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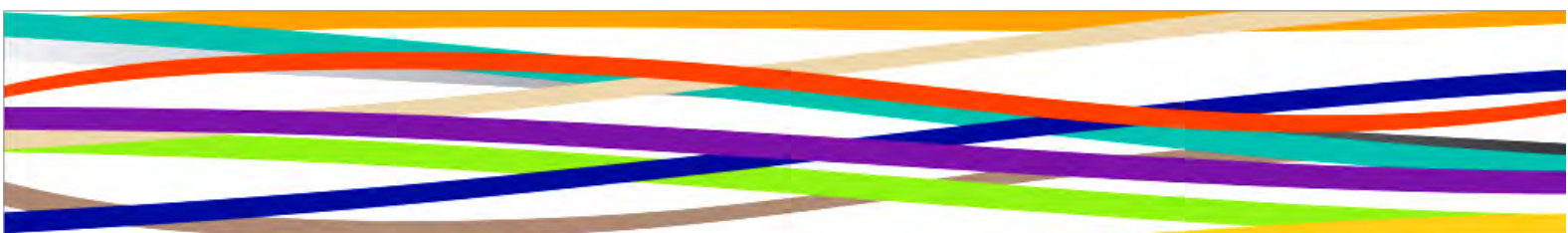
***Small Business Viability in the Manufacturing Sector within  
the EThekweni Municipal Area***

**A dissertation in partial fulfilment of the requirements of the degree of  
Master of Business Administration.**

**Graduate School of Business & Leadership  
College of Law and Management Studies**

**Supervisor: DR ABDUL KADER**

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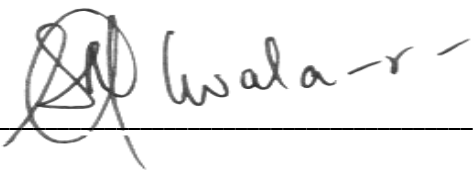


# DECLARATION

Candidate's Declaration.

I confirm that this dissertation represents my own work; the contribution of any supervisors and others to the research and to the dissertation was consistent with normal supervisory practice. External contributions to the research are acknowledged accordingly.

Candidate

:  \_\_\_\_\_

Date

: *13 March 2015* \_\_\_\_\_

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## ABSTRACT

Small, Medium and Micro Enterprises (SMMEs) play a key role in transition and developing countries. These firms typically account for more than 90% of all firms outside the agricultural sector, constitute a major source of employment and generate significant domestic and export earnings. The aim of the research was to investigate the viability of small, micro and medium enterprises (SMMEs) in the manufacturing sector in the eThekweni municipal area. This sector is labour intensive and it has a potential to create more jobs than any other sector. The aim of the research was to understand challenges and success areas that SMMEs face in their quest to establish and run sustainable businesses. Public procurement is the process by which government departments or agencies purchase goods and services from the private sector (Lysons & Farrington, 2006). There are 8 factors that were identified and discussed in the literature review with an aim to understand what body of knowledge is understood in this field. A probability sample of 150 people was chosen drawn from an estimated 2150 SMMEs in the manufacturing sector. The questionnaire was designed with a sole purpose of sourcing valuable information from participants. There were 230 people were emailed and two business groups were sent a link in their Facebook Page for participation in the survey. A response rate of 47% was achieved; many dropped out and did not complete the survey. The participants were recruited using the municipal database of SMMEs and through the Chamber of Business in Durban SMMEs database. The main areas were business district areas in and around the city of Durban, these included Tongaat, Phoenix, KwaMashu, Pinetown, Inanda, Umlazi and Amanzimtoti as key points of focus. The findings show that many of the respondents were contributing to the employment in their SMMEs. The majority of SMMEs employed at least 5 people in their businesses and they had at least one graduate in their employment. This was crucial because there is a need for SMMEs to have skilled employees and professionals in order to ensure that they were compliant to legislation. The study also discovered that there is a lot of red tape in the process of establishing the SMMEs; this led a number of them not being formally registered. It was also shown that many SMMEs were aware of government institutions that were assisting SMMEs and had at least approached them to get assistance but a number of them did not get assistance. It is recommended that a thorough study looking in detail at the government interventions should be ensued. There is a need for proper coordination of purpose in government to ensure that people access their services. The study recommends that the government should reduce the level of bureaucracy seen in long procurement procedures.

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## LIST OF ABBREVIATIONS/ ACRONYMS

Acronym	Meaning
<b>AIN</b>	African Incubation Network
<b>BBBEE</b>	Broad Based Black Economic Empowerment
<b>BEE</b>	Black Economic Empowerment
<b>BIC</b>	Business Innovation Centre
<b>BRICS</b>	Brazil, Russia, India, China and South Africa
<b>CIPRO</b>	Companies and Intellectual Property Registration Office
<b>CSIR</b>	Council for Scientific and Industrial Research
<b>DED</b>	Department of Economic Development
<b>DG</b>	Director General
<b>DTI</b>	Department of Trade and Industries
<b>FDI</b>	Foreign Direct Investments
<b>GDP</b>	Gross Domestic Product
<b>HDI</b>	Historically disadvantaged individuals
<b>IDC</b>	Industrial Development Corporation
<b>INFODEV</b>	Information for Development programme.
<b>KHULA</b>	Khula Enterprise Development Fund
<b>KZN</b>	KwaZulu-Natal
<i>Länder</i>	States of Germany
<b>NCR</b>	National Credit Regulator
<b>NSBAC</b>	National Small Business Advisory Council
<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>RSA</b>	Republic of South Africa
<b>SA</b>	South Africa
<b>SEDA</b>	Small Enterprise Development Agency
<b>SME</b>	Small, Medium Enterprise
<b>SMMES</b>	Small Micro And Medium Enterprises
<b>UKZN</b>	University of KwaZulu-Natal
<b>UN</b>	United Nations
<b>R</b>	South African Currency- Rands

# CHAPTER ONE

*“SMME development requires a crosscutting strategy that touches upon many areas (e.g. ability of governments to implement sound macroeconomic policies, capability of stakeholders to develop conducive microeconomic business environments, inter alia, through simplified legal and regulatory frameworks, good governance, abundant and accessible finance, suitable”*

(OECD, 2004)

## 1.1. INTRODUCTION

In this chapter a short rationale of the study, the methodology and the summary of findings will be briefly considered. This will be further elaborated in detail in the succeeding chapters. The results will be described in summary to highlight the actual trends. The backbone of any growing economy is the development of its SMMEs sector. The South African government had realised after 20 years of its rule since 1994 that it should establish a dedicated ministry of small business this concurs with (Mahembe, et al., 2011). (AhiaWodzi & Adad, 2012), argues that many countries which are doing well economically have done so because governments have taken a lead in creating a conducive environment for businesses to thrive. These were recommendations of many researchers who worked in the field that coordination comes from many departments and effectiveness is lacking. The ministry, of course, will have its own challenges but it will go a long way in ensuring that it pulls together all the tools to ensure that SMMEs are truly supported. This study will add to the body of knowledge on the challenges facing and identify exactly what those challenges are.

## 1.2. BACKGROUND OF THE STUDY

Many institutions that are assisting SMMEs to develop need to understand the impact they have in their quest to sustain and grow. They want to understand what the factors that impact on their success are. This study will assist both SMMEs and government to understand what can be done better in order to achieve better success rate and grow the economy. The mandate of the academic sector must strive to provide understanding of any phenomenon in society and bring about solutions to challenges that may be holding society from progress. This study will assist in coming up with some solutions and empower society to do better. The beneficiaries of the study are respondents and the support structures of the Department of

Trade and Industries (DTI), the new Department of SMMEs Development, local and provincial departments who would find the study useful in planning and budgeting in the future.

### **1.3.FOCUS OF THE STUDY**

#### **1.3.1. Problem Statement of the Study**

The aim of the research was to investigate the viability of small, micro and medium enterprises (SMMEs) in the manufacturing sector in the eThekweni municipal area.

#### **1.3.2. Objectives**

The objective of the study was to evaluate the viability of SMMEs in the manufacturing sector in eThekweni Municipal area.

- a) To understand the role and impact that SMMEs have in reducing unemployment.
- b) To understand relationship that the incubation process has on the success of small businesses (SMMEs).
- c) To find out the role that access to finance has in the promotion of SMMEs.
- d) To understand the role entrepreneurship mind-set plays in establishing and sustaining a SMMEs.
- e) To comprehend the role of government support increases the SMMEs development

#### **1.3.3. Research questions**

- (a) Does establishment of SMMEs lead to the reduction unemployment?
- (b) Does the incubation process improve the success of small businesses?
- (c) Does access to finance promote the SMMEs?
- (d) Does entrepreneurship mind-set play related to creating and sustaining a SMMEs?
- (e) Does government support increase the SMMEs development?



#### 1.3.4. Outline of the study/ organisation of the dissertation

The study comprises of the following elements:

- **A reflection of the rationale of the viability of in eThekweni area and the role of in the economy (Chapter 1)**

This section summarises all the chapters starting from the literature review, results, findings, and recommendations.

- **Literature review is thoroughly analysed and it looks at all factors that contribute to the lack of success in the SMMEs sector. It dissects what other countries and provinces are doing and what can be learnt from their success stories (Chapter 2)**

This section compares and contrasts the available literature and draws conclusion on what could be areas of concern and what areas can be best addressed in order to impact positively.

- **The methodology of the research is thoroughly explained in order to give the reader an idea of how the study was conducted and who were the targeted participants and how they were reached in order to ensure that they participate (Chapter 3).**

The study is explained and its methodology is clearly quantifiable in order to allow the stakeholders to be able to understand how and where the participants were obtained from and what role did the researcher play in collecting the data (Chapter 3).

- **The results are tabled and discussed in order to answer the objectives that are raised. In doing so the study exposes challenges and trends on what the study aims to uncover (Chapter 4).**

The results taken mainly from QuestionPro are analysed and tabled in many tabular and graphical form in order to give a clear idea of what is happening and what the prevailing trends are and what conclusions can be drawn from such trends.

- **The results are analysed in order to see if they answer the objectives that were identified in Chapter 2. This gives us trends that either proves the**

**scenarios positively or negatively. In that way the researcher can prove the hypothesis to be true or to be false (Chapter 5). The results are tabulated and put in graphical format for proper presentation.**

After the analyses had been done the researcher concluded and made recommendations if there is further research that could be undertaken to answer further questions that could have been raised by the researcher but were not answered satisfactorily by the study.

- **(Chapter 6) draws conclusions and then makes recommendations on what future studies must try and establish. In doing so the study admits to the limitations and probes into what can be done in order to deal with the shortcomings of the current study.**

### **1.3.5. Researcher assumptions**

The assumptions that were made were that most of the SMMEs had access to the computer and internet, the smartphone with internet connectivity or the tablet in any form that also had access to the internet. As the questionnaire proved to take between 4 to 6 minutes, the participants had to have enough data to fill and submit the form. The challenge with other platforms was that the form could not be displayed well and it was challenging to fill faster and with ease as it was on the desktop. This resulted in respondents dropping out.

### **1.3.6. Limitations of the Study**

The study did not ask a number of questions in as far as the sustainability of businesses and what were the prospects of expansion in those businesses that had survived for more than 5 years. It did not look at the race of the respondents. It neither looked at the range of income and how long SMMEs have been in business. The study also did not look at the how long the SMMEs has been operating and whether it was formal or informal. These failures could reveal a lot of information if probed further.

The researcher and the statistician who assisted in the analysis of the results assessed the validity and homogeneity of the variables before it was issued. Reliability was ensured through conducting a pre-test.

#### **1.4.SUMMARY**

(Berry, et al., 2002) concludes that 57% of the emerging SMMEs show little awareness if any at all about the existence of SMMEs support initiatives. The results of the study showed that 62% of respondents were assisted by a government institution in drafting their business plan but that is only the beginning of support which has a long way in establishing a sustainable business. The contrast arises when it comes to funding of these SMMEs the government institutions only come second after the commercial banks which shows that support along the way is lacking as there should be many people funded by government institutions than the commercial banks.

## CHAPTER 2

*“SMME development requires a crosscutting strategy that touches upon many areas (e.g. ability of governments to implement sound macroeconomic policies, capability of stakeholders to develop conducive microeconomic business environments, inter alia, through simplified legal and regulatory frameworks, good governance, abundant and accessible finance, suitable infrastructure, supportive education, sufficiently healthy and flexibly skilled labour as well as capable public and private institutions, and the ability of SMMEs to implement competitive operating practices and business strategies). Thus, SMME development strategy must be integrated in the broader national development”*

(OECD, 2004)

## **2. FACTORS THAT AFFECT SMMEs IN THE MANUFACTURING SECTOR: A LITERATURE REVIEW**

### **2.1. INTRODUCTION**

This chapter will examine the available body of knowledge that had been researched under this topic. It will further highlight the challenges and contradictions that the small and medium enterprises are facing in South Africa. The current research will examine to what extent we have sought to understand the field of small businesses. Small and medium enterprises (SMMEs) or popularly called Small medium and micro enterprises (SMMEs) are regarded as the pillar of economic growth in all developing and developed countries because they account for 80 percent of global economic growth (Jutla, et al., 2002). South Africa was a closed economy for a long time during apartheid. There were few entrepreneurs serving a large population of consumers. A number of enterprises were not competitive because of the closed economy system. And the economic system as well as the political system did not promote SMMEs in the broader population. The economic system as in the principle of supply and demand and open competition was hardly existent. As the tide turned and a new democracy was born many sectors started to feel the pinch as new competition from the most competitive countries started to see the market in South Africa and started to expand. One of

the demands of the World Bank in any economy, especially one that needs funding from the World Bank is to open up their markets. The debate on whether South Africa opened up its markets too early or too late will stay with us for a long time to come. What is crucial is what South Africa does with the current state of the economy to create sustainable jobs and build a future for all its citizens. The literature review is organised thematically as follows:

- Definition of SMMEs
- Role and impact of SMMEs in reducing unemployment
- Incubation of small businesses
- Government support
- Access to finance
- Entrepreneurship mind-set
- Financial management.
- Growth of and Successes of SMMEs

These themes will be discussed according to the available theory and literature.

## **2.2. DEFINITION OF AN SMMEs.**

A common definition by the South African Department of Trade and Industries (DTI) of a small medium, macro enterprise in South Africa is any trading entity that is operating with up to 100 employees with an annual turnover of up to R5 million. Many of these small, micro medium enterprises (SMMEs) are run and managed by their owners who are trying to minimise costs of employing staff until they are sure that the business is viable and can be able to bear the inherent running and fixed costs. (Mahembe, et al., 2011) state that South Africa has about 6 million in existence. The challenge is, at what level of operation they are at. Are they making money or are they only registered and not in operation. Some countries call them small medium enterprises (SMMEs) although the meaning is still the same. It is well known that the development of any society is based on their ability to develop their society. The development of the now developed economies was mainly based on their ability to start and sustain small businesses which have now grown into conglomerates and international companies of our time.

The definition of a small business is mainly by size and by number of employees it employs.

A simple definition is that a SMMEs has between 0 and 100 employees and has a total turnover that is less than R10 mill per annum with a gross annual asset value of less than R5million.

The National Small Business Act (DTI-RSA, 1996) defines a small business as “a separate and distinct business entity, including cooperative enterprises and non-governmental organisations, managed by one owner or more which, including its branches or subsidiaries, if any, is predominantly carried on in any sector or sub-sector of the economy and which can be classified as a very small, a small, a micro- or a medium enterprise (SMMEs)”.

They were once small companies operating on a small scale and in a small geographical area and today they have mastered the skill to expand and grow. It is on that premise that small businesses are crucial and are the cornerstone and the backbone of any growing economy. The crucial part in the 21 century is the availability of labour and markets in the global stage. Many businesses are established and they move as a result of the availability of cheap labour and markets in other countries. The available markets in China, India and the United States of America make it profitable for many companies to move their operations there. But on the other side of the coin it is cheaper for many to operate from India or China because of their cheap labour supply. What can be done to change the landscape of SMMEs in South Africa? Maybe there is a need to ask a few questions and see if we can answer them as we go on with this literature review:

- *Can a business remain sustainable under conditions that are similar to those that govern established business?*
- *Can there be legislation for small and medium enterprises that is different to the mainstream business?*
- *What are the repulsions or benefits that can be derived from such a practice?*
- *Who stands to benefits if such legislation that favours the establishment of small and medium enterprises is established?*

There are many definitions that are used that define a small business. The National Small Business Act No. 102. 27 November 1996 states that small, medium, and micro enterprise may have 5-200 employees and make an annual turnover of between R0.15 million and R50 million per annum depending on the scope of operation as well as the sector of operation.

The impact of small businesses is immense and it can be measured in terms of the contribution in terms of job creation, income generation and poverty reduction (Agyei-Mensah, 2012).

**Table 2.1. : Defining the size of the SMMES using the number of employees.**

<b>Size Class</b>	<b>Micro</b>	<b>Very Small</b>	<b>Small</b>	<b>Medium</b>
No. of employees	0-4	5. - 19.	20-49	50-200

### **KwaZulu-Natal economy by sector (% contribution), average 2007-2011**

The manufacturing sector is the key in creating products and sustaining jobs. This sector is labour intensive and in the long term it tends to create jobs. In KwaZulu-Natal this sectors accounts for 18% on average and its contribution to the provincial GDP. KZN's manufacturing sector is also the second largest in the country after Gauteng Province.

EThekweni Municipality is one of the largest metros in the country and it hosts 30 % of KwaZulu-Natal population and it has a 19.1% unemployment rate which is 6 % percent below the national average. This confirms that there are more chances of getting employed when you reside in the eThekweni municipality than when you reside in other district municipalities. (Tambunan, 2009), states that there are a number of challenges and the leading ones are the lack of access to business information to assist in establishing and running their own businesses, lack of access to finance or capital, lack of technological advances or know how, high costs of transportation, space (workshops) and communication, and the high level of bureaucracy especially when it comes to conforming with legislative framework. The fact remains that these are mainly infrastructural issues that any county needs to deal with in order to ensure that its economy grows. A striving small business can remain striving in a small city but remain stagnant because the channels of trade are not open. If the road infrastructure remains poor, trade between towns and cities is stifled and growth cannot take place. A number of these factors these factors will be further investigated as to how they manifest themselves in different situations and environments of operation. (Todd & Javalgi, 2007) states that entrepreneurship is a key driver for economic development in any developing and developed country in the world. (Gill, 2012), states that small businesses are recognised worldwide as engines of growth and development.

There are many factors that affect the growth of SMMEs; amongst them are government legislative framework, inadequate managerial skills, the inadequate country's infrastructure, lack of access to finance, lack of mentoring and exposure to business practices. Of course many people remain small even if they have succeeded to stay in business for more than five years because they lack the basic understanding of ensuring that they keep their finances in order.

They sometimes don't even know whether they are making a profit or a loss because they cannot keep good financial records. SMMEs measure success by utilizing the excess funds they earned from businesses, to purchase desired goods and services rather than to reinvest into the business for future growth. The lack of knowledge of how to invest funds back into the business is one of the challenges face.

The United Kingdom has the highest number of SMMEs per a 1000 people standing at 74 SMMEs per 1000 people and India at 0.3 per 1000 people (The-World-Bank, 2007). But the most important numbers are found in the last column as they speak to the percentage of SMMEs employment. The contribution of Indian SMMEs stands at 66.9 % although they have very few SMMEs, whilst the United Kingdom only employs about 39%. In the case of South Africa SMMEs employ about 39%. The South African case is not unique, it may be special because a high number.

## **2.2. LEGISLATIVE FRAMEWORK AROUND SMMEs AND TAX COMPLIANCE**

The DTI claims that there are so many SMMEs that operate outside the legislative framework. They are not registered nor do they have a bank account. It is estimated that only 20% of SMMEs are registered and the rest operate informally. (Tengeh, et al., 2011), concur that the majority of SMMEs that they surveyed were in the informal sector of the economy. Formality meaning that the business entity has conformed to the legislation and registered with Registrar of companies in South Africa. South Africa as a developing country came with many new pieces of legislation which meant that all sectors of society needed to change with the changing political landscape. The small businesses were not left untouched. They started to come up with laws that made it easier to start a small business. Many businesses started to



avoid legislation compliance on tax, found big business and those who wanted to avoid taxes starting these businesses and it started to become a problem for government as a result they started to tighten the law in order to protect its tax base. This therefore has an impact on the small business owner and how they comply with the law. (DTI-RSA, 2005), claims that, that over 50 per cent of the SMMEs are not legitimately known. This makes it difficult to contextualize what impact they have in broader society. This is explained by the (Akinboade & Emilie Kinck, 2012), who state that the business regulation that businesses have to conform to before they even start trading is burdensome and a hindrance to business. The findings are in line (Davidson & Hanreksson, 2002) and (Odd-Helge, et al., 2006) as quoted by (Akinboade & Emilie Kinck, 2012), when they state that trade regulation and company laws are to be the primary. (Smoulders & Naidoo, 2011) claims that there should be a threshold below which do not have to submit tax returns. This will lessen the burden on SMMEs and allow them to concentrate on their growth aspects. They further propose that there should be an inclusion of tax education in the South African curriculum in order to assist those would be entrepreneurs.

The South African white paper in 1995 was able to diagnose the number of challenges facing the SMMEs in South Africa and recommended that there was a need to change legislation in order to change the economic landscape in favour of the SMMEs development in the country. The role of the state is to create an enabling environment for trade to take place within the confines of legislation. In order to grow small and medium business it is crucial to create a conducive environment that allows them to get a foot in the door so that they can compete with established business. Cannibalism is desirable by big business in order to control the market but it is not needed by the state because it fails to create the jobs which bring about growth in the long term.

### **2.3. ROLE AND IMPACT OF SMMES IN REDUCING UNEMPLOYMENT.**

(Chimucheka, 2012) emphasises that in order to attain a high level of economic growth and hence have an impact in the reduction of unemployment you need to concentrate on the establishment of SMMEs as any developing country in the world. In his study of the

importance of a business plan it clearly shows that it is important to have a business plan when starting a small business. The challenge for many people is the lack of skill, education and knowhow of writing a business plan and monitoring and evaluation goals. The small crafts business that is run by a collective of rural woman will find it difficult to make such a business plan. Although they are making and selling the craft to both locals and tourists and making a profit but the inability to measure their progress vis a vis a business plan. The SMMEs contribute significantly to national gross domestic product (GDP) and in reducing unemployment. (David, et al., 2011) states that the study that was commissioned by the Competition Commission (2004) estimated that 99.3% of South African businesses were SMMEs and that these comprised of 54% of the total employment and contributed 35% to the Gross Domestic Product (GDP) this is supported by a study by (Abor & Quartey, 2010) which also estimates that 91% of the formal business in South Africa are SMMEs. The World Bank estimation put this number at 38% and in comparison to China its contribution was at 78%. Analysing the Chinese economy it is important for the country to make SMMEs establishment a national priority because its contribution can have positive impact in increasing the GDP and reducing unemployment.

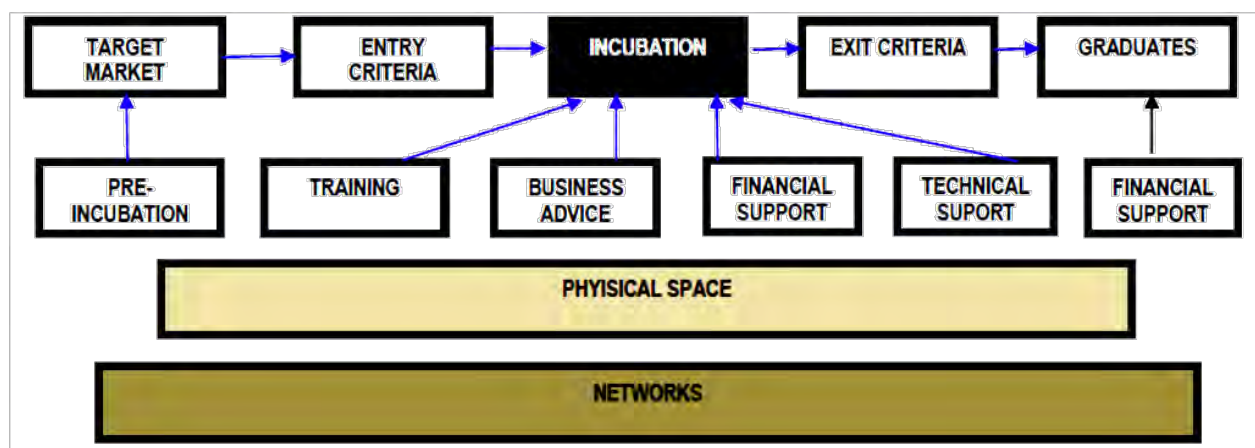
The organisation for economic cooperation and development describes the growth of small business which is characterised a high growth will have a small average on the overall employment of the country but will have a high share in the gross jobs gains. This typically means that many jobs are created yet their overall percentage may remain small but the actual numbers is large. This shows clearly that the small, medium enterprises play a critical role in the creation of jobs in many countries and if you expect a sustainable number of growth SMMEs are critical part of such growth.

South Africa has done a lot in the promotion of small businesses but their efforts have fallen short of the world average of 13 out 100 adults who are establishing a new business, this figure in South Africa is at 8 out of every 100 adults. This suggests that despite a lot of efforts by the government their efforts have fallen short of their intentions, (GEM, 2008).

#### **2.4. INCUBATION OF SMALL BUSINESSES.**

As early as 1971 the British government realised that it should have a policy on new firm creation. (Bolton, 1971) identified the importance of new venture creation to the future economic development. And since the 1990s the government has consciously established incubators across the country and provided funding to ensure that small businesses are supported. Both Trade and Industry and Higher Education Departments have provided public funding to support these initiatives across the UK. The South African government has also realised the need for supporting small businesses. Its main aim was to train small businesses and assists them in their formal establishment. The formation of Small Enterprise Development Agency (SEDA) which was formed in 2004 sought to assist people in the establishment of SMMEs but this did not resolve the challenges of SMMEs start-ups.

(Aggarwal & Kumar, 2012) conclude that the best way to develop small, medium and micro enterprises in Africa is through incubators. The best incubators are those that are not directly competing with the small businesses. If there is competition it tends to slow or destroy such an incubation process. (Lewis, et al., 2011), found that there is a correlation between business and an improved rate of success through incubation process especially in the non-government sector. This also applies in the SMMEs manufacturing sector provided that both funding and mentoring becomes part of incubation. Many banking institutions in South Africa have tended to look at small business financing as high risk and therefore have made stringent requirements to be met in order to be funded.



**Figure 2.1. : World Bank information for Development (Info Dev: 2010) a policy document that describes business incubation.**

Figure 2.1. is a model adopted by the United Nations on the business incubator programme that it has implemented in some parts of the developing world there are six factors that should be taken into consideration when getting into an incubator programme, there are:

- a) Pre-incubation process- where the assessment is done before accepting the potential be mentees.
- b) Training stage
- c) Business advice stage
- d) Financial support stage
- e) Technical support stage
- f) After care support stage

The aim of incubation is to accelerate the process of growth which leads to the germination of the entrepreneurial seeds. The rate at which people would graduate differs depending on the mentor and the individual mentee. Some would be doing well and the time would be shorter. The average time for the whole programme should be 5 years on average.

It suggest that incubators have been proven to advance the development of businesses (Hannon & Chaplin, 2000), this is even better to those SMMEs that are affiliated to universities (Jones-Evans & Klofsten, 1997). They are of great importance in an environment where entrepreneurship is regarded as new. There are so many factors that can come into play when it comes to the development of entrepreneurs. Many researchers have discovered that it takes time for any nation to adopt entrepreneurship as part of its culture and therefore the development for small business can suffer as a result of the time it takes for such adoption. This deals with the culture of entrepreneurship.

In fact, in start-up contexts, there should be a relationship between the mentor (counsellor) and the mentee (entrepreneur) that should be built over time this should develop on its own accord and it proves to work better when such a relationship is established (Chrisman, et al., 2005) and (Cuzin & Fayolle, 2004). The key important factor in this model is that there should always be assimilation of the actual environment of entrepreneurship. Theory alone does not help the development of the aspiring entrepreneur. When there is supporting system which brings information to the fore. Mentors who have experience in running their own business have proven to be successful in the high success rate of the mentoring process. This process does take time because it is not a simple fix but a long term commitment from all

parties involved. There are so many models of incubation in the world but the key is they should be integrated and they should seek to support the business owner at a pace that is sustainable and tends to transfer knowledge, skill and build experience and trust in the long run. Many small business owners may have the technical know-how on how to make a product but the business aspect of it is crucial in sustaining the business in turbulent time. Many people may be tailors or carpenters but it does not mean that they will make good business owners.

		<b>DROP IN PREMISES WITH SUPPORT</b>	<b>INCUBATION</b>		<b>OWN FRONT OFFICES</b>
		<b>Less than 1 year</b>	<b>About 1 year</b>	<b>About 3 years</b>	<b>1 year</b>
<b>Promotion of entrepreneurship</b>	<b>Pre-incubation</b>		<b>Early state Incubation</b>	<b>Classical incubation</b>	<b>Graduate Programme</b>
	Research support Training Planning	Accommodation Funding access Networks Advice Marketing Accounting Mentoring	Accommodation Funding access Networks Advice Mentoring	Close support into general business programmes	
		<b>General and relevant business support programmes</b>			

**Figure 2.2.: The Jones value chain Model (2010)**

(Jones, 2010), adds more value to the Info Dev model as he explains clearly what happens at each stage of the incubation process.

They need support to get there. That is why it is important to mentor them through and incubation process. The skills transfer is very crucial in a mentorship programme and the quality and competence of the mentors plays a critical role in the mentorship programme. If the mentors are not competent the whole process may prove to be futile. The competency of the support staff that renders the service is also crucial because they need to assess the progress of the mentees all the way. They can only do that if they know what to watch for and measure at what time.

### **2.4.1. Pre-incubation stage**

This stage should take less than a year. It deals with the research support, planning and training of the potential entrepreneur. This would assist in drafting the business plan and doing some market research in order to see the viability of the idea. The incubator would

channel potential mentees in a direction where the incubator has identified opportunities for growth and success.

#### **2.4.2. Early stage of incubation**

Once the idea has passed certain stages then it is seen to be viable the incubator accepts the mentee into the programme and actual mentoring takes place. At this stage the following services are provided to the mentee as a form of support and mentoring by the incubator:

- Accommodation
- Funding access
- Networking
- Advice
- Marketing tools and support
- Technical skills and machinery
- Accounting
- Mentoring

The incubator takes the mentee into the fold and supports them in order for them to learn all aspects of their chosen business field. The mentee starts to understand what is like to operate a business. The mentoring is provided by people who are running their own businesses and can advise on many fronts what a mentee needs to do and not to do in any given situation. This capacitates the mentee and they are able to deal with a host of issues under a controlled supported environment.

#### **2.4.3. Classical incubation stage.**

The mentee is now aware of what is going on and experienced in a number of issues. They are still given accommodation, funding access, network and mentoring but on a smaller scale. This allows them to grow as the weaning stage is closely approaching.

#### **2.4.4. Final stage of incubation.**

At this stage a mentee is weaned off the programme and what is left is only business support which in a number of programmes has to pay for. The incubator monitors the progress and gives advice on how best they can operate moving forward. The (World-Bank, 2010)

identified four policy dimensions affecting the design and implementation of an incubation policy framework, namely:

- Objectives for business incubation and service mix,
- Wider business environment,
- Funding strategies,
- Ownership and management,
- Monitoring and appraisal.

## **2.5. GOVERNMENT SUPPORT**

(Mbonyané & Ladzani, 2011) claim that the slow growth of small, medium and micro enterprises can be partly attributed to the lack of support that they receive from institutions that lend them money or other government institutions that should be mentoring them. Regulations that have negative impact on small, medium and micro enterprises.

(Abor & Quartey, 2010) findings states that the growth and development of SMMEs are largely constrained, amongst others, by the following factors:

- lack of available technology;
- lack of access to global markets;
- legislative framework that impedes the development of ,
- Weak or lack of government and/or university support; lack of access to business information.
- Lack of training and managerial acumen to lead successful businesses,
- Lack of access to credit.

The challenges for small businesses in Nigeria are corruption, lack of access to finance, lack of government support, poor road infrastructure, low profits, and the lack of demand of the products produced. (Okpara, 2011). The lack of technology makes it difficult for competitiveness to be a very significant factor in small businesses. When you do not have access to the latest technology you are bound to incur higher costs of products due to such lack and that makes your production costs very high. If those costs of production are not curbed and reduced it is hard to compete. In order to enter international markets you need to have a good product that is competitive in the world market. You at least need a new product

that is a result of innovation and by virtue of that you can compete but the level of innovation in small business is limited to their skill and knowledge as well as the ability to protect such knowledge.

In Germany, institutional arrangements for assisting small firms are well established; furthermore, the *Länder* themselves play an important part in these institutional arrangements. Largely for political and cultural reasons, there are no comparable local support systems in the UK (Lauder, et al., 1994). The development of SMMEs is one of the crucial development trajectories in China. The country's national strategic planning addresses economic and social development (Chen, 2006).

The promotion of entrepreneurship in society remains an important aspect of modern social engineering, independent of the level of regional development (Matlay & Westhead, 2005) and (Porter, 2006).

### **2.5.1. Major policies and initiatives**

In the case of China the government understood that their development as a country was closely linked to the development of their SMMEs. In China the government looked at all impeding factors to the development of the SMMEs sector and they gradually sought to deal with such issues in order to ensure that they were gradually eliminated. This became part of the government strategic objective and legislation and enabling environment was created and started to strive through such interventions. This needs to be done over time through a dedicated team and ministry that is able to intervene both by legislation and proper funding to make the changes that are necessary.

The role of building a vibrant SMMEs sector is sometime thought that it could succeed by each department doing their own small initiative in order to impact the whole, but it does not work well rather a clear directed initiative concentrated only by one department focused on SMMEs development does better in the long run (Klonowski, 2012). This conclusion suggests that there is a need to have a dedicated department or ministry to deal with the integration and focus on the SMMEs if the intervention and support by government is to have a significant impact in the creation and sustenance of SMMEs. Many things are clearly being done but they are not yielding results. Spending a lot of money alone without changing the structure does not solve the problem. The challenge with the current state of affairs in South Africa is that you have a national Small Business Advisory Council (NSBAC) which was



launched in 2006 after it has collapsed in 1998. It actually took 8 years for this body to be resuscitated and it then raises a plethora of questions as to how effective is the department of trade and industries in facilitating the business of encouraging and supporting SMMEs in South Africa.

## **2.6. ACCESS TO FINANCE**

The research that has emerged shows that SMME financing is perceived as a major challenge. Many small business owners who have tried to apply for a business loan have encountered numerous challenges “strongly suggest that business owners in South Africa view access to financing as a significant problem for business activity” (Turner, et al., 2008). The success of financing lies at a low rate of 27 %.

This shows that there are a number of challenges in financing. The major challenges in the current literature are that it tends to focus on the financing of small and medium enterprises using the same model as used by big corporations. The assumptions that are made by such modeling are that these SMMEs are at the same level of development and they should be able to compete with these corporations from infancy. There is an assumption also that there is room for such to take place as competition from the already established corporations would not want to compete with SMMEs. The fundamental question that would arise is why big established business would allow small business to be established and thrive when they are going to be their competitors in the near future. It would suffice that any business would only allow the establishment of another as long as it enhances its operations in the value chain or the supply chain. (Daskalakis, 2013), contends that establish business would allow an SMMEs to strive only if it brings about cheaper input costs down the value chain or brings about cheaper costs of production or transportation costs. However if it brings about direct competition such business would find it difficult to survive.

It is widely recognized in academic literature that small and medium-sized enterprises (SMMEs) struggle with access to finance (Bruns & Fletcher, 2008) and (Mason & Harrison, 2001). There are so many regulations and requirements of various institutions in order to qualify for funding, the first being a good, and bankable business plan. Drafting a good

business plan is a skill found in a few individuals. A business plan is a fundamental challenge for a SMMEs to draft let alone the merits or demerits of whether it is bankable.

(Olawale, et al., 2010) found that SMMEs do not keep detailed financial records of their businesses and some don't even operate a bank account. This puts them at risk of failing to account to both the registrar of companies and the South African revenue services and hence risk hefty penalties and even being deregistered as formal legal business entities. This is risky as many of these SMMEs depend on debt finance to fund their business as they do not have equity to fund their start-up businesses. (Keskin, 2006) suggests that stand a better chance to succeed as they are closer to the customer and the decision on how to compete better to serve the needs of the customer can be taken faster. This is as a result that the decision maker is closer to both the employees and the customer and has more elasticity than large corporation to apply a concept of customer driven changes in order to respond to customer needs. (Tshivhase & Worku, 2012) found that the market share among emerging contractors in Limpopo is significantly affected by lack of entrepreneurial skills, lack of access to funding, poor spending capacity, high competition, lack of engineering skills, and lack of seed capital and recommended that there is a need of capacity building to bridge the gap. There is a need to relook at government funding agencies like IDC, Insika and Khula to be developmental in their approach rather than being similar to commercial banks. (Ahiawodzi & Adad, 2012) discovered that play a critical role in the developing world, in Ghana as well are a big provider of employment at over 80% especially in the manufacturing sector, but the major challenge is access to seed finance to start . They also discovered that any injection of capital has a positive growth within Ho Municipality in Ghana.

Access to finance has many dimensions that need to be looked at closely. When a bank or any other financial institution lends money to a small business it exposes itself to risk because that business does not have history which can be used to access the level of risk that it is exposed to. (Twarambimenye, 1995) defined the criteria for evaluating risk by bankers into three categories, the managerial risk (which means the level of managerial experience of the business owner, planning for the changing of guard and the degree of managerial commitment), the macroeconomic risk (tendency of the PDP, anticipated return of the industry) and financial risk (profitability level, debt load, asset productivity, level of working capital, and value of guarantees). Others believe that the risk can only be categorised into business risk and financial risk. Therefore if are faced with such a daunting challenge that

bankers are always thinking about when they are faced with a decision whether to fund or not to fund an SMMEs then it becomes difficult for many to pass the litmus test and get funded. The following alternatives are suggested for the future. In order to increase the odds of success in the establishment and running of SMMEs, something needs to fundamentally change.

(Gill, 2012) concludes that market challenges, lack of financing, and regulatory issues are important barriers to small business growth in Canada. He further proposes that it would be a good idea for policy holders to look at how they can use their legislative framework in order to make sure that regulatory issues are minimised. This would allow the growth of small businesses and allow owners not to be bogged down on ensuring that they spend a lot of time trying to fill in a lot of paperwork and less on running their own businesses. This conclusion is supported by (Terhani & White, 2003), (Reddy, 2007) and (Arinaitwe, 2006) in their findings that financial constraints are seen as the most critical problem facing micro and small enterprises (SMMEs), especially in the less developed countries. This is as a result of a number of factors, some countries don't understand what they need to do in order to sustain growth and create jobs, whilst others do not have enough money to support these programmes. Even those that understand the need to support SMMEs do not understand exactly what they need to do in order to have the right impact in order to support these businesses. Money alone does not yield good results.

Many businesses remain being ideas until they can be funded and the key consideration is that you need policy framework that allows for such funding. It must be able to take into consideration what your traditional banks would not. The aims of funding institutions is to minimize risk and leverage profit maximisation in the long run but if you have state funding it must be able to cater for the appetite for risk under a controlled environment. Government is therefore a crucial player in SMMEs coordinated development.

Government support in many countries is key in sustaining and creating businesses and in turn creating jobs that are needed by the economy. This is one way to stimulate the economy in order for it to grow. Research clearly shows that there are many companies in the UK that use government support than in the case of the US. The study also found that these small businesses are mainly likely to be founded by teams of individuals most of whom have vast

experiences in different fields. So when they start a business they have already sought the necessary skills they will need in running their business. In the US many of these small businesses are founded by individuals and they aim to make the money fast in some cases they achieve that but it proves too unsustainable in the long term. There is clear relationship between government support and the rate of success of small businesses at least in the case of the UK.

### **2.6.1. Awareness of government programmes**

The major challenge in the South African context is access to information. Many people do not have access to the very information that others have. The historically disadvantaged people (HDIs) still live afar away from the cities and have to pay a lot of money for transport and therefore they don't often go to the city centres where information is readily available. When they go to towns they go to specific places where they want specific services and therefore to access all information and services available is a challenge. Many SMMEs are not aware let alone using the support that is provided by the government (SMMEs survey, 2004). Only SETA, IDC and Competitive Fund are known by people at 61, 45 and 32 percent respectively. But only 32% of people have used SETAs, 7 % have used the IDC and only 11% have used the Competitiveness Fund. These numbers are low and they suggest that a high number of the South African population is not aware of the support that is out there.

“The development of relationships between banks SMME bank customers, or relationship banking, has occurred for a variety of reasons, which relate to the profitability of banks (Degryse & Ongena, 2001); (Reichheld & Sasser, 1990), the generation of information for bank decision making” (Berger & Udell, 2002) “and the availability of bank finance to lend to SMMEs (Petersen, 1994). Smaller SMMEs which are yet to develop substantial cash flow would wish a lender to consider the potential for future earnings the SMME may possess. Again, a situation where the development of a long-term relationship allows risks associated with investment in SMMEs to be shared between the bank and SMME for mutual benefit.” (Ashton & Pressey, 2004) The key elements here is the relationship that needs to be built between the SMMEs and the bank where they understand that there is a need to share the

risks and therefore management of risks become a critical part that both parties need to manage.

(Okpara & Wynn, 2007) explain that the Grameen Bank provides micro-credit to the poor without any collateral. This study further recommends that the government should look at limiting or reducing requirements that would lead to the SMMEs being able to operate as a legal entity. This can be done in a number of ways. The level of a SMMEs could dictate that when you reach this level you need to comply with certain parts of the legislation. This means that small business owners have time to concentrate on their businesses and less time to run after paperwork.

(DTI-RSA, 2005) suggests that the South African government is doing a lot for small business through the DTI and other departments. This seems to be scattered all over and lack any proper coordination. And therefore there might be a need to refocus all the resources of the state into one department that is going to look at the improving what is already being done and ensure that the area of purpose and focus is aimed at improving the success rate of SMMEs. This is possible as there would be more resources and assessment or the change of strategy could easily be changes if it does not yield the expected results. The proposals are therefore as follows:

- a) To ensure that there is compulsory registration of all ,
- b) Become an SMMEs one stop shop,
- c) Disseminate information and run SME awareness programmes,
- d) Research and develop strategies on best practices of the SMME sector,
- e) Establishment of a collateral registry, and
- f) Monitoring and evaluation of the schemes available.

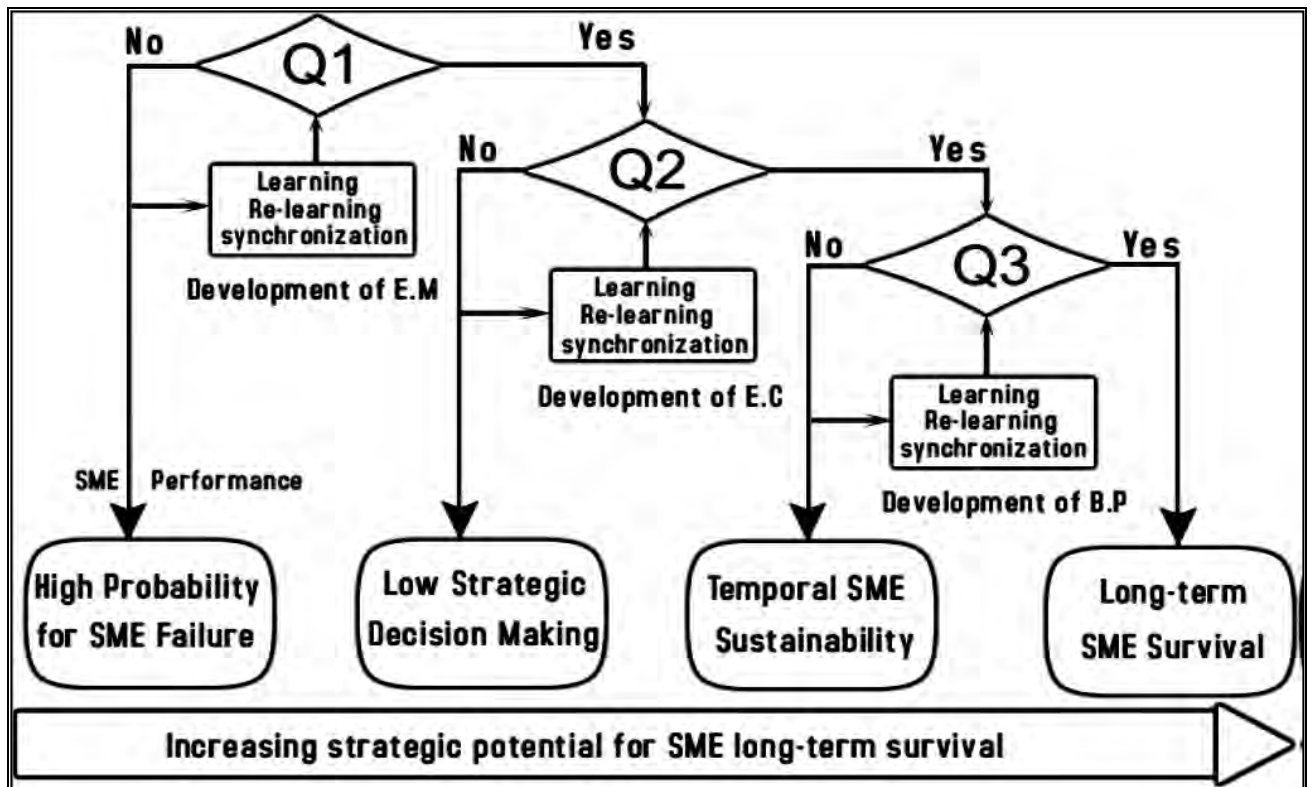
(Berry, et al., 2002), makes it clear that it is not only that support is not there at all but the fact that most of the institutions that offer support are clustered in metropolitans and towns and other areas do not have such which leads to many of the failing to reach them and get assistance. The other problem is cumbersome administration and bureaucracy that is involved in dispensing and assisting these small businesses. It becomes a long and complicated process to do something that can be simplified. The fact that many of the people who may be starting business may not have a high level of education, it therefore needs simplified processes.

## 2.7. ENTREPRENEURSHIP MIND-SET

(Neneh & Van-Zyl, 2012), argues that entrepreneurial mind-set is important in order to ensure that SMMEs succeed in their ventures. If the individuals who start lack this drive the SMMEs is bound to fail within the first five years. The key is ensuring that there should be re-learning in order to change mind-set and ensure that entrepreneurship is taught and encouraged at a younger age and calculated risk taking can then take place.

(Arko-Achemfour, 2012) claims that a lot of funds are mobilised through stokvels system in South Africa. The figure is estimated at over R45 million and yet there is a high shortage of funding needed by SMMEs for start-up capital. There is a greater need for start-up and expanding capital in the motor body repair sector where technology is ever-increasing new cars are manufactured yearly in order to keep on par with the competition and the requirements of insurance companies (Muyengwa, 2013). Many people are driven to be entrepreneurs because they are jobless, if they had jobs they would not have ventured into business. This is a challenge of the lack of the inner drive to be entrepreneurs. (Emerson & Baines, 2011) stresses that the number one essential principle that all successful SMME owners need to possess is an entrepreneurial mind-set.

(Neneh & Van-Zyl, 2012) claim that in order to achieve SMME long term survival, entrepreneurs are expected to have the right mix of entrepreneurial competencies ((Q1) entrepreneurial mind-set, (Q2) entrepreneurial characteristics and (Q3) the required business practices). He further proposes that the following Figure 2.3 clearly explains how such a mix applies in the world of SMMEs or business in general.



((Q1) Entrepreneurial Mind-set, (Q2) Entrepreneurial Characteristics (Q3) The Required Business Practices).

**Figure 2.3. : Increasing strategic potential for SMMES long term survival.**

The right mix of entrepreneurial competencies are not necessarily inherently inborn they can be developed and there is a need to develop such to a level where people are competent in the market place. The entrepreneurial mind-set is another aspect that can be taught through practice and mentorship of individual who like to start business. The values of hard work and the fact that owning your own business is not an eight hour a day job and forty hours a week job. It takes a lot of sacrifice because the business owner needs to have vision that can make the business grow and inspire confidence of those that he employs and leads.

South Africa still in the comparison of three countries in Africa which include Ghana and Zambia is rated last with 5% of start-ups as compared to 11% and 17% in the case of Ghana and Nigeria respectively (GEM, 2008). This pattern is similar in the case of news businesses at 5% as compared to 25% and 17% for Ghana and Nigeria respectively, established businesses rate even lower at 2% which is very low. This tells us that the entrepreneurial mind-set of South Africans is still very low. This has a ripple effect in many fields as it has a tendency to affect the growth of the economy and the rate at which unemployment drops in the country.

## **2.8. FINANCIAL MANAGEMENT.**

The research indicates that micro-enterprises do not engage in financial planning, analysis and control (Chimucheka, 2012). The importance of technical assistance cannot be over-emphasized, it is important for policy makers to take that into consideration when drafting SMMEs framework. This will assist in empowering owners in management, financial and entrepreneurship skills that are key to ensuring success of the SMMEs. This would be a necessary cost as it would have a positive long effect on job creation (Bah, et al., 2011). Clearly it is important that the SMMEs are supported in order to survive the first five years when the failure rate is rather high.

(Tambunan, 2009) concluded that for any SMMES to grow and succeed and make a difference in the value chain there should be cooperation between external and internal networks. Clearly central government has a crucial role to play in not only the creation of a conducive environment for a business to operate under but also providing support and markets needed for the sustainability of such businesses. In order to ensure success, continuous training and development which is in some cases needs proper research and development especially when a new product that has health or environmental impact on society has been put to the market by a small business. Such needs to be tested over time during use and support becomes apparent especially from an established government institution. If a new bicycle has been manufactured and tested and approved by the Centre for Science and Industrial Research (CSIR), then support is needed as such a product has an impact in societal safety and its use may expose the society to some risks which may not have been foreseen during manufacture testing and ultimately approval by the CSIR.

## **2.9. SUCCESSES OF SMMES**

### **2.9.1. Growth of SMMEs**

There were 2.4 million SMMEs by the end of 2001 in China; this was 99% of registered companies in China (NBS, 2003). This is very interesting to note in the case of China that their growth is led by SMMEs and if a country is serious about growth it must concentrate on



its SMMEs and how it can develop and grow them. (Littunen & Tohmo, 2003), (Yasuda, 2005), and (Huang & Chang, 2008), have looked at determinants of business growth. The art and skill of business owners in creating wealth and ensuring that people are employed has been recognised as a good factor all over the world (McPherson, 1996); and (Liedholdm, 1999). A number of these studies have been done in Ghana, Nigeria, Egypt and Zambia. Extensive studies done both in the developed world and the developing world have something in common. The fact that you need small business in order to bring about economic growth at least increases the pace of economic growth in a developing and in a developed economy. Many SMMEs fail in their first few years after establishment (Watson and Everett, 1996; (Ladzani & Vuuren, 2002). Literature explains this as “resource poverty” (Welsh & White, 1981), e.g. lack of financial capital (Boer, 1992) or management skills (Martin & Staines, 1994). However there is also a high number of researchers who have challenges this notion because in there are a number of small businesses which have succeeded over time. (Welsh & White, 1981), further conclude that the fact that many are managed by their owners poses its own challenges characterised by clear constraints, because in many cases the owners are not trained in the management of the enterprise and more often than not they are dependent on the income generated by the enterprise for their own survival competitive market. The growth of small businesses is therefore not only a personal achievement but a societal achievement because when a SMMEs succeeds many people find jobs and are able to make a living.

### **2.9.2. Localisation**

(Hashi & Kransniqi, 2011), in a study conducted in Eastern Europe (Albania, Serbia and Montenegro, and Macedonia) and Central Europe (Poland, Hungary and the Czech Republic) they concluded that SMMEs were growing despite a number of challenges they faced. (Mboniyane & Ladzani, 2011) concede that the slow growth of SMMEs in South Africa is as a result of the lack of support, legal knowledge, a lack of funding and a general lack of business understanding and drive. South Africa competes at an international level with many of its entrepreneurs still thinking like it was still a closed economy. The major challenge that needs to be overcome by SMMEs is that they need to understand that their products compete with products from highly developed countries and if they need to survive they need to

improve and better the playing field. (Lehobye, 2012) found that experience, mentoring, and proper funding of SMMEs are driving forces for success of SMMEs.

Many small businesses and continue to think that they operate outside the global world. They think what they produce is needed in their own countries and it should be easy to sell. The challenge is that there are other forces at play in this scenario. If the government is able to support these small and medium enterprises through ensuring that it opens market for them than they have a chance of succeeding but if they are left to fend for themselves than the chances of success are slim. A case of a number of local small business men and women who survive by making T-shirts for a number of organisations including political parties and unions are able to survive and make money as long as they continue to get such injection from the supply chain. These are good examples of what can be done by ensuring that the local value chain and supply chain are allowed to work. When you cut out the other players who may have cheap and quality materials then you allow the SMMEs to grow and strive.

The threat though remains and the challenge is what means are put in place in order to increase the level of competitiveness without destroying the market. No government can totally block other players from entering the market but they can put some measures to alleviate the plight of the local markets. However many researchers argue that knowledge is one of the most important strategic resources in today's rapidly changing environment. The fact is when a professional starts their own business they use their professional skills to do what they know. Such a model has a better chance of working. But the problem with this model is growth. In order to grow you need to get more people who have the similar skills and employ them. A Medical centre is likely to be started by one medical doctor but to provide full service partners of employees are needed in order to provide better and competitive service. Similarly in a law practice similar model does apply.

### **2.9.3. Internationalisation, globalisation and entrepreneurship**

There are many challenges yet there are many successes too in the establishment and success of SMMEs. (Mort, 2006), speaks of the internationalisation of entrepreneurship of the global form from Australia, this firm fought against the odds and ensured that it could succeed without allowing itself to go through the limitations that it faced in its country of origin. The

key challenge that SMMEs face is the lack of innovation on their part which would make them competitive from the beginning.

There has been a thinking that companies were forever going to get larger and larger and hence continue to create employment. The trend of becoming larger and larger has continued but it has not translated to higher employment. As they got larger they started to cut down on labour and tried by all means to do with less or use latest technology to do the work of many people. They can afford to as they get larger and they can write it off as innovation or research and development. The small businesses on the other side cannot afford to invest such large amounts of money on machinery so they need people.

There is a need for change and innovation in order to succeed. Many people at some point never thought there could be a cellular phone because they had gotten used to the idea of the telephone in their house and the fact that you had to come back home to receive a call. It was unthinkable at that time that things could change at the pace they had to a point where everyone own a cellular phone and the telephone is something that is optional. The entrepreneur therefore must know when to change and how to change. If you adopt change earlier you may make a lot of money if you adopt it later it may cost you're your business. Therefore an entrepreneur must be visionary, ahead of the times and be able to influence people to adopt his vision and buy to it so that they can start buying the product. (Brouwer, 2008) argues that organisational innovation required freedom of organisation and mobility of both capital and labour.

There is a difference between starting a business and being entrepreneurial. The distinct difference is innovation. If you come and open a business that competes with the shops in the corner you are introducing competition in a market and ensure that buyers or customer are spoilt with choice. The fact of the matter is that you have not come up with a new product or service you have provided capital to a business that long existed. But when you come up with a new product, you then prompt others to think the same or follow in your footsteps. That is innovation and entrepreneurial. (Drucker, 2001) argues that the entrepreneur always searches for change, responds to it, and exploits it as an opportunity. (Winch & Bianchi, 2006), argues that globalisation is not exclusively a multinational or big firm issue. Very few companies

including the SMMEs and very small or micro firms are immune to the impacts of globalisation. The fact remains that some of these firms may be sharing the same value chain which makes it difficult to compete in such an environment especially when you are competing with a conglomerate which uses the economies of scale as its core strategy to procure goods.

There is a body of literature especially on small businesses that tend to internationalise their operations in the first three to five years on their inception. There is a correlation between their internationalisation and their level of success. (D'Angelo, et al., 2013), the results show that the level of global diversity is influenced by the level of environmental turbulence in an industry.

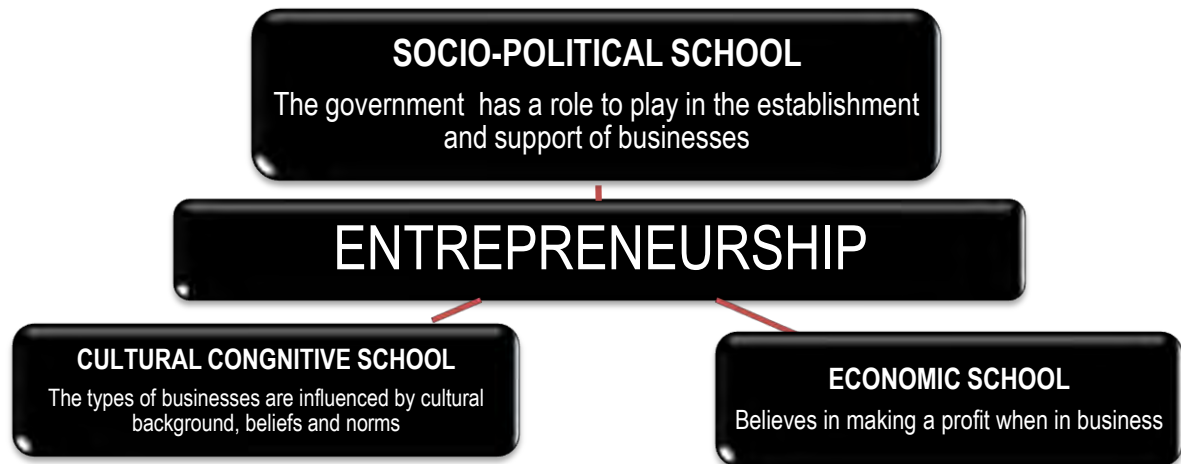
“There are three distinct and emerging schools of thought regarding the development of any entrepreneurial activity, including social venture capital creation that incorporates both the demand and supply side perspectives”. (Companys & McMullen, 2007) These are:

- a) The economic perspective school of thought;
- b) The cultural cognitive perspective school of thought; and
- c) The socio-political perspective school of thought.

In order to succeed as in any economy there are role players that need to come in and support your venture. This starts with government support and mainly the political environment supporting and emphasising the creation of small businesses. Whilst the economic school of thought emphasises on what is an attractive factor that makes starting a venture attractive. In order to start a business you need to make an economic profit which will make it viable to continue running your own business.

The economic development taking place in South Africa and the skills of workers is sometimes a great challenge; this is because many lack skills which make it difficult for SMMEs to get the right skills when they start their own businesses (Visagie, 1997). In order to support economic growth and the current economic policy of the state it is therefore crucial that the state encourages and supports SMMEs growth and development. The institutional framework of support for such enterprises will be fundamentally restructured. The Government must determine relevant policies which will ensure that it supports and enhances the establishment of SMMEs. In order for this model to work effectively you need

government, the private sector and the universities as well supports system structures which may take a form of incubators to be put in place.



**Figure 2.4. A school of thought of entrepreneurship as adapted from Companys and McMullen (2007)**

These partnerships should address favourable amendments to legislative and regulatory framework, access to funding, access to space or workshops, mentorship, marketing and procurement, access to markets, training on management and finance management as well as access to appropriate technology.

## 2.10. SUMMARY

These organizations generally encounter various weaknesses and barriers, such as a high failure rate (Smallbone & Rogut, 2005); internal barriers such as, management and contracting of less qualified labour (Smith & Smith, 2007); funding (Pissarides, 1999); (Joubert, n.d.); and external barriers such as the availability of access to prime materials, delays in payments of invoices by customers (Smith and Smith, 2007); and by way of regulatory barriers (Bartlett & Bukvic, 2001) among others.

The role of in the development of the economy of the country cannot be disputed (Beck, et al., 2003); (Wagenvoort, 2003) for their contribution to the creation of jobs ranges between

60 to 80 % new jobs annually (Ou, 2006) and this accounts for more than 50% of value addition outside the agricultural sector (Baas & Schrooten, 2012).

It worth noting that many countries that the (Mahembe, et al., 2011) recommends that the government should have a dedicated department of SMMEs. The efforts by the South African government have tended to pour a lot of money in initiatives and less on monitoring and evaluation of what are the impacts of the efforts and funding that has been made available. Therefore it would a good exercise to act on recommendations and get specialized and qualified people who would be able to utilize their skills in ensuring that this state of affairs improves. Sometimes paying people for their skill should be consummate to the output and only time will tell if the government ends up implementing this recommendation.

The lack of funding rates as the biggest challenge to the establishment and funding of small business success. It is therefore recommended that governments, policy makers and funders who may seek to support SMMEs consider legislative framework that allows the growth of SMMEs. A Grameen bank model that tends to counteract the need for collateral has worked in many parts of the world where it has been adopted and therefore it can prove to be a solution to counteract the problems of mainstream funding from traditional funders.

## CHAPTER 3

*“The purpose of research is to discover answers to questions through the application of scientific procedures. The main aim of research is to find out the truth which is hidden and which has not been discovered as yet.”*

**(Kothari, 2004)**

### **3. RESEARCH STRATEGY, DATA COLLECTION AND STUDY DESIGN: A RESEARCH METHODOLOGY**

#### **3.1.INTRODUCTION**

This chapter will describe the research strategy that was used in the study. The methodology and chronological reasons that were chosen to conduct the study will be thoroughly explained. It will also qualify why the researcher had chosen to use quantitative methods over the qualitative or mixed methods. The research methodology must adequately address ethical issues and confidentiality of the subjects and the information that they imparted with the researcher. The method of analysis as well as the analysis of data will be explained in detail to ensure clear understanding of the whole study. “Research strategy is a generalized plan for a problem which includes structure, desired solution in terms objectives of research and an outline of planned devices necessary to implement the strategy. The research strategy is a part of a larger development scheme of research’s approach” (Singh, 2006).

“Research as defined by many authors is the systematic application of scientific method to the problem under consideration, and therefore without rigor research becomes fiction and loses its worth. The research design articulates what data is required, what methods are going to be used to collect and analyse this data, and how all of this is going to answer your research question.” (Gay, 1996);(Patton, 2001); (Creswell, 2003); (McMillan & Schumacher, 2006); & (Best & Khan, 2006).

### **3.2.NEED FOR THE STUDY**

(Remenyi, et al., 1998) suggest that there are a number of questions that require significant consideration by researchers when they engage in research. There are:

- How to research?
- What to research?

The most pertinent question that haunts the researcher is, “Why research?” The researcher at all times must be confronted with this question. In doing so the researcher can then put a plan in motion knowing very well the audience that is under the research microscope. This leads to a clear execution of what is going to be done, how it is going to be done, when is it going to be done and where it is going to be done. (Durkheim, 2002) describes links the research questions and the actual research implementation when he describes it as a strategic framework for action.

**The scientific rationale** of the study was to assist in a better understanding of the viability of SMMEs and what can be done to improve the success rate of SMMEs. This was of great value to all stakeholders in understanding what is the impact of small businesses and their contribution to local economic development and the possible failures that need to be addressed going forward. The main challenge in the SMMEs sector is that there is very little literature in this sector and it tends to be general, (Mahembe, et al., 2011). The low success rate of SMMEs makes the body of knowledge hard to retain and collect from the subject, especially those who would not have succeeded. The beneficiaries were:

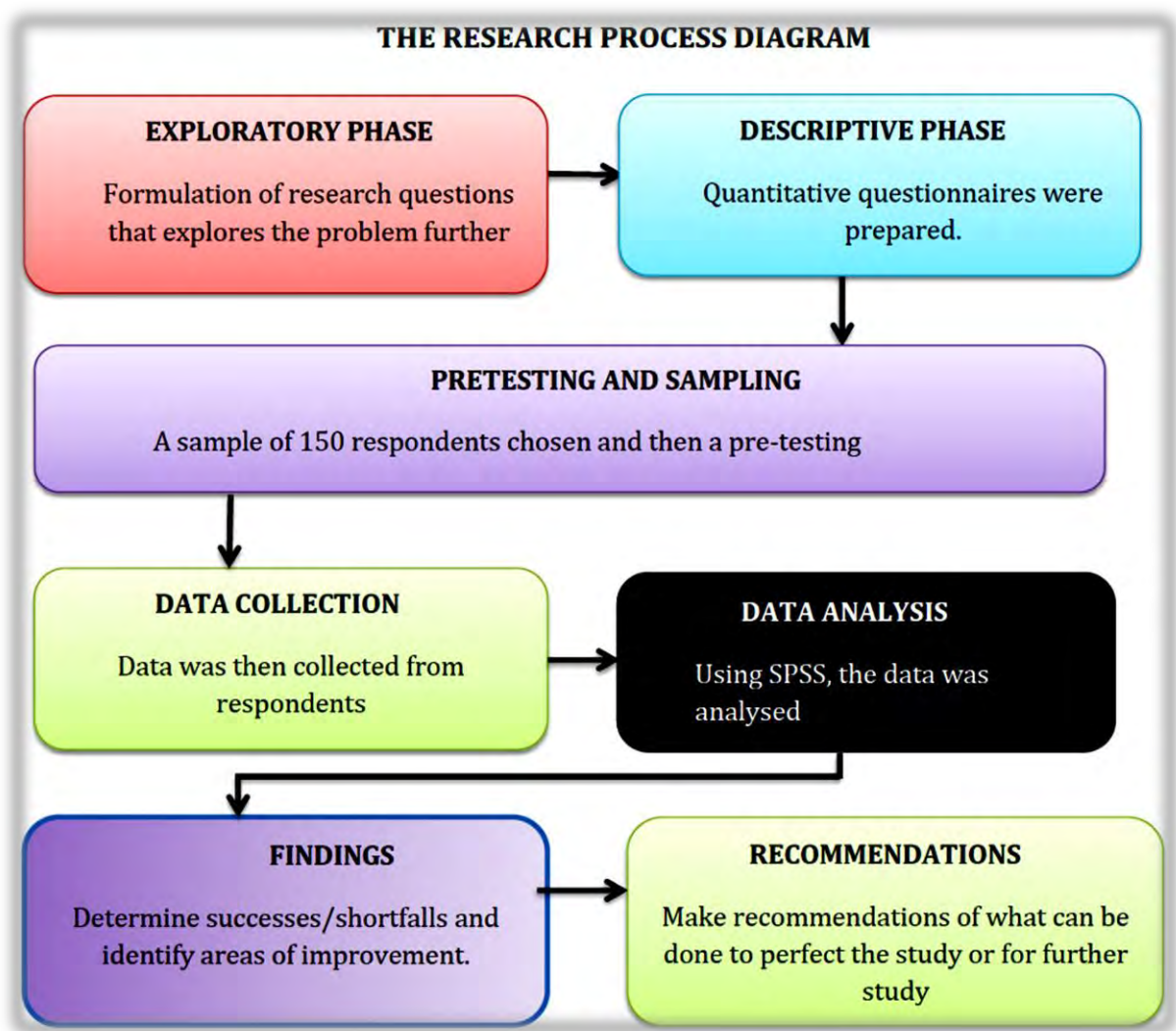
- The eThekweni Municipality and its business unit.
- The KwaZulu-Natal Department of Economic Development and Tourism (DEDT).
- Small business owners and aspirant business owners as well as any other interested parties.
- The funding agencies located in KwaZulu-Natal.
- The researchers in the SMMEs sector.

### **3.3.OBJECTIVES OF THE STUDY**

**The objectives of the study are:**



- a) To understand the role and impact that SMMEs have in reducing unemployment.
- b) To understand relationship that the incubation process has on the success of small businesses.
- c) To find out the role that access to finance has in the promotion of SMMEs.
- d) To understand what role does entrepreneurship mind-set play in establishing and sustaining a SMMEs.
- e) To comprehend the role of government support increases the SMMEs development.



**Figure 3 -1. : The research process**

### **3.4.RESEARCH APPROACH/ METHODS**

#### **3.4.1. Research design**

Adams (2007) describes quantitative methods as the research that is based on following certain principles of neo-positivism and passivism and it follows strict principles and methodologies before the research even begins. The research methodology ensures that a certain methodology is followed in conducting research (Singh, 2006). The research method used was quantitative and it aimed to test the hypothesis formulated.

#### **3.4.2. Data sources**

##### **3.4.2.1. Quantitative Research**

(Leedy & Ormrod, 2005) defines quantitative research as a scientific investigation which is systematic and its aims are to find answers about relationships between variables in order to explain, predict and control any prevailing phenomenon. Whilst (Collis & Hussey, 2003) claims that quantitative research is objective in nature because it tends to focus on seeking the facts or the origins of any social phenomenon. This is because it is based on positivistic methodologies that are followed in seeking and arriving at knowledge. Quantitative research approaches utilise surveys, interviews as experiments of choice to collect data. The data can then be analyzed statistically using any form of statistical packages at the disposal of the researcher.

##### **3.4.2.2. Qualitative Research**

(Leedy & Ormrod, 2005) describes qualitative research as a form of research that is utilized to answer very complicated phenomenon that needs thorough questioning in order to be able to understand a phenomenon in its entirety. The researcher in this case is also learning whilst investing the phenomenon. In this case the researcher cannot jump into premature conclusions about which way the research is likely to go. Only answers from the respondents shape the research as it unveils. In this case it is hard to use statistics to postulate the

understanding of the phenomenon. The researcher's role therefore is to interpret the data in order to explain the phenomenon.

#### **3.4.2.2.1. Advantages of Surveys**

- It is easy to formulate and use.
- It can be collected using the computer software without even meeting the respondents in person.
- It can be self-administered in many forms like fax, email or even by post.
- It does not put pressure on the respondent to finish fast because of the presence of the researcher.
- Data can be collected rapidly

#### **3.4.2.2.2. Disadvantages of Surveys**

- There is usually a low response because there is no need to commit to anyone.
- There is no interviewer intervention available for probing or explanations; therefore, surveys can't be long or complex.
- The respondents may not finish the questionnaire and hence increase the drop-out rate.

The information and contact details of a number of businesses were sourced from the local municipal offices where they keep a database for all registered. The SMMEs were contacted and those who could be emailed were emailed and they completed their questionnaire online. The majority of SMMEs were actually emailed and a few were called with an aim of faxing the questionnaire or bringing it to them in person. The key information about the respondents could be found in the departments where they have registered as suppliers or service providers. Where it was not possible to get such information due to the confidentiality of the information, we often look at the business directory and call the businesses in order to make proper appointments in order to interview them. The business owners were even willing to refer us to their counterparts whom they were also doing business with.

We mainly targeted:

- a) Business owners
- b) Business owner/ manager
- c) Managers of businesses who were involved since the business was started.
- d) Directors of the small businesses according to the Close corporation act 69 of 1984.

This allowed us to get the history of when the business was started, how many people were employed then and how many people have gone through the employ of the business since inception. Whether they still needed any support of any form going forward was critical in understanding the needs of business owners and from whom they thought they could get such assistance.

### **3.4.2.3.Purpose of Descriptive Research**

The sampling process was probability sampling using qualified respondents who were willing to fill in the questionnaire (Saunders, et al., 2002), this describes the objectives of descriptive research:

1. To clearly identify what are the obtaining realities at the moment.
2. To study what are the defining rules or phenomenon at the current conjecture.
3. To be able to find what are the facts.
4. To examine the relationships as they are described by trends and patterns.

The researcher will conduct interviews from a number of participants who have been and who are still in the practice of small businesses. The aim is to make sure that thorough information can be sought through the process. The interviewer will allow participants to fill the questionnaire after a short briefing of what the researcher seeks to establish. The target will be managers, owners who are involved in the running of their businesses and young people who have been involved in establishing a business and what their experience have been.

### **3.4.3. Research Setting And Location Of The Study**

The research is set at eThekweni municipal areas, loosely as demarcated by the demarcation board for the purposes of demarcating the boundaries of a municipality. The main areas were part of the study were the industrialised zones in:

- Durban
- Phoenix
- Verulam
- Tongaat
- kwaMashu

- Umlazi
- Wentworth
- Isipingo
- Inanda
- Bluff
- Amanzimtoti

These areas are where most SMMEs in the manufacturing sector activities are taking place.

#### **3.4.4. Recruitment And Selection Of Respondents**

A number of methods to identify participants were used.

- Walk in to the already established SMMEs by actual visits to towns that are mentioned in the location of the study.
- Using the directory from the small businesses directory that was compiled by the department of economic development and its youth desk.
- Getting information from the databases of the eThekweni municipality vendor list and well as the supplier list, and the small contractor's database.
- Using strategic relationships between the researcher and business chambers and forums that have a number of businesses as their members.

For all businesses where a walk in strategy was utilised, a manager or the owner was approached by the researcher and the study was then introduced to them and all issues well explained we sought to ask them if they were willing to participate in the study. For the businesses where we already had all the contact information from different other sources we called them or emailed them to introduce the study and asked if they would be willing to take part in the study. Once they showed willingness an appointment was scheduled for the actual interview with the owner.

#### **3.4.5. Communicating research findings with participants**

As part of the study all the information was gathered from participants in order to ensure that we could communicate with them in the future. We particularly requested email addresses and or faxes where we could send the results once they have been finalised. Many participants seemed eager and willing to provide the information because it would empower them to see a bigger picture of what is happening in their sector in South Africa, KwaZulu-

Natal and eThekweni municipal area in particular. The report investigates a variety of issues and seeks what inferences could be made and what conclusions could be arrived at.

- It is our aim to partner with eThekweni municipality and make the report available in their free publications in the shorter version or go to the public through their communications channels of SMMEs and engage them on the findings.
- We believe that the report will go a long way in assisting stakeholders and government service providers in understanding what are the needs of the community and in particular.

#### **3.4.6. Validity and reliability**

All researchers aim to ensure that their research is valid and reliable. It is a phenomenon that is hard to attain and get right at all times especially in qualitative research. The aim of the researcher therefore is to ensure that the manner in which the data is collected and analysed does not compromise the validity and reliability of the data and by extension the whole research.

#### **3.4.7. Data collection techniques**

The questionnaire is the most preferred instrument that is utilized by many researchers to collect information; this is because it gives quantitative information that can be easily analyzed using numerical methods. It can be used without the need of the researcher being physically present and still provides reliable data for analysis (Wilson & McClean, 1994). The data will be collected using questionnaires where necessary where the respondent may need help and interview will be organised to explain the contents of the questionnaire and seek to answer the questions in the questionnaire as precise as possible. The researchers will use face to face interviews, QuestionPro programme as well as telephonic interviews to collect data from owners of SMMEs.

### **3.4.8. Sampling techniques**

Simple random sampling was used coupled with clustered sampling. Clustered sampling allows data specific information to the area and the data could clearly be analysed and the trends in that particular sub-area and draw conclusions. Each of the areas identified in the EThekweni Municipal areas were allocated a number or a weighting according to population and estimated number of SMMEs that operate in the area. The total number of SMMEs that were part of the sample was 150 out of 2150 SMMEs.

### **3.4.9. Data analysis and interpretation**

Quantitative methods of analysis were used. A questionnaire was designed with an aim to answer all the questions which would assist us in answering the research questions. The collection of data aided the analysis process in the manner in which the questionnaire was designed. The data was be analysed using SPSS. The interpretation of data was then analysed following the trends and patterns from the SPSS programme.

### **3.4.10. Ethical considerations**

The primary consideration of the researcher must be to the subjects. Their rights, dignity, respect and the right to say no, “I cannot answer that”, must always be primary in all that the researcher does. If a person is willing to share why they feel in the manner they do, researchers may learn and improve in how the questions are put or asked. Research is there to better understand a phenomenon and come up with knowledge to explain why things are happening in the manner they do. Using such knowledge, then learn to do things better. In short research’s goal must be to better the lives of people not to make them worse. Ethics should therefore be at the core of what researchers aim to understand. Ethical consideration remains a very important component of the study.

People who were interviewed will remain anonymous and their names and details will not be released or made known to anyone. The questionnaires will be kept in the annals of the University of KwaZulu-Natal for a period of five years after which they will be disposed of and destroyed. The names of the participants remain confidential at all times. The link

between their answers and their names cannot be used by anyone for any other purpose other than to interpret the results.

### **3.4.11. Informed Consent**

“Consent involves the procedure by which an individual may choose whether or not to participate in a study. The researcher’s task is to ensure that participants have a complete understanding of the purpose and methods to be used in the study, the risks involved, and the demands placed upon them as a participant.” (Jones & Kottler, 2006). The participants were never coerced into participating and they were informed that if they felt that they could not continue they could drop out of the survey at any time. The respondent before accepting to participate in the study was asked if they consent to participate in the study and then they were informed what the study entails and if they believed that there was any form of conflict of interest, they could withdraw at any time from filling the questionnaire. The researcher was always aware that these subjects/respondents were running their businesses and they may not have time. The researcher asked the business owner to consent to giving information requested in the questionnaire. The consent form was made available and it explained exactly the nature of the study and how the information will be used and how the information can be useful to the participants themselves once the study is finalised and the report has been finalised. The information from the study remains an academic exercise that could be used by any parties mentioned as beneficiaries from the library when it is finalised.

### **3.4.12. Confidentiality**

The names of individuals and the content of their answers remain confidential and it cannot be used in any other way except to understand and interpret the collective data and the trends that the collective data suggest. The names cannot be linked to questions and answers because when the data is put together it will not have a direct correlation to the individual participant.

The researcher clarified that the questionnaires did not have names or numbers that could be used to identify the respondent. The filling of the confidentiality form is to assure the



respondent that their information or identity remains protected from being revealed to anyone without their prior consent.

### **3.4.13. Provision of debriefing, counselling and additional information**

The nature of the questions did not need the debriefing session. The information and the data required were not of the nature that could put any individual at risk and could need counselling. The researcher needed consent from participants and participants were not coerced in any way into participating in the study. The need for debriefing could have arisen if we were dealing with respondents who were minor or were experiencing life threatening illnesses and the study sought to probe such as part of the findings. In this study the information was not of such personal nature and of such psychological nature.

### **3.5.PRE-TEST OR PILOT STUDY.**

We tested 4 percent of the sample which is 6 people whom we used to pre-test the study. We wanted to establish if the questions were simple and no ambivalence could be established. We wanted to ensure that we could approximate the actual time it would take to fill the questionnaire and if there would be any need to explain questions or simplify the questions so that there would be no need to explain. We established that the questionnaire content was easy to understand. The estimated time of 20 minutes that the researcher had put was found to be 5 minute shorter and it was then increased to 25 minutes. Many people were able to finish the questionnaire within 25 minutes.

#### **The three goals of a pre-test or pilot study are:**

- a) To establish the competency of the questionnaire.
- b) To estimate how long it would take respondents to fill the questionnaire.
- c) To determine the quality of the surveyor. (Iraossi, 2006).

## **SUMMARY**

There are many factors that must come together in order to ensure that the research is conducted in an ethical manner. The researcher ensured that all participants participated out of their own volition. The questionnaire was designed and then a pre-test was done among the five respondents in order to see if it was easy to complete and if there was a need to make some improvements. The response that was received was that it was easy to fill the questionnaire online using a desktop and challenging on other platforms. It was also easy using the traditional pen and paper method or using telephonic interviews. There was a high drop out rate of about 25% and 75% of those who started were able to finish the questionnaire.

## CHAPTER 4

*“Research methodology is defined as highly Intellectual activity used in the investigation of nature and matter and deals specifically with the manner in which data is collected, analysed and interpreted.”*

(VARGAS-HERNÁNDEZ, et al., 2012)

### **4. RESULTS: TABULATION OF FINDINGS**

#### **4.1.INTRODUCTION**

The previous chapter discussed the methodology of the research in detail. This chapter presents the results in totality. The research was conducted amongst the SMMEs in the EThekweni Municipal area targeting Small, Medium and Micro Enterprises (SMMEs) in the manufacturing sector. The SMMEs surveyed were in operation and none of them were out of business and therefore the results tabled below will indicate their experiences in their businesses. There were 327 people who looked at the research on QuestionPro, and this was done online and all the results were captured online, 20 were visited and participated in the survey, and a grand total of 109 participated and completed the survey using both face to face survey ( which was in the form of questionnaire interviews) and QuestionPro. QuestionPro is able to collect data and keep all the important information like how long the participant took and only captures data only when the participants finished filling all questions. The ones which were incomplete were regarded as dropouts and no data could then be analysed. There were 25 questions which were asked and each of the questions was properly answered. Many people, in fact 67.31% of participants showed that they were employed when they started their own businesses. And only 31% were not employed when they started their own businesses. The population of the study was 2150 SMMEs. This was extrapolated from the 141625 SMMEs in the manufacturing sector in South Africa.

## 4.2. DEMOGRAPHICS OF RESPONDENTS

The questionnaire sought to understand the gender and the age of respondents. The issue of race was deliberately left out because the study did not need to draw and correlations or conclusions based on race. The study also did not seek to understand the qualifications or the level of education of the respondents. The majority of respondents were male at 61.90% and females respondents comprising the 38.10%.

**Table 4.1.: Gender distribution of respondents.**

Sex	PERCENTAGE	CUMULATIVE FREQUENCY
Male	61.90%	61.90%
Female	38.10%	100.00%
<b>Total</b>	<b>100.00%</b>	

The respondents were randomly selected and they were requested to fill the questionnaire online. A few filled the questionnaire in a hard copy form and their responses were amalgamated with the ones that were online.

## 4.3. AGE OF RESPONDENTS

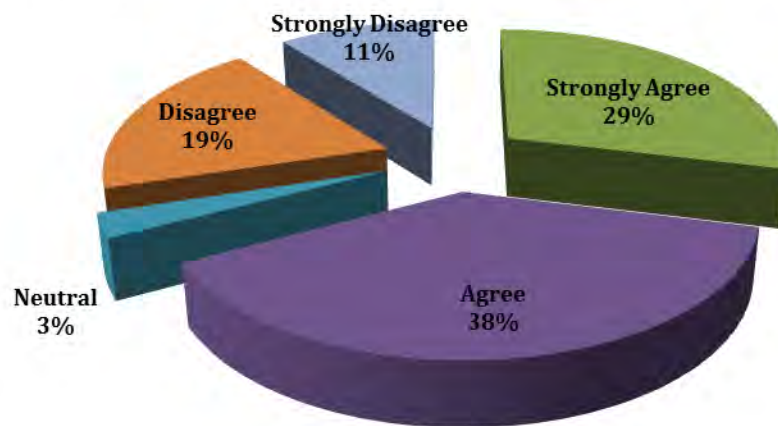
The age of respondents was mainly between 21 and 35 which were in a majority of 55% and the 36-50 year olds which constituted the remainder of respondents this suggests that many youth people are out there and are looking for employment whilst others are starting their own businesses. The main targets as beneficiaries were youth for a number of grants which initially were Umsobomvu fund which was targeting youth and it was transformed into National Youth Development Agency (NYDA) Fund which sought to empower many young people with grants instead of loans to all young people who were already in business.

## 4.4. WHAT ROLE AND IMPACT DO SMMES HAVE IN REDUCING UNEMPLOYMENT?

### 4.4.1. The reasons why the respondents started their own business

It was shown that 67% of respondents started their business whilst they were employed and some of them are still employed until they are sure that their businesses are successful. Only 29% of the respondents were not employed. This is in line with the unemployment rate of the country which is between 25% and 30% in South Africa and only 22% in eThekweni Municipal area.

**Chart 1: I was employed when I started my own business.**

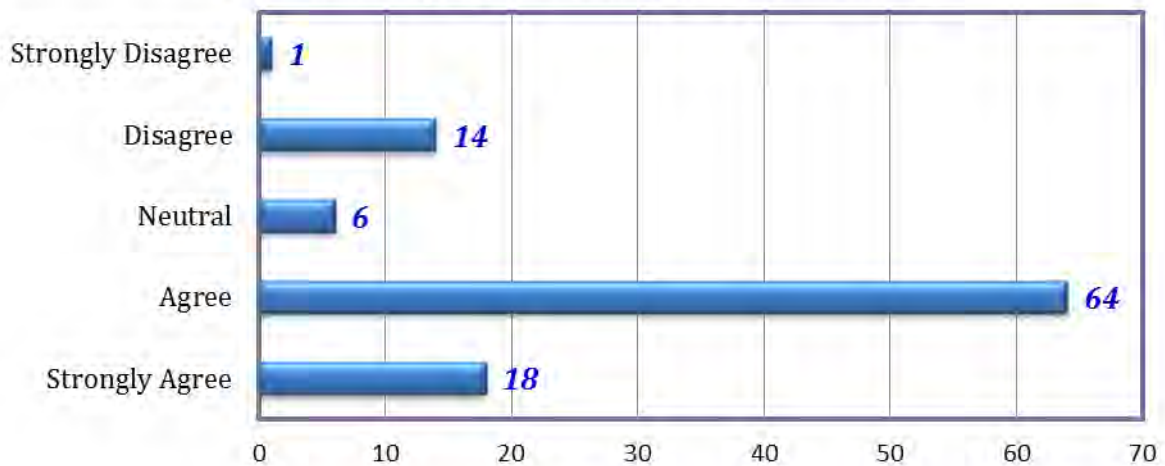


**Figure 4-1 I was employed when I started my own business.**

#### **4.4.2. The reasons why respondents started their own business**

The study showed that 80% of the SMMEs employed more than 5 people in their establishments. This had a positive impact in the employment contribution of the country. The manufacturing sector is labour intensive and many of the businesses are small and cannot afford to buy heavy and costly machinery and therefore they rely on people.

**Chart2: I employ at least 5 people currently.**

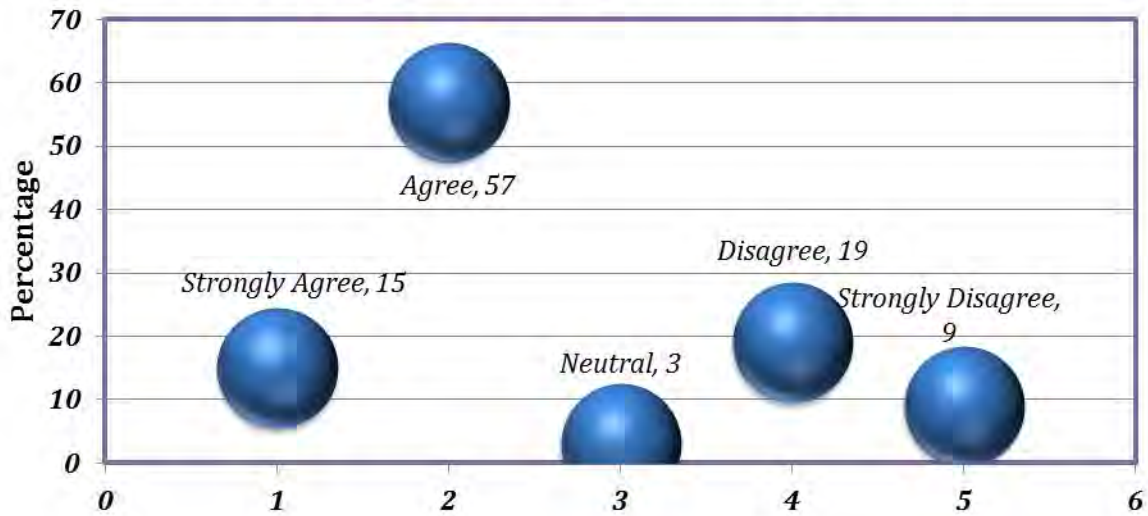


**Figure 4-2: I employ at least 5 people in my business.**

#### **4.4.3. The reasons why the respondents started their own business**

The study showed that as high as 70% of businesses employed at least one graduate. This was very crucial in learning that these sought the skills of graduates in a number of their departments. It was observed that many of the companies that were in technical fields used contract labour with at least one graduate being either an owner or the shareholder in the company. This ensured that the company could source critical skills it needed.

**Chart 3: I employ at least one graduate in my business.**

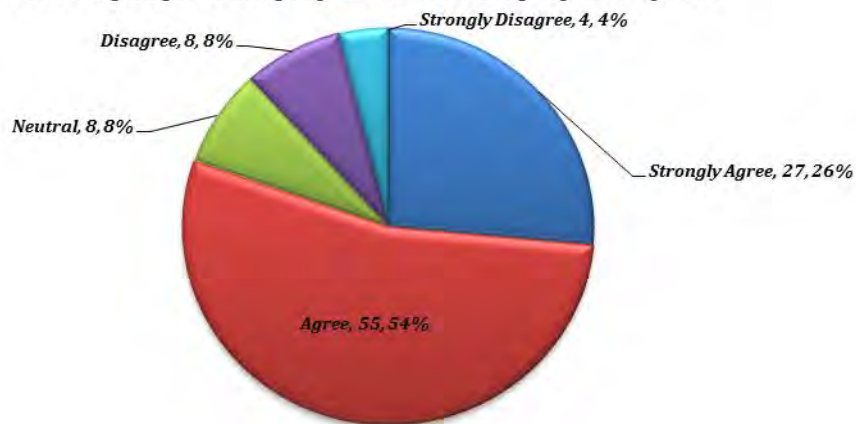


**Figure 4-3: I employ at least one graduate in my business.**

#### 4.4.4. The people I employ were not employed before.

Small businesses may not be paying high salaries this allows new and entrant employees to get an opportunity to prove their worth. The survey showed that 80.39 % of people had not worked before and this proved to be an important factor in the survival and supply of employees (labour supply). If people had surplus supply of jobs, they would have had a choice and they would not be willing to work for less pay hoping that the business would grow one day and they would get better pay then. They would want to be employed by only established companies which would pay better.

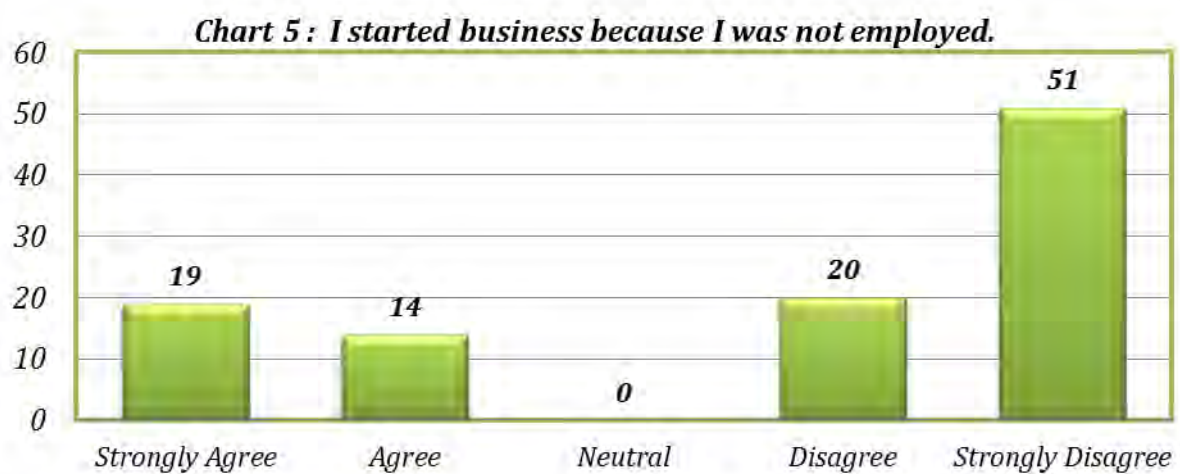
**Chart 4: The people I employ were not employed before.**



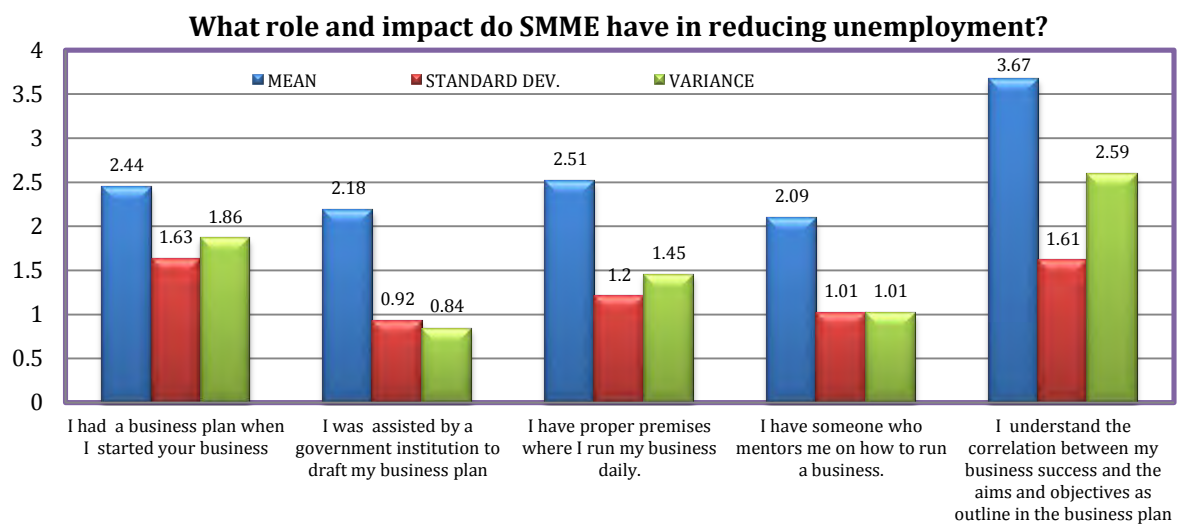
**Figure 4-4: the people I employ were not employed before**

#### 4.4.5. I started business because I was not employed.

The survey shows that only 32% of the participants who started their small businesses were not employed when they started their own businesses. The majority were in employment when they started their businesses. This is in contrast with the thinking that many people would start a business because they are not employed. It also tells us that many people took a chance for better earnings when they were employed. This agrees with the earlier question in 4.31. which asked a similar question and also relates with the unemployment rate in South Africa.



**Figure 4-5: I started business because I was not employed before.**



**Figure 4-6 What role and impact do SMME have in reducing unemployment?**

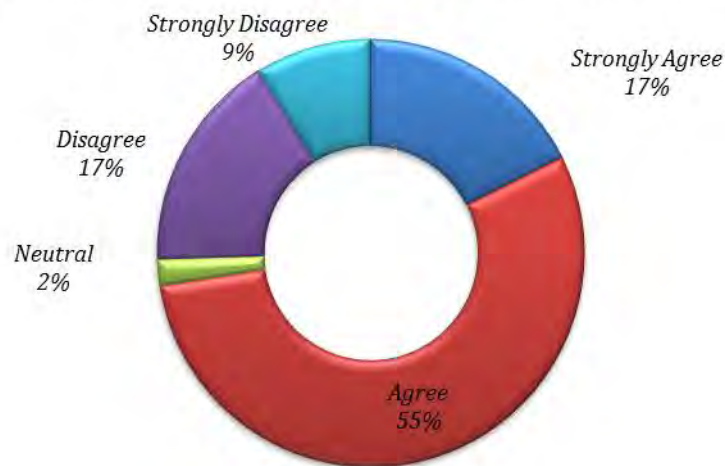


## 4.5. THE IMPACT OF INCUBATION OF SMALL BUSINESSES

### 4.5.1. I had a business plan when I started your business

Many people who started their businesses had a business plan, this was 73% of respondents. This shows that many of the SMMEs had taken their time to plan their venturing into business. It could not be clearly discovered as to what was the viability and bankability of those business plans. It was very encouraging to learn that at least the basics of starting a business were understood by a majority of participants.

**Chart 6 : I had a business plan when I started your business**

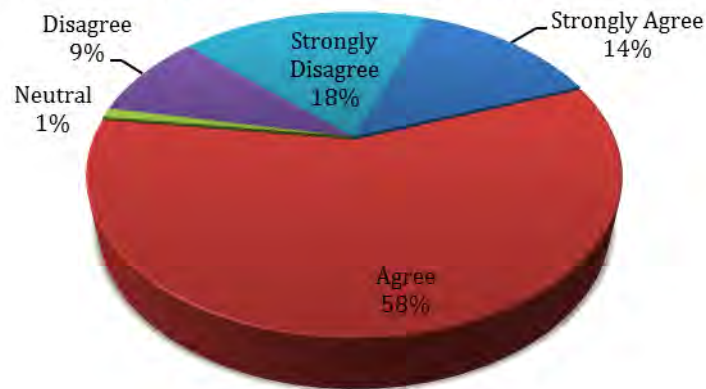


**Figure 4-7: I had a business plan when I started your business**

### 4.5.2. I was assisted by a government institution to draft my business plan

The majority of people were assisted by one of the government institutions to draft their business plans, the number is as high as 72% of people who got that assistance.

**Chart 7: I was assisted by a government institution to draft my business plan**

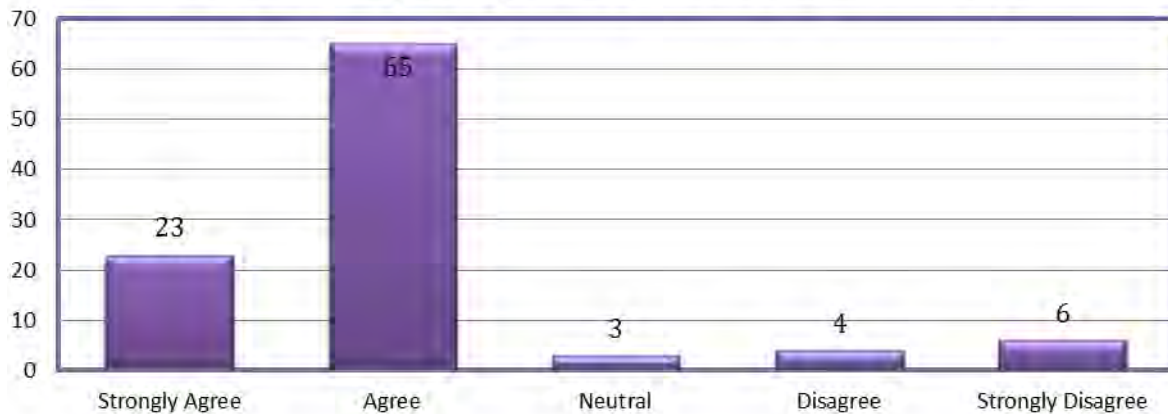


**Figure 4-8: I was assisted by a government institution to draft my business plan.**

#### 4.5.3. I have proper premises where I run my business daily.

The study showed that 87% of participants operated within a business premise. It was not unexpected that many of the businesses were operating within proper premises where they conducted their businesses, this number is as high as 87%. The others are either operating in their backyard or in the streets where it is not clearly demarcated for business. Many of the operating needed proper space to run their own businesses.

**Chart 8: I have proper premises where I run my business daily.**



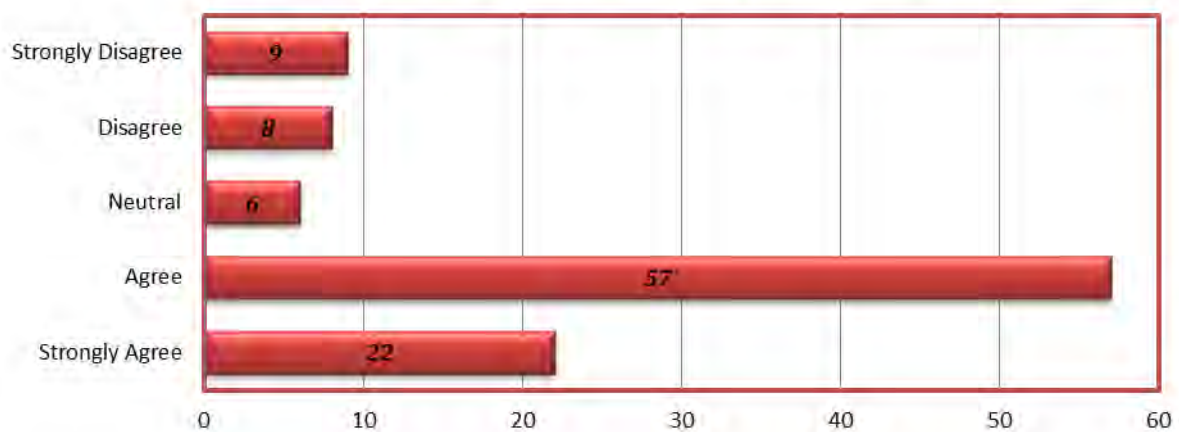
**Figure 4-9: I have proper premises where I run my business daily.**

#### 4.5.4. I have someone who mentors me on how to run a business.

What was very interesting was the fact that many of these SMMEs had someone else who was assisting them or coaching them to be better in their businesses.

At least 77% of the respondents had someone they were looking at for guidance and coaching, this ensured that they continued to succeed and at least learn more about the businesses that they were operating.

**Chart 9: I have someone who mentors me on how to run a business.**

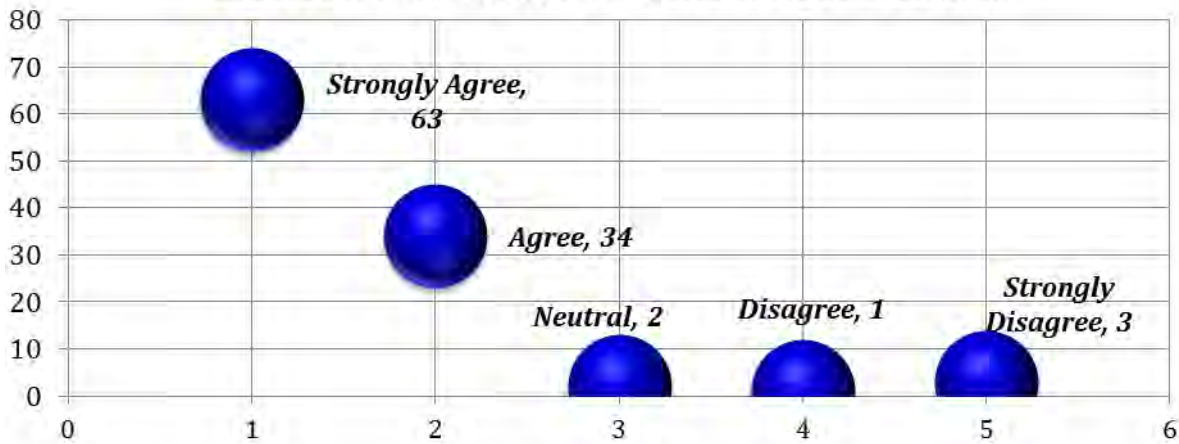


**Figure 4-10: I have someone who mentors me on how to run a business.**

#### **4.5.5. I understand the correlation between my business success and the aims and objectives as outline in the business plan**

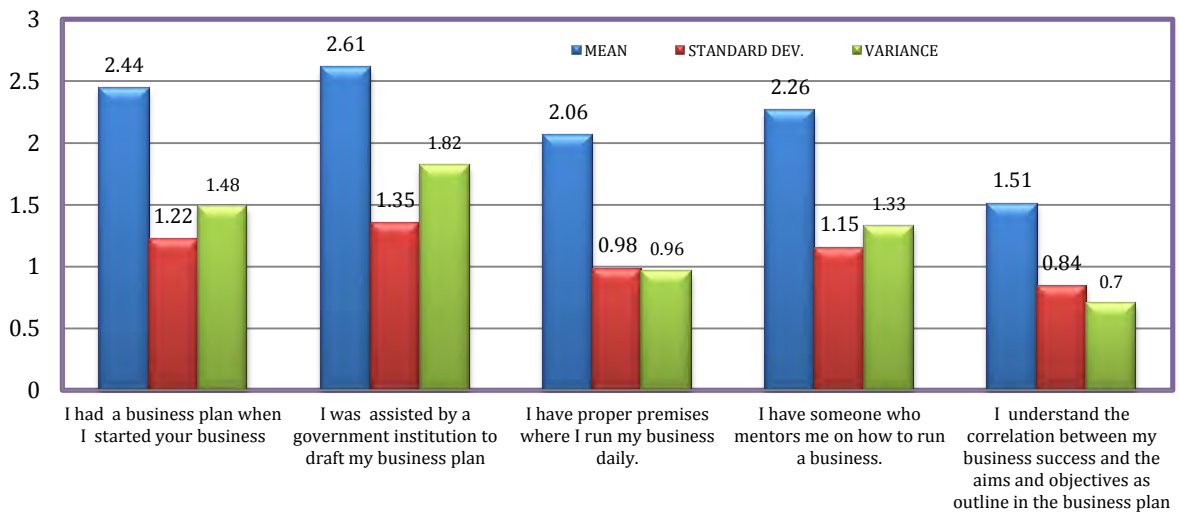
The success of businesses is closely related with how the business plan is closely followed. Many respondents at least 94% understood that in order to succeed they needed to have a plan in order to ensure that it was working and being measured.

**Chart 10: I understand the correlation between my business success and the aims and objectives as outline in the business plan**



**Figure 4-11: I have someone who mentors me on how to run a business.**

**What role or impact does Incubation of small businesses?**

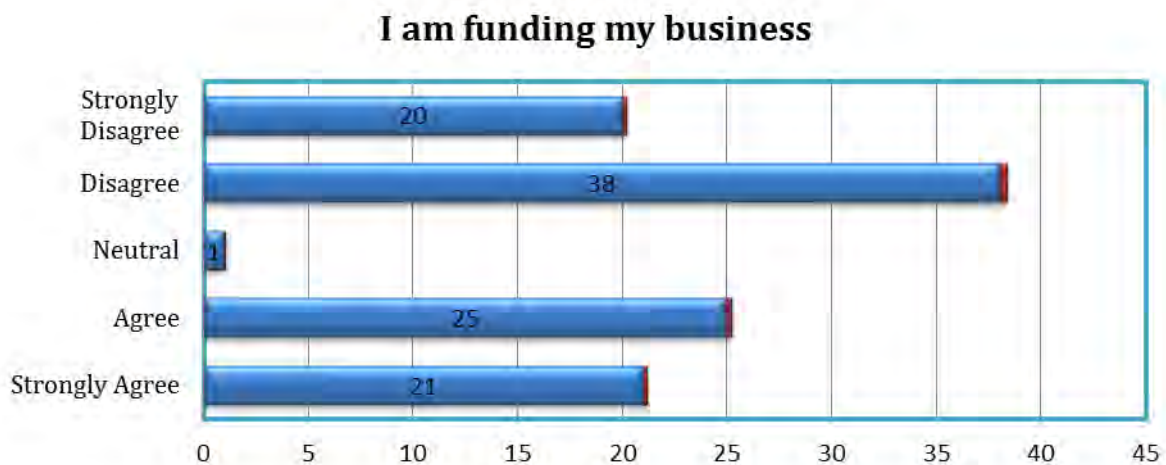


**Figure 4-12: What role or impact does Incubation of small businesses?**

## 4.6. ACCESS TO FINANCE IN THE PROMOTION OF SMMEs

### 4.6.1. I am funding my business

At least 43% of respondents were funding their own businesses. This was as a result of some of them had no access to funding from banks or government institutions. These are mainly people who have worked or who have disposable capital. Most of the individuals start their businesses small and they grow slowly to a level where they can afford to leave their jobs. This is a substantial number of people.

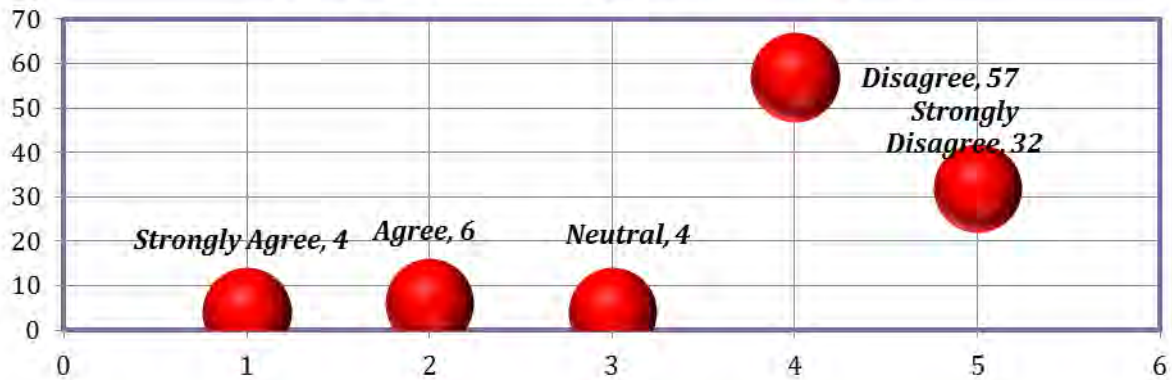


**Figure 4-13: I am funding my business**

#### **4.6.2. I am funded by the commercial bank**

Only 9.7% of the respondents were funded by the commercial bank, this number was very low. It showed that it was hard for to get funding from traditional banking institutions. Many people said that it was a lot harder to get funding from a bank. this is informed by the requirements that the bank needs from the individual. It is even harder if you are starting out and there is no cash flow to show that money is coming into the business. Many respondents therefore considered other avenues leaving banks alone.

**Chart 12: I am funded by the commercial bank**

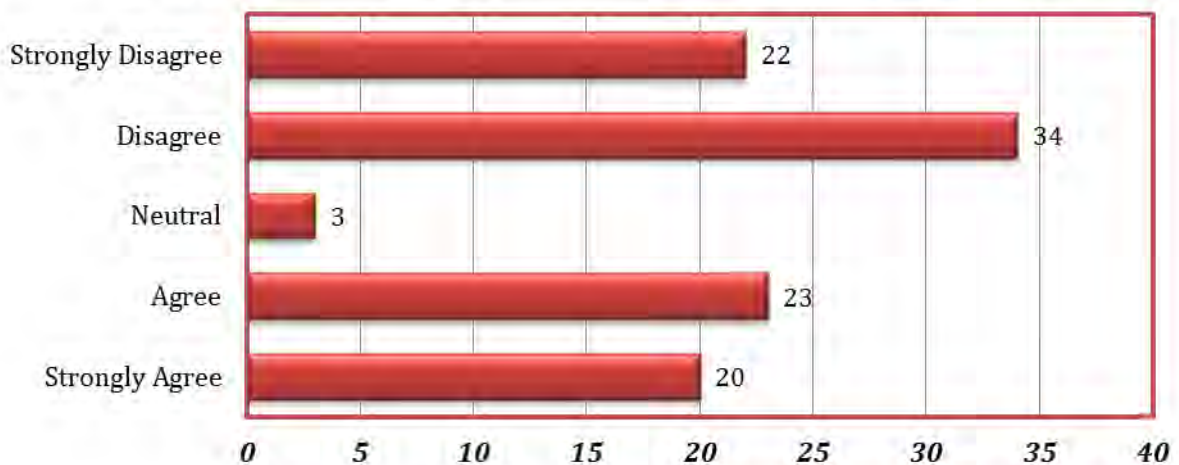


**Figure 4-14: I am funded by the commercial bank?**

#### 4.6.3. I am funded by the government institution (Ntsika, IDC, Khula,..)

It was interesting to learn that 42% of respondents were funded by one of the government institutions. This showed that people were aware of these institutions and they were using their facilities and products. At the dawn of the deomocratic state the government has tried to encourage people to start their own businesses. The problem in many cases was access to markets and the nature of businesses that people chose. In many cases people would chose businesses that are hard to fund because they are risky in nature. Many people for instance would want to start a taxi business and many funders regard such as a high risk business.

**Chart 13: I am funded by the government institution (Ntsika, IDC, Khula,..)**



**Figure 4-15: I am funded by the government institution (Ntsika, IDC, Khula,..)**



#### 4.6.4. The business plan was helpful in funding my business

At least 45% of respondents believe that the business plan played a crucial role in ensuring that either banks or government institutions decided funding their business ventures. There was a high number of respondents who were neutral on this question as high as 22%. The problem with a business plan is that very few people are good at drafting their own business plan, even if they succeed in drafting a bankable business plan they still need to convince the would be funders that he/she knows that the business is all about and how it will succeed. This is usually the litmus test that many fail dismally.

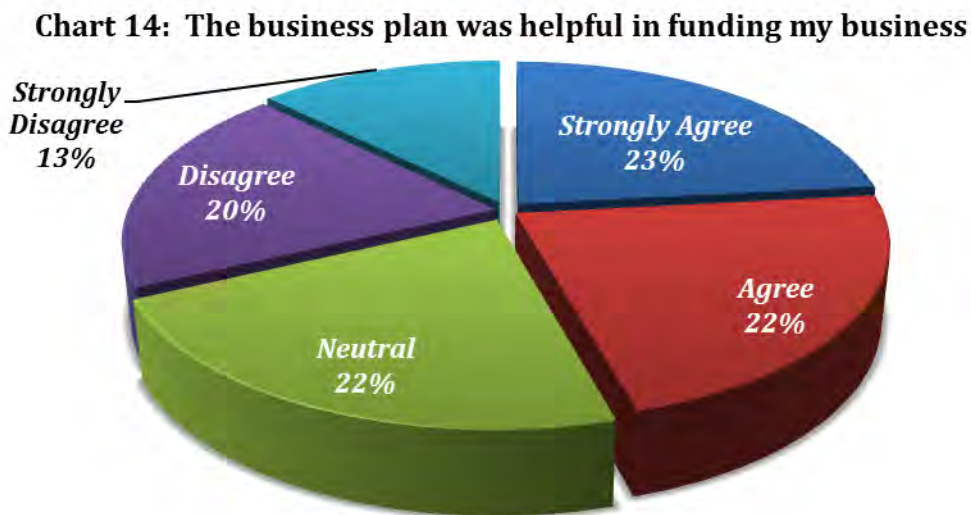
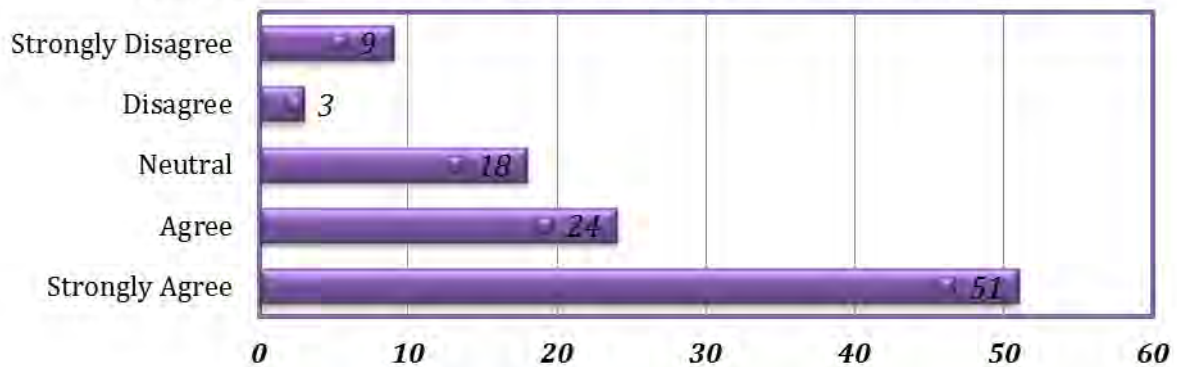


Figure 4-16: The business plan was helpful in funding my business

#### 4.6.5. I am not funded but my success is dependent on access to finance

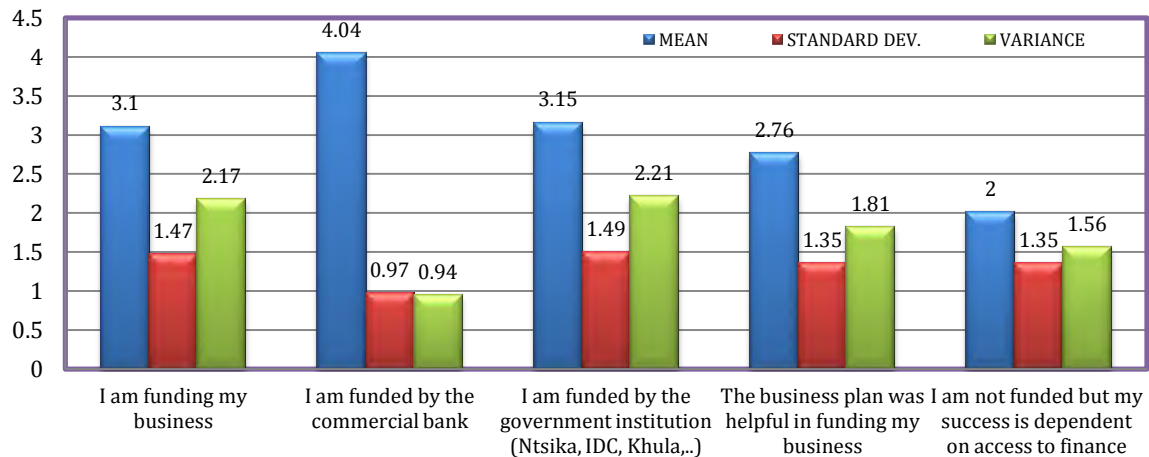
This is one of those anomaly questions which does not tie up with others. There are 71% of participants who claim that they are not funded but their success is dependant on them accesing funding. Many of the businesses are funded by the owners funds because they have been looking for funding. A number of businesses remain unfunded although their are operating, some of these are actually making good money but the prospects of growth are limited without funding. The major problem is that they are mainly owner managed and if the owner dies s/he dies with the business and hence a number of people find themselves joining the many unemployed people.

**Chart 15: I am not funded but my success is dependent on access to finance**



**Figure 4-17: I am not funded but my success is dependent on access to finance**

**What role does access to finance have in the promotion of SMME?**



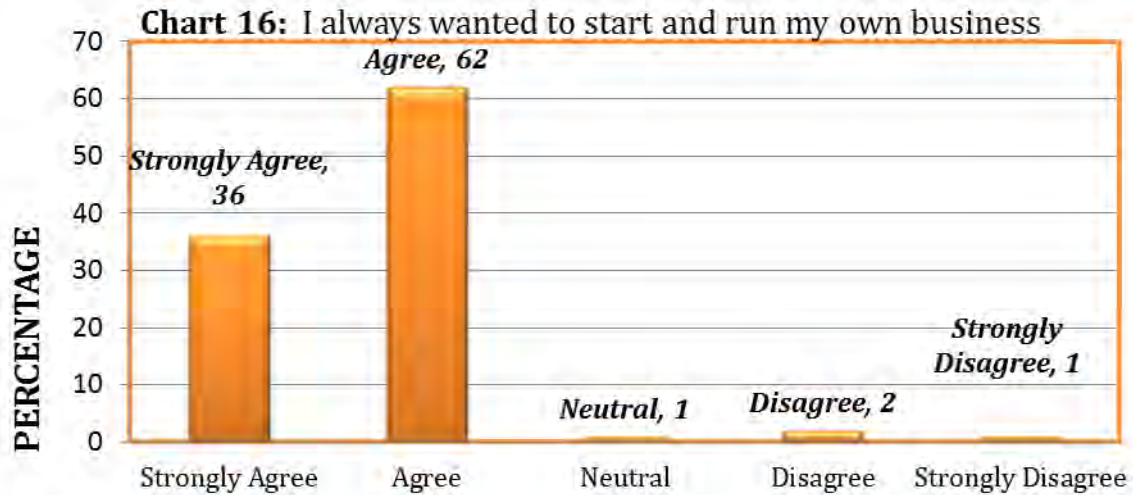
**Figure 4-18: What role does access to finance have in the promotion of SMME?**

## 4.7. IMPACT OF ENTREPRENEURSHIP MINDSET

### 4.7.1. I always wanted to start and run my own business

It was not surprising to learn that 96% of the respondents had wanted to start a business all their lives. This was revealing in the successes of the businesses that they were running against all the challenges that they had encountered in starting their own businesses and running them. Many people believe that starting a business would bring them good fortune and success. Many people may initially not know how to start their SMMEs or would not have the finance to do so but take a detour and work for someone whilst acquiring vital skills in entrepreneurship.

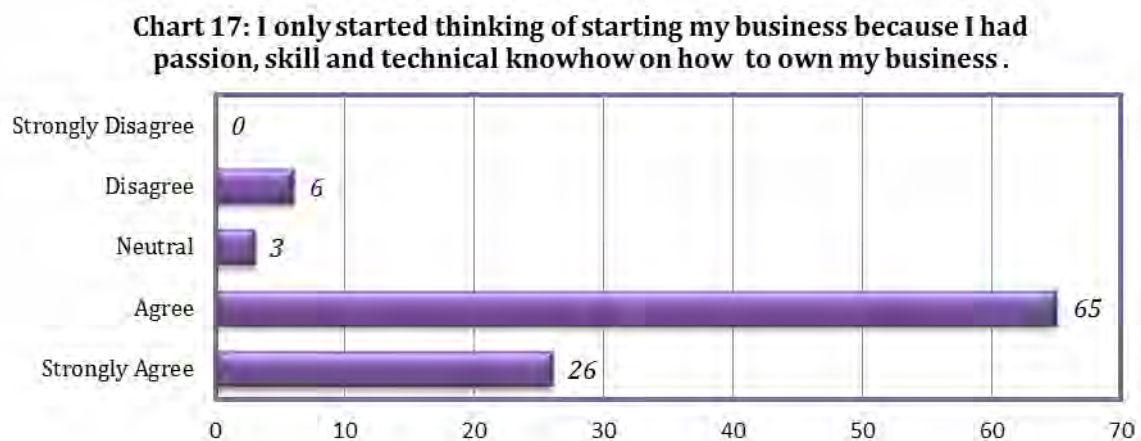




**Figure 4-19: I always wanted to start and run my own business**

**4.7.2. I only started thinking of starting my business because I had passion, skill and technical knowhow on how to own my business**

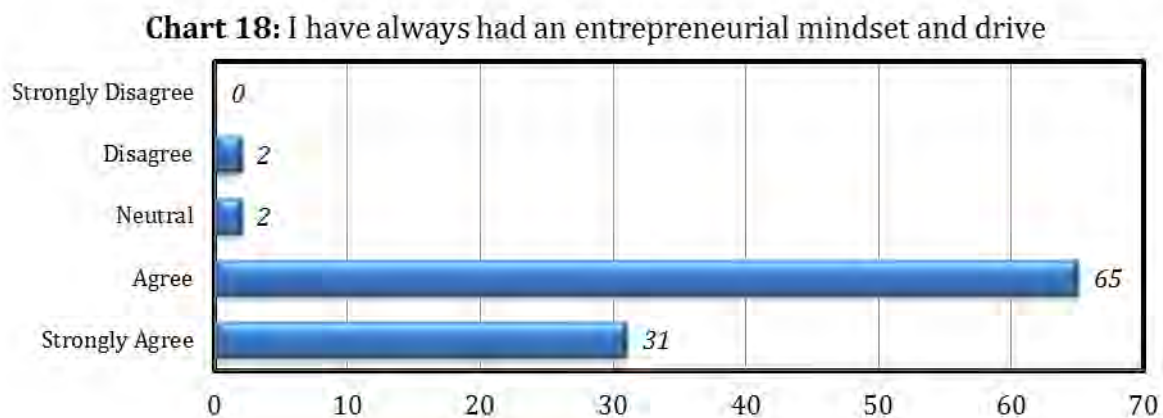
It became clear that many respondents had passion and skill and to a certain extent a technical know-how. It was 91% of the respondents who had started their businesses because passion of what they were doing. There is a saying that you should do what you love and you don't have to work a day in your life. Starting a business is not easy and it requires dedication and commitment and therefore most of those who end committing themselves understand the risks that are involved and are willing to pay the price in order to succeed.



**Figure 4-20: I only started thinking of starting my business because I had passion, skill and technical knowhow on how to own my business.**

### 4.7.3. I have always had an entrepreneurial mindset and drive

It was interesting to discover that 96% of respondents have an entrepreneurial mindset and knew what they were doing. This is very important as a measure of those who are likely to make it in business and those who will not stand the test of time. Many people who start business must know something about the business although they may not know it all. Many traits are needed in order to survive in business these amongst others, are, perseverance, drive, determination, locus of control and many more. A person who has a drive for business and willing to pay the price is the one who stands a better chance to succeed. That is why the entrepreneurial mindset and drive is crucial in ensuring that and SMME succeeds

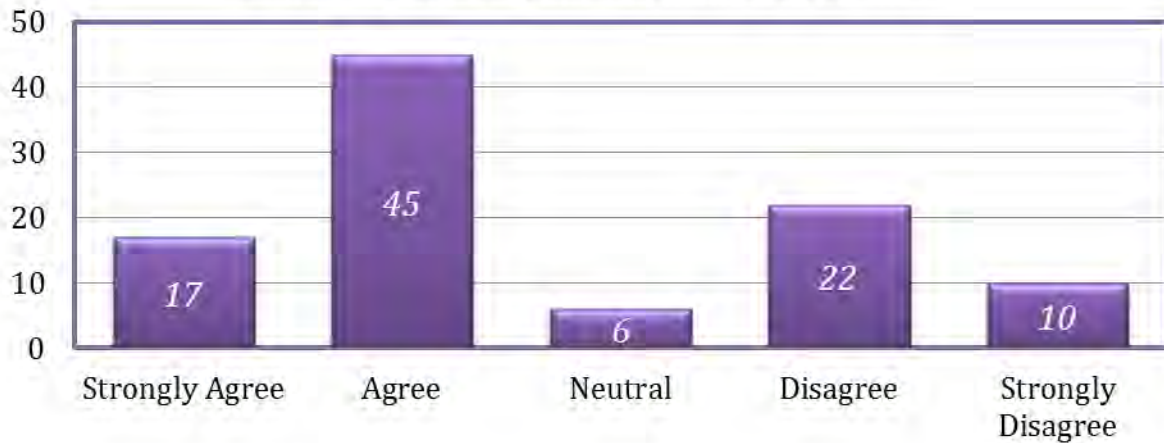


**Figure 4-21: I have always had an entrepreneurial mindset and drive**

### 4.7.4. I think anyone can make it in business.

The question on its own was subjective but it was able to check if respondents themselves believed that anyone can start their own businesses, 62% of respondents believed that anyone can start and run a successful business. This question is important in order to understand what people in general think about the subject matter. If most people don't believe that something is possible, clearly it is not likely that they would try it. The fact that 62% of respondents responded in the positive means that many people believe that it can be done, in whatever small way it is doable. That was crucial in assessing the very same people who had started businesses that they believed that they were the exceptional few.

**Chart 19: I think anyone can make it in business.**

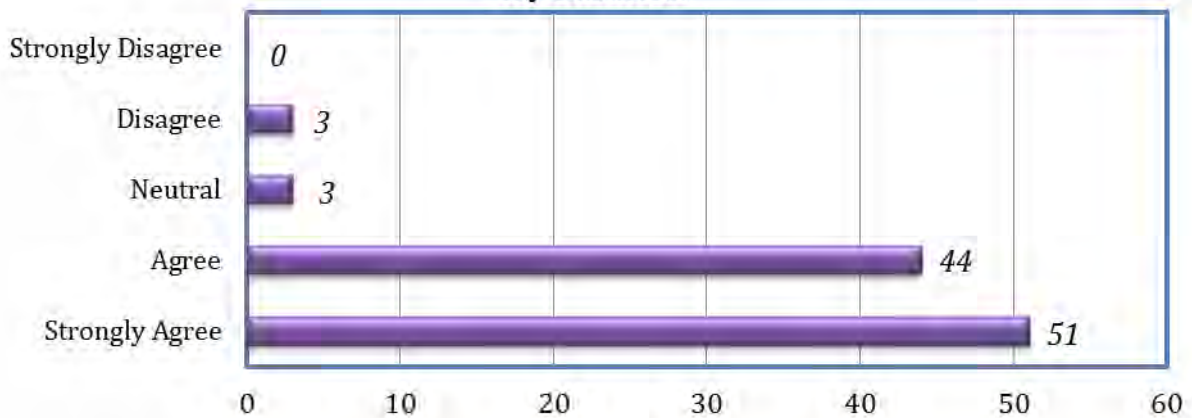


**Figure 4-22: I think anyone can make it in business.**

#### 4.7.5. I spend more than 8 hours a day dedicated to running my business

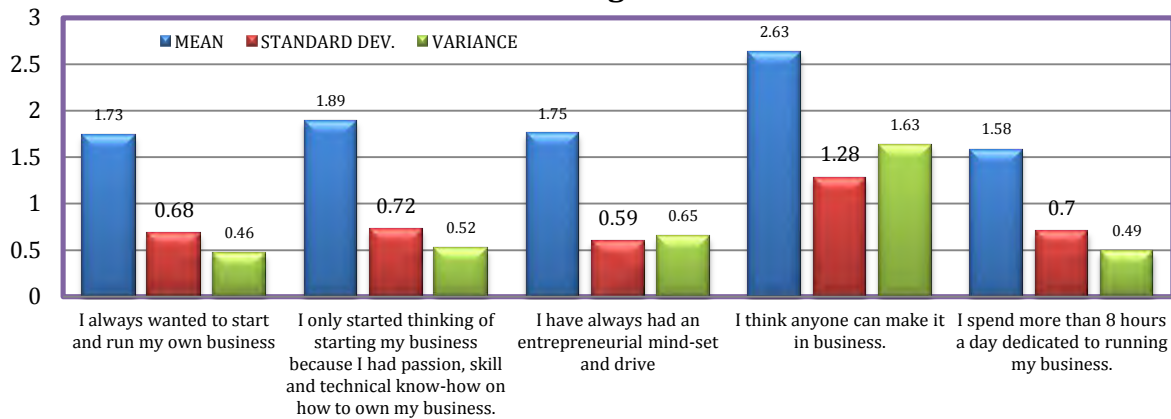
Many people who start their own business need to dedicate a lot of time in ensuring that their businesses succeed. Many of them spend long hours looking after them. At least 94% of respondents adhered to this and that is why they were still in business. The sacrifices of starting your own business are enormous and many SMMEs fail because the owner/s do not have sufficient time to see their business grow. Clearly when you are employed you have fixed hours at work except during overtime to work but as an entrepreneur such does not apply to you.

**Chart 20: I spend more than 8 hours a day dedicated to running my business.**



**Figure 4-23: I spend more than 8 hours a day dedicated to running my business.**

### What role does entrepreneurship mind-set play in establishing and sustaining an SMME?



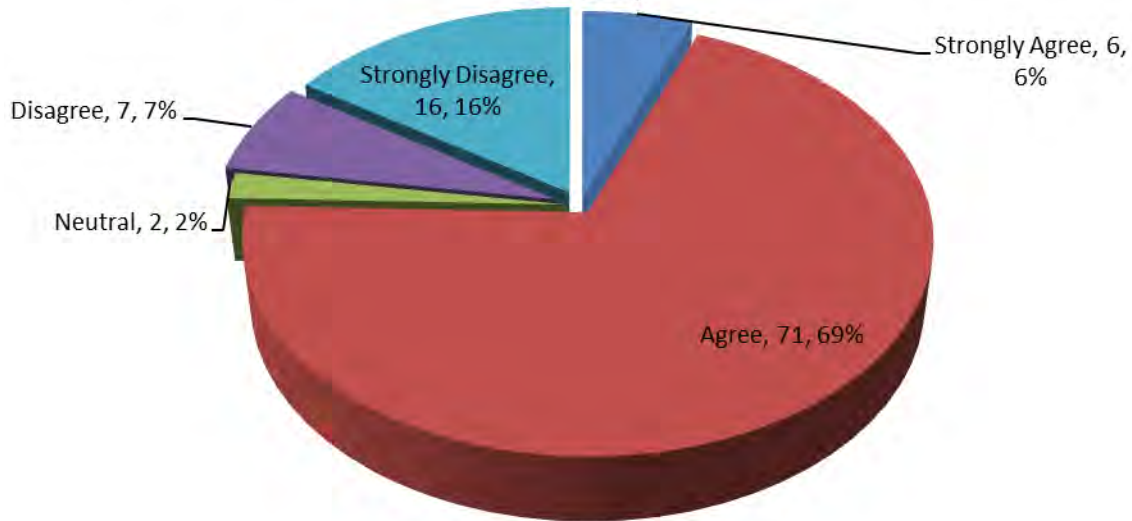
**Figure 4-24: What role does entrepreneurship mind-set play in establishing and sustaining an SMME?**

## 4.8. ROLE OF GOVERNMENT SUPPORT OF SMMES

### 4.8.1. The local government is supporting my business currently

At least 69% of respondents admit that the municipality is assisting them with their businesses in order to run appropriately. The link between the local government and the SMMEs is important in ensuring that these businesses succeed. Many local government offices have dedicated offices to serve the SMMEs. They assist and support them in their growth. Some municipalities don't even put some of their required services to tender because they support SMME development. This is crucial in order to create markets for these SMMEs. It does not help to have them established but opening markets for them is another strategic key component of ensuring success.

**Chart 21: The local government is supporting my business currently**

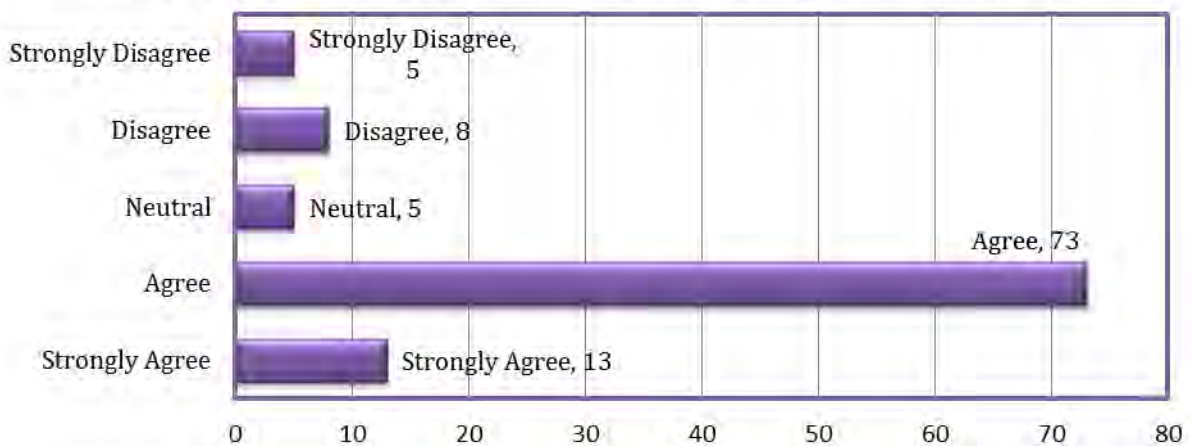


**Figure 4-25: The local government is supporting my business currently.**

**4.8.2. I know of many municipal/government institutions where I can be supported with information in order to run my business better.**

At least 70% of the respondents know of municipal institutions that can support them with information. This is crucial as it clearly shows that the respondents know that they are not on their own. They can seek assistance. There are a number of offices which are dedicated to this purpose, the problem is exposure and access by many people. The problem is experienced by rural communities who may not know about these.

**Chart 22: I know of many municipal/government institutions where I can be supported with information in order to run my business better.**



**Figure 4-26: I know of many municipal/government institutions where I can be supported with information in order to run my business better.**

#### 4.8.3. The government is assisting me to conduct and trade with others better.

At least 71% of respondents were being assisted to trade with others. Ensuring that the supply chain was created and sustained in order to make sure that businesses succeeded.

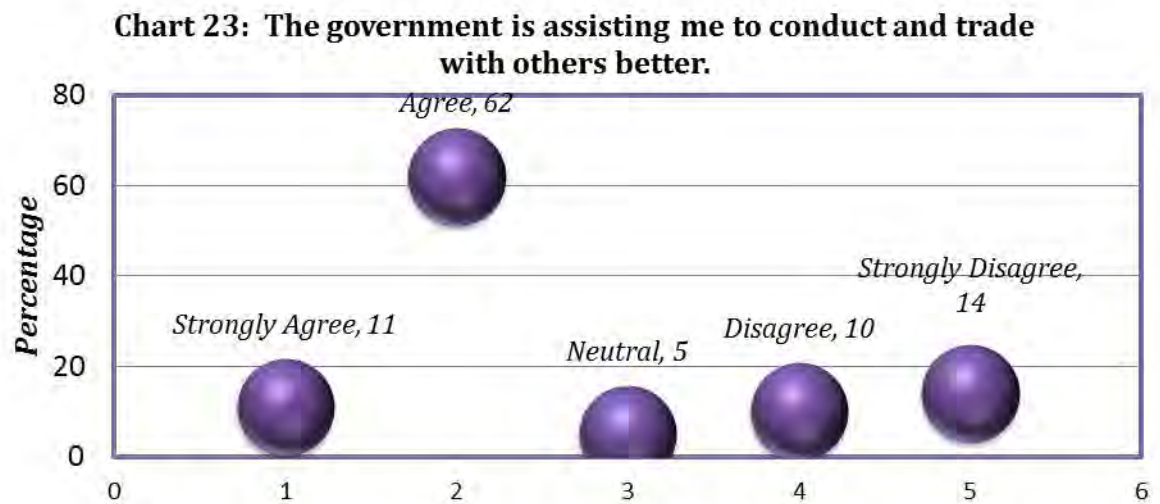


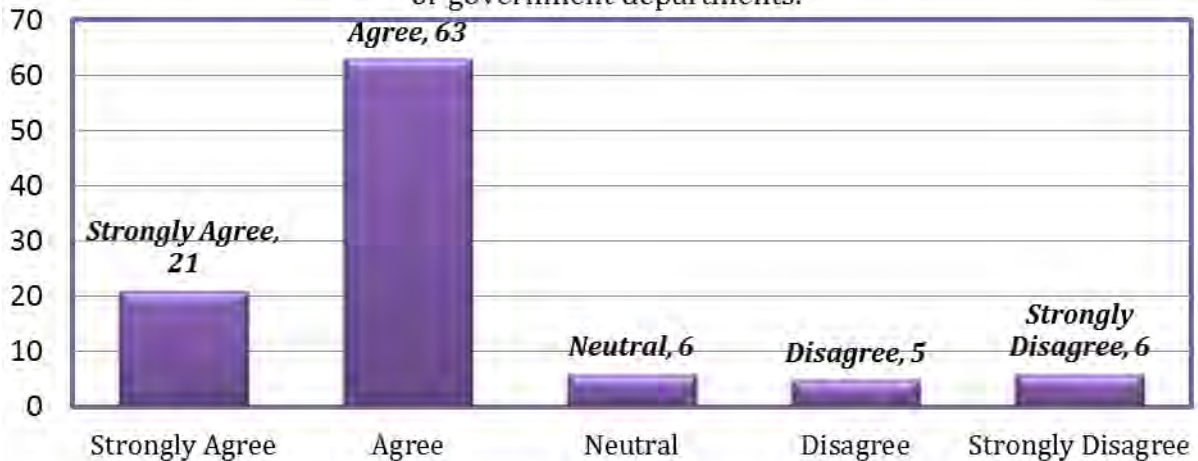
Figure 4-27 The government is assisting me to conduct and trade with others better.

#### 4.8.4. I am a supplier of goods and or services to the municipality or government departments.

In order to ensure success of small businesses it is crucial to ensure that the supply chain using SMMEs is enhanced and supported. At least 83% of respondents were suppliers or involved in the supply chain of the municipality where they reside. The local municipalities can decide which services are small enough not to go on tender and can be done by upcoming SMMEs. This alone opens these SMMEs to have something to do. This can be as simple as cutting grass and maintaining certain offices clean. It can be the supply of office equipment and many others. This allows the SMME to start venturing into bigger things even though they started small.



**Chart 24:** I am a supplier of goods and or services to the municipality or government departments.

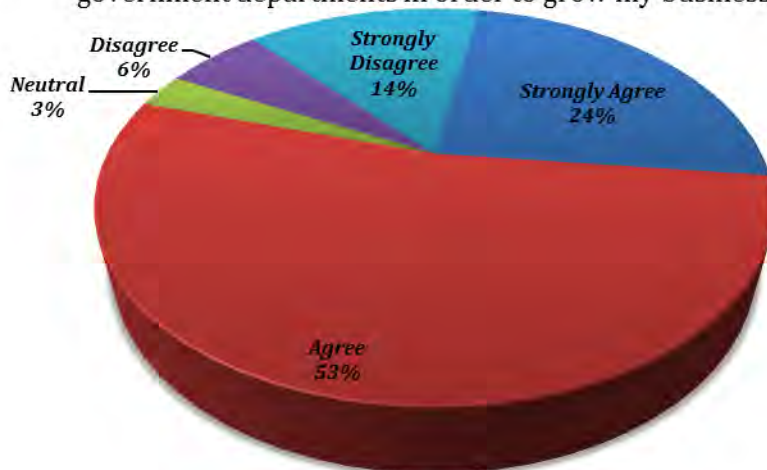


**Figure 4-28:** I am a supplier of goods and or services to the municipality or government departments.

**4.8.5. I am getting training and support from the municipality and or government departments in order to grow my business.**

The research discovered that many respondents were aware of the assistance and training that is provided by their local municipality. Many of the departments organise fairs and training workshops which assist all those who want to be in business. At least 76% of respondents were using these facilities and services.

**Chart 25:** I am getting training and support from the municipality and or government departments in order to grow my business.



**Figure 4-29** I am getting training and support from the municipality and or government departments in order to grow my business.

### What role does government have in support of SMME

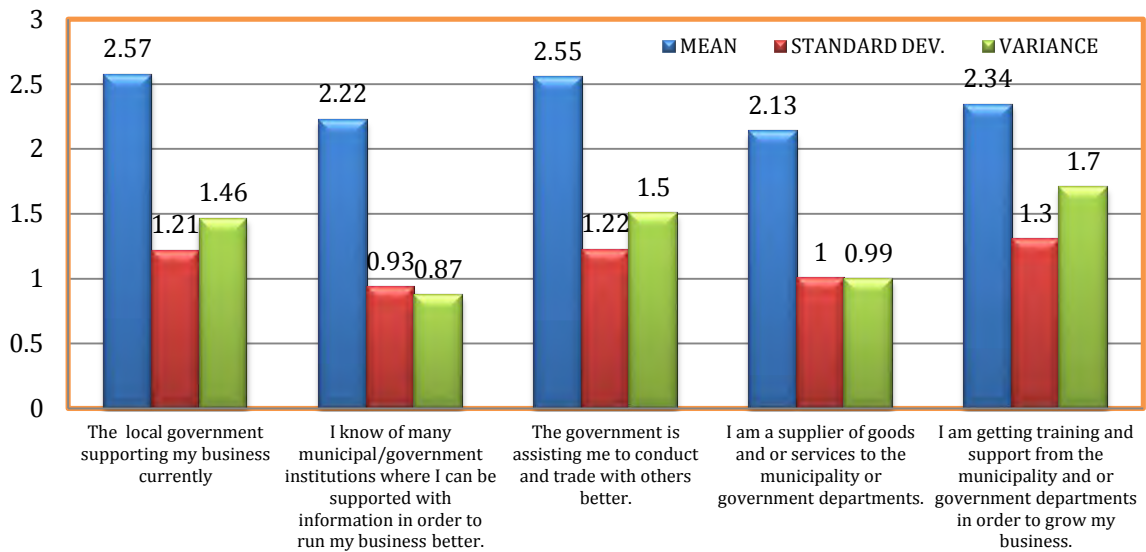


Figure 4-30 What role does government have in support of SMME

## 4.9. SUMMARY

The results have shown a clear correlation between the variables that were stated above and the objectives. The correlations indicate that there is a strong correlation between the viability of the SMMEs and the factors that were asked from the respondents. The respondents in the majority answered in the affirmative. The questions were answered mostly in the affirmative. Many respondents agree that there is a strong correlation between access to finance and the success of SMMEs . This is one factor that affects SMMEs negatively, the lack of finance drives a number of SMMEs out of business. They also agree that there is a need for mentorship in order to ensure greater success of SMMEs . They also believe that entrepreneurial mindset is important in the viability and success of any SMMEs entity, whilst the majority also believe that anyone can succeed in business. Many people who have been exposed to entrepreneurship are more likely to succeed and have that mindset and drive to be businessmen. This is inspite of their education standing or qualifications . The means, standard deviations and the variance are consistent and they can be said that there are no significant deviations and therefore the correlations therefore exist. There is a clear viability of SMMEs in the manufacturing sector in eThekweni Municipal area.



## CHAPTER 5

*“Ethical issues in the conduct of research are thrown into sharp relief against a backdrop of personal, institutional and societal politics, and the boundaries between public and private spheres are not only relative but also highly ambiguous.”*  
(Cohen, et al., 2007)

### 5. ANALYSIS AND SYNTHESIS

#### 5.1. INTRODUCTION

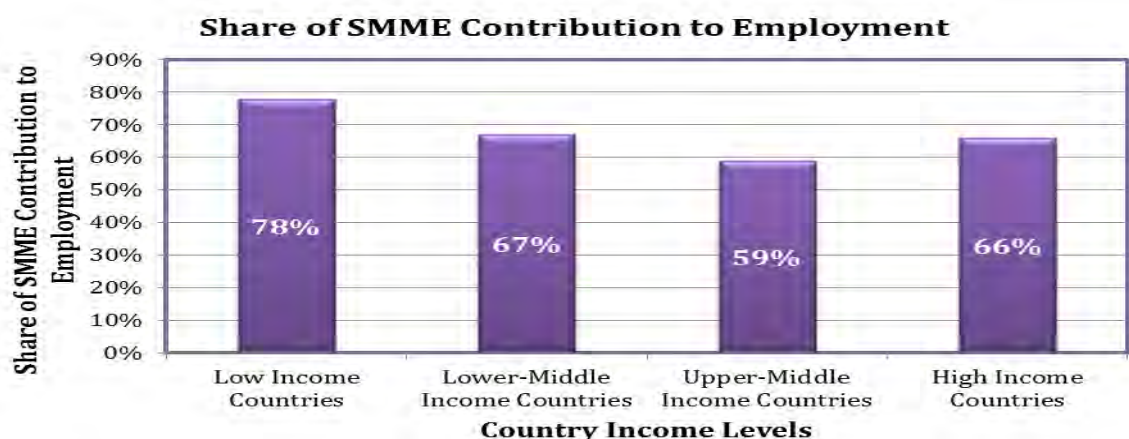
In the previous chapter results were tabulated in a number of statistical forms. In this chapter analysis and synthesis of the results will be undertaken in the context of this study. This will inform the study and the results that have been found as a result of the study. Five research questions were formulated and our task was therefore to go back and reflect on whether the research questions have been adequately answered. There was a clear correlation between SMME development and the reduction of unemployment. If many SMMEs were developed many people would be employed and hence reduce unemployment. Where there were successful SMMEs the unemployment was lower. The study also showed that the success of incubation increases the success of SMMEs. Whilst there can be many great ideas, they are cannot succeed without access to finance. The clear distinction between those who succeed and those who strive is the entrepreneurship mind set and drive. Government support has proven to be pivotal in ensuring greater success of SMMEs.

#### 5.2. WHAT ROLE AND IMPACT DO SMMES HAVE IN REDUCING UNEMPLOYMENT?

The research established that at least 64% of respondent SMMEs were able to employ at least five people in their SMMEs and it further showed that 57% positively employed at least one graduate. This is a clear indication of the positive correlation between the establishment of a SMMEs and the creation of employment. If more and more SMMEs are created and they

succeed, they create employment. If one SMMEs is able to create at least five employment opportunities as a minimum this informs us that at least 400 job opportunities were created by the establishment of SMMEs as more than 80% of participants clearly indicated that they were able to employ at least 5 people in their SMMEs. This should be able to take into consideration the fact that this is a minimum benchmark and more people could have been employed if the numbers were more. In this regard the researcher can positively conclude that the establishment of SMMEs has a positive correlation to the reduction of unemployment or the creation of jobs. In order to address the scourge of unemployment it is crucial that SMMEs are promoted because they have proved to be a very significant factor in the employment creation (FinMark-Trust, 2006).

It should be clear that many of the SMMEs were in their infant stages (0-5years) and they were run by their owners with minimal staff in their employ and those which have been running for at least two years had at least five employees which were either permanently employed or were in rotation as some of the establishments were running more than two 8-hour shifts. SMMEs in South Africa are pivotal drivers of job creation, providing approximately 70% of national employment (OECD, 2004). Approximately 50% of SMMEs, however, fail within the first two years (Mahembe, et al., 2011) – 85% within the first ten months (JP-Morgan, 2009). Further, 67% of SMMEs provide no employment opportunities other than those of their owners (JP-Morgan, 2009). This is clearly worrying for many people as it provides us clear picture that more than 65% of SMMEs do not necessarily create at least 5 jobs for others.



**Figure 5.1: Share of SMMEs contribution to employment.**

### **5.3.INCUBATION OF SMALL BUSINESSES**

Many respondents recognised some form of incubation as a very important factor that assist in the development and support of any SMMEs. The manner and form of incubation differs in many respects and incubation is defined as a structured form of support which allows the SMMEs to grow within a controlled environment of support for at least two to five years. In the case of the respondents the kind of incubation that we envisaged was not there but some form of incubation was in place where a business was allowed to operate on its own whilst it was being monitored from a distance by another organisation in order to measure its success while it was actually running and producing.

It must be acknowledged that there are so many forms of incubation that are out there. Some of them are structured in so many ways and they don't need to be in house. Some of the SMMEs could enrol in an incubator to measure the success and the progress of the SMMEs and assist where possible and correct if there are any deviations from the envisaged plan. Incubation is not understood in the same manner and therefore cannot be measured in the same manner too. If some form of incubation were taking place we would therefore take that as some form of incubation.

Many of the establishments acknowledged that they had a mentor who was assisting them to grow their business that was enough to understand that they understood that it was crucial to have some form of a mentor to assist in any business in order for it to succeed. It was necessary to learn if there was any form of incubation taking place. It was satisfactorily established that there was a clear positive relationship.

### **5.4.ACCESS TO FINANCE**

(Turner, et al., 2008) argue that many cannot get finance nor have a problem accessing finance because there is a lack of information. This is one factor that is well understood. The results show that 51% of respondents were not funded and their continued operations were dependant on securing funding for their SMMEs. The further 20% were funded by government institutions which assist in SMME development, whilst those funded by

commercial banks were in the region of 4% and the remainder of 21% were self-funded. The trends are not too divergent from the reviewed literature.

Many of the SMMEs have failed to access finance because they are not aware of the opportunities that are there, especially those offered by the government. In terms of the access to finance it was rather very interesting to learn that many people were likely to get finance from traditional banks rather than government institutions. It was expected that many of the SMMEs are financed by government institutions as there is a lot of information about financing from these institutions. There are so many of them and yet there is little finance of that is offered by them. It would therefore be interesting to learn what the problems that people are experiencing with them are.

- Is it the requirements that they need in order to get finance?
- Is it access to these institutions as many of them are either found in Johannesburg or in the big city centres?
- Is it the availability of information about what they offer?
- Is it the inability to meet the needs of the SMMEs as some of them require big amounts of finance initially in order to fund start-ups?
- Is it the nature of business that the SMMEs are involved in that is not part of the financing objective of these government organisations?
- Is it nepotism, politics or any other factor that is not related to the business that makes it difficult to fund these SMMEs?
- Is it the legislation mandate that eliminates a major part of these SMMEs?

It would be very interesting to learn experiences in terms of issues that make government less likely to fund these businesses as they have put out a lot of infrastructure in every major city in order to ensure that many people have access to these agencies. In most cases there are duplications of these organisations offering more of the same yet many people are still left out and banks still have the biggest slice of the cake.

(Turner, et al., 2008) identify that financing, collateral requirements, high interest rates, lack of money to lend to SMMEs by traditional commercial banks and inadequate credit information are the main factors that hinder financing of SMMEs in South Africa. What

would be interesting would be know the stringent conditions that are required in order to access financing from the government agencies. Are they the same as normal banks or are they more stringent? If they are, what would then make people likely to access them than banks. There are a number of grants that are available, who accesses them and under what conditions are they accessed. Many people are funded by banks and then the second most are self-funded individuals then the third cohort are the government funded SMMEs which is very low. This raises a lot of questions as they have been tabulated above. This is also supported by (Herrington, et al., 2009) when he claims that access to finance is a major problem for the South African entrepreneur.

(World-Bank, 2003) identified three constraints within the formal banking sector that hinder funding for the SMMEs sector. They are the following:

- The perceived risk in financing SMMEs with less financial history because there is high cost associated with financing SMMEs.
- The overregulation of the industry and the inhibition by the government as to what maximum interest rate they can charge in order to mitigate for the risk that they take.
- The ability of the NGO sector to fund the SMMEs sector properly.

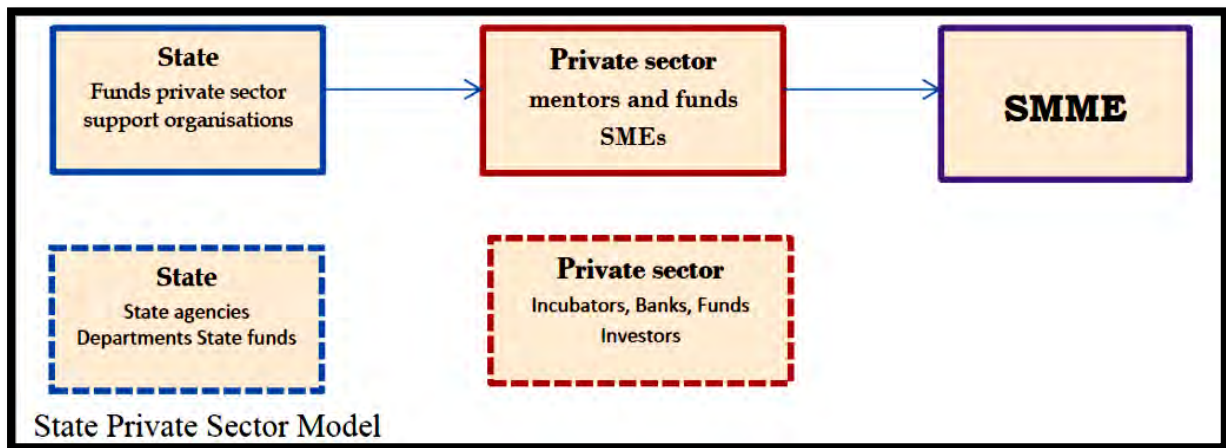
The World Bank also argues that the barriers to access to finance in South Africa are very low. On average South African banks take 4.5 days to process a loan and grant finance (Mahembe, et al., 2011).

## **5.5.WHAT ROLE DOES ENTREPRENEURSHIP MIND-SET PLAY IN ESTABLISHING AND SUSTAINING AN SMMEs?**

The entrepreneurial mind-set is important in ensuring that every business succeeds. Many people who had started their businesses had taken time and thought about it. This is because the majority of them had the entrepreneurial mind-set and were in business for at least three years. This was an indication of the drive and dedication to remain successful in business. Many people who do not make it in business are driven out in the first year. This is where mentorship and incubation are crucial. If such programmes were to be utilised to their fullest

with greater support from organisations and institutions of higher learning, the country stands a good stead of succeeding in establishing and sustaining successful SMMEs .

(Timm, 2011) discovered that Brazil partnership between government and the private sector was the best way of running a good business support system, because a solely government run business support could be susceptible to political intervention and manipulation.



**Figure 5-2: State and Private Partnership of Incubation.**

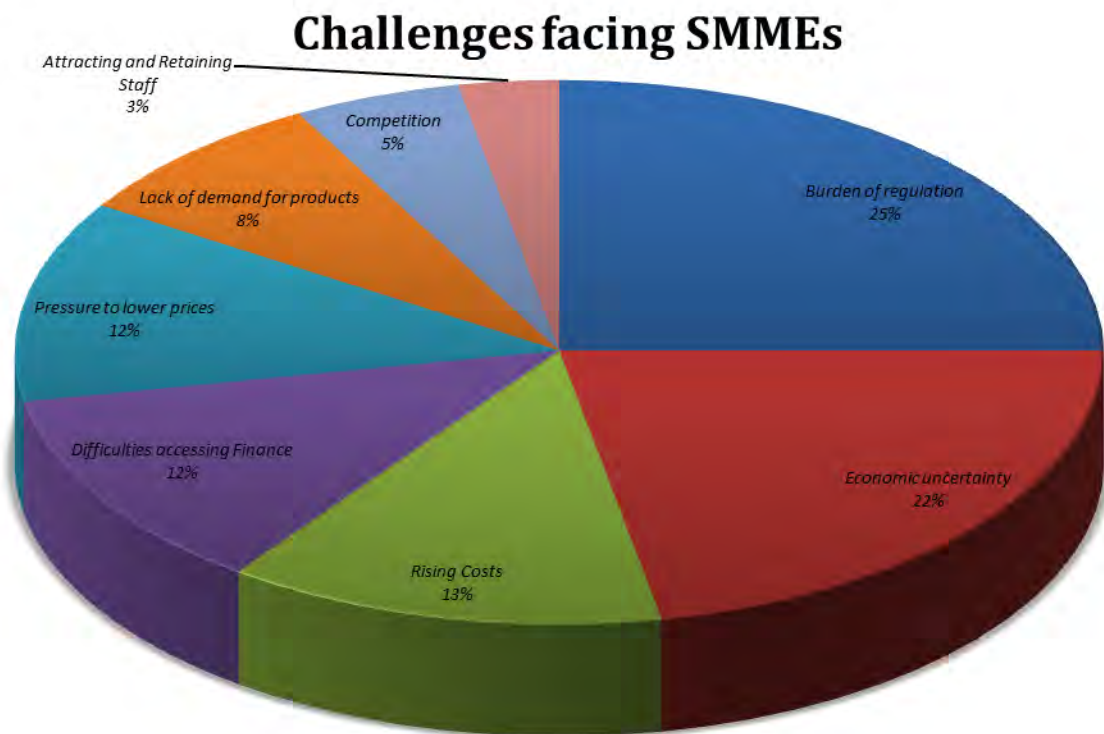
(Scaramuzzi, 2002) discovered that there are three groups of best practices and these are:

- *Best Practices for the Incubator Creation and Management.* They include the strategy, positioning and the long-term sustainability of the incubator, as well as its internal organization and governance system.
- *Best Practices for the Incubation Process.* The incubatee is admitted into the incubator and the exit mechanism is adopted from the beginning.
- *Best Practices for Performance Assessment.* This stage includes monitoring and evaluation. It is aimed to measure the performance of the incubator. It seeks to identify if there is an added value for money in the business development process.

## **5.6.WHAT ROLE DOES GOVERNMENT HAVE IN SUPPORT OF SMMES DEVELOPMENT?**

There are mixed opinions about the effectiveness of government support, (Bannock, 2005) argues that it is better to get the micro economic conditions right whilst (Storey, 2009) argues that it is more effective that such interventions should be targeted at the micro level. Whilst

(Ibarraran, et al., 2009) further argues that there is compelling evidence that micro interventions work better when they are not targeted at SMMEs but they are targeted at the entire business population. (ACCA, 2012) argues that research showed that SMMEs were able to escape of experience less hard during the 2008 down turn which left a lot of established companies feeling the crunch. This is as a result of the size of the SMMEs and the regulations that were passed in order to establish SMMEs.



**Figure 5.3. : Challenges faced by SMMEs.**

## **5.7. SUMMARY**

The research shows that the respondents answered that there is a clear correlation between the success and the viability of the SMMEs and the support that is given. The survey shows that there is a clear correlation between the growth of SMMEs and the creation of jobs and hence the reduction of unemployment. Access to finance is one of the crucial factors that is a key driver to the development and sustenance of SMMEs. If many SMMEs are able to access finance through a sustainable manner they start to be viable and hence establish SMMEs. Many people who have started their businesses fail because there is a lack of finance. Many

also fail because there are no incentives provided by the state in order for them to survive. The incubation of businesses is one factor that has been proven to play a critical role in the success of SMMEs; the survey showed that those who have undergone this process beat the odds and are successful. The most important factor in SMMEs is to acknowledge that they can only succeed if there are markets readily available for them. The government at all levels through their support ensure that they establish viable, when they create opportunities for these SMMEs to trade and supply, this opens the markets and it is a key driver for growth in the manufacturing sector. The reason why many of the SMMEs succeed is because such market as have been opened at local level or at municipal level and opening them up to greater markets in the province and in the international markets as a whole. In the next chapter, recommendations will be made after having interacted with a number of factors in the previous chapters.



## CHAPTER 6

*“A prime responsibility of the educational researcher is that of being able to make either a probability or logical inference covering the tenability of his testable hypothesis. The acceptance or rejection of these hypotheses will ultimately determine what contribution the study makes to the scientific’ development of a particular area. This is especially tried in the analysis for interpretation of data”*  
(Singh, 2006)

## 6. RECOMMENDATIONS AND CONCLUSIONS

### 6.1.INTRODUCTION

The literature that was reviewed revealed that there was much agreement among a plethora of researchers that make a meaningful contribution to employment in South Africa in particular and many developing and developed countries in the world. Having analysed the contribution that could make, given that condition are conducive for them to succeed, there are many challenges that they face. The purpose of the study was to evaluate the viability of SMMEs in the manufacturing sector in the eThekweni municipal area and therefore make recommendations thereof.

### 6.2.CHARACTERISTICS OF SMMEs SECTOR IN SOUTH AFRICA.

The South African context does not clearly differentiate between a SMMEs and a fully-fledged business and that pose a number of challenges for those who want to enter the entrepreneurial market. Clearly number of legislative framework has been drafted and passed by legislators to try to ensure that SMMEs are a success story but it seems that it is not sufficient enough. There are many SMMEs or businesses in general who are operating in the informal trade and therefore cannot be easily traced and assisted because of their illegality. The state does not reach informal SMMEs for any assistance or reaping the tax that they could pay when they start to make money.

### **6.3.AVAILABILITY OF DATA**

There is a number of SMMEs in South Africa but they continue to be hard to find or locate unless you live in the area where they trade. The municipality does not want to give out the information on SMMEs as well as the chamber of businesses. Many of the SMMEs are not registered with the chamber of businesses and therefore cannot be easily located. Those whom the municipality have are mainly those who want to be suppliers to the municipality and hence many of them are either dormant or have been thrown out of the business race. The SMMEs in the manufacturing sector take a good share of about 25% of the total market share. This is a high cost and hence it provides realisable and practical employment to people. It is a key driver of change wherever it is situated because it produces goods that can be sold to markets all over the world. The official statistics that is produced by Statistics South Africa may not be reliable at times because of the difficulty to access information. Statistics is also not sought every year and therefore there are gaps of information that is lacking.

### **6.4.IMPLICATIONS OF THE RESEARCH**

The South African government has in 2014 after the general elections started a new Ministry of SMMEs development. This research impacts directly in this Department of Small Businesses and the Department of Trade and Industries (DTI) as well as all formations in South Africa. The recommendations of this research have a direct impact on the activities of these departments. The challenge that faces South Africa currently is not the lack of funding for all these institutions but the clarity of focus that is needed. Many of the institutions are doing something very similar and are impacting on a small number of people leaving the bulk of SMMEs who need their help without any assistance. This is one factor that needs to be addressed urgently if the state is to make meaningful changes in the lives of ordinary South Africans. The government must be able to redefine the role of the Department of Trade and Industries (DTI) and the intersection between its functions and the Department of Small Businesses. This is crucial in eliminating duplication and lack of focus. If it can be clearly understood who does what and how successes are measured that will assist the Ministers in ensuring that they serve the people better.

#### **6.4.1. CREATING OF EMPLOYMENT**

To promote job creation, innovation and economic growth, policies should focus on tackling market, system and government failures holding back new firm formation, healthy enterprise demographics (a dynamic package of firm entry, growth, decline, and exit reinforcing net change and adjustment) and high-growth SMMEs, (World-Bank, 2010). Priorities include actions to create a conducive entrepreneurial business environment, facilitate the internationalization of SMMEs and entrepreneurship, improve SMMEs intellectual asset management, enhance entrepreneurship skills and increase the exploitation of public research and procurement opportunities. The role of the state is to create an environment where business can work better in achieving its goals by doing so it creates necessary employment needed by citizens of the country. It does not end there when businesses are doing well they help the community to grow through Corporate Social Investments (CSI). This makes both the business and the government players who need each other in order to grow. SMME development is crucial in job creation.

#### **6.4.2. INCUBATION OF SMMES**

SMMEs incubation is more of a theory than a reality in many cities. Where it exists it covers a small number of SMMEs. Therefore to spread the information and access to these centres is crucial. Employees employed should have capacity and technical know-how in order to deliver proper assistance. In South Africa where the incubation works it produces one job opportunity per SMMEs. This number is rather small in comparison to the expense incurred. Some of the incubators that are available in South Africa are concentrated in big cities and in universities. This has both advantages and disadvantages because it allows access to those in the cities locking the undeveloped out of access to these services. Incubation is important especially to young people who are passionate about business and who are creative enough to start their own businesses. The key here is that they have a good appetite for risk and it is such entrepreneurs who are likely to make it big in business.

### **6.4.3. ACCESS TO FINANCE**

There are many agencies that are doing the same thing under the Department of Trade and Industries (DTI). These agencies are located in cities and can be accessed by a few. They are not disseminating information as to how they operate. There is a clear distinction or juncture between them and the municipality. In KwaZulu Natal there are a number of funds that are controlled by the provincial government including, Insika and Ithala Bank just to mention a few but there is need for proper coordination and unity of purpose in order to reach targeted communities. Funding should be part of the economic development priorities of the state. Many provincial Departments, especially those who are entrusted with economic development find themselves overwhelmed with more functions and hence less focus. They have their own development funds, incubators, banks and many others which end up needing government funds in order to run themselves. The intersection between national government, provincial and local government is crucial. To be able to define who does what and how they do it is important because it allows SMMEs to know where to go when needing assistance.

### **6.4.4. ENTREPRENEURIAL MIND SET**

An entrepreneurial mind set is invariably captured by the shared perception employees' hold of the firm's internal climate. It is very crucial that you take your employees along the journey of growth as a SMMEs. This assist the owner/(s) in ensuring that the demands that are put forward by employees are manageable. In many instances the employees play a catalyst role in innovation and they understand that their input is highly valued. As they contribute the bottom line grows and they are kept employed and the benefits also grow. Therefore it becomes crucial to have teams that keep on brainstorming best ways to innovate and do business better. Fostering inclusivity as the owner also creates and reinforces the entrepreneurial mind-set on employees to try and start their own businesses. They model themselves around the business model where they are currently employed.

#### **6.4.5. GOVERNMENT SUPPORT OF SMME**

The government must stop thinking that money is everything; there is a lot of wastage because of the lack of focus, to streamline the delivery to SMMEs is key. There should be focus of purpose to local municipalities and local communities through their participation in the economy. Local economic offices mostly known as local economic development centres should play a critical role in bringing information and assistance to SMMEs where they are located. The support should be measured and monitored in order to assess its effectiveness. It is said that many government department support SMMEs. The big question that must be asked is what number of people accesses these services and is it impacting in reducing unemployment. The major problem is monitoring access and the impact of these services. It cannot be denied that these offices exist but do they reach people they purport to serve. The state understands the need to create employment and the state alone cannot create employment but can be a catalyst to assist private businesses in creating employment. This must continually be improved and monitored.

#### **6.5.LIMITATIONS OF THE RESEARCH**

The study shows that there were no incentives for people to start their own businesses except becoming your own boss. The researcher also did not provide incentives for participants to participate in the research as many people approached were in business on their own and they were running the business themselves. They had no time to leave their businesses and attend to answering the survey. It was not easy to get information about respondents themselves. Empirical evidence and data on SMMEs in South Africa is abundant but the use and experience of such information is lacking. Therefore a lot of assumptions could have been drawn which could have made the study biased. The content validity of new questionnaire items should, ideally, also be subjected to the opinions and judgments of experts in the field (Ghiselli, et al., 1981). The following are but some of the limitations:

- Few participants were willing to participate in the study.
- Respondents were inadequate and sometimes were not willing to complete the questionnaire.

- The timeframe for the survey was limited, as the whole research should have been completed in calendar six months
- There was a high dropout rate of participants as well as those who saw the survey on their own work and personal emails but did not even want to participate.

## **6.6.RECOMMENDATIONS FOR FUTURE STUDIES.**

The following are the recommendations on what can be done to improve the viability of SMMEs in the manufacturing sector.

**In order to create conducive business environments the following are recommended:**

### **On access to funding:**

- The state should invest in one programme where all business start-ups could converge and get most of the assistance that they need (an all one stop incubator).
- The funding should be linked to incubation so that there could be no wastage of funds as the SMMEs get out of business with no hope of returning the money invested in them.
- The funding should be staggered and linked to growth and progress.

### **On government legislative framework:**

- The government must tailor make policies and regulations that will favour the creation and growth of SMMEs.
- Reduce tax and keep regulations to the minimum in order for SMMEs to survive and create employment.
- Government institutions must encourage information gathering and information dissemination through workshops and seminars where SMMEs meet and exchange experiences.

### **On promotion of trade and assisting SMMEs:**

- Regulate all the three layers of government that a certain minimum services should be allocated to SMMEs in order to ensure that markets are open for them.

- Promote SMMEs in the local economy and assess regulations that help or hinder trading and decisively change them in favour of SMMEs.

#### **On education and training:**

- Entrepreneurship should be part of the high school curriculum or incorporate it into Business Studies as a module.
- Entrepreneurship, although it is a diploma or a degree, academics and established businessmen can play a critical role in research and in mentoring and guiding those who want to start their own businesses.
- The establishment of qualifications that seeks to breed entrepreneurs will allow more space for academics and other institutions to do more research in the field and therefore have a body of knowledge that can be relied upon when dealing with SMMEs and entrepreneurship in the country.

#### **On incubation:**

- The universities should play a crucial part in ensuring that SMMEs are supported and mechanisms to mentor them and put them into an incubation process should be closely looked at.
- The government and private businesses should come together to look at best practices that can be viable in South African context in order to groom young people to be ready to run viable businesses.
- The private sector and owners of established businesses participate less in the mentorship or incubation programmes unless it is in their interests to do so. This undermines growth and information as well as skill transfer that could take place between the two parties. There is a need to coordinate them better in order to yield better results.

## **6.7.SUMMARY**

In order to survive in business you need to dedicate time solely to the business. You need to have the skill to do the business well. You need to have properly trained employees who share the vision of the owner. Government support, financial access to loans and grants as well as conducive SMMEs legislative framework is pivotal in stimulating SMMEs development and trade in the long run. There is a need to ensure that government plays a crucial and a leading role in a partnership not only to support SMMEs but to put them through a coordinated process of mentorship through an incubation process of some sort. This needs both political and administrative capacity to ensure that people who start businesses make it to develop their own businesses. Many thriving businesses today started as small companies, some supported by the state. Some started as cooperatives working together for a greater goal; this is more crucial today than ever before as many people remain unemployed and a number of young people including young graduates. If this is to change, the mind-set needs to change and that is a process of an exchange of information and learning of new way of doing things on the side of citizens. As people unlearn the old ways of seeking jobs and if they don't find them they remain home increasing or adding up the unemployment statistics, the mind-set shift creates new opportunities and SMMEs are the way to a new reality of prosperity and job creation.



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# ANNEXURE A



30 May 2014

Mr Ranson Sifiso Gwala (951051987)  
Graduate School of Business & Leadership  
Westville Campus

Protocol reference number: HSS/0196/014M

Project title: Viability of small businesses in the manufacturing sector in eThekweni Municipal area

Dear Mr Gwala,

#### Full Approval – Expedited Application

In response to your application dated 26 February 2014, the Humanities & Social Sciences Research Ethics Committee has considered the abovementioned application and the protocol have been granted **FULL APPROVAL**.

Any alteration/s to the approved research protocol i.e. Questionnaire/Interview Schedule, Informed Consent Form, Title of the Project, Location of the Study, Research Approach and Methods must be reviewed and approved through the amendment/modification prior to its implementation. In case you have further queries, please quote the above reference number.

**PLEASE NOTE:** Research data should be securely stored in the discipline/department for a period of 5 years.

The ethical clearance certificate is only valid for a period of 3 years from the date of issue. Thereafter Recertification must be applied for on an annual basis.

I take this opportunity of wishing you everything of the best with your study.

Yours faithfully

Dr Shenuka Singh (Chair)

/ms

Cc Supervisor: Dr Abdulla Kader  
Cc Academic Leader Research: Dr E Munapo  
Cc School Administrator: Ms Zarina Bullyraj

Humanities & Social Sciences Research Ethics Committee

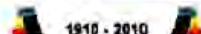
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## **ANNEXURE B**

### **QUESTIONNAIRE SCHEDULE**

#### ***Viability of small businesses in the manufacturing sector in eThekweni municipal area***



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#### **UNIVERSITY OF KWAZULU-NATAL GRADUATE SCHOOL OF BUSINESS & LEADERSHIP**

##### **MBA Research Project**

**Researcher:** SIFISO GWALA (0313051828/ 084 4466 546)

**Supervisor:** DR ABDUL KADER (082 9010225)

**Research Office:** Ms. P Ximba 031-2603587

#### ***Viability of small businesses in the manufacturing sector in eThekweni municipal area.***

The purpose of this survey is to solicit information from people who are running their small businesses in the manufacturing sector in eThekweni Municipality regarding their experiences, barriers, lessons and successes in starting, operating and running their small businesses. The information and ratings you provide us will go a long way in helping us identify the barriers to finance, the success contributing factors to starting and running a small business in the municipality and what needs to change in order to improve the odds of success in this field. The questionnaire should only take **15-20** minutes to complete. In this questionnaire, you are asked to indicate what is true for you, so there are no “right” or “wrong” answers to any question. Work as rapidly as you can. If you wish to make a comment please write it directly on the booklet itself. Make sure not to skip any questions. Once the research has been completed you will be notified of the findings. Thank you for participating.

# ANNEXURE C

## QUESTIONNAIRE

The questionnaire contains 25 questions which needs only to tick the answer that is clearly describes or fit your situation.

<b>Age</b>		<b>Gender</b>	
<b>Area/City/Town</b>		<b>Number of years in business</b>	

<b><i>VIABILITY OF SMALL BUSINESSES IN THE MANUFACTURING SECTOR IN ETHEKWINI MUNICIPAL AREA</i></b>		<b>STRONGLY AGREE</b>	<b>AGREE</b>	<b>NEUTRAL</b>	<b>DISAGREE</b>	<b>STRONGLY DISAGREE</b>
<b>What role and impact do SMMES have in reducing unemployment?</b>						
1.	I was employed when I started my own business.					
2.	I employ at least 5 people currently.					
3.	I employ at least on graduate in my business.					
4.	The people I employ were not employed before.					
5.	I started business because I was not employed.					
<b>What role or impact does Incubation of small businesses?</b>						
1.	I had a business plan when I started your business					
2.	I was assisted by a government institution to draft my business plan					
3.	I have proper premises where I run my business daily.					
4.	I have someone who mentors me on how to run a business.					
5.	I understand the correlation between my business success and the aims and objectives as outline in the business plan					
<b>What role does access to finance have in the promotion of SMMES?</b>						
1.	I am funding my business					
2.	I am funded by the commercial bank					
3.	I am funded by the government institution (Ntsika, IDC, Khula,..)					
4.	The business plan was helpful in funding my business					
5.	I am not funded but my success is dependent on access to finance					
<b>What role does entrepreneurship mind-set play in establishing and sustaining an SMMES?</b>						
1.	I always wanted to start and run my own business					
2.	I only started thinking of starting my business because I had passion, skill and technical know-how on how to own my business.					
3.	I have always had an entrepreneurial mind-set and drive					
4.	I think anyone can make it in business.					
5.	I spend more than 8 hours a day dedicated to running my business.					
<b>What role does government have in support of SMMES</b>						
1.	The local government supporting my business currently					
2.	I know of many municipal/government institutions where I can be supported with information in order to run my business better.					
3.	The government is assisting me to conduct and trade with others better.					
4.	I am a supplier of goods and or services to the municipality or government departments.					
5.	I am getting training and support from the municipality and or government departments in order to grow my business.					

***End of the Questionnaire.***

***Thank you for taking the time to complete the questionnaire.***

# ANNEXURE D

## KEY INDICATORS OF THE ETHEKWINI MUNICIPAL AREA FOR 2011-2012

<b>Key Indicators</b>			
	<b>2011</b>	<b>2012</b>	<b>% Change</b>
<b>Economic</b>			
Gross domestic product (GDP) constant 2005 prices	R203,2 bn	R210,1 bn	3.4%
GDP average annual growth	4.2%	3.4%	-0.8%
<b>Development</b>			
Human development index	0.68	0.68	0%
Gini coefficient	0.63	0.63	0%
Number of people living on < \$2 per day	121,333	98,966	-18.4%
Percentage of people in poverty	32.7%	32.0%	-0.7%
Urbanisation rate	82,7%	82,8%	0.1%
<b>Demographics</b>			
Population	3,442,361	3,481,147	1.1%
Population growth (1996-2010/2011)	1,3%	1,3%	0%
Geographic area	2, 297km <sup>2</sup>	2, 291km <sup>2</sup>	-0.3%
Population density	1 522 persons/ km <sup>2</sup>	1 519 persons/ km <sup>2</sup>	-0.2%
Number of households	950,049	951,029	0.1%
<b>Income and expenditure</b>			
Per capita income	R48,054	R51,747	7.7%
Annual per household income (current prices)	R174,307	R189,413	8.7%
Annual disposable income (constant prices)	R104,389	R104,506	0.1%
Annual expenditure	R165,8 bn	R180,1 bn	8.6%
Annual retail trade sales	R54,8 bn	R59,6 bn	8.5%
<b>Labour</b>			
Unemployment rate	20,4%	20,6%	0.2%
Total number of people employed	1,094,342	1,116,434	2%
<b>Tourism</b>			
Tourism spend	R13.9 bn	R14,1 bn	1.4%
Number of trips	2,831,441	2,858,661	1%
<b>International trade</b>			
Total exports	R44,3 bn	R47,7 bn	7.7%
Total imports	R71,2 bn	R79,8 bn	12.1%
<b>City budgeting</b>			
Council operating budget: 2012/13	R26,5 bn	R28,4 bn	7.2%
Council capital budget: 2012/13	R5,3 bn	R5,4 bn	1.9%

Source: Global Insight/Economic Development & Investment Promotion Unit/Procurement & Infrastructure: Development Engineering, Census 2011: Statistics South Africa



# ANNEXURE E

## THE WAY FORWARD

Following is a summary of the recommendations for accelerating entrepreneurship in Africa, which are presented in the previous pages of this report. These are informed by the Monitor Survey, discussions held at Omidyar Network's *Entrepreneurship in Africa Summit* and the combined experiences of the Monitor Group and Omidyar Network as collaborators in Africa's entrepreneurial ecosystems.

There is a wide range of possible interventions and recommendations for supporting entrepreneurship that can be pursued; thus it is important to prioritise measures and identify actors who can play a role. Furthermore, the relative strengths and challenges of a particular environment should be taken into account when mapping a way forward.

	Funder: Philanthropy	Funder: Impact Investor	Civil Society Organisation	Socially-minded Business	Government	Academic / Educational Institution
<b>EARLY-STAGE ENTERPRISE FINANCING</b>						
<b>ENTREPRENEURSHIP ASSETS</b>	Reduce bureaucracy for early-stage companies to access government funding in order to provide 'softer' sources of financing for less-experienced entrepreneurs.				X	
	Expand or initiate local angel investing ecosystems to ensure the availability of the most appropriate type of funding for start-ups.	X		X		
	Provide tax and other incentives to formal, as well as informal (e.g., family and friends), angel investors to make it easier for people who have extra cash to invest in start-up businesses and reduce their risk.				X	
	Provide tax and other incentives for large clients of early-stage ventures to provide supplier credit to incentivise and reduce the risks suppliers take when providing generous payment terms and/or stock to new ventures.				X	X
	Educate entrepreneurs about possible sources of funding outside banking systems.	X			X	X
	Train and assist early-stage entrepreneurs in the intricacies of capital-raising.	X		X		X
	Train the local financial community to evaluate investment opportunities on the basis of future prospects rather than historical cash flows.	X			X	

	Funder: Philanthropy	Funder: Impact Investor	Civil Society Organisation	Socially-minded Business	Government	Academic / Educational Institution	
<b>ENTREPRENEURSHIP ASSETS</b>	<b>MID-SIZED ENTERPRISE FINANCING</b>						
	Leverage indirect personal sources of funding, such as pension funds to fund SMEs, so that more resources are available to fund more-established enterprises where the risks are lower.			X		X	
	Expand or initiate local venture capital investing ecosystems to ensure that the most appropriate source of funding is available for companies at the mid-level stage of development.	X	X	X			
	Use local banking systems to disburse donor or government lines of credit to SMEs to reduce prohibitive interest rates and collateral requirements.				X	X	
	Provide incentives and support to mid-sized SMEs to practise sound financial management and maintain adequate records, including audited statements.	X		X		X	
	<b>LATER-STAGE ENTERPRISE FINANCING</b>						
	Create capital-raising engagement programmes with leaders of well-established private African enterprises to inform entrepreneurs about the benefits of private equity funding, as well as the benefits of listing at local stock exchanges.						X
	Create continent-wide 'regional champions' programmes to facilitate access to capital (both debt and equity) for independently vetted pan-African companies that are expanding across the continent.			X		X	

## THE WAY FORWARD

	Funder: Philanthropy	Funder: Impact Investor	Civil Society Organisation	Socially- minded Business	Government	Academic / Educational Institution
<b>ENTREPRENEURSHIP ASSETS</b>	<b>SKILLS AND TALENT</b>					
	Include entrepreneurial and vocational training in the education system in Africa so that learners are exposed to entrepreneurship from a young age.					X
	Leverage Internet-based solutions that offer training in business skills and entrepreneurial management to provide assistance to entrepreneurs that is scalable and available at relatively low costs.	X				X
	Establish communications and career counselling programmes that encourage and guide young people towards the creation of entrepreneurial ventures.			X		X
	Institute secondment, mentorship and networking programmes where seasoned executives (previously or currently employed) support SMEs for limited periods by working alongside and training SME staff on key projects.	X		X	X	
	Offer incentives (e.g., subsidies, tax advantages) to entrepreneurs who offer strong employee value propositions to prospective professional staff, such as stock option programmes or specialised training.					X
	<b>INFRASTRUCTURE</b>					
	Deploy and upgrade infrastructure first in selected productive areas where there are substantial business activity and strategically important local industries.					X
	Favour public-private partnerships in the execution of infrastructure projects.					X



	Funder: Philanthropy	Funder: Impact Investor	Civil Society Organisation	Socially-minded Business	Government	Academic / Educational Institution
<b>BUSINESS SUPPORT</b>	<b>BUSINESS ADVISORY SERVICES, GOVERNMENT PROGRAMMES AND INCUBATORS</b>					
	Provide generous incentives and subsidies for private-sector players offering business development services to set up business support services companies.	X		X		X
	Allow private and government-run business support organisations to leverage widespread government offices (e.g., post offices and city halls) for the provision of business services to reduce the capital costs of providing support.					X
	Create networks of support services where local business professionals are identified, documented, mobilised and incentivised (via personal tax breaks, for example) to provide mentoring and/or technical support to local entrepreneurs.	X		X	X	X
	Establish one-stop-shop set-up and regulatory compliance agencies for SMEs.					X
	Provide incentives to corporate entities and to individuals working at those corporate entities for the set-up of employee-created businesses and/or division spin-outs.				X	X
Develop networking programmes/platforms for young entrepreneurs.	X		X			
<b>POLICY ACCELERATORS</b>	<b>LEGISLATION AND ADMINISTRATIVE BURDENS</b>					
	Provide targeted incentives to entrepreneurs for the development of key sectors that are currently underserved.			X		X
	Develop more nuanced legislation that differentiates between big business and SME segments.					X
<b>MOTIVATIONS &amp; MINDSET</b>	<b>THE CULTURE OF ENTREPRENEURSHIP</b>					
	Establish programmes and media initiatives that celebrate entrepreneurs' successes, honour their journeys and encourage those who have failed to rise again.	X		X		X
	Formulate and introduce income-insurance schemes for selected types of African entrepreneurs.			X	X	