

The Effect of Government Support on the Success of Small and Medium Enterprises: A Comparative Study between South Africa and China

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Abstract: The purpose of this article is to present evidence of a study conducted in two provinces of South Africa and one in China. The study investigated the effectiveness of the support mechanism for small and medium enterprises (SMEs) and how government support agencies are making strides in providing this support. Semi-structured interviews were conducted with branch managers, a project director and business advisors. It emerged from the findings that efforts are being made to provide valuable support to small businesses. It further emerged that small businesses still face challenges such as lack of access to funding, market to serve, lack of a one-stop office and the unwillingness of service providers to enter into contract with the Small Enterprise Development Agency (more relevant to the South African situation). It is recommended that financial service providers partner with SME support agencies.

Keywords: *China, South Africa, Small and medium enterprises, Small Enterprise Development Agency*

1. Introduction

Research worldwide shows that small and medium enterprises (SMEs) play an important role in the economy (Chittithaworn, Islam, Keawchana & Yusuf, 2011). SMEs are fundamental in overcoming socioeconomic challenges characterised by high unemployment, high poverty rates and income inequalities, especially in developing countries (Machirori & Fatoki, 2013). Despite the contributions made by SMEs to the economy, they still experience a high failure rate and reduced performance which does not translate into growth. The role of SMEs in the South African economy is outlined in the White Paper on National Strategy for the Development and Promotion of Small Business of 1995 as well as in the National Small Business Act (NSBA) of 1996. These two prescripts provide a clearer perspective on how SMEs should be promoted and supported. As a result of these prescripts, the South African government has established several business support agencies. One of these is the Small Enterprise Development Agency (SEDA). The National Small Business Act (NSBA) (102 of 1996) sets out the objectives of this agency, which are to design and implement development support programmes intended to be implemented in all provinces in the country. Other broad objectives of SEDA are to implement a service delivery network that increases the contribution of small enterprises to the economy, promote economic growth, job creation and equity, and finally strengthen the capacity of service providers to support small enterprises and for small enterprises to compete successfully in the domestic and international spheres. Based on the objectives as stipulated in the NSBA (1996), SEDA has formulated its specific objectives, namely (i) to enhance the competitiveness and capabilities of small enterprises through coordinated services, programmes and projects, (ii) to ensure equitable access for small enterprises to business support services through partnership and (iii) to strengthen the organisation to deliver on its set mission.

Similarly, the Chinese initiatives focus on productivity development centres which provide business support to SMEs. China has also introduced and adopted laws which are a more proactive policy to support the development of SMEs (Hussain, Millman & Matlay, 2006). For example, the SMEs Promotion Law aims to remove institutional barriers, encourage innovations and increase the competitiveness of SMEs (Chen, 2006). SMEs make a crucial contribution to the global economy and this has attracted governments worldwide. Despite efforts to improve and sustain small businesses, not much has changed in improving the performance of SMEs, particularly in South Africa. This sector is characterised by lack of growth and closure of small businesses in the early stages of operation. The success of small businesses depends on a number of factors, including managerial insight, finance and marketing skills of the owner-managers. According to Chen (2006), many SMEs in China are family-based businesses and the founders mostly do not possess management skills or financial expertise, which may limit the firm's further development in the future. Similarly, Hussain et al. (2006) found that most Chinese SMEs have limited growth potential as a result of their financial constraints. Zhao (2010:71) believes that SMEs are in need of funds in the early stage of

development and access to quick growth. However, due to financing difficulties, businesses are unable to acquire large amounts of funds needed for the development of their businesses.

The two countries provide SMEs support through various agencies. Scholars have posited that Chinese SMEs are succeeding in their Business endeavours and as such it becomes important to understand what strategies they are using to be more successful. Comparatively, the South African SMEs appear to be struggling in pursuing their businesses. This study is important as it intended to investigate the effect of SME support as implemented with the understanding that they would contribute to growth and prosperity. Despite the support provided, some of the SMEs still face some challenges in running their businesses. Notably, the challenges faced by SMEs appear to be generic, however, there could be circumstances across the two countries that might be different, and as such a comparative study was imminent to understand the differences in order to learn the best practices per country. Based on the above, it was important to understand what support is being provided by small business agencies to ensure that SMEs prosper in the two countries.

2. Literature Review

There has been a plethora of literature on the success factors, contribution and development of SMEs. In this context, various governments have embarked on the development of SMEs. Despite the noted contributions made, what has emerged as a concern is the rate at which SMEs are failing. Fatoki and Garwe (2010) posit that although SMEs show higher growth in percentage terms, most new firms do not grow because they were established out of desperation rather than from a choice to pursue an entrepreneurial career. In today's competitive world, with rapid international changes and development, entrepreneurship is seen to be the engine of economic development that can play an essential role in the country's economic growth, employment and social welfare (Lashgarara, Roshani & Najafabadi, 2011:5536).

South Africa is faced with a situation where many businesses fail during the first two years of their operation due to cash flow problems since no growth is realised (Nieman & Nieuwenhuizen, 2009:35). There are a number of challenges facing entrepreneurs in their first stage of business operations. The first is access to start-up and expansion finance – raising money in the capital market is seen as difficult and, as such, nascent entrepreneurs end up using their own money. Literature shows that the majority (80%) of start-ups are financed through personal savings (Nieman & Nieuwenhuizen, 2009). The rationale for the lack of access to finance is that banks regard SMEs as high-risk borrowers and require collateral security, which ordinarily the owners do not always have. The second challenge is access to markets – businesses are unable to sustain the markets for their products. If the business cannot sustain its market, it means a loss in client level, which will affect turnover. Business owners should formulate strategies to overcome this particular barrier. The third constraint is access to appropriate technology (Nieman & Nieuwenhuizen, 2009). Successful entrepreneurs make use of advanced and appropriate technology. This enables them to improve on their production processes and therefore efficiency. Without this advanced technology, the business is likely to fail (Rankhumise & Rugimbana, 2010). Labour is the fourth challenge and it is an imperative factor that could drive the business to greater heights. This essentially means that qualified personnel are required to perform the functions within the enterprise. Acquiring highly qualified staff is very expensive and sometimes if they are not satisfied, they will simply leave the enterprise for better opportunities.

From various studies, it has emerged that there are still challenges facing entrepreneurs in all sectors of the businesses. These are, among other things, the high failure rate of SMEs, lack of growth, poor level of entrepreneurial success, limited access to start-up and expansion finance, limited access to technology and markets, lack of financial management and lack of management skills (Kambwale, Chisoro & Karodia, 2015:85). All these factors hamper the development and success of small businesses in South Africa. Similar factors are at play in China. Within this context, government's aim is to encourage the development of small businesses and to ensure that they are sustainable by providing support mechanisms to all these businesses. Through its agencies, the government provides some training interventions to ensure that SMEs succeed in their endeavours. Kotey and Folker (2007) believe that training is the most prevalent driver to improve the competencies of SMEs, assist in their growth and also increase their profitability. It is therefore important for SME owner-managers to have access to training interventions that educate them and their staff on how they

can improve their business and acquire managerial skills which could assist them in running their businesses successfully. This aspect has been further emphasised by Kirsten (2013:826): financial functions such as investment, financial decisions, ensuring probability of the business and sound cash flows are key to managing small businesses. This further suggests that SME owners require financial management skills in order to manage the business and ensure its success.

In South Africa, the largest percentage of small businesses fails during the first two years of their existence or operation. They fail for various reasons ranging from lack of experience in running the business, entrepreneurial culture, lack of education and, more importantly, lack of access to finance (Rankhumise & Rugimbana, 2010). Scholars posit that there is a serious problem associated with small businesses in accessing finance and this impedes their success and growth. The reasons for lack of access to finance are inadequate funding proposals and business plans and risk aversion of the banking sector towards SMEs since they are seen as high-risk borrowers. In this context, it is important for SMEs to access finance with the intention of improving entrepreneurial performance, growth and sustainability. Comparatively, SMEs in China face similar challenges to South African small businesses. Liu (2008) identifies the following concerns associated with SMEs' operations in China: (i) inadequate financing – this is regarded as a major barrier to SME development in China and SMEs are disadvantaged through the poor credit guarantee system; and (ii) unable to obtain bank loans due to imperfect management. Taking cognisance of the high failure rate of new SMEs and the importance of their contribution to the economy of the country, it becomes imperative to explore how SMEs could overcome the hurdles that they face and also to learn from those that conduct businesses successfully. If the government's strategy is to use the SME sector as a vehicle for economic success, the focus should be on developing competent entrepreneurs (Peters & Naicker, 2013:13). Based on the background and the literature review, the aim of the study was to investigate the effectiveness of support mechanisms as implemented by SME support agencies.

3. Methodology

The design of the study was qualitative, explorative and contextual. According to Klopper (2008), the qualitative nature of a study offers the opportunity to uncover the key informants' experiences and perspectives, of which little is known. The purpose is to gain a richer understanding of the experiences of the key informants, in this case SEDA managers, the project director and business advisors as regards to SME support. A qualitative study is a study in which the phenomenon under investigation is studied in relation to its intrinsic and immediate contextual significance (Mouton, 1996). Leedy and Ormrod (2010) explain that the qualitative research method is appropriate when the researcher is trying to understand a new phenomenon rather than trying to establish a relationship between two or more variables. Furthermore, it often focuses on how individuals and groups view and understand the world and construct meaning out of their experiences. In this case, qualitative methods were deemed more appropriate since the researchers needed to first identify the variables that might later be tested quantitatively. Therefore, SEDA managers, business advisors as well as the Project Director of Xian Pioneering Development Centre were interviewed to share their experience of support towards the small businesses within their catchment areas, particularly what is working well and how to overcome any obstacles. Although the obstacles and opportunities of SMMEs are conceived to be more generic worldwide, there could be circumstances across the two countries that might be different, and therefore a comparative study was imminent to understand the differences.

Population: Nine ($n = 9$) participants took part in the study. This consisted of one ($n = 1$) provincial manager, two ($n = 3$) branch managers and four ($n = 4$) business advisors (BAs) selected from Limpopo and Mpumalanga and one ($n = 1$) project director at Xian Pioneering Development Centre. The participants were purposively selected with the understanding that they would contribute significantly to the study. The researchers took cognisance of the importance of sample adequacy. In this regard, information power was used as a guide to the adequacy of the sample. Malterud, Sierma and Guassora (2016) explain that information power indicates that the more information the sample holds, relevant for the actual study, the lower amount of participants is needed, hence only nine ($n=9$) were selected to participate. They had full insight into and an understanding of the SME support within their context that is SEDA in South Africa and Xian Pioneering Development Centre in Xian, China. Based on the fact that the branch managers, project director and BAs focused on the support of SMEs, one interview protocol was used.

Data collection: Data was collected by way of semi-structured interviews. This type of data collection technique allows the interviewee to talk about the main topics of interest and develop other questions during the interviews (Collis & Hussey, 2014:133). In South Africa, as the researchers, we made appointments with the SEDA provincial manager and branch managers, which then included their BAs. In China, we requested the collaborator from Chang'an University to make an appointment with the Director of Xian Pioneering Development Centre and also arranged for an interpreter to ensure that there was smooth communication with the participant. Each interview lasted between 45 and 120 minutes. Data collection was not guided by theoretical saturation because the study was more of a baseline study which will be followed by a survey. All interviews were guided by the use of an interview protocol (Creswell, 2012:206). This type of data collection method was used to determine the emphasis of the topic: to gather opinions, perceptions and background information on the topic (Patton, 1990:278). An audiotape recorder was also used to collect data in order to ensure that accurate data was collected. This is in line with what Lincoln and Guba (1985) state, namely that recording interviews has the advantage of capturing data more faithfully compared to quick written notes and enables the researcher to focus his or her attention on the interview itself.

Data analysis: In the analysis of data, the researchers and co-coder transcribed the audio taped interviews and the field notes independently using Tesch's data reduction method (Creswell, 2009) of open coding. In ensuring simplistic data management, the following steps guided the analysis: (i) Audiotapes were listened to once and repeated to capture the meaning. (ii) The field notes were read to understand the data properly and to get a sense of the whole. In this regard, the researchers tended to use inductive analysis of data, which means that critical themes emerged out of the data (Patton, 1990). (iii) Topics were abbreviated as codes and these were written next to the appropriate clusters of the text. (iv) Related topics were grouped with the intention of reducing sub-themes to a manageable number. (v) After the completion of data analysis, the researchers and co-coders met to discuss the final analysis of the data and agree on the emergence of themes. This last step is important as it helps to alleviate the researcher's possible biases and at times could eliminate instances where over-analysis of data has occurred.

4. Findings and Discussion

The purpose of this specific study was to investigate the effect of government support provided by SME support agencies. The discussion of the findings is presented in accordance with the themes that emerged during the analysis of the data. The guiding principle is the commonalities identified and any non-similarity themes are presented separately. This is aimed at providing an understanding of what the current practices and challenges are as experienced by SMEs in each country. The primary data depicts the findings of the participants interviewed in Limpopo and Mpumalanga, South Africa, and Shaanxi Province, China. The findings reveal that there are challenges in terms of the effectiveness of SME development in the three research sites as indicated by the participants. In the next section the themes that emerged are discussed and verbatim quotes are given.

SME support strategy: Quite importantly, the participants highlighted that an evaluative small business development initiative was used to ensure that there was synergy in the whole process. Of great importance is what Swanepoel, Strydom and Nieuwenhuizen (2010) indicated in their study that SMEs training in funding and mentoring ordinarily over an extent period to support them in the efforts to convert dreams and ideas into functioning and viable businesses. Gwija et al. (2014) concur with Swanepoel et al. (2010) above that lack of appropriate government support towards SMEs was found to be unsatisfactory; hence many small businesses fail to prosper. The strategy used in the SEDA branches is to secure partnerships with organised business, local municipalities, government departments and banks. This is what the participants had to say: *"With coordinated strategy towards the support of SMEs, it is important to have working relations with the stakeholders in your environment. This assist in the provision of services to pre-start-ups and the existing businesses..."*

By using this strategy, the business development efforts create coordinated initiatives from all the parties. This ensures that there is a working relationship among stakeholders.

Diagnostic assessment and analysis: It was revealed that diagnostic assessment and analysis is used to assess the level of assistance that might be provided to the SMEs. Prior to the use of diagnostic tools, a pre-

screening exercise is done at the front desk before any referral can be made to the BAs. This is done to ensure that clients are advised accurately. Once a client qualifies for the next step, they are referred to the BA, who evaluates the business ideas for start-ups and existing businesses. Generally, the BAs use various diagnostic tools: (i) The pre-start-up tool evaluates the business readiness of the business. In this regard, if the business idea is feasible, the client will be assisted with the business plan development and other related compliance issues such as registration of the business. (ii) The critical planning exercise is an accounting tool used to test the viability of the idea or business. It assists in determining whether the business idea envisaged can be marketed and will generate a sustainable profit in the long run. (iii) The assessment of company operations entails the assessment of the weaknesses and strengths of the business in relation to the enterprise functions. This focuses more on finance, human resources, marketing and so forth. All these assessments are prevalent within SEDA in South Africa.

"...Before we can provide any intervention, we need to understand the positions of the clients in relations to their weaknesses and strengths. In doing that we use three diagnostic tools which are Pre-start-up tool, Critical Planning Exercise and Assessment of Company Operations. These tools help us to identify the gaps from the clients before embarking on the actual interventions..."

Notably, these tools could assist in identifying gaps of the assessed clients. Based on these, the BAs develop action plans and appropriate interventions recommended to assist the clients in their respective endeavours.

Successes resulting from the support provided: Taking into account the intention of government agencies, that is, to provide support to the SMEs in the country, the findings reveal that there has been some progress in the support provided by agencies from both countries. This is evident in the number of prospective and existing businesses being supported. Many businesses have taken off and have realised high turnovers. The existing businesses have been able to employ additional workers, which fulfil the government priority of encouraging business development with the view to overcoming unemployment. The following is what the participants had to say:

"In our branch we supported many customers with businesses training interventions. We also supported one business from start to a situation where it yielded R 13 000 000.00 turnover. Another one which we also supported made a turnover of R 56 000 000.00. What I can further say is that almost 50% of the businesses succeeded in their respective business endeavours with great strides..."

"We have supported over 800 small businesses in our centre. The businesses are progressing very well more especially with the interventions we implemented..."

Based on the participants' views, it is evident that the support provided is leading to success. It is important to note that the priority of the government to encourage people to start their own businesses is producing results considering the number of workers employed by these SMEs.

Regulatory framework: The participants from both countries indicated that the current framework for supporting SMEs was effective. However, they indicated that in the implementation of the framework, there was a need to have an integrated approach from all the stakeholders to work in collaboration. This finding was emphasised more by the South African participants. An example was provided where the local municipalities were pursuing SME development while SEDA is pursuing the same agenda. If all stakeholders worked together, duplication would be avoided. Though the framework is effective, it is notable that the whole process is too long and discourages small businesses, especially when they are waiting for their applications for funding.

Challenges experienced in the process of support: In the quest of government agencies to support SMEs, participants indicated that there are still challenges experienced in providing the interventions. The following challenges were identified during the interviews:

Access to finance: SEDA does not provide financial assistance. Although business support is provided to pre-start-ups through development of the business plans, it is noted that when recommendations are made for the SMEs to get the funding, they do not always get approvals. Reasons include lack of security and lack of identification of the market. This notion confirms what Yan (2015) who found that Chinese government implements favourable support to SMEs, however, it is not investing directly in SMEs as it does with large enterprises. Furthermore, the banks are sceptical to give loans to SMEs as they typically lack sufficient

financial history and stability of earnings. In some instances, where funding is provided, higher interest rates are charged due to the risk-averse nature of the banks. This is line with what Chittithaworn et al. (2011) and Rankhumise and Rugimbana (2010) found in their studies: that SMEs still have challenges in accessing finance from banks since they are regarded high-risk clients. Kersten, Harms, Liket and Maas (2017) also confirm that small firms still lack of access to finance and this could impact on the performance of SMEs. The following is what the participants articulated:

"As SEDA we are doing everything in our power to assist in the development of the business plans, the ultimate approval rest elsewhere that is with the banks and other financing authorities..."

"...SMEs do not always succeed in sourcing funds. They are risk averse and less than 20% of SMEs we recommend get funding..."

These findings are line with what Herrington et al. (2009) found, namely that access to finance is a major challenge particularly to South African small business owners. It can be noted that a lack of financial support is seen as a contributor to low new firm creation and high failure.

Access to market: The participants indicated that most of their clients did not have access to a market. This aspect creates challenges in the sense that if there is no possible market to serve; the business is unlikely to succeed. In this case, they assisted SMEs with the marketing strategy and promotional material initiatives. This finding is relevant to all sites investigated in South Africa and China and confirms what Doh and Kim (2014) found: market failures bring some bias against SMEs. As a and Prasad (2014) hold the same view that market presence gives the small business owners some closer proximity to customers which ensures that the business understand customers' needs. Rankhumise and Masilo (2016) in their study also found that access to market creates challenges because if there is no possible market to serve, the business is unlikely to succeed.

Lack of one-stop office: It emerged that the process of providing support is disintegrated. This is because there are different role players involved, for instance the Small Enterprise Finance Agency (SEFA) and Independent Development Corporate (IDC). SEDA works with these agencies through referrals. Similarly, Xian Pioneering Development Centre does not provide financial support either, but rather makes referrals to financial institutions to assist with finance.

"We are working as SEDA; however, there are agencies that we are working in conjunction with, for SEFA and IDC. We assist and make referrals to these agencies for possible funding of the clients..."

"These agencies are located far from us and it is also difficult for our clients to go to them ..."

"It could have been better if we had everything under one roof, just one stop office..."

It is evident from the participants that there is a need to have all these agencies in one setting, which would ensure that there is synergy in the entrepreneurship developmental efforts and turnaround time could be improved. The Chinese system is similar; the development centres do not provide financial support but instead rely on commercial banks such Bank of China, China Construction Bank and other banks to grant financial assistance.

Service providers: The participants revealed that service providers in specialist areas such as quality management systems are unwilling to enter into contracts with SEDA. The service providers felt that the amount paid is too little and as such the type of work does not correlate with their specialised areas. However, the Chinese centres do not encounter this problem as regards the service providers for technical training.

Lack of focused industry incubators: The participants from China indicated that they lacked focused industry incubators. This made it difficult to provide industry-specific training interventions. Therefore, the clients in those specific industries might not be assisted and/or such requests could be referred to another province where such a service was available.

Limitations of the study: No study can be conducted without limitations. In South Africa, the study was conducted in only three branches of SEDA and in China in only one development centre. No generalizability of the findings can therefore be claimed. Since there was a language barrier in China, the services of an interpreter were used to ensure that the interview was conducted without hurdles.

5. Conclusion and Recommendations

The purpose of the study was to investigate the effect of government support mechanisms provided by SME support agencies and valuable conclusions can be drawn. It can be concluded that SME support agencies have made efforts to support SMEs. This is based on the number of SMEs that they have supported and that have prospered in their respective endeavours. It can be concluded that SME support agencies and other relevant structures should work together ensure that there are more coordination efforts in supporting the SMEs. It further emerged that diagnostic assessment tools used by BAs are helpful in determining what training interventions might be required for the SMEs. In following this tool, a more customised support will be done. The study identified that the support provided to SMEs is bearing some fruits and this is evident with many businesses have taken off and some have realised high turnovers. Though the framework is effective, it is notable that the whole process is too long and discourages small businesses, especially when they are waiting for their applications for funding.

Despite the strides made, it is notable that there are challenges that the SMEs are still facing in the two countries. It is notable that lack of access to finance is regarded as a challenge for SMEs to flourish in the business endeavours. Without finance, the small businesses would not be able to grow and expand their operations. Though support agencies are doing their best to assist SMEs with their funding applications, there is less success whereby funders need collaterals as the applicants in many instances they do not have historical records for the financial matters. It is also noted that access to market is challenge for the SMEs and this is due to the fact that there is less put on marketing and if you do not have sustainable market avail, the business venture will not be able to supply the products or services. It can further be concluded that South African participants the services provided by the agencies are not integrated and they strongly feel that there is a need for One stop office where all the government agencies are situated in one location. Based on the conclusions made, the following recommendations are suggested: it is recommended that all agencies providing support to SMEs should work together to ensure that the envisaged support mechanisms are well aligned to all the stakeholders. It is further suggested that financial service providers such as SEFA and IDC work closely, preferably under one roof, and for SEDA to speed up the process. Government support agencies should focus more on assisting SMEs with marketing strategy to ensure that they understand the market access. Taking this research further, a quantitative approach is suggested which would involve SMEs that run their businesses in South Africa and China.

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