

UNIVERSITY OF KWAZULU-NATAL

**CHALLENGES FACING THE DEVELOPMENT OF SMALL
BUSINESSES IN THE RURAL AREAS OF THE FREE STATE
PROVINCE**

By

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DECLARATION

With the signature below I, Motsukunyane, M.L, hereby declare that the work that I present in this thesis is based on my own research, and I have not submitted this thesis to any other institution of higher education to obtain an academic qualification.

Signed..... Date.....

Motsukunyane ML

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ABSTRACT

Small businesses play a significant role in economic development of the country. However, their growth seems to be constrained by various challenges. Therefore, this study sought to establish the specific factors that hampered growth and development of small businesses in the rural areas of the Free State Province. The specific internal factors that were investigated were: access to training and development, adequate financial management skills, facilitation of marketing of SMMEs products and finally an extent to which the development of rural SMMEs was affected by access to start-up finance.

To select the respondents, this study employed a non-probability sampling technique specifically convenience sampling. A structured questionnaire was used to interview a total number of 150 respondents. This number made the sample size of this study. Those SMMEs operated from various districts of the Free State Province, which were Harrismith, Phuthaditjhaba, Ficksburg, Ladybrand and Wepener.

The collected data was quantitatively analysed with the use of SPSS computer software. The results indicated that rural SMMEs lacked access to training and development and they operated without financial management qualifications. Marketing of their products was another challenge they faced. Also a shortage of credit facilities for start-up and facilitation for the expansion of businesses was among the constraints to SMMEs development.

To overcome the challenges, this study recommended the availability of training and development in the rural areas. Financial literacy mentorship should be established in rural areas for training SMMEs on basic accounting skills. SMMEs should be assisted with a standard way to market their products and financial access must be improved for rural SMMEs.

The study confirms previous findings and contributes additional evidence that suggests that lack of education and financial facilities were the main challenges facing SMMEs in many parts of the country.

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ABBREVIATIONS AND ACRONYMS

CPPP	Community Public Private Partnership Programme
DTI	Department of Trade and Industry
FDC	Free State Development Corporation
FNB	First National Bank
GDP	Gross Domestic Product
IDC	Industrial Development Corporation
NAMAC	National Manufacturing Advisory Centre
NSBC	National Small Business Chamber
SARS	South African Revenue Service
SBP	Small Business Project
SEDA	Small Enterprise Development Agency
SEFA	Small Enterprise Finance Agency
SMART	Specific, measurable, achievable, achievable, realistic and time based
SMMEs	Small Medium and Micro Enterprises

CHAPTER ONE

OVERVIEW OF THE STUDY

1.1 Introduction

The importance of small medium and micro enterprises (hereafter called SMMEs) has been recognised by the South African government as job creators, which entails their role in the contribution towards economic growth (Hough, Nieman and Nieuwenhuizen, 2008:4). Despite their important contribution towards economic growth, Ladzani, Smith and Pretorius (2010) argue that small enterprises are classified as possessing minimum entrepreneurial skills, being managerial incompetent, having improper administrations and inadequate international trade strategies. In rural areas, where there is often a shortage of business skills, SMMEs attract and serve a restricted niche market where they basically supply the needs of the local community in small quantities, and most of those businesses are informal businesses (Ligthelm, 2011). These businesses do not grow as most of them are survivalist operating as means of day-to-day family survival. They operate in a simple market where most of the customers are financially marginalized with low income and less spending, which means only a small amount of profit is realized (Ligthelm, 2011).

With government agencies and big businesses playing an effective role in skills development and financial assistance, an efficient contribution towards unemployment reduction can be realised. This is confirmed by Thabethe (2012) in the Mail & Guardian when he states that SMMEs supply 61% of the jobs in the labour market. Eloff, Kotzé and Modiba (2012) alert that the government cannot issue any resource assistance to the unregistered SMMEs, which increases the number of unsuccessful SMMEs and suddenly unemployment rises. According to Ramela in Free State Times (2012), 80 percent of newly established SMMEs fail in their first two years while an immense number barely live beyond three years due to lack of training, skills development, and financial assistance.

This framework will therefore investigate specifically some of the internal challenges facing the development of small businesses in the rural areas of the Free State Province.

1.2 Background of the study

The Department of Trade and Industry (2005) states that in 1995 the South African government developed a White paper on the National Strategy for the Development and Promotion of Small Businesses due to an increased rate of failure within current and potential small enterprises. With government trying to lower barriers to small business establishment and create a favourable environment, the 1995 White paper transformed and enabled SMMEs to engage in technological advancement and global competition (Sha, 2006).

Bowen, Morara and Mureithi (2009) state that Small businesses in South Africa are the backbone of the national economy, hence they play a very crucial role in the development hereof, even though they meet numerous environmental problems in their growth and development. Regardless of their importance, there is still high failure rate due to lack of success features such as Marketing, Finance and qualified human resources (Bowen, 2009). According to DTI (2009), these unsuccessful SMMEs affect the economy negatively, because SMMEs contribute more than 15 percent to South African GDP and 60 to 70 percent to employment. A study by Ladzani, Smith and Pretorius (2010) reports that in addition to the problems of finance, skills and marketing, there were serious constraints posed by the lack of infrastructure. This implies that by better assisting small enterprises the economy will grow.

Finscope South Africa Small Business 2010 survey advises that by assisting small businesses the social grant dependency can be reduced by half a million, and 2.5million jobs could be created by 2020. The aforementioned report further urges that South Africa should learn from entrepreneurial countries such as Brazil and India with their GDP growing by 10 percent as a result of the contribution of sustainable small businesses. Adcorp economist Loane (2012) has observed that there has been a reduction in the number of startup SMMEs in South Africa, indicating that there were as many as 250 000 startups in 2001 and this has come down to 48 000 startups in 2011. This is a massive decline indeed, and it indicates trouble in economic growth.

The Free State Province is one of those South African regions that are showing signs of rural stagnation. This was confirmed by Mhahle the MEC for Finance of that Province who mentioned in his 2012 budget speech that one of the problems the SMMEs face is that they are not registered. This makes it difficult for the Provincial Government to assist them. He stated that “whereas the SMMEs are visible in the Province, they have not helped in reducing unemployment. Things are so bad that the unemployment rate in this province stood at 29.4% in 2010/2011 compared to the national levels which were at 23.9% at the time.”

In light of the above, the aim of this dissertation is to ascertain the challenges facing the development of small businesses in the rural areas of the Free State Province.

1.3 Statement of the problem

The African Institute for Community Development (2005) has observed that one of the problems SMMEs experience results from having to compete with big operators thus making them slash prices so that they can sell something. Of course, this results to low profits which are not conducive to growth. Being located in rural areas, there is a further problem of purchasing power. Their target customers are mostly poor and unemployed, and depend on social grants for survival. This does not bode well for business growth, and it means they cannot dent unemployment either.

Rajaram (2008) observed that the importance of SMMEs is undermined. This is confirmed by both private and public sectors in South Africa, where SMMEs are viewed as a solution to unemployment reduction and they are the main sources of innovation and new ideas. According to an SBP occasional paper (2009), since large firms have not been producing employment to a required level, with low level of job creation in South Africa, a favourable environment and various assistances from different institutions must be established in order to develop and transform the informal small enterprises to the formal small businesses. SBP further adds that a business’s environment will always be challenging especially with different groups of small enterprises having various needs and wants. Richard (2010) observed a further challenge, that small businesses in the rural areas are constrained by the environment in which they are situated, which makes it very difficult to access the required tools like start up finance and advanced technology. Richard further indicates that some obstacles to their successes are identified as poor

infrastructure and other internal operations like poor inventory and credit management, which upsets the entrepreneurship process. The above factors indicate that there is a lot to be done by the government.

According to Edward, Linda and Martin (2011), an unfavorable environment with harsh economical, legal and technological challenges exerts pressure on small enterprise investment which obstructs the innovative ways of SMMEs. This hinders SMMEs to gain a competitive advantage edge in order to sustain their operations by investing in advanced technology. On the other hand, there are considerable doubts about the state and large companies' assistance on small businesses. In this regard, Payne (2011) found that the established large businesses and the state do not supply small businesses with the tenders they are able to provide. The reason for this is that SMMEs lack the minimum skills required to win tenders. Workshops provided for skills development seem unprofitable due to a foreign language used to impart information to small businesses representatives (Eloff, Kotzie and Modiba, 2011).

Despite all the endeavors by Government and financial institutions that are aimed at improving the situation of SMMEs, they seem to still be struggling. The Government is enacting laws that aim to improve growth in the economy by boosting small businesses. Yet these entrepreneurs do not seem to be capable of responding positively to all this assistances. They do not survive and even when they seem to be making it, they still do not dent the economic challenges like unemployment figures.

Having sketched the research problem, this study will attempt to obtain answers to the following question:

1.4 Main research question

What are the specific factors that hamper growth and development of small businesses in the rural areas of the Free State Province?

1.5 Objectives of the study

Following the identification of the research problem and to answer the above stated research question, this study sought to address the following objectives:

- (i) To establish if rural SMMEs have access to training and development.
- (ii) To ascertain if rural SMMEs possess adequate financial management skills.
- (iii) To establish how the marketing of SMMEs products are facilitated and
- (iv) To ascertain the extent to which the development of rural SMMEs is affected by access to start-up finance.

1.6 Concluding summary

This chapter has been an introduction to the problem of the challenges facing the development of the small businesses in the Free State Province. These challenges deprive the SMMEs from enjoying the rewarding operations that enable the business to stay in the market for the long term. The specific micro environmental factors will be explored as the ones that disadvantage SMMEs. To further validate the argument, extensive literature will be explored under this study. It is anticipated that feasible solutions will be found in attempt to control the problems SMMEs face in the said Province.

1.7 Structure of the thesis

Chapter one

This chapter deals with the introduction of the study where the following were briefed; background of the study, problem statement, research questions, objectives and concluding summary of the chapter.

Chapter two

Under this chapter literature was reviewed from the contextual framework of the small businesses. This covered the background of SMMEs on their contribution to the economy and what strategies lead to successful SMMEs.

Chapter three

Further literature was explored basically on specific challenges facing the small businesses.

Chapter four

The overall approach of the study was discussed, outlining the research design, data collection methods, data analysis, and the limitations encountered in the data collection process.

Chapter five

The collected data for this study was presented and interpreted from the SPSS analysis.

Chapter six

This was the final part of this study which gave the detailed findings in relation to literature and it further came up with the suggestions on such findings.

CHAPTER TWO

CONTEXTUAL FRAMEWORK OF THE SMALL BUSINESSES

2.1 Introduction

This chapter reviews scholarly work on various challenges faced by small medium and micro enterprises (hereafter called SMMEs). The review begins by defining SMMEs, identifying their specific characteristics, and how best they should be managed.

2.2 Defining SMMEs

Different countries define SMMEs differently. A respective definition in the named countries below is basically on SMMEs' annual turnover and their sizes measured by the number of employees a business has. For example, in the United Kingdom a business is deemed to be small if it has a small market share, managed and controlled by its owners and run autonomously. The number of employees should be between 0 to 250 and the annual turnover must not be more than 11.2 million dollars (Cater and Jones-Evans, 2000:24-25). Europe on the other hand, defines a small business as an independently run business that employs less than 250 employees but has a maximum annual turnover of 40 million euros.

In South Africa, SMMEs have different parameters. A small business has no more than 200 employees, it is owned privately, managed independently, and does not realize a turnover of more than 64 million rand per year depending on the type of business. This turnover varies based on the sector that the business resides, may it be in mining, manufacturing, wholesale, transport or business services sector. The maximum assets worth excluding land and buildings should not exceed 10 million rand, with not more than five business units (Du Toit, Erasmus and Strydom, 2009).

However, from the context of small businesses, there exists entrepreneurship, but as a subset of small businesses which various intellectuals define differently.

2.3 Defining entrepreneurial firms

Strategic risk taking within business involves striving for growth by doing things differently; coming up with new ideas or products and identifying opportunities which others do not identify, with the overall aim of making profit (Hough, Nieman and Nieuwenhuizen, 2008:9). Unlike SMMEs, which are meant mainly for a specific individuals' financial security without the aim of expansion, entrepreneurs conquer the market with the innovative skills they employ and are keen to live beyond trying to survive and grow to the sky (Hough, Nieman and Nieuwenhuizen, 2008:9). Even though they differ in their objectives, they require similar activities to “kick-start”, they experience similar challenges and they create employment for the nation, since they both contribute to the national economy but in varying degrees. Despite this, Phitidis (2010) settles that even the viable family owned small shops are supposed to be categorized as entrepreneurs because the owners have the same goal of obtaining profits as entrepreneurs do, but simply lack courage and necessary resources.

2.4 Contribution of SMMEs in the economy

It has been a revolving view amongst the scholars that SMMEs are the backbone of economic growth in South Africa. Economic growth is about the increase in the production of resources and the discovery of new resources with advanced techniques in order to distribute the resources amongst the citizens with the aim of promoting wealth (Priest, 2003). Priest further states that, SMMEs fit into the context of economic growth where a market is dominated by inadequate demand of specific products and services; this means SMMEs are mostly the ones to supply those products because they operate in a small market with less demand.

Conversely, it is challenging for the large company to direct their products to a market with limited consumer demand, and few large businesses do coordinate their products to such markets which results in competition with smaller businesses. The recent cut back of large businesses' supply to small markets has caused small businesses to run independently in order to promote employment, and reduce poverty in the nation (Gebremariam, Gebremedhin and Jackson, 2004).

It has been observed by the South African government that SMMEs are innovative, which translates to market competition and higher quality products or services being supplied to the

customers. According to the South Africa Finance Minister, Gordhan (2012) in the business day newspaper, he points out that there is a necessity for an increase in comprehensive assistance for SMMEs in order for their positive impact to be felt in the economy. In assisting SMMEs, there is a resultant effect of reduced unemployment since more jobs will be created and income of the citizens would increase, ultimately contributing to economic growth. This is confirmed by Thabethe (2012) in his statement that SMMEs provide between 52% and 57% of the country's gross domestic product, supply 61% of the jobs in the labour market and pay up to 40% of the salary of the labour force. In order for SMMEs to contribute effectively and efficiently in the economy to create more sustainable jobs, the sector needs substantial assistance from both the private and public sector.

2.5 Economic approach

Deakins and Freel (2003:3) identify and suggest some entrepreneur economic theorists as Cantillon, Kirzner, Schumpeter, Knight and Casson. These theorists are said to be the most appropriate to the current entrepreneur environment because they clearly indicate the roles of entrepreneurs in facilitating economic activities (Deakins and Freel, 2003:3). These writers view the entrepreneur's function from a different perspective, which is discussed below.

2.5.1 Cantillon

According to Mirjam (1999), Cantillon is the first to claim the importance of entrepreneurs in the economic system and to distinguish entrepreneurs from two other classes: those who are employed in return for payment, and landlords. An entrepreneur brings new changes to the market by taking on the associated risk of bringing together production factors that would contribute to economic growth, with the motive of profit making. Entrepreneurial demands are always uncertain due to the risk of combining factors of production in order to supply the target market's demand (Robert, 2001). This means that even the profits an entrepreneur gets are uncertain because he takes the risk of supplying an unknown or assumed demand. Through these predictions, Richard Cantillon views people in different perspectives in relation to being entrepreneurs in that, some are certain in their returns while others like innovators expect variable returns due to uncertainties in the environment (Mark, 2005).

2.5.2 Kirzner

Kirzner views an entrepreneur as a person who is always ready to act in on any break in the market, and utilize such chances as a trader who is capable of outsourcing superior distribution channels for his products. Because of his extra skill to look for and act on opportunities, an entrepreneur is referred to as unique from other business people as he is able find a target market for profit (Deakins and Freel, 2003:4). But Nicolai and Peter (2010) argue that the theorist does not go deep into the explanation of an entrepreneur's role in the market. The theory does not stress the entrepreneur's role in relation to actual incomes and spending of entrepreneurs in the market. Nicolai and Peter (2010) further argue that Kirzner only shows how an entrepreneur is the middleman in the business chain.

2.5.3 Schumpeter

According to Deakins and Freel (2003:5), Schumpeter is more concerned with big businesses that eliminate the operation and creativity of small businesses because of the high quality of staff and the mass technology they possess. Even though the entrepreneur's character is regarded as being amazing compared to the character traits that other people possess, the new changes they bring mostly exist in the environment of large businesses and these innovators work in that environment because they cannot launch their own businesses. Anthony and Christine (2010) add that these opportunity seekers are capable of finding new distribution channels, exploring novel markets, inventing new ideas, establishing novel businesses, and bringing fresh unfamiliar commodities into the market. Merging entrepreneurial talents with all these capabilities can reduce insecure business predictions, by making it possible to obtain more customers and thus enlarge market share (Pontus and Roger, 2010).

2.5.4 Knight

Charles (2006) describes an entrepreneur as someone who oversees the staff in the business and that has his properties at critical danger but that guarantees the staff cannot lose their salaries in the event of misfortunes occurring in the business. Entrepreneurial status can be transferred through shares and this means managerial functions are resumed

with a manager taking the role of entrepreneur by bearing the risks of fluctuating profits (Ross, 2011). While in Knight's theory, a manager takes over an entrepreneur's task and allocates duties to the staff, this means being responsible for all the actions of employees and returns of the business.

2.5.5 Casson

An entrepreneur in Casson's view, with his unique ability, is responsible for the distribution of limited resources their utilisation in a critical way even in the face of resources constraints that may be an obstacle to success (Catherine, 2008). These resources are distributed with the aim of making profit and this depends on the amount of resources the entrepreneur possesses and the wealth they return (Mark and Teresa da Silva, 2007). Supply and demand of these resources heavily depend on the environment in which an entrepreneur operates.

2.6 Start-up success factors

In small business context, managers, owners and co-owners are the strategists and are observed by their successful characteristics such as creativity and innovation, risk orientation, leadership, good human relations and commitment (Analou and Karami, 2003:13). The following attributes may not be the only ones responsible towards a successful development of a small business, but there might be some which are not of attention in this study.

2.6.1 Characteristics of a successful entrepreneur

The National Small Business Chamber (2012) advises that in business, not only is the world changing, entrepreneurs' features must also be transformed from being arrogant to humble, lazy to hardworking, negative to positive, from giving up easily to never giving up, from being unhappy to happy, pessimistic to optimistic, unlikeable to likeable and from all other poor qualities to stronger and better qualities. This indicates that for an entrepreneur to sustainably succeed in business, he must possess the natural entrepreneurial features such as creativity, risk taking, and leadership. These factors will now be discussed subsequently. These features are supplemented through learning, either formal or informal.

(i) Creativity and innovation

In order for an entrepreneur to fit into a competitive market and out-compete the rivals, vision and invention are defensive and offensive aspects that the entrepreneur must be aware of. An entrepreneur who is able and capable of bringing out new strategic ideas to a business contributes sustainably to the economy of the country (Alas and Elenurm, 2008). These can be created by constructive criticism; entrepreneurs can create a new successful direction different from what the majority's expectation is, which indicates the entrepreneurs positive attitude towards the dynamic technical business world that requires daily creativity and invention (Phitidis, 2010).

However, the process cannot occur without obstacles which might be beyond the innovators control. The innovation process does not happen in the twinkle of an eye. The process depends on the status of the environment that the entrepreneur operates in which might be favourable or unfavourable, this means challenges are always met by a new concept introduced; whether invented by a wise strategic innovator or not. These challenges usually occur at the start-up phase, as this is the phase where new ideas and products are introduced by various small enterprises with different degrees of innovation (Booyens, 2011).

(ii) Risk orientation

Risk taking and uncertainty in search of new business opportunities is what entrepreneurs are associated with (Alas and Elenurm, 2008). In the Business Day newspaper, Hirsch (2012) argues that not all entrepreneurs accept the risk in the market, in his differentiation of the two strategies entrepreneurs exploit, he states that some entrepreneurs always review their past investments for fear of taking steps forward which may get them into the same or similar past negative investment mistakes that they made before. These investors are scared of developing forward strategies which may their success.

On the other hand, there are those other entrepreneurs who are ready and eager to tackle market externalities and internalities. This group look forward to what they

aim to achieve in business, they do not demoralise themselves with past negative impacts. They believe in forward strategies and in overcoming all external challenges that are in their way of gaining investments. They take risk as a friend that will help them realise and spot opportunities for the long term growth of their investments. Pireu (2012) states otherwise, he posits that in order to develop a successful strategy, one needs to look at past failures which will give a clue in calculating the potential risks that one could be associated with in future.

(iii) Leadership

Unlike in big companies where leadership is only involved in strategic term planning, small business leaders takes full control of the day to day running of the business which involves staff hiring, developing and encouraging of their employees from the low level to high level employees (Peters, 2005). Because of their full involvement in business activities, small businesses are able to interact with their customers and are able to know the demands of their customers, which help them to allocate resources effectively leading to efficient utilization of resources (Peters, 2005). This is one of the most important features of a successful entrepreneur. A successful business leader is one that acts by example and inspires others to follow in the running of the organisation (Ganesan, Kuppusamy and Rosada, 2010). With well-developed human capital, a leader can understand the demands of his employees and what is needed to be achieved in the business. In order for his employees to achieve the business or individual interests, they must be motivated by their leader who thoroughly knows and understands his duty and who is intensively involved in the businesses' tasks (Kayemuddin, 2012).

According to the Chairperson of Nedbank South Africa, Khoza (2012), small business leadership is poor because leaders lack a strategic plan for their businesses. They are only interested in short term benefits like immediate profits. This means a business operation cannot be sustainable if the leadership is focused only on immediate profits.

(iv) Good human relations

Entrepreneur morals and values contribute towards the development and growth of small businesses. That is, a good relationship with stake holders can build a powerful brand; together with the quality of products a business is supplying (Eileen, 2001). The proper application and implementation of businesses' principles must first start within the organisation before extending to external stakeholders.

(v) Commitment

Entrepreneurs who communicate objectives and goals of their business motivate employees to strongly put in their best for the welfare and success of the business (Breugst, Klaukien and Patzelt, 2010). Furthermore, employees' perseverance and dedication can be best observed when goal achievement reward is not only monetary in nature, because when money is involved in the form of bonuses, every employee would seek to deceive an entrepreneur under the pretense of being dedicated to the business' achievements. However, Adams (2012) argues that in order for an entrepreneur to build a strong trademark, a company's name needs to be marketed. That can happen by offering good financial incentives or salaries to the employees to get them to work hard and help in publicizing the good name of the company, by this, a powerful brand is built.

2.6.2 SMMEs set up strategies to success

Analou and Karami (2003) define strategic management as a systematic designing of business plans and how such tactics are successfully executed with the aim of gaining a sustainable competitive advantage. Those who are involved as strategists are from the top management, such as CEOs and Directors, which is usually the responsibility of the owner in SMMEs structure. A strategic entrepreneur is able to take an advantage on an arising opportunity to lessen unfavourable environmental effects.

After dealing with what features to possess in order to be a successful entrepreneur, it is essential to engage in strategic formulation that will lead a business through a successful

route. A business plan is the major tool that indicates the direction for either a starting or existing SMMEs. For long term business success, there is a need for strategic management of small businesses in forward planning, even though SMMEs mostly avoid engaging in strategic management due to their perception of high costs (Analoui and Karami, 2003). More on that, business mission, objectives and strategic development are critical towards the success of small businesses.

(a) Business plan

The vibrant business proposal set in the mind of an SMME owner before documenting an idea down on the paper is a rightful direction to success (Crawford-Lucas, 1992). Even though many business owners can argue as time wasting, it is an ideal for a business owner to focus on business objectives and overall competitive approach. It leads a business to a successful direction because it shows where the business is going, whether it is human capital competences, or financial and strategic growth (O'Connor, 2001). A business without a written business plan is just a direction heading to crisis because there are no aspects that employees can use to measure their tasks achievements. That is what is referred to as a business already in operation but existing on written document (Amir, *et al.*, 2002). The standard set up of goals, strategies of how they would be achieved, what and where to sell products, services and the rewards for those products and services are all needed in a business plan and are drivers to successful SMMEs (Analoui and Karami, 2003). They further claim that without a business plan there are high chances of a business failure.

Mark (2008) boldly argues about the efficacy and necessity of having a business plan. Supporting his argument as a businessman, Mark (2008) cited that a business plan is a critical tool for starting a new business, buying an existing business and franchising a business. To gain an attention of potential capital funders a business plan must meet a certain standard in order to reflect a reality as it is on the paper. In an existing business, it is a direction indicator because the components are updated frequently in response to the changing environment.

Marketing plans can be easily changed in reaction to customers and suppliers' tastes.

(b) Mission

The mission statement of a business must be passed on to employees, customers and suppliers with the aim of knowing what and how to achieve the set business objectives (Bob, 1996). An employee must not overwork without a clear direction as to where he is headed or which task he has to achieve. Stakeholders must be aware of where the business is headed (Bob, 1996).

A well described mission involves employees from all departments because it is normally used during employee performance appraisals (Aimee, 2000). Aimee further states that if all stakeholders are involved in the mission formation process, it works as an inspiring factor towards the successful performance of the business. In addition, (Christopher, Nick, and Simon, 2001) suggest that for a mission to be successful it must convey a strong message, be associated with the business structure and head towards a positive route since it directly affects the performance of the business. A good business performance can be achieved if the mission describes the role of the business in the market, the type of business it is, and its target market (Analoui and Karami, 2003). Business' mission is developed by the top management in line with the company's vision, which is then passed across to employees for clear understanding of the overall aim of the business (Analoui, 2003). A business mission does not have to vary within a short period of time; it is fixed for the long term unlike other business objectives which vary.

Ackoff (1986) and Lynch (2000), cited in Analououi and Karami (2003), describe the features of a worthy and successful mission: the business should distinguish the firm from its competitors, state the purpose of the business, stimulate employees in the business for better task achievement, be applicable to all internal and external stakeholders, indicate the morals of the business, and indicate how it will sustainably out-compete its rivals. They further state that the meaning of the mission must indicate profit above break-even analysis, how the businesses

product or service is related to customer satisfaction, and the business goodwill. It must also describe the geographical location and the specific technology to be acquired.

With all these contents, a corporate mission can be communicated effectively and therefore, business success would arise. Having discussed how objectives are developed from the vision and mission of the business, listed and discussed below are how to develop sustainable and successful SMMEs objectives.

(c) Business objectives

For successful business operations, clear and precise objectives must be set. Garry (2002) suggests that effective objective for SMMEs should be specific, measurable, achievable, achievable, realistic and time based (known as SMART). A business can be in abundance of resources, operating well with current and potential markets and with few rivals, but without good and attainable strategic plans, the likelihood of success is limited (Analoui and Karami, 2003:109-134). The objectives are strategic, operational, qualitative, and quantitative depending on the nature of the business. Characteristics of well-developed objectives as Garry mentioned above are explained below:

(i) Specific objectives

Whether objectives are quantitative or qualitative, they should precisely indicate what a small business manager or owner needs in order for stakeholders to work in the same direction for goals achievement (Saul, 1998). For example, providing quality products is a qualitative objective compared to a sales increase by 10%, which is quantitative. The two statements are very specific on what the business requires.

(ii) Measurable objectives

The business should have a way of tracing and recording the progress and failure of the company in a measurable way (Garry, 2002). This is simply affordable especially in financial records or with quantitative records. For

example, if SMMEs plan to increase production rate by 200 units for the year 2013, this is measurable but if they want to increase their service quality for better customer satisfaction, this will be less measurable (Analoui and Karami, 2003:124).

(iii) Achievable objectives

Business tasks must not be too easy or too difficult to achieve since this may demotivate employees, while an achievable target encourages employees (Garry, 2002). Making a sales target of 5000 units for an employee and knowing that the business is capable of achieving only 1000 units per day is not achievable, and can demoralise any employee. Alastair (2011) argues that with achievable objectives, once employees have achieved the target they stop trying towards another target, and this requires innovative SMME managers that would always get employees dedicated to their tasks.

(iv) Realistic objectives

An objective must be applicable to the relevant employees or department (Garry, 2002). Telling an economist to perform a chartered accountant's duty is not relevant and brings inefficiency to the business.

(v) Time based objectives

A task without a set duration for its achievement or implementation is not strategic to the entire business. A planned task or project must be negotiated in terms of start time and finish time, this will help employees know where they are headed and when will they reach the final objective (Garry, 2002). According to Analoui and Karami (2003:125) SMMEs' tasks that are categorised as long term and short term, are clearly distinguished by their start and end dates. A business always has short term and long term objectives because the current business world is dynamic, so it requires flexible objectives especially regarding SMMEs

where assets are not enough to plan effectively and do not have much of the long term objectives (Alastair, 2011).

2.6.3 Competitive strategies

Analoui and Karami (2003:126) suggest cost leadership, differentiation and focus strategies as effective strategies towards a business' success and more importantly in gaining a competitive advantage.

(i) Cost leadership strategy

Developing a cost effective strategy allows a business to be competitive in the market especially in terms of price effectiveness because production is at minimum costs (Shirley, *et al.*, 1993). They further indicate that, since production is kept at minimum and products are supplied at a low price, this allows businesses to lead the market because more customers prefer lower priced products. This enables SMMEs to gain high profits by obtaining the difference between their aggregate sales and the costs of production a firm incurred.

For SMMEs who want to engage in this strategy, they will need to cut down the number of business activities that incur costs to the business (Laura, 2001). Laura further states that cutting this spending gives a business competitive edge against its rivals in control of the market by gaining more customers that earn high incomes, thus enabling SMMEs to realize discounts by buying bulk from their suppliers. Getting more discounts will mean that products and services will be supplied at lower prices restricting the entry of other businesses to that market due to the high assets investment required.

(ii) Differentiation strategy

Supplying unique products in the market requires SMMEs to genuinely put their spotlight not only on costs but on producing high valued products and services that will command higher prices. This will ultimately provide good returns to the business (Laura, 2001). Even though products and services differentiation require a lot of administrative work that would incur costs for SMMEs, quality will be

achieved in production leading to profit being gained (Brian and Michael, 2003). These incurred costs are due to high quality products and service which include competent and innovative staff in supplying the market with unique products from those of their rivals causing the business to charge a premium price (Brian and Michael, 2003). In order for SMMEs to gain a sustainable competitive position, it is suggested that horizontal product differentiation is a good strategy to put in place because the copying of products and services by competitors is reduced unlike vertical product differentiation where competitors can imitate the producer (Catherine and Laura, 2005). Besides, SMMEs will have to invest more in marketing and research in order to increase their customer base and beat competitors in the long run.

(iii) Focus strategy

Developing this strategy will mean a business will have to focus on a certain target market (Laura, 2001). Concentrating on niche markets also allows a business to adopt the above mentioned business strategies (cost leadership and differentiation), but only on a narrow focus which is normally used by SMMEs because they cannot focus on wide target markets that require a lot of capital. Access to sufficient capital is normally a constraint to SMMEs. Laura adds that, if this strategy is precisely developed it would enable a business to establish itself thus giving new entrants a tough competition.

However, Analoui and Karami (2003:134) warn that businesses using this strategy may vanish as quickly as they emerge in the market if they are not properly managed or if the strategy is not well implemented. Kjell and Trond (2010) perceive otherwise, since this strategy suits SMMEs, they would be able to produce or sell unique products to their small target market, which competitors cannot afford to sell. They further advocate that, establishing a niche can form a long term relationship with both customers and suppliers, which makes it harder for the rivals' entrance into the specialised market. With high quality products and good long term relationships with customers and suppliers, the possibility of markets vanishing is less likely (Kjell and Trond, 2010). Commitment and

knowledge management are other success features the business brand must be built on in focus markets (James, 2012).

Strategic development and implementation requires time and finance. Hence, a comprehensive assistance to SMMEs by financial and non-financial institutions is an ideal to a successful sustainable business development.

2.7 Institutions supporting SMMEs

The South African Government and Private institutions are the key role players in supporting of SMMEs financially and non-financially. The assistances are channeled through the following agencies:

2.7.1 Department of Trade and Industry (DTI)

This department houses the government agencies which assist small businesses through financial and non-financial measures. This is through infrastructure, international trade and investment, technological development, education, training, and marketing skills. According to DTIs, medium term strategic framework 2010-2013, the DTI's mandate is to assist informal businesses especially the underprivileged ones in rural areas with skills development and funding for them to operate sustainably in a formal environment. One of DTI's objectives is to grow and expand the number of SMMEs which will help them realise their target contribution of 5% of GDP from a recent 40% contribution by 2014 (DTI, 2010). The DTI launched a strategic plan on engaging SMMEs in online trading in partnership with Google which is known as 'Woza online' (DTI Deputy Minister, Thabethe, 2012). However, Goldstuck (2012), the managing director of business technology, opposed this view by stating that the trading strategy is unlikely to bear fruits for SMMEs as it only involves those that have access to technology, he settles by stating that having technology does not mean a business would succeed but simply gives it a competitive edge.

Department of trade and industry houses the following agencies:

(i) SEDA (Small Enterprise Development Agency)

The Department of Trade and Industry (2010) explained that SEDA is an agency under DTI which assists small businesses non-financially, that is with skills development like teaching small business owners how to construct a good business plan. SEDA has branches throughout the country. After realising that small businesses are struggling for survival while few of them can only manage to flourish in their first two years of start-up, SEDA was thus established in 2004 to help most especially with this phase (SEDA, 2012). The establishment was by amalgamating the following agencies; Ntsika Enterprise Promotion Agency, National Manufacturing Advisory Centre (NAMAC), and Community Public Private Partnership Programme (CPPP). The agency is mandated by the Department of Trade and Industry to assist in developing and growing small enterprises to sustainably float above their start-up phase (SEDA, 2012). This will help in job creation in the country through the reduction in unemployment which was 25% as at the end of 2011. The government is seriously pursuing its economic growth target of 4% for 2013 in order to generate 5 million jobs by 2020 (Ntingi and Mataboge, 2012).

(ii) Land Bank

In Land Bank's research report, Hadebe (2011) explains that the agricultural bank of South Africa was established in 1912 with the aim of financially assisting small scale farmers though it is currently focused on previously marginalized farmers as a means of facilitating and increasing farming production and output in South Africa. But Makhura (2011) argues that, it is shocking to realize that after 17 years of South African democracy, small marginalized farmers are still encountering even more fierce challenges in their farming production and it seems there is still a long way to go by the current government in order to transform the farming system in the country. Land Bank has tried to exercise its effort just like other commercial banks to assist the previously disadvantaged farmers, but many farmers failed like most small businesses due to a lack of good managerial experience and marketing aspects. (Jacobs, *et al.*, 2011). This bank

consequently ended up taking lawful measures against farmers who fail to repay the loans they collected.

(iii) Industrial Development Corporation (IDC)

With the introduction of the Small Enterprise Finance Agency (SEFA), which is wholly owned by the Industrial Development Cooperation (IDC), with the resultant effect that the IDC will specifically focus on assisting large enterprises and SEFA will be focused on SMMEs (Fourier, 2012). The IDC with its solid balance sheet and competent managerial expertise will be able to successfully assist small enterprises unlike Khula.

(iv) National Empowerment Fund (NEF)

This agency financially and non- financially assists small businesses with capital, business growth and the rustic society development with particular focus on black economic empowerment (DTI, 2005). In collaboration with other financial and non-financial institutions, NEF aims to develop small businesses through business plan construction, advice on start-up and growth, access to capital and providing advice to business owners on how to develop an existing business. NEF has dished out 35 million in assisting two entrepreneurs in their purchase of 25.1percent of shares in a reputable cement manufacturing company in South Africa (Khuswayo, 2012).

(v) Small Enterprise Finance Agency (SEFA)

Makoni (2012) states that this agency was formed by incorporating Khula and the Small Finance Apex Fund which formerly operated under the Industrial Development Cooperation and the various offices of SEFA are situated provincially. This agency aims to directly assist SMMEs with financial and non- financial products such as business loan applications (SEFA, 2012). Makoni adds that an amount ranging from R50 000 to 3 million will be lent to the small businesses while those demanding more than R250 000 which can only be borrowed at provincial level will be referred to the head office. According to South African Info (2012), SEFA will be operating under IDC and will be

working with other small business agencies such as SEDA nationwide and R1.4 billion will be available for small business projects strategically planned for medium term.

(vi) Free State Development Corporation (FDC)

The FDC webpage states that the agency operates in Free State and assists SMMEs with financial activities and non-financial activities. Under financial services are the provision of business loans and networking with other financial agencies. The agency further supports international trade whereby they assist in promoting exports for the Free State business, which means SMMEs impressively benefit because of the training, development, and financial assistance provided in order to export goods successfully. FDC offices are built around the following municipality districts; Motheo, Thabo Mofutsanyane, Fezile Dabi, Lejweleputswa and Xhariep, which make sure those SMMEs are served throughout Free State Province with low interest rates and minimum loan security on financial assistance (Bulletin online, 2009).

(vii) Remmogo Business Finance

According to bulletin online (2004), Remmogo Business Finance was established in 1998, operating under the department of trade and industry with the aim of financially assisting the small and micro enterprises. This financial aid is meant to grow and develop small and micro enterprises into large companies that can be involved in international trade and that can sustainably compete in both the domestic and global market. The loans range from between R6, 000 to R100, 000, with a 1 to 36 month duration for debt settlement.

2.7.2 Commercial banks

The financial institutions such as the banks listed below, operating in South Africa, do realise the need for SMMEs support as they try to extend their loans to SMMEs even though the loans are difficult to access due to the approval requirements. A senior National Treasury official, Mashiya (2011) lashes out commercial banks for their failure to extend the much needed loans to SMMEs through government credit schemes. But, Standard Bank's deputy

chief executive, Tshabalala (2011) argues that banks avoid the risk of loss of funds by not loaning to the risky young businesses, which don't have enough collateral. The following banks try to support SMMEs even though they are careful on risk minimization:

(i) Nedbank

According to the Ned bank website (nedbank.co.za), on startup, the bank finances small businesses especially those new to the market with a minimum loan of R100 000 with free charges on transactions for the first two years of the business' existence. Ned bank has introduced a number of campaigns as a means of supporting small businesses not only financially but also socially. They make citizens aware of the existence of SMMEs and also support them. The movement is being launched by Ned bank in partnership with National Small Business Chamber (hereunder named as NSBC). The operation is called "Ned bank small business Friday" which was unveiled on the 7th September 2012 (Uju, 2012). Ned bank's Group Managing Executive for Retail and Business Banking, Johnson and NSBC founder Anderson in Uju (2012) called the community to join the operation because their support of SMMEs supports economic growth.

(ii) First National Bank (FNB)

According to FNB's Commercial Enterprise Development Manager, Lakhi (2011) in the skills portal informs that FNB has dished out R2 million as the continuation of financial support in partnership with Enablis South Africa to assist SMMEs to sustainably succeed in the economy. Enablis is established as a non-profit making organisation with the aim of empowering entrepreneurs in South Africa .This confirms how much FNB is committed to uplifting SMMEs in South Africa.

(iii) ABSA

BankAbsa CE(2011) in Fin24 states that the bank is involved in job creation by assisting SMMEs financially and non-financially as they strive to be involved in the government's set long term objective of achieving 5 million jobs by 2020. Absa CE identified some crucial factors that determine the success of a business:curiosity, risk appetite, energy,

adaptability and a sense of mission. Absa is offering credit to many customers including those who want to establish small businesses, but not only finance can contribute to a business' success. Small business owners lack knowledge about the environment in which their businesses operate and do not have the skills required to run a business (Ramela, 2012). Amongst other factors that contribute to the failure of SMMEs, Ramela (2012) identified lack of finance, competition, unskilled labor and lack of market knowledge. Hence, the bank is determined to engage itself in assisting SMMEs to deal with such factors.

(iv) Standard Bank

Standard bank is trying to exercise its effort to assist small businesses financially and non- financially because they find it tough to operate beyond start-up stage. Standard bank is concerned with the high rate of failure of small businesses in South Africa and has launched a product called “Bizlaunch”, aimed at assisting 80 000 small businesses to operate sustainably in the financial year 2012 (Dlamin, 2012). The product will be very helpful to small businesses as it will improve their management skills especially in the area of financial management and payment of their suppliers, it is aimed at assisting start-ups and those that informally operate even more than a year (Dlamin, 2012). The above institutions are contacted when setting up small businesses, with respect of the service they offer their clients.

An entrepreneur's features supplemented by a standard and convincing business plan that is strategically implemented with the assistance of financial and non-financial services providers will ultimately experience financial, structural, strategic and organizational growth. These are discussed hereunder:

2.8 Growth management

SMMEs go through different stages of growth cycle, though not all SMMEs go through all the phases. It is always the case that most of them fail at their start-up; some make it to the growth stage while many do not reach the maturity stage and all the stages are dependent on financial, strategic, structural and organisational development

2.8.1 Financial growth

SMMEs with good turnover, those anticipating a good turnover, and those with greater turnover are regularly engaged in business financial statement analysis. This frequent analysis together with some business abilities may therefore add to quality management in SMMEs that contribute to sound cash flow control (McMahon, 2001). Nieman and Pretorius (2004) state that financial growth is a valuable measurable tool that is used to track and manage the progress of small business. Usually this is perfectly carried out through recording of incomes and outcomes in financial statements that express improvement in revenue and earnings. Business sales projections are recorded in financial statement and must be carefully examined for precise estimation which indicates competent financial strategists that in turn measures business growth (Angelidis, Ibrahim and Parsa, 2004). Monetary growth is imperative in the success of small business because it is a clear indicator of business performance, whether business profits are stagnant, negative growth or positive growth (Susan, 2007).

Segarra-Blasco and Teruel (2011) state that SMMEs genuinely depend on short term micro finance, that is from self-finance, example family members and friends, which is not a sustainable strategy. These in the long term lower business production and obstruct business growth. These types of financial utilization are largely the signs that a business is in start-up financial constraint. Unlike big businesses which are able to secure great sources of long term finance. However, Gill, *et al.* (2012) argue that a small venture can toughen its financial muscles through utilization of borrowed funds. This normally succeeds with family owned SMMEs who accumulate and save their income as one, while they enjoy relative backing in business running and low tax advantage that is charged on sole income.

2.8.2 Strategic growth

A wise management plan will strategise on how to penetrate the market and gain a competitive advantage on its rivals that will see the business flourishing in the market (Felan, Teal and Upton, 2001). For SMMEs to outperform its competitors strategic plans leading to growth should be employed and a business must identify itself from market

competition. This happens in family businesses which print its name as a trade mark on the products it sells (Felan, 2001). In approaching phases of business growth model, SMMEs must plan on how to interrelate with the environment as it meets various challenges which may requires changes in business goals. These changes affect the efficient distribution of resources based on the long term business plans (Nieman and Pretorius, 2004).

Strategic management is about setting goals to grow and coordinate efficient allocation of resources to achieve those goals. For these to be successfully attained, written strategic plans are required to direct employees towards the alignment of objectives with the mission in order to accomplish business growth (Angelidis, Ibrahim and Parsa, 2004). Growth in SMMEs is influenced by the nature of human capital hired in the business, how the owner-manager manages employees in the company, communication of business objectives amongst the workers and allowing flexibility in the business especially with interaction to macro environment. Skilled and knowledgeable staff with relevant experience is key to successful growth strategies. Resisting changes in business can cause havoc to business operations as most SMMEs are managed by owners who want to operate in a traditional way of doing things even if the environment is totally changed as compared to the previous one (Anon, 2005). Management flexibility is required in this dynamic business world. All business capabilities must be linked for a small business to find its position in the interconnected global economy. A business must adapt to technology advancement to edge it into involvement in e-commerce that allows entrepreneur to transform from old-fashioned management to contemporary management tactics. Using this advanced strategic method results in better production and distribution of quality goods and services (Jaipé and Saskia, 2007). Cebuc (2007) enhances that engaging in e-commerce, superior supplies of quality products and services and improving business competence can be an effective and efficient way of entering the multinational and international market. This is achieved through forming a strategic coalition that cartel the specific business resources, capabilities or business as a whole. This coalition strategy is usually formed because of the arising market opportunities which a single business cannot on its own manage to utilise. It can be due to the foreign countries laws or economic situation of a business.

2.8.3 Structural growth

This is about transforming business micro entities such as functions of various levels of management to improve business products and services for better customers' satisfaction (Nieman and Pretorius, 2004). Dolfman, Skelly and Wasser (2006) supplement that even the economic situation can also affect a business's structural growth because small businesses are the core of economic activities. Businesses transform and restructure their operation when the economy either downturns or booms. Change of management, employees' skills development, staff layoff, cutting of costs and mergers are as a result of structural growth in the business.

In industry where firms operate in similar or related products and functions, they form a joint venture with the aim to operate at a lower opportunity cost which brings efficiency in trading, and that is transformed into improved customer's products and services (Clarkson, Fink and Kraus, 2007). The merger formed as the result of structural change can bring invention because of the various skills and experiences gained by the different firms that initially operated independently. This cartel helps businesses to tactically reduce their expenses during economic shrinkage and this rewards some benefits in the long-term especially if the businesses system is not wholly changed but some essential departments are affected (Field, 2009). Inventing advanced technology that improves productivity in the business, for example efficient transportation of products and cooperation with merchants to upgrade existing goods as a means of product development may bring up a positive structural growth in business. The latter needs improvement in human capital more especially in the management side of a business for better development (Field, 2009).

The determinants of structural growth in the business also include changes in the institution due to factors governing the business such as employee's skill and experience, business earnings and macro environmental factors that affect internal operations of the business (Magnus and Peter, 2012).

2.8.4 Organisational growth

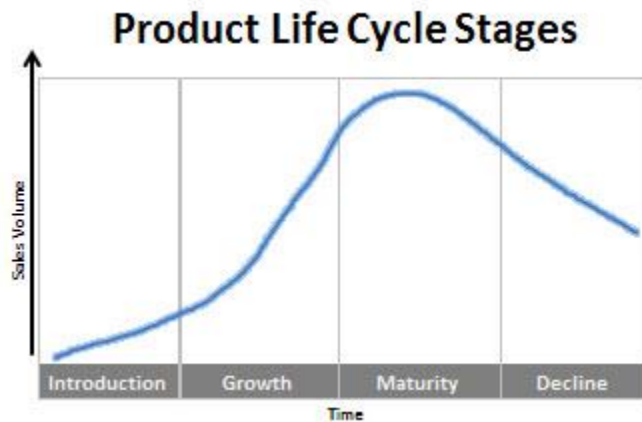
As the business develops from micro to small and medium, it goes through changes especially in management and subordinates and restructuring route takes place as more qualified and skilled experts are required (Nieman and Pretorius, 2004). These include financial, strategic and structural growth. Also the role of SMME owner-manager changes to be a crucial one such as a Managing Director, to be able to monitor business progress or be actively involved in decision making. This strategy is where entrepreneur is distinct from small business because of their different visions and goals. The entrepreneur's true aim of growing and expanding to the potential market while conquering rivals becomes clear (Angelidis, Ibrahim and Parsa, 2004). As the business grows, its financial position is a factor while it develops more extensive strategies that interact with the environment, develops transformation in the internal operations and as all these happen, more complicated management is required.

The duty and responsibility of the business founder is changed, but to a more prominent one. (Miller and Niehm, 2005/2006) advise that as the business processes expand, a founder needs not to take all business tasks solely, rather allocates them to the specific individuals. Self-centred responsibility hinders business growth as it is the case in family businesses.

2.9 Business life cycle management

The figure below explains business growth phases as SMMEs go through such stages where they meet different environmental challenges in respect of the stages they go through (Nieman and Pretorius, 2004:45). This model is described as the Churchill and Lewis Growth Model, which will help in explaining generic business growth stages.

Figure 2.1



Nieman and Pretorius (2004:45)

2.9.1 Idea formulation

This is the early stage of the business execution plan that exists in the mind of the potential venture owner (Deakins and Freel, 2003:56). Formal and successful planning is most times written. Deakins and Freel (2003:57-65) append that the most important factor that contributes to most SMMEs mortality is the lack of market information about the target market, existing competitors and potential rivals.

Planning for business start-up consists of certain aspects that must be taken into consideration, such as plans for future expansion that will determine the kind of venture to establish, the amount of capital required, the target market, legal requirements and the administration set-up (Du Toit, Erasmus and Strydom, 2009). Entrepreneurs at this stage are propelled by environmental push and pull factors that could be in the form of market opportunities (pull factors) or push factors such as financial security for day to day living due to retrenchment or retirement. Most SMMEs who fail at their early kick-start are those that use informal business plans (which are not properly written out). However, the Federal Register (2010) suggests that good business skills and knowledge embedded through education and training during the pre-launch stage are the weapons that would aid a successful start-up venture.

2.9.2 Introductory phase- New business is established in the market

After an idea is developed either in the mind of an entrepreneur or in written form, the entrepreneur meets with his first expenses and income as a result of sluggish sales increase. Sales slowly increase from the early start-up stage to late start-up as the venture gets used to the existing market forces. Deakins and Freel (2003:64) affirm that a venture must thus select the market approach to use in respect of the business' features. Decisions are made as to whether the entrepreneur wants his venture to be a first-mover into the market, thus helping the business to position itself to avoid harsh competition. To have access to better supply channels and protect a business against replication by competitors. Also, he has to decide on whether to be a follower in the market which will cost a lot in advertising and marketing and how the service rendered by the venture would be unique from that of the pre-emptive mover so as to increase sales.

According to Nieman and Pretorius (2004:45) this is where a venture begins to experience the costs and expenses involved in conceptualising an idea. These include building costs, staff wages, technology and stock to trade. This is where micro and macro factors clearly begin to have effects on a new venture. An indication of a lack of business skills and knowledge is also revealed. This is supported by Woodside (2005) who stated that SMMEs do not research about their potential customers; they just "throw" their businesses in the market. However, Scott (2009) in his comparison between SMMEs and large businesses during economic shrinkages, found that start-up SMMEs are strategically offensive compared to big businesses because they search for means of generating income while big businesses are more concerned with managing and reducing expenses. He further states that SMMEs only lack marketing skills and knowledge of how to attract more customers to increase their income. From the entrepreneurship development division at Absa Bank, Ntshona (2012) argues that SMMEs in South Africa cannot make it through a start-up stage not because of a lack of facilities but because of poor and inadequate education. Ntshona (2012) concludes that 80% of SMMEs in South Africa have witnessed downfalls in their first year of start-up while 60% cannot go beyond their second year of start-up. Few formal SMMEs with experienced and skilled

management go to the next stage where sales increase gradually indicating the growth of the business.

2.9.3 Growth phase- Sales gradually increase and then rapidly increase

Analoui and Karami (2003:79) explain this as an indication that the venture's presence in the market is being felt with the effect of many customers flowing to the business, and an increasingly efficient network of suppliers in the market. On the other hand, Lebrasseur, Zanibbi and Zinger (2003) state that businesses that become successful gain their motivation in the growth phase, while those that fail end at this stage and barely make it beyond five years. At this stage, a business is faced with different challenges such as the test of its ability to develop new products or its ability to diversify existing products. If the venture seems successful, then the business is faced with an increase in demand (Nieman and Pretorius, 2004:46). Nieman and Pretorius (2004:46) further add that this is the point where most SMMEs end because of their inability to handle market competition and increasing customer demand. Ntshona (2012) augment that 60% of SMMEs in South Africa do not go beyond the second year of their operation.

Business growth is measured by the sales volume, product expansion and an increase in the number of qualified and experienced staff (Nieman and Pretorius, 2004:46). Businesses at this level are more attractive to venture capitalists than at the start-up phase especially if the signs of success are evident; this shows financial institutions that there is less risk associated with investments in such a business (Harrison, *et al.*, 2010). Venture capitalists are reluctant to invest in businesses that are only existent on paper; they are attracted by ventures that need sustenance support rather than those that need support to kick-start. SMMEs are started for different reasons and the growth of these businesses is largely dependent on the reasons for which they were started. SMMEs established by jobless entrepreneurs are not motivated to grow due to lack of resources and because the owner is solely depending on the business for he's day to day sustenance. While those SMMEs started by people leaving their jobs with the aim of getting more income usually grow faster because of the motivation to reach high-income levels, the existence of available financial resources, customers, and channels of distribution networks (Capelleras, *et al.*, 2010). All the micro environmental factors play a role in the

successful growth of SMMEs, which if well managed end up getting to the maturity phase.

2.9.4 Maturity phase- Business is now operating at its peak

Sales has reached its peak because all opportunities have been exhausted and the business is likely to experience market “shake-out”, withdraw or may even decide to sell-out due to steady demand and supply (Analoui and Karami, 2003:80).

Nieman and Pretorius (2004:46) warn that at this level an entrepreneur must act fast because business growth rate is beginning to decline, and if no actions are taken, increase on returns will gradually go down. However, Du Toit, Erasmus and Strydom (2009) advise that there is a strong need for investment especially in advertising and marketing for a venture to survive competition from existing firms and new entrants in the market. Some businesses still survive the maturity stage for a long period of time without declines in their growth rate. But these are mostly big businesses that are capable of choosing among many other strategies such as going into global markets. A business having fully reached the target market and market share, there is little product improvement that can be done; only the service rendered can be improved upon to sustain the business in the maturity stage (Katz, 2008).

As rivalry gets hotter, a small business owner must engage in strategic development such as the addition of unique features on an existing product, focus strategy, and cost leadership strategy (Suttle, 2012). Engaging in strategic development enables SMMEs to obtain sustainable competitive advantage in the market.

2.9.5 Decline stage

A business in this stage is in danger of decreasing sales margin, gross profit, and net profits and it is up to the business owner to keep the organization afloat. The owner may choose to liquidate or divest the business (Deakins and Freel, 2003:57-76). If the business does not take action, it is likely to swim in crises. Changes in the market such as changing market preference and introduction of new advanced technology are some of the sources of business decline (Suttle, 2012).

2.10 Indication of growth constraints

When a business experiences growth obstacles that sometimes seem to be uncontrollable and inadaptable, there are financial indicators that alarm to the management that a business is heading to or in crisis. Nieman and Pretorius (2004) notice that a warning emanates from cash flow system which shows the following signs: a decline in gross margins, decrease in net margin, irregular cash flows and losing of key employees.

2.10.1 Decline in gross margin

This depends on how much a business has sold in comparison with what a business has spent on purchases and a low net sale is an indication of deteriorating profits (Nieman and Pretorius, 2004:89). The cause of low gross margins is attributed with several factors, such as customers preferring affordable substitutes due to low confidence of income in high inflation periods (Duvall, 2004). O'Connor (2008) states that when profits decline, is when most businesses quickly run to lay off the personnel of which some are very good at their work. O'Connor warns that this is a period when all sections of a business should be assessed before retrenchment because valuable human capital may be lost. Tarry (2009) explains that comparing the current margins against the previous year margin gives the forecast and the current business status in terms of financial position.

2.10.2 Decrease in net margin

A decline in net sales can harm a business's profits because overall expenses will be increasing closer or above profits boundary which might take a business to a net loss (Nieman and Pretorius, 2004:89).

2.11.3 Irregular cash flows

Effects of macro environment variables such as a tariff imposed on products and services are unfavourable to a business's cash flow management (Hayes, 2000). Small businesses are characterised with poor financial management, which is a basis to undetectable financial errors in the business that lead to financial deficit. A cause of this problem emanates from the inside of a business, which late payments are made to a business,

decreasing sales returns due to market substitutes, and uncalculated expenses due to poor records (Nieman and Pretorius, 2004:89).

Nieman and Pretorius (2004:94) table down the following crisis indicators in the business

- Business position in the market drops as more customers start to prefer other competitors who are still viable in the market and are able to meet their expectation. That is due to a loss of sales
- Staffs leave when a business experiences poor sales which lead to a net loss. Business ends up being left with only the incompetent personnel who are a liability to business. When staff leaves, even customers start doubting the capability of a business because with only poor staff left, customer services may decrease in quality and cause a loss of market share. Investors also opt for thriving businesses in which their investments can be secured rather than remaining with a business which is heading to crisis or already in crisis.
- Merchant supplying a business with stock changes the behaviour as compared to the past and also reduces credit duration or start demanding immediate payments.

2.11 Businesses environment

Small enterprises do not exist in an empty space. They operate in an environment that imposes threats and opportunities, strength and weakness. Nieman and Pretorius (2004:11-12) have identified three business environments that impact SMMEs; the external environment, the task environment and the internal environment. Each of these environments is dealt with hereunder.

2.11.1 External environment

This is beyond control of the strategic management of a small business, but a business can only adapt to changes of this environment after carefully analysing the effects. Government is mostly having an influence on the changes of this environment. In order for a business to operate in a favourable environment, government must be a role player in creating a friendly environment that causes little harm on small businesses (Nieman and Pretorius, 2004:12). In a structure leading a country, policies and regulations are set that affect the standard of living due to changes in economic variables. Economic variables are also very influential on advancement of new technology, which is mostly

determined by a financial position of the business. An economic status of a business may distract or preserve natural resources like oil which are extracted by companies with strong financial resources, and as they get scarcer their prices increase which is a blow to a small business functions (Du Toit, Erasmus and Strydom, 2009). These sub environments are dealt with hereunder:

(a) Political sub environment

This environment is not within the control of business owners or managers, they only need to familiarise themselves to its regulations. Government with its policies, rules and regulations plays a major role in this sub environment. Rules governing SMMEs benefit the Government especially if such businesses are influenced and forced to comply with the laws governing company registrations after which they are levied for their operations (Jansson and Sedaca, 2000).

Fiona (2001) asserts that SMMEs are over-controlled by harsh government laws and regulations which can be repetitive in several circumstances at local and regional levels, or they may be obstructed by insufficient data which delays the process of a document's authorisation and endorsement. This also affects imports and exports of materials. Import regulations such as quotas and import duties imposed on small businesses that want to explore international markets are obstacles to such markets. There are few SMMEs that operate globally due to the individual country policies that protect domestic infant SMMEs from outside competition; hence government must assist in the negotiation of export requirements with the affected countries to easily access the global competitive markets (Soontiens, 2002).

According to Sindiso (2005), the Government agency created the Intellectual Property Registration plan to implement an online registration of businesses with the use of an internet to speed up the registration process to avoid time delays. Also to decentralize the offices so that businesses can be able to meet with service providers personally, this may then improve the quality of services especially for the new entrants. Business registration gives an opportunity of financial assistance

from the Government sector. By modernizing business regulations to an introduction of Companies and Intellectual Property Registration office, the Government is simply trying to ease the load that is carried by SMMEs in registration process (Mantshantsha, 2007). Besides, Jooste (2007) claims that if a business does not comply fully with company registration laws and regulations it may lose its status. By registering a business, it saves a business from unnecessary claims by a supplier or lender of properties who may take chances when realizing that a business is slipping down and it is informally operating. But, Smulders and Stiglingh (2008) argue that small businesses are charged double when it comes to state tariff regulation for their operations. This is due to lack of skills and knowledge on how to compile the tariff return forms which causes them to consult professionals on that field who charge them for that service. Also, time factors during tax-return forms compiling affect SMMEs as the forms require a long preparation process before submission to tax authority body. With these charges, SMMEs are heavily denied a long term existence in the rival market (Smulders and Stiglingh, 2008). Licensing and registration of small business are some of the regulations that affect SMMEs start-up. The costs incurred after registration can make SMMEs avoid registration with the Government bodies while on the other side they incur indirect costs for corruption in bribing those who assist them to avoid tax regulation costs (Sukiassyan and Nugent, 2008). Klapper, Lewi and Manuel (2009) maintain that the registration of SMMEs is very slow in the government sector because of the manual registration process that is still in use; hence this delays registration and licensing processes affecting opportunities for potential start-ups.

The quick process of Electronic business registration is suggested by Klapper, *et al.* (2009) to overcome delays for effective registration processes. Despite the latter suggestion, Masote (2011) found that small businesses criticize the South African Revenue Service (SARS) for delaying in responding to complaints, misplacement of documents and its ever-changing procedures and guidelines. This eventually costs the small businesses opportunities of making money. Munemo (2012) advises that when planning to establish a business in Africa, the

steadiness of a ruling government and rules regulating foreign businesses which may affect a business in the long term must be assessed. Citing that Africa is politically unstable, Munemo further states that a newly launched business needs a favourable environment in order to survive and adapt to the country ruling laws and regulations.

The rates deducted from formal small businesses' profits are considered as an expense that not only affects SMMEs but also affects their customers in the form of higher prices (Akinboade and Kinfack, 2012).

(b) Political and social stability

Instability of the economy and political wars such as tribal wars affect business operations, so geographical locations must be scanned before the establishment of a business. The decline in the South African rand caused by country instability can affect small business adversely especially those that are directly or indirectly depending on foreign products, meaning they will have to buy expensive products and sell them cheaply Blottnitz (2008 cited in SEDA, 2009). Blottnitz further talks on the issue of xenophobia and business crimes. A place with high crime rates would cause a business to stagnate and would increase the unemployment rate. Similarly, looting of shops during the 2008 xenophobia attacks in South Africa, led to stock losses and migration to safer places which is part of the incurred costs of a business since it had to re-establish itself in a new place while trying to acquire new customers (Blottnitz, 2008). Hence, small businesses have to be aware of such chaotic regions when selecting the location for their businesses.

(c) Economical sub environment

A low interest rate is very crucial to most of the businesses because they can easily access loans and move their businesses from rent buildings to their own purchased permanent land (Delgado, 2002). Dori (2005) argues that an increase in oil prices impose more effect than interest rate because it takes income that should be spent on an SMME's products to the filling of cylinders and car reservoir from big businesses. SMMEs are struggling to attract and hire qualified and competent

personnel for better long term operations. This is due to high interest rates charged by financial institutions that decrease business sales, hence, low profits which are unable to pay qualified workforce. McConville (2006) states that interest rates are one of the economic variables affecting small business functions because of high charges on their borrowings by the financial institutions. These charges do not only affect SMMEs but also their customers who are the source of operating profits for small businesses because SMMEs rely heavily on consumer expenditure.

Du Toit, Erasmus and Strydom (2009) mention that inflation; unemployment and currency exchange imposes an impact on small businesses who are engaged in import and export of products. Vrondas (2007) advises that SMMEs dealing in import and export of products should trade-off their cash based on the present financial exchange degree reserving for the future which will enable them to constructively project their sales based on that current financial exchange rate which help to avoid impact of financial market instability. Vrondas explains this strategy as “forward contracts”. Mcelgunn (2009) argues that this method may cost a business once a currency of the trading partner strengthens in value, which means the business will still get what was previously reserved for, and become a loss when based on the current exchange rate.

Shrinking economies depress current and potential business continuity. But, Moreno (2009) recommends that businesses should be established even if the economy is declining which gives a better opportunity of purchasing start-up equipment at the lower prices due to lower customers’ demand that decreases prices of products and services. Economic slump is mostly characterised by increasing unemployment rate and tightening of access to loans by the banks. Masote (2011) found with a SMMEs growth index survey that a little below half of small business owners surveyed indicated economic shrinkage as the key obstacle to SMMEs growth and development. This indicates that finance has a key impact on promotion and development of small enterprises. The year 2008-2009 was bad for most of the small businesses since they went out of the market

because of loss of sales resulting in an economic recession (Cororaton, *et al.*, 2011). The decline was due to weak customer purchasing power, which was caused by increasing unemployment rates that suddenly contributed to loss of income (Cororaton, *et al.*, 2011). Big firms are more preferred than small firms in credit supply by the financial institutions because of the capability and ability of large businesses to manage their business with high chances of success. Unlike less preferred SMMEs who are without business management skills, and hire incompetent staffs that possibly endanger a business to bankruptcy. This perception reduces a number of SMMEs start-up rate and increases SMMEs mortality rate due to banks being unable to salvage SMMEs out of crisis and become vulnerable to economic crisis which lead them to being unable to stock quality and enough products for their customers (Cororaton, *et al.*, 2011). However, Helena, *et al.* (2012) observes that most entrepreneurial success features play a vital role in an economic downturn. Pioneering, inventing and optimistic SMMEs are less likely to be harmed by economic crisis while the higher a business is engaged in financial uncertainty the more its sales are negatively shaken.

Buck, *et al.* (2012) remark that the significance of financial institutions in relation to small business cannot be over-elaborated because during a period of economic crisis, small businesses are the ones to feel more effect than big businesses. Supply of credit is directed to big business while the emerging and growing business continue to struggle for access to start-up and growth finance. This is then in contrary to job creation and unemployment creation which is the ability and capability of small businesses. It once more disheartens the backbone and driver of the economy.

(d) Social and cultural sub environment

Thomas (1999) explains that this sub environment relates to the age groups and the attitudes of the people in society which a business operates, as well as the morals and values of the community in relation to the existing standard of living. Bhat and Gartner (2000) argue that community immorality to a business does not

have a strong impact if it does not drive away customers; hence a business site is of no impact to the business because advanced security measures can be implemented to secure the place. Du Toit, Erasmus and Strydom (2009) suggest the following variables: crime and corruption, urbanisation, demographic change, level of education, skills shortage, quality of products, types of consumers' preferences with regard to advertisements, and product quality as variables that affect SMMEs development.

Most SMMEs are vulnerable to burglars and shoplifting and consequently they exist for a short period of time (Linda and Martin, 2007). Ashford (2007) cautions that there are also existing organised and high technique criminals that are invisible to most of the small enterprises. These robbers use sophisticated computer science methods which small businesses may not consider protecting themselves against due to their smaller scale technology. They are aiming at making money; they do not target business in respect of whether it is a small scale or large scale trader. This indicates that SMMEs are exposed to internal and external crime, that is from the staff and community members who plan and attack businesses (Matt and Nick, 2008). It is demoralizing to SMMEs to operate under a situation whereby any crime occurrence can shut down the business. SMMEs fear to extend their activities and grow due to the perception that they will be exposed to criminals. Even that growth is not easy because of the costs incurred due to crime. These costs force a business owner to increase prices in order to operate at a breakeven point while some small emerging businesses can experience a permanent closure where personnel may be laid off and materials may be stolen (Finweek, 2008). It is reported that more than half of SMMEs surveyed did not report crime even though it was experienced, and those which reported the case were because of the insurance requirements (DIY Week, 2010). An advanced technology had to be implemented to control and protect the stores from criminals which meant small business had to spend on cameras that visualise every act around the business (Slattery, 2010). Crime is also accompanied by corruption from government officials and agencies where they do not distribute

resources to the financial needy business people but only to certain individuals, for example through the tendering process (Bah and Fang, 2011).

Rural areas are characterized with high rates of unemployment, low income, and few customers. Sobri and Ossai-Igwe assert (2011) that the environment characteristics and the individual features in the community in which SMMEs operate play a crucial role towards the SMME's failure or success.

(e) Technological sub environment

Regular technology invention coupled with training and development are the sources of sustainable competition to a business as it gives an opportunity to a business to explore and conquer even international markets while it is a threat to the rivals (Matambalya, 2000). Collins and Francis (2000) claim that markets require accuracy, vision, research, and development in order to successfully invent a grander technology, otherwise competitors might copy it and use it as their strength against the inventor (Collins and Francis, 2000). SMMEs who are engaged in computer networking like using the internet for popularising and familiarising their products with customers seems to be successfully achieving their objectives while those who utilise it for only lessening the manual work and computerising stock control seems to be hard to achieve success and grow their business (Elango, 2000). The Internet is best leveraged when used for marketing of the business.

In a study on small businesses in Gauteng, Ligthelm and Cant (2002) found that lack of technological skills and managerial expertise imposes a downward development on small businesses. Low process of technology development and inadequate skills to invent advanced technology like computerised stock management is an obstacle to improved business performance (Panther, 2003). Kyobe (2004) upheld that SMMEs are not always involved in technological development of the products and services, through technically distinguishing their products from those of their competitors. This disadvantages them against their rivals in the market. This again brings up the importance of skills development and financial assistance to SMMEs because with insufficient finance and lack of

required skills, it is not possible to engage in technological innovation. The innovative idea and equipment can be available but with lack of finance and training, implementation will be poor. Information systems in support of a business mission and goals can achieve high returns on business investment (Lai, Zhao and Wang, 2006). A lack of access to finance has a negative impact on technology development even if methods and processes are available, but implementation requires much spending on training of employees relating to the usage of that technology (Aggey and Essegbey, 2007). The contemporary SMMEs sector needs support from a business micro environment such as cash, skill and competent managerial controls to regularly upgrade to an advanced information technology method that can improve the quality of products and services produced, which will in the long run achieve economies of scale (Ndabeni, 2008).

Von Ketelhodt and Wöcke (2008) affirm that power technology, specifically electricity, imposes a dramatic effect on small business operations. SMMEs in South Africa operated at a loss due to failure of electricity. Business lost their stocks such as refrigerated products which went rotten due to power loss. Machinery and equipment crashed because of unexpected crashes and had to be replaced with new ones. Networks between business and customers especially the international customers were distorted because of failure of information technology which amounted to a great loss of customers.

Sometimes the delivery of products from the supplier to SMMEs is quite slow and cannot meet customers' expectations due to transport problems. This requires SMMEs to own the means of conveyance which hopefully can reduce the costs of hiring from other suppliers and also meet customers' orders in time (Grant, *et al.*, 2008). An increase in fuel prices is a blow to small businesses because a delivery of their products means they have to dig deep from their income. This is not bad news only to SMMEs but also to the consumers who suffer the burden that is passed to them in the form of higher prices of the products they purchase from SMMEs (Herald sun, 2008). This oil price rise coupled with other variables like a

tax increase and high unemployment rate means that customers hardly visit the stores because of low confidence which reduces the purchasing power resulting in low profits (Northwest Florida Daily News, 2008). This makes a transport technology a challenging factor that distracts a delivery process between the suppliers and the customers.

SMMEs devote more of their income in trying to upgrade to contemporary technology while on the other side they spend less on alerting customers of the use and availability of such technology (Cegarra-Navarro and Eva, 2012). The following sub environment form part of technological environment.

(i) Raw materials and infrastructure

Once start-up finance is accessed, then a decision must be made on who the business supplies with stock, and who is to assist once the equipment are below the line. Outsourcing of supplies is a very important factor as it can determine a business' success or failure. James (2000) suggests information about supplies is the most important variable for a start-up business because flexibility, costs, and reliability are factors that affect supply of stock to the business; hence, a supplier must be evaluated to possess these factors. Finding qualified technicians would not be easy since this will entail a competent and expensive research and development team; costs which are heavy for a young business (Ronald, FCCP and Mario, 2007).

(ii) Transport

After acquiring finance and getting a source of raw material, delivery is required to transport the products to where the target market can easily access them. If the supplier is the one to distribute the stock, his effectiveness and efficiency in transportation must be analysed. When does he deliver, how long does it take from order point to final destination, and how reliable is the supplier if orders are urgently needed (Andreas, *et al.*, 2008). Decisions on transportation of products either from the wholesaler or manufacturer also depend on the costs that would be

incurred in transporting products. Small businesses depend mostly on hired transport which is very costly in view of the ever increasing fuel costs which is passed on to small business in the form of high transport prices Blottnitz (2008 cited in SEDA, 2009). This can make life difficult for rural consumers who will have to pay high prices for such products.

(iii) Other tangible resources

This represents visible business properties that are actually categorised under current and fixed assets. Under fixed assets, these are properties that depreciate such as machinery, equipment and land. Compared to current assets, which do not depreciate and are for short term achievement example stock and cash (Du Toit, Erasmus and Strydom, 2009) Facilities edge small business a competitive advantage but finance is the requirement to own such facilities. Business established in rural areas requires computer network in order to get in touch with stake holders but due to poor financial support, they are not able to own such competitive facilities (Peña, JAMILINA and MOLINA, 2011). Additionally, for a business to be able to compete globally, it must first operate in a domestically competitive market. After domestic market success the firm can explore and conquer the international market. Operating internationally requires ample access to facilities and setup, which in SMMEs are insufficient. There is a need for government support and other supporting institutions (Freeman, Styles and Lawley, 2012).

(f) Physical sub environment

This entails the natural resources that businesses use in the production of goods to be supplied to the customers. Mostly, these scarce resources need to be preserved because they are non-renewables like crude oil and precious metals (Du Toit, Erasmus and Strydom, 2009). Production of these resources requires a lot of investment that SMMEs do not have. These scarce expensive resources are now imposing threats to SMMEs, and SMMEs now have to pay carbon taxes for the impact of their production activities on the climate and environment.

A shortage of water affects electric power in the long run to regions that depend on hydro-electric power which causes dysfunction to most of the businesses operations (Berry, *et al.*, 2008). With this shortage of electricity, prices increase to meet the demand of electricity and consequently businesses and customers are the victims of higher prices. Most businesses (small and big) deal with agricultural products such as vegetables, fruits and grains which are heavily affected by climate changes. A recent shortage of rain or late rain for some crops like spring grains negatively affect small businesses because such products are now imported from other countries which inflate the increases due to transport costs and other overhead expenses (Costello, *et al.*, 2010).

Production of goods is affected where anti-pollution laws apply, because products that cause pollution decrease in production while those that are harmless to environment increase their production which is advantageous and disadvantageous to other businesses (Malonza and , 2010).

Despite SMMEs innovative skills, SMMEs are not so involved in non-renewable resource saving which in the long term may affect their market, for example land pollution leads to an unhealthy environment causing lack of access to clean water (Efthimios, *et al.*, 2011). Rick (2012) argues that conservation of natural resources requires that a company has a well-educated labour force that can come up with cost saving equipment. The discovery of such materials needs research and development which SMMEs do not engage in due to high costs. Thus, big businesses are capable of purchasing minimal energy which incurs low costs due to installed energy saving equipment, unlike SMMEs with low skilled labour and weak financial muscles.

After all these challenges, there are some visible signs that a business is experiencing such obstacles and an immediate action must be taken before it is too late.

2.11.2 Task environment

It is an instant sub environment outside the organisational structure that influences a business operation through a relationship with stake holders. Those engaged in purchasing business products and services, distribution channels like supply of stock, competition, and personnel of the business are all responsible for the success and failure of a business (Nieman and Pretorius, 2004:14). Market environment is not in control of a small business but it can be influenced by small business. The needs of customers and their degree of purchase along with the ever increasing rivalry in the SMMEs market due to ever-changing technology, and the market alternative products brought about by dumping of cheap products, are of great challenges to SMMEs. The following are sub environment of task environment:

(a) The market

Market can present threats or opportunity to the business. SMMEs require evaluating their target market demands and their lifestyles which can hint on economic viability of the potential customers. This enables a business to meet a demand of the target customers which increases the sales of the product. This indicates that a business is serving a right market with the right products; hence a business's competitive position becomes stable (Felton, 2008). In the market is where demand and supply of products are met. The market consists of buyers and sellers in touch to each other for products and services in exchange with money (Du Toit, Erasmus and Strydom (2009). With recent technology improvement business are urged to treat customers with a welcoming approach that can even be demonstrated on information technology network by creating a good relationship that encourages a business success (George and Simon, 2011). In a study conducted by Apparel (2012), customers warn small businesses of their poor e-business service because lack of upgrading to a recent technology may be seen as worse than having no inter-linked business. Even though they prefer internet business but that of small businesses discourage their buying power.

Outsourcing a reliable distribution channel gives a business a sustainable competitive advantage which means a good relationship formed with suppliers is transferred onto the customers in the form of an impressive customer service.

(b) Competitors

Competition among SMMEs is always tense even though they seem not to care much about their competitors. Business capabilities position it in a competitive place as a market leader, market challenger, market follower or market niche. They compete for customers and suppliers of capital and materials. Banks realised that there is high demand of their services by SMMEs. They charge high interest on loans offered to these business and also tighten the requirements to access to a loan, which limit a number of those who can afford such charges (James, 2001). However, Cavalluzzo, Cavalluzzo and Wolken (2002) claim that it is due to lack of competition in the financial institution sector that causes restrictions to SMMEs access to credit. When realising new entrants in the financial institutions market, banks supply more loans to SMMEs than it offsets them. The financial institutions sector is monopolised by few market bullies. In competing with their market rivals, SMMEs believe that the only way to beat the rivals is to sell products below minimum price which lead them to bankruptcy because lowering prices is just a short term success (Diss. Oller, 2006).

SMMEs wish to explore international market and grow their businesses, but because of a tense competition internationally they are just nervous to export. This is because they have a fear that they cannot analyse a target market which requires extensive skills especially when trading internationally (Fish and Ruby, 2009). SMMEs need knowledge to analyse rivalry in the market and that can be through strategic management courses (Cronin, 2012). Martin (2012) states that classifying and analysing rivals in the market is a hectic task for SMMEs because it requires financial spending and time spending. SMMEs are faced with a challenge of being unable to locate their rivals and place them in the market to settle for a successful competition. They also face large stores which are well established who unsettle SMMEs in the market while trying to adjust to market

servicing prices. The main challenge on SMMEs is familiarising their products with customers. They simply open the store with a hope that customers will hurry to the store and purchase those products even though they are unknown (Martin, 2012).

(c) Customers

For a business to enjoy great market share in the industry, it can be through outcompeting its competitors as a new entrant, this would happen if the market is thoroughly analysed and more customers are attracted to the store (Bob, 1998). What a business is going to sell describes its target market and a well-defined target market contributes to the success of a business being one of the marketing strategy tools. It is surprising to realise that most of the entrepreneurs just establish their businesses without even researching on who their potential customers would be. Customer analysis is very important to potential and existing small businesses. Characteristics of current and potential customers, usage of the products, why a product is preferred to competitors' products, and timing of customer purchase are the keys to knowing the target market and sustaining competition (Du Toit, Erasmus and Strydom, 2009). This is all about marketing research which requires skills and training from SMMEs, and forming a strong bond with consumers can help even to retain and acquire customers (Perks, 2010).

SMMEs experience obstacles in accessing their target market. Mensah (2012) explains that it is because of low customers' confidence because of economic slowdown which reduces the customers flow into the stores and tense rivalry among SMMEs who deal in similar products and some are cheap alternates. Customers opt for those inexpensive alternatives because of low income, hence small market share resulting from sales reduction. Also production is a challenge where small businesses cannot produce at the required level due to lack of assets that run the production process, which is the cause of poor financial resources.

Peter (2012) criticizes small business for supplying their products to the markets without knowing the needs of the market, or who is operating in the market, how

they are operating and how intense rivalry is. Peter adds that small businesses think that the products are going to market and even sell themselves. SWOT (strength, weakness, opportunity and threat) analysis is the key to accessing the market and establishing the business for profitable customers (Peter, 2012)

(d) Suppliers

Du Toit, Erasmus and Strydom (2009) state that for a business to operate it must have a reliable channel of distribution on start-up finance, assets, and personnel. If these properties are efficiently and effectively delivered, a business's competitive position in the market is guaranteed. In a recent economic crisis, SMMEs carry the burden of increased prices of raw materials and other production equipment catalysed by an increase in oil price which is added as transport costs (Macinnes, 2011).

2.11.3 Internal environment

The internal environment refers to the inside operations that affect an organisation as a whole or a certain specific department in a business. It is composed of the factors of production which are land, labour and capital which are brought together by an entrepreneur for a business to function. In this environment the goal of an entrepreneur is to build his strength and eliminate or minimise weakness and turn a threat into an opportunity (Nieman and Pretorius, 2004:12). A management control in a business is exercised in this environment and determines the ability of a business to thrive in the market (Du Toit, Erasmus and Strydom, 2009). SMMEs success here is in the hands of the management even though this environment is linked to market and macro environment in order to pose strong effects on SMMEs.

Vision, mission and clear objectives are the determinant of success of a small business even though SMMEs mostly depend on short term plans aiming for quick returns. Strategic planning is a challenge to SMMEs, for example, in a family business there is a lack of planning on who to carry forward with a business once the current owner retires. Actually, a business owner-manager plans on current situation and hardly strategies on future of the business (Garg and Van weele, 2012). A managerial control of a small business is dependent on external environment factors, for example, a business's financial position and production department are affected by a

global economic crisis which consequently rises the prices from SMMEs supplies and affects the internal structure as a whole (Njanja, Oqutu and Pellisier, 2012).

2.12 Concluding summary

The chapter dealt with various aspects of SMMEs from a small business context. Literature indicated various issues from a small business' outlook, such as diverse definitions of SMMEs from different countries. The meanings provided are said to be the standard meaning in each and every country, though, SMMEs are defined differently by different scholars. As their importance have already been found by researchers as the engine of the economy, SMMEs cannot survive on their own hence various institutions that assist SMMEs are outlined in relation to their assistance provided. Scholars recommend some specific natural entrepreneurship features that if supplement by the above detailed financial and non-financial institutions lead a business to a sustainable success. An economic school's approach provides relevant explanations which are important for this study because they understand an entrepreneur as a role player in the national economy which is a key component of this study.

Specific challenges that hamper SMMEs' growth will be discussed in chapter three hereunder.

CHAPTER THREE

SPECIFIC CONSTRAINTS ON SMALL BUSINESSES

3.1 Introduction

The obstacles faced by small businesses come from the business environment which forms the micro-environmental factors. The micro-environment is also known as the internal environment, which presents the strengths and weaknesses of the business while macro environment is also known as external environment, which is about the businesses opportunities and threats (Du Toit, Erasmus and Strydom, 2009). In the micro environment, Du Toit, Erasmus and Strydom (2009) suggest access to start-up finance, training and development, marketing and financial management as internal business challenges, which the study objectives are based on. At the macro level, small businesses are affected by political, technological, economic, social, and physical challenges (Kiley, 2011). Signs of trouble emerge from a cash flow statement once a business is in for the micro and macro challenges.

3.2 Micro environment factors

Factors that are hereunder mentioned affect the operations of SMMEs as they represent threat to the business.

(i) Training and skill development

Most of the environmental factors that negatively affect SMMEs have effect due to SMMEs having shortages of skills that would aid their development. In order For SMMEs to be able to control such negative factors the effective business management with good managers, adequate training, and education are the first priority (Jurie and Watson, 2002). This is confirmed by the business survey in Gauteng that found a lack of administrative and procedural skills for business owners who did not attend business management training have been negatively affecting their growth and development (Lghthelm and Cant, 2002).

To operate an invented technology there must be training provided to the user. Even in small firms especially in the technical and manpower industry, employees are required to attend a basic skills education as workplace orientation so that a harmless environment is created for a business operation (Department of labour, 2002). An entrepreneur who has passed through business skills education or advancement at some point is able to establish, and efficiently run the business to maturity (Juan, 2005). For this entrepreneur to succeed he must possess analytical, personal and managerial skills as these skills are identified as the required skills for a small business to sustainably survive market competition (Rogerson, 2008). When there is a lack of such skills, there will be production deficiency, hence poor supply of products and services to the customers (Voester, 2011). Voester further argues that it is not only a brilliant idea, or strong financial muscles, that can guarantee the success of a business, but training and development is also necessary for proper business strategy implementation.

Before establishing a business, who is going to operate various business departments has to be decided or planned based on their qualifications and experience. Ulvenblad (2008) identified communication skills as the most important tool in business start-up. With these skills, a business owner can be able to interact with potential employees and suppliers with the aim of attracting human and capital resources, which are the input to the business start-up (Ulvenblad, 2008). Basically, SMMEs personal attributes, competency, skills, knowledge, and experience are the key to a successful SMMEs establishment. These skills will eventually edge SMME owners to a competitive advantage because of easy access of information on where to obtain the means to flourish (Pradeep and Recardo, 2011).

Argiris, *et al.* (2012) assert that SMMEs hardly succeed, and cannot sustainably compete without access to some of the services like information technology, and other standard facilities that require certain training, skills, and capabilities to control. In respect to skill development, SMMEs prefer attending skill development business based courses which they take as the most important tool in business management towards helping them succeed in the market, but do not know how and where to access such workshops (Cronin, 2012). Information technology with materials tailored to the needs of various

SMMEs, instead of sending a team of presenters who mostly hold training with a misunderstood language, is an ideal to SMMEs superior operation. Such information can be available from electronic system with user's home language. Besides, Siemens (2012) argues that SMMEs differ in respect to their needs and challenges. Rural SMMEs experience more challenges than urban ones, which requires specific skills development measures to assist those SMMEs which are not established as the means of day-to-day survival in the rural community. With appropriate skills disseminated to rural SMMEs, obstacles can overcome because SMMEs would be able to differentiate family and business objectives. Also, with a suitable skills development offered in availability of resources, opportunities can be realised in the rural communities and the needs of the community and the entire business.

A lack of entrepreneurship courses in school curriculum is another factor that increases the number of businessmen establishing and running businesses with insufficient business management skills (Dugassa, 2012). Dugassa suggests that offering this course through all the departments at the tertiary level can educate and skill most potential entrepreneurs hence reduce the rate of unsuccessful businesses. Engineering and technology must offer the course because that is the department where product development starts; therefore entrepreneurial skill is a need. Skills shortage plays a major role in most SMMEs mortality. Colette and Lorna (2012) suggest that health science students must be taught entrepreneurship courses because they are mostly involved in establishing and operating their own medical practices. This course can strengthen their business knowledge and skills. They can be able to learn about all stages of business challenges and opportunities, start-up, maturity, how to deal with their customers and suppliers, marketing of their practices and how to compete in a competitive medical practitioners market.

(ii) Financial management

SMMEs operate in an unreliable environment which puts their financial position and performance in danger if a business is without a professional financial forecast. Hiduke and Ryan (2006) suggest that for a business to avoid failures, expertise in cash flow management and business management are required. Furthermore, Hiduke and Ryan

(2006) state that small businesses with insufficient financial management and customer management contribute to their own bankruptcy since most of the time they fail to pay their suppliers due to incessant mismanagement of funds. This goes further by pointing out that many small businesses offer credit to customers expecting payment within a certain agreed period of time, which customers fail to pay.

Rajaram (2008) believes that all the registered SMMEs which fall under the definition of SMMEs must possess financial statements that can show the performance of their businesses. Rajam further indicates that this is a problem as most of the SMMEs are not registered. They are mostly struggling enterprises such as survivalist and street vendors from the rural areas.

SMMEs are small in structure which forces them to depend much on borrowed funds that frails their long term objectives. They are ever looking for quick returns with short term objectives aiming at recovering their investment, and this is due to poor investment skills (LI Yu-qiao, 2008). Skills and knowledge is a key to successful financial management in the business. By strategically investing in business properties such as long-term and short-term assets, edge a business towards sustainable competition in the market. This can be either by investing from a borrowed amount of money or with self-generated money and also by developing new products or diversifying existing ones, investing in a favourable or unfavourable economic situation and deciding whether the business requires inwards growth or outwards growth (Liu, 2010). In order for all these investment strategies to be successfully formulated and implemented requires professionals in financial management fields. Also sales return management is another factor that requires competent financial planners and controllers who are able to set criteria on how and where to allocate the profits. A decision is made on how to utilise those excess funds, either by improving organisational structure or by specifically improving certain parts in the business such as improving workers benefits (Liu, 2010).

In relation to good cash management as a crucial tool to the success of SMMEs, bank accounts can also be another factor leading towards good management of money or mismanagement of finance. Maria (2010) advises that before selecting a bank account,

one must first compare their attributes more specifically on the aspect of the bank charges or rates and how frequently different banks will charge. Banks charge on deposits, withdrawals, or both while some charge differently. Maria (2010) mentioned the following account elements to be considered by SMMEs for effective financial control; the amount of time a payment takes to reflect on the account when paying suppliers or when customers make payments to SMMEs, method of purchasing products, especially if it is through the use of credit cards. Also, the amount the SMMEs' owner possesses currently and if it is advisable to start-up SMMEs, whether to use interest free accounts for example savings or fixed deposit account, or whether to use a linked accounts provision which will enable SMME owners to transfer money between different accounts to avoid the risks and consequences of over-drawing money from one account. All these issues require extensive business management skills, which most SMMEs lack and they refer to their colleagues, spouses, or relatives for assistance instead of turning to experts in the field of financial management (Çaliyurt, 2011). Professionals in financial management are able to assist SMMEs with the essential tools a business requires, such as financial analysis, financial planning, investment, savings, and budgeting. A layman in the field of financial management cannot afford to advise SMME owners with such financial management aspects.

Akande (2011) states that financial statements help a business owner track the progress of a business, and it is an important tool that is ignored by small business owners even though it is one of the crucial factors that contribute to business success. Keeping a financial statement is very crucial because it allows effective control of incoming and outgoing amounts which means payments of suppliers can be made on time. Though very helpful, it gives the owners of SMMEs sleepless nights as it requires specific skills and education (Jason, 2012). However, Pleis and Purdy (2012) argue that small business owners devote most of their efforts mainly on what they offer to their consumers and little/no attention is given to the financial management part of the business. Adding to their worse, a financial management education offered at tertiary level is barely focused on small businesses, but rather on bigger businesses.

(iii) Marketing

Most of the SMMEs are family owned businesses who believe in their management principle but experience problems when it comes to marketing management, which requires extensive training and skills (Keun, McLeod and Miller, 2001). Such businesses' advertisements convey ambiguous messages to the audience. They make mistakes of fancily decorating their advertisements on advertising media such as magazines and internet without offering the value of their products but only displaying products features (Meir, 2001). Features must indicate what they can benefit to the audience and who such targeted customers are and also their needs must be evaluated through marketing research.

The current business environment is dynamic and viciously aggressive with daily emergence of new technology that requires a business owner to find the exact marketing method that suits his business strategy (David, 2003). Marketing requires the manager's knowledge and skills to enable him to successfully identify the target market and the marketing medium that is best suitable for different audiences. These responsibilities fall to the owner as usually the SMME owner is the manager and leader in the business (Boshoff and Elliott, 2005). Boshoff and Elliott (2005) further state that an appropriate marketing tool cannot be formulated and executed over-night, basically referring to internet marketing as it requires competent managers and finance. Sha (2006) argues that marketing in small businesses is mostly short term as there are no business owners, or very few business owners, equipped with such knowledge and skills. Moreover, small enterprises are not involved in formal marketing due to the scarcity of resources, such as technology, which assist in e-marketing as well as cash (Audrey, David and Steve, 2006). Customers' value must be considered in designing and executing marketing process, which in turn benefit the business in terms of sales returns. This reduces the problem of deciding wrongly on target customers (Asikhia, 2009).

Business owners, mostly who are unregistered and with low levels of education take marketing and advertising as a much too costly activity, since they do not realise that for the product to gain publicity and attract more customers, advertising and marketing are

important factors. They have no understanding of marketing concepts and how it can lead a business to success in a competitive market (Hinson and Mahmoud, 2011). However, some are much engaged in casual approach to customers which seems to yield optimistic business results. The business owners without marketing are little if not aware that marketing poses a direct effect on small business returns (Khan, Malik and Razzaq, 2011). In addition, SMMEs take proper marketing as a waste of time because it requires some time allocation for planning and execution.

In contrary, SMMEs realize marketing and advertising as essential to their business survival because it assists in realising a market opportunity which an illiterate person cannot recognize (Cabinet, 2011). SMMEs engaged in marketing realize the value marketing adds to their business even though it requires a lot of investment in personnel and financial resources. But, those who are not involved in marketing regard its costs as far greater than the returns to the business; hence it is impractical for their business operations (Bhagaban, Enrique and Paulette, 2011). For effective market analysis, training basically on marketing management is indispensable.

SMMEs employ personnel with low education who cannot construct marketing plans or engage in marketing research. Also, such SMMEs believe that the size of their businesses do not require mass advertising and marketing (Edmunds, Panigrahi and Zapatero, 2011). Ogunmokun and Tang (2012) conclude that SMMEs with sound management are associated with high levels of formal marketing because of the heavy financial costs required which are affordable to them, rather than informal SMMEs that are mostly engaged in informal and low level marketing due to their low revenue base. However, due to the ever-changing business world, SMMEs are forced to engage in technological marketing even though it is costly and requires skills and knowledge but few still utilize online marketing where they mostly use the net-marketing (Eid and El-Gohary, 2013). Social networks are currently likely to lead the E-marketing campaign.

(iv) Access to finance

Kroon and Nieuwenhuizen (2003) suggest that the financial institutions should provide loans in consideration of business owner personal features to success, not only by much

considering business ability to pay back loans in times of business failure. By less institutions considering default rates as the top requirement to access loan, a number of newly established SMMEs can increase, which in turn can expand the economic growth by creating more jobs. The default rate prioritizing blocks-out disadvantageous SMMEs and only allows already prosperous SMMEs to obtain funding. Access to capital is mostly a problem for small businesses, sources of capital must be determined before starting a business.

SMMEs are a disadvantaged group in the business world which when planning to kick-start their business, they have to take from their own salary or consult friends and relatives for financial assistance (Ford, 2004). This is because most of the small businesses are not aware of the existing institutions that offer assistance to businesses (Mahadew, 2007).

Anthony (2007) suggests that starting a partnership can attract huge capital, minimization of tax payment and shared responsibilities among the members which may bring more skills and expertise to the businesses. But on the other side Anthony argues that even the risk associated with the business is shared if the assets are affiliated with the business, and can contribute to partner loss of assets in case of business failure.

As a result of economic recession, businesses are forced to consult for capital from relatives or form that partnership. M2PressWIRE (2009) refers to the period of economic crisis that definitely ruined SMMEs operations in 2009-2010, the situation where SMMEs desperately needed financial assistance and at the same time financial institutions tightened credit access. Not only is the tightening of access to loans by financial institutions a barrier, but also lack of information on how and where to access these loans is an obstacle to the success of SMMEs. More on that, McPherson and Rous (2010) argue that an expansion and development of small businesses are due to variables that form organisational structure in addition to start-up capital. Capital of a business does not operate independently; it cannot grow a business with a poor management structure. Some of the SMMEs are under the manufacturing sector where they demand a supply of raw materials from various producers to meet their daily demand. For these businesses to satisfy their customers, they need to stock and supply at a required level and

this needs some financial injections which can assist in prospering and developing a business to meet expected demand (Department of the US White House 202-456-7100, 2010).

SMMEs in South Africa experience financial hindrances in their start-up stage because financial institutions are reluctant to give out their loans to businesses without collateral. As maintaining capital is the main requirement to obtain loans from a private institution, without capital the operations are held off, because even government institutions are selective in offering assistance to SMMEs. These requirements represent strong obstacles against SMMEs, because even after they have won tenders or developed good ideas, they cannot take their businesses to the next level (Makholwa, 2011).

SMMEs at the early start-up are not able to meet minimum points for Black Economic Empowerment support due to a criteria set up by the Government (Russel, 2012). Obtaining a start-up capital is always a challenge which is brought up by venture capitalists who take their money to an existing business with at least two years of successful returns (Parker, 2012). Again this criterion restrains SMMEs from obtaining start-up finance, because financial institutions are very vigilant of their money to who it is going.

According to Oncioiu (2012), SMMEs are classified differently according to their capabilities, assets, and years of existence, which creates different needs for each SMME. Medium businesses are able to secure sources of finance from multiples of financial institutions because they always meet the credit access requirements. While small and micro businesses mostly use their own money to finance their businesses, due to lack of business plan capabilities, and high risk that a bank might score zero from its loan lent to such disadvantageous businesses. Oncioiu (2012) suggests that financial institutions should increase the loan payment periods which cannot pressurise SMMEs for payments, and also interest rates should differ on what kind of a business is applying for financial assistance.

The size and type of the business to be formed would determine the capital required. Starting a joint business can offer more benefits in terms of reducing the risks. An

entrepreneur must assess his partner carefully to see how wise the partner is, his networking skills, and how his networks can outsource capital, and also the partner's ability to take a business to a profitable direction for long business life (Jennifer, 2012).

3.3 Concluding summary

Small businesses operate in an ever challenging environment which threatens and harms their sales and profit margin. Even though they are faced with numerous obstacles, a vital role they play in the economy is beyond doubt. Challenges that they encounter when establishing and developing businesses are described by various literature as very destructive to the operations.

The next chapter discusses the research methodology followed when conducting this study..

CHAPTER FOUR

RESEARCH METHODOLOGY

4.1 Introduction

The purpose of this study was to describe and explore specific factors that hamper the growth and development of small businesses in the rural areas of the Free State Province and provide insights that would help in uncovering solutions thereof. Of particular interest were the factors that were inflicting the entrepreneurs at the micro level of economic activity, a level in which the entrepreneurs have a certain degree of influence and control.

To establish these facts, an overarching research question was formulated and the specific objectives to be established were outlined. These are stated hereunder including the research design and methodology used to establish the said objectives.

4.2 The main research question

The main research question that guided this study was: What are the specific factors that hamper growth and development of small businesses in the rural areas of the Free State Province?

To answer this question the following objectives were formulated:

4.3 Research objectives

- (i) To establish if rural SMMEs have access to training and development.
- (ii) To ascertain if rural SMMEs possess adequate financial management skills
- (iii) To establish how the marketing of SMMEs products is facilitated and
- (iv) To ascertain the extent to which the development of rural SMMEs is affected by access to start-up finance.

4.4 Research design

Singleton and Straits (1999) describe a research design as an overall investigation to obtain answers to a research question. A number of research designs have been identified by Bougie and Sekaran (2010:102) and these are:

4.4.1 Exploratory research design

Bougie and Sekaran (2010:103) describe this design as the one that is carried out when there is a little information available for the current research or no information available about the previous studies that are related to the current study. This study involves too much of the primary data which can be collected through interviews and observation and experimentation.

4.4.2 Descriptive research design

This method is described by Bougie and Sekaran (2010:105) as the survey method that describes the features of the population under study. This may include features such as sex, age and ethnic group which may be important in obtaining the profile of the respondents before even going further with an interview. Gill and Johnson (2010: 126) add that this design helps in ascertaining the study population and eases the sample calculation which assists in answering the research question.

4.4.3 Case study research design

Thomas (2011: 4) explains that this type of study design investigates one case in detail with the aim of not generalising the results. The investigations are based on a particular study without generalisation.

The qualitative nature of data collection method dictated that this study follows a descriptive research design. Looking at how to find information on respondents' profiles and the experiences SMMEs had, made this method to be appropriate for this study. Also the quantitative nature of data analysis through descriptive statistics and inferential statistics made the study to be descriptive in nature. Scott and Deirdre (2009: 92) state

that descriptive and inferential statistics are the most appropriate methods for analysing data under descriptive research design.

4.5 Research philosophy

The research philosophy behind this study was positivist. To this regard it was thus quantitative in nature. To collect data, a structured questionnaire was used. This meant that the responses obtained from the respondents could be numerically represented and thus, the observations made could be manipulated for the purpose of describing and explaining the variables under study. A further advantage of the quantitative design used was that it would be useful in quantifying opinions, attitudes and behaviours of the entrepreneur under scrutiny.

To a minimal extent, this study was phenomenological or qualitative. The reason for this was that even though it was done through a structured questionnaire, the literacy level of the respondents necessitated that they be interviewed as opposed to answering a questionnaire themselves. The interview, though, was strictly based on the questionnaire.

With the above research design in mind, the following research methodology was followed.

4.6 Research methodology

The research methodology followed in establishing the objectives is explained hereunder starting with the research instrument used.

4.6.1 The research instrument

Interviews were conducted with respondents through the use of a structured questionnaire with a mixture of closed-ended and open-ended questions. As indicated earlier, the interview method was preferred because the target population was not very literate. This was in line with Singleton and Straits (1999) advice that face to face interviews enable sufficient data collection due to high response rates and the opportunity of observing the reactions of the respondents through facial or body expressions the respondents make when a question is asked. The questionnaire was prepared in English but due to illiteracy challenges mentioned above, questions were also posed in Sesotho where necessary.

The questionnaire was divided into the following sections.

Section one of the questionnaire focused on the biographical information of SMMEs, such as gender, race, educational level, position in the business, age, business registration status and number of years in business.

This scale was used in consideration of the literacy level of the target population which has been mentioned earlier. It would be very cumbersome to have any other scale for these entrepreneurs, who have problems in understanding the English language.

Furthermore, the entrepreneurs were approached during working hours, where it is the survival of the fittest. Spending a lot of time answering the questions was going to solicit a negative attitude.

To establish the objectives, this section was divided into four parts where:

Part A sought to establish if rural SMMEs had access to training and development in the Free State rural areas. To establish this, the following questions were asked:

- (i) Did you ever attend any workshop on business training?
- (ii) What were you trained on?
- (iii) Did you feel that the training was helpful to you?

Part B was to ascertain if rural SMME owners possessed adequate financial management skills. Under this part, the following questions were asked:

- (i) Do you possess any financial management qualification?
- (ii) Do you record your income and expenditure?
- (iii) Do you think it is important to keep this record?

Part C was about marketing of SMMEs products where the following questions were asked:

- (i) How do your customers know about what you sell?
- (ii) Do you think your business would grow if you had more customers?
- (iii) Do you feel you need help to reach more customers?

Part D was to ascertain the extent to which the development of rural SMMEs was affected by access to start-up finance, under which the following questions were asked:

- (i) How did you obtain finance to start your business?
- (ii) If you used your own money, are you aware of any institution that offers business loans.
- (iii) If yes, have you ever applied for assistance?
- (iv) Was your loan approved?

4.6.2 Administration of the questionnaire.

Quite a number of SMMEs were approached randomly at their premises for an interview. These were either owners, co-owners or managers, so the gatekeepers' letter was not required. What was attached to the questionnaire were the letters from School of Management, IT and Governance of the University of KwaZulu-Natal, granting permission to conduct the study and the letter of consent explaining to the respondents that participating in an interview was voluntary and that confidentiality would be respected at all times.

Interviews took almost three weeks to complete due to the limitations encountered which are explained further on in this chapter.

4.6.3 Pilot study

Prior to finalizing the questionnaire, a pilot study was conducted to enhance the correctness of measurements. This pre-test was carried out on 10 randomly selected small businesses in Phuthaditjhaba to establish clarity of the questionnaire, relevance and time to be spent on an interview. From this exercise it transpired that the sequence of the questions in part D of the questionnaire had to be revisited, and thus the part was corrected. Phuthaditjhaba was chosen because it was the most rural place than other target districts. Moreover, it was where the research assistant resides, so the SMMEs in that district were conveniently available to the field workers.

4.6.4 Test for reliability

Deirdre and Scott (2009:65) refer to a reliability test as when a measure of an object shows steadiness and uniformity. This means that no matter when the test is done, it must show a blameless extent that the study was free from the favouritism defects (Bougie and Sekaran, 2010: 161). The test must show the consistent results if measured repeatedly.

Deirdre and Scott (2009:65) mention the following measures of reliability:

(i) Deirdre and Scott (2009:63) explain Parallel forms of reliability as estimated by testing one sample of the population with two different forms of an implement of which their results' relationship will be an estimation of parallel reliability. This can be achieved by having a set of many different questions that measures one concept, divide them randomly into two parts and administer them differently to the same sample. Bougie and Sekaran (2010:162) clarify that the relationship between the scores obtained of the two different groups of the questions, will form parallel form reliability.

(ii) Test-retest reliability measures the degree of resemblance of the respondents' responses after the same tests were conducted at two different cases on the same respondents (Deirdre and Scott, 2009:65). Time interval between the two tests is very crucial because the sample changes its behaviour with time lapse between the two occasions. Bernard (2013:48) argues that when there is much time between the two measurements occasions, there will be a low relationship between the scores, when there is little time between the measurement's occasions, there will be a high relationship between the scores of two different measurement of the same sample.

(iii) Inter-rater reliability is used to test reliability by having more than one people measuring the instrument's actions and reaching to a consistent consent on the nature of such actions (Bougie and Sekaran, 2010:162). This gives a high consistency especially where human beings are used for recording certain activities. Benard (2013:47) advises that human beings get tired while dealing with a heavy task alone and end up missing some actions, but with various observers present, missing records on one observer can be found from the other and reach to an agreement

(iv) Cronbach's Alpha is used to test how consistent data was during the time of the questionnaire administration (Santos, 1999). Cronbach's Alpha method is preferred under this study. Santos (1999) further explains that this method is preferred if most of the questions are dichotomous scale questions. Pallant (2010:6) recommends the minimum accepted value for Cronbach's Alpha as 0.7.

4.5.5 Test for validity

Validity refers to the truthfulness of the measure if it measured what was intended to be measured and provides accurate answers to cover what is required by the researcher (Bougie and Sekaran, 2010:158). The following are three types of validity test:

(i) Bernard (2013) explains that criterion validity is established when there is a close relationship between the results of the measured concept and those found by other measurements. There must be a close correlation between the object results produced and the results for a standard measure that is deemed valid.

(ii) Concurrent validity ensures that the measured objects produce different scores (Bougie and Sekaran, 2010:159). If the results produced by two or more objects are similar, that means the measurement did not measure what it was supposed to measure, it measured something else.

(iii) Construct validity attests to how good the outcome found from the use of the instrument fit the concepts it is intended to measure (Bernard, 2013:49).

(iv) Convergent validity is found when outcomes of two dissimilar concepts tested are closely related as predicted (Deirdre and Scott, 2009:60).

(v) Discriminant is established when the concepts measured are predicted to be not related and after being measured the outcome proves that there is no relationship (Bougie and Sekaran, 2010:160).

(vi) Face validity is tested by just looking at the measurement and deciding right on the face of it if the measurement makes sense (Bougie and Sekaran, 2010:159). The question

asked for example may not be valid until confirmed, but if people agree that the question is fit for measuring that concept, then it is a valid question.

(vii) Content validity refers to the degree at which objects entirely represent the model being measured (Deirdre and Scott, 2009:59). This shows how fit the measurement of a model is outlined and whether it is broad enough to cover the target population. A group of experts can be used to evaluate the validity of the measurement (Bougie and Sekaran, 2010:159). In line with the authors' advice, the questionnaire was validated by the Higher Degrees Committee that it satisfactorily covered the concepts of the sample of the population under the study. The committee approved the aimed sample size as the representative of the SMMEs in the rural areas of the Free State Province that could be covered by the questionnaire.

4.7 Sampling procedure

The sampling procedure that was followed is hereunder explained.

4.7.1 Target population

Babbie (2008:121) describes the target population as all the elements under the study area from which the sample is selected. For this study, the target population included all SMMEs operating from the Free State rural areas. These included formal and informal businesses, which were survivalist enterprises, micro enterprises and small and medium size enterprises. The targeted rural districts were: Harrismith, Phuthaditjhaba, Ficksburg, Ladybrand and Wepener. The reason for targeting these particular districts were that they were easily accessible for the researcher seeing that there was limited funding at their disposal.

No department was contacted to provide the names of operating SMMEs. This was done deliberately because government-officials would only supply registered SMMEs. By only selecting registered SMMEs, the extent of the plight of these fledgling entrepreneurs would not be conclusively established.

4.7.2 Selection of the sample

Population sampling is made up of two methods, which are: probability and non-probability method of sampling (Bernard, 2013:128)

Probability sampling is used to select representatives that are to form part of the study, and such elements have identical odds of representing the populace of the study (Bougie and Sekaran, 2010:270). Various sampling techniques are used under probability sampling methods, which are: systematic, cluster, area, stratified, and double sampling methods.

Non-probability sampling, on the other hand, is when the elements that formed part of the population of the study had an unknown chance of being selected to be a part of the sample (Olsen, 2012:82). This sampling method has sampling techniques that are used to select a representative sample such as: judgmental, quota, purposive and convenience sampling techniques.

The sampling technique deemed to be suitable for this study was convenience sampling, under the non-probability sampling design. SMME owners who were readily available to provide information formed part of this study. Convenience non-probability method was used because the study area was wide and the targeted geographical area for data collection was narrow. This was also as a result of the limited resources at the researcher disposal.

The criteria that were set for SMMEs to be included in the study were as follows: SMMEs had to be situated in the rural areas of the Free State Province. They had to be in operation for at least three years. According to Ntsonga (2012), at the third year of operation, SMMEs are within the growth stage and in that stage is where more than 60% of SMMEs do not survive further.

4.7.3 Sample size

Parker and Rea (2005) warn that face to face interview method is expensive and time consuming; ultimately this fact has to be considered when determining a sample size.

This became a big issue in this study because of the literacy levels of the target population.

A total of 150 questionnaires were answered and this number made a sample size of the study.

4.7.4 Characteristics of the Sample

The sample was made up of:

- a) Male and female SMMEs.
- b) SMMEs in the Phuthaditjhaba, Harrismith, Ficksburg, Ladybrand and Wepener districts.
- c) Registered and unregistered SMMEs
- d) SMMEs that were in operation for 3 years and above.
- e) Owners, Co-owners and Managers.

4.8 Data analysis

Data was captured and analysed on Statistical Package of Social Science (SPSS18). Descriptive and inferential statistics were used to analyse the data. Descriptive statistics such as frequencies, percentages, and Cross-Tabulation were used. Measures of central tendency and dispersion such as frequencies, means and standard deviation were also used. Inferential statistics utilised in this study included T-tests. A detailed analysis is done in the next chapter.

4.9 Ethical considerations

The questionnaire had passed the ethical test of the Ethics committee of the University. Furthermore, the researcher decided to target the business owners because there was some information needed that required a manager or the owner who started the particular business right from pre-launch stage or who would have valuable data on background existence of that business. Information such as the number of years in business, and the start-up's financial access, required the business founder to supply it. Due to the fact that no permission was required to get access to those businesses; they were visited at their premises for the interviews. Only the rules governing the field work were read to SMMEs. The intention of the study, the benefit of their

contribution to the interview, voluntary participation, confidentiality, anonymity, and the length of the interview were all clarified to the respondents by the researcher before proceeding with the interviews.

4.9.1 Ensuring confidentiality and anonymity

The respondents were informed that that they could voluntarily reveal their names as it was stated on the questionnaire. But their identity would not be revealed to anyone according to University rules governing field work. Nowhere would their identities be used against them. Data would be stored at the University and would only be disposed of in line with the University rules and regulations.

4.10 Limitations of the study

Quite a few limitations were experienced in the process of this study and these were as follows:

- (i) In consideration of transport and financial constraints, the study initially targeted only Phuthaditjhaba and Harrismith districts of the Free State Province. However, as a result of minimal response rate, the study area had to be extended and three districts were included, which were Ficksburg, Ladybarnd and Wepener.
- (ii) Some businesses were situated in very rural areas that were not easily accessible at all.
- (iii) The addition of more districts was also necessitated by the unavailability of SMME owners who did not in many instances honour the appointment times agreed upon. Only sales assistants were available who did not have sufficient information about the businesses and could not provide answers on financial issues. Most of the questions required the actual business owners or someone with enough background knowledge of the businesses to answer them. Such businesses were skipped and this resulted in visiting more towns.
- (iv) A further limitation was that some business owners were not cooperative for fear of being exposed for tax regulation violations.

(v) Foreign nationals running SMMEs were not part of the target sample though they operated many of the SMMEs. They stated that they were excluded from having access to services from government and private institutions that provide some form of assistance to SMMEs either financially or non-financially. Therefore, many questions would have been left unanswered especially those relating to access to finance.

(vi) One research assistant bailed out and thus, only two researchers had to cover all the targeted districts.

4.11 Delimitations of the study

The study attempted to explore the challenges SMMEs faced in their development stages in the rural areas of the Free State Province. This meant that only SMMEs operating from the named areas were contacted for their participation. As it was stated before, a convenience non-probability method was used for sampling selection. This prompted the only available and willing SMMEs to participate. Only the owner or any operator who had background information about the business participated. When SMMEs are established, they pass through various stages of growth in respect of their duration in the market. With this, only SMMEs with three to ten years of duration in the market contributed to an interview.

4.12 Concluding summary

This chapter discussed the nature and approach of the study and the reason for choosing the research design. Quantitative research design was chosen for this study. A questionnaire with two sections was the tool used to collect primary data from SMMEs in the rural areas of the Free State Province. The sampling procedure followed was explained and this yielded a sample size of 150. Problems encountered during the field work were noted, which resulted in the study area being extended. This also resulted in high travel costs and more days spent on data collection.

A brief overview of data analysis procedures was given.

The findings and results of this study are presented in tabular and graphic form and are discussed in the next chapter.

CHAPTER FIVE

PRESENTATION AND INTERPRETATION OF RESULTS

5.1 Introduction

This chapter presents the study findings from data extracted from a questionnaire that was completed by 150 respondents. In carrying out this study, an in-depth literature review in connection with the research problem was explored to determine attitudes, knowledge, and opinions of small business owners with emphasis on the challenges facing SMMEs' development, particularly in the rural areas of the Free State Province.

5.1.1 Research question

The findings from this study answer the following research question that arose from the research problem stated in chapter one:

What are the specific factors that hamper growth and development of small businesses in the rural areas of the Free State Province?

To answer this question, the following research objectives were formulated:

5.1.2 Research objectives:

- (i) To establish if rural SMMEs have access to training and development.
- (ii) To ascertain if rural SMME owners possess adequate financial management skills.
- (iii) To facilitate the marketing of SMMEs' products, and
- (iv) To ascertain the extent to which the development of rural SMMEs is affected by access to start-up finance

5.2 Data analysis

The statistical tests employed in this study are presented below.

Reliability test of Cronbach's model is shown in table 5.1:

Table 5.1: Reliability statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.787	.612	16

Item-Total Statistics

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
Did you ever attend any workshop on business training?	19.56	4.090	.645	.612
If Yes to (i) What were you trained on?	18.68	2.727	.345	.458
Did you feel that the training was helpful to you?	19.60	4.167	.600	.618
Give details of how this helped you	18.68	2.227	.402	.651
Do you possess any financial management qualification?	18.84	4.890	.274	.787
Do you record your income and expenditure?	19.60	4.167	.600	.618
If Yes to (ii), Do you think it is important to keep this record?	19.60	4.167	.600	.618
Explain why you feel it is important to do this?	18.56	2.423	.476	.647
Do you feel you need help to reach more customers?	19.60	4.167	.600	.618
If Yes to (iii), how can you be helped?	18.56	3.590	.515	.642
How did you obtain finance to start your business?	18.72	4.210	.313	.655
If you used your own money, are you aware of any institution that offers business loan	19.60	4.167	.400	.618
Have you ever applied for assistance?	19.60	4.167	.600	.618
Was your loan approved?	19.60	4.167	.600	.618
If Yes to (iv), do you feel this helped your business?	19.60	4.167	.600	.618

Cronbach's Alpha was used above to test the reliability of data from the sample under study. The results, as seen from Table 5.1, show the acceptable value of .787 indicating that are liable

sample output was used. The numbers in the table under the column titled “Corrected Item-Total Correlation” indicate that the correlation with the total score of Cronbach’s Alpha shows consistency of measurement with all values being above .3.

5.2.1 Section one

The following tables relate to section one of the questionnaire in which the demographic profile of the respondents was ascertained:

Table 5.2

(a) Gender (N=150)

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Male	97	64.7	64.7	64.7
Valid Female	53	35.3	35.3	100.0
Total	150	100.0	100.0	

Table 5.2(a) illustrates that the majority of males operated the small businesses while females formed the minority. This is in line with the latest population statistics of the Free State Province which comprise of 51.7% males and 48.3% females (Statistics South Africa, 2012).

It shows that the small business sector is male-dominated. One can also deduce that in the rural areas of the Free State Province, women are still focused on family responsibilities; hence, they cannot be completely involved in business undertakings. Men are still the main family provider; therefore men usually establish businesses for the family’s sustenance.

(b) Race profile (N=150)

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Africans	133	88.7	88.7	88.7
Valid White	16	10.7	10.7	99.3
Valid Indian	1	.7	.7	100.0
Total	150	100.0	100.0	

Table 5.2(b) indicates that the survey is largely dominated by Africans, followed by Whites and then Indians. This is not surprising because the last population census which was publicized showed that Africans forms 87.6% of the entire Free State population and whites and Indians take up 8.7% and 3.1% respectively. Thus, it is quite apparent why the SMMEs sector is majorly dominated by Africans.

(c) Educational level of participants (N=150)

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Primary school	43	28.7	28.7	28.7
High school	79	52.7	52.7	81.3
Tertiary Education	28	18.7	18.7	100.0
Total	150	100.0	100.0	

The results on table 5.2(c) reveal that most of the SMMEs owners are equipped with a minimum educational level and few of them have obtained a higher level of education. This is indicated by the majority of SMME owners possessing a high school educational level, followed by the primary educational level and then the tertiary level. By revealing that the majority of SMME owners possess a lower level education, it is obvious that the sector is characterized by people who cannot proficiently manage businesses to sustainable success. This is because most of the business success factors require an educated entrepreneur for the durability of the business. The SMME owners in this study are not highly qualified. Therefore, education can be characterized as one of the barriers to successful entrepreneurship and business management.

(d) Position in the business (N=150)

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Owner	109	72.7	72.7	72.7
Co-owner	36	24.0	24.0	96.7
Manager	5	3.3	3.3	100.0
Total	150	100.0	100.0	

Table 5.2(d) above reveals that in the small business sector, sole traders are the main operators. This is shown above by the business owners being the largest in number as compared to co-owners and managers who were found to be the least in this study. Business owners take all the responsibilities in the SMMEs. This is because the business owner is the sole-owner and manager of the business. Organizing, controlling and leading of tasks and activities are left entirely to the business owner. Any risk that occurs in the business is the responsibility of the owner, while co-owners in business share the responsibilities.

(e) Age grouping of participants (N=150)

Age category	Frequency	Percent	Valid Percent	Cumulative Percent
23-34	35	23.3	23.3	23.3
35-45	76	50.7	50.7	74.0
Above 45	39	26.0	26.0	100.0
Total	150	100.0	100.0	

Table 5.2(e) illustrates age categories of SMMEs that participated in the study. Youth age category and old age category of SMME owners were found to be almost equal, while the middle age group of SMME owners had a higher number of participants in this study. At the age of 23-24, it was revealed that entrepreneurship was less, since in that particular age category the young person might still be a learner at school rather than participating and running a small business.

While in the middle age category, the increased number of SMMEs established is possibly due to a higher unemployment rate exists among the participants in this age group. They could also have been attracted by market opportunities, which led them to leave their formal employment to get involved in products trade. The participants in the old age group may have just started up the SMMEs with the hope of trying to have access to basic necessities. They mostly ran small businesses by investing their retirement benefits into the business as a means of protecting such retirement benefits.

(f) SMMEs registration with CIPRO

	Frequency	Percent	Valid Percent	Cumulative Percent
Registered	53	35.3	35.3	35.3
Not registered	66	44.0	44.0	79.3
Valid In registering process	11	7.3	7.3	86.7
Will not register	20	13.3	13.3	100.0
Total	150	100.0	100.0	

To have a comprehensive view of SMMEs’ registration position, it was essential to know if businesses were registered or not. Table 5.2(f) illustrates these results above. The table shows that the SMMEs’ sector was dominated by unregistered SMMEs, about 66 SMMEs were unregistered and 20 other SMME owners emphasized that they would never register their businesses. For those who considered registration as a process that they would never be engaged in, it was stated that their business size was the main reason why they avoided registration. Those SMMEs were mostly street vendors and family businesses. They believed that such businesses would never grow to meet the registration costs. Hence, registering a business was referred to as being unnecessary leading to them incurring government regulation expenses.

As for the SMMEs still in the registration process, they claimed that business registration usually went on for a while due to paper work, and that having to obtain proof of registration to kick-start a business was a long process. Thus, only 53 SMMEs are operating in a formal environment that is governed by the government legislation in the Free State Province.

This is an indication that most of the rural SMMEs in the Free State Province are not eligible for government and private sector facilities because they are not registered.

(g) Number of years in Business (N=150)

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 3-5 years	98	65.3	65.3	65.3
6-10 years	47	31.3	31.3	96.7
Above 10 years	5	3.3	3.3	100.0
Total	150	100.0	100.0	

Table 5.2(g) shows that few of the SMMEs make it through the five years of operations and to above ten years.

There is a high rate of emerging businesses and a high rate of exiting businesses. More businesses are able to operate only for short periods of time after which they are phased-out. SMMEs have no sustainable stay in the market. These SMMEs are vulnerable to environmental challenges.

5.2.2 Section two

The results presented in the subsequent tables contain statistical performance measures for further understanding of the results obtained in this study:

Table 5.3

(a) Race * Did you ever attend any workshop on business training? Cross tabulation

Count

	Did you ever attend any workshop on business training?		Total
	Yes	No	
Africans	36	97	133
Race White	8	8	16
Indian	1	0	1
Total	45	105	150

This analysis is undertaken to deduce whether small business owners attended business skills mentorship with respect to race. The results are shown in table 5.3(a) above. It is evident that there is skills deficiency in the small business sector, and Africans constitute the highest number of business owners who have not attended any workshop on skills development. The results above give the indication that there is still a lot to be done on taking such skills development services to the rural community. That is in form of advice for the small business owners so that they would know the significance of attending skills development workshops, seminars and training. Businesses are established with poor background knowledge from the start-up phase, build-up phase and maturity phase, and this increases the chance of business failures.

(b) Educational level * Did you ever attend any workshop on business training? Cross tabulation

Count

		Did you ever attend any workshop on business training?		Total
		Yes	No	
Educational level	Primary school	0	43	43
	High school	29	50	79
	Tertiary Education	16	12	28
Total		45	105	150

The table 5.3(b) above presents results that help in determining the relationship between educational level and workshop attendance on business training of participants. It was found that the level of education that business owners have was a critical factor that determined seminar attendance for business skills development. From the table above, no business owners with primary education attended such workshops, while few of those that attended high school were present at the skills development workshops being able to realize the benefits of such development programs. As for the SMME owners with tertiary education, they had a clear knowledge and understanding of the importance of such seminars.

From these results, one can postulate that small business owners with lower levels of education established and ran businesses without proper training. While those with higher education were able to realize the potential of skills development workshops, and those who did not attend are

the professionals that already possess the skills set in the field of entrepreneurship. Thus, they considered that a workshop was unnecessary for them. The more educated business owners are likely to have acquired the business knowledge and skills that they have from the institutions of learning that they attended. This gave them an edge over the business owners with low education.

**(b)(i)Educational level* Did you ever attend any workshop on business training?
Correlation**

		Educational level	Did you ever attend any workshop on business training?
Educational level	Pearson Correlation	1	-.438**
	Sig. (2-tailed)		.000
	N	150	150
Did you ever attend any workshop on business training?	Pearson Correlation	-.438**	1
	Sig. (2-tailed)	.000	
	N	150	150

** Correlation is significant at the 0.01 level (2-tailed).

Pearson's correlation on table 5.3(i) was used to determine the relationship between 150 SMME owners on educational level and workshop attendance. There was a negative correlation between the variation of educational level and the variation of workshop attendance. There were more SMMEs who did not attend a workshop than those who attended, and majority of that number came from business owners with primary and high school education, while few participants with tertiary education did not attend.

There is a statistical significant association between educational level and workshop attendance on skills development($r = -.438$, $N=150$, $p < .000$). This relationship is negative. The higher the educational level of SMME owners, the lesser the number of SMME owners that did not attend a workshop while the lower the educational level; the more the SMME owners did not attend

**(c) Position in the Business * Did you ever attend any workshop on business training?
Cross tabulation**

		Did you ever attend any workshop on business training?		Total
		Yes	No	
Position in the Business	Owner	20	89	109
	Co-owner	23	13	36
	Manager	2	3	5
Total		45	105	150

It is clear from table 5.3(c) that the ownership and running of businesses affects the attendance of owners of SMMEs to workshops on training and skills development. It is shown by a high number of SMME owners and managers that did not attend the workshop. Attendance to such workshops is not impressive and this reduces number of successful businesses.

Business owners feel that their skills would suit the needs of their businesses, hence they saw no benefit of such workshops and such businesses usually have low chances of success in addition to the fact that they were owned and managed by the business owner with only few staff employed.

On cooperative businesses or partnerships, it seems that various skills are brought together by co-owners. This is justified because many of the co-owners appeared to have attended a workshop on skill development than anyone else in a senior position. It can be inferred that businesses ran by co-owners and managers were more skilled and knowledgeable on business management than those ran and managed only by the owners and managers who operated their businesses based on instinct.

(c)(i) Correlation of position in the business and workshop attendance for business training

Correlation of position in the business and workshop attendance for business training	Position in the Business	Did you ever attend any workshop on business training?
	1	-.363**
Position in the Business		.000
Pearson Correlation		
Sig. (2-tailed)		
N	150	150
Did you ever attend any workshop on business training?	-.363**	1
Pearson Correlation		
Sig. (2-tailed)	.000	
N	150	150

** . Correlation is significant at the 0.01 level (2-tailed).

From the correlation table 5.3(c)(i) above, the results indicate a negative relationship between position in business and workshop attendance. The results indicates a statistically significant relationship between a position of SMME owners and workshop attendance ($r=-.363$, $N=150$, $p<.000$). This means that there is a decrease in number of SMME owners who attend a workshop and an increase in number of those who do not attend a workshop.

(d) Age (Years) * Did you ever attend any workshop on business training? Cross tabulation

	Did you ever attend any workshop on business training?		Total
	Yes	No	
Age (Years) 23-34	14	21	35
35-45	22	54	76
Above 45	9	30	39
Total	45	105	150

The results above indicate that various age categories were not a vital factor in determining whether SMME owners were part of a workshop or not. This is shown on the table above, when

SMME owners who attend business training are less than those who do not attend training. This occurs from all age categories.

There are no conclusive results that can judge workshop attendance by small businesses based on their age categories because participants of all age groups seem to be homogeneous in their behavior towards workshop attendance.

(d)(i) Correlations between Age (Years) *Did you ever attend any workshop on business training?

		Age (Years)	Did you ever attend any workshop on business training?
Age (Years)	Pearson Correlation	1	.129
	Sig. (2-tailed)		.117
	N	150	150
Did you ever attend any workshop on business training?	Pearson Correlation	.129	1
	Sig. (2-tailed)	.117	
	N	150	150

Furthermore, these results from table 5.3(d)(i) support the results on table 5.2(d) that there is no statistically significance relationship between age categories and workshop attendance by SMME owners. This is shown as ($r=.129$, $N=150$, $p>.000$). This means that age categories are non-impact factors on business training attendance.

(e) Business registered with CIPRO * did you ever attend any workshop on business training? Cross tabulation

Count

		Did you ever attend any workshop on business training?		Total
		Yes	No	
Business registered with CIPRO	Registered	31	22	53
	Not registered	7	59	66
	In registering process	7	4	11
	Will not register	0	20	20
Total		45	105	150

The analysis from 5.3(e) reveals that the need and importance of skills development programs is realised and considered by some of the SMME owners who want to find their businesses operating in a formal environment. Among the registered SMMEs, the majority of them were positively inclined to skills development program and those who do not attend are said to have acquired the entrepreneurship course from tertiary level. Some are equipped with a background experience from previous companies they had worked for.

The informal sector is still characterized by a shortage of skills development programs. In this study, the majority of SMMEs who participated were the unregistered ones, amongst them only 7 attended the programs. These SMMEs were eager to understand regulations governing the business sector and what crucial services a businessman had access to in the formal sector.

Few businesses were in the registration process while 7 of the business owners did attend a workshop on business training. Those businesses were able to learn on how to register, build up and grow a business. A delay in business registration approval by CIPRO was what business owners kept waiting for a while before they could access basic business services. Besides, there is that group of business owners who are hopeless as whether they will ever register their businesses. And as such, they decided not to affiliate themselves with anything that would take them closer to incur any regulation costs.

From these results it can be inferred that the benefits of workshop attendance were realised mostly by the registered SMMEs, while others could not, because they were without business certificates that gave them the right to operate, thus they decided not to even border to enhance their business skills.

(e)(i) Correlations between business registered with CIPRO and *did you ever attend any workshop on business training?

		Businesses registered with CIPRO	Did you ever attend any workshop on business training?
Business registered with CIPRO	Pearson Correlation	1	.347**
	Sig. (2-tailed)		.000
	N	150	150
Did you ever attend any workshop on business training?	Pearson Correlation	.347**	1
	Sig. (2-tailed)	.000	
	N	150	150

Table 5.3(e)(i) above illustrates the Pearson correlation that was carried out to find the relationship between business registration and workshop attendance. From the results, it indicates that there is a statistical relationship between business registration and workshop attendance and the two variables are positively related with ($r=.347$, $N=150$, $p<.000$). It is thus conclusive that business registration has an impact on SMMEs workshop attendance.

(f) Number of years in Business * did you ever attend any workshop on business training?
Cross tabulation

		Did you ever attend any workshop on business training?		Total
		Yes	No	
Number of years in Business	3-5 years	30	68	98
	6-10 years	14	33	47
	Above 10 years	1	4	5
Total		45	105	150

Figure 5.3(f) above illustrates the degree of workshop attendance by SMME owners in respect to the number of years that the business has been operating. Results show that, regardless of their various years of existence in the market, small business owners in all categories above do not attend workshops. The only difference is that their numbers in attendance differ from each other according to their respective categories. This poor attendance across the respective categories can be an indicator to the overall poor performance of small business owners. There is thus a huge margin between those who did not attend the workshops and those that attended.

(f)(i)Number of years in Business and did you ever attend any workshop on business training? Correlation

		Number of years in Business	Did you ever attend any workshop on business training?
	Pearson Correlation	1	.029
Number of years in Business	Sig. (2-tailed)		.724
	N	150	150
Did you ever attend any workshop on business training?	Pearson Correlation	.029	1
	Sig. (2-tailed)	.724	
	N	150	150

Pearson product-moment correlation was run to determine the relationship between SMME owners' categories in years and their workshop attendance. The correlation was insignificant ($r = .724$, $N = 150$, $p > .05$) showing no relationship between the variables. This means that the number of years had no significant impact on workshop attendance. The workshop attendance was not dependent on the number of years that the business had been in existence.

(g) Did you ever attend any workshop on business training? * If Yes to (i) What were you trained on? Cross tabulation

		If Yes to (i) What were you trained on?			Total
		Business start-up	Business growth	Business start-up and growth	
Did you ever attend any	Yes	18	11	16	45
Workshop on business training?	No	0	0	0	0
Total		18	12	16	45

The outline of training and development programs that SMME owners attended is presented in the above table. Workshops were held with different intentions, one of which is to assist SMMEs to start-up and grow. The majority of SMME owners attended a program on how to kick-start a business. This was followed by a program that addressed those who needed to be skilled on how to grow a business.

From the above illustration, it is shown that the outline of the workshops was very vital as it aimed to assist the “business starters” and those who were seeking to grow their businesses. It was not biased to any business categories. From the results it can be deduced that the content of the workshop covered the needs of various forms of businesses; that is, from the start-up to the growth stage.

(h) Did you ever attend any workshop on business training? * Did you feel that the training was helpful to you? Cross tabulation

Count

		Did you feel that the training was helpful to you?		Total
		Yes	No	
Did you ever attend any workshop on business training?	Yes	42	2	44
	No	0	1	1
Total		42	3	45

The table above shows an analysis of whether small businesses attended skills development workshop and how beneficial the workshop was to their business’s operations. Among the 45

SMMEs, only 3 of them regarded a workshop as inconsequential to businesses' functionality, and that number included 2 of the SMME owners who attended a program and 1 who did not attend training.

Generally, it is deduced that a greater number of SMME owners (42) treasured the program. Probably, the majority of these SMME owners were those who seemed to have attained an advanced education level (tertiary education) and were able to run the registered SMMEs successfully as denoted in tables 5.2(c) and 5.2(f) respectively under demographic data analysis. However, this cannot be regarded as an impressive conclusion because only those who understood training to be helpful, were only those who attended a workshop, numbering 45 SMMEs out of 150. Hence, the skills development problem still looms as a challenge in this sector.

(i) Did you ever attend any workshop on business training? * Give details of how this helped you. Cross tabulation

	Give details of how this helped you			Total
	Able to kick-start	Able to grow	Able to kick and grow	
Did you ever attend any workshop on business training? Yes	13	16	16	45
No	0	0	0	0
Total	13	16	16	45

The table above is based on the number of respondents who admitted that they attended the skills development training. It further illustrates how the workshop helped the respondents build on their businesses' growth.

The above analysis infers that the focus of the workshops was on four aspects: ability to kick-start, ability to grow ability to kick-start and grow. The respondents who managed to show up at the workshops benefited in diverse ways, while some sought information on how to start-up their

businesses, others sought for information on the growth development stage. The conclusion is that the information that was disseminated to the respondents was valuable because different categories of SMME owners with various needs or problems were able to access diverse information in accordance with their business status.

Table 5.4

(a) Gender * Do you possess any financial management qualification? Cross tabulation

		Do you possess any financial management qualification?		Total
		Yes	No	
Gender	Male	10	87	97
	Female	7	46	53
Total		17	133	150

(i) Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	.286 ^a	1	.592	.599	.388
Continuity Correction ^b	.071	1	.790		
Likelihood Ratio	.281	1	.596		
Fisher's Exact Test					
Linear-by-Linear Association	.285	1	.594		
N of Valid Cases	150				

a. 0 cells (0.0%) have expected count less than 5. The minimum expected count is 6.01.

b. Computed only for a 2x2 table

Symmetric Measures

		Value	Approx. Sig.
Nominal by Nominal	Phi	-.044	.592
	Cramer's V	.044	.592
N of Valid Cases		150	

Being equipped with a financial management qualification means a business owner is skilled on how to work on bookkeeping and basic accounting for business viability. The results above show

little difference between men and women that were skilled in terms of keeping the financial books in their businesses. But, the total number is too little (17) for those who possess such financial management skills as compared to those who lacked such skills and knowledge (133).

This shows that the small business sector has a shortage of owners or assistants who can manage their incoming and outgoing finances. This hinders business growth because expenses and incomes if not properly managed would make micro businesses struggle to graduate from the small business group to medium businesses. This indicates that the sector will for long be saturated with informal businesses until comprehensive measures are taken to financially educate all SMME owners, especially in the rural areas. This is because the financial status of a business is its performance measure.

A Chi-square was carried out on table 5.4(a)(i) above, and it revealed the following results: A chi-square test for independence (with Yates Continuity Correction) indicated no significant association between gender and financial management qualification where ($n=150$, $p= .790 > .05$, $\Phi=-.044$). This means that a proportion of male who have the financial management qualifications is not significantly different from the proportion of females who possess such financial management qualifications. This reveals that there is no relationship between financial management qualifications and gender.

(b) Race * Do you possess any financial management qualification? Cross tabulation

		Do you possess any financial management qualification?		Total
		Yes	No	
Race	Africans	11	122	133
	White	5	11	16
	Indian	1	0	1
Total		17	133	150

Among the 17 SMME owners who possess financial management qualifications, Africans top the list, followed by Whites and lastly Indians.

This however, does not reveal impressive results taking into consideration the total number of the sample in the survey. All the different races in the Free State Province still require basic financial skills development for the viability of their businesses.

(c) Educational level * Do you possess any financial management qualification? Cross tabulation

Count

		Do you possess any financial management qualification?		Total
		Yes	No	
Educational level	Primary school	1	42	43
	High school	8	71	79
	Tertiary Education	8	20	28
Total		17	133	150

(i) Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	11.866 ^a	2	.003
Likelihood Ratio	11.225	2	.004
Linear-by-Linear Association	10.765	1	.001
N of Valid Cases	150		

Symmetric Measures

		Value	Approx. Sig.
Nominal by Nominal	Phi	.281	.003
	Cramer's V	.281	.003
N of Valid Cases		150	

Table 5.4(c) above illustrates that almost all SMME owners with primary level of education are without any financial management skills. While those with High school and tertiary education responded equally, but that gave those with tertiary education an upper hand. This is due to the fact that when considering the total number of SMME owners with high school qualifications, they are a lot higher than the total number of those with tertiary education. So, in comparison, SMME owners with tertiary education possess financial management qualifications.

The results illustrate that those small business owners with primary level of education lack the fundamentals of business management like financial management skills. With lack of basic understanding of accounting, market competition sustainability will be a tough challenge. This group of SMME owners is similar to those with secondary education, their survival chances do not differ, because a large number of them are without any financial management qualification. Those with tertiary education fared well because they were equipped with bookkeeping qualifications. Even those without financial management qualifications were better because they were intellectuals and this enabled them to rationally analyse the market's characteristics.

In addition to table 5.4 (c), the chi-square on table 5.4 (c) (i) also brings up further analysis. When observing this table, the Pearson chi-square presents some interesting results in the table. It shows that ($n=150$, $p = 0.003$). This illustrates a statistically significant association between educational level and possession of financial management qualifications. The relationship indicates that the higher the level of education of SMME owners, the greater the number of SMME owners who hold the financial management qualifications. The ($\Phi=.281$) indicates the marginally strong relationship between educational level and the possession of financial management qualifications.

(d) Age (Years) * Do you possess any financial management qualification? Cross tabulation

	Do you possess any financial management qualification?		Total
	Yes	No	
Age (Years) 23-34	6	29	35
35-45	6	70	76
Above 45	5	34	39
Total	17	133	150

The table above reveals that all age categories are similar in respect of financial management qualification possession. Almost all the SMMEs from the three age categories responded that they had financial management qualifications. These are the lowest responses on the table. Those in the mature age category led the study when considering those business owners without financial management qualifications, followed by the youth, and then the old age category was ranked lowest.

Majority of business owners in the small business sector are in the mature age category, but their existence is a struggle as most of them are without book keeping knowledge and skills. For those in the old age group, they are only interested in the daily operation of a business; they are not much interested in the long- term planning of the business.

(e) Business registered with CIPRO * Do you possess any financial management qualification? Cross tabulation

		Do you possess any financial management qualification?		Total
		Yes	No	
Business registered with CIPRO	Registered	14	39	53
	Not registered	2	64	66
	In registering process	0	11	11
	Will not register	1	19	20
Total		17	133	150

(i) Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	18.729 ^a	3	.000
Likelihood Ratio	18.964	3	.000
Linear-by-Linear Association	9.517	1	.002
N of Valid Cases	150		

The relationship between business registrations and financial management qualifications was tested on table 5.4(e) above. Most of the registered businesses had the required financial management qualifications. This is revealed by the results on the table above where registered SMMEs seem to be the most qualified ones with bookkeeping skills. As for other groups: those who are not registered, those in the registration process, and those who believed they would never register, had challenges in cash flow management as their skills shortage jeopardized the business' success.

In general, there are still more existing businesses without financial management skills as illustrated in the table above. This is because most of them are operating in an informal environment, as they are not registered and the businesses to them do not seem too complex to

run. Those who have financial management skills are the registered SMMEs, which run in a formal environment and comply with the entire regulatory framework governing the sector. The registered SMMEs easily access services like financial management courses from qualified private and public mentors which proved to be beneficial.

The Chi-square was carried out on table 5.4(e) (i) to find out the association between business registration and the possession of financial management by SMME owners. The results denote the significant relationship between the two variables ($n=150$, $p<.05$). This means that the quantity of business registration is significantly associated with the proportion of the number of SMME owners who possess the financial management qualifications. Most of the businesses registered with CIPRO were those businesses which were run by business owners with financial management qualifications.

(f) Do you record your income and expenditure? * Do you possess any financial management qualification? Cross tabulation

		Do you possess any financial management qualification?		Total
		Yes	No	
Do you record your income and expenditure?	Yes	15	66	81
	No	2	67	69
Total		17	133	150

Keeping the financial records is vital for every business' success. It is advantageous in tracking and tracing sales and purchases made by the business. This is indicated by the table 5.4(f) above, where the majority of SMME owners were able to keep records of their financial performance and business operations. Even those who did not have any financial management qualifications have been able to realize how essential it is to keep such records. For the SMMEs who operated without bookkeeping literacy, they attribute it to the fact that they are in survivalist businesses like spaza shops and street vendors, which they regard as being very small with limited stock and ease of manageability without keeping any records. Some of the business owners stated that they ran their businesses without any outside assistance and they claimed that they were able to

manage their businesses without bookkeeping. They claimed that they could not cheat themselves under any circumstance.

It is from the results of this study that most of the SMMEs have been able to understand the importance of financial statements in their businesses. Even those who are not qualified bookkeepers were engaged in sales and expenditure records even though the records were poorly managed due to lack of accounting literacy.

(g) Educational level * Do you record your income and expenditure? Cross tabulation

Count

		Do you record your income and expenditure?		Total
		Yes	No	
Educational level	Primary school	7	36	43
	High school	46	33	79
	Tertiary Education	28	0	28
Total		81	69	150

From an educational point of view, all SMMEs with tertiary qualifications ran their businesses with financial statements as shown on table 5.3(g) above. While those with primary and secondary level educational qualifications operated in an informal way by mixing up income with expenditure and most of them regarded bookkeeping as an unnecessary tool for business. Small businesses that were established and operated by business owners who have tertiary education were likely to better position themselves in the market and sustain their market position. They have analytical skills that enables them detect any irregularity in the cash flow system. This is because they keep financial statements, which is an important indicator of business performance.

(h) Position in the Business * Do you record your income and expenditure? Cross tabulation

		Do you record your income and expenditure?		Total
		Yes	No	
Position in the Business	Owner	44	65	109
	Co-owner	33	3	36
	Manager	4	1	5
Total		81	69	150

The business owner being responsible for all activities in the business has the belief that he is in control of all his business activities, and none of them including cash management would falter. A cash flow record for him is a tool for internal fraud management control.

From the table above, it is illustrated that most of the business owners did not record income and expenditure, while almost all managers and co-owners were able to record their finances. This is due to the fact that managers had to present every financial activity that occurred within the business to the business owners. This is similar to the activities of co-owners who need to know of the daily business activities because they share responsibilities in the business. The financial record is thus the main measuring instrument for business performance.

(i) Business registered with CIPRO * Do you record your income and expenditure? Cross tabulation

		Do you record your income and expenditure?		Total
		Yes	No	
Business registered with CIPRO	Registered	52	1	53
	Not registered	20	46	66
	In registering process	8	3	11
	Will not register	1	19	20
Total		81	69	150

As seen above in table 5.4(i), the registered SMMEs are mostly formally run and record activities especially financial statements are the major features. This makes a business owner more responsible and accountable for sales and costs incurred, and in terms of tax returns it proves to the tax authority that a business has good record keeping habit. This enables a business realize opportunities, strengths, weaknesses and threats in the market.

Table 5.4(i) depicts that almost all the registered businesses took the responsibility to keep sales and purchase records. This leaves only one business owner who decided not to keep the records of income and expenditure. As for those who are not registered, recordkeeping is still highly ignored or perhaps this group of business owners is not numerically skilled for record keeping activities.

Most of the registered small businesses were part of training programs on business management basics that included how to make a cash flow statement. This is why most of the registered businesses are able to record income and expenditure.

(j) Do you record your income and expenditure? * Do you think it is important to keep this record? Cross tabulation

Count

		Do you think it is important to keep this record?		Total
		Yes	No	
Do you record your income and expenditure?	Yes	81	0	81
	No	26	43	69
Total		107	43	150

The importance of record keeping in business is determined in the cross tabulation above. The relationship between whether SMMEs kept records of income and expenditure with whether they considered keeping such records important is illustrated on table 5.4(j) above. An extraordinary number of SMMEs agreed on the importance of income and expenditure records, even those who did not keep such data. This number exceeded those who considered having the cash inflow and outflow records as an unnecessary activity, hence they decided not to keep them.

From the results above, it is clear that most of the SMME owners regard record keeping as beneficial to their businesses. This promotes the availability of accurate data and timely financial data, which then contributes to the development of a successful business. Few of the SMME owners considered keeping a financial statement as demanding and time consuming; as a result, they regarded it as unnecessary for their business structure.

(k) Do you think it is important to keep this record? * Explain why you feel it is important to do this? Cross tabulation

Count

	Explain why you feel it is important to do this?				Total
	Financial track	Presentation to partners	Presentati on to owner	Management of stock and creditors and debtors	
Do you think Yes it is important to keep this record?	51	10	14	32	107
Total	51	10	14	32	107

To understand the reasons why most of the SMME owners regarded having the financial statement for their business functions significant, specifically on income and expenditure, it was vital to illustrate their explanations on table 5.4(k) above. The illustration was only based on those respondents who answered ‘Yes’ to the question on whether they kept business financial records as this only applied to such respondents.

It is common knowledge that financial statements help business owners to be in control of funds, and to track the rate of cash flow in the business. This was the main reason respondents gave for keeping income and expenditure records. Another reason given for record keeping is to have an idea of the assets and liabilities of the business that usually comprises of purchases and sales of inventory, stock intake digits, or the amount of debtors and creditors the business had.

Some SMMEs were cooperatives and partnership businesses. The responsibilities of task execution, risks and profits of the business were shared among the partners and such businesses were owned by co-owners and were run by sales assistants. Being in such a business requires a

regular presentation of the financial statement of the to the business partners as a means of knowing the performance of the business.

Table 5.5

(a) Educational level * How do your customers know about what you sell? Cross tabulation

Count		How do your customers know about what you sell?						Total	
		Billboards	Word of mouth	Print media	Window display	Street display	Products transportation		Mass media
Educational level	Primary school	8	12	0	3	17	2	1	43
	High school	21	18	8	9	14	2	7	79
	Tertiary Education	7	2	3	3	2	0	11	28
	Total	36	32	11	15	33	4	19	150

Getting the attention of consumers regarding the products and services a business offers and making sure they take action by buying such products and services contributes to SMMEs growth, and this confirms that marketing and advertising are essential to business success.

Table 5.5(a) illustrates the relationship between the educational level of SMME owners and how they inform customers about their products. SMME owners with primary education opted for ‘word of mouth’ as a means of advertising, billboards and the display of products on the streets as their main methods of advertising products to the customers. These methods are cheap and affordable for SMME owners, unlike print media and television, which are very expensive means of trying to reach current and potential customers. The same also applies to SMME owners with high school education; they also use billboards, word of mouth, and street display of products as their most preferred means of advertising and marketing. While those with tertiary education preferred the more sophisticated and expensive methods which combined various means of advertising essentially mass marketing.

Generally, billboards are the most preferred mode of advertising, followed by word of mouth and products display on the streets. SMME owners with tertiary education showed that they had better growth potential in view of the marketing and advertising method they preferred to use for their businesses.

(b) Business registered with CIPRO * How do your customers know about what you sell? Cross tabulation

Count

		How do your customers know about what you sell?						Total	
		Billboards	Word of mouth	Print media	Window display	Street display	Products transportation		Mass media
Business registered with CIPRO	Registered	14	9	7	5	2	0	16	53
	Not registered	19	13	2	8	21	2	1	66
	In registering process	1	2	2	0	2	2	2	11
	Will not register	2	8	0	2	8	0	0	20
Total		36	32	11	15	33	4	19	150

Figure 5.5(b) illustrates the relationship between business registrations and how SMMEs inform their customers about their products. Some of the registered SMMEs are able to engage with consumers through mass media as their mode advertising. This media of advertising can only be afforded by the financially viable SMMEs.

Conversely, the unregistered SMMEs relied much more on billboards, word of mouth and street display of products. These advertising methods are financially affordable especially for the group of informal SMMEs who have restricted budgets and limited resources. As for the other two groups of SMMEs, those that were waiting for business certificate approval, and those who believed that their businesses would never have what it takes for them to register, were poorly involved in any means of advertising and marketing.

From the results above, the registered SMMEs have shown their financial power by being capable of employing a substantial means of advertising which could be very costly for other SMME owners. Mass media reaches a wide geographical area. The unregistered SMMEs that

formed the majority of the sample showed that they were not financially proficient and thus are involved in cheap and slow advertising approaches which only targeted the local customers.

(c) Do you think your business would grow if you had more customers? * Do you feel you need help to reach more customers? Cross tabulation

	Do you feel you need help to reach more customers?		Total
	Yes		
Do you think your business would grow if you had more customers? Yes	150		150
Total	150		150

Figure 5.5(c) shows that all SMME owners believed that the survival of their businesses depends on the quantity of customers entering the store. They felt that their businesses would grow and develop if they could be assisted on how to reach a wider target market.

This is clear that even those SMMEs who were not able to afford marketing and advertising were aware that their business would only survive in the market because of a high flow of customers. As the results above indicate, rural SMME sectors are still vulnerable to market threats and weaknesses, and this is the reason why they all call for more support for their operations sustainability.

(d) Do you feel you need help to reach more customers? * If Yes to (iii), how can you be helped? Cross tabulation

Count

	If Yes to (iii), how can you be helped?			Total
	Finance to Advertise	Mass Advertisement	Finance and Advertisements	
Do you feel you need help to reach more customers? Yes	24	87	39	150
Total	24	87	39	150

In determining what kind of assistance SMMEs required, it was essential to select all the respondents who felt they needed support to reach a wider target market. The above figure 5.5(d) illustrates the results.

A vast majority of SMME owners pointed out that mass advertising is the main tool required to penetrate a broader market and earn more customers. Some SMMEs demand financial and non-financial support for effective advertising.

From the above results, it shows that SMME owners experience different problems, hence they require diverse support from various institutions.

Table 5.6

(a) Gender * How did you obtain finance to start your business? Cross tabulation

Count

		How did you obtain finance to start your business?		Total
		Own Money	Loan	
Gender	Male	84	13	97
	Female	39	14	53
Total		123	27	150

(i) Group Statistics

	Gender	N	Mean	Std. Deviation	Std. Error Mean
How did you obtain finance to start your business?	Male	97	1.13	.342	.035
	Female	53	1.26	.445	.061

Independent Samples Test

		Levene's		t-test for Equality of Means						
		Test for Equality of Variances		t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
		F	Sig.						Lower	Upper
How did you obtain finance to start your business?	Equal variances assumed	14.951	.000	-1.996	148	.048	-.130	.065	-.259	-.001
	Equal variances not assumed			-1.850	86.192	.068	-.130	.070	-.270	.010

The above table reveals that the majority of SMMEs are self-sponsored in terms of the capital used for start-up, while few used some borrowed from the financial institutions to finance their business operations. The results further reveal that more men funded their businesses themselves, while majority of the women benefited from loans.

Regardless of gender, SMME owners financially struggled to start and develop their businesses as most of them were self-financed, while few of them managed to secure loans by meeting the application requirements, like having collateral. This shows that the restrictions governing credit access are still not relaxed; only certain individuals can afford to take bank loans.

An independent-samples t-test shown in table 5.6(a) (i) was conducted to compare how male and female business owners obtained finance to start-up their businesses. There was no significant difference in the scores for male ($M=1.13$, $SD=.342$) and female ($M=1.26$, $SD=.445$) conditions; $t(150) = -1.850$, $p = .68 > .05$. These results suggest that gender does not have an effect on access to finance for a business start-up. Specifically, the results suggest that when starting a business, sources of capital was not dependent on what gender category an individual belonged.

(b) Race * How did you obtain finance to start your business? Cross tabulation

Count

		How did you obtain finance to start your business?		Total
		Own Money	Loan	
Race	Africans	111	22	133
	White	12	4	16
	Indian	0	1	1
Total		123	27	150

(i) Correlations

		Race	How did you obtain finance to start your business?
Race	Pearson Correlation	1	.139
	Sig. (2-tailed)		.090
	N	150	150
How did you obtain finance to start your business?	Pearson Correlation	.139	1
	Sig. (2-tailed)	.090	
	N	150	150

The results used to determine the relationship between the race of the population of the Free State Province rural areas, and the nature in which they financed their business establishments are presented in the above table. The province is highly dominated by Africans and they appear to be the most dominating, both in self-finance and borrowed capital. They are then followed by the Whites and then the Indians.

The results reflect that credit access seems not to be selective on racial basis, seems all race groups were found to have used their own finances to start up their businesses.

To establish confidence in the results, the Pearson product- moment correlation coefficient was conducted on table 5.6(b) (i). The results revealed that no significant relationship between race and financial access exists, ($r=.139$, $n=150$, $p>.090$). This means that SMME owners' access to finance for start-up was not dependent on racial group. Financial access was open to everyone, other factors being constant.

(c) Educational level * How did you obtain finance to start your business? Cross tabulation

Count

		How did you obtain finance to start your business?		Total
		Own Money	Loan	
Educational level	Primary school	43	0	43
	High school	62	17	79
	Tertiary Education	18	10	28
Total		123	27	150

(i) Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	16.055 ^a	2	.000
Likelihood Ratio	22.641	2	.000
Linear-by-Linear Association	15.618	1	.000
N of Valid Cases	150		

Table 5.6(c) above presents the relationship between educational levels of SMMEs and how SMMEs obtain finance to establish their businesses. Although most of the SMMEs financed their business establishments, their educational level had proven to be a barrier for them to access loans from financial institutions. None of the SMME owners that held a primary qualification accessed credit to finance a business start-up, whereas few SMME owners with high school qualifications were able to meet loan requirements for business funding. In contrast to these, SMME owners with tertiary education found it easier to access loans and they remained a top priority in credit access. This is justified by comparing the total numbers of SMME owners with high school qualifications against the total number of those with tertiary education. As for those with a high school education, only 17 of the 79 managed to obtain loans and this leaves as many as 62 SMMEs without credit. While those with tertiary education; 10 out of 28 SMMEs were funded by credit institutions, leaving only 18 without credit.

This indicates that the more advanced the level of education acquired, the wider the information SMME owners obtain from various sources including the loan suppliers' networks. Low educational qualifications and an advanced educational level translate into loan access disparities.

A Pearson chi-square on table 5.6(c) (i) was conducted to evaluate the association between educational level and SMME owners' access to finance. The results show a significant relationship between the variables ($p < .05$). This means that there is a significant association between educational qualifications and SMME owners access to finance. This indicates that the standard of education achieved by SMME owners is one of the contributing factors to capital access.

(d) Business registered with CIPRO * How did you obtain finance to start your business? Cross tabulation

Count

		How did you obtain finance to start your business?		Total
		Own Money	Loan	
Business registered with CIPRO	Registered	27	26	53
	Not registered	66	0	66
	In registering process	10	1	11
	Will not register	20	0	20
Total		123	27	150

(i) Chi square test

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	54.103 ^a	3	.000
Likelihood Ratio	61.261	3	.000
Linear-by-Linear Association	28.380	1	.000
N of Valid Cases	150		

The investigations from table 5.6(d) reveal that there is a big disparity between the registered and unregistered SMMEs. Of the registered SMMEs, almost half (26) were financed by capital ventures or government financial institutions, and the other 27 could not secure loans, hence they were financed from the owners savings. The financial markets were accessed only by the registered SMMEs, where the owners had visions and objectives clearly stated in their feasible formal business plan. This was not the case with unregistered SMMEs and those business owners who were still waiting for the approval of their business certificates. The table above shows that

majority of them were unable to obtain financial assistance from the credit suppliers. Only 27 of 150 SMMEs managed to secure loans from the credit provider.

Capital access is related with the small business' registrations. The registered SMMEs have higher chances of accessing capital because they have their businesses already operating in accordance with their business plan which they already have on paper and the suppliers are able to realize their failure, risks or success chances. Whereas, the unregistered SMMEs have informal and "unwritten" business plans in their minds that credit suppliers do not have access to. This is why all the unregistered businesses are denied credit access while mostly the formal businesses were permitted to access loans.

The Pearson chi- square in table 5.6(d)(i) reveals the significant association between business registration and capital access. This is shown by $p < .05$. This relationship denotes that the two variables are dependent on each other. The dependence of this variables means that a business registration is one of the determinants of access to loan.

(e) How did you obtain finance to start your business? * If you used your own money, are you aware of any institution that offers business loans? Cross tabulation

	If you used your own money, are you aware of any institution that offers business loan?		Total
	Yes	No	
How did you obtain finance to start your business? Own Money	65	58	123
Total	65	58	123

To understand why some SMMEs are self-financed, it was essential to know if they were aware of the existing financial institutions. The above table presents a slight difference in the number of SMME owners who are aware and those who are unaware of any credit providers or financial assistance available. Of the 123 SMME owners, 65 were knowledgeable that there were credit facilities existing for SMMEs, while 58 SMME owners did not know about the availability of any financial assistance.

By having a slight difference in the above numbers, it is clear that rural residents in the Free State Province are still at a loss on how to get financial assistance for their business development

(f) Have you ever applied for assistance? * Was your loan approved? cross tabulation

Count

		Was your loan approved?		Total
		Yes	No	
Have you ever applied for assistance?	Yes	27	38	65
	No	0	0	0
Total		27	38	65

It was essential in this study to know if the respondents who are aware of the existing financial institutions did apply for the financial assistance and whether they were successful or not. The results are presented on table 5.6(f) above. For the respondents who approached credit suppliers, very few (27) managed to secure loans, while most of them had their applications rejected.

From the results above, it shows that numerous applications were rejected which discouraged more SMME owners from trying to apply for financial assistance.

(g) Was your loan approved?* If it was not approved, what were the reasons given to you? Cross tabulation

Count

		If it was not approved, what were the reasons given to you?		Total
		Poor business plan	Lack of collaterals	
Was your loan approved?	No	18	20	38
		18	20	38
Total		18	20	38

To determine the extent which SMME owners were financially excluded by the financial institutions, respondents were requested to indicate the reasons behind their applications being rejected.

Table 5.6(g) above illustrates the results:

The financial institutions regarded SMME owners as not creditworthy due to their disadvantaged background, which resulted in unpleasant consequences for many of the SMME owners who tried to apply for loan assistance. Almost half of the SMME owners whose loan applications were rejected attributed this to their proposals being under qualified; as such they could not meet the standard of an average recommended business proposal. It was found that the educational qualifications of SMME owners were below standard. This proved that they could not construct a standard business plan. It is time consuming and also financially demanding to construct a business plan or find consultants that could assist in doing this. Thus, financial security was pointed out to be another stumbling block to those SMME owners. They indicated that they had poor assets that could not be accepted as insufficient collateral that could not be used to obtain loans.

Generally, the disadvantaged SMME owners are those who fund their business start-up themselves because their applications for financial support are rejected. The rejection of their business proposal can perhaps be attributed to their low education which transformed into a poorly written business proposal and then to financial poverty that reduces the chances of such business owners to get loans.

5.7 Concluding summary

This chapter presented the findings on the challenges facing small businesses in the rural areas of Free State Province. Various graphs were used to illustrate the results of the study and interpretations and discussions were done to simplify the data presented in the table.

The next chapter is the concluding chapter of this study and gives recommendations based on the findings obtained in the study.

CHAPTER SIX

CONCLUSION AND RECOMMENDATIONS

6.1 Introduction

This chapter concludes the study based on chapter one's articulated statement of the problem, which was seen as expressing SMME struggles. SMMEs continue to struggle, despite all the endeavors by the Government and private institutions that are aimed at improving their situation. The Government is enacting laws that aim to improve growth in the economy by boosting small businesses. Yet these entrepreneurs do not seem to be capable of responding positively to the assistance. Many do not survive, and even when they seem to be making it, they still do not dent economic challenges such as unemployment rates. This statement of the problem formed the basis of the research question which was sought to be answered by the formulated research objectives.

Chapter two reviewed the necessary information from SMME perspective. Contextual contribution of SMMEs from literature added value to this chapter. This background information of SMMEs was explored from various aspects which comprised of SMME definitions in accordance with its usage in different countries. Characteristics that make a good SMME and strategies that enable these features to attain success in the market were articulated. For these features and strategies to effectively and efficiently benefit SMMEs, they require supporting institutions that create a favourable environment for successful operations. Operating in a favorable environment becomes a key contributor to SMME graduation from an introduction phase of the business life cycle to growth and maturity phase.

A further review of scholarly publications was explored in chapter three that assisted towards answering the research question. The review was specifically centered on specific variables of internal environment that were presenting challenges to businesses' operations.

The study went on to describe the general approach of the study in chapter four. This is where a questionnaire used as the instrument of data collection was explained and the study proved to be

somewhat qualitative in nature due to data collection techniques and quantitative due to the statistical tools employed for data analysis.

In chapter five the collected data was presented and analyzed using both descriptive and inferential statistical methods. The appropriate statistical tests were applied to analyze the data. The validity and the reliability of the questionnaire were confirmed with a moderate degree of reliability with regard to measuring the construct. The results relating to the information were presented in tabular form and analyzed using SPSS 21.

6.2 Main research question

This study was guided by the following overarching research question:

What are the specific factors that hamper growth and development of small businesses in the rural areas of the Free State Province?

6.3 Objectives of the study

Following the identification of the research problem, this study sought to address the following objectives:

- (i) To establish if rural SMMEs have access to training and development.
- (ii) To ascertain if rural SMMEs possess adequate financial management skills.
- (iii) To establish how the marketing of SMMEs products are facilitated and
- (iv) To ascertain the extent to which the development of rural SMMEs are affected by access to start-up finance.

The following discussion explains how each of the above objectives was established.

6.4 Addressing research objectives:

6.4.1 Addressing research objective one

The purpose of this objective was to establish if rural SMMEs have access to training and development. Training and development prior to start-up and at workplace is the key to business success. It must be carried out across all business functions. This enables a business owner to effectively manage and control a business. However, with the current failure rate of SMMEs, it seems that there was a shortage of effective management amongst SMMEs. From the entrepreneurship development division at Absa Bank, Ntshona (2012) confirms that SMMEs in South Africa cannot make it through the start-up stage not because of the lack of facilities but because of poor and inadequate education. Ntshona (2012) further posits that 80% of SMMEs in South Africa have experienced a downfall in their first year of start-up while 60% do not go beyond the second year of start-up. Lack of management principles drives SMMEs to failure.

This study reveals that insufficient skills are still a major stumbling block for SMMEs in the rural areas. No skills development programmes were attended by the majority of unregistered and illiterate SMME owners. These businesses operated under the informal sector where there was less access to information. This group of SMME owners were not aware of any operating centres where skills development programmes were being run. Registered SMMEs which were run by the highly educated business owners were able to enjoy the benefits of workshop attendance as they were able to kick-start and expand while some were able to graduate to the maturity stage. Unlike the other less educated business owners who always experienced growth and expansion problems.

Jurie and Watson (2002) support the results by affirming that for SMME owners to be able to control such business impediments, effective business management with skilled managers, adequate training, and education are major priorities. Training facilities are available from the private and government institutions, but they are concentrated in certain areas such as cities thus posing a distance barrier for those coming from the rural areas. This leaves rural SMMEs with skills deficiency. This is also confirmed by

Lighthelm and Cant (2002) in their business survey which they carried out in Gauteng, it was found that lack of administrative and procedural skills for business owners who did not attend business management training have negatively affected the growth and development of their operations. With low education coupled with shortage of training, market research like analysing the business' rivals, risks that the business faces and other strategic analysis in target markets become more challenging.

Operating a business with lack of skills is a cause and effect that brings about failure in applying the successful competitive strategies (Analoui and Karami, 2003:126). The rural operators are the culprits because they fail to apply these strategies, unlike their more urban counterparts that have access to such strategies and services in abundance. This study showed that the rural category of businesses suffer from expansion constraints due to their inability to access required assistance for business growth. Siemens (2012) came to the conclusion that SMMEs differ with respect to their needs and challenges. Rural SMMEs continue to experience more challenges than urban ones.

6.4.2 Addressing research objective two

In this investigation, the objective was to ascertain if rural SMMEs possess adequate financial management skills. And it has been discovered that financial management skills enable SMME owners to be in control of business' cash flow statement. When a business' sales are managed and controlled by a SMME owner without financial literacy, the position of the business can be jeopardized. This is because there will be a mix-up of expenses and incomes that can misrepresent profits and loss of the business. Financial performance is one of the main indicators that reflect the entire business' performance. Akande (2011) reveals that financial statements help a business owner to track the progress of a business, but it is ignored by small business owners even though it is one of the crucial factors that contribute to business success. Keeping a financial statement is very crucial because it allows effective control of incoming and outgoing amounts of money.

The results proved that the majority of SMME owners of different genders with various age categories from different races had no financial management qualifications.

However, these SMME owners were able to record some of their financial activities, but their records proved to be inadequate. They were aware of the importance of bookkeeping but illiteracy was a constraint in the achievement of perfect bookkeeping practices. Low level of education and lack of financial literacy were the major constraints to some of the SMME owners' proper cash flow statements. The SMME sector under this study was dominated by unregistered businesses with low level of education who possessed no financial management qualifications. The results show that a business' failure is associated with its inaccurate financial management. Hiduke and Ryan (2006) declare that for a business to avoid failures, expertise in cash flow management and business management are required. This is advisable due to uncertain environments in which businesses operate. However, the rural SMME sector exists with few of such experts, even though Rajaram (2008) asserts that all the registered SMMEs which fall under the definition of SMMEs must possess financial statements that can indicate the performance of their businesses, one would note that this is not the case with the Free State SMMEs in remote areas who were mostly unregistered.

Lack of education that was found to be one of the main challenges overcoming this sector has caused a shortage of basic accounting skills. In the rural areas of the Free State Province, the insufficiency of this skill still threatens SMME operations because there is no supply of mentorship programmes tailored specifically to teach the financial literacy course.

6.4.3 Addressing research objective three

This present study was further designed to establish how the marketing of SMMEs products are facilitated. The target market and financial reach of SMMEs are the influential factors to marketing and advertising. To reach a wider target market, there must be enough finance to promote a business' products. Small businesses can only generate low income because they operate in niche markets. Some SMMEs are totally not involved in marketing due to a lack of marketing knowledge, skills and finance. This is confirmed by Sha (2006) that marketing in small businesses is mostly short term as there are no business owners, or very few business owners, equipped with such knowledge and skills. Moreover, small enterprises are not involved in formal marketing due to the

scarcity of resources, such as technology and cash, which assist in advanced marketing (Audrey, David and Steve, 2006).

SMMEs were little involved in advertising and marketing. A product's publicity in the rural sector attracted few audiences due to the limited means of advertising which SMMEs use. As the sector was saturated with informal businesses that served only the local population, mass media advertising was hardly utilized. These SMMEs were able to serve just a narrow geographical area with little target market. Funds to facilitate the advertising process were not enough due to the low demand of products from marginal rural populations. High charges involved in the usage of mass media were the reasons why SMMEs were mostly engaged in the use of billboards, word of mouth window displays, and product transportation to the location of customers.

Again, this is why all businesses that participated in this study stated clearly that their businesses would grow only if they get assistance to reach more customers. It was clarified that for them to reach a wider target market and earn great market share, they required financial and marketing assistance for rapid sales growth. It is hard for these SMMEs to gain visibility in a competitive market due to the recent erupting challenges caused by the new media of advertising which overcome the longstanding ones like billboards. Lack of marketing capabilities as the consequence of low education qualifications is emphasized by Hinson and Mahmoud (2011). Hinson and Mahmoud (2011) state that business owners, mostly those who are unregistered and with low levels of education, take marketing and advertising as a costly activity. SMME owners do not realise that for a product to gain popularity, advertising and marketing are essential elements. There is little or no understanding of marketing concepts and how it can lead a business to success in a competitive market. Edmunds, Panigrahi and Zapatero (2011) maintain that SMMEs employ personnel with low education who cannot construct marketing plans or engage in marketing research. Also, such SMMEs believe that the capacity of their businesses do not require mass advertising and marketing.

Lack of education and marketing funds were revealed to be the main constraints toward SMMEs involvement in comprehensive advertising and marketing.

6.4.4 Addressing research objective four

Lastly, this study was set out to ascertain the extent to which the development of rural SMMEs is affected by access to start-up finance. Capital is one of the major requirements for a business start-up. Businesses cannot kick-start without capital injection. This funding can either be from the supporting institutions or owner's savings. But there is an ever-existing capital problem from the owner's savings supply. There is also a need to facilitate business expansion through all business' phases. Access to financial start-up increases the rate of emerging SMMEs, hence reduces the unemployment rate. This indicates that there is the need to assist SMMEs through capital injection to boost the economy. Regardless of the vital role they play, SMMEs seems to be still struggling to get a start-up and expand. Ford (2004) rationalises that SMMEs are a disadvantaged group in the business world which when planning to kick-start they have to take from their own salary or consult friends and relatives for financial assistance. However, Mahadew (2007) reasons that it is because most of the small businesses are not aware of the existing institutions that offer financial assistance. This usually happens to SMMEs that are operating in the rural areas where there is shortage of basic service delivery such as private and government assistance.

Credit access from loan suppliers was found to be a main constraint towards business establishment and expansion. This was without gender and racial discrimination. Capital access and educational level were found to be directly proportional in SMMEs. The higher the educational level, the easier access to capital was, and the lower the educational level, the more SMMEs were unable to access capital. This is because educational level was revealed to be one of the factors that simplified credit access from the suppliers; unlike low-level educated SMME owners who were unable to secure loans. It was clear that business registration was the requirement to have access to loan and was not met as most of the rural SMMEs were not registered. This was the main limitation to loan access. Lack of information on where to access services was another challenge amongst rural populations. These SMMEs, as illiterate as they were, were unable to construct a business plan because they did not know where they could consult experts on standard business plan writing. As such, a poor business plan was another reason for loan

application rejection. Mark (2008) cited that a business plan is a critical tool for starting a new business, buying an existing business and franchising a business. To gain the attention of potential capital funders a business plan must meet a certain standard in order to reflect reality as it is on paper. In an existing business, it is a “direction indicator” because the components are updated frequently in response to the changing business environment. Marketing plans can be easily changed in reaction to customers and suppliers’ tastes.

It was not enough for the credit suppliers to find reasons to deny SMMEs capital access. Credit security was the other major reason for credit applications rejection.

In general, SMMEs in the rural areas of the Free State Province failed to access loans due to their low standards of education, businesses not being registered, and lack of collateral and poor business plans. All these factors together formed the strict criteria that inhibited SMMEs from accessing loans.

Education is the key to knowing where the business is headed, how to: outsource loans from credit suppliers, manage competitors and seize a target market so as to gain enough market shares. However, McPherson and Rous (2010) argue that the expansion and development of small businesses are not only facilitated by capital but also by variables that form the organisational structure. Capital does not operate independently; it cannot grow a business with poor management structure. Absa CE (2011) identified some crucial non-financial factors that also determine the success of a business as curiosity, risk appetite, energy, adaptability and a sense of mission. SMMEs should be eager to take risk at any time in a business friendly environment. However, Parker (2012) argues that venture capitalists channel their money to an existing business with at least two years of successful returns. This is because such SMMEs are the established innovative group run by visionary and organised management and are less likely to fail

6.5 Recommendations to SMMEs and supporting institutions

The findings of this study have the following important implications for future practice.

6.5.1 Training and development

It was discovered in this study that SMMEs who participated were operating in an informal environment which was characterised by lack of training and skills. The few SMMEs who were able to flourish had better education and were registered with CIPRO.

This indicates that there is a need for the supporting institutions to take workshops to the rural communities because the supporting institutions like SEDA have their offices in towns and cities. For example in Phuthaditjhaba, if an SMME owner needs assistance he has to move from as far as Tsheseng rural area which is about 80km away from the town. Rural SMMEs need to be made aware of the various existing support institutions.

Training offered must not be vague, it must be specific and tailored to the needs of various businesses as it was stated that different SMMEs have different needs with different categories, and experience diverse problems.

Since businesses that participated in this survey were three years old and above, workplace training needs to be organised by the institution's consultants, which can benefit even the SMMEs managers. While training prior to start-up is recommended to be more appropriate to business success.

The medium of communication used must be the one that can be understood by the illiterate SMME owner, probably a home language that he knows. It was found in this study that most of the SMMEs that operated in the Free State rural areas were illiterate and this means that the only appropriate language to communicate with them in is their home language.

In conclusion, it is suggested that more training efforts must be devoted to the SMME owners with low education levels. This can assist SMME owners to become better managers and would enable them migrate to the formal sector, which would be an improvement to business life cycle phases.

6.5.2 Accounting literacy

A proper financial record is the key to business success, because without accurate debtor and creditor management, a business future heads towards a red light. The assisting institutions in the area where this study was undertaken must provide the financial management experts who can advise and educate SMMEs with basic accounting, bookkeeping and financial reporting skills. This can help in developing accurate sales records and ultimately higher net profits. As some of the SMMEs were partnerships or corporations, they require highly skilled partners for the presentation of sufficient financial reports to the other partners. Financial literacy mentorship is recommended.

6.5.3 Advertising and marketing

Marketing is an on-going process as long as the business still exists. From product development to maturity there is a need for marketing and advertising. Marketing becomes even more necessary when the product meets fierce competitors who take chances on developing imitations. There is a need to assist small businesses in marketing and advertising strategies that are suitable for the specific products and target market. SMMEs in rural areas only serve the local market, which brings low sales returns. To penetrate a wider target market, there is a need to be involved in large and advanced advertising and marketing strategies which the supporting institutions can assist with.

Small business competitions which are organised by supporting institutions like Nedbank must recognise rural SMMEs by informing them of the details of the competition. Such competitions are beneficial, but are mostly urban based which means rural SMMEs do not have that opportunity to commercialise their ideas and products to a wider market. These competitions can expose rural talent, which can result in community development. This is a free advertising platform that covers a wider geographical area and can edge a business brand towards more popularity and increase its access to large dealers.

In general, educating SMMEs on how to reach more customers with the use of various advertising and marketing strategies can popularise their products which results in higher sales returns. This means that an extensive means of advertising beyond the use of billboards and word of mouth should be used.

6.5.4 Capital

This is the main problem facing SMMEs which needs to be reviewed time and again. Attributed approach used in this study found that rural SMMEs were stuck in the informal sector due to a lack of financial support. This education is comprised of how to write a business plan and how to manage a business from the start-up phase to the maturity phase. This will then be followed by business registration. After this, capital will be issued to those who are ready to face the market. Even the already existing SMMEs need to follow the same procedure. This is because it was revealed that education was one of the grounds that contributed to a lack of capital and such SMMEs were not registered. This can increase the rate of formal business start-ups, hence a reduction in SMMEs mortality rate. Financial injection is vital to business sustainability. Proper funding needs to be made available and the loan security criteria should be relaxed to allow access to all the needy SMMEs.

In general, it was revealed that there is a need to finance the innovation landscape among SMMEs in the rural areas of the Free State Province.

6.6 Proposed future research

It is proposed that future studies must explore some other rural districts of the Free State Province and their urban counterparts to investigate the challenges facing both groups. Exploring the province will give a more representative study, because the study did not fully represent the population of the Free State Province as it was specific to certain rural areas. Additionally, more of the internal challenges need to be investigated because only specific challenges were addressed in this study.

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RESEARCH PROJECT

Researcher : Molise Lawrence Motsukunyane

Supervisor : Dr. N. Potwana (031 260 8148)

Dear Respondent

I, **Molise Lawrence Motsukunyane**, am a Master of Commerce at the School of Management, IT and Governance, of the University of KwaZulu-Natal. I invite you to participate in a research project that I am conducting titled:

CHALLENGES FACING THE DEVELOPMENT OF SMALL BUSINESSES IN THE RURAL AREAS OF THE FREE STATE PROVINCE.

Through your participation I hope to understand the extent to which rural traders are impacted by the micro-economic environmental factors and to establish how they can be assisted to grow. The results of this survey are intended to contribute to a better understanding in this area.

Your participation in this project is voluntary. You may refuse to participate or withdraw from the project at any time with no negative consequence. There will be no monetary gain from participating in this survey. Confidentiality and anonymity of records identifying you as a participant will be maintained by the School of Management, IT and Governance, UKZN.

The interview should take you about 10-15 minutes to complete. I hope you will take the time to talk to one of us.

Sincerely,

M. L. Motsukunyane (Researcher)

13th September 2012

Date



UNIVERSITY OF
KWAZULU-NATAL
INYUVESI
YAKWAZULU-NATALI
SCHOOL OF MANAGEMENT, IT AND GOVERNANCE
RESEARCH PROJECT

Researcher : Molise Lawrence Motsukunyane

Supervisor : Dr. N. Potwana (031 260 8148)

CONSENT

I _____ hereby confirm that I understand the contents of this document and the nature of the research project, and I consent to participating in the research project. I understand that I am at liberty to withdraw from the project at any time, should I so desire.

Signature: Participant

Date

The researcher will complete this questionnaire as the respondent answers.

SECTION 1

A. Gender

- i. Male
- ii. Female

C. Educational level

- i. Primary School
- ii. High School
- iii. Tertiary Institution
- iv. Other (specify) -----

D. Position in the business

- i. Owner
- ii. Co-owner
- iii. Manager
- iv. Other (specify) -----

F. Business registered with CIPRO

- i. Registered
- ii. Not registered
- iii. In registering process
- iv. Will not register

B. Race

- i. African
- ii. White
- iii. Indian
- iv. Coloured
- v. Other (specify) -----

E. Age (Years)

- i. Under 23
- ii. 23-34
- iii. 35-45
- iv. Above 45

G. Number of years in business

- i. 3 – 5 years
- ii. 6 – 10 years
- iii. Above 10 years

SECTION 2

A. Training and Development

- i. Did you ever attend any work shop on business training? Yes No

If yes to (ii)

ii. What were you trained on?

.....

iii. Did you feel that the training was helpful to you? Yes No

iv Give details of how this has helped you.

.....

B. Financial management

i. Do you possess any financial management qualification? Yes No

ii Do you record your income and expenditure? Yes No

If yes to (ii)

iii Do you think it is important to keep this record? Yes No

If yes to above

iv. Explain why you feel it is important to do this.....

.....

v. If not to (ii), how do you manage your incoming and outgoing finance?.....

.....

C. Marketing

i. How do your customers know about what you sell?

ii. Do you think your business would grow if you had more customers? Yes No

iii. Do you feel you need help to reach more customers? Yes No

iv. If yes, how can you be helped?.....

D. Access to start-up finance

i. How did you obtain finance to start your business? Yes No

ii. If you used your own money, are you aware of any institution that offers business loans?..... Yes No

iii. If yes, have you ever applied for assistance? Yes No

iv. If you obtained a loan from a financial institution, can you give the name of the institution?.....

vi. Was your loan approved? Yes No

vii. If yes, do you feel this helped your business? Yes No

viii. If it was not approved, what were the reasons given to you?
.....

THANK YOU