

## Factors Affecting the Business Performance of Small Businesses in Sekhukhune

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**Abstract:** This study identifies the factors that affect the business performance of Small, Micro and Medium Enterprises (SMMEs) in the Sekhukhune District of the Limpopo Province in South Africa. The study collected data from a randomly selected sample of 200 SMMEs and used WARP PLS software to analyse data. The results indicated that five factors, namely “finance”, “characteristics of entrepreneurs”, “location of business”, “government support”, as well as “products and services” were positively related to business performance. In contrast to other studies, this study found that owners’ personal funds and their proper management played a key role in the performance of businesses. This has a major implication for government support agencies that provide funding opportunities.

**Keywords:** *SMMEs, Owner’s Funds, Location of Business, Finance, Business Performance*

### 1. Introduction

Small and Medium Enterprise (SME) employment is attributable to about 35% of the total employment generated by SMEs globally, while this number is 52% for developing economies compared to 34% for emerging and 41% in developed economies. However, in recent years (2015-2016), this contribution remained stagnant with a marginal increase of 34.6 % to 34.8%, (International Labour Organisation News, 2017). In China, SMEs contribute 60% to the country’s Gross Domestic Product (GDP) 50% to tax revenue; 70% to import and export trade; and 80% of employment in urban areas (Zhu, Wittman and Peng, 2012). In the United States (US), SMEs represent 99.7% of firms and contribute more than 50% to the non-farm GDP and are responsible for 60% to 80% of new jobs in the economy (Longley, 2006). In Pakistan, SMEs represent about 90% of all enterprises; 80% of the non-agricultural labour force; and 40% to its GDP (Harvie and Lee, 2002; Neumark, Wall and Zhang, 2008). In South Africa, SMEs account for around 40% of the GDP and SMEs are expected to provide 90% of the new jobs created by 2030 (Jones, 2016). Notably, it is important to implement the right policies to create a conducive environment for SMEs in South Africa. It is therefore imperative to study the current challenges that these SMEs face. Although several studies have touched on the topic, this study attempts to explore these factors in the Sekhukhune District of the Limpopo Province, which is not as developed as the Gauteng or North West Provinces of South Africa. The study identifies factors that affect the success of small businesses and to assess the relationship between these factors and business performance.

### 2. Literature Review

SMEs and SMMEs are used interchangeably worldwide due to the absence of a universally accepted definition. The geographic location and legislation influence the various definitions of these types of enterprises. As such, definitions differ across countries and industries (Orobia and Byabashaija, 2013; Islam, Keawchana and Yusuf, 2011; Leopoulos, Kirytopoulos, and Malandrakis, 2006). The European, Indian and US definitions of SME includes both qualitative and quantitative characteristics as criteria for defining small businesses. However, the most common measures used to define small businesses include the number of employees, annual turnover, ownership, value of fixed assets, production methods and legal status (Agyei-Mensah, 2011; Abor and Quartey, 2006). The South African definition, as per the National Small Businesses Act, 1996 (Act No 102 of 1996), considers the number of employees plus the annual turnover. With the above definitions as a reference point, the next section details the factors that affect the success of small businesses.

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The contribution between the first author and second author in this paper is 60:40.

**Factors Affecting the Success of Small Businesses:** Numerous studies have identified the factors that affect business success, such as finance; characteristics of an entrepreneur; location of business; government support; and product and services (Daskalakis, Jarvis and Schizas, 2013; Fatoki and Asah, 2011; Fatoki and Garwe, 2010; Chittithaworn, Islam, Keawchana & Yusuf, 2011; Garg and Makukule, 2015). Each factor will be discussed in detail in the following section.

**Financial Resources:** Access to finance plays an essential role in the success of small businesses. Without sufficient capital, small businesses are unable to grow and introduce new products and services. Numerous studies have highlighted finance as the major reason why small businesses fail, especially during the start-up phase (Coleman, 2000; Islam, Khan, Obaidullah and Alam, 2011; Rogerson, 2008; Okpara and Wynn, 2007). Furthermore, research has revealed that small businesses rely heavily on their own funds and prefer not to raise capital from sources outside the family. Simultaneously, many small business owners are unaware of existing funding agencies, while others consider applying for grants to be a waste of time. It was found that small businesses who obtain outside financial assistance experience a smooth transition from a start-up to a well-established business (Daskalakis, Jarvis and Schizas, 2013; Yusuf, 2014). Researchers have highlighted that external credit is not readily available to small businesses. This is attributed to the fact that commercial banks are reluctant to provide credit facilities to small businesses. One of the reasons for this is that commercial banks believe that lending to SMEs is less profitable than lending to large businesses. Notably, lending to small businesses involves high credit administration costs and high risks (Okpara and Wynn, 2007; Van Scheers, 2010; Abor and Biekpe, 2006; Pansiri and Temtime, 2010; Ladzani 2010; Mambula, 2002; Gill and Biger, 2012). Collateral was found to be an essential determinant for accessing finance.

Small business owners struggle to obtain loans; as financial institutions do not deem them trustworthy. In addition, small business owners do not have a reliable track record and often fail to understand the importance of proper budgeting (Mbonyane and Ladzani, 2011; Bosma and Levie, 2009; Ahmad and Seet, 2009). Numerous studies have found that small businesses should prioritise financial management training to overcome growth barriers. Furthermore, research has revealed that small business owners spend their capital on items that are unrelated to the business, as they are unable to distinguish between capital and profit. This has resulted in cash-flow problems, as too much of the business' cash is used for personal expenses (Neneh and Van Zyl, 2012; Bezuidenhout and Nenugwi, 2012; Rogerson, 2000; Acts, Arendius, Hay and Minniti, 2004; Okpara and Wynn, 2007). The above literature suggests that financial resources like owners' funds and borrowing from external sources play a key role in business success. External credit is not readily available to small businesses due to their inability to provide collateral. Furthermore, financial institutions do not find small businesses trustworthy and prefer to lend money to large businesses with higher profitability.

**Characteristics of an Entrepreneur:** Entrepreneurship involves a special type of decision-making process. Therefore, an entrepreneur's characteristics are the key determinants of business success. Research has proven that the success of a business depends on the entrepreneur's personality structure, which includes experience and expertise. A business owner's entrepreneurial spirit and motivation largely determine the growth and survival potential of his/her business (Islam et al., 2011; Ligthelm, 2010; Kritikos, 2007). Numerous studies have highlighted a positive relationship between business management, entrepreneurial conduct and business success. Therefore, an entrepreneur's competence, characteristics, attitudes, motives and risk-taking capabilities have a significant impact on the success of the business. Entrepreneurs with human, social and financial knowledge were found to be in a better position to identify potential opportunities accurately (Hill, 2001; McCartan-Quinn and Carson, 2003; Dockel and Ligthelm, 2005; Omri, Frikha and Bouraoui, 2015).

In addition to the above, various studies have found that small businesses fail due to a lack of the required competencies on the part of business owners. This is evidenced by entrepreneurs' irrational behaviour in managing their businesses, as well as their inability to conduct thorough research on market demand before investing in a business venture (Stokes and Blackburn, 2002; Kiggundu, 2002; Beaver and Jennings, 2005). Various studies have revealed that entrepreneurs who successfully start and grow their business ventures possess the required skills. This not only involves identifying, launching and selecting the right business opportunity, but also having the required knowledge on how to manage the businesses effectively.

Therefore, it is essential that entrepreneurs acquire basic business managerial skills to manage their business ventures successfully (Baughnand Neupert, 2003; Sriramand Mersha, 2010). Research has highlighted a lack of both technical and managerial skills as constraints to business development. Furthermore, 90% of entrepreneurs believe that one of the reasons for high business failure is inadequate managerial skills in the business sector (Perks and Austin, 2013; Brink, Cant and Ligthelm, 2003; Rogerson, 2008; Young, Schaffers and Bruwer, 2012). The above literature concludes that entrepreneurial, technical and managerial skills and the ability to conduct thorough market research are essential skills for small businesses to succeed and grow.

**Location of Business:** Studies by Eckert and West (2008), Fatoki and Garwe (2010), Fatima and Muneer (2016) and Rantso, (2016) established that the survival and growth of a firm are associated with the geographic location. Notably, location was found to influence the performance of rural businesses, as it is related to the availability of markets and access to infrastructure. As a result, the choice of a business location should be considered carefully to minimise distribution costs, meet demand and beat competition. Therefore, potential business owners should check the suitability of their target location prior to making any decision pertaining to where to embark on their business.

**Government Support:** Lack of government support is cited as a major barrier to the growth of small businesses. This is associated with inadequate, inefficient support systems regarding the availability of public services. Furthermore, it can be attributed to the fact that institutions and associations that provide business support to SMEs are fragmented and uncoordinated. This is partly due to a lack of clear guidance and policy pertaining to the sector's development (Bilal and Mqballi, 2015; Peng and Luo, 2000; Ladzani and Netswera, 2009). Literature also reveals that most SMEs believe that they do not receive adequate support from the government. This is despite government initiatives that are in place. Furthermore, business owners found it challenging and discouraging to obtain government support, as it is perceived to be based on bribery and business connections. To this end, a study conducted in China indicated that the country's government has rolled out several business support systems for SMEs based on research and development (R&D). However, most small business owners in the country admitted that they find it difficult to access and benefit from these support services (Okpara, 2011; Zhu, Wittman and Peng, 2012; Fatoki and Garwe, 2010).

**Products and Services:** Innovative products, as well as quality, affordability and reliability of services are key strategic determinants of business success (Chittithaworn et al., 2011). SMEs that focus on introducing new products have a higher growth rate than SMEs that fail to introduce new products. To achieve growth, small business owners should find new products, markets and exploit new business opportunities (Tuan and Yoshi, 2009; Unger, Keith, Hilling, Geilnik and Frese, 2009; Coyne and Leeyson, 2004). Access to markets was revealed as one of the barriers to small business growth. This challenge is brought about by the fact that established firms are associated with advanced production processes, know trade secrets and have superior technology. Other advantages of large businesses include customer loyalty, extensive product advertising and marketing, as well as access to distribution channels (Moy and Luk, 2003; Briggs, 2009; Karakaya, 2002; Krasniqi, 2007; Ladzani and Van Vuuren, 2002). It was revealed that small businesses' outdated technology is a hindrance to SME-based development. Subsequently, SMEs require assistance with capacity building and access to technology.

Business owners and managers need to be trained on information technology (IT) to improve business performance, managerial competence, as well as increased responsiveness and flexibility to the external environment (Chittithaworn et al., 2011; Swierczek & Ha, 2003; Fielden, Davidson and Makin, 2000). Businesses can improve their efficiency by implementing the latest technology. It was further revealed that social media has a substantial impact on SMEs' performance. The internet and social media represent a potential vehicle to help small businesses create better brand awareness, customer relationships and sales. On the other hand, social ties provide a platform for investors to obtain business information and allow entrepreneurs to access resources to pursue business opportunities. (Shane and Cable, 2002; Jones, Borgman and Ulusoy, 2015; Kadam and Ayarekar, 2014; Ghouri, Khan, Malikand Raza, 2011). In conclusion, above literature highlights various aspects of finance, such as the availability of capital and credit, difficulty in taking out loans due to collateral requirements, poor financial management skills, as reasons for business discontinuation. Further characteristics of entrepreneurs, such as the capacity to identify and exploit opportunities, risk-taking capabilities, attitudes, motives etc.

### 3. Objectives of the Study and Research Methodology

Limpopo Province is the most rural province in South Africa. Sekhukhune is one of five districts in Limpopo Province. Unlike other district municipalities in Limpopo, it is situated some distance from major towns. The level of skills in Sekhukhune is the lowest of any district in Limpopo. This severely hampers the district's ability to be innovative in implementing economically productive ventures. Consequently, there is an increased reliance on Government for trade purposes. Furthermore, this district is classified as the poorest of the poor districts in the country. Currently, 35% of the economically active population is employed within the district. On the other hand, 60% of workers are employed outside the district. This is attributable to the low level of job opportunities. For this reason, Sekhukhune in Limpopo Province was selected for this study. While other factors like the location of business and Government support plays a critical role in SMEs success. Lastly product and services, technology, efficiency etc. can be supportive to the success of small businesses.

Studies conducted by various researchers (Fatoki and Garwe, 2010; Van Scheers, 2010; Thornhill and Amit, 2003) confirm that 75% of the small businesses in South Africa remain unsustainable until they graduate into established firms. The estimated failure rate of SMMEs in South Africa is between 70% and 80%, while less than half of newly established businesses survive beyond five years, resulting in millions of rand being lost on business ventures. This is a common phenomenon throughout the world. To reduce the risk of failure and increase the chances of success, it is essential to understand the factors that affect business performance. As such, this study addresses the question: What are the factors that contribute to the business performance in SMEs operating in Sekhukhune? Accordingly, the two objectives are: to identify factors that affect the success of small businesses in Sekhukhune; and to assess the relationship between these success factors and business performance.

**Population and Sample Size:** The population consisted of small businesses in Sekhukhune that have been operating for more than three years. The size of the small businesses, number of years in business and the number of employees were used to identify businesses that fall within the parameters of the definition of a "small business". Included were retail shops, general dealers, building material hardware shops, restaurants, greengrocers, brick makers, public phone operators, welders, motor mechanics, car washes, as well as panel beaters and spray painters. Liquor shops and restaurants were excluded from the study. Out of the population of 549 registered small businesses in Sekhukhune (Limpopo Business Support Agency, 2011), a structured questionnaire was distributed to a randomly selected sample of 200 businesses. The sample calculator formula for a population of 549, with a 95% confidence level and a 5% margin, yields a sample size of 220. A sample size of 200 (37% of the population) was found suitable to obtain a final response of at least 100, which provides stable statistical results.

The respondents included small business owners or managers operating in the said district municipality. The data collection process took approximately three weeks. To obtain a high response rate, the respondents were requested to complete the questionnaires on the spot. The returned questionnaires were checked for completeness. Questionnaires with more than two missing responses were rejected. A total of 160 responses were returned of which 124 were fully completed. Some of the reasons for non-response included the fact that there was no financial benefit or respondents did not have time. The participants were fully informed of the purpose and objectives of the study before they participated in the study. Furthermore, participants were guaranteed privacy, confidentiality and anonymity with regard to the information provided. In cases where both the owner and the manager were actively involved in the day-to-day running of the business, the person who oversaw the overall management was requested to complete the questionnaire.

**Questionnaire Design:** The questionnaire utilised in the study was aligned with the above-mentioned research objectives. The literature on small businesses was used as a point of reference to formulate the questionnaire. Accordingly, the question naira utilised in this study was adapted from various studies on factors that affect the viability of small businesses. This included studies by Chittithawornnet al. (2011), Ladzani and Netswera, (2009), Garg and Makukule, (2015), Fatima and Muneer (2016) and Fatoki (2011). Questionnaires from these studies were modified to suit the South African setting. The questionnaire for this study comprised of three sections, namely A, B and C. Section A related to respondents' demographic profiles. Respondents were requested to provide information on nature of their businesses, staff numbers educational qualifications, number of years in business, age, marital status and gender. Section B covered factors that

affect business success. It comprised of 25 questions. The variables (dependant)included “finance”, “characteristics of an entrepreneur”, “location of business”, “government support”, as well as product and services”. Section C was used to measure the perceived business performance (dependent variable). Table 1 below shows the development of sections B and C of the questionnaire. The questions shown in italics (FIN3, FIN 4, etc.) could not be validated for this study.

**Table 1: Section B and C of Survey questionnaire and associated variables**

<b>VARIABLE</b>	<b>CODE</b>	<b>QUESTIONNAIRE</b>	<b>REFERENCES</b>
<b>Section B of the questionnaire</b>			
<b>Finance</b>	FIN1	I had enough money to start my business.	Chittithaworn et al. (2011),
	FIN2	My business has adequate cash resources.	Ladzani and Netswera
	<i>FIN3</i>	<i>Existing capital is insufficient to maintain and take advantage of business opportunities.</i>	(2009), Garg and Makukule
	<i>FIN4</i>	<i>The banking sector is willing to give loans to small businesses.</i>	(2015), Fatima and
	<i>FIN5</i>	<i>I am satisfied with the financial facilities provided by banks and other lending institutions.</i>	Muneer (2016), Fatoki (2011).
<b>Characteristic of an entrepreneur</b>	COE1	I have plans to expand my business.	Chittithaworn et al. (2011),
	COE2	I take risks in order to expand my business.	Fatima and Muneer
	COE3	<i>I keep a full record of my business transactions (sales, expenses, separate bank accounts etc.).</i>	(2016), Garg and Makukule
	COE4	<i>I have identified a set of performance measurements to use in assessing business performance.</i>	(2015), Fatoki, 2011.
<b>Location of business</b>	LOC1	Choosing a suitable location is essential for business success.	Ladzani and Netswera
	LOC2	The location has an impact on the cost of doing business.	(2009), Garg and Makukule (2015).
<b>Government support</b>	GOS1	Government policies are favourable to small business development.	Chittithaworn et al. (2011),
	GOS2	Government agencies are prepared to assist small businesses.	Fatima and Muneer
	<i>GOS3</i>	<i>I am aware of the small business support services offered by the government.</i>	(2016), Ladzani and
	<i>GOS4</i>	<i>I am one of the beneficiaries of government incentives.</i>	Netswera, (2009), Fatoki (2011).
<b>Products and services</b>	PAS1	My business uses e-commerce for business purposes.	Chittithaworn et al. (2011),
	<i>PAS2</i>	<i>Changes in products and services have not been quite as significant in the preceding three years.</i>	Fatoki (2011).
	<i>PAS3</i>	<i>My products are reliable and received good customer feedback.</i>	
<b>Section C of the questionnaire</b>			
<b>Business Performance</b>	BUP1	My business asset base has increased in the preceding three years.	Chittithaworn et al. (2011),
	BUP2	My customers are increasing year by year.	Fatima and Muneer
	BUP3	I am satisfied with the growth in sales and profitability of the business.	(2016), Garg and Makukule
	BUP4	A portion of the profit generated is reinvested in the business.	(2015).
	BUP5	The market share of my business has increased over the previous three years.	
	BUP6	The number of staff members has increased in the past three years.	
	BUP7	I consider my business to be successful.	

The questionnaire was pre-tested before starting the data collection process. The purpose of pre-testing was to assess whether the questions were clear and whether respondents were given enough time to complete the questionnaire. Furthermore, the pre-testing phase helped refine the questionnaire, so that respondents could answer the questions easily and eliminate problems relating to data recording. The pre-test took place through prearranged sessions with 10 business owners and managers residing in the survey area that have the knowledge and experience of running a small business. Subsequently, minor adjustments were made to the questionnaire, which related to sentence construction or phrasing and language used. Three types of analysis were conducted. Descriptive statistics were applied to the demographic profile. A chi-square test was applied to find the relationship between the demographic profile and the study's variables.

#### 4. Data Analysis

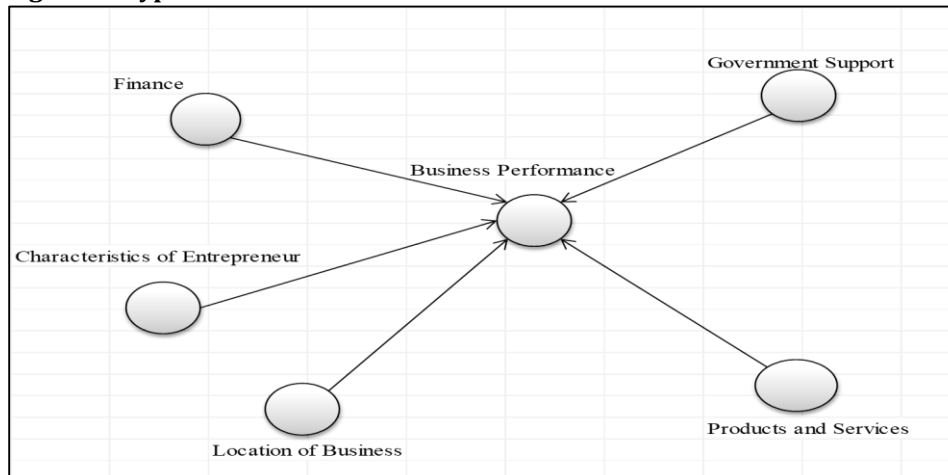
The demographic results reflected that small businesses that were operating in Sekhukhune, Limpopo, were sole traders that were owned or run by males (71%). Small business owners with more than 20 years' business experience represented 43% of the respondents. A total of 62% of respondent had a high school qualification. The majority (57%) of the respondents were married. A total of 43% of respondents were over 50 years of age. Most small business owners who participated in this study indicated that their business establishments (72%) employed between one and five people. Table 2 below shows the average, standard deviation, Skewness and kurtosis scores, as well as Cronbach's alpha for all the variables used in this study. The Cronbach's alpha scores for all variables were in the range of 0.7 or above, while other parameters were in the expected limits. The average values above 2 on a scale of 4 suggest that all the factors had a positive correlation.

**Table 2: Average Values, Standard Deviation, Cronbach's Alpha, Skewness and Kurtosis of the Final Distribution of the Indicators (N=124)**

Construct	Mean	Std. Dev	Kurtosis	Skewness	Cronbach's alpha	Composite reliability coefficient
Finance	2.03	0.71	-0.33	0.42	0.696	0.866
Characteristics of the enterprise	3.12	0.51	1.48	-0.69	0.759	0.891
Location of business	3.32	0.43	-1.15	0.59	0.696	0.866
Government support	2.34	0.64	-0.08	0.33	0.782	0.901
Products and services	3.21	0.67	1.93	-0.92	1.00	1.00
Business performance	2.89	0.45	0.85	-0.40	0.739	0.819

Figure 1 below depicts the model that was hypothesised to test the relationship between dependent and independent variables. "Business performance" was the dependent variable, while "finance", "characteristics of an entrepreneur", "location of business" and "government support" were the independent variables. It was hypothesised that all independent variables had a positive relationship with dependent variables.

**Figure 1: Hypothesised Model**



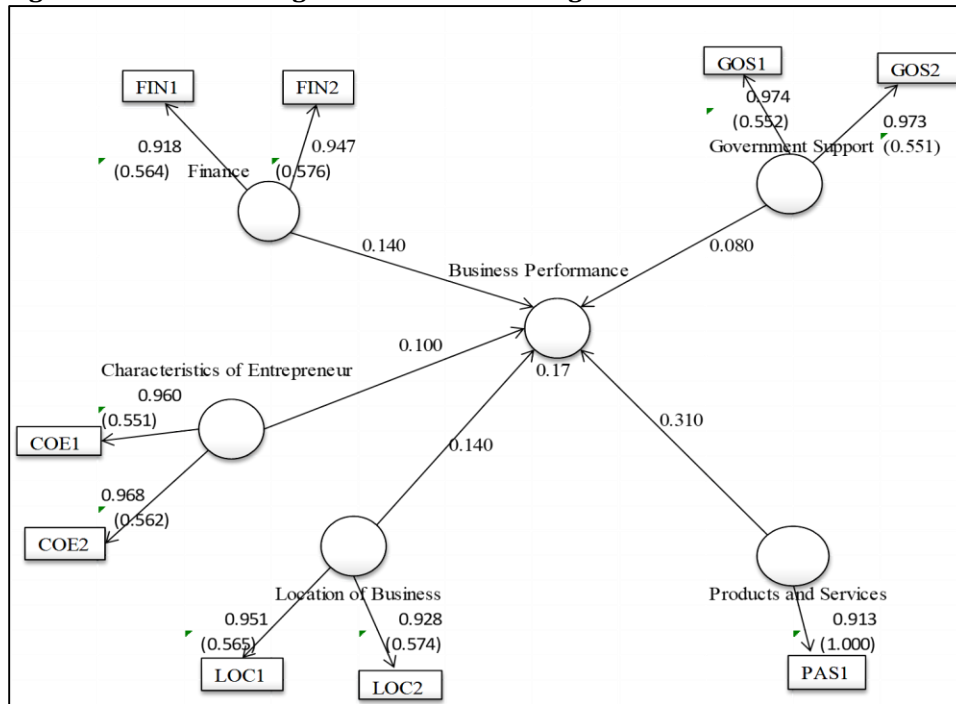
A three months' trial version of Warp Partial Least Square (5.0) statistical software was utilised for data analysis. The elements of the model, decision criteria, factor-loading, cross-loading, internal consistency and construct validity are depicted in Annexure 1. All model characteristics were within decision criteria (see Tables A1 and A2 in Annexure 1). The factor loadings suggest that there was no major multicollinearity between the indicators, given the fact that the indicator loadings in relation to its constructs are greater than the other constructs (see Table A3 in Annexure). To determine internal consistency and discriminates validity, the constructs were merged in the form of a model. The results suggest good internal consistency, as well as convergent and discriminates validity for all constructs. Furthermore, all constructs had an AVE greater than 0.5, or 50%. The decision rule is that AVE should be greater than 0.5. This implies that at least 50% or more of the variance of indicators should be accounted for (see Table A4 in Annexure 1). Bootstrap re-sampling was performed to examine the statistical significance of path loading, weights and T-values. Table 3 below shows the results of the analysis.

**Table 3: The Path Loading and T-Values**

Path	Loading	T-Values
Finance → business performance	0.140	1.397*
Characteristics of an entrepreneur → business performance	0.100	1.598*
Location of business → business performance	0.140	1.398*
Government support → business performance	0.080	1.172*
Products and services → business performance	0.310	1.978*

\*statistically significant at 95% confidence level

**Figure 2: Model Showing the Paths and Loadings**



**Table 4: Chi-Square and Crosstabs between Demographic Data and Variables**

Variable	Age	Gender	Marital status	Educational qualifications	Business type	Number of staff members	Years in business
Finance	0.524	0.069	0.001*	0.008*	0.013*	0.000*	0.076
Characteristics of an entrepreneur	0.010*	0.027*	0.699	0.016*	0.347	0.001*	0.000*
Location of business	0.550	0.291	0.069	0.004*	0.000*	0.961	0.032*
Government support	0.494	0.565	0.000*	0.005*	0.001*	0.015*	0.000*
Product and services	0.601	0.227	0.040*	0.381	0.354	0.181	0.002*
Business performance	0.352	0.007	0.004*	0.003*	0.014*	0.002*	0.053

\*p-value of less than 0.05 shows the association between the demographic information and the variables.

Table 4 shows various statistically valid relationships between variables. However, there was no specific trend or specific conclusions that could be drawn. In general, it can be said that there was an association between “business performance” and the demographic variables, marital status, business type and educational qualifications, number of staff members or staff complement.

**Analysis of the Model Path Coefficients Per Factor:** The path coefficient values suggest that all factors, namely “finance”, “characteristics of an entrepreneur”, “business location”, “government support”, as well as “products and services” had a weak positive relationship with “business performance”. The chi-square test was performed to determine whether there was an association between the variables and the demographic data (age, gender, marital status, educational qualifications, business type and years in business). The decision rule is that the p-value must be less than 5% or 0.05 for an association to exist between demographic information and variables.

**Discussion:** The objective of this study was to identify factors that affect the success of small businesses and to assess the relationship between these factors and business performance. This section discusses the factors that were validated in this study.

**Finance:** Literature suggests that finance plays a significant role in the success of SMMEs. Accordingly, this study considered five indicators under the variable “finance”. These factors are indicated in Table 1 as FIN 1 to FIN 5. The factor analysis showed that the indicators FIN3, 4 and 5 were not valid indicators while, FIN 1 and 2 were validated. These validated factors indicate that business owners had enough money to start businesses and adequate cash resources to perform business. There was a weak but positive relationship between the indicators representing “finance” and “business performance. This finding suggests that “finance” is a factor that impacts “business performance”. However, the key factors in finance are the owners’ financial resources and the adequacy of SMME operations. The factors did not validate indicate that external finance is not a key factor in business performance. This explains the fact that small businesses fail despite external finance. Owner’s financial resources and the proper management thereof plays a key role in the performance of small businesses. These findings are contrary to previous research findings on external financial support for SMMEs, which argued that external finance was the key to business success (Okpara and Wynn, 2007; Gill and Biger, 2012; Fatoki and Garwe, 2010). Rather, the current research findings are in line with that of Daskalakis et al. (2013) and Yusuf (2014). Notably, these authors found that small business owners rely heavily on their own funds, were unaware of existing funding agencies and some considered applying for grants as a waste of time.

**Characteristics of entrepreneur:** The “characteristics of the entrepreneur” is another determining factor in the success of SMMEs. This study used four indicators (COE1 to COE 4 in Table 1). Factor analysis did not validate record keeping and an identified set of performance measures. In turn, plans to expand business and



risk-taking to expand business showed a positive but weak relationship with “business performance”. These findings suggest that small businesses did not practice record keeping and did not have any performance measures. However, it was revealed that risk-taking and plans to expand business enterprises were inherent characteristics of SMMEs studied. This is in line with the findings of authors like Hill (2001), McCartan-Quinn (2003), Dockel and Lighthelm (2005), Omri et al. (2015), Garg and Makukule, (2015) and Garg and Letsolo, (2016).

**Location of Business:** Choosing a suitable location and impact of location on cost were the two indicators that were tested and validated in this study. It was established that “location of business” had a positive but weak positive relationship with “business performance”. These findings are consistent with the studies conducted by Eckert and West (2008), Fatoki and Garwe (2010), Fatima and Muneer (2016) and Rantso (2016).

**Government Support:** Government policies and other types of support are considered a key aspect in the success of SMMEs and were positively related to “business performance”. The factor analysis showed that government policies were favourable, and agencies were prepared to assist small businesses. However, other factors such as awareness of government support to SMMEs and beneficiary of government support were not validated in this study. These findings suggest that government agencies should do more to render support to SMMEs. Notably, the aforementioned findings are in line with that of Okpara (2011), Zhu et al. (2012), Fatoki and Garwe (2010), Bongomin, Munene, Ntayi and Malinga (2018) and Gupta and Mirchandani (2018).

**Products and Services:** The right product mix and knowledge of customers are necessary for businesses to succeed. The study found a positive relationship between “products and services” and “business performance”. Factor analysis results found that changes in SMMEs’ products and services and customer feedback on their products were not valid indicators, suggesting that SMMEs did not focus on product and service mix. However, they were using e-commerce for business purposes. Researchers such as Garg and Choeu (2015) and Chittitwhaworn, et al. (2011) support this finding.

## 5. Conclusion and Recommendations

This study confirms that finance, characteristics of entrepreneurs, the location of the business, government support etc. played a role in the business performance of SMMEs in the selected sample. The study concluded that small businesses rely heavily on their own funds. Furthermore, results revealed that some businesses were unaware of funding opportunities and considered applying for government funding a waste of time. As such, it is recommended that government funding should be marketed more broadly to reach target markets. They should also make funding procedures hassle free. Risk-taking remains one of the key determining factors in small businesses. To this end, training programmes to identify and quantify risks can help small businesses safeguarding against business risks. Training in record keeping is also recommended. The study also found that the location of a business, as well as products and services were important determinants of business success. Hence, local agencies should provide advisory services to help small businesses succeed. The authors propose to revert these recommendations to the Sekhukhune Local Municipality for implementation. However, the findings in the study cannot be generalised, especially the findings on financial aspects which are contrary to other studies. Furthermore, findings from this study can provide feedback to Government with regard to various schemes they have launched to support SMMEs in South Africa.

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**ANNEXURE 1**

**Table A1: Elements of the Model**

<b>Number of latent variables</b>	<b>Latent variables</b>	<b>Number of indicators</b>	<b>Number of paths</b>
6	Finance	2	1
	Characteristics of an entrepreneur	2	1
	Location of business	2	1
	Government support	2	1
	Product and services	1	1
	Business performance	7	1
<b>Total number of indicators</b>		16	<b>Total number of paths</b> 5
<b>Sample size</b>		124	<b>Measurement Model</b> Factor-Based PLS Type PTH1
<b>Re-sampling method used</b>		Bootstrapping	<b>Structural model analysis</b> Warp3 Basic
<b>Number of resample used</b>		100	<b>Number of iterations</b> 8

**Table A2: Model Characteristics and Decision Criteria**

<b>Model fit and quality indices</b>	<b>Baseline model</b>	<b>Acceptable statistics</b>
Average path coefficient (APC)	0.155 P<0.001	APC<2 P<=0.05
Average R-squared (ARS)	0.165 P=0.442	ARC<2; Highest R-squared should be selected; Lowest p-values.
Average adjusted R-squared (AARS)	0.130 P=0.769	P<=0.05
Average block variance inflation factor (AVIF)	1.213	<=5 ideally <=3.3
Average full collinearity (AFVIF)	1.176	<=5 ideally <=3.3
AVIF + AFVIF	2.389	For more than 2 indicators; both AVIF plus AFVIF<5
Tenenhaus GoF (GoF)	0.354	Small >=0.1, medium >=0.25, large >=0.36
Simpson's paradox ration (SPR)	0.800	>=0.7, ideally = 1
R-squared contribution ratio (RSCR)	0.955	>= 0.9, ideally = 1
Statistical suppression ratio (SSR)	1.000	>=0.7
Nonlinear bivariate causality direction ratio (NLBCDR)	0.400	>=0.7

**Table A3: Factor Loading and Cross Loading for the Constructs**

<b>Code</b>	<b>Fin</b>	<b>COE</b>	<b>LOB</b>	<b>GOS</b>	<b>PAS</b>	<b>BUP</b>
FIN1	<b>0.918</b>	-0.017	-0.369	0.141	0.020	0.005
FIN2	<b>0.947</b>	-0.130	-0.210	-0.079	0.017	0.191
COE1	-0.066	<b>0.960</b>	0.102	0.179	0.174	-0.026
COE2	-0.083	<b>0.928</b>	0.070	0.186	0.294	0.082
LOC1	-0.262	0.047	<b>0.951</b>	0.040	0.056	0.142
LOC2	-0.324	0.118	<b>0.928</b>	-0.078	0.087	0.080
GOS1	0.044	0.207	0.058	<b>0.973</b>	0.054	0.052
GOS2	0.026	0.172	-0.101	<b>0.974</b>	0.016	0.107
PAS1	0.022	0.256	0.084	0.039	<b>0.913</b>	0.302
BUP1	0.302	-0.128	-0.100	-0.168	0.195	<b>0.903</b>
BUP2	0.082	0.067	0.079	0.033	0.226	<b>0.964</b>
BUP3	-0.046	0.128	-0.028	0.264	0.225	<b>0.928</b>
BUP4	-0.031	0.066	0.360	0.452	-0.011	<b>0.813</b>
BUP5	0.134	0.010	0.079	-0.074	0.218	<b>0.961</b>
BUP6	0.064	0.084	0.284	0.062	0.535	<b>0.786</b>
BUP7	0.147	-0.053	0.155	0.017	0.410	<b>0.885</b>

**Table A4: Internal Consistency and Discriminant Validity Constructs**

<b>Code</b>	<b>FIN</b>	<b>COE</b>	<b>LOC</b>	<b>GOS</b>	<b>PAS</b>	<b>BUP</b>	<b>AVE</b>	<b>SAVE</b>
FIN	<b>0.874</b>						0.763	0.873
COE	-0.090	<b>0.897</b>					0.804	0.897
LOC	-0.366	0.104	<b>0.874</b>				0.763	0.873
GOS	0.041	0.219	-0.025	<b>0.906</b>			0.820	0.906
PAS	0.024	0.280	0.092	0.043	<b>1.000</b>		1.000	1.000
BUP	0.121	0.036	0.137	0.092	0.330	<b>1.000</b>	0.633	0.796