participate in entrepreneurship, particularly in societies where men are seen to be the breadwinners. They also account for a larger proportion of those employed by the formal sector (OECD & ILO, 2019), and this is also true for the South African population. Bowmaker-Falconer and Herrington (2020) comment on the imbalance in South Africa's entrepreneurial gender demographics, stating that women face more challenges in becoming entrepreneurs than men due to their limited networks, lack of resources and lack of

access to resources, family responsibilities, and lower self-confidence in their own capabilities to successfully start and run their own businesses.

Defining the activity levels of entrepreneurship and demographics incorporated in the informal sector and how they operate will provide deeper insights, and the understanding of these factors' influence on the effectuation behavioural logics of the informal entrepreneurs' ability to transition from the informal sector to formality, and the sensitivity of the decision-making processes undertaken.

## **2.4 Decision-Making Theories in Entrepreneurship**

While judgement and decision-making have been considered critical to the entrepreneurial field and process, research along this line has become highly fragmented (Shepherd et al., 2015). The current understanding on entrepreneurial decision-making and judgement through the entrepreneurial process is limited when trying to explain how entrepreneurs go about exploiting an opportunity (Shepherd et al., 2015). Decision-making is a cognitive process that requires actors to make choices on the ideas and processes presented at the time of the decision, based on the actors' judgement (Packard et al., 2017). It can therefore be suggested that the decision-making of the entrepreneur can affect the effectiveness of the venture, and the way the informal entrepreneur transitions through the entrepreneurial process.

While three prominent literature approaches on entrepreneurial decision-making and behaviour through theories such as effectuation and causation, as well as bricolage have been identified (Servantie & Rispal, 2018), informal entrepreneurs will be required to make decisions throughout the transition process, which will be influenced by the changing environment, their networks and resources, learned and unlearned behaviours that develop along the transition process, and these will all require an adaptive and flexible decision-making logic (Sutter et al., 2017). The informal entrepreneurs will have to adapt to uncertainty and be flexible during the transition process, using decision-making strategies that best suit or fit the stage of the entrepreneurial process they are in, along with being actively engaged by being responsive to changes while utilising all the existing resources (Reymen et al., 2015).

Entrepreneurial bricolage can be described as “making do by applying combinations of the resources at hand to new problems and opportunities”, while viewing the limitation of the resources at hand as a way to create further opportunities and evolution, or regard these factors as a hindrance (Baker & Nelson, 2005). Causation assumes entrepreneurs follow a textbook approach to discover opportunities, make predictions, and secure the required resources to pursue their new enterprises (Jiang & Tornikoski, 2019; Palmié, Huerzeler, Grichnik, Keupp, & Gassmann, 2019; Sarasvathy, 2001; Villani, Linder, & Grimaldi, 2018). Effectuation assumes a process where opportunity exploitation is reliant on the entrepreneurs' means consisting of their networks and resources at their disposal, focusing on the necessity to decide amongst what can be created out of those resources, and therefore using a more adaptive approach (Jiang & Tornikoski, 2019; Sarasvathy, 2001; Welter & Kim, 2018). For example, a bricoleur and effectual entrepreneur would look at what is being discarded, given resources, and/or networks around them, and then come up with a creative solution for existing problems or new business opportunities, overcoming those resource limitations. Though there is an overlap in that these theories are comparable (Palmié et al., 2019), effectuation and bricolage allow the entrepreneurs to make use of their resources at hand, and require more adaptability on the part of the entrepreneurs (Servantie & Rispal, 2018), which would be a more common attribute of an informal entrepreneur transitioning with limited resources than the use of causation, which is a more step-by-step planned approach to entrepreneurship (Sarasvathy, 2001), a luxury the informal entrepreneur may not have.

The theory of bricolage and effectuation have many similarities; however there have been further calls to use the concept of bricolage to engage in empirical testing, as it seems that it would be best suited for “a world formed rather than encountered” (Welter et al., 2016), implying that it is suited for an ideal world rather than one that is experienced. It is also argued that “empirical tests on the effect of bricolage in an entrepreneurial context are scarce” (Stenholm & Renko, 2016). As the entrepreneurial process is a real-world phenomenon that is encountered and experienced, and one that requires agility and flexibility, the use of causation (a planned based approach) to answer the research questions may be too inflexible to

the changing needs and environments of the informal entrepreneur. Planning-based approaches have limited success in the face of uncertainty and continuous changes, as plans no longer unfold in the expected manner in such contexts (Reymen et al., 2015), when the world of informality is complex, non-linear, and dynamic in an uncertain South African environment. Therefore, the study will use effectuation behavioural logic as the theory for the transition of the informal entrepreneur.

#### **2.4.1 Entrepreneurial effectuation behavioural logic**

The theory of effectuation was developed by Saras Sarasvathy, and published in 2001 as an alternative emerging theory to traditionally existing theories on entrepreneurship (Fisher, 2012) in the pursuit of how expert entrepreneurs respond to uncertainty (Welter & Kim, 2018). These traditional theories considered entrepreneurship as linear, while effectuation considers entrepreneurship through a multi-dimensional perspective that in order for it to be studied, one would need to understand the opinions, environments, experiences, and activities of the individual entrepreneurs during the entrepreneurial process and activities (Fisher, 2012; Servantie & Rispal, 2018). It is also referred to as a flexible theory, which prefers to experiment with strategies rather than to follow a cause-and-effect relationship (Villani et al., 2018). Therefore, effectuation is the “logic of entrepreneurial expertise, a dynamic and interactive process of creating new artefacts in the world” (Sarasvathy, 2008).

The starting point in effectual decision-making logic pertains to the entrepreneurs’ means such as resources under their control, and how these means influence the entrepreneurial decisions they make (Sarasvathy, 2001; Welter et al., 2016). As the means are dependent on the entrepreneur who does not focus on a specified results, but prefers to focus on the utilisation of those given means to move towards a “yet-to-be-determined” goal (Sarasvathy, 2001; Welter et al., 2016), these means are then exploited, which results in the triggers or shaping of a new business or entrepreneurial goal setting (Servantie & Rispal, 2018). Reuber, Fischer, and Coviello (2016) further explain that effectuation promotes the shaping by the entrepreneur of a “world they co-create”, and the need for stakeholder commitments. As an example, for informal new business entrepreneurs, the use of effectuation

behavioural logic in the start of a new business venture may be through their understanding of the opportunities to be exploited such as a new service based on their current limited resources, skills, and networks.

Additional principles of effectuation refer to the use of strategic alliances and pre-commitments from stakeholders, where these strategic alliances contribute new ideas and potentially additional resources to help eradicate or at least minimise uncertainty (Sarasvathy, 2001; Servantie & Rispal, 2018). The effectual entrepreneur would also employ principles of affordable loss, and determine from the start of the business, how much they are willing and able to invest and what they are willing to lose to minimise risk. With this approach, effectuators would rather chose paths that offer more opportunities for future business development; choosing a path of experimentation and sustainability over profit maximisation and expected returns (Sarasvathy, 2001; Servantie & Rispal, 2018). The experimentation would result in different approaches that could affect the business strategy. Effectual entrepreneurs would also rather exploit risks and unexpected events, and as uncertainty is part of the entrepreneurial process, being able to have greater control of the future will allow the entrepreneurs to navigate the uncertainty (Sarasvathy, 2001; Servantie & Rispal, 2018).

When entrepreneurs use the principles of effectuation as an influence on their decision-making, they will embrace the uncertainty by using it to exploit presented opportunities for new business creation (Jiang & Tornikoski, 2019). However, the theory of effectuation has also come under criticism in that the available research is considered fragmented, and does not consider the effect of “habituated responses” by the entrepreneurs (Grégoire & Cherchem, 2020; Reuber et al., 2016), which may affect their daily decision-making and ultimately, the effectiveness of their businesses.

## **2.4.2 Motivation for selecting effectuation**

Effectuation in new business creation is a dynamic process; it has an element of uncertainty, and it can be assumed that the shifts in the use of effectuation develop at different stages of the transition process for the entrepreneur (Jiang & Tornikoski, 2019). The informal entrepreneurs will have to adapt to uncertainty, rapid and continuous changes, and complexities faced in their environment during the transition process by using decision-making strategies that best suit their entrepreneurial phase.. Effectuation allows transitioning informal entrepreneurs the opportunity to shape and sense their new business ventures in the context of developing economies (Cai et al., 2017).

As informal entrepreneurs within the South African context deal with high levels of uncertainty in a developing economy, their goals can be constructed or changed, or they may even emerge by change (Fisher, 2012; Fisher et al., 2016). Effectuation allows for the formulation and crystallisation of strategies in uncertain business environments, especially in transitional developing economies (Cai et al., 2017). Therefore, effectuation was best suited for this study, as it allows for flexibility and assists in contexts where formulating certain action based on future predictions is difficult (Daniel, Domenico, & Sharma, 2015; Grégoire & Cherchem, 2020). The research looked at the effects of effectuation and its role in informal new business entrepreneurial behavioural logics through the transition process to formality.

## **2.5 The Informal Entrepreneur's Transition Process to Formality**

### **2.5.1 Prior research on the transition process**

For much of the 20<sup>th</sup> century, the informal sector in emerging and developing countries received minimal scholarly attention (Williams et al., 2017). Past research on the informal sector followed two main directions, but lacked empirical research following a processual approach to entrepreneurship (Mcmullen & Dimov, 2013) and the transition of the informal entrepreneur. The first direction of research examined the effect of institutional policies such as regulation and labour laws on the informal sector's activities, or the cost of formalisation being a hindrance to the formalisation process (Cai et al., 2017; Kistruck et al., 2015; Williams & Shahid, 2016).

The second direction the research followed had been research that examined the motivations and influences of the informal entrepreneurs as individuals who are central to the informal sector (Siqueira et al., 2016). Previous literature has also tackled the nature and determinants of informality from a macro-economic lense (Distinguin et al., 2016), but more research is to be conducted on the transition process followed by these entrepreneurs in order to fully understand this process. Therefore, this study's aim was to expand on the research conducted on the informal entrepreneur's transition process to formality.

#### **2.5.1.1 Decision-making in the transition process to formality**

The challenges and uncertainty that emerge through the context of the transitioning entrepreneurs assume that these entrepreneurs operate in uncertain environments (Townsend, Hunt, McMullen, & Sarasvathy, 2018), and therefore require effective decision-making during the transition process. The entrepreneurs' decision to transition from an informal entrepreneur to a formal entrepreneur may be a difficult one, as both the informal and formal sectors have their distinct and inherent advantages and disadvantages. Remaining informal allows the entrepreneurs to continue to experiment with their business model, but they may struggle to obtain and secure access to finance due to their informality. Formalising their enterprise may open up additional access to resources and stakeholders, but it includes additional costs to formalisation such as taxes and the burden of having to adhere to regulations. This highlights the complexity and multi-faceted aspect of the decision faced by the informal entrepreneurs.

Through the transition process, informal entrepreneurs will be required to make decisions throughout the process, which will be influenced by the changing environment, perceptions, learned and unlearned behaviours, and the effect of effectuation behavioural logics that develop along the transition process. The transition process can also be seen as a "series of micro-judgements", throughout which entrepreneurs transition from a certain state of uncertainty to the next, until the uncertainty is adequately understood by the entrepreneur to be able to reach a decision that will affect the business in the desired manner (Packard et al., 2017).

An implicit assumption that has been made of the transition process is that informal entrepreneurs tend to resist the formalisation process because of the cost of business registration and the implication of taxes applied to the small business by government, while others argue that the persistence of informality is due to weak governance and institutions failing to regulate the sectors (Distinguin et al., 2016). Some entrepreneurs choose to keep their enterprises informal while establishing their businesses (Distinguin et al., 2016) and still wanting to test their markets. Entrepreneurs may choose to remain informal as the compliance with all the required regulations may require a significant part of their initial financial resources and means, while they have not yet created a firm footing for their businesses and thus regular monthly incomes.

### **2.5.1.2 Transition process to formality**

As entrepreneurship is viewed as a process that transitions from one phase to another, and a continuous process rather than a single event (De Castro et al., 2014), an informal entrepreneur's decision to transition to formality comprises various dimensions that involve altering the judgement process of how the entrepreneur operates the business as a whole (Sutter et al., 2017), and whether the transition would increase their profitability, growth, and reserves (Distinguin et al., 2016). For example, the transitioned entrepreneur may include different operating systems not previously used in the informal business, and certain controls to ensure added efficiencies that increase cost savings, time, and profitability.

In contrast, the transition process has been viewed as a process that merely eliminates barriers to registration and formalisation such as government taxes and regulations (Distinguin et al., 2016). However, viewing the transition process as merely a cost versus benefit calculation of legal compliance will give an incomplete view of the sensitivity of the transition process and the decisions influenced by it. Although both views are a consideration in the transition process of the informal entrepreneur, one does not outweigh the other, and this suggests that transitioning informal entrepreneurs would rather be profit maximising and growth seeking. Understanding entrepreneurship as a process and not as a point in time may advance management scholars' understanding of the phenomenon and the

transformative process by which goals, risks, and strategic behaviours are employed by entrepreneurs (Mcmullen & Dimov, 2013) during the transition process.

As such, transactions and agreements in the informal sector are based on trust and relationships built, while those in the formal sector are agreed upon via contracts and legal regulations (Kistruck et al., 2015; Sutter et al., 2017). These are some of the operations that the informal entrepreneur will need to alter during the transition process. Navigating these changes requires a change in the informal entrepreneurs mindset and thinking, which is not simply adapted by the payment of business registration fees (Sutter et al., 2017), but by developing decision-making skills in line with effectuation behavioural logic could assist the informal entrepreneur through the uncertainty brought about by the changes. Garcia-lorenzo et al. (2018) therefore interpret this as a transformation, as both the entrepreneurial individuals and their context become reconstructed through the transition process, requiring the informal entrepreneurs to learn new traits, become adaptive to new situations, be creative, and make sense of changes in their environment. These traits would necessitate that the entrepreneurs will be able to navigate the decisions affecting the changes from informality, which are not only structural, institutional, and legal, but also rest on behavioural norms. This decision-making, which is based on judgement and uncertainty, is also viewed as fundamental to the entrepreneurial transition process, as entrepreneurs face uncertainty when confronted with new information, having to revise their decisions, and consistently navigate a volatile environment (Packard et al., 2017).

To further unpack the informal entrepreneurs' transition process, this process can also be characterised by the unfolding of the entrepreneurial phases. The informal entrepreneur may transition into formality at any stage of the process, and may not necessarily follow the process outlined. With reported low TEA rates, Bowmaker-Falconer and Herrington (2020) report that the established business ownership rate has increased by 1.3% from 2017 to 2.2% in 2019, although this is a much lower rate in comparison to other African countries and emerging economies in Latin America. These findings are indicative of the low transition rates found among South African entrepreneurs, despite the importance of entrepreneurship to the current poorly performing economy. Although the entrepreneurial process has many layers, there

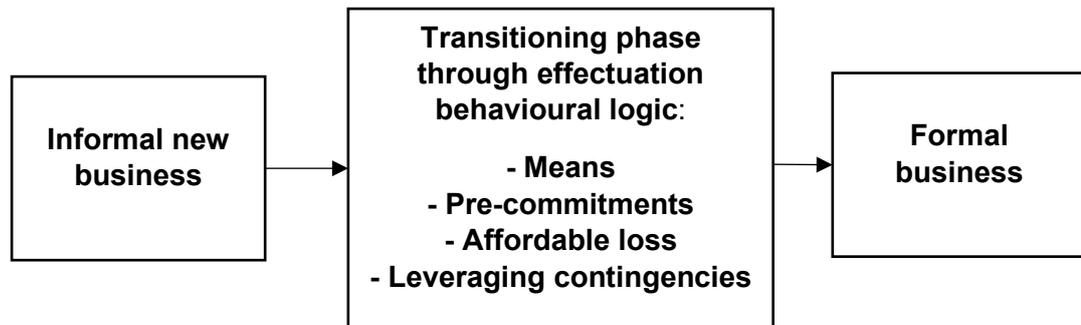
is a limitation in not knowing when the actual transition process of the individual entrepreneur occurs during each phase, as the process and the phases differ from entrepreneur to entrepreneur (Mamabolo, 2016).

## **2.6 Transitioning from Informal to Formal New Business Entrepreneur and Effectuation Behavioural Logic**

New venture creation requires an entrepreneur to envision what is unknown, what may be used as a competitive advantage against the competition and what is uncertain, characterising risk as decisions on starting a business, acquiring the necessary resources, and being mindful of the fact that decision-making happens under uncertainty (Villani et al., 2018). Such understanding is relevant, as uncertainty, risk, socio-economic background, the entrepreneurial networks, and resource allocation profoundly affect the entrepreneurial transition process. However, the understanding as to how exactly the concept of effectuation theory and its behavioural logic function has remained under-researched.

As the business volume and size of the informal entrepreneur grow, the new business faces further challenges of uncertainty, requiring the informal entrepreneur to access increased levels of strategic decision-making to grow and sustain it (Reymen et al., 2015). Garcia-lorenzo et al. (2018) have outlined how the transitional phase between informality and formality can prompt the informal new business entrepreneurs to create opportunities with a view of transforming their current means for strategic action. Formalisation would require the informal new business entrepreneurs to access new levels of decision-making and support, while understanding their own available resources, levels of acceptable risk, limitations, and challenges faced in order to transition to the formal new business entrepreneur through effectuation behaviour logic, as effectuation theory has emerged as an effective approach for problem solving and transitions of enduring businesses (Villani et al., 2018). Effectuation behavioural logic provides new business entrepreneurs with the decision-making ability to handle uncertainty and transitional phases, because it is consistent with emergent strategies that allow for learning and responding to changing environments (Cai et al., 2017).

The rest of the section will outline the use of the different components of effectuation behavioural logic during the informal entrepreneurs' transition process. Refer to Figure 2 on the research framework for the informal new business entrepreneur's transition process to formal new business entrepreneur.



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**Figure 2: Research framework – The informal new business entrepreneurial transition process through effectuation behavioural logic**

Source: Author's own

### **2.6.1 The informal entrepreneurs' means and the transition process**

Effectuation theory takes a set of available resources in the new business as the point of departure, with the focus being on what can be created from those resources (Reymen et al., 2015). The means of an entrepreneur would include the personal attributes, skills, capabilities, and network of the entrepreneur, asked as the following questions: "Who I am?, Who do I know? and What do I know?" to be able to understand the available means (Sarasvathy, 2001). An example of these means to an informal entrepreneur (but not limited to these examples) would include their human capital, along with their individual cognitive characteristics. Human capital refers to the skills and knowledge that the individuals have acquired, which can be shaped through education and work experience, and has been shown to have an impact on the entrepreneurial transition process followed, as education and experience will shape the entrepreneurs' decisions when navigating the process of establishing a new business (Brinckmann & Kim, 2015). Higher levels of human

capital can assist the informal entrepreneur navigate the transition process better, as they will use judgement and cognitive skills to navigate the uncertainty of the outcome and the feasibility of the business, the investment required as well as whether to move forward with the formalisation (Packard et al., 2017).

An informal new business entrepreneur would use their current resources to transition and formally register their business in an effort to grow. Through the use of means to transition to formality, formality provides entrepreneurs with access to additional or alternative resources that can facilitate the enterprise's growth (Fisher et al., 2016). The ability to acquire and accumulate additional or alternative resources and capabilities in line with strategic growth decisions increases the entrepreneurs' perception of legitimacy (Bitektine & Haack, 2015; Fisher et al., 2016), self-efficacy, and resourcefulness.

Transitioning from the informal sector also influences the entrepreneurs' ability to assess and exploit entrepreneurial opportunities, which has important implications for transitioning out of informality, and driving economic growth (Ketchen, Ireland, & Webb, 2014; Wang et al., 2017). Sutter et al. (2017) further support that the informal entrepreneurs' networks and relationships would require the construction of support systems that will act to bridge the gap between the two worlds of informality and formality. This reconstructed support, created through who they know, and built through the transition process, would allow entrepreneurs the necessary access to growth opportunities, and provides a better view of a formalised business and its processes.

### **2.6.2 The informal entrepreneurs' level of affordable loss and the transition process**

In the exploitation of entrepreneurial opportunities, there will typically be both potential gains and potential losses (Palmié et al., 2019). In entrepreneurial activity and decision-making, effectuation embraces uncertainty and requires investments to be no more than what the individual can lose, while focusing on an affordable loss that allows for more options rather than the expected returns (Bing Peng et al., 2020; Sarasvathy, 2001). Therefore, entrepreneurial effectuators will determine their own

limit as to the maximum investment and worst-case scenario that they are comfortable with losing; and therefore, it can be expected that the transitioning informal entrepreneur will follow the same path.

Entrepreneurs can be characterised as having a preference for high risk-taking, which offers them high returns, with the downside of similar losses and implementing bold strategies (Palmié et al., 2019). Thus, entrepreneurs are required to make personal investments into their entrepreneurial activities. The informal entrepreneurs may be required to use their personal resources in the transition process. In contrast, effectuators applying the principle of affordable loss will only commit limited resources to mitigate their risk of failure and prolong the survival of the business by stretching the limited resources available to them in developing economies (Cai et al., 2017). Entrepreneurs who have remained informal, as they are still testing the market with their entrepreneurial activity, may have a low affordable loss level, and they aim to stretch their resources and control risk. During the transition phase, they may increase their affordable loss level in favour of their increased entrepreneurial activities. Informal entrepreneurs will then have to adapt to uncertainty and become flexible during the transition process, using decision-making strategies that best suit the stage of their entrepreneurial process, along with becoming actively engaged by being responsive to changes, while they utilise their existing resources (Reymen et al., 2015).

Expansion and firm growth in the formal sector will also require the informal new business entrepreneur to raise capital for long-term strategic objectives, based on their affordable loss. Informal entrepreneurs would rather experiment with different strategies, utilising strategies that are within their affordable loss levels in the transition process (Daniel et al., 2015).

### **2.6.3 The informal entrepreneurs' pre-committed stakeholders and the transition process**

Effectual logic in the context of pre-commitment from stakeholders requires collaboration from committed strategic stakeholders over competition in new venture creation, as stakeholders bring with them access to endorsements, they reduce

uncertainty, and they provide future options as well as give strategic direction (Daniel et al., 2015; Reymen et al., 2015; Welter et al., 2016). Entrepreneurs who use pre-commitments are more likely to enlist the help of and disclose their plans to their pre-committed stakeholders early-on, and try to form partnerships or collaborations with stakeholders at the onset (Palmié et al., 2019).

When entrepreneurs explore opportunities in partnership or collaboration with their stakeholders, they will only explore those opportunities with stakeholders who they believe are committed so as to avoid incorrect synergies or partners who could reconsider their investment, and select partners who would maximise returns than rather than compete in an effort to reduce uncertainty as well as spreading out responsibilities (Palmié et al., 2019; Sarasvathy, 2001). In turn, the entrepreneurs would also have to commit themselves to these partnerships and collaborations. Entrepreneurs who employ effectuation will work with all stakeholders of their own choosing (Sarasvathy, 2008). Therefore, it can be suggested that transitioning informal entrepreneurs would rather collaborate with those partners or stakeholders who are committed to growing the business with them, and maximising its returns, while also sharing responsibilities than rather competing with them.

Entrepreneurial transitioning to formality would have required strategic collaborations to gain access to resources in the form of government tenders, private sector work, and industry associations endorsements to increase the credibility and direction for their enterprise. By collaborating with their pre-committed stakeholders, informal entrepreneurs who are in the process of transitioning would use their pre-committed stakeholders in anticipation to grow their business through exposure to other business avenues, increasing capacity and productivity (Distinguin et al., 2016), and to receive assistance in shaping the strategic direction of their business (Bing Peng et al., 2020). The available resources and strategic direction provided by the stakeholders can influence what the transitioning informal entrepreneurs' business may do (Palmié et al., 2019).

#### **2.6.4 The informal entrepreneurs' ability to leverage off contingencies and the transition process**

Contingencies and uncertainty refer to events that are possible but unpredictable, as information required to steer decisions and tasks may not be in the possession of the decision-maker at the required time; therefore, effectuation facilitates the entrepreneurs' learning (Cai et al., 2017) to develop new strategies, and remain flexible to reduce these contingencies and uncertainty. As the creation of a formalised new business is dynamic (Wang et al., 2017), during this transition phase, new business entrepreneurs will respond to uncertainty by leveraging contingencies that arose unexpectedly through control strategies to gain experience, and use this experience to predict changes in their environment and the effects on their businesses (Jiang & Tornikoski, 2019; Welter et al., 2016). Sarasvathy (2001) described this process of leveraging off contingencies through effectuation as "exploiting contingencies" that are unexpected rather than the exploitation of pre-existing knowledge. Entrepreneurs in developing economies such as South Africa who are in the process of transition, development, and new business creation, face higher environmental uncertainty due the evolving nature and quickly changing environment (Cai et al., 2017). Therefore, they have to navigate and leverage off this uncertainty in order to create a sustainable business.

Through the transition process, informal entrepreneurs may want to experiment as much as possible to achieve a workable business model via these control-based strategies within their limitations (Welter et al., 2016). This transition phase allows entrepreneurs also to build on their experience, becoming more skilful at understanding how their environment will influence their business model, while experimenting with effectuation (Jiang & Tornikoski, 2019). For example, transitioning informal entrepreneurs may be faced with uncertainty due to their lack of knowledge that is required to run a formalised business; these include administrative tasks or regulatory requirements of product set-up. This would have required the transitioned entrepreneur to gain new expertise through new developed strategies to better manage the transition than rely purely on already acquired knowledge, thereby taking advantage of the contingencies.

Transitioning entrepreneurs have to be able to utilise their means in a “trial-and-error” approach to identify new opportunities, and navigate uncertainty, while developing the required strategies, understanding that not every experiment will work out as planned, and realise that they would have to abandon unfruitful experiments in favour of creative solutions (Palmié et al., 2019). With this said, it can be suggested that transitioning informal entrepreneurs would rather experiment to expand their business opportunities and face uncertainty when aiming for growth and a workable business.

## **2.7 Conclusion**

The literature review has presented the entrepreneurial process, followed by the informal entrepreneur transition process to formality, and expanded on what the informal sector is, alongside the entrepreneurial activities within the informal sector. It explored the entrepreneurial process and transition phases the informal entrepreneur could follow, highlighting that formality is not a linear path, with a focus on the informal new business entrepreneur.

It further gave insight into the decision-making aspects that influence the South African informal new business entrepreneurial transition process, and how the selected principles of effectuation behavioural logic can be utilised in the transition process. The entrepreneurial transition process is a complex process, and is not necessarily a decision based on wealth accumulation and the traditional business outputs (Garcia-lorenzo et al., 2018). Effectuation theory has been established as the most useful theory in the transitioning process of the South African informal entrepreneurs, because of the contextual environment of the developing economy.

## **CHAPTER 3: RESEARCH QUESTIONS**

### **3.1 Introduction**

This chapter introduces the research questions of the study. These research questions were based on the literature review in Chapter 2 and the main research question posed in Chapter 1. These questions were designed to give deeper insight and lead to the understanding of the under-researched topic of the informal new business entrepreneurs' transition process into formality by using effectuation behavioural logic.

### **3.2 Research Questions**

**Research question 1: How do the informal new business entrepreneurs use their available means as resources required for transition?**

The aim of this research question was to understand what the informal entrepreneurs understand of their means, and how they think these means have helped them transition into formality.

**Research question 2: How do the informal new business entrepreneurs plan what they are willing to lose or risk during the transition process?**

When transitioning to formality, what risks are the informal entrepreneurs willing to take in an effort to grow their businesses? This research question aimed to understand how the informal entrepreneurs determine their affordable loss for the purpose of transition, and whether the risks associated with the affordable loss are mitigated through experimentation.

**Research question 3: How do the informal new business entrepreneurs make use of strategic collaborations during the transition process?**

For the purposes of growth leading to formalisation, the informal entrepreneurs may not have all the required skills, resources, capabilities, or networks to maintain a

sustainable business and may be required to form strategic collaborations, and incorporate key stakeholders into the business.

**Research question 4: How do the informal new business entrepreneurs handle entrepreneurial challenges as they transition?**

As effectuation theory was best suited for the informal entrepreneurs' transition due to the required flexibility needed when transitioning and to navigate contingencies, this research question aimed to understand how transitioned entrepreneurs have handled uncertainty during the process.

## **CHAPTER 4: RESEARCH METHODOLOGY**

### **4.1 Introduction**

This chapter outlines the research design that was used in the study to answer the research questions through the use of effectuation logic proposed in the context of exploring the transition process of the informal new business entrepreneur to formality in South Africa. This design allowed for a textured and holistic view, as this topic remains unexamined from an entrepreneurial perspective. The study was exploratory in approach, with the research methodology and design dependent on the nature of the study, a compliment that strengthened the approach. Data were gathered through semi-structured interviews, with the methodology detailing the sampling method, data gathering, and analysis. The researcher adhered to all ethical considerations, was conscious of the limitations of the study, and applied quality control throughout the study.

### **4.2 Research Design**

#### **4.2.1 Purpose of the design**

As the nature of the formalisation process is complex and tiered (De Castro et al., 2014; Sutter et al., 2017), an exploratory research approach was needed to better understand the process. The informal entrepreneurship transition process and how effectuation logics shifts over time during the transition, has been noted as an understudied topic and a phenomenon (Kistruck et al., 2015; Reymen et al., 2015); and it required interpretation through a qualitative research design, thereby informing the research design (Saunders & Lewis, 2018).

#### **4.2.2 Research Philosophy**

An interpretivism philosophy, which underlines a qualitative approach, was undertaken, as it was concerned with the study of the social phenomena in its own environment and considered the application of inter-personal and subjectivity skills to this research process (Saunders & Lewis, 2018). Based on the subjectivity, complexity, and ambiguity of the study, the researcher was equipped to navigate the

ambiguity and subjectivity involved, as this research involved capturing people's feelings, the judgement used to navigate the transition processes, and the entrepreneurs' opinions in their natural environment (Saunders & Lewis, 2018).

#### **4.2.3 Research Approach**

Transitioning to formality requires entrepreneurial judgement, and can be subjective in nature (Sutter et al., 2017). Therefore, a qualitative approach was used to meet the objective of gaining an in-depth understanding of the research topic, as it embraced the complexity and perspective of the population in the context in which they operate, while finding their underlying meaning (Hennink, Hutter, & Bailey, 2020). Due to the need for further exploration of this nascent topic, an inductive approach assisted in developing a deeper understanding of the research topic, with the assistance of semi-structured interviews used to best examine the complexity surrounding the process (Saunders & Lewis, 2018). This was done to uncover the layers of the process and learn to understand the formalisation process and the effectuation logic required to transition between informality and formality.

#### **4.2.4 Research Strategy**

The research strategy strengthened the narrative strategy that was focused on gaining an understanding of the practices developed by the entrepreneurs during the transition (Garcia-lorenzo et al., 2018).

### **4.3 Population**

The population applicable for this study was the South African informal new business entrepreneur who had transitioned into formality within the past five years. The South African context was chosen, as the country faces extremely high unemployment rates and a host of economic and development challenges, in which entrepreneurship would need to be spear-headed as the engine to contribute to economic growth and aggressive social change (Bowmaker-Falconer & Herrington, 2020).

The complete list of informal new business entrepreneurs that have transitioned from informality to formality did not exist, and it had proven difficult to locate such

information; therefore, the sample selected was not from the entire population. Enterprise development firms such as Black Umbrella and other enterprise development agencies have databases of incubated formalised entrepreneurs, where this portion of the population was found, as their information is publicly available. This is further detailed in the sample size under 4.5. The population was also sourced through databases at entrepreneurial hubs, centres, and on websites. The lack of a detailed list of the population has also been noted as a limitation to the study.

#### **4.4 Unit of Analysis**

The unit of analysis was the individual transitioned informal new business entrepreneurs as the individuals would have been required to utilise their means, pre-commitments, determine their affordable loss, and respond to uncertainty during the transition process. The individual entrepreneurs' reflections and decision-making process used during the transition were assessed in relation to the chosen effectuation theory.

#### **4.5 Sampling Method and Size**

Etikan, Musa, and Alkassim (2016), and Saunders and Lewis (2018) describe non-probability purposive sampling as a technique where sound subjective methods are used to decide what important characteristics are to be included in the sample when the entire population is not known and randomisation is not key. This technique, applied with a heterogeneous variety in sampling, was best suited as the researcher used judgement to find those best suited to answer the research questions, and allowed for variation through diverse characteristics (Saunders & Lewis, 2018). This was achieved through selecting informal new business entrepreneurs in South Africa.

The criteria for selecting the entrepreneurs was that they should have an active for-profit business, and not comprise entities such as non-profit organisations (NPOs). In order to unpack the entrepreneurial transition process, transitioned informal entrepreneurs should have been within the category of new business entrepreneurs

(they have been making salary and supplier payments for more than three months but less than 3.5 years) as outlined by the research scope, and defined by GEM, before they formalised at the time of the study. The informal new business entrepreneurs must have transitioned into formality within five years after having been an informal new business entrepreneur. This category of entrepreneur was chosen as these entrepreneurs would have recently transitioned into formality within five years, so as to guard against memory loss when recalling their contextualised experiences in using effectuation behavioural logic. The researcher also controlled the sample in the manner that only entrepreneurs who had been the founder/co-founder of their businesses, and involved in the controlling of the business as well as strategic planning and decision-making of the business, were included. It was also important to consider the number of years the entrepreneurs' business had been in operation to determine the entrepreneurial phase the business was in, and whether it should be considered for the study. For example, a business may have been operational for longer than two years, but may not have been able to pay salaries or suppliers since its inception, and thus would not have been considered suitable for the present study, as it did not meet the required scope of a new business.

The sample was identified through secondary research techniques, as enterprise development firms such as Black Umbrella have databases of incubated formalised entrepreneurs publicly available on their websites as part of their client list per region in South Africa, detailing the name of the business and contact details of the entrepreneurs. In order for these entrepreneurs to participate in the incubation enterprise development programmes of this said company, the entrepreneurs would have had to formally register their businesses as a prerequisite, if they had previously been operating informally. However, the publicly available client list did not express that these entrepreneurs had transitioned from informality; therefore, the researcher phoned the entrepreneurs to assess, if they were potential participants who met the selection criteria. SME South Africa publishes articles about township entrepreneur business ideas, profiling some township entrepreneurs who may have been operating informally before formalising. These names provided an additional source to access the sample, and it also provided an additional list of enterprise supplier development programmes. The researcher also utilised informal networks to

contribute to the list of the population of identified transitioned informal entrepreneurs who met the requirements of the study.

The sample size consisted of 12 participants. The sample size of transitioned informal new business entrepreneurs included entrepreneurs of different ages, race, backgrounds, and industries to ensure variation and triangulation. The participants were secured once ethical clearance was received from the GIBS Research Ethical Clearance Committee.

#### **4.6 Measurement Instrument**

The research drew up an interview guideline to ensure the topics to be covered in the interviews answered the research questions (Hennink et al., 2020; Saunders & Lewis, 2018), surrounding the effectual logic behaviour and process that aided the entrepreneurs' decision to formalise. The interview guide was developed from the literature review in Chapter 2.6. Saunders and Lewis (2018) reiterate that study participants are more likely to participate in interviews than mailed out self-completion questionnaires.

The structure of the interview guide included an introduction, which informed the participants about the purpose of the study, and the role of the interviewer; it asked some background questions regarding the participant serving as an opening questions that continued to build rapport and trust with the participant in an effort to make them feel comfortable, and used some key questions to delve into the research question, and ended with closing questions (Hennink et al., 2020). The interview guide followed a logical order that made sense to the participant and make it easy for them to answer the questions. It also gauged the comfort levels of the participants to ensure high quality of the data. As the ability to interview is not a mastered skill for the novice interviewer, the interviewer re-organised the order of questions as and when the need arose as the interview developed. This technique was tested in the pilot interviews (Donalek, 2005) and formed part of the research results.

As noted that the transition process is an understudied phenomenon, a phenomenological paradigm and method was the basis of the interview questions in exploring the process that elicited the participants' lived experience (Donalek, 2005).

This approach increased the credibility of the qualitative inquiry. Based on the literature review, the interview questions were reflective of the research questions and were explored in depth with the transitioned entrepreneurs.

To ensure reliability and validity, and reduce any potential bias, the researcher asked the same questions for all participants, and a transcription service was used to correctly transcribe the recorded Zoom interviews. Allocating sufficient time to each interview as well as prior preparation was key in eliminating any observer error.

#### **4.7 Data Gathering Process**

The semi-structured interviews were conducted face-to-face and in English, due to Covid-19 regulations; and Zoom privately recorded interviews were held, each lasting approximately between 45 minutes to an hour. The participants signed informed consent letters, and were told in the interviews that the sessions were recorded, but were recorded in a confidential manner to retain confidentiality and reliability.

Castillo-Montoya (2016) describes interviews as a means to offer researchers rich data for understanding the participants' lived experiences, and the meaning they offer to those experiences. Jacob and Furgerson (2012) offer tips and techniques for conducting interviews to ensure validity and efficiency. The researcher tried to be aware of potential own bias, fatigue, and lack of experience when conducting the interviews. These have been noted as a limitation to the research. With face-to-face semi-structured interviews, tone, body language, and appearance of the interviewer are deemed important, while still ensuring confidentiality of the interview (Saunders & Lewis, 2018).

Both Castillo-Montoya (2016), and Jacob and Furgerson (2012) explain that for conducting interviews, the interviews must begin and end with a script so as to guide the process, share key details, and the purpose of the research, emphasise confidentiality, and ask questions aligned with the research questions noted in Chapter 3. Questions were open-ended to allow for follow-up questions regarding the transitioned entrepreneurs' effectual logic process and transition, with the flexibility of making revisions to the questions as required, with convergence back to

the interview questions, and ensuring the topics around the effectual transition process to formality were adhered to. The researcher piloted the interview questions beforehand for feedback purposes with a transitioned entrepreneur who met the sample requirements. This was done to ensure that the questions met the purpose of the study, and were suitable for data collection, were accurately understood and whether they were leading or prompting. Feedback from the pilot interview was incorporated into the actual study interviews such as clarification of some of the questions, and the pace of the interview.

Before the start of the interview, the consent of the participants to participate in the study was determined via a phone call by the researcher, providing the potential participants with a brief overview of the study objectives. This was followed up by an email, and a final consent form was signed before the interview (Saunders & Lewis, 2018). While conducting the interview, the researcher explained the purpose of the research, and took notes throughout the interview, while the interview was recorded via Zoom once consent was established. Once all questions had been fully answered, the interview was concluded, and the researcher thanked the participants (Castillo-Montoya, 2016; Saunders & Lewis, 2018). The recorded sessions were stored on Google Drive for security purposes, without identifiers, and will be stored for the required 10 years.

Although purposive sampling does not have a set number of participants, and therefore, saturation of data needs to be considered as the goal when no new information will be generated (Etikan et al., 2016), 12 participants were interviewed for the study.

#### **4.8 Qualitative Data Analysis Approach**

In qualitative data analysis, data text preparation is critical, with consistency being applied to all transcribed text, and analysis of the data being done concurrently in the event that the insights mentioned in the earlier interviews can be expanded on in latter interviews (Saunders & Lewis, 2018).

After text data preparation through transcription, the transcribed interviews were analysed using excel to develop codes to describe the data, and give it meaning according to the research questions. Elliott (2018) describes the use of coding

qualitative data analysis as analysing large amounts of text by taking it apart into categories that put it back together to give the information meaning, and thereafter coding the data, the themes were identified to be able to describe the findings. Through a thematic analysis approach, the interview questions were individually categorised along the lines of the research question and the transition process, as the process was shown as a sequence of decisions that progressed over a certain period of time (Reymen et al., 2015). A thematic analysis approach allowed for “a rigorous approach to coding and theme development”, which was a method used to identify, analyse, and report the themes with the use of a six-phase guide (Braun, Clarke, & Hayfield, 2015). Braun et al. (2015) describe the stages as follows: 1) Familiarise yourself with the data; 2) Generate preliminary codes; 3) Search for patterns/themes; 4) Review the themes; 5) Define and name themes; and 6) Produce the report. This method of analysis was useful when using the qualitative research design for the study.

The interviews were analysed soon after the interviews were completed, so as to be able to inform the pending interviews, resulting in a further developed interview guide based on the coded themes.

#### **4.9 Researcher Bias, Rigour and Trustworthiness**

Research without rigour is ‘ultimately fiction’ and becomes worthless, as rigour is defined as the strength and credibility of the research, which should be built into the research (Morse et al., 2002). Cypress (2017), Pratt, Kaplan, and Whittington (2019) argue that by ensuring trustworthiness in a qualitative study, the reader should assess whether the researcher has been honest in how the research has been done, and the reasonableness in the conclusions made, as qualitative research should be performed with extreme rigour due to the subjectivity inherent in the research. Cypress (2017) and Pratt et al. (2019) caution and advocate for the same forms of transparency and replicability that apply in quantitative research, as it is more easily executed, but that qualitative inquiries require rigour and trustworthiness for the study to be considered a successful and credible study. Obtaining rigour in qualitative data can be challenging, because of the human element, and the researcher’s ability to

express untainted views of the participant, because of the subjectivity of the research.

In order to guard against researcher bias, questions were not leading or prompting a certain response; they were open-ended, and participants were asked to evaluate whether the researcher's interpretation of data was correct, if the questions asked were relevant, and if other aspects should have been considered. To ensure validity, the piloted interview was used to ensure consistency in coding with other interviews, to improve the quality and validity of the research. The parameters of qualitative research allowed for the validity to be strengthened through confirmed responses to the questions by participants. If this had not been the case, and the interview questions had been invalid, redirection would have to have been considered by the researcher (Whiteley, 2002). In order to improve transparency and ensure trustworthiness, the interviews were consistently performed by the researcher, with the same questions asked across the board, and the researcher being aware of potential researcher bias during all the interviews. An interview guide increased transparency and trustworthiness (O'Kane, Smith, & Lerman, 2019).

#### **4.10 Limitations**

As noted, qualitative research is subjective and at risk to limitations in its approach. The following limitations were identified as limitation to this study through this approach:

- Qualitative research cannot be quantified, and there was a possibility that the participants' feedback will be not objective.
- The study may not be easily replicable due to the complexity of the topic and the subjectivity of the participants' responses who have transitioned from informal entrepreneurs, as it would be a personal journey.
- As the transition process is longitudinal in nature, the study itself is cross-sectional, and therefore only the data at the time of the findings were presented.

- The use of non-probability sampling did not allow for the study to be generalised, as study participants are from a few enterprise development firms in Johannesburg, Gauteng Province, which represented a small sample size of the general population.
- The study did not explore all five of the principles of effectuation.
- The sample consisted of only transitioned informal new business entrepreneurs, and did not consider the contribution of the role of the potential, nascent, and established entrepreneurs, those who have exited entrepreneurship all together nor those who have regressed back into informality.
- The researcher was an unskilled interviewer, and was not skilled in drafting interview questions.
- The sample was not selected from an entire population of transitioned informal entrepreneurs, as such list of the population does not exist.

#### **4.11 Ethical Considerations**

The nature of qualitative research is that it is subjective, and involves exploring sensitive issues; therefore, it is important to note ethical considerations to ensure the success of the research by adhering to participants' written consent and guaranteeing their confidentiality (Donalek, 2005). The researcher gained written consent from the participants, informing them of their right to refuse to answer questions, or stop the interview at any time without any negative consequences, and ensuring them that confidentiality to participants' identity was achieved by their names and details being disguised, using qualitative methods. This was also repeated at the start of each of the Zoom interviews.

## **CHAPTER 5: RESULTS**

### **5.1 Introduction**

This section details the findings from the 12 interviews conducted with either the founders or co-founders of what was an informal new business, and had subsequently transitioned into a formal business. The findings were in relation to the research questions posed in Chapter 3, in conjunction with the literature review in Chapter 2. These findings are presented according to the research questions and related themes that were extracted from the findings.

### **5.2 Description of the Sample and Context**

A list of the sample of the South African informal new business entrepreneur participants who have transitioned to a formalised business, including their demographics, is tabled below. The names of the participants have been changed from their original names to maintain confidentiality. Although most of the participants are male (nine males and three females), alluding to the imbalance in the entrepreneurial demographics within the context country of South Africa, the transitioned informal entrepreneurs operate within a wide range of industries. This increases the variation as well as triangulation of the data. This also assists in the richness and depth of the data collected, and helps in understanding how the informal entrepreneurs' transition into formality.

<b>Table 1: Details of the interview participants</b>					
<b><u>Pseudonym</u></b>	<b><u>Transitioned entrepreneur gender</u></b>	<b><u>Industry</u></b>	<b><u>Business profile</u></b>	<b><u>Year Transitioned into formality</u></b>	<b><u>Position</u></b>
Serial Entrepreneur	Male	Telecommunications	Telecommunication company specialising in fibre network solutions within Gauteng and Cape Town.	2017	Founder
The Importer	Female	Retail	Retail online business importing and selling children's clothing, specialising in boys clothing from age 1 year – 10 years old.	2019	Co-founder
Mr Personality	Male	Graphic design	Graphic design studio.	2018	Founder
Ms Independent	Female	PR communication	Boutique issues, management and communications agency with niche in bulk infrastructure and an issues management and crisis over the years.	2016	Founder
Mogul In The Making	Male	Property management	A commercial and residential property company with specialised skill set in student accommodation and investment property, property management, sales, and rentals.	2016	Founder

The Accountant	Male	Accounting	An accounting and tax business centred around compliance of small businesses.	2018	Founder
Fitness First	Male	Fitness	A fitness and health company offering at home and on-site personal training services and fitness classes while also acting as an agent connecting clients with other personal trainers within the Gauteng region.	2019	Founder
The Content Entrepreneur	Male	Entrepreneurship development	Content creators to aimed at educating young people about entrepreneurship and business management.	2019	Co-founder
The Economist	Female	Events	Events planning and management as well as a corporate gifting service.	2016	Co-founder
The Strategist	Male	Driving services	Corporate business driving service where a driver is seconded to the corporate company and is billed on a subscription basis.	2017	Founder
Never Say Die	Male	Construction	A construction company offering general home improvement services.	2018	Founder
Mr Cabinets	Male	Cabinetry Designs	A cabinetry design business offering design and installation services.	2016	Founder

### 5.3 Results to Research Question 1

#### Research question 1: How do the informal new business entrepreneurs use their available means as resources required for transition?

The aim of research question 1 was to understand how the transitioned entrepreneurs understand how their means had assisted in their transition into formality. The interviewer gained a deeper understanding of how the transitioned informal entrepreneurs identified themselves, including their value system, their personal strengths and capabilities, as well as how their key relationships and networks would have assisted with the transition process in line with section 2.6.1 in the literature review. The codes, categories, and themes in line with the research question are presented with each sub-section.

**Table 2: Summary of evidence of research question 1**

Theme	Category	Code	Number of participants who make reference to the theme
The transitioned entrepreneur	Entrepreneurial traits	Independence	7
		Confidence	2
		Motivation	6
		Achiever	6
		Agility	3
		Moral values	2
Entrepreneurial skills	Entrepreneurial mindset	Entrepreneurial mindset	7
		Relationship skills	5
Prior entrepreneurial experience		Young exposure	5
Key relationships	Close ties	Entrepreneurial family	6
		Family support	4
	Distant ties	Work related relationships	7
		Close friendships	4
		External influence	2
Skills and capabilities	Formalised skill set	Corporate skills	6
		Education	5
		Self-educate	4
	Social skills	Networking capabilities	5

### 5.3.1 Available means: The transitioned informal entrepreneur

The emerging themes are in relation to understanding the value system of the entrepreneurs as well as what drove them into entrepreneurship. In understanding who the transitioned entrepreneur is within the transition process, the participants' responses have been categorised as the entrepreneurs' personality traits, their personal skills and capabilities, as well as any prior entrepreneurial experience they may have had which was used during their transition process.

#### The transitioned entrepreneurs' personality traits

The entrepreneurs' traits are those that describe their value system as well as their characteristics, which are described as follows:

**Table 3: Entrepreneurial traits by frequency**

Rank	Entrepreneurial trait	Frequency count
1.	Independence	6
2.	Motivation	6
3.	Achiever	6
4.	Agility	3
5.	Confidence	2
6.	Moral values	2

With the top three traits having a similar frequency count in number, the entrepreneurs agree that having independence from formal employment and gaining freedom over their lives is a key driver in becoming an entrepreneur, as well as their reason for continuing on the path of entrepreneurship. As an informal entrepreneur, they did not take business too seriously, and their attitude was more along the lines of "testing the waters". The transition to formality meant that they had to take the business more seriously. Many of the participants cite the need to be their own boss as a driver for their independence, and being their own boss requires them to have a formalised establishment and transition. Having a high need for achievement and success as a part of their entrepreneurial journey because of the potential financial reward associated with entrepreneurship, and maintaining their motivation, are also key drivers that assisted them along the transition process. Transitioning to formality would allow the transitioned informal entrepreneur to grow the business and reap the

financial rewards of their achievement. Self-motivation, self-belief, and having a passion for their work is noted as key traits needed in entrepreneurship, and something that keeps the entrepreneurs going when dealing with challenges during the entrepreneurial journey and transition process to formality.

Some of the participants describe their value system and beliefs that assisted them through the transition process as follows:

<b>Participant</b>	<b>Quote</b>
The Strategist	<i>“Personal value system is a value of freedom. I like being responsible for my own time. I like deciding what to do with my day.”</i>
Mr Personality	<i>“I love working, you know, I just enjoy what I am doing.”</i>
The Accountant	<i>“I am more of a person who is trying to build something that is generational. So, I wanted to sort of leave something that was more tangible than just, just a qualification or just a bag of money.”</i>

#### Personal entrepreneurial skills

The participants describe themselves as having developed an entrepreneurial mindset throughout their life experiences, which can be described as having a sense of curiosity, being an independent thinker, and adding value to their work and customers. The participants describe their entrepreneurial mindset as follows:

<b>Participant</b>	<b>Quote</b>
Serial Entrepreneur	<i>“I like creating new things. And I think this space gives me, gives me that space to be very creative.”</i>
The Accountant	<i>“One thing that I am not, I do not follow the crowd. So I sort of just have my goal and try to push for the goal.”</i>

The entrepreneurs have also developed strong relational values either earlier in their lives or along their journey of entrepreneurship, with four of the participants citing their main reason for entering entrepreneurship was to help people, while others acknowledge that they are people-orientated and need value-building relationships. Having a strong relational foundation has enabled the transitioned entrepreneurs to draw on their relationships for the purposes of the transition process.

### Prior entrepreneurial experience

Five of the participants note entrepreneurial experience having been acquired prior to formalising their informal businesses. This previous experience comes in the form of the entrepreneurs having been exposed to either running a business, having been entrepreneurial in the form of selling goods, or exploiting opportunities from a young age. These experiences are felt to have been a stepping stone into their current entrepreneurial journey. Two of the participants had been selling goods such as sweets at their schools or the local markets when they were younger. This experience prepared these transitioning entrepreneurs for the process to come. The Mogul In The Making outlined his prior entrepreneurial experience as below:

<b>Participant</b>	<b>Quote</b>
Mogul In The Making:	<i>“So, when I was a kid or when we were kids, all the cousins, the grandchildren will go after school, because our parents were working. We all used to go to my grandmother's place. She was in the markets and all of us had to sell, and she always gave a prize to whoever that was going to sell faster and bringing the most money.”</i>

### **5.3.2 Available means: Key relationships**

Two categories emerge when trying to understand who the transitioned informal entrepreneurs consider as key relationships and as part of their transition process and journey into formal entrepreneurship. The participants list close relational ties and distant relational ties as their key relationships that form part of their transition process.

#### Close relational ties

Close relational ties consist of the entrepreneurs' family. Almost half of the participants list that they were from entrepreneurial rooted families, being their parents, siblings or that their extended family members were entrepreneurs, which significantly influenced their direction to becoming an entrepreneur and subsequently transitioning.

Participant	Quote
Fitness First	<i>"If I look at my family, we are selling people. Like we all are, like my brother and my sister, my siblings, they are in businesses."</i>

While the entrepreneurs transitioned into formality, four of the participants relied on their family's support and assistance, whether this was financially or emotionally during the process. They attribute this support to helping them build their businesses and successfully transitioning into a formal entrepreneur.

Participant	Quote
Ms independent:	<i>"When I left my career, I had a house, I had a car paid off. I could pack up my house, sell my house and I moved back home."</i>
The Accountant	<i>"And then I think my family also plays a role in assisting and in informing the types of business that I go into, because, um, especially with the accounting business."</i>

#### Distant relational ties

Distant relational ties consist of the entrepreneurs' work relationships, their circle of friends as well as any other external influences. Four of the participants cite their working relationships with their previous clients, while they were still informal that had subsequently turned into a partnership relationship in their formalised business as key relationships that assisted in their transition process.

Participant	Quote
Mr Personality	<i>"She used to be my client and is now my business partner."</i>

Others cite their circle of friends as a source of motivation, and a driving force in the transition process and their entrepreneurial journey. Some of their friends would offer encouragement or mentorship, and act as a sounding board for their ideas or thoughts.

Participant	Quote
The Strategist	<i>“Um, the second person is, um, one of my friends who is about 10 years older than me. And we both went on this entrepreneurial journey together. He however, was, more business minded.”</i>

External influences such as public figure role models in business or self-help and business-related books and videos have also influenced some of the participants to continue on their entrepreneurial journey and onto the transition process.

### 5.3.3 Available means: Skills and capabilities

The participants use their formalised skill sets, being either the skills developed during their formal employment, their educational background, and their auto-didacticism to manage their transition process. Most of the participants had worked for or are still in formal corporate employment before transitioning into formal entrepreneurship. The experience developed during their time in the corporate world has cultivated their ability to run a business, as some attribute their corporate experience as assisting them in running their formalised businesses: *“The skills that I have developed inside corporate are what I am using currently to run my business”*. After having been exposed to the corporate world, the transitioned entrepreneurs knew what it meant to transition into a formal business for growth purposes.

Participant	Quote
The Importer	<i>“Corporate environment played a role in terms of developing me, because when you are in corporate, obviously you deal with a lot of customers, and you get an idea of how the business runs. But the skills that I learned inside corporate are the ones that helped me to establish the business.”</i>

Three of the participants had worked in sales during their time in the corporate environment, which has contributed to their entrepreneurial experience, because they use these skills to acquire customers. This corporate experience has also developed their entrepreneurial mindset, as it elevates their selling experience or the

basis of establishing their businesses, by further encouraging them to transition into formality.

The participants vary in terms of whether they are university and post-university graduates, with three of the participants not having a university degree, but they have countered this with their ability to self-educate and navigate the transition process through developed research skills and budgeting skills. Fitness First cites the following in regard to the research skills he has developed which assisted in the transition process: *“And research, more research. Like you never stop researching. I still go back to my notebook now and then if I am not sure of certain stuff.”* Four of the participants rely on their professional, university, and post-university qualifications to transition through to formality by using their accounting or economics skills to understand the financial implication of transitioning their business, and formulating strategies for their business to navigate the transition.

<b>Participant</b>	<b>Quote</b>
The Accountant	<i>“My accounting skills would be very valuable in understanding where we are trying to take the business.”</i>
The Importer	<i>“So as a CA, you become involved in the strategic decisions, you know, that planning, you know your customer, how to retain your customers.”</i>

The participants also rely on their social skills through their developed networking capabilities. Building strong relationships and networks has allowed the participants to build trustful relationships and networks that have played a role in the transition into formality. Having these networks has allowed one of the participants to *“always find yourself at the doorsteps of a possible new venture”*, and transitioning into formality has been a stepping stone for the growth of their businesses.

<b>Participant</b>	<b>Quote</b>
Ms Personality	<i>“Before I started a business, for me instinctively, I kind of knew that I had to build the network first. And then when I have the network that will propel me to, you know, be the next stepping stone.”</i>

### 5.3.4 Summary of findings

The participants identify their entrepreneurial traits, skills, and their prior entrepreneurial experience as the key drivers as to who they are as transitioned informal entrepreneurs. Alongside this, the data reveal that the participants use both their close personal ties and distant ties through the use of family, work-related relationships and their close friendships to aid them in their entrepreneurial journey and transition. Most of the participants use their formalised skill set through their experiences in a corporate environment to develop their business skills, their entrepreneurial mindset, and their educational backgrounds to make strategic decisions within their business. They also use their ability to utilise their social skills through their networking capabilities as part of their available means to transition to formality.

### 5.4 Results to Research Question 2

**Research question 2: How do the informal new business entrepreneurs plan what they are willing to lose or risk during the transition process?**

The aim of research question 2 was to understand what the transitioned informal entrepreneur risk or are willing to consider as their affordable loss while transitioning, and how they come to their decision on the risks taken as well as how they navigate those risks.

**Table 4: Summary of evidence of research question 2**

Theme	Category	Code	Number of participants who make reference to the theme
Risks taken	Financial risks	Employment Personal capital	9 2
	Non-financial risks	Person relationships	5
	Decision-making skills utilised	Intuitive decision-making	Instinctive Faith
Analytical decision-making		Calculated	10
Navigating the risk	Structured goal setting	Focus on deliberate strategies	2
	Emergent strategy	Experimentation strategies	3
		Survival strategies	5

### 5.4.1 Affordable loss: Risks taken

The transitioned entrepreneurs detail their experience of the risks they took in determining their affordable loss during the process of transitioning to formality, which consisted of financial and non-financial risks. The risks that were taken were in the exploitation of their entrepreneurial activities for growth purposes during the transition process to formality.

#### Financial risks taken

The financial risks taken by eight of the participants are those of forgoing their guaranteed employment income to peruse formal entrepreneurship on a full-time basis during the transition phase. These participants contribute leaving their jobs as the biggest risk they had taken during their transition process, as some had no secured plan on where their next income was going to be derived from, thereby leaving the stability and comfort of a guaranteed monthly income behind. Leaving their jobs allowed them to concentrate on their business and give the transition their full attention to ensure its success. Leaving their “safe” jobs seems to be a dominant trend when transitioning, but one of the participants is currently still in full-time employment and runs her transitioned business during her free time. The participants detail their experience as per below.

Participant	Quote
Mr Personality	<i>“The biggest risk of leaving the security of finances and be on your own. I did not have solid finances when I left my job, actually, I did not even have clients when I left my job.”</i>
The Accountant	<i>“Risk I had to take ... the bigger risk was to quit my, my day job. That is, what is a guaranteed monthly salary. And then go, go do something that you are not, you are not guaranteed whether you are going to get money or not.”</i>

A participant describes transitioning into formality as having “a lot of monetary risks involved”, as some participants have invested their accumulated personal savings and other personal capital into starting and growing the business during the transition phase. The Economist notes that her current salary is her biggest investor into their business, and that she and her partner (being her husband) utilised their savings to

buy equipment for their transitioning business for expansion purposes, while they were transitioning.

Participant	Quote
The Content Entrepreneur	<i>“Um, so there is a lot of monetary risks, because now you are you in it, you are putting a lot of your resources, a lot of financial resources into this thing. It has to work because of the money that you have put in.”</i>

### Non-financial risks

To some of the participants, the non-financial risks weigh equally as the financial risks taken. The non-financial risks consist of the risks taken within their personal relationships, where sacrificing of time for friendships, romantic relationships, and a social life are the norm due to them focusing on the business, and family needs are sacrificed as financial resources are allocated to the business instead of the family. One participant mentions the delay of starting their own family due to the transition to formality in an effort to growing the business.

Participant	Quote
The Economist	<i>“That is another thing that we had to work with, our kids could not do all the extra murals they would have liked to, because there were some excess funds that needed to help us support this business.”</i>
Ms Personality	<i>“...family relationships, you know, because even if your family supports you, it takes a while to convince them to support you automatically. I had to be prepared to cut friendships, and going out socially to focus on my business. There was like ... I lost a lot of friends. Social life was like, nothing. I definitely know that I delayed this decision of having children because of my business. So for me, those are the sacrifices that we give up.”</i>

### **5.4.2 Affordable loss: Risk-taking decision-making skills utilised**

In deciding on their affordable loss during the transition process, the entrepreneurs need to employ risk-taking decision-making. The data reveal that the participants either embarked on this by using their analytical or intuitive decision-making skills to conclude on their level of affordable loss.

### Intuitive decision-making skills

The participants reveal that their decisions on the risks they took in the effort to transition were based on intuitive reasons, and what lead them to these decisions was either instinctive reasoning, faith-based reasoning, or psychological reasoning. Two participants allude to their reasoning being based on their developed instincts, stating that they were asking themselves “What is next?”, and that the risks taken were decided based on their future progression.

<b>Participant</b>	<b>Quote</b>
The Serial Entrepreneur	“It is all instinct. It is like, it is the next step. Like you are crawling now, the next step is you have to walk. So it is almost like you, you cannot view it any other way, other than that.”

Some of the participants attribute their intuitive decision-making to “taking a leap of faith” and “trusting the process” of their entrepreneurial journey and transitioning. These particular participants had quit their jobs on the basis that one needs to take risks in one’s life, and trust that the risks taken will work out in one’s favour. They apply the same reasoning to their transition process. Being able to trust the entrepreneurial journey is key to risk-taking and results in the faith-based decision-making during the transition process.

<b>Participant</b>	<b>Quote</b>
The Content Entrepreneur	<i>“I took the leap of faith with bungee jumping and I felt like, you know, what if I can take a leap of faith here? Why can I not take a leap of faith in my life? And I think that is what made me think of quitting the job.”</i>
The Importer	<i>“I think from my side, I was just tired of being in a corporate environment, and I think I was starting to nag my husband, you know. We decided it was fine and God will see us through.”</i>

### Analytical decision-making

Analytical decision-making makes use of the information at hand when making the decision. This type of decision-making involves the use of calculations to analyse the information at hand. Calculated risks can be defined as risks taken after careful consideration of possible outcomes, by using the data at hand and information that is available. Decisions such as quitting one's job, risking the security in favour of full-time formal entrepreneurship, because of to the transition process is considered a calculated risk by most of the participants who had taken this risk. In navigating the financial and non-financial risks taken by the participants, they seek to use different methods in order to calculate the risk to determine the required outcome during the transition.

Two of the participants consult with mentors, friends, other industry professionals and others in business, as a process towards understanding the risks associated with transitioning. They also utilise brainstorming techniques to assist with their calculations. Mogul In The Making describes the process as follows: *"You will speak to the different people, be it from financial institutions or people who are in business to say, how did you move over to the next step? And from there, you make the decisions that you make."*

The participants also demonstrate cognitive skills in coming to a conclusion on the risks navigated during the transition process. Cognitive decision-makings entails the thinking, processing of knowledge, and the final problem-solving step thereof. In navigating these risks, participants are able to think through their decisions, and the risks taken in a process-linked manner. One of the participants mentions the use of his educational background and professional qualification as an enabler when evaluating his decisions and calculating the risks.

<b>Participant</b>	<b>Quote</b>
The Strategist	<i>"With my background as well, I am able to really evaluate what is a real financial risk and what is not. I have not taken significant financial risks, or risks to me. Like it is very calculated. I do not think you can be in an entrepreneurial space without taking risks, but it is about calculated risks."</i>

### 5.4.3 Affordable loss: Strategy implementation while navigating the risks

The data depict that the participants would either enable deliberate strategies, while transitioning and navigating the risks associated with the transition process, or embark on more experimental strategies. The deliberate risk management strategies include structured goal setting as an option, in line with the strategy, while the experimentation strategies involve the entrepreneur following an emergent strategy or coming up with creative solutions to ensure the survival of the transitioned business.

#### Deliberate risk management strategies

The deliberate risk management strategies through structured goal setting were activated by a few of the participants when they were clear about their business objectives, goals and growth plan for the company. The Serial Entrepreneur describes this method as being smarter about the use of money for the business objectives, as *“It cannot just be a means to an end”*.

Participant	Quote
The Importer	<i>“It was not about growing the business. It was just about having additional money that we could spend so that we can put more money into the savings. So when we became formal, then the focus changed, because now the focus is on growing the business, expanding the business, building a brand.”</i>

#### Experimentation strategies

Most of the participants are more inclined to follow a more experimental approach to risk management. Through strategies that emerged as they were transitioning, participants follow what makes most sense at the time by allowing the business to progress and unfold, and then deciding their position and direction from there. There seems to be no intentional strategy to be used to navigate the risks taken during the transition process.

The participants describe their risk management strategy during the transition process as below.

<b>Participant</b>	<b>Quote</b>
Mr Personality	<i>"I have got this goal to reach ... when I reached it, I would say the way I reach it, I reach it. I did not have to say what was our next strategic thing."</i>
Ms Independent	<i>"Absolutely. Because, you know, at some point, probably six months into me being on my own, I decided to sell my hours and my time. So I had a hybrid system for quite a bit."</i>
The Economist	<i>"So when we were looking around trying to find out what do ... what people need. People want to look cool when they are on the streets. And then that is how we started the Klan collection. As much as we believe we are a celebratory company, it did not have to only be in terms of events."</i>

Creative solutions for survival were also explored by the participants while transitioning to formality, and this is a dominant theme that the data show when navigating the risks. As some of the participants did not have intentional strategies while navigating the transition process, they had to become more creative as a means to generate additional resources, cost saving techniques as well as revising their business models and plans for the survival of the business. Transitioning had added pressure to the participants' business, and they were required to be creative in their solution-finding to *"keep the lights on"*.

<b>Participant</b>	<b>Quote</b>
The Importer	<i>"It puts a pressure on you to say, you have to make it work, otherwise, what are you going to eat? Because your next meal is going to come out of that thing and then looking at ... like different strategies."</i>
Mogul In The Making	<i>"And you came in to lend us money to buy from auction and sell to somebody to get that money to get some profit out there. That was the early creative mind we could come up with, because the banks will say no because your credit history is bad."</i>
The Content Entrepreneur	<i>"Honestly speaking,.. the business model changes all the time. So then we will get a bank to sponsor or advertise on this comic strip and we will distribute it around South Africa and South African schools. ... then that did not work out. Then I went on to change that model to something"</i>

	<i>else and say, you know what, let me create a fully-fledged comic book. And then that did not work out as well.”</i>
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#### **5.4.4 Summary of findings**

The participants had considered their affordable loss and risks taken to transition to formality through financial and non-financial risks, which included monetary and personal sacrifices. They decided on these risks and the determination of their affordable loss by employing both analytical and personal decision-making skills, which involve calculated, instinctive and faith-based reasoning. While they were navigating these risks, most of the entrepreneurs utilised experimental strategies to control their risks, while two participants managed their risk through deliberate strategies.

#### **5.5 Results to Research Question 3**

##### **Research question 3: How do the informal new business entrepreneurs make use of strategic collaborations during the transition process?**

This research question is aimed at gaining an understanding of whether or not the informal entrepreneurs engaged in any strategic collaborations for the purpose of transitioning to formality through their pre-commitments by and with stakeholders. In an effort to gain insights into this aspect of the transition process by elaborating on the strategic collaborations made, these relationships arose through new and existing relationships as well as what the contributions of these strategic collaborations were and how they assisted them in terms of the transition process.

**Table 5: Summary of evidence of research question 3**

Theme	Category	Code	Number of participants who make reference to the theme
Strategic relationships	Growth-focused relationships	Slow growth without strategic partnership	9
	Vision and mission aligned relationships	Aligned vision between partners	3
	New relationships	Referrals	4
	Existing relationships	Industry relationships Existing relationships	6 4
Strategic relationship contributions	Skills	Strategic partners for skillset	5
	Resources	Strategic partners for resources	4
	Experience	Strategic partners for experience	3
	Shared responsibility	Strategic partners for responsibility	1
	Strategy	Strategic partners for direction	2
	Support	Strategic partners for backing	3

### **5.5.1 Strategic relationships formed during the transition process**

Participants were asked whether they formed any strategic relationships or collaborations for the purposes of transitioning, and two types of strategic collaborations are noted. The participants formed either growth-focused relationships, or vision and mission alignment relationships for the purposes of transitioning. The results as to how these relationships arose and were secured will be discussed.

#### Growth-focused partnerships

Growth-focused relationships refer to relationships and collaborations that are formed purely for the purposes to grow the newly formalised business. The data relay that the participants will collaborate either at the start of the transition process or just after they have transitioned, with partners who they have identified as being able to assist them in the growth of the business, depending on what their contribution may be. These growth-focused relationships are identified by most of the research

participants as growth enablers, because one participant notes that the business growth is slower on their own, *“I sometimes think you can get further in larger numbers than on your own.”*

<b>Participant</b>	<b>Quote</b>
The Content Entrepreneur	<i>“I think without collaboration, we would not be where we are, because we have changed so many times and done so many things that we need. We needed the collaboration.”</i>
Ms Independent	<i>“So very quickly I realised that working alone does not work and I cannot afford to necessarily hire full-time staff. So for me the biggest jump and growth was when I started finding strategic partners who also have their own companies.”</i>
The Strategist	<i>“I think that that it has been the biggest limitation in my growth or the growth of the business and opportunities I have had is that the collaboration has not been great.”</i>

#### Vision and mission alignment related partnerships

These types of relationships are those where there is a common vision and mission between the partners and stakeholders. Collaboration by the transitioned entrepreneur was formed with the partner, because of the aligned inter-personal beliefs and their like-mindedness in terms of being an entrepreneur, or their personal vision and mission statement. Three of the participants disclose that they collaborated with their partners for these reasons as they had a broader vision of helping and empowering the South African youth, and they felt they had an aligned vision with their partner. They have subsequently targeted the employment of South African youths. These collaborations have the core of aligned vision as the basis, but they are also designed for growth purposes.

<b>Participant</b>	<b>Quote</b>
Mr Personality	<i>“So when I met my partner, we spoke about it and then we also had the same vision of empowering the young youth of South Africa.”</i>
The Accountant	<i>“We have a lot of conversations around business ... around, around the market, around, we as black people, you know, the role that we need to be playing in our country at this point. And especially as young black people.”</i>

### Formulating the strategic partnerships

Most of the participants formed these strategic relationships and collaborations based on their existing relationships, and through channels such as industry-based colleagues and networks for the purpose of the transition process. Those who had used their existing relationships as a form of collaboration state that these collaborations were built on trust, as some of the collaborations formed were not based on contractual terms and agreements to begin with. These existing relationships were also in the form of friendships.

<b>Participant</b>	<b>Quote</b>
The Strategist	<i>"Then I turned to one of my friends. Like I trust relationships more than ... so I, it is just a very theoretical thing and I do not formalise it or really agree to the details of these things."</i>

The participants also relied on their networks through their industry colleagues to secure their strategic collaborations. Some of these relationships stemmed from colleagues who were in "the same position" as the transitioning entrepreneur, in that both entrepreneurs were transitioning and looking to form strategic collaborations without formalising the structure.

<b>Participant</b>	<b>Quote</b>
Serial Entrepreneur	<i>"Well, through business, you, you encounter people who find themselves in the same position as you and you slowly gravitate towards them. You ask yourselves, how do we do better, how do I better? How do I better my business?"</i>

Fitness First mentions that his strategic collaborations were based on industry relationships he had had for years, and trust was automatically formed based on that long relationship, while the Accountant had formed his collaborations from relationships he had built at university.

The next set of collaborations formed are with new relationships such as referrals and by cold-calling potential partners. These referrals for collaborations are generally received from the participants' networks or through expanded engagements. The

Importer had used social media and the reviews and references given to decide on a strategic partner.

Participant	Quote
The Importer	<i>"It all started when we were still doing the research on how do we go about importing. And I think I came across a Facebook page. There was this lady ... was selling a guide on how to go about importing. So obviously, I would pick the agent based on their reputation or the recommendations that most people make ... of that agent. Then that is how I started contacting the agent."</i>

### 5.5.2 Strategic collaboration contributions

The transitioned entrepreneurs benefitted from their strategic collaborations as they expected, because these collaborations brought in a new or complementary skill, additional resources, other people's experience, shared financial responsibility, strategic direction, and support.

#### Strategic partners for skill-set

Participants note that the chosen partners brought with them a skill-set that the transitioned entrepreneur did not necessarily have; they often learned the most from these strategic partners, and due to the strategic partnership, the transition process was made easier. These partners contributed an array of skills and added knowledge including aspects such as design skills, how to run a business, importing, and dealing with foreign customs, taxes and other legal or financial requirements. The participants agree that the advantage to having a strategic partner is the ability to share and gain knowledge from the strategic partners. The participants also reveal that they feel it was better to collaborate and form these strategic relationships than to compete against them.

Participant	Quote
Mogul In The Making	<i>"It was key because partnership is key. And the beautiful thing about talking to all these people and partnering up with people is that your knowledge gets bigger and bigger, because you then surround yourself with people who are smarter than you, who understand setting things about structuring that will then guide you through those systems."</i>

Mr Personality	<i>“So when I partnered with my partner, it was a good partnership, because she ... she has got that knowledge and skill and you know, and was formally trained. So, so it basically made it much easier for me. When you have the right partner, they make it much easier.”</i>
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### Strategic partners for resources

Some of the participants’ strategic partners contributed additional capacity in terms of additional human capital to fulfil a client’s needs or for a competitive advantage, while others’ partnerships were more along the lines of additional financial resources contributions. Fitness First notes that he had partnered with eight other personal trainers in an effort to diversify his offering, as he did not have the skill or capacity to offer his clients a whole range of fitness programmes in order to compete with the gyms.

<b>Participant</b>	<b>Quote</b>
Fitness First	<i>“I have partnered up with I think about eight trainers whereby they all have their own certain skills. Say one will be qualified in boot-camp and is good at yoga. I do not suffer, if the client is looking for something specific or says but I am looking for yoga and I do not have.”</i>
Mr Personality	<i>“I would say it helps also when it comes to finances. It helps a lot with that, because when you want to run a proper business, you need some money.”</i>

### Strategic partners for experience

When the transitioning entrepreneurs partnered with strategic partners for the purposes of gaining and utilising the experience of the partners, one found that the transition was made easier as they could rely on their partner for guidance. The Accountant mentions that the experience of his partner at the time showed him *“different permutations, seeing different problems being solved”* as well as *“finding different ways of doing things”*. These partners also contributed mentorship as part of the experience offered to transitioning entrepreneurs as well as identifying new things to consider and giving business advice.

Participant	Quote
The Economist	<i>“So, they would also just give us advice in terms of whether to take a deal or whether it sounds like a good deal or not. Um, and also help us identify things that we may have not considered.”</i>
Mr Personality	<i>“So, those are the kinds of benefits that I got that came with this, because my partner, she already had experience in ... and all of that knowledge. So for me, those challenges, it is not like it is the challenges that I am, I am sitting by myself trying to figure it out. She takes me through those challenges.”</i>

### Strategic partners for direction and support

Two participants share that their partnerships had contributed strategic direction, because one partner was good at strategic formulation and execution, as he was “the driving force” of the business. The other participant notes that the partner contributed strategic direction through “tactics”.

Participant	Quote
The Economist	<i>“He brings such a driving force in terms of execution of all the creative ideas that I might have. And, and that is the balance that our business brings.”</i>

Three participants note that their strategic relationships brought them extra support, with the partner adding increased credibility and reputation, because they had already formalised and were thus seasoned, and they provided reassurance.

Participant	Quote
The Content Entrepreneur	<i>“Sometimes you doubt yourself and you need that reassurance from, uh, external parties. And when you see external parties support your initiative and then you start believing it more and more.”</i>

### Strategic partnership for shared responsibilities

Only one participant notes that the partnership was one where the responsibilities such as such as resources and expenditure were shared between the strategic partners. This resulted in a cost savings. Ms Independent: *“When we started, we*

*were a co-lab kind of thing. Then the co-lab worked and we actually got offices together. We were sharing rent. It came like that, because we have got offices in Hyde Park, we share.”*

### **5.5.3 Summary of findings**

The participants formed strategic partnerships and collaborations with various stakeholders such as their agents, clients, or their business partners through the use of their external and internal relationships. These relationships consisted of industry-related or existing relationships as well as referrals. These strategic collaborations and partnerships were beneficial and served their purpose, as these partnerships contributed skill-sets, in terms of financial and human capital resources as well as strategic direction.

## **5.6 Results to Research Question 4**

### **Research question 4: How do the informal new business entrepreneurs handle entrepreneurial challenges as they transition?**

Participants in the present study seem to concentrate on the level of uncertainty and thus, how they respond to such uncertainty. The entrepreneurs either embrace uncertainty, thereby using different experimentation strategies to navigate the risk, or they try to avoid uncertainty, looking for information, facts and methods to gain control over uncertainty. By leveraging off contingencies, it was also discovered that the entrepreneurs developed new business opportunities.

**Table 6: Summary of evidence of research question 4**

Theme	Category	Code	Number of participants who made reference to the theme
Embrace uncertainty	Make lemonade	Agility	2
		Adaptability	7
	Entrepreneurial journey	Entrepreneurial journey	4
	Never give up	Committed to business	10
Avoid uncertainty	Avoid as long as possible	Try to avoid	2
Maintain customer relationships	Increase customer engagement	Reassure customers	4
Experimentation	Creative thinking	Think outside the box	3
	Additional pressure of transition	I cannot afford to fail	3
New opportunities	Building new relationships	Expanded networks	8
	Existing relationships	Collaborations	2

### 5.6.1 Dealing with uncertainty

Participants were asked how they deal with uncertainty and challenges, and whether they feel this was something they would welcome or avoid during the transition process. The participants state that they will either embrace uncertainty through experimenting with their business model and strategy, while maintaining their customer relationships, or they would have chosen to try avoid it completely.

#### Embracing uncertainty

Most of the participants indicate that although these challenges and uncertainty faced during the transition process were unsettling at the time, and some of these were formidable thereby creating more uncertainty, the participants were capable enough and thus chose to embrace the uncertainty.

Nine participants raise the notion of “turning lemons into lemonade”, referring to doing their best under the circumstances and turning the challenges and uncertainty

they were facing during the transition process into opportunities. They mention that the ability to be adaptable and agile to change during these uncertain times is what has held them steadfast, able to continue operating their business, and successfully transition to a formal business. These challenges and uncertainty had also accelerated their learning process, which was a steep learning curve for the transitioning entrepreneurs. One of the participants states that embracing the uncertainty was more favourable than avoiding it, as the *“the risk of embracing what is coming to us was more rewarding than walking away from, from what was coming to us”*.

<b>Participant</b>	<b>Quote</b>
Serial Entrepreneur	<i>“But what has worked for me is being realistic about what the situation needs.”</i>
Ms Independent:	<i>“I do not judge the situation for having come to me, I deal with it for what it is worth and kind of make the best out of it.”</i>
Mogul In The Making	<i>“But because we went in being cautiously optimistic, it has helped us. And what we then did is that every single mistake we made, well, we call it lessons, because we never made the same wrong twice. So it never became a mistake.”</i>

As part of embracing uncertainty, the participants also note that when one is an entrepreneur, one has to deal with a lot of risk and uncertainty, so when challenges arise during the transition process, these risks and challenges should be considered a part of the entrepreneurial journey and therefore be accepted and addressed or solved.

<b>Participant</b>	<b>Quote</b>
Mr Personality	<i>“So when those challenges came, I understood that it is part of the business. This is just it is part of the journey. So if you are not willing to endure these, do not be part of this journey, you know, choose another journey.”</i>

An important part that the participants note in dealing with challenges is staying committed to the business during the uncertainty and holding on to their attitude of “never giving up”. Some participants feel that now that they had transitioned into

formality, it was harder to quit their business. This acted as a stronger motivation than before to keep going. When their businesses were still informal, there was the option to quit at any time, without any greater consequences. On the other hand, Fitness First uses his personal focus, his vision and mission as his motivator: *“Focus is very important, because there will always be voices around, but at the end of the day, you need to understand your vision and your mission, you know, like, ... where do I see myself?”*, while the Serial Entrepreneur uses the challenges during the transition as a driving force to work harder.

#### Experimentation and customer relations management during uncertainty

As none of the participants had considered giving up on their business ventures during the transition process, they had to derive at various options of how to address and overcome their challenges. Half of the participants had thought of different ways to keep their business afloat, fighting for the survival of their business. Participants had to experiment with different methods to be able to survive by cultivating their creative thinking through processes of trial and error, a survivalist mode of addressing problems and thinking out of the box. The Content Entrepreneur describes this experimentation process as follows: *“I think to just learn, just learn as we go, it is trial and error. Um, it is a lot of trial and error in the scheme, because you do not know ... you are not ... there is no certainty in everything that you do.”*

The additional pressure of transitioning and not giving up on their business made two participants realise that they could not afford to fail at this business after everything they had invested into it, which then ignited the different experimentation processes they proceeded to put in place. The Importer experimented with the notion of sacrificing all her business profits in order to keep the lights on: *“And if we decide to ship, we might run out of stock and be forced to close the doors. You understand? So, you kind of like sacrifice your profits to keep the doors open, so that you do not shut your business down.”*

Some of the participants also chose to respond to the uncertainty and the various challenges encountered while experimenting with business approaches, by adding extra focus onto their customers, maintaining their good customer relationships through increased customer interaction and communication. While their business model was being severely tested during the challenges and uncertainty, two participants reassured their customers that the business was doing well. They were

managing their customers' expectations during the transition, providing extra attention and sometimes even worked for free in order to hold onto their clients during the transition process.

<b>Participant</b>	<b>Quote</b>
Mr Personality	<i>"Most of them, we did a lot of work that was not paying money just to keep ourselves in contact with our clients, so that they do not forget about us."</i>
Serial Entrepreneur	<i>"The key is the relationship that you have with the client that you do have at that time, because you just need to assure them that, look, this has happened. I know it is ... may not seem like business as usual, but this is what I want to put in place as I am transitioning, you know?"</i>

### Uncertainty avoidance

Only two participants mention that the challenges they faced during the stages when uncertainty could have overwhelmed them, they tried their level best to avoid any possible uncertainty for as long as possible. Their challenges revolved mainly around compliance issues such as taxes, as taxes had not been anything they had worried about or even known much about while their business had been informal. Avoiding the uncertainty of what to do about taxes and tax registration had eventually cost the Economist more financially, because this matter had to be addressed.

### New business opportunities from leveraging contingencies and uncertainty

As the entrepreneurs embraced uncertainty during the transition process, it was asked if any new opportunities emerged from this process. 10 of the participants responded positively to this and noted that new opportunities had arisen from the transition process while leveraging off contingencies. These opportunities arose from majority of the participants new relationships through their expanded networks by engaging with new people or referrals. Only 2 out of the 10 participants who had new opportunities emerge had been form their direct strategic alliances and existing relationships.

Participant	Quote
The Economist	<i>“So that decision may not deal with what we were expecting, but it opened, um, new opportunities for us. Like now we, we are growing in spaces where we didn't think it was going to be a main offering.”</i>

### 5.6.2 Summary of findings

Most of the participants embraced the challenges and uncertainty they faced during the transition phase by deploying different experimentation strategies such as developing their creative thinking skills, and they believe that the additional pressure of formalising their businesses had encouraged and enhanced their creativity and led to them developing problem-solving skills. During the transition phase, the participants chose to increase their customer engagement by reassuring them, and thereby keeping their customer base during the challenges and uncertainty their transitioning businesses faced. Some participants chose to avoid any uncertainty and challenges for as long as possible, although they had to face reality eventually when having to address tax issues and other challenges.

## 5.7 Conclusion

This chapter has presented the results of the four research questions' analysis, based on the interview questions. The findings show the overarching research question of how the informal new business entrepreneur transition out of informality to formality through a phased process. Through the use of their key relationships, partnerships and collaboration, determining their affordable loss, managing risks through experimentation or deliberate strategies as well as embracing uncertainty, the informal new business entrepreneurs managed to transition to formality.

The next chapter will discuss in-depth the results noted in line with the literature review of Chapter 2.

## **CHAPTER 6: DISCUSSION OF RESULTS**

### **6.1 Introduction**

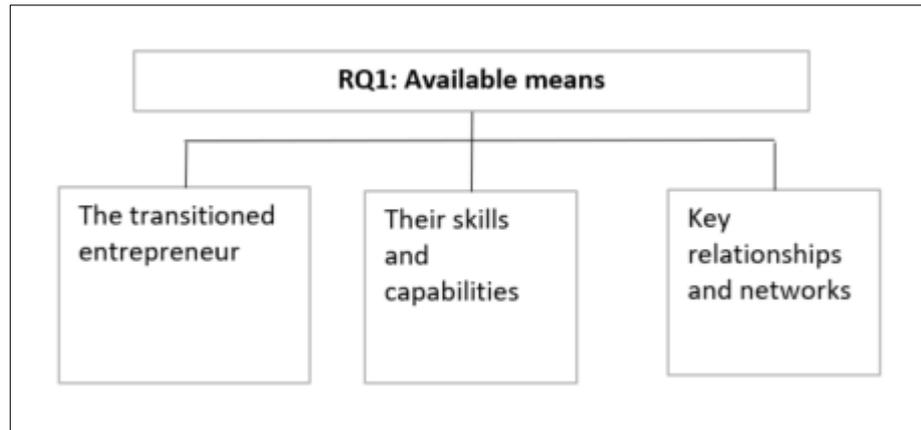
The previous chapter outlined the findings from interviews of the transitioned informal entrepreneurs. This chapter is a detailed discussion of the presented results. The research questions, based on the principles of the effectuation theory, serve as a departure point for this discussion.

The aim of this chapter was to determine, if the behavioural logics suggested of the transitioning entrepreneur in the literature review can be compared to the evidence provided in the previous chapter. An analysis was done, based on the literature review in Chapter 2 and the related research questions to provide meaningful insight into how the informal entrepreneur transitions into formality. The evidence from Chapter 5 is further corroborated or contrasted against the literature to further build onto the transition process. Any insight provided from this discussion, including that which is contradictory to the proposed research, will serve as valuable input into for entrepreneurship research as well as the under-researched informal sector and entrepreneurship.

### **6.2 Discussion of Research Question 1**

*How do the informal new business entrepreneurs use their available means as resources required for transition?*

The purpose of the research question was to identify the available means of the transitioned informal entrepreneurs, and how they used their resources as a means to transition to formality. As the study of the transitioned informal entrepreneur was a novice one, most of the literature focused on the available means of the “expert entrepreneurs” (Sarasvathy, 2008; Welter et al., 2016) as the source of entrepreneurial behaviour. The three themes that were closely related to this research question were namely, who the transitioned informal entrepreneurs are, their key relationships, and their skills and capabilities as shown by Figure 3.



**Figure 3: Overview of results of Research question 1**

### **6.2.1 The transitioned informal entrepreneur**

A key part of the effectuation behavioural logic in entrepreneurship is that entrepreneurs will start with their own means as opposed to starting with the goal in mind (Reymen et al., 2015; Sarasvathy, 2001) meaning that they do not have desired outcomes or planned goals when they start the transition process. The results of the present study indicated that the transitioned informal entrepreneur did so based on their available means through their entrepreneurial traits, their personal skill-set as well as their entrepreneurial experience gained prior to the transition process. The transitioned entrepreneurs had launched their informal new businesses and then transitioned into formal businesses through these identified themes. Some of the entrepreneurs had transitioned without having a formal plan for the business; therefore, alluding to the transition based on their means and not the ultimate goal for the business in mind. The means of the informal entrepreneur act as a catalyst to start the transition process under the context of uncertainty.

A strong theme that was presented in the results chapter was the overall consensus among transitioned entrepreneurs that the need for independence was a dominant entrepreneurial trait, their need to gain freedom from formal employment or in the form of financial freedom, which had led them to become entrepreneurs, but also to formalise their businesses and thereby create security for themselves. In order for the informal entrepreneur to transition, they required self-motivation and belief to keep going as a form of self-efficacy as they navigated the difficulties of

entrepreneurship and the complex perceived uncertain environment they operated in.

Literature suggests that expert entrepreneurs will exert control over the means within their frame of reference such as their personal traits, skills, knowledge, and networks (Fisher, 2012; Sarasvathy, 2001) in order to exploit and entrepreneurial opportunity (Shane & Venkataraman, 2000). The informal entrepreneur as shown by the evidence, much like the formal or expert entrepreneur as effectuation theory refers to (Kitching & Rouse, 2020; Sarasvathy, 2008a), has also placed high value on the entrepreneurs' ability to build strong relationships, and develop their entrepreneurial mindset and judgement as part of their personal traits to be used through the transition process in the exploitation of growth opportunities, formalisation while navigating dynamic environmental conditions (Packard et al., 2017). The evidence suggested that they used their strong networks and their ability to be people orientated (means under their control) as a means to initiate the transition by leveraging off of these relationships. Having prior experience as entrepreneurs or having exposure to entrepreneurship had fostered their interest into also becoming an entrepreneur, and assisted the entrepreneurs for a better transition process due to their ability to pre-empt the journey due to their prior business exposure.

As these means were highly individualistic and inter-personal, and the transitioned informal new business entrepreneurs had a strong sense of agency (Kitching & Rouse, 2020; Reymen et al., 2015) through their means at the initiation of the transition process, this supported the theory of effectuation in that the transitioned entrepreneur started with their means rather than their goals at the initiation of the transition process.

### **6.2.2 The transitioned informal entrepreneurs' key relationships during the transition process**

The results showed that the informal entrepreneurs relied on their close ties, consisting of their families and friends, as well as their distant ties consisting of their work relationships and networks. These relationships were all perceived to be built on trust, formed by the transitioned informal new business entrepreneur over time.

Effectual reasoning and processing focuses on "what can be done" to be able to move to the "yet-to-be-determined" next step (Welter et al., 2016). As the informal

entrepreneur had not initiated the transition process with a clear goal and end in mind, the transition process was still underlined by these yet-to-be-determined decisions. With a noteworthy number of the transitioned entrepreneurs coming from entrepreneurially-rooted families, their families had been an integral part of their transition process and assisted in those decisions that are “yet to-be-determined” (Welter et al., 2016) due to their influence and personal experience. Some entrepreneurs had relied on their families for financial and emotional support while transitioning, as the transition process had come with financial challenges or while they had still been planning their next steps in the transitioning process. Others had moved back into their family homes as a means of structuring their finances and managing cash-flow.

Their distant ties through their work relationships or their circle of friends also played a part in the entrepreneurs’ transitioning process. A third of the participants had formed partnerships through their previous working relationships with clients or colleagues, which formed part of their transition process. Their circle of friends assisted them during the transition process to formality through motivation, support, and mentorship. Effectuation theory falls short on its inclusion of the impacts of social context on an entrepreneurs venture creation and transition process thereby offering an “under socialised” account (Kerr & Coviello, 2020; Kitching & Rouse, 2020) and may not offer guidance as to the explanation or description of the use of these close or distant ties in the entrepreneurial journey. Therefore literature states that for a theory to be impactful, it should detail the implications of the social and cultural impact on the responses of the entrepreneur and the unfolding transition process (Kitching & Rouse, 2020). The social influence of the informal entrepreneur through their informal close and distant ties have contributed to their initiation of the transition process.

Results indicated that as these trust-based and informal relationships are a characteristic of the informal sector, which were used in the transition process, these relationships have acted as the bridge between the two worlds of informality and formality through the transition process (Sutter et al., 2017) by assisting the informal entrepreneur to transition and aligned to the effectuation theory.

### **6.2.3 The transitioned entrepreneur skills and capabilities**

Effectuation theory builds on a means-based action as the means are highly individualistic (Reymen et al., 2015; Welter et al., 2016). The transitioned entrepreneurs had used two sets of their personal skill sets and capabilities to transition into formality, being their social skills and their formalised skills.

An entrepreneurs cognitive and human capital skills play a critical role in the entrepreneurs ability to gather, interpret, learn and transform information in choosing a suitable entrepreneurial action (Brinckmann & Kim, 2015) such as transitioning for growth purposes. A number of participants had been formally employed in the private sector before transitioning into informal and formal entrepreneurship; and this is where they had developed their business and management skills, and where they had been able to gain exposure to the ins and outs of running a business. As discussed in Chapter 5, they had used their skills gained in the corporate environment (such as selling) when learning how to run their formalised businesses. Coupled with their educational background (as some of the participants have professional qualifications and are post-graduates), and their ability to self-educate themselves further to attain certain skills and knowledge, education certainly assisted the informal entrepreneur in their transition process.

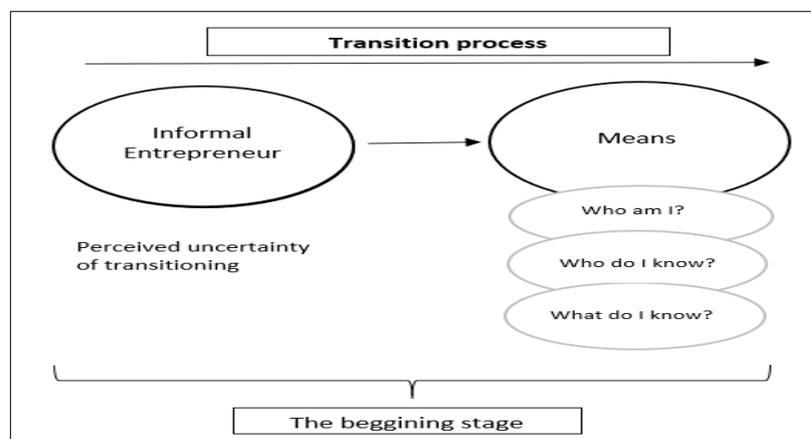
Researchers have criticised effectuation theory for being more descriptive rather than offering explanations in specific context (Kitching & Rouse, 2020) as the theory does not provide specific context on the entrepreneurs skills and capabilities but (Brinckmann & Kim, 2015) argue that prior research highlights that an individuals cognitive skills and human capital are either a motivation or deterrent to engage in entrepreneurship. The use of the transitioning entrepreneur's human capital and built cognitive skills has allowed them to initiate the transition into formality in line with literature and effectuation theory.

### **6.2.4 Conclusion to Research Question 1**

After analysis of the evidence collected from the participants in conjunction with the literature, it was found that informal entrepreneurs utilised their individual available means as a basis for their actions. Fisher (2012) describes the use of these means under the control of the transitioned entrepreneur as the starting point of making their important decisions such as transitioning from an informal entrepreneur to a formal

one under the high uncertainty context of entrepreneurship (Brinckmann & Kim, 2015). Figure 4 shows that using their individual traits, skills, prior experience, and trust relationships, entrepreneurs were able to successfully engage in entrepreneurship (Villani et al., 2018) and initiate the transition process. The evidence provided in Chapter 5 supported the theory and prior research of the informal new business entrepreneur beginning with the means at the start of the transition process.

The use of their means through the use of effectuation, and based on their perceived uncertainty faced by the transitioning informal new business entrepreneurs, is illustrated in the diagram below.



**Figure 4: Available means of the informal new business entrepreneurs through the transition process**

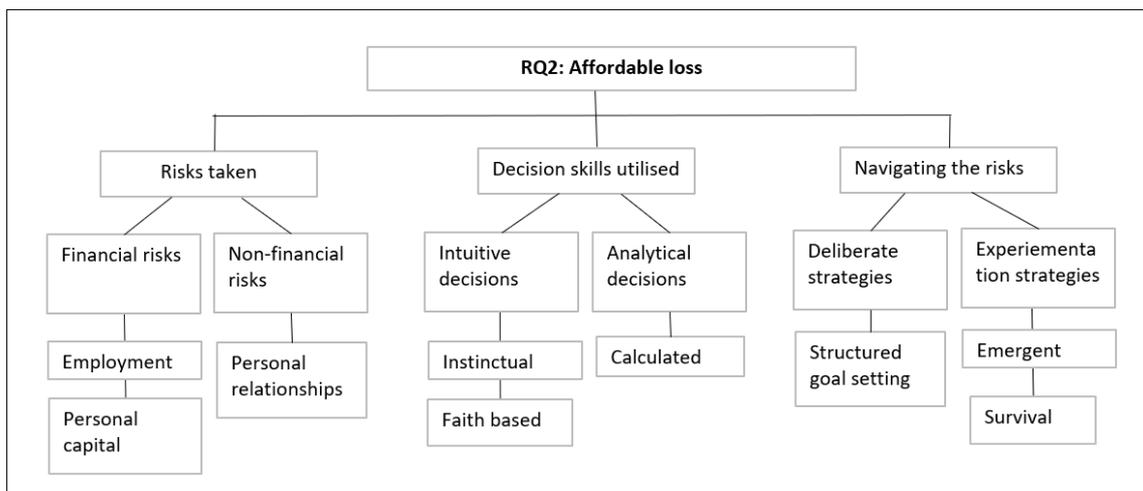
**Research Proposition 1:** The informal new business entrepreneurs' transition process is initiated by effectual action through their person traits, skills and capabilities and their key relationships.

### 6.3 Discussion of Research Question 2

*How do the informal new business entrepreneurs plan what they are willing to lose or risk during the transition process?*

What entrepreneurs regarded as their affordable risk in a developing country was weighed up against the volatile context of the country and the limitations of the entrepreneurs' resources (Cai et al., 2017). Within the same context, the transitioned informal entrepreneurs faced financial and non-financial risks in their effort to

transition to formality according to the results. The different patterns of transition and venture creation can be a result of the individual entrepreneurs' background (Villani et al., 2018) and a function of their means, and this may have resulted in most of the transitioned entrepreneurs being analytical and calculated in their decision-making. The remainder used intuitive decision-making skills such as faith-based and instinctive decisions to determine their affordable loss by using emergent strategies to navigate the risk. Figure 5 below is a summary of the risks taken and decision-making strategies utilised to manage the risk.



**Figure 5: Overview of results of research question 2**

### 6.3.1 Transitioning informal entrepreneurs' levels of affordable risk

In the effort to transition to formality, the informal entrepreneurs assessed that they were willing to make affordable personal financial and non-financial sacrifices for the progress of their formalised business and new venture (Reymen et al., 2015) in agreement with the literature. The results of their assessment indicated that most of the participants made financial sacrifices when they resigned from their formal employment in order to transition to become a formal entrepreneur. The literature suggests that effectuators risk only what they are willing to lose to follow the entrepreneurial path (Cai et al., 2017; Sarasvathy, 2001), and the present study's findings complemented the literature, based on the fact that participants were willing to sacrifice their guaranteed monthly salaries for the sake of their businesses and the anticipated growth of the transitioning business. Although contradictory to Fisher (2012), who stipulated that new ventures that considered affordable risk would only

commit limited personal financial resources as a risk controlling strategy, some of the participants in the present study also sacrificed their personal capital in the form of their savings to transition and grow the business substantiating the risk they were willing to take.

### **6.3.1.1 Calculated risk-taking and deliberate strategic goal setting**

Together with the pressures already faced by entrepreneurs working in developing economies, and particularly in a poorly performing economy, and high unemployment levels, resources limitation, and stakeholder pressure (Cai et al., 2017; Reymen et al., 2015), the participants also had to face the added uncertainty of potential business failure, which lead to them having to approach all risks as calculated risks. Although the theory of effectuation is more flexible, entails the unfolding of events, and supports that planning should be minimal, it was interesting to note that most of the participants followed a more planned approach to estimating their maximum loss and exposure through structured calculations. Palmié, Huerzeler, Grichnik, Keupp, and Gassmann (2019) explain this is a form of “prevention focus”, as the security and safety needs of the participants were a motivation for them to avoid any potentially harmful failure. Palmié et al. (2019) further state that entrepreneurs who are “prevention focused” are those who opt for maximising strategies by planning, and choosing from alternatives in uncertainty and dynamic environments such as developing countries. These calculated risks had been analysed by the participants, in line with causation behavioural logics, as they were considered rational actions, in an effort to maximise their returns and establish plans (Sarasvathy, 2001; Shane & Venkataraman, 2000) in the pursuit of transitioning to formality.

These calculated risks also allowed the transitioned entrepreneurs to gain clarity through deliberate strategies to control risks and achieve more structured goal setting as per the results. Through their analysis and calculations, the transitioned entrepreneurs made sure that the goals they set for the formalised business were not impossible to reach, as they had specified their strategic intent with the intention of being able to predict the outcome (Palmié et al., 2019; Welter & Kim, 2018). Narrowing the scope through activities such as planning and calculations has been known to decrease effectual behaviour (Reymen et al., 2015), as it has been said

that in riskier and volatile situations, planning and prediction may be used for decision-making models (Welter et al., 2016). Therefore, this may indicate that some principles of causation and effectuation were not mutually exclusive, and could be overlapping with optimal decisions derived from a combination of both when facing uncertainty (Jiang & Tornikoski, 2019; Reymen et al., 2015) such as the transition process.

### **6.3.1.2 Intuitive decision-making and emergent strategies**

Although most of the entrepreneurs had partaken in calculated risk-taking, a few exercised their intuitive decision-making skills in the form of relying on their instincts and faith-based decision-making in assessing their affordable risk. What had sparked interest was the use of faith-based decision-making by the transitioned informal entrepreneurs in effectual behavioural behaviour, because factors such as social identity (which is inclusive of faith) influence effectual and entrepreneurial action (Brinckmann & Kim, 2015; Sieger, Gruber, Fauchart, & Zellweger, 2016) but are not explicitly conceptualised in effectuation theory (Kitching & Rouse, 2020). Faith has been noted as an influential factor in the informal entrepreneurs' transition process and entrepreneurial action to a formalised business (Henley, 2017). Though the use of faith-based decision making and cultural influences are not explicit in effectuation theory research agreeing with research by Brinckmann and Kim, (2015), it can be described under the context of its use as emergent during contexts of uncertainty.

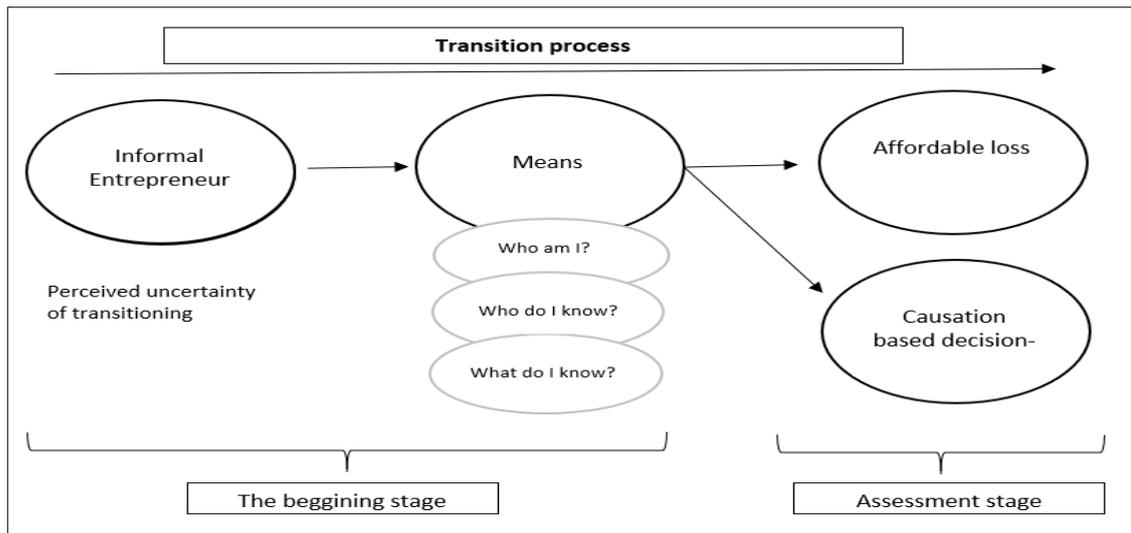
In reaching these decisions on their affordable risk, the participants mentioned that while embarking on this avenue for determining their affordable loss, they followed an emergent experimentation strategy (unintentional based) or a survivalist strategy. By following these emergent strategies, the literature suggests that the effectuators make decisions that will create as many futures as possible, with the opportunities being an artefact of the process (Kalinic et al., 2014; Reymen et al., 2015). Through the experimentation and survivalist strategies in agreement with the effectual theory, the transitioned entrepreneurs allowed their goals to emerge and being adapted, based on the means under their control (Fisher, 2012), while imagining multiple outcomes and their possible course of action. The use of emergent and survivalist strategies is in agreement with the prior research noted on experimentation strategies followed by effectual entrepreneurs. Instead of making decisions based on what products or services best suit the business when determining their affordable

loss, the participants shifted their decision-making to experimentation strategies (Jiang & Rü Ling, 2019) exploring as many possible potential outcomes as seen in the results.

### **6.3.2 Conclusion to Research Question 2**

The participants reacted in two distinct ways when they assessed what they were willing to risk or lose as shown by Figure 6. The first reaction was a more calculated, planned, and structured manner which was in contrast to the effectuation theory; and the other reaction involved an intuitive manner, using the emergence of unintentional and flexible experimentation strategies in line with effectuation theory. The use of the structured and calculated decision-making was triggered when the participants had clear strategic goals in mind. Palmié et al. (2019) and Villani et al. (2018) allude to these clear strategic goals and the rationalisation of the cause-and-effect model to the causation behavioural logic, while the other participants behaved in a manner that allowed their goals to unfold over time, be changed and adjusted where necessary through (Villani et al., 2018) the emergent and experimental strategies.

Although the theory of causation was not part of the research study, it seemed that through the determination of what entrepreneurs were willing to lose, the transitioned informal entrepreneurs used both effectuation and causation as a means to transition. The transition process developed from the use of the transitioned entrepreneurs' means included how they decided on or assessed what they were willing to lose or risk, based on effectual and causal behavioural logic as per Figure 6.



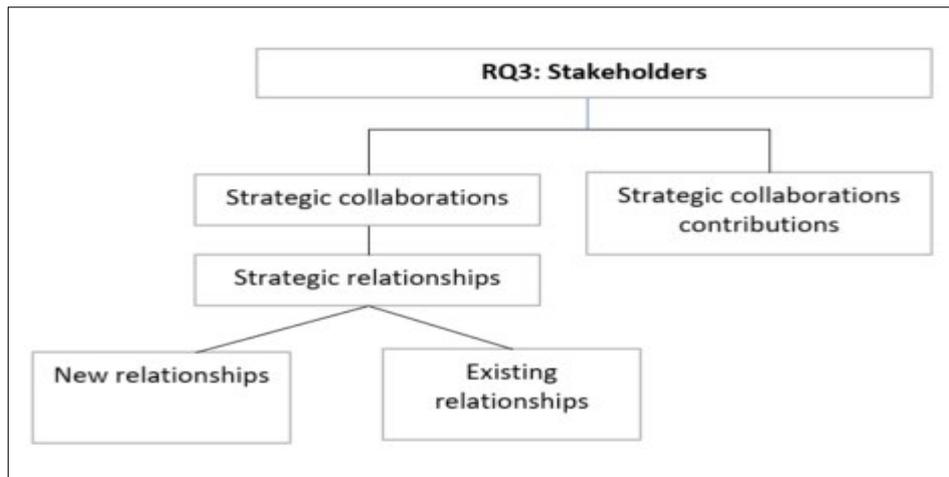
**Figure 6: The assessment of what the transitioned entrepreneurs are willing to risk during the transition process**

**Research Proposition 2:** The informal new business entrepreneur is more likely to use causal behavioural logic through calculated risk taking than effectual behavioural logic in determining what they are willing to lose.

#### 6.4 Discussion of Research Question 3

*How do the informal new business entrepreneurs make use of strategic collaborations during the transition process?*

Strategic collaborations were deemed to be critical to the transition of the informal entrepreneur. These collaborations came in the form of new and existing relationships that consisted of growth-focused relationships as well as vision and mission aligned relationships. The pre-commitments from the strategic collaborations allowed the informal entrepreneur to transition and obtain “unique strategic resources” (Cai et al., 2017), as the relationships also contributed to the transition process through these additional resources, networks, and skills as shown by the overview in Figure 7.



**Figure 7: Overview of results of research question 3**

#### **6.4.1 Strategic collaborations formed for the transition process**

These strategic alliances were formed and the decision actioned for the purposes of growth and a common vision rather than competition, as effectuation theory stipulated that forming these types of collaborations allowed entrepreneurs to focus on who they would want to work with to grow their business ventures rather than to compete (Fisher, 2012; Fisher et al., 2016). The transitioned informal entrepreneur had formed collaborations through the transition process to formality by optimising their new and existing relationships. The theory did not explore the types of strategic alliances needed by the transitioning entrepreneurs or how they were formed (Kerr & Coviello, 2020), but it referred to these entrepreneurs as being able to form strategic collaborations with their chosen stakeholders (Palmié et al., 2019; Sarasvathy, 2008). The strategic relationships formed were based on existing relationships or newly formed ones. The participants mentioned that they would rather have a “piece of the pie” by working and collaborating with others than to have nothing at all, if it meant competing with them. This is contrary to traditionalist do business as business growth and new venture creation has an element of envisioning what is not yet known to its competitors (Villani et al., 2018) to be able to outperform your competitors.

In order to attract these strategic alliances, literature informs us that the transitioning entrepreneurs would have had to share their strategic intentions so the external collaborators may take into consideration their own strategy forming (Palmié et al., 2019) synergies. In alignment with the literature, most of these collaborations were

not formalised through legal structures, but strategies were shared with the intention of forming the collaborations for transitioning purposes.

When individuals decide to become informal entrepreneurs, they draw on their previous experiences, knowledge, and the contributions their networks can make (Welter, Smallbone, & Pobo, 2015) to launch and conduct their informal businesses. As literature notes that the informal sector is characterised by dense inter-personal informal ties and networks (Kistruck et al., 2015; Sutter et al., 2017), some of the transitioned entrepreneurs noted that these chosen stakeholders (Palmié et al., 2019) and strategic alliances had been formed based on their existing relationships with partners who were in “the same position as themselves”, meaning they were also transitioning to formality or looking for growth opportunities. As these alliances resulted in pre-commitments from stakeholder, this can be interpreted that the effectual process is relational and network dependent (Kerr & Coviello, 2020) as shown by the evidence. Most of the transitioned entrepreneurs relied on their new and existing relationships in forming these collaborations and partnerships, but more often so on their existing relationships that had a larger influence on their decision-making and assisted them to transition to formality. The literature argues that these strategic alliances may facilitate or constrain the entrepreneurial process (Kerr & Coviello, 2020) but Wuebker, Hampl, and Wustenhagen (2015) attribute this reliance to stronger ties as offering a greater motivation as well as being more easily accessible when used in decision-making. This was supported by the vision and mission alignment related relationships that were also formed for the purpose of transitioning.

#### **6.4.2 Strategic alliance contributions**

The participants agreed that there was a benefit to having strategic partnerships throughout the transition process, and that these partnerships made the transition process easier. Literature notes that in developing economies, informal entrepreneurs are constrained by their limited resources (Cai et al., 2017; Welter et al., 2015), and that entrepreneurs will face a lot of uncertainty (Reymen et al., 2015). Therefore, when informal entrepreneur have transitioned to formality, strategic collaborations and partnerships can assist transitioned entrepreneurs with shaping the new venture, providing strategic direction, and increasing the entrepreneurs’

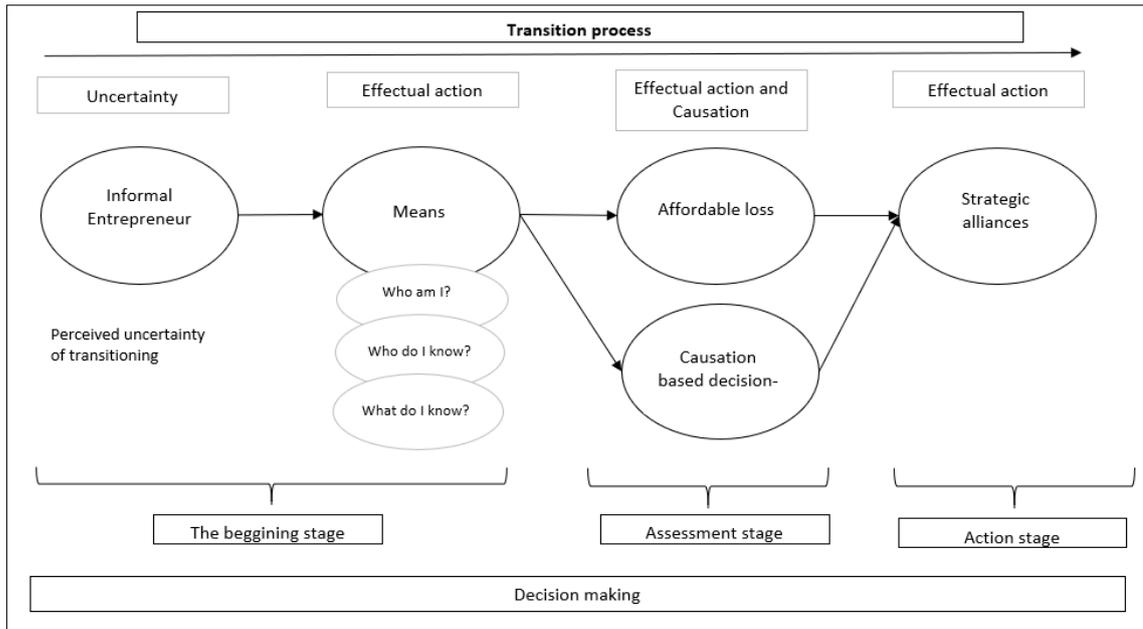
ability to seize new opportunities (Cai et al., 2017) which is in alliance with the participants responses to the contributions by the strategic alliances. These strategic alliances were activated by the informal new business entrepreneurs entrepreneurial requirements of seeking pre-commitments and stakeholders to reduce uncertainty (Kerr & Coviello, 2020) in line with the effectuation theory.

The participants commented on these strategic collaborations and alliances contributing to the growth of the business, and transition into formality through the addition of skills and capacity, additional resources, experience, strategic direction, shared costs, and responsibilities as well as support. Literature suggests that when entrepreneurs use strategic collaborations for exploitation of opportunities and transitioning, they may receive the extra benefits of collaborations such as shared costs (Palmié et al., 2019), amongst other benefits as illustrated by the evidence which is in alignment with the theory.

#### **6.4.3 Conclusion to Research Question 3**

Effectuation places high emphasis on the use of strategic alliances and collaboration as a way to minimise uncertainty (Sarasvathy, 2001); therefore, these strategic collaborations and partnerships were imperative to the informal entrepreneurs' transition and the informal new business entrepreneurs behaved in line with effectual action. Many cited these for growth opportunities, leveraging off of their partners' experiences with a transition process, and being able to access additional resources.

It must be noted that although the informal new business entrepreneur had used both causation and effectuation decision-making behavioural logics to reach the action stage in order to affect their strategic alliances, the use of strategic alliances has reverted back into effectual action as the behavioural decision-making logic as supported by Figure 8. The use of the pre-commitments from strategic alliances was in support of the effectual theory and crucial to the success of the transition process. Figure 8 below illustrates the transition process, including the evidence from this research question during the action and formation stage.



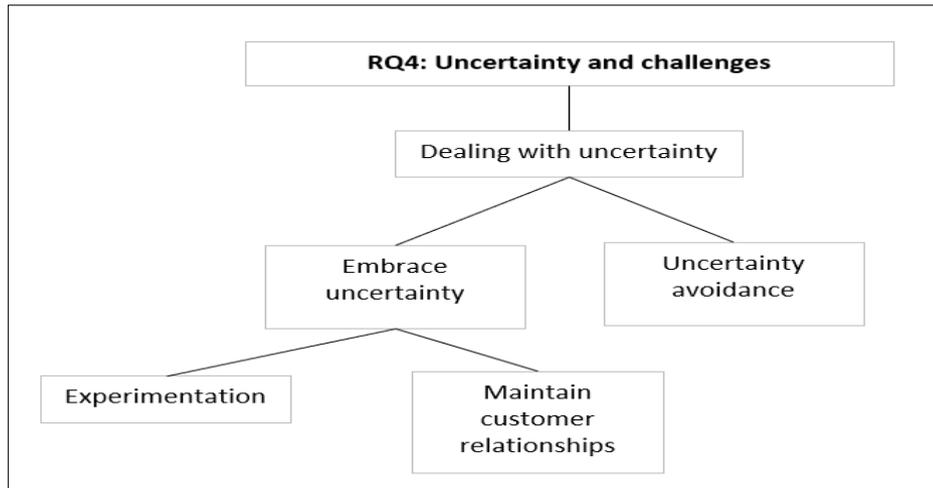
**Figure 8: The transition process inclusive of strategic alliances**

**Research Proposition 3:** In forming imperative strategic alliances, the informal new business entrepreneur will rely on effectual action through relationships to transition to formality.

### 6.5 Discussion of Research Question 4

*How do the informal new business entrepreneurs handle entrepreneurial challenges as they transition?*

This research question aimed to establish how the informal entrepreneurs handle contingencies and challenges while transitioning to become formal entrepreneurs. It assessed the transitioned entrepreneurs' ability to embrace uncertainty through the "lemon-to-lemonade principle", and examined their ability to adapt and action decisions around their business model in the face of these contingencies. Most of the entrepreneurs embraced uncertainty through experimentation, in line with effectual theory, but there was contradictory evidence in favour of avoiding uncertainty as illustrated by Figure 9.



**Figure 9: Overview of results of research question 4**

### **6.5.1 Embracing uncertainty**

All interviewed transitioned entrepreneurs had encountered uncertainty within the transition process, as can be expected with any entrepreneurial journey. After synthesising the research data, embracing uncertainty and “making lemonade out of lemons” was key to transitioning and sustaining their business ventures. The literature supports this as effectuation theory allows for the unforeseen events that may seem disadvantages at first but can be transformed into opportunities and favourable outcomes (Sarasvathy, 2008).

Effectuation theory emphasises “the action element of entrepreneurship” and entrepreneurs have been suited as using experimentation strategies as part of their decision making and actioning (Smolka, Verheul, Burmeister-Lamp, & Heugens, 2018). The participants attributed their ability to embrace uncertainty as being an unavoidable part and parcel of the entrepreneurial journey, especially during the transition process through these experimentation and customer maintenance strategies in alignment with the theory. This demonstrates the need for flexibility and adaptability on the part of the transitioned entrepreneur as Smolka et al. (2018) affirm through the literature that entrepreneurs who embrace the unforeseen remain flexible in the event of contingencies. Effectuation theory outlines how the entrepreneur would act in the absence of “predictable outcomes” (Welter & Kim, 2018), in line with the participants embracing their risks and uncertainty during the transition process. The dealing with uncertainty was part of actioning their chose behavioural logics.

Literature suggests that experimentation and adaptability in effectuation theory allows the entrepreneur to easily adapt to change, and the probability of the change in risk and uncertainty (Welter & Kim, 2018). The participants described entrepreneurship as risky and a challenge, but they were willing to persevere, and adapt their means and resources through experimentation strategies to the changing risk context. The pressure of having to succeed and the fear of failure was a motivation to the participants to transition and sustain the business therefore deploying experimentation strategies. Through creative thinking and thinking outside the box, the participants embraced the uncertainty faced during the transition process. The use of these short-term experiments, by applying different strategies and using the available means as well as being flexible to capitalise on the challenges (Palmié et al., 2019; Welter & Kim, 2018), meant that the findings of entrepreneurs coming up with creative strategies were in line with the effectual theory. During uncertainty, the transitioned entrepreneurs also employed enhanced customer management relationship strategies to maintain their relationships through feedback to sustain the business similar to effectual action as it adaptive and incorporates feedback into the process to maintain adaptability (Reymen et al., 2015).

### **6.5.2 Uncertainty avoidance**

Entrepreneurs who reacted negatively to uncertainty had wanted to avoid it due to the destabilisation the uncertainty created, and the fact that the events were unforeseen or unknown. Causation theory aims to carry out the strategy as planned and does not react to uncertainty positively (Reymen et al., 2015) as seen by the entrepreneurs who reacted negatively to the uncertainty. It can therefore be suggested that these entrepreneurs that wanted to avoid the uncertainty were acting in a causal behavioural manner.

Bing Peng, Ling Liu, Qi Jiao, Bin Feng, and Zheng (2020), and Sarasvathy (2001) agreed that when entrepreneurs try to employ causal logic, they like to exploit their pre-existing knowledge and try to avoid any unplanned-for, and unforeseen events or surprises. The transitioned entrepreneurs who reacted negatively and would have preferred to avoid such challenges and surprises, were reacting in line with the causation theory. Welter and Kim, (2018) describe actioning decisions in line with a causal theory to be more cost effective for entrepreneurs than running experiments

which is in line with effectuation theory. They go on to further say that while effectuation in uncertainty can be proved useful, compared to a planned predictive approach in the same context, it may be less effective (Welter & Kim, 2018).

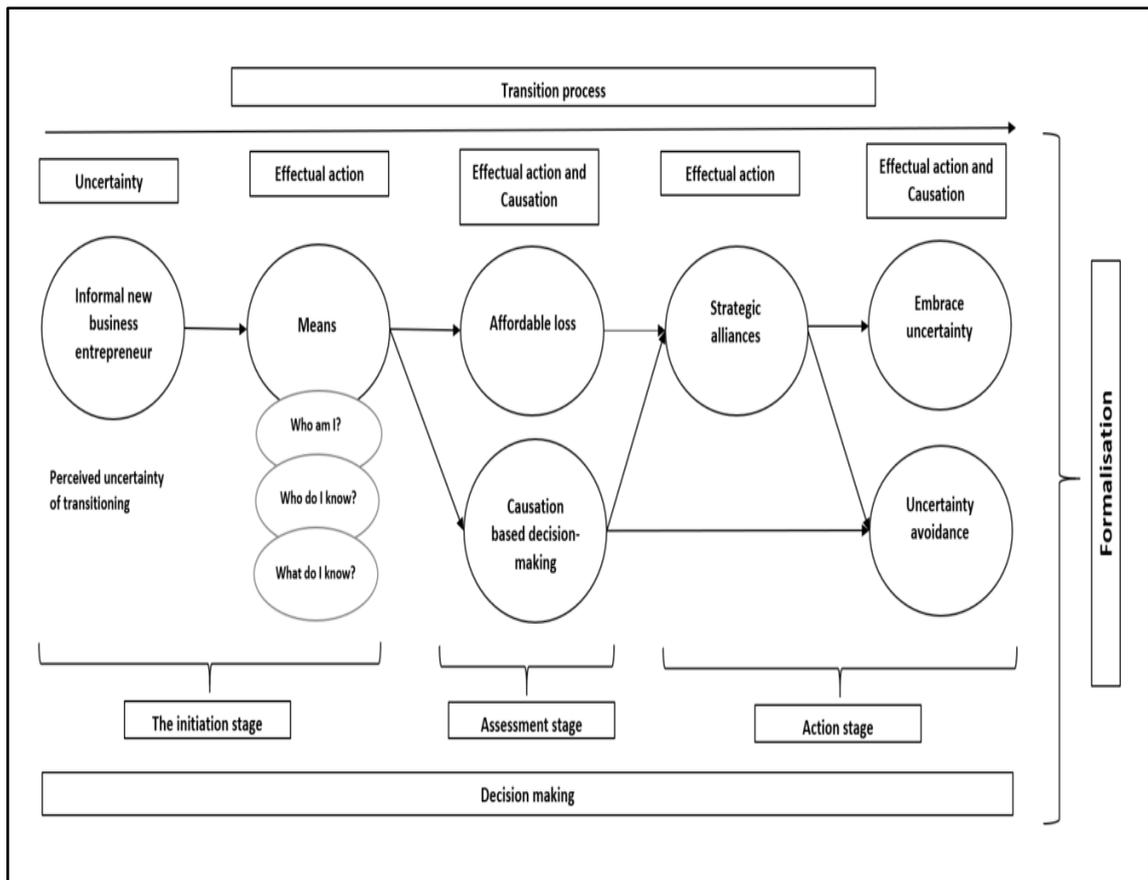
### **6.5.3 New opportunities out of the transition process**

Literature suggests that when entrepreneurs embrace and leverage off of their contingencies, that these contingencies can offer new opportunities whether they are accidental or unanticipated events (Smolka et al., 2018). Similar to the theory, the transitioned new business entrepreneurs had forged new business opportunities through the transition process based on these contingencies as a by-product to the transition process. The new opportunities consisted of newly formed business partnerships, the launch of new formalised ventures in addition to the growth of their transitioned formal businesses. The entrepreneurs found that these new opportunities emerged, based on their pre-existing relationships by expanding their networks and by talking to new people, through other referrals or other collaborations with different strategic alliances. These new opportunities were based on building new relationships. In effectuation theory, it is noted that most entrepreneurs do not go searching for new opportunities, but have conversations with interested participants within their networks that could lead to new opportunities (Kerr & Coviello, 2020; Sarasvathy, 2008). The flexibility suggested in effectuation theory allows for these transitioned business to recombine their available means, resources, and strategies, and then adapting to the emergence of new opportunities for growth and profit (Cai et al., 2017).

### **6.5.4 Conclusion to Research Question 4**

To manage uncertainty and contingencies of the transition process and new venture creation, entrepreneurs will employ and action different strategies (Smolka et al., 2018). The evidence suggests that the transitioned entrepreneurs reacted to uncertainty by either embracing it as per the effectuation theory or contrasting it by choosing to avoid uncertainty in line with causation theory as it heightened the level of insecurity and uncertainty faced by the informal new business entrepreneurs. In navigating these challenges and unexpected events, the participants had used experimentation strategies as well as increased their customer engagement to maintain their relationships and thus reduce uncertainty.

Participants also revealed that as a consequence of the transition process and leveraging off contingencies, they had been exposed to new opportunities based on their ability to build new relationships, which was an aspect of effectual action. As effectuation is an action-based and pro-active enabling theory, the transitioning informal entrepreneur will use their chose behavioural logic in an attempt to reduce uncertainty before the final step to formalisation along the process as per Figure 10.



**Figure 10: The transition process of informal new business entrepreneurs to formality**

**Research Proposition 4:** The informal new business entrepreneur will employ either effectual or causal action when dealing with unforeseen contingencies and challenges during the transition process.

## **CHAPTER 7: CONCLUSION**

### **7.1 Introduction**

This chapter synthesises the main findings of the research study of the transition process of the informal new business entrepreneur to a formal entrepreneur. The conceptual framework has been established in Chapter 6 for the transition process with the principal and pertinent findings and contributions further discussed in this chapter. Additionally, the findings obtained from this research will have practical implications for the field of entrepreneurship and management. The limitations of the study are also presented in this chapter, concluding by providing suggestions for future research.

### **7.2 Principal findings and contributions of the research**

The transition process conceptual framework as per Figure 10 was developed in relation to the evidence provided by the study and empirical evidence provided by the literature review. We synthesise the dynamic shifts in the conceptual framework of the behavioural decision-making logics over the transition process in a integrated model of decision making during the transition process and answering the overall research question of how the informal new business entrepreneur transitions into formality.

The developed conceptual framework should be viewed as a processual conceptual framework, the background context being the perceived uncertainty of transitioning informal new business entrepreneur as per the literature provided by the experts, in the context of the entrepreneurial field and developing countries. The transitioning informal new business entrepreneur will transition based on the model with the starting point through the use of their means to trigger the transition process, being able to make assessments on what they are willing to risk or lose, and the actioning of strategic partners and how they handle uncertainty before transitioning to formality. This conceptual framework should be viewed in three different decision-making phases using the behavioural logics that the transitioning informal new

business entrepreneur has followed to transition into formality. The initial stage, assessment stage and action stage before transitioning into a formal entrepreneur.

### The beginning stages

As entrepreneurship is characterised by uncertainty (Reymen et al., 2015; Sarasvathy, 2001), the transition process of the informal new business entrepreneur to formality is driven by the perceived uncertainty of their environments and the entrepreneurial journey. This perceived uncertainty sets the context of this transition process and the developing country context (Cai et al., 2017). By navigating this perceived uncertainty, the use of effectuation theory as a behavioural logic is triggered by the transitioning informal entrepreneur.

In line with effectuation theory, the goals of the informal entrepreneur have not been clearly articulated at this initial point (Bing Peng et al., 2020; Sarasvathy, 2001), and the entrepreneurs are encouraged to rather interact with the environment rather than try plan their best possible outcome (Kalinic et al., 2014; Welter & Kim, 2018). Therefore the theory starts by employing the informal entrepreneurs' available means as the point of departure (Sarasvathy, 2001) in the interaction with the perceived risk and environment and is modelled by the conceptual framework. The informal new business entrepreneur uses their available means (such as their personal traits and skills, their key relationships in the form of close and distant ties, and their skills and capabilities) to initiate the transition process, as expected and per effectuation behavioural logic for the decision-making process thereby confirming **research proposition 1**: The informal new business entrepreneurs' transition process is initiated by effectual action through their person traits, skills and capabilities and their key relationships.

### The assessment stage

As effectuation and the transition process is processual (Gupta, Chiles, & McMullen, 2016; Jiang & Tornikoski, 2019), the informal entrepreneur with the use of their available means will progress along the transition process through their perceived uncertainty. The next behavioural decision-making stage the transitioning informal entrepreneur would progress to would be to assess what their maximum investment will be (whether financial or non-financial) or what they are willing to risk and lose in order to transition to a formal entrepreneur.

The transitioning informal entrepreneurs have used either causation and effectuation as decision-making logics to make this assessment as in practice, entrepreneurs would either sway between causation or effectuation (Jiang & Tornikoski, 2019; Smolka et al., 2018). Deciding on their maximum investment has been assessed through the use of calculated decision making and analysis which is in line with causation theory behavioural logics in order to avoid surprises and make predictions about the future (Bing Peng et al., 2020), while a smaller percentage of others, by contrast, used emergent and evolutionary approaches (Welter & Kim, 2018) for the survival of their transitioning business. At this stage of the process, the entrepreneurs have affected a hybrid behavioural approach to their decision-making which is in line with **research proposition 2**: The informal new business entrepreneur is more likely to use causal behavioural logic through calculated risk taking than effectual behavioural logic in determining what they are willing to lose.

Once the transitioning entrepreneur makes the assessment, they are required to activate their decisions and deal with the consequences thereof.

#### The action stage

Having assessed their risk through the use of either causal and effectual behavioural logic as a part of their decision-making during the assessment phase, the informal entrepreneur will be left with two other critical processes in their behavioural decision-making before formalisation. One of them being if they form strategic alliances for the purpose of growth and transitioning the business, as well as how they will choose to handle the uncertainty of the transition process. Uncertainty was faced by the entrepreneur throughout the transition process as consistent with the entrepreneurial journey and does not necessarily follow the timing of conceptual framework as it can be introduced at any point of the transition.

Once the appropriate assessments have been made, the transitioning informal entrepreneur will converge back into effectual decision-making behavioural logic in pre-empting the decision to use and form strategic alliances. The strategic alliances were fundamental to the formalisation and growth of the business. Kerr and Coviello, (2020) refer to the strengths of networks through pre-existing and newly formed relationships as a driver in effectual theory and formation of strategic alliances. A core argument of effectuation is that under the perceived uncertainty, entrepreneurs

are better suited at co-creating opportunities and increased venture growth by collaborating with others (Jiang & Tornikoski, 2019; Kerr & Coviello, 2020). **Research proposition 3:** In forming imperative strategic alliances, the informal new business entrepreneur will rely on effectual action through relationships to transition to formality is in alignment with the process followed.

The transitioning informal entrepreneur will continue along the transition process to formality. Effectuation theory being a driver in decision-making suggests that when the entrepreneur accepts they are dealing with the risk associated with entrepreneurship, they will gather the information that will allow them to experiment (Fisher, 2012). The transitioning informal entrepreneur was faced with challenges and unexpected events throughout the transition process. Contrary to what is expected from effectual theory, the informal new business entrepreneur employed both effectual and casual behavioural decision-making logic to reduce the associated risk of the unforeseen events and challenges as in agreement with **research proposition 4:** The informal new business entrepreneur will employ either effectual or causal action when dealing with unforeseen contingencies and challenges during the transition process. Due to the high-risk nature of entrepreneurship and preference of entrepreneurs to navigate their way rather than to follow a more planned approach (Palmié et al., 2019), the informal entrepreneur chose to either embrace uncertainty (through experimentation and customer engagement strategies) with some in contradiction by avoiding uncertainty. The use of both behavioural logics to leverage contingencies further develops the hybrid model used by the transitioning entrepreneurs and also the conclusion of the action stage and decision-making process. The transitioning entrepreneur has developed suitable behavioural decision-making logics to face the challenges and is ready to transition to formality.

### **7.3 Implications for management**

Given the dominance of the informal sector in developing economies and its predicted growth in the nearing future within the developing and volatile South African context (ACCA, 2017), world economies and management scholars have had a growing interest in monitoring the effects of the sector. The need for the country to increase the low rate of new business development and formal entrepreneurship to

become an economic driver for South Africa (Bowmaker-Falconer & Herrington, 2020) has allowed this study to offer insight into how private and public enterprises can assist the informal entrepreneur to transition.

- Through the use of assisted strategic alliances which had many contributions (such as additional resources, capacity, mentorship), seemed to be the real growth propelling and transitioning force of the informal businesses. These strategic alliances and collaborations are key to the process and have ensured the sustainability of these transitioned informal new business. The transitioned informal entrepreneur would rather collaborate than to compete with their protentional partner.
- The calculation and analysis of the transitioning entrepreneurs maximum investment and what they are willing to loose could give shareholders, and partnerships comfort as the entrepreneurs aim to avoid losses that would be counterproductive to the sustainability of their businesses by creating optimal strategies (Palmié et al., 2019).
- In real life and practical situations, effectuation and causation behavioural logics are commonly used in tandem with entrepreneurs often switching between the two for decision-making purposes (Reymen et al., 2015; Smolka et al., 2018). Both the public and private sector can use leverage off of this by understanding that this ability is a key entrepreneurial capability in venture creation and support it in increasing the TEA indicator. The public and private sector should consider the conditions that influence venture creation and formalisation.
- Entrepreneurship training by these sectors can also incorporate and support this hybrid model of behavioural logic decision-making (Reymen et al., 2015) to develop entrepreneurial skill and strengthen decision-making for sustainable business practices.

#### **7.4 Limitations of the study**

While the findings answer the research questions and the informal entrepreneur uses a hybrid model of causation and effectuation to transition from informality into formality, with the effectual behavioural logic as the dominant logic, the limitation concerning the study must be recognised.

- The data is not representative of all transitioned informal entrepreneurs as only 12 entrepreneurs formed part of the study. These 12 participants are also not representative of the gender demographics of the context country as the study had an uneven representation with 75% being male and 25% being female. Although (Bowmaker-Falconer & Herrington, 2020; Herrington & Kew, 2018; OECD & ILO, 2019) note that generally entrepreneurship is dominated by males, this study may offer less relevance to female transitioning entrepreneurs as the levels of associated risk or development of networks may differ significantly due to the factors mentioned in chapter 2. The data gathered from the small sample would also not be sufficient to develop a conclusive theoretical, conceptual framework as a larger data set would be required.
- The generalisation to all informal entrepreneurs could not be possible due to the sample size.
- In order to build a highly textured view of the transition process being an understudied phenomenon, a longitudinal approach is preferred (Jiang & Tornikoski, 2019). The transition process is longitudinal and is noted as a limitation to this study.
- As the study was subjective in nature, it would not be possible for the researcher not to be at risk of being affected by bias (Saunders & Lewis, 2018).

## **7.5 Recommendation for future research**

The research study found that the transitioned informal new business entrepreneur behaves much like the expert entrepreneur according to theory but uses a hybrid model when it comes to behavioural logic decision making through the transition process. Growing research has discovered that effectuation and causation theory are not mutually exclusive as behavioural decision-making theories (Jiang & Tornikoski, 2019) as the study has shown that the informal entrepreneur employs both theories during perceived uncertainty. Reymen et al., (2015) agree that future research should expand to clarify if certain decision triggers and areas particularly lend themselves to this hybrid model, and the consequences thereof. As the theory evolves and is further empirically tested, constructive reflection should be engaged.

Future research may explore along the lines that effectuation theory may not be appropriate in all context of uncertainty and to use larger-scale empirical tests (Welter & Kim, 2018).

The study further found that the transition process opened up new opportunities for the transitioned entrepreneurs while leveraging off contingencies based on their existing or newly formed relationships as well as emphasising of the significance of strategic partnerships. Kerr and Coviello (2020) have raised concern that effectuation theory does sufficiently stress the importance of networks in the co-creation and transition process and should be considered for future research.

The transition process is longitudinal in study, and further recommendations are that research should consider studying the transition process phenomenon in “real time” (Reymen et al., 2015) to be able to further expand on the intricate details of the process and the behavioural decision-making logic that accompanies it.

## **7.6 Conclusion**

Through the conceptual framework developed, we sought to find out if informal new business entrepreneur employs effectuation theory as an explanation for the behavioural decision-making logic as a means to transition to formality under the context of uncertainty. We had focused on effectuation theory as the behavioural decision-making logic as it is a growing theory in the entrepreneurship field, it is suitable in uncertain and dynamic situations (Kitching & Rouse, 2020), and was best suited for our study and developing country context.

We found that the transition process through the use of the behavioural decision-making logics follows a hybrid approach that best suited the informal new business entrepreneurs through the use of both effectuation and causation at different transition stages, but with the dominant decision-making logic of effectuation dynamically shifting throughout the process (Jiang & Tornikoski, 2019). This may insinuate that the transition process is as dynamic and multi-layered as the informal new business entrepreneur.

The study contributes to the broad entrepreneurship literature by providing a dynamic hybrid model of the transition process that both the public and private sector can adapt to transition the informal new business entrepreneur.

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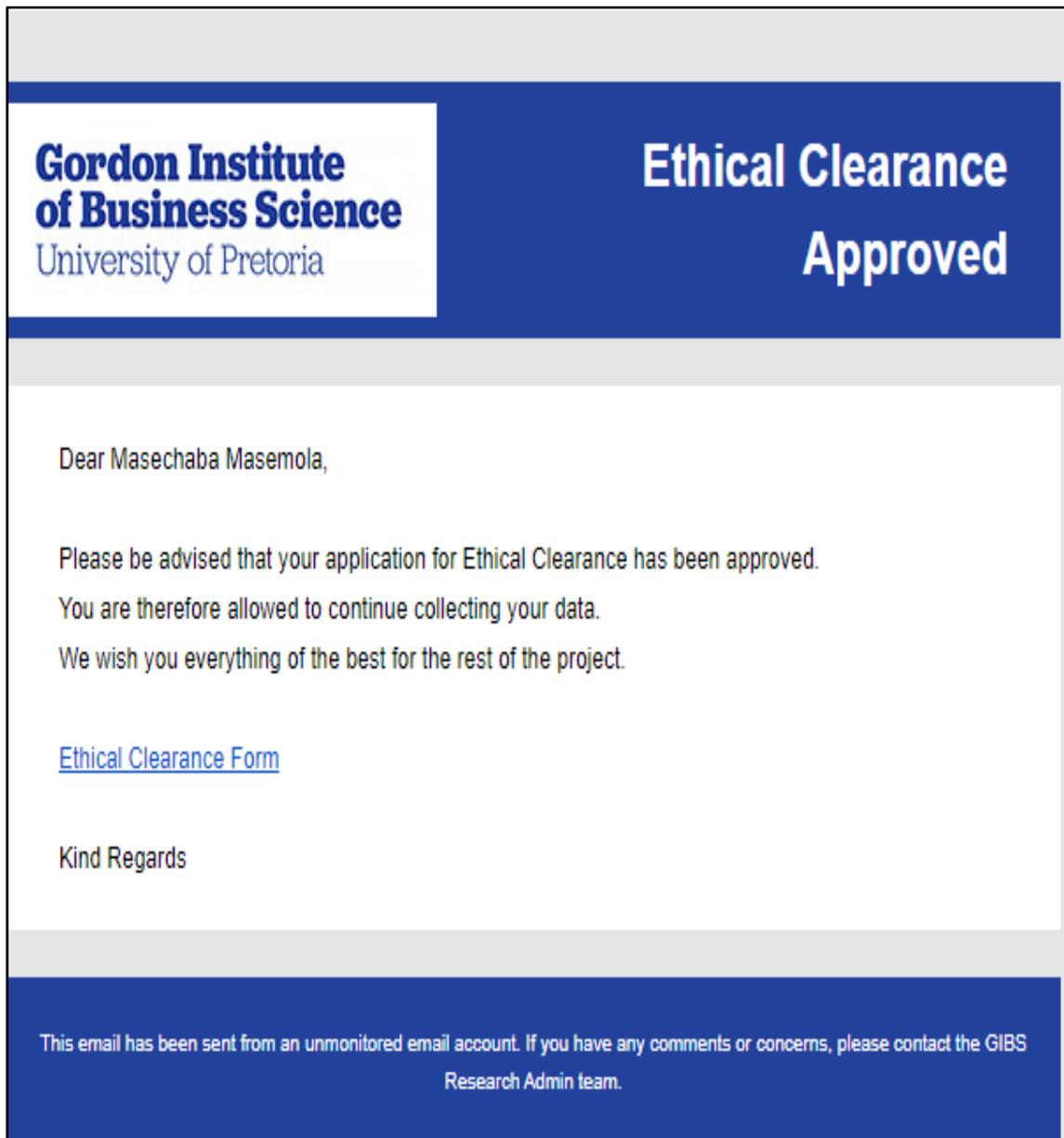
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## APPENDECES

### Appendix 1: Ethical clearance approval



The image shows a screenshot of an email template for ethical clearance approval. It features a blue header with the Gordon Institute of Business Science logo and the text 'Ethical Clearance Approved'. The main body of the email is white and contains a personalized message to Masechaba Masemola, stating that her application for ethical clearance has been approved and she is allowed to continue collecting data. A link to the 'Ethical Clearance Form' is provided. The email concludes with 'Kind Regards'. A footer in a blue box contains a disclaimer: 'This email has been sent from an unmonitored email account. If you have any comments or concerns, please contact the GIBS Research Admin team.'

**Gordon Institute  
of Business Science**  
University of Pretoria

**Ethical Clearance  
Approved**

Dear Masechaba Masemola,

Please be advised that your application for Ethical Clearance has been approved.  
You are therefore allowed to continue collecting your data.  
We wish you everything of the best for the rest of the project.

[Ethical Clearance Form](#)

Kind Regards

This email has been sent from an unmonitored email account. If you have any comments or concerns, please contact the GIBS  
Research Admin team.

## Appendix 2: Interview Guide

<u>1 Introduction</u>
Introduce myself and purpose of the study
Confidentiality
Estimated time of the interview
Tell me about your business profile
1. <u>Entrepreneurs personal and business profile</u>
<u>1.1 Interview questions</u>
<u>Research question 1 - Means</u>
1. Tell me about yourself and value system that encouraged you to become an entrepreneur.
2. Who do you consider as part of your key relationships and how have they helped you along your journey into entrepreneurship and starting your business?
3. With your personal strengths and capabilities, you have built up over the years, how have these helped you transition into a formal entrepreneur?
<u>Research question 2- affordable loss</u>
4. What risks did you take during the period of transition?
5. How did you decide on those risks taken?
6. Did you consider different business strategies or creative solutions while navigating the risks taken?
<u>Research question 3 – pre commitments</u>
7. Did you form any partnerships or did you collaborate with anyone for the purposes of transitioning the business for growth opportunities?
8. Explain how you secured these partnerships and collaborations.
9. How did the partnerships contribute to the transition into formality?
<u>Research question 4 – leveraging off contingencies</u>
10. What are some of the unexpected things that happened during the transition? Did you welcomed or avoided them? Why so?
11. When significant uncertain events that would have directly impacted your business model occurred within the business or transition phase, what was your reaction to the uncertainty created and how did you make the necessary adjustments?

12. What significant challenges arose during the transition process that caused uncertainty and how did you deal with them?
13. Have any new opportunities arisen from the transition process from these uncertainties?
14. Is there anything else you think I may have missed or you would like to add in terms of your transition process that we have not covered?
1.2 <u>Closing</u>

### Appendix 3: Informed Consent letter

8 August 2020

Dear Participant

**Informed consent letter**

I am currently a student at the University of Pretoria's Gordon Institute of Business Science and completing my research in partial fulfilment of an MBA.

I am conducting research on entrepreneurial effectual decision making, and I am trying to find out more about how this decision making has affected the transition process from an informal new business entrepreneur to formality. Our interview is expected to last about 45 minutes to an hour, and will help us understand how entrepreneurs navigate this process. **Your participation is voluntary and you can withdraw at any time without penalty.** All data will be reported and stored without identifiers. If you have any concerns, please contact my supervisor or me. Our details are provided below.

Thank you for your participation.

Researcher name:  
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#### Appendix 4: List of codes

Research Question	Code	Count
RQ1	Adaptability	1
RQ1	Add value	1
RQ1	Believe in myself	1
RQ1	Budgeting capabilities informed business	1
RQ1	Build generational legacy	1
RQ1	Building networks	2
RQ1	Building relationships	1
RQ1	Circle of friends	4
RQ1	Client turned to partner	5
RQ1	Comfortable with change	1
RQ1	Corporate experience developed skills to run business	8
RQ1	Corporate experience developed the entrepreneur mindset	2
RQ1	Creativity	1
RQ1	Curiosity	1
RQ1	Don't like to cheat anyone.	1
RQ1	Education allowed for pillar for clients	1
RQ1	Entrepreneurial mindset	1
RQ1	Entrepreneurial rooted family	7
RQ1	Expert in service first	1
RQ1	Exposure to business from early age	4
RQ1	External role models	1
RQ1	Family assistance	4
RQ1	Fear of failure	1
RQ1	First generation entrepreneurs	1
RQ1	Flexibility	1
RQ1	Gained trust from networks due to formalisation	1
RQ1	Headstrong	1
RQ1	Help people	2
RQ1	Helping people	3
RQ1	Independent thinker	2
RQ1	Insight developer	1
RQ1	Inspiration from random people and things	1
RQ1	Know the right people	1
RQ1	Known from a young age	1
RQ1	Love of work	1
RQ1	Mentorship from boss	1
RQ1	Not a formally educated entrepreneur	2
RQ1	Open network leads to key relationships	1
RQ1	Passion as a driver	3
RQ1	People and doing good, providing good service	1
RQ1	People orientated	1
RQ1	Previous entrepreneurial experience	1
RQ1	Professional qualification used in business	3

RQ1	Quality service	1
RQ1	Relationship skills	3
RQ1	Research for more information	2
RQ1	Self-motivation	1
RQ1	Start something on my own	1
RQ1	Strength	1
RQ1	Strong networking skills	1
RQ1	Successful networks are key relationships	1
RQ1	The drive to be unique and spectacular	1
RQ1	Tired of corporate	1
RQ1	Unlimited potential and self-belief	2
RQ1	Value freedom	2
RQ1	Want to be the boss/freedom	3
RQ1	Willing to learn more	1
RQ2	Brainstorm ideas	1
RQ2	Calculated	5
RQ2	Changing business model till it works	1
RQ2	Code	2
RQ2	Cognitive decision making	3
RQ2	Consultations	2
RQ2	Creative mind to get money	3
RQ2	Depression	1
RQ2	Give people what they want based on what is happening	1
RQ2	God will see us through	1
RQ2	Have a plan	1
RQ2	How I reach it is how I reach it	1
RQ2	Hybrid system emerged	1
RQ2	Instinctual next step	1
RQ2	Leap of faith	1
RQ2	Left guaranteed employment and salary	9
RQ2	Long term business growth	1
RQ2	Look at different strategies to ensure survival	2
RQ2	Loss of income	1
RQ2	Monetary risk due to investement in business	2
RQ2	Personal relationships were risked	3
RQ2	Reinvestment growth strategy	1
RQ2	Risk of looking stupid	1
RQ2	Sacrifice family needs	1
RQ2	Sacrifice of designation	1
RQ2	Self-belief	1
RQ2	Smarter in achieving goals	1
RQ2	Trust the process	3
RQ2	Using savings as investment into business	1
RQ2	Wanted freedom	1
RQ2	What is the next step	1
RQ3	Agent middleman relationship	1
RQ3	Code	2
RQ3	Cold calling	1

RQ3	Credibility	1
RQ3	Driving force and execution	1
RQ3	Easier with strategic partners	1
RQ3	Easy transition due to partnership experience	1
RQ3	Existing relationships	4
RQ3	Expanded engagements and referrals	1
RQ3	Growth slow on your own	6
RQ3	Identify things not considered	1
RQ3	Industry friends and colleagues in same position as you	5
RQ3	Learnings and skillset from strategic partners	4
RQ3	Like mindedness and vision	3
RQ3	Mentorship	2
RQ3	Partner already had knowledge and experience	2
RQ3	Partnership contributed to shared responsibilities	1
RQ3	Partnerships brought tactics	1
RQ3	Partnerships for capacity	3
RQ3	Partnerships for resources	3
RQ3	Reassurance from partnerships	1
RQ3	Referrals	1
RQ3	Relationships and networks	1
RQ3	Relationships and trust	2
RQ3	Reputation and credibility	1
RQ3	Researching on business and met agent	1
RQ3	Working alone doesn't work	2
RQ4	Adapt or die	1
RQ4	Adapt to keep lights on	4
RQ4	Avoided as long as possible	2
RQ4	Be realistic about the situation	1
RQ4	Can't check out of your business	1
RQ4	Code	3
RQ4	Collaborative opportunity with partners	1
RQ4	Forced to react sooner	1
RQ4	Growth of customer base	1
RQ4	I can't afford to fail	2
RQ4	Its not all or nothing	1
RQ4	Keep vision and mission	1
RQ4	Learning curve	4
RQ4	Learning to survive	1
RQ4	Learnings from partner	1
RQ4	Make the best out of it	1
RQ4	Manage customer expectation	1
RQ4	Mentorship and advice	1
RQ4	Never ran away from problems	2
RQ4	Opportunity out of it	1
RQ4	Part of the journey	6
RQ4	Pushes to work harder	1
RQ4	Reassure customers	2
RQ4	Reward is better than walking away	1

RQ4	Sacrifice profits to keep doors open	2
RQ4	Talking to clients	4
RQ4	Talking to new people	5
RQ4	Think outside the box	1
RQ4	Trial and error	1
RQ4	Welcomed them	3
RQ4	Worked for free to keep clients	1