# SMME GROWTH IN THE MPUMALANGA MINING SECTOR OF SOUTH AFRICA

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# DECLARATION

I, Tsunduka F. Nkuna, declare that this research article is my own work except as indicated in the references and acknowledgements. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration in the Graduate School of Business Administration, University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination in this or any other university.

Tsunduka Fortunate Nkuna

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Signed at ……………………………………………………

On the …………………………….. day of ………………………… 20…..

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# ABSTRACT

Small and Medium Enterprises are regarded as the engine for economic growth in many countries. Similarly, South Africa is promoting the development of SMMEs through various policies. The development and support of SMMEs is also driven at provincial level; however the high unemployment rate across all provinces is an indication that this sector is not creating enough jobs. This is a risk to achieving the National Development Plan which proposes that 90% of all jobs will be created by the SMME sector by 2030. The SMME contribution to employment low because most of the SMMEs are operating as survivalist businesses. The high SMME failure rate of 75%, as well as the failure to grow suggests that there are many barriers that impede the growth of SMMEs. Despite these challenges, there are SMMEs that have managed to overcome these barriers and are achieving sustainable growth. This problem is explored in the mining industry of the Mpumalanga province in South Africa. Mining sector should be the main driver of SMME growth and employment for the province but the unemployment rate remains high at 34.2%.

The qualitative research method in which 12 SMME owners were interviewed using semi-structured questionnaire investigated the barriers that are impeding SMME growth, established how other SMMEs managed to overcome these barriers, identified the growth opportunities that SMMEs pursue and recommended best practices for achieving growth in the mining industry.

The results show that the barriers impeding the growth of SMMEs are Education & Training, location in relation to critical buyers, access to finance and public & private institutions. Moreover, most of the SMMEs are not growing because they pursue opportunities in less attractive non-core mining segments such as supply of mining consumables characterized by high competition and low barrier to entry. Additionally, the lack of skills, competency and financial resources influence the choice of mining segments they consider. On the contrary, SMMEs achieving sustainable growth have skills and competencies

relevant to their field and have access to finance which is an enabler for business expansion. It is recommended for SMMEs to enter into attractive core mining segments, acquire skills & competencies relevant to the area of work, develop market and product in order to increase revenue streams and explore other funding sources through Enterprise and Supplier Development Programmes offered by established mining companies.

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# LIST OF ACRONYMS

| **ACRONYM** | **FULL NAME** |
|---|---|
| **ESD** | Enterprise and Supplier Development |
| **GDP** | Gross Domestic Product |
| **GEM** | Global Entrepreneurship Monitor |
| **MEGDP** | Mpumalanga Economic Growth Path Development |
| **NDP** | National Development Plan |
| **NEF** | National Empowerment Fund |
| **NYDA** | National Youth Development Agency |
| **QLFS** | Quarterly Labour Force Statistics |
| **SEDA** | Small Enterprise Development Agency |
| **SEFA** | Small Enterprise Finance Agency |
| **SME** | Small and Medium Enterprise |
| **SMME** | Small, Micro, Medium Enterprise |
| **Statssa** | Statistics South Africa |
| **TIA** | Technology and Innovation Agency |

# 1 CHAPTER 1: INTRODUCTION

## 1.1 Background

Small and Medium Enterprises play a pivotal role in the economies of many countries. As a result governments throughout the world focus on the development of SMME sector to promote economic growth (Olawale & Garwe, 2010). Since 1994, the democratic regime in South Africa has prioritized the development and promotion of small businesses through various policies. The national strategy for the promotion of small businesses outlined in the White Paper was first adopted in 1995 with the primary objective of creating an enabling environment for SMME growth in the country; following an apartheid era marked by inequality, poverty and social injustices (DTI, 1995).

There has been some progress made in the SMME sector thus far. South Africa recorded an increase in the number of SMMEs from 2.23 million in the first quarter of 2016 to 2.48 million in the first quarter of 2017. Out of these SMMEs, only 29% operated in the formal sector while 67% operated in the informal sector (SEDA, 2017). Despite the increase in the number of SMMEs, the proportion of informal versus formal SMMEs is a concern given that the majority of SMMEs are concentrated on the lowest end. These are primarily survivalist businesses that provide an income below a poverty line and do not have a potential to provide employment (Ranyane, 2015).

The high unemployment rate (27.6% in 2019 quarter 1) is an ongoing concern in the country that requires a collective effort from business, society and government. The strategy outlined in the National Development Plan commissioned in 2010 proposes that 90% of all the jobs will be created by SMME sector in 2030. Furthermore the unemployment rate will be reduced to 14% by 2020 and 6% by 2030 (National Planning Commission, 2010). Not much progress has been made since the inception of the NDP. South African

SMMEs constitutes 98% of all registered businesses and employ 47% of the total workforce (Department of Small Business Development, 2016) . Despite the contribution made thus far, the employment contribution is low when compared to stable economies which employ between 60% and 85% of the total workforce.

The small businesses only contribute 42% to the GDP (Department of Small Business Development, 2016) . The contribution to the national GDP is also low because most of the SMMEs do not grow and it is estimated that the SMME failure rate in South Africa is 75% (Fatoki & Odeyemi, 2010). Berry et al. (2002) argue that although the removal of arpartheid was necessary in fostering the potential of the SMME; the poor perfomance of the SMMEs cannot only be attributed to the racial distortion and political & social injustices inherited from the previous political regime. Various researchers have attributed the slow growth of SMME to organisational obstacles such as poor managerial skills, education and training; industry-related problems such as entrepreneur's inability to understand market expectations and poor market access; and economy-based obstacles such as interest rate fluctuation (Smit & Watkins, 2012). The top three SMME sectors in terms of employment are community & social services, Trade and finance; whilst the bottom three sectors are Utilities, Mining and Transport.

President Cyril Ramaphosa mentioned during the 2018 State of Nation Address that mining has massive unrealised potential for growth and that it should be seen as the 'sunrise industry'. This is a valid comment considering that the country has diverse mineral resources; however provinces with high proportion of mineral resources like Mpumalanga continue to underperform. The development and support of SMMEs is also driven at provincial level; however the high unemployment rate across all provinces is an indication that this sector is not creating enough jobs as it is intended to. Various researches have indicated that a sustainable growth of SMMEs will play a crucial role in job creation which subsequently curbs poverty and inequality. This research will focus on the growth of SMMEs in the mining sector of the Mpumalanga Province.

## 1.2 General Overview of the Mpumalanga Mining Sector

Mpumalanga's economy is dominated by mining, mainly coal which is supplied to the Eskom power stations. Other mineral commodities found in the province include gold, platinum, chromite, zinc, cobalt, copper, iron and manganese (Mpumalanga Provincial Treasury, 2015). It is a province to 4.3 million residents (Mpumalanga Provincial Treasury, 2015). The province's contribution to the national economy was the fifth largest with a share of 7.5% in 2015. The economic growth of the province from 1995 to 2014 was 2.5% as compared to country's growth of 3% on the same period (Mpumalanga Provincial Treasury, 2016). This is a concern given the NDP and Provincial Vision 2030 target for GDP growth of above 5 percent. In 2014 the mining sector contributed 25.9% and 22.9% to the provincial and national economy respectively (Mpumalanga Provincial Treasury, 2016).

The unemployment rate remains high (34.2% in 2019:Q1); this is a major concern given the size of the mining sector (Statssa, 2019). Moreover, the mining sector created only 11000 jobs between 2016 and 2017, making it the lowest contributor to job creation when compared to other sectors in the province. The province is committed to supporting the SMMEs and has secured money to a total of R300 million for funding and incubation of SMME for the next three years (City Press, 2018). It is therefore crucial to identify barriers that are impeding the growth of SMME in the mining sector and understand how the successful SMMEs overcame these growth barriers.

## 1.3 Problem Statement

The SMMEs contribution to employment and national GDP is low because most of the SMMEs do not grow, i.e. not achieving an increase in employment and sales. The high failure rate of 75%, as well as the failure to increase sales and employment suggest that there are many barriers that impede the growth of

SMMEs. Notwithstanding, there are SMMEs that have overcome these barriers and are achieving sustainable growth. This problem will be explored in the mining industry of the Mpumalanga province. Mining sector should be the major driver of growth and employment for the province but the unemployment rate remains high (34.2%), even higher than the national unemployment rate (27.6%)(Statssa, 2019). It is therefore imperative to identify the barriers that are impeding growth, establish how some of the SMMEs overcame the barriers and identify growth opportunities within the industry in order for the SMMEs to realise their full potential.

The growth of SMMEs is a key driver for the sustainable growth of the economy, and the government, through various institutions and policies has created an environment for the promotion and development of SMMEs. This strategy is also driven at a provincial level. Mpumalanga province is also committed to economic growth and has in place plans such as Vision 2030 and MEGDP which are supporting the national strategy for the support and development of SMME.

## 1.4 Research Question

What are the barriers that are impeding the growth of SMMEs within the Mpumalanga mining industry and how have other SMMEs managed to overcome these barriers?

## 1.5 Objectives of the research

Inasmuch as growth is measured by various variables, employment and sales will be the primary focus for this research and thus the objectives of the research are;

- To identify the barriers that are impeding the SMMEs from achieving a sustainable growth

- To establish how the SMMEs that have achieved sustainable growth overcame the barriers
- To identify the growth opportunities SMMEs consider and pursue
- To recommend the best practices for achieving growth in the mining industry

## 1.6 Significance of the research

The significance of the study is to identify growth barriers and it is hoped that this will assist the SMME owners to learn from previous incidences in order to make rational business decisions thereby minimizing the risk of failure.

The purpose of establishing how the successful SMME owners overcame the barriers will assist all the SMME owners and those that are planning to start business within the mining industry to learn and perhaps implement the learnings in their businesses. Once this is achieved, the likelihood of failing or not achieving sustainable growth will be minimal.

Identifying growth opportunities that SMMEs pursue will also assist aspiring and SMMEs owners to understand various growth streams that exist within the mining industry. Lastly, the recommendations will assist the SMME owners to comprehend the constraints, enablers and growth opportunities for SMMEs. This will enable the SMME owners to benchmark and use learnings for the benefit of their business and the South African economy as a whole.

There is little known about the constraints and enablers that pertain specifically to the mining industry in Mpumalanga province. This study will add to the existing body of knowledge on SMME literature and thereby forming a basis for further research.

## 1.7 Delineation of the research

- The research will be limited to the SMMEs operating in the mining industry in Mpumalanga. The mining industry in Mpumalanga is one of the main contributors to the national and provincial GDP but has so much unrealized potential. This supported by growth trends published on the QLFS report for Q4 2017 by stats SA which indicated that the mining industry has on average employed 67 000 people since 2008 and there has not been an upward growth trajectory since then. The basis for limiting the scope to the mining industry is so that there can be a better understanding of the industry and provincial specific factors that are impeding or necessitating growth.

- The growth measures for this study will only be limited to employment and sales because they are objective and have been cited as the most common used growth indicators. A research done by Wiklund, Patzelt, and Shephered (2009) affirms that that sales growth is the most effective growth that applies to all countries and industries. Delmar, Davidsson, and Gartner (2003), argue that in a case where job creation is the main objective, employment can be used as a growth measure because is not affected by inflation and exchange rates.

- The research will only be limited to the SMMEs in the formal sector, because they are registered in the database of various agencies. This implies that that the recommendations from the study will be based on the views of the SMME owners operating in a formal sector.

- This study will only include the SMME owners that have been operational for at least two years but not more than 10 years. It will also target the SMMEs that were operational but ceased to exist during the stipulated period. Firstly, this is done to establish the growth trend of SMMEs before the critical period of three years, which is characterized by high failure rate. Secondly, to assess the growth of SMMEs after the three year period and thirdly to understand the challenges that caused some of the SMMEs to fail within the stipulated period.

## 1.8 Definition of terms

| TERM | Definition |
|---|---|
| **Assess** | "The collection of data to describe or better understand an issue" (Huitt, Hummel, & Kaeck, 2001) |
| **Assessment of SMME growth** | Collection of data in order to better understand the SMME growth with respect to employment and sales |
| **Business growth** | An increase in some attributes, such as sales, employment, and/or profit of a firm between two points in time (Hakkert, Kemp, & Zoetermeer, 2006). |
| **Entrepreneurial mindset** | "Portrays the innovative and energetic search for opportunities and facilitates actions aimed at exploiting opportunities" (Neneh & Vanzyl, 2012) |
| **SMME** | "a separate and distinct business entity, including cooperative enterprises and non-governmental organisations, managed by one owner or more which, including its branches or subsidiaries carried out on any sector or subsector of the economy'' (DTI, 1996) |

## 1.9 Assumptions

The following assumptions are made;

- Mpumalanga is dominated by coal mines; and hence an assumption is made that the majority of the respondents will be operating in a coal mining sector.
- The data collection will be in the form of interviews and it is therefore assumed that the respondents will be truthful and honest when answering questions.

# 2 CHAPTER 2: LITERARURE REVIEW

## 2.1 Introduction

Globally, the SMMEs have been recognized as the engine for economic growth; however research shows that most SMMEs in South Africa do not survive beyond three years. Moreover, majority of SMMEs are survivalists that are not capable of creating employment. Some of the researchers that have looked at SMME growth include;

- **Kesper (2000),** looked at whether the manufacturing SMMEs are failing or not aiming to grow. Her finding was that the majority of SMMEs are able to increase sales but the turnover is not accompanied by employment growth. The slack in employment growth was attributed to weak internal competencies and the SMME owner decision not to increase employment due to inflexible labour practices.

- **Olawale and Garwe (2010),** investigated the obstacles to the growth of new SMEs in South Africa using the principal component approach. They manged to identify five clusters of obstacles which they termed; financial, economic, markets and infrastructure. Their research is supported by the study done by Entrepreneurship Research Association which cited government policy, access to finance and education & training as the top three factors constraining entrepreneurial activity in South Africa (Herrington & Kew, 2016).

- **Neneh and Vanzyl (2012),** conducted a study on the entrepreneurial mindset in the small and medium sector in South Africa. She deduced that lack of entrepreneurial mindset has an influence on the high failure rate of Small and Medium Enterprises.

This chapter will highlight key concepts of the literature review that are aligned to the objectives of this study. The first section begins with an overview to the

SMME in a South African context. The second section highlights the progress made by SMMEs in terms of job creation. The third section highlights the barriers that are contributing to slow growth of SMME. The fourth section explores the concept of business growth, including factors that affect growth and how business growth is measured

## 2.2 SMME Sector in the South African context

South Africa has a history marked by apartheid, inequalities and social injustices. Notwithstanding, the democratic regime is making an effort to undo these wicked problems through the promotion and support of small businesses. These efforts date back to 1995 when the White paper for the national strategy for the promotion of small businesses was promulgated. The National Small Business act no. 102 of 1996 defines small business as "a separate and distinct business entity, including cooperative enterprises and non-governmental organisations, managed by one owner or more which, including its branches or subsidiaries carried out on any sector or subsector of the economy''. Furthermore, small businesses are categorized into micro, very small, small, or medium enterprise and the criteria used are total fulltime equivalent of paid employees, total annual turnover and total gross asset value. Table 2.2.1 illustrates the defining characteristics for the mining sector.

**Table 2.2.1: Business classification according to the National Small Business Act No. 102 of 1996**

| Site or Class | Total full-time equivalent of paid employees (Less than) | Total annual turnover (Rm) (Less than) | Total gross asset value (fixed property excluded) (Rm) (Less than) |
|---|---|---|---|
| Medium | 200 | 39.00 | 23.00 |
| Small | 50 | 10.00 | 6.00 |
| Very small | 20 | 4.00 | 2.00 |
| Micro | 5 | 0.20 | 0.10 |

Source: (DTI, 1996)

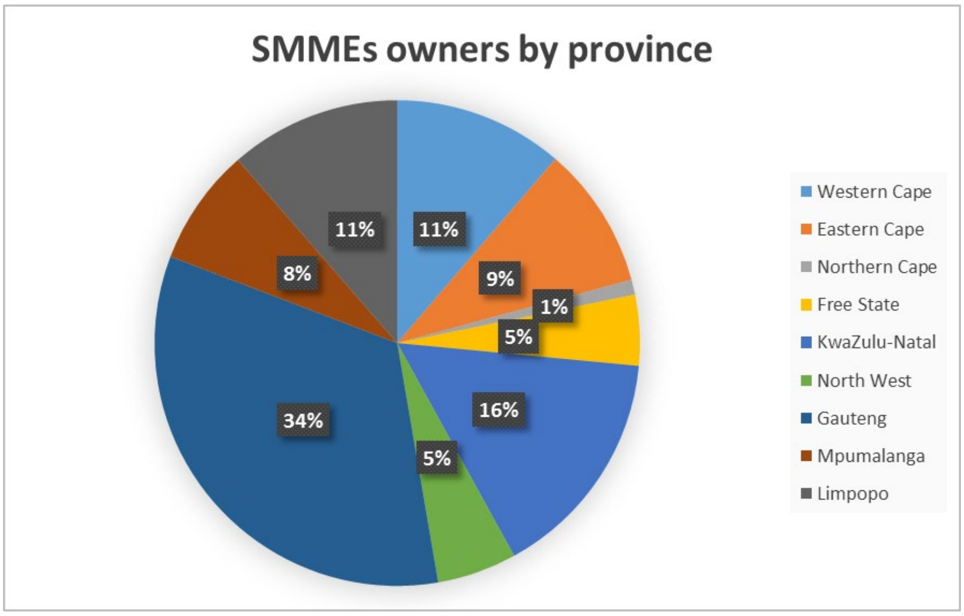
A research done by SEDA (2017) indicated that in the first quarter of 2017, South Africa recorded an increase in the number of SMMEs from 2.23 million in the first quarter of 2016 to 2.48 million in the first quarter of 2017 as shown in table 2.2.2 Out of these SMMEs, only 29% operated in the formal sector while 67% operated in the informal sector. Figure 2.4.1.1 depicts that the majority of SMMEs in South Africa operate in Gauteng province, whilst Mpumalanga contributes 8% of the total SMMEs.

**Table 2.2.2: Number of SMME**

| KEY INDICATORS | 2016Q1 | 2016Q4 | 2017Q1 | q-o-q change | y-o-y change |
|---|---|---|---|---|---|
| Number of SMMEs | 2 229 547 | 2 426 206 | 2 478 877 | 2.2% | 11.2% |
| Number of formal SMMEs | 650 077 | 685 147 | 725 698 | 5.9% | 11.6% |
| Number of informal SMMEs | 1 484 768 | 1 645 028 | 1 658 522 | 0.8% | 11.7% |
| Number jobs provided | 10 006 726 | 10 107 054 | 10 568 701 | 4.6% | 5.6% |
| % operating in trade & accommodation | 39.8% | 39.5% | 39.6% | 0.1% pts | -0.1% pts |
| % operating in community services | 13.0% | 13.7% | 13.0% | -0.8% pts | 0% pts |
| % operating in construction | 15.0% | 14.4% | 14.8% | 0.4% pts | -0.1% pts |
| % operating in fin. & business services | 12.4% | 12.2% | 12.7% | 0.5% pts | 0.3% pts |
| % black owned formal SMMEs | 71.5% | 72.9% | 73.6% | 0.7% pts | 2.1% pts |
| % contribution of SMEs* to turnover of all enterprises* | 36.8% | 40.2% | 41.1% | 0.9% pts | 4.3% pts |

Source: (SEDA, 2017)

**Figure 2.2.1: SMME owners by province**




Source: Adopted from SEDA (2017)

## 2.3 Job Creation in the SMME sector

The South African government has established another government entity, the Department of Small Business Development in 2014 dedicated to increase the participation of small businesses and cooperatives in the mainstream economy (Department of Small Business Development, 2016). The government through department of Small Business Development support the SMMEs through various agencies such as Small Enterprise Development Agency (SEDA), the Small Enterprise Finance Agency (SEFA), the National Youth Development Agency (NYDA), the Technology and Innovation Agency (TIA) and the National Empowerment Fund (NEF). Despite all the efforts to foster the SMME growth, Department of Trade and Industry (2008) established that majority of SMMEs remain in the survivalist phase with less than 3.5 years of existence. Moreover, the SMME sector is characterized by high liquidation, large number of registered but inactive enterprises and a shift in business focus within the first three years of existence (DTI, 2008).

The SMME sector has shown some potential for growth. According to SEDA (2017) the SMME sector provided jobs for at least 10.6 million people in the first quarter of 2017. The formal sector created 58% of the jobs whilst the informal sector created 11% of the jobs. The number of jobs created by non-SMME sector is only 5.8 million, therefore making the SMME sector a major contributor to employment. Of concern, is that the SMME owners with secondary school and higher education accounted for 49% of the SMME growth and SMME owners with little schooling accounted 51% of the growth (SEDA, 2017). This implies that there was an increase in survivalist operations which is an indicator for poor quality of growth because survivalist businesses are not capable of creating employment.

South Africa has been ranked 52$^{nd}$ out of 65 participating countries for entrepreneurial intentions; this is a concern given the country's high unemployment rate (Global Entrepreneurship Research Association, 2017). The GEM report for 2016/17 alsoindicated that only 37.9% of South Africans believe that they have the necessary skill required to start a business as compared to 58.6% of the African region. In addition to this, only 6.9% of entrepreneurs in 2016 were involved in early stage of entrepreneurial activity and out of these entrepreneurs, majority (58.7%), expect to create between one and five jobs within the next five years (Global Entrepreneurship Research Association, 2017). This implies that the country has few entrepreneurs that can create job opportunities; this is a risk to national target of creating 11 million jobs by 2030. Government policy, access to finance and education and training have been ranked as the top three factors constraining entrepreneurial activity in South Africa. Some of the factors also identified include regulations, labour costs and economic climate (Herrington & Kew, 2016).

## 2.4 Contributing Barriers to SMME Growth

This section will discuss the common barriers that are impeding the growth of SMMEs in a South African context.

### *2.4.1 Access to finance*

Financial resource is a key driver for the development and growth of many businesses. Access to finance has been cited as one of the major problems in many economies. The Global Competitiveness Report 2015/2016 has rated lack of finance as the number one concern in developing economies such as South Africa (Hakkert & Kemp, 2006; Smit & Watkins, 2012). Fatoki and Odeyemi (2010), mentioned that 75% of small firm loan applications by new SMMEs in South Africa are rejected. Smit and Watkins (2012), found that the factors impacting the financing problems include; inability of SMME owner to draw up a business plan, the lenders ability to determine the SMME credit risk and general communication issues. These challenges suggest that SMME internally generate the capital that might not be sufficient to finance the expansion of the business or may experience slow growth. Moreover, new SMME without finance may not be able to grow or survive (Olawale & Garwe, 2010)

### 2.4.2 *Government regulations and institutions*

Most of the developing countries have poor basic infrastructure such as transportation, telecommunication and electricity (Olawale & Garwe, 2010). In South Africa, telecommunication, energy and transport sectors are characterised by monopolistic concentration and government influence (Herrington & Kew, 2016). Electricity shortages and interruptions in South Africa have an adverse effect on the production and turnover of new SMMEs. Restrictive labour regulations have been ranked as one of the most problematic factors for doing business and the country has been ranked last (137$^{th}$) in terms of cooperation in labour-employer relations (World Economic Forum, 2017). Moreover, high labour costs when compared to productivity cost discourage potential entrepreneurs from starting or growing businesses.

South Africa has been ranked 84$^{th}$ out of 190 economies in the 2017 World Bank's Ease of Doing Business report (World Bank Group, 2018). According to the 2017/2018 Global Competitiveness report, inefficient government bureaucracy has been rated as the fifth most problematic factors for doing business in South Africa (World Economic Forum, 2017).This is concerning given the number of initiatives and institutions that the government has established to foster SMME growth. This suggests that the current government institutions are not yet effective in creating an environment that is conducive for SMME growth.

### 2.4.3 *Education and training*

Education and training determine whether an entrepreneur has the necessary skills to start a business (Herrington & Kew, 2016). The NDP noted that the poor skills profile is affecting the growth of small businesses. Moreover, the quality of education has scored 114$^{th}$ out of 137 in the 2017/2018 Global Competiveness Report and this suggests that South Africa is not able to prepare learners adequately for full participation in the economy. The inadequate education and training in South Africa are contributing factors to low level of entrepreneurial creation and high failure rate of new ventures (Olawale & Garwe, 2010). Innovation also plays a crucial role in the economic development of many countries. Meanwhile, South Africa is lagging behind its peers in terms of innovation. In terms of economic resources, South Africa produced 6 percent less in 2016 than in 2017 and insufficient innovation has been cited as one of the major contributing factors. And thus, South Africa also needs to focus on cognitive skills such as innovation in order to be competitive and thus expand economic opportunities (Dessus, Goddard, & Hanusch, 2017).

### 2.4.4 *Crime and Corruption*

Crime and corruption have been ranked as the top problematic factors for doing business in South Africa (World Economic Forum, 2017). South Africa is still amongst countries with serious corruption problem. It has achieved a corruption perception index (CPI) score of 45 and it is the 64$^{th}$ corrupt country out of 176 surveyed countries (Transparency International, 2016). High levels of crime forces the SMMEs to increase the spending on security, which subsequently increases the total cost of doing business (SEDA, 2017). High crime rate prevents South Africans from starting businesses. Research shows that South Africans are reluctant to start home business due to fear of crime and as a result, a percentage of people who were prevented from starting or investing in a business due to crime increased from 8.1% in 2011 to 11.8% in 2016 (Business Tech, 2017).

### *2.4.5 Access to Market*

The engagement of small firms in the management of products and markets is crucial for achieving sustainable growth. An inability to access market has been cited as one of the factors that hinders business growth (SEDA, 2016). The credit providers require the SMME owners to have access to market prior to approving funding. According to SEDA (2016) most rural SMMEs in South Africa struggle to access the market compared to their urban counterparts and this has a detrimental effect on potential business start-ups.

## 2.5 Business growth

Business growth is a multidimensional phenomenon and thus this section will define growth, discuss the factors that affect growth, measurement of growth and mode of growth.

### *2.5.1 Defining Business Growth*

Business growth is defined as an increase in some attributes, such as sales, employment, and/or profit of a firm between two points in time (Hakkert et al., 2006). Business growth is characterized by variation in growth measures, growth indicators, measurement of firm growth over time and mode by which firm grows (Delmar et al., 2003).

### 2.5.2 *Factors affecting growth*

Business growth is influenced by a combination of individual, organizational and environmental factors; it is therefore multidimensional. Brush, Ceru, and Blackburn (2009), assert that growth is influenced by decisions involving management, market and money.

- **Organisational factors**

Various researches have indicated that there is a positive relationship between the size of a firm and growth rate. Business owners often face challenges relating to market development such as finding customers, product features and etc. (Brush et al., 2009). Machado (2016), deduced that smaller firms operating in mature industries tend to grow slower due to minimal opportunities; however, small innovating firms tend to grow faster than big non-innovative firms. Furthermore small firms tend to fail when operating in industries with a high number of new firms. Dobbs and Hamilton (2007), are of the view that small firms that adopt a strategy of differentiation can grow faster and compete with larger firms.

- **Individual factors**

According to Neneh and Vanzyl (2012), the entrepreneurial mindset has an influence on the success of Small and Medium Entreprises. Neneh and Vanzyl (2012), also deduced that business leaders who have been successful had a growth mindset. Brush et al. (2009), affirms that business owners have different aspirations with regards to growth and therefore it is up to the business owner to remain small or to seek growth. SMME owners with entrepreneurial mindset are more likely to grow because they look for opportunities that they can exploit through innovation (Brush et al., 2009).

- **Environmental factors**

The growth of an organization is also influenced by external factors. Sarwoko and Frisdiantara (2016), argue that the competition, use of technology and the diversity of the product determine the growth of business. This implies that the SMMEs have to be agile in order to remain competitive. Machado (2016), argues that in most cases that organizations experience growth as a result of the overall growth of the industry. Political factors such as public policies and support programs may influence how an organisation grows (Machado, 2016).

### *2.5.3 Growth measures*

Growth is measured using different variables such as sales levels, profitability, number of employees and market share. These diverse variables are not interchangeable because one metric may represent a different type of growth and this makes it challenging for researchers to compare the results (Delmar et al., 2003). Growth can be measured in either relative or absolute terms and the type of measure depends on the size of the firm. Small firms are likely to measure growth in relative terms whereas larger firms tend to use absolute measures. Machado (2016), argues that there is no consensus with regards to ways of measuring growth; however according to (Delmar et al., 2003) sales and employment are the most common used growth measures. Machado (2016), emphasises that enterprises may expand sales without increasing the number of employees and the converse is true.

Wiklund et al. (2009), advocate that sales growth is the most effective growth metric that applies to all countries and industries because it is insensitive to capital intensity and degree of integration. However Delmar et al. (2003) assert that sales are impacted by inflation and currency exchange rates and therefore it does not always lead to growth process. Moreover, in case where job creation is the primary objective, employment can be used as a growth measure because it is not affected by inflation and exchange rates; however it is impacted by increase in labour productivity, machine-for-man substitution, degree of integration and etc. Other indicators have shortcomings because they are not applicable across all industries.

### *2.5.4 Mode of Growth*

Business growth is heterogeneous in nature and hence it can be organic, acquisition or hybrid. Delmar et al. (2003), defines organic growth as the internal growth of the firm mainly caused by sales growth. Acquisition growth, on the other hand is the growth in employees through acquisition of other organisations. Hybrid growth is the growth established through both organic and acquisition growth. The type of growth has a differential impact on the performance of the firm. Furthermore organic growth is likely to result in genuine job creation at a societal level than acquisition growth. Moreover, firms that grow organically tend to show smoother growth pattern overtime compared to firms that grow through acquisition. Under acquisition growth, existing jobs are shifted from one organization to another (Delmar et al., 2003).

Most researchers assume that firms grow organically; however McKelvie and Wiklund (2010) argue that the mode of growth may be related to the product market strategy and hence many firms do not grow organically. A study done by Delmar et al. (2003) on high growth firms shows that 10% of the firms in their sample grew primarily by acquisition which subsequently resulted in an employment growth. The mode of growth is associated with the size and the age of the firm. McKelvie and Wiklund (2010), assert that smaller firms tend to adopt organic growth, while larger firms grow by acquiring other firms. Therefore, larger firms add jobs through acquisitions instead of creating them organically.

## 2.6 Conclusion

In conclusion, majority of SMMEs operate in an informal sector and are therefore not contributing to the mainstream economy. Moreover, the high number of survivalists SMMEs is a sign of poor growth given their inability to create jobs. Although the government is making an effort to support the SMMEs, factors such as regulations, finance, education & training are still the major growth impediments. It is also apparent from the research that firms adopt different modes (organic, hybrid or acquisition) of growth. It is therefore important to comprehend the barriers that are impeding the growth of SMMEs in Mpumalanga and how the successful SMMEs overcame these barriers.

# 3 CHAPTER 3: DATA COLLECTION AND METHODOLOGY

## 3.1 Research Methodology

A qualitative research described by Zikmund, Babin, Carr, and Mitch (2013) as "a research that addresses objectives through techniques that allow the researcher to provide elaborative interpretations of phenomenona without depending on numerical measurements was adopted in this research" (p. 132). Merriam (2009), argues that qualitative research is focused on discovery, insight, and understanding from the perspective of those who are being studied offers the greatest promise of making a difference in people's lives was adopted in this research.

This method is justifiable because a deeper understanding of the barriers that impedes growth and establishing how successful SMMEs overcame these barriers required an engagement with the SMME owners. Moreover, an assumption could not be made that all SMMEs owners are affected by the same barriers or used the same strategies to overcome the barriers. Each SMME owner had a unique experience; therefore the purpose of this research was to gain new insights into the SMME growth and interpret the findings with an ultimate goal of influencing the SMMEs to reach their full potential . A quantitative method was not adopted for this research because it can be subjective due to its focus on emperical assessments that involve numerical measurements and analysis approach (Zikmund et al., 2013).

## 3.2 Research Design

This research was in the form of semi-structured interviews because is a mix between less and more structured questions. The semi-structured interview allowed the researcher to respond to the questions that the respondent had during the interview(Merriam, 2009). The qualitative method used comprised holding in-depth interviews with the SMME owners in order to assess their companies' growth since establishment. Eight of the 12 interviews were held face to face and the other two were held telephonically due to the unavailability of the SMME owners.

This method allowed the SMME owners to clarify some of the questions that were not clear. The questions asked were aligned to the objectives of the research. The advantages of an interview include an interviewer's ability to address specific issues that arise during the interview and responses can easily be interpreted. The disadvantage of this method is that its effectiveness is dependent on the interviewer's communication skill (Zikmund et al., 2013).

## 3.3 Target population

The target population for this study were the registered SMME owners operating in the mining industry in Mpumalanga province. The years of experience in business ranged from 2 to 9 years with the majority of the SMMEs with 4 to 6 years of experience. Initially, the study also wanted to target previous SMMEs that were liquidated; however none of the owners were willing to participate.

## 3.4 Sample frame, sample and sampling methodology

The sample frame included 12 SMME owners in the formal sector within the mining industry in Mpumalanga province. The sample excluded all the SMMEs that are registered but not active. This research adopted a quota sampling methodology which is defined as a "nonprobability sampling procedure that ensures that various subgroups of a population are represented on pertinent characteristics to the exact extent that the investigator desires" (Zikmund et al., 2013; p. 394 ).

The SMME sector is subdivided into Micro, Very small, Small, Medium enterprises and the distinction amongst these sub-sectors is the number of employees, turnover and total Gross assets as defined by National Small Business act 102 of 1996. It was therefore appropriate to use the quota sampling method in order to target all the sub-sectors. A total of twelve samples were selected, which consists of 6 Micro, 2 Very small, 3 Small and 1 Medium Enterprises. This was to ensure that all the sub-sectors are represented. Although this method of sampling can introduce bias in researcher's classification of subjects, it is the most suitable method for this research as compared to convenience sampling which has a high likelihood of unrepresentative samples (Zikmund et al., 2013).

## 3.5 The research instrument

The research instrument used for this research is a questionnaire designed by the author and covered the following three sections aligned to the research objectives;

The first section focused on company strategy and demographics in order to establish the growth objectives. The second section focused on individual factors in order to establish whether the business owner has relevant skills and competency. The third section focused on business performance which enabled the author to identify the growth barriers that the SMME owner experienced and how the successful SMME overcame the barriers. The questionnaire includes open-ended and close-ended questions that were posed to the respondents. The respondents were allowed to give insights that they thought would be of value to the research. Some of the follow-up questions were posed during the interview and clarifications of some of the responses were dealt with telephonically after the interview. The questionnaire is attached in appendix 1.

## 3.6 Data collection

A government agency, specifically SEDA was contacted for a contact list of registered SMMEs. Communication with the potential respondents was done through emails and telephone calls to request their participation in the study. Only 8 out of the 12 SMME owners were willing to participate and hence the remaining 4 respondents were through referrals. The research questionnaire and the objectives were sent to the respondents prior to the interviews. The data was collected through in-depth interviews using a semi-structured questionnaire. Ten of the interviews were conducted face to face and two were done telephonically. All interviews were also recorded both on paper and digitally which assisted with further clarification during the interpretation phase. The collected data was captured and coded after the interview.

## 3.7 Data analysis and interpretation

The following strategy described by Creswell and Poth (2018) for analysing and interpreting the data was adopted; prior to analysis, the data will be organized for analysis; then the author will use coding mechanism to reduce data into themes as well as condensing the codes. Once this is done, the data will be represented as tables, figures or discussion. The responses from the interview were organised for analysis and a coding mechanism was used to reduce data into themes that are aligned to the literature and objectives of the research.

## 3.8 Limitations of the study

- The research was conducted through interviews and hence the limitation might have been the respondent’s ability to remain truthful and honest.

- The mining industry in Mpumalanga is dominated by coal mines and the SMMEs interviewed are operating in coal mines and hence findings might be limited to SMMEs operating in the coal mines.
- The quota sampling methodology could have introduced bias in researcher's classification of subjects
- The coding mechanism used is dependent on the author's interpretation and this might have resulted in misinterpretation of data.

## 3.9 Validity and Reliability

### *3.9.1 Internal Validity*

Internal validity is the extent to which the research findings match reality (Merriam, 2009). The strategy adopted for this research is respondent validation, which involves getting feedback from the people interviewed (Merriam, 2009). To improve internal validity, only managing directors of SMMEs were identified as respondents. During data interpretation, the preliminary analysis was taken back to some of the SMME owners that participated for some validation and in some cases follow-up interviews were made.

### *3.9.2 External Validity*

External validity is defined as the extent to which the research findings can be applied to other situations (Merriam, 2009). The strategy used for external validity is the rich, thick description. This was achieved by ensuring that the interviews with the SMME owners are detailed and the interpretation of the data after coding is detailed. The use of a voice recorder with the interviewee’s permission to enhance the data collection was adopted.

### *3.9.3 Reliability*

Merriam (2009), defines reliability as the extent to which the research findings can be replicated. To ensure consistency the interviews were conducted by the researcher only. The reliability of the research was maximised by using triangulation method by comparing data from the interviews, observation and documents relating to the study.

# 4 CHAPTER 4: RESULTS

## 4.1 Introduction

The previous chapter discussed in detail the research methodology adopted for the study and the rationale for the methodology. In this chapter, the results of the 12 completed SMMEs interviews will be presented with reference to the objectives of the study which were to; identify the barriers that are impeding the SMMEs from achieving a sustainable growth, establish how the SMMEs that have achieved sustainable growth overcame the barriers, identify the growth opportunities SMMEs consider and pursue and to recommend the best practices for achieving growth in the mining industry

## 4.2 Demographics

The following demographics were considered during the interviews;

### *4.2.1 Roles interviewed*

The interviews were conducted on all the Managing Directors of the 12 SMMEs operating in the Mpumalanga mining industry.

### *4.2.2 Gender*

The figure below indicates that the respondents consisted of 58% and 42% of females and males respectively.

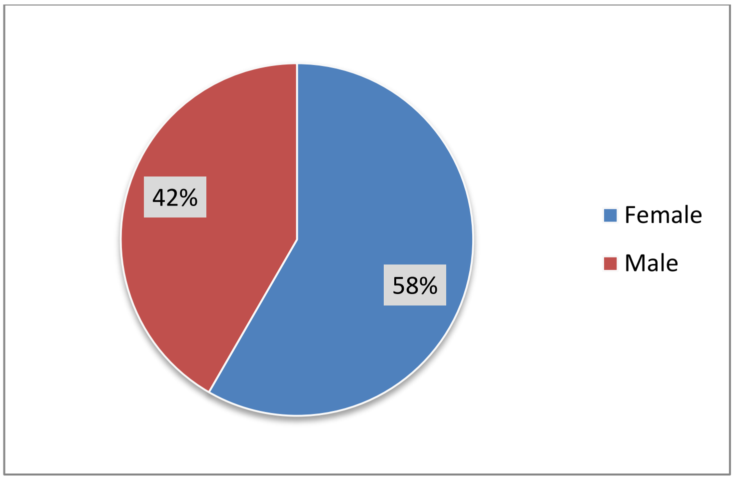



**Figure 4.2.1: Proportions of respondents of different genders**

### *4.2.3 Business growth*

Business growth in this study is measured in terms of an increase in the number of employees and sales since the company establishment. The figure below depicts how the companies have progressed in terms of number of employees and sales from year 1 of operation to the day the study was conducted. The first four companies have shown a significant change in terms of sales and number of employees. In as much as Company 7 shows a higher increase in sales and employment as compared to company 3, the change is low in relative terms. Company 8 has shown a decline in sales and number of employees. Five of the companies could not provide financial records, however the responses from the interviews indicated no significant growth since establishment.

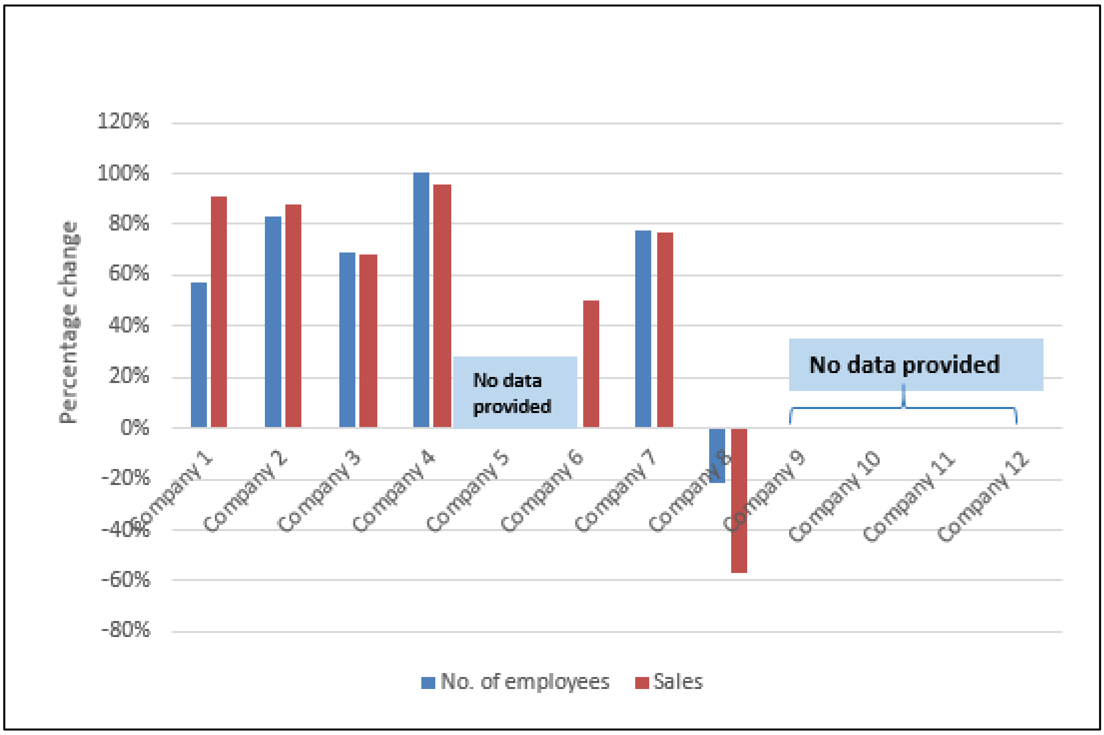



**Figure 4.2.2: Analysis of percentage change in number of employees and sales**

## 4.3 Results pertaining to the objectives of the research

The results of the interviews in line with the objectives and literature review of the study are presented in this section. The following subsection illustrates the barriers that affect growth as per objective 1 and 2: *To identify the barriers that are impeding the SMMEs from achieving a sustainable growth and to establish how the SMMEs that have achieved sustainable growth overcame the barriers.*

### *4.3.1 Education and Training*

The figure below shows that all the respondents have completed matric. At least 67% of the respondents have obtained a higher certificate as compared to 33% that have a diploma or degree qualification. Despite these qualifications, only 25% of the respondents have a qualification that is related to the mining segment that they are operating in. Furthermore, only 42% of the respondents have undergone business related training.

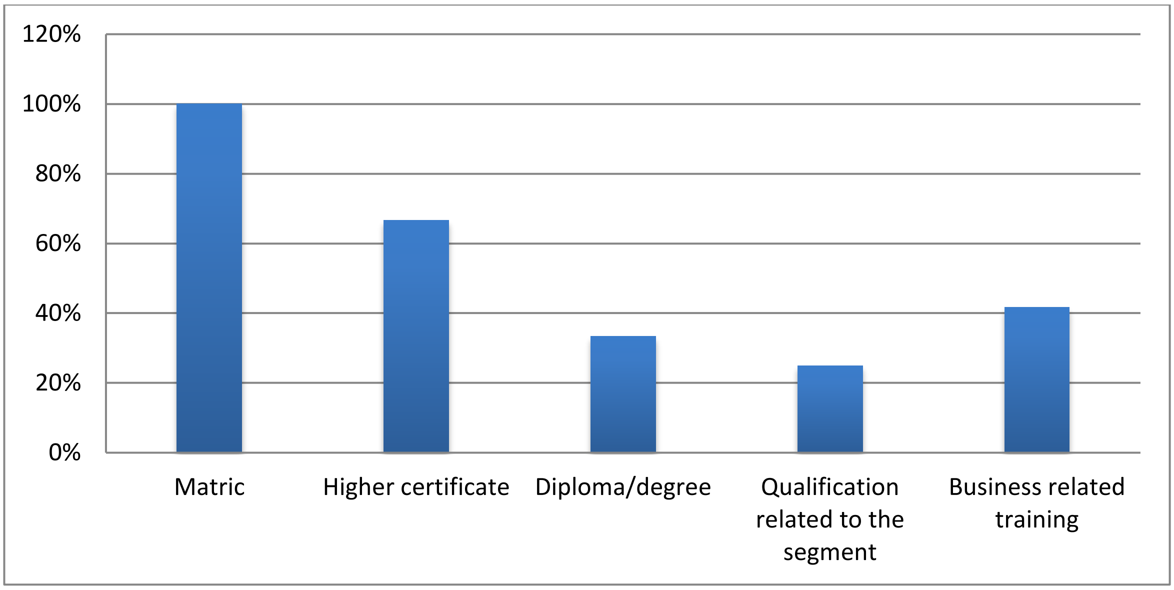



**Figure 4.3.1: Education and training completed by the respondents**

### *4.3.2 Location*

The figure below depicts the proximity of SMMEs to critical buyers. Only two of the twelve companies are not located in the mining towns. The rest of the companies are based in the mining towns with less than 50km to the mines.

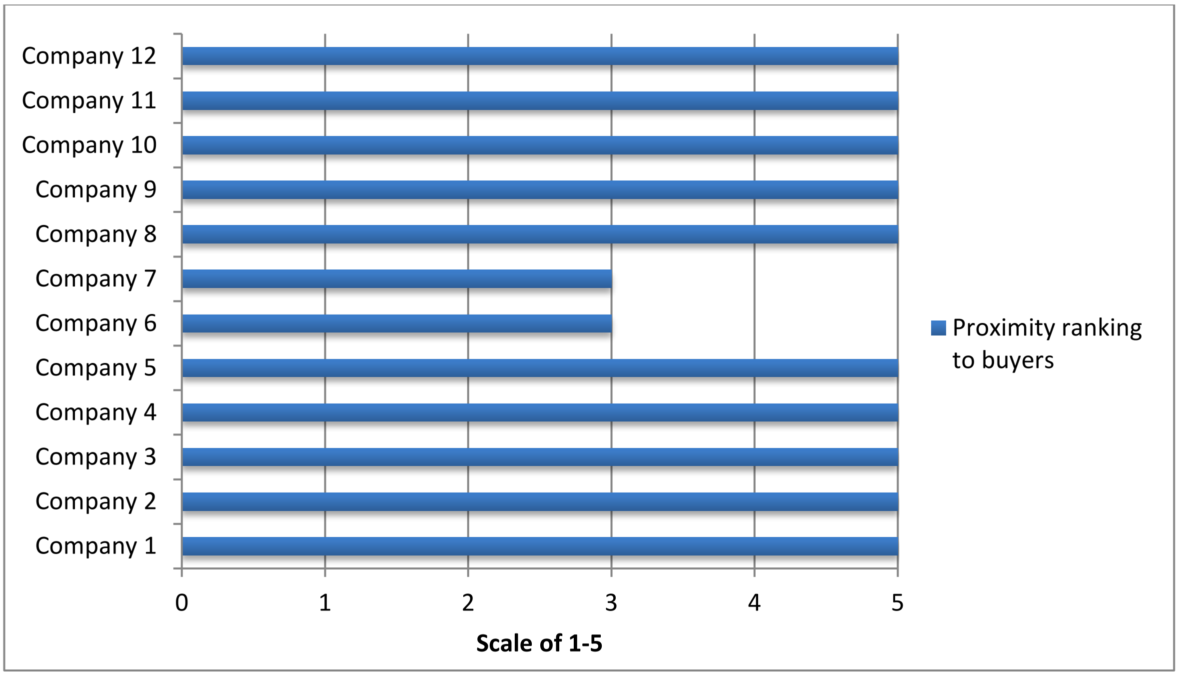



**Figure 4.3.2: Proximity ranking to critical buyers using a scale of 1 to 5**

### *4.3.3 Access to Finance*

Figure 4.2.2 below indicates that 50% of the respondents started the business using their own wealth, followed by public & private institutions at 42% and banks at 33%. Furthermore, only 8% of the respondents started the business using funds from loan sharks or family and friends.

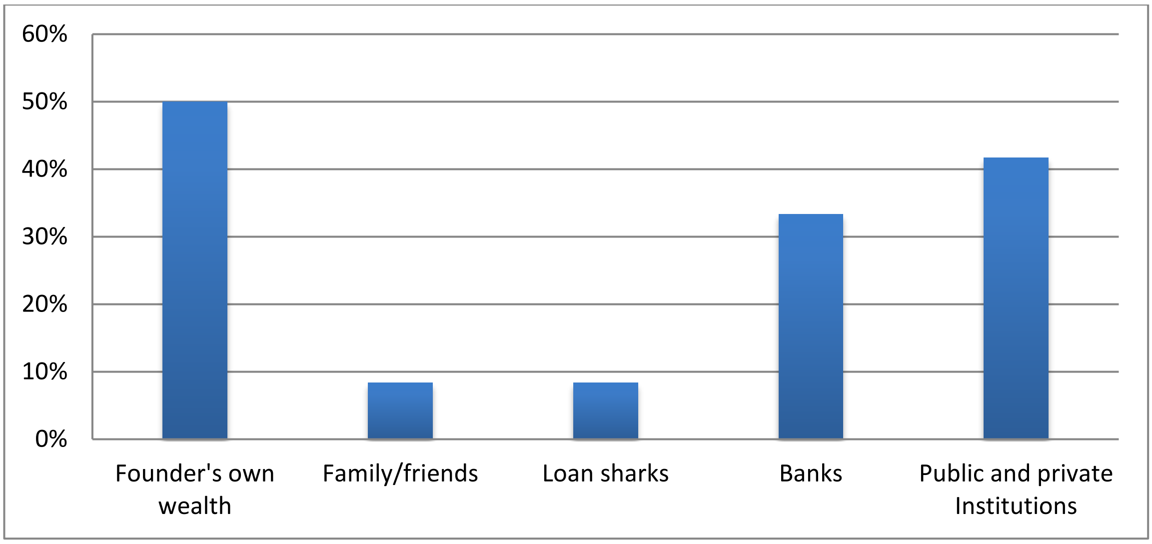



**Figure 4.3.3: Sources of funding used by the respondents to start the business**

### *4.3.4 Public and private institutions*

The figure below shows a breakdown of assistance obtained from various institutions.

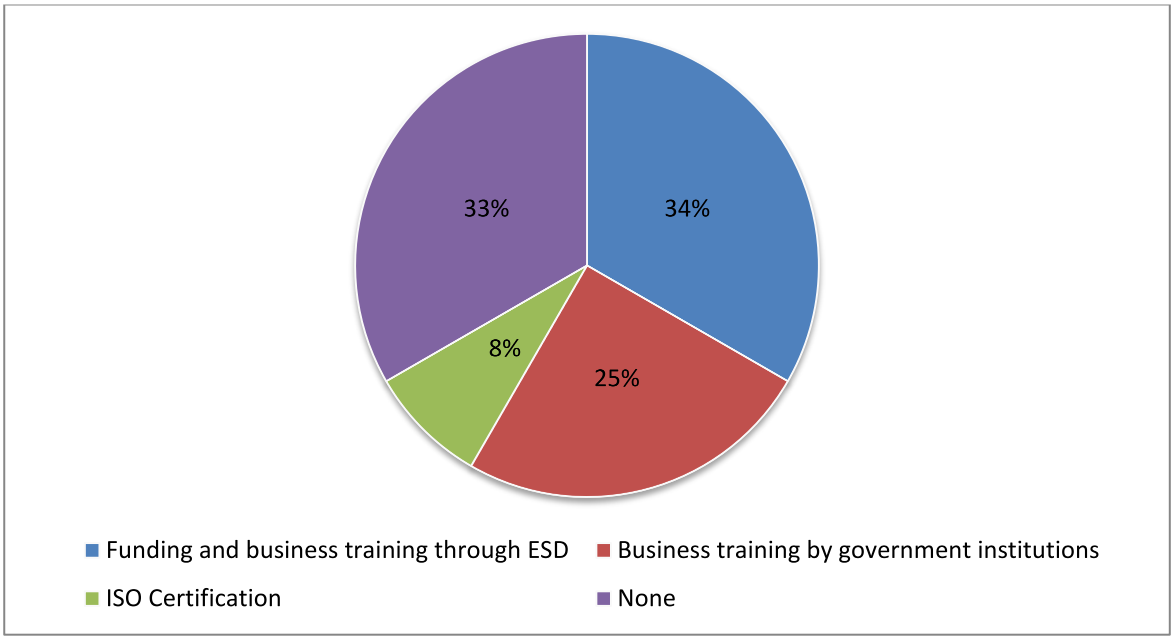



**Figure 4.3.4: A breakdown of type of assistance obtained from various institutions**

### *4.3.5 Access to Market*

The results presented below are in accordance with objective 3: *To identify the growth opportunities SMMEs consider and pursue.*

#### *4.3.5.1 Preferred segment within mining industry*

The mining industry consists of many segments that the SMMEs can operate in and below is the breakdown of market segments that the respondents are operating in. The figure shows that at least 5 out of 12 companies are in the business of supplying mining tools (mining consumables), followed by event management with only 3 companies. The rest of the market segments are dominated by 1 to 2 companies.

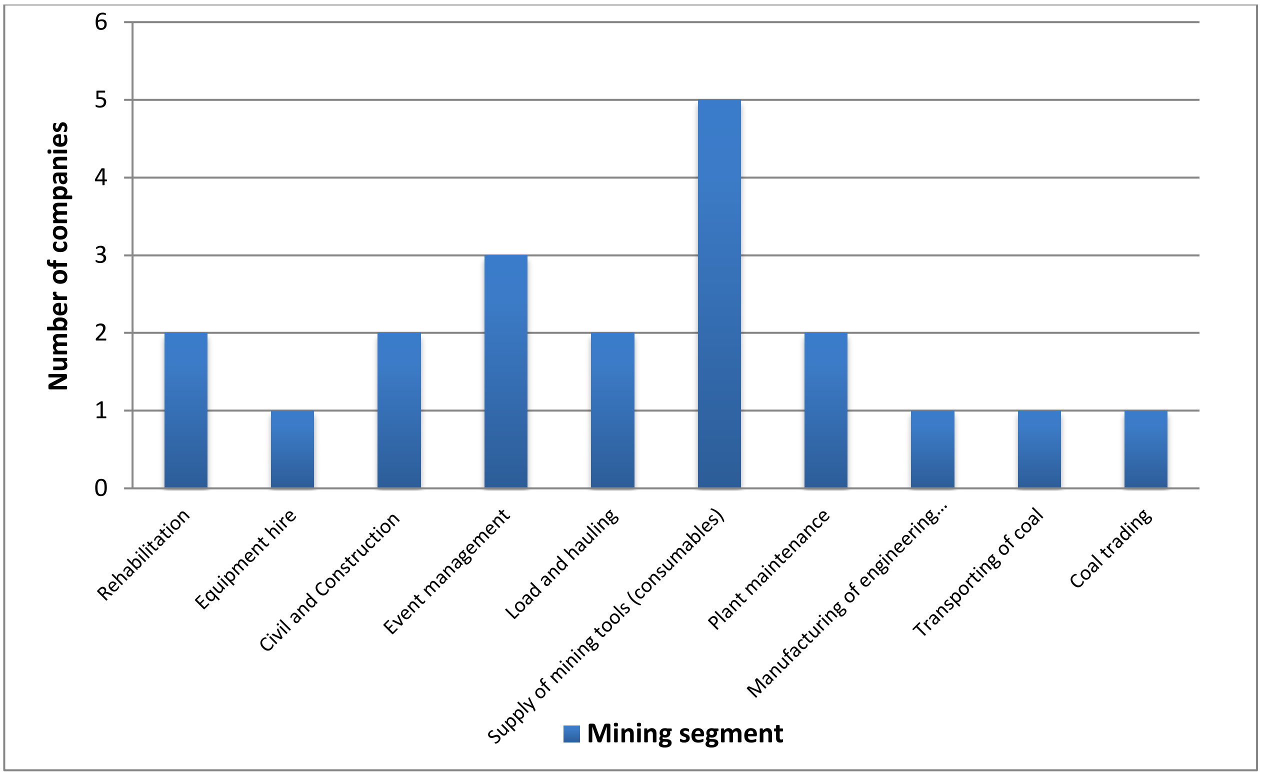



**Figure 4.3.5 Analysis of companies by type of market**

#### *4.3.5.2 Number of years of experience in the market*

The figure below indicates the number of years of experience that the companies have been operational in the mining industry. At least 6 out of 12 companies have been in the industry for 4 to 6 years, followed by 5 companies that have been operational for 2 to 4 years. Only one company has been in business for 6 to 8 years. The longest serving companies have a tenure ranging from 8 to 10 years.

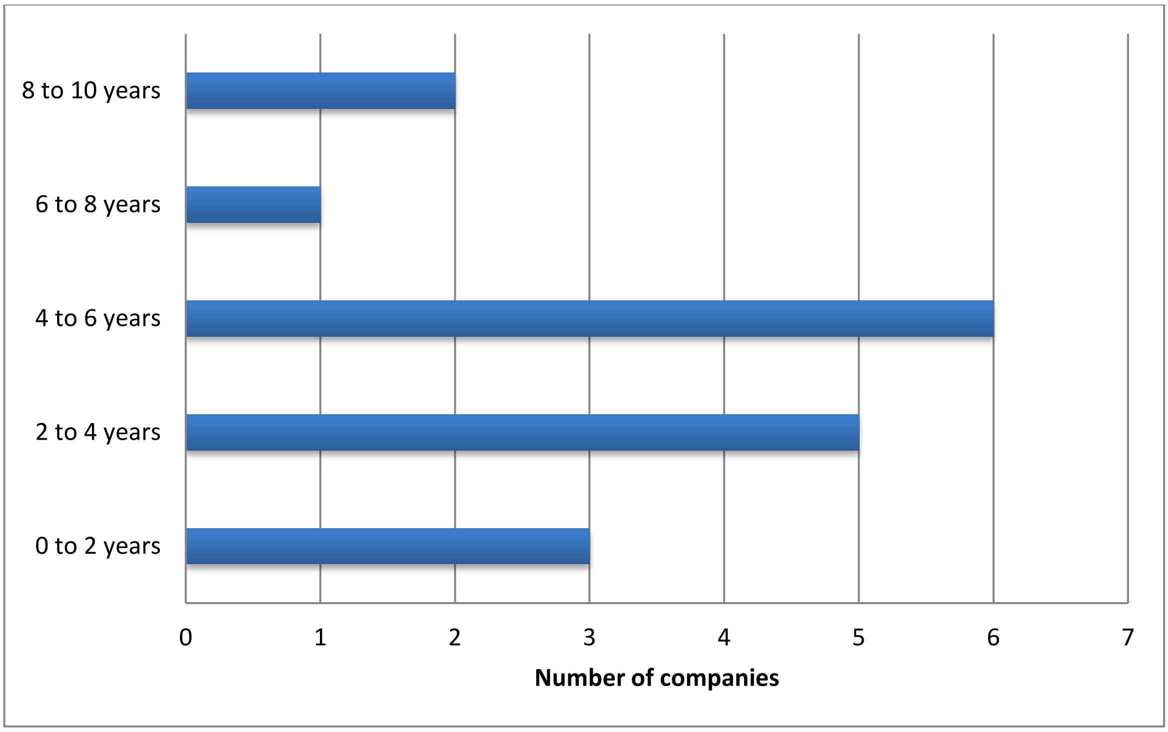



**Figure 4.3.6: Analysis of the number of years in the market**

### *4.3.5.3 Product development*

The figure below shows a breakdown of products/services offered by the companies. At least 4 out of 12 companies have been offering one product/service since establishment. Another 4 companies out of 12 are offering two products in the market and only three companies offer 3 products. Only one company out of 12 has offered 8 services since establishment.

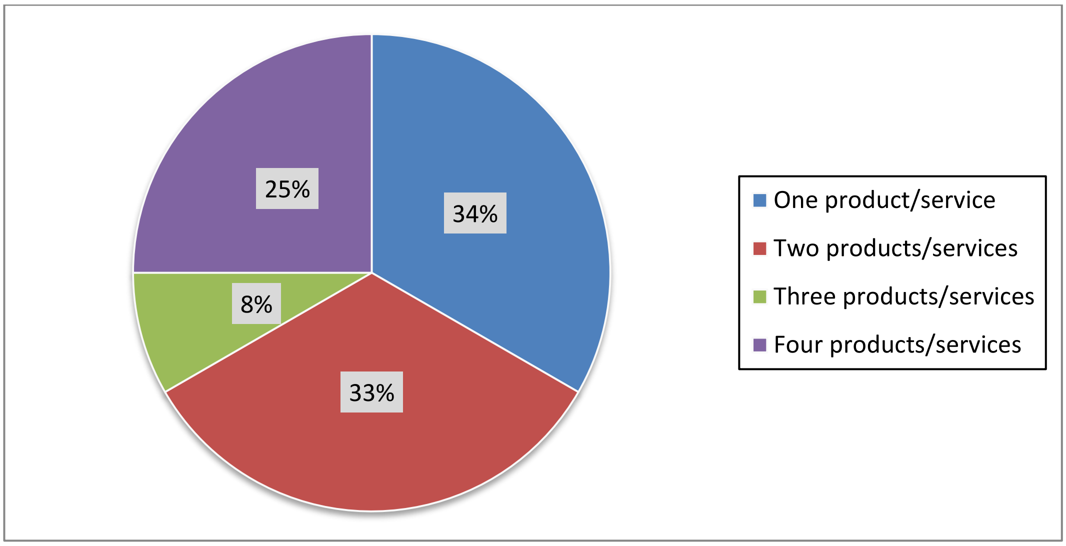



**Figure 4.3.7: Analysis of products/services offering since establishment**

### *4.3.5.4 Market development*

The figure below indicates that at least 37% of the companies are dependent on one to two customers, whereas 36% of the companies have two to three customers. A total of 3 companies have had between three and six customers since establishment.

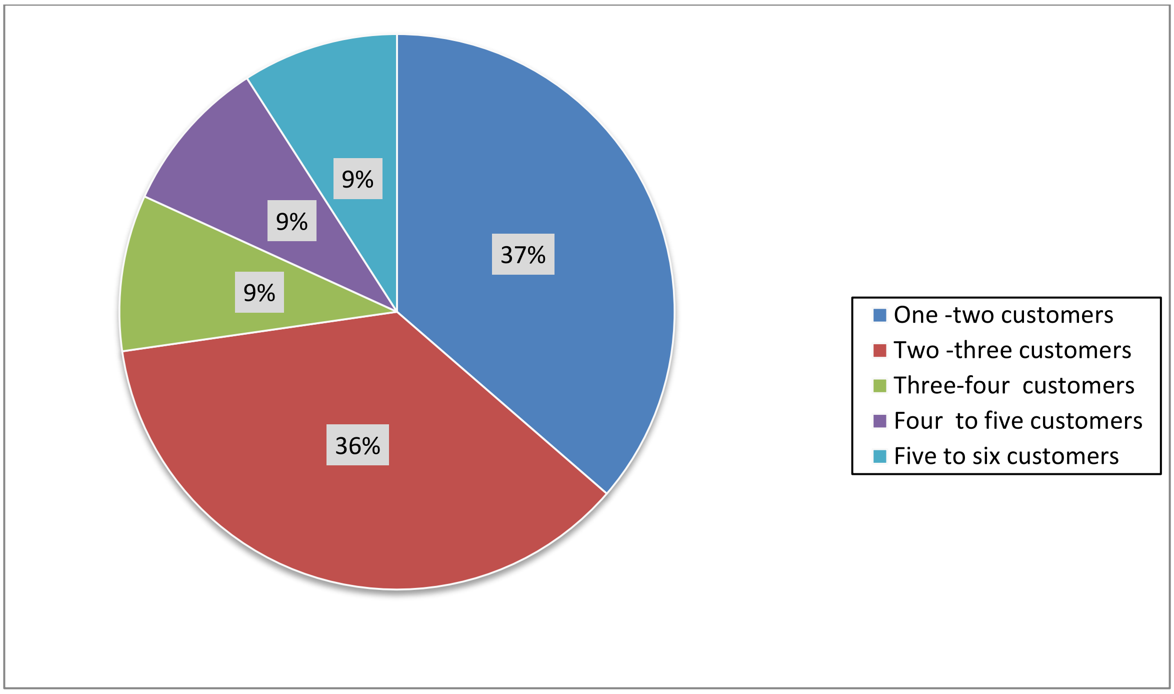



**Figure 4.3.8: Breakdown of number of customers**

### *4.3.5.5 Market and product development*

The figure below depicts the number customers in relation to the number of products the companies have offered since establishment. At least 4 out of 12 companies have been offering one product/service to one customer since establishment. Furthermore, 3 of the 12 companies have been offering two services/products to the same two customers. A total of 3 out of 12 companies have had an increase in the number of customers since establishment. Another 3 companies have had a decrease in the number of products/services since establishment.

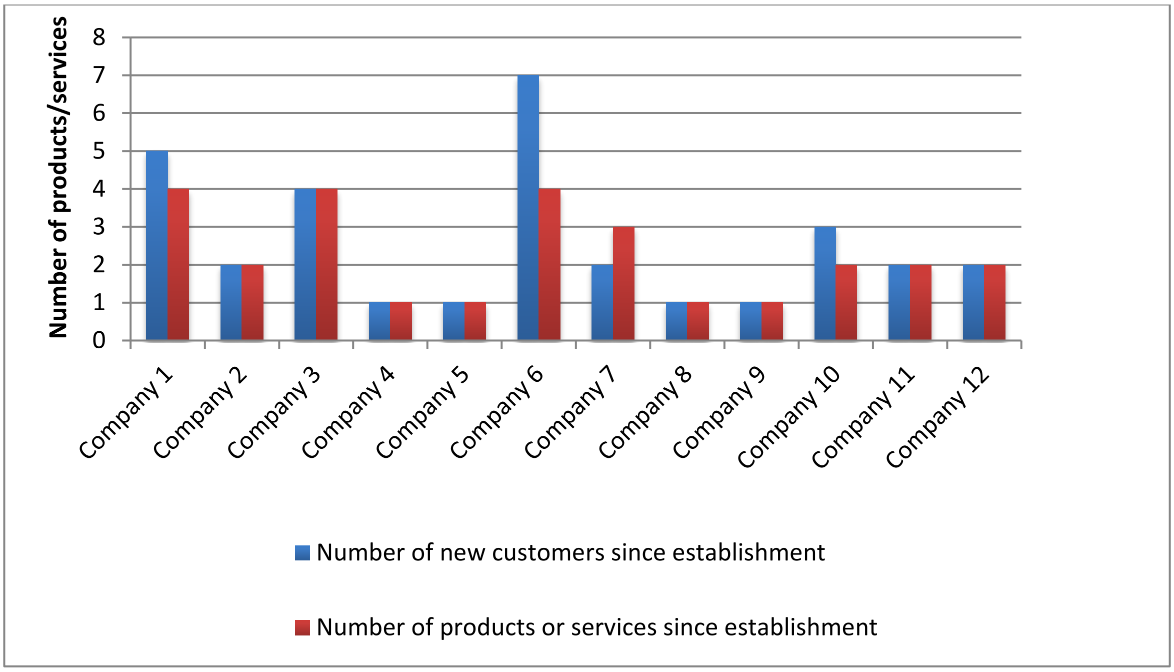



**Figure 4.3.9: A breakdown of number of customers and product/service offering per company**

#### *4.3.5.6 Market structure comparative analysis*

The market analysis was done using Porter's five forces to determine the external forces that impact the growth the company. The twelve companies were subdivided into three categories; Top successful, Middle successful and Bottom successful companies.

***Comparative market structure analysis for top 4 successful companies***

The Bargaining Power of Suppliers is the main dominant force, followed by Threat of New Entrants and Bargaining Power of Buyers.

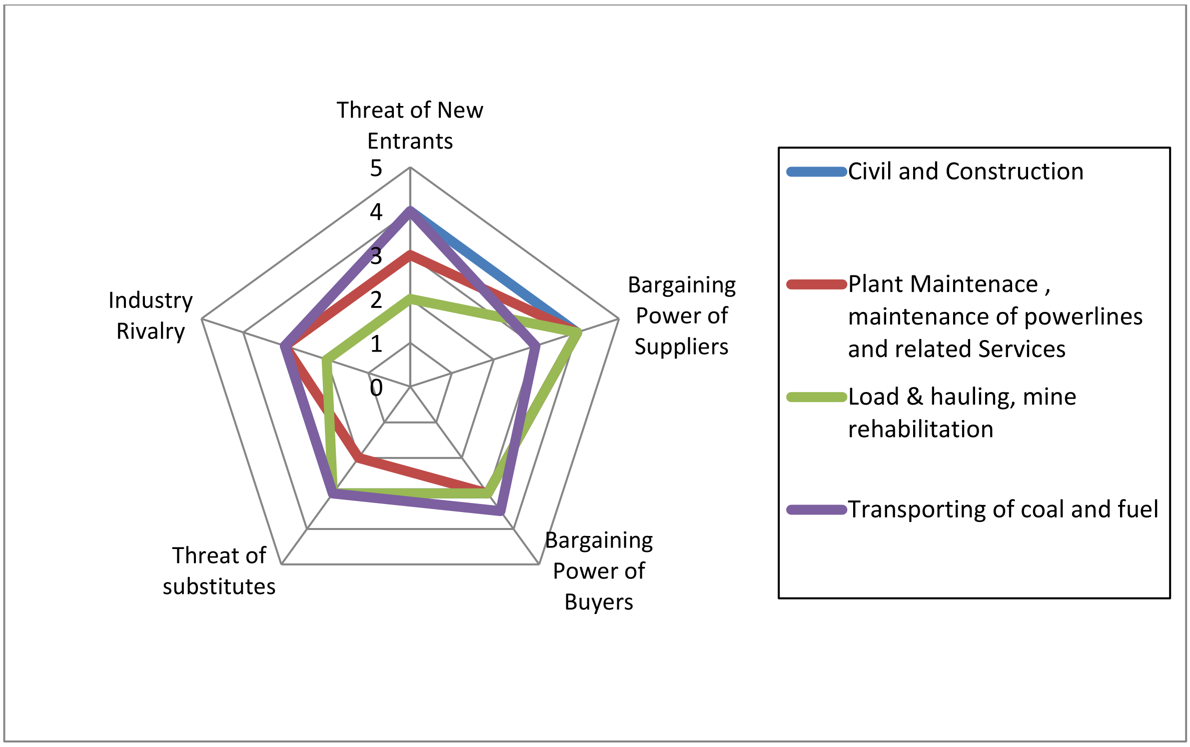



**Figure 4.3.10A: Porter's five forces: Top 4 successful companies**

***Comparative market structure analysis for middle 4 successful companies***

The middle 4 successful companies are mainly impacted by Bargaining Power of Buyers, Threat of New Entrants as well as Industry Rivalry.

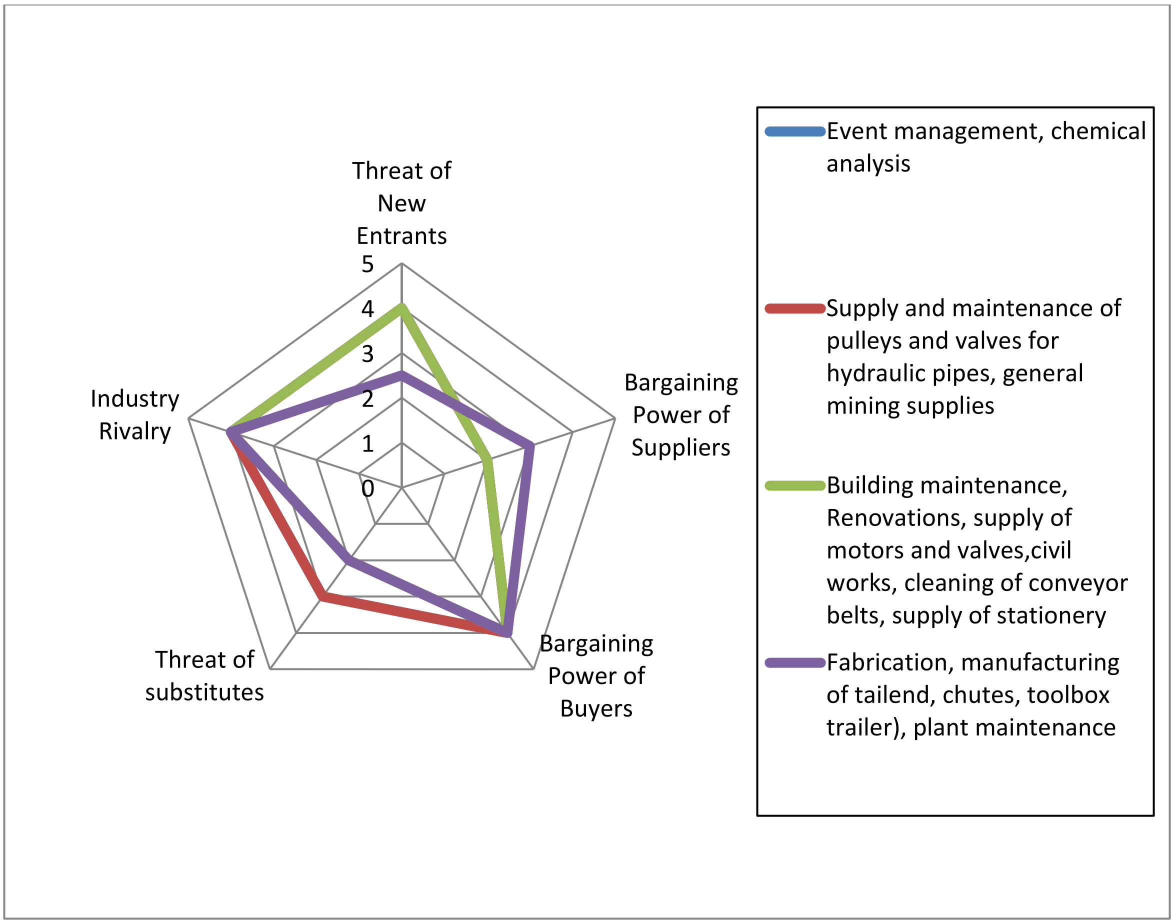



**Figure 4.3.11B: Porter's five forces: Middle 4 successful companies**

### *Comparative market structure analysis for bottom 4 successful companies*

The figure below shows that the three dominant forces in the bottom 4 companies are Bargaining Power of Supplier, Industry Rivalry and Threat of New Entrants.

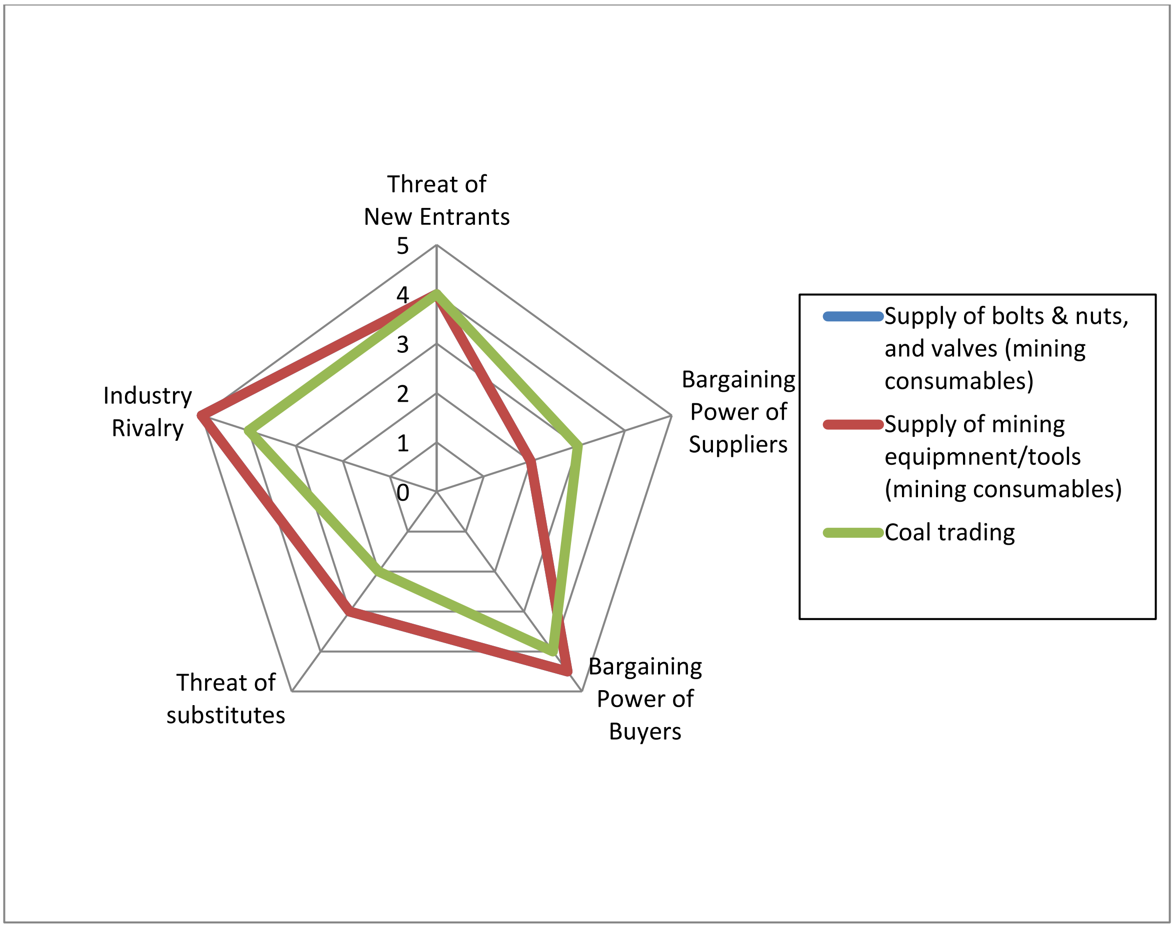



**Figure 4.3.12C: Porter's five forces: Bottom 4 successful companies**

## 4.4 Summary of the results

In this chapter the results of the interviews conducted on 12 SMME owners and key findings were highlighted. These will be discussed in detail in the next chapter.

# 5 DISCUSSION OF THE RESULTS

## 5.1 Introduction

In this chapter, the results presented in the previous chapter will be analysed and discussed in line with the following research question;

- What are the barriers that are impeding the growth of SMMEs within the Mpumalanga mining industry and how have other SMMEs managed to overcome these barriers?

Furthermore, section 5.1 to 5.4 will discuss the results as per the following objective 1 and 2: *To identify the barriers that are impeding the SMMEs from achieving a sustainable growth and to establish how the SMMEs that have achieved sustainable growth overcame the barriers.*

## 5.2 Education and Training

According to Herrington and Kew (2016) the education and training determine whether an entrepreneur has the necessary skills to start a business. Inadequate education and training is impeding the growth of SMMEs. The results indicate that all the respondents have matric certificates and thus indicating a high level of basic education. Notwithstanding the high percentage of higher certificates achieved through TVET collages, the skills gained are not aligned with the market that they are competing in.

The mismatch between skills and market is also attributed to socio-economic issues such as poverty. This implies that skills and competency are not key factors for SMME owners to start a business and therefore the idea is driven by poverty alleviation. This is a major hindrance to the growth of SMMEs as a result of lack of necessary skills and competency to run a sustainable business in the mining industry. This finding is in line with the NDP which noted that the poor skills profile is impacting the growth of small businesses.

Moreover, the lack of adequate entrepreneurial training amongst the SMMEs is another factor that impedes their potential to grow. Only 5 out of 12 SMME owners have received some basic level of business training from various institutions such as SEDA and Enterprise and Supplier Development (ESD). This was done at a business development stage and therefore suggesting a gap in the South African education system. It is evident from the results that despite high level of basic education, there is a lack of entrepreneurial activity in the school curriculum. This finding is supported by the 2017/2018 Global Competitiveness report where South Africa's quality of education scored 114$^{th}$ out of 137 and therefore suggesting the inability of South Africa to adequately prepare learners for full participation in the economy. The poor education and training is not only a Mpumalanga issue but the country as a whole as evident from the study done by Olawale and Garwe (2010) which showed that the inadequate education and training in South Africa are contributing factors to low level of entrepreneurial creation and high failure rate of new ventures.

Although most of the respondents have a tertiary level qualification; only 3 out of 12 SMME owners have qualification related to the market that they are operating in. Additionally, only 2 out of these 3 SMMEs are achieving growth whereas the other one is not due to finance related barriers which will be discussed in section 5.4. One of the two growing SMME owners mentioned the following during interview; : *"I made a decision to study safety management course in order to be able to conduct effective mine audits related to safety as part of the consulting division of my company".* This suggests that SMMEs that have qualifications related to the segment that they are operating have a competitive advantage due to knowledge and expertise in that specific segment.

## 5.3 Location

Olawale and Garwe (2010), argue that the geographical proximity to either critical buyers or suppliers enables new firms to easily identify and exploit growth opportunities in the market. The established mining companies are playing a role in assisting the small companies to access the market. This is done as part of Corporate Social Investment (CSI) strategies with the aim of empowering local communities. The results indicate that all the respondents reside in close proximity to mining companies and this enable them to exploit the business opportunities. Nevertheless, preference to the CSI is given to the local small companies, meaning that the SMMEs that are in Mpumalanga but not within the defined "local community radius" are not legible for these benefits. Therefore this strategy employed by large companies does not facilitate the inclusive economic growth because the SMMEs that are not located within the mining communities struggle to access the market. These findings are in line with the findings by SEDA (2016) which established that most rural SMMEs in South Africa struggle to access the market as compared to their urban counterparts.

## 5.4 Access to finance

Access to finance remains one of the barriers to business growth. It is evident from the results that most of the SMMEs were started using founder's own wealth. This is mainly due to lack of funding from the formal institutions, specifically the banks. Although funder's own wealth is a good start, the funds might not be sufficient to support the business expansion in the long run. Most of the respondents that used their own wealth to start the business had previously made an attempt to apply for a loan from the banks but were not successful due to poor financial records, poor credit record, and inadequate business plan or strategy. This supports Smit and Watkins (2012) findings that inability of SMME owner to draw up a business plan, the lenders ability to determine the SMME credit risk and general communication issues are some of the factors impacting the financing problems.

This research has further deduced that these financing problems are also linked to poor education and training as well as poverty. Poor education and training have an impact on the expertise required to compile a business plan.

Furthermore, poverty associated with unemployment may result in poor credit record due to lack of consistent income which subsequently hinders the approval of bank loan. One of the respondents who failed to secure a bank loan after getting a short-term contract at the mine mentioned the following during the interview; *"When I lost a job in 2016, I had a car and other expenses to pay but ran out money and this affected my credit record and could not get funding from the bank due to high credit risk".* This affirms a finding by Fatoki and Odeyemi (2010), who established that 75% of small firm loan applications get rejected. One of the twelve companies managed to overcome this barrier by using consultants to compile the financial records prior to applying for funding at the bank.

The results show that 33% or 4 out of 12 respondents had access to formal funds from the bank. These companies are growing at a faster rate that the reinvestment of the profit alone into the business is not sufficient and hence signifying that a formal source of funding is crucial for business expansion. These are also the companies that have grown in terms of the number of employees and sales.

The mining industry is contributing to the development of SMMEs through programmes such as Enterprise and Supplier Development (ESD) aimed at assisting local community SMMEs with financial and non-financial benefits. At least 4 out of 12 companies have received funding through Enterprise and Supplier Development programmes and thus the SMMEs do not have to solely depend on banks for funding.

## 5.5 Public and private institutions

The results indicate that there are various avenues that SMMEs can use to obtain assistance regarding business development but the SMMEs are failing to take a full advantage. The mining industry through Enterprise and Supplier Development is contributing to inclusive economic growth by assisting with the development of SMMEs from local communities. This is evident from the 33% of the companies that obtained funding and business training from ESD programmes. Notwithstanding, one of the respondent mentioned that he was not aware of any institutions that assist with business development whereas the other mentioned that he did not see a need for approaching institutions. This is an indication that some of the SMMEs are still not taking this advantage and this can be attributed to lack of knowledge or understanding the role of institutions. The split between assistance from ESDs and government institutions indicate that South Africa can achieve an inclusive growth with the collaboration between public and private sector.

## 5.6 Market access

This section discusses the results in accordance with the following objective 3:
*To identify the growth opportunities SMMEs consider and pursue.*

The subsections include mining segments that the SMMEs are operating in, experience in the market, market & product development since establishment and comparative market structure analysis in accordance with the progress made in terms of growth.

### *5.6.1 Gender*

Gender has no direct impact on the growth of the company. Nevertheless, the Mining Charter implemented in 2018 prioritises women in terms of ease of accessing market. Therefore, the companies that are women owned and controlled will have an advantage in terms of market access.

### 5.6.2 Mining segment analysis

The type of mining segments that SMMEs pursue has a direct impact on business growth. The results show that respondents are operating in 10 mining segments; with supply of mining consumables and event management being the dominant two. It can be deduced from this study that the majority of SMME owners prefer these two segments mainly due to lack skills and competency as well as low capital investment requirements to enter the core mining segments.

Furthermore, there seems to be a correlation between access to finance and preferred mining segment. A lot of SMMEs developed through owners' fund enter into segments such as supply of mining consumables and event management due to low capital requirements. SMMEs in these segments are inclined to cutting prices due to low barrier to entry, high industry rivalry and bargaining power of the buyer as defined in the Porter's 5 Forces. These dominant forces lead to a reduction in profits which subsequently impede business growth. The lack of skills and competency is associated with poor education and training as discussed in section 5.2. The core mining segments are not dominated due to a need for skills and competency as well as high capital investments. SMMEs entering these mining segments have a potential to grow due to high barrier to entry, bargaining power of supplier and low industry rivalry. Notwithstanding there has to be a trade-off between the access to finance and relevant skills for a company to achieve sustainable growth.

### 5.6.3 Experience in the market

The experience of SMMEs in the mining industry ranges from two to nine years. Although the experience in the industry is crucial, the results show that there is no relationship between the number of years and growth of the company. This is as a result of companies being affected by different factors. The slow growth in 8 out of 12 companies within 4 years of existence is an indication that these companies are operating as survivalists. This is accordance with the finding by

Department of Trade and Industry (2008) that majority of SMMEs remain in the survivalist phase within 3.5 years of existence.

### *5.6.4 Market and Product development*

The results show that 4 out of 12 companies have been operating in one mining segment and offering the one product/service since establishment despite signs of slow growth. The lack of product/service development in these companies is also related to lack of skills and competency in segments that are lucrative or have potential for growth. Similarly, the lack of market development amongst these companies is attributed to poor marketing strategies and failure to identify shifts in industry supply and demand.

### *5.6.5 Market structure comparative analysis*

The companies' progress made in terms of business growth (sales and employment) was presented in section 4.2.3. Additionally, these 12 companies were categorized into three groups and their preferred markets were analysed using Porter's five forces framework. The findings of the comparative market analysis are discussed below.

The top 4 companies that are growing have had a significant increase in the number of sales and employees. These companies are operating in mining segments that form part of the core mining activities such as rehabilitation, load and hauling, civils & construction and etc. These segments require relevant skills and competency as well as high capital investment. These requirements therefore lead to high barrier to entry and less industry rivalry. Furthermore, the bargaining power of supplier over the buyer suggests that buyers can negotiate better prices which lead to profit and subsequently business growth.

The middle 4 companies operate in the manufacturing & fabrication of machine components, building renovations and event management. These companies have potential to grow but are affected by the following top three dominant forces; bargaining power of buyers, industry rivalry and threat of new entrants. The bargaining power buyers are caused by high competition in the market, which influences them to negotiate better payment/pricing terms. Moreover, the industry rivalry exacerbated by an unfair competition between well-established firms and SMMEs lead to price cuts and lower profit margins. The SMMEs in these segments are likely to lose market share due to high completion if there is no change of business strategy.

The bottom 4 companies are dealing with the supply of mining consumables and tools. The three forces that are impeding growth of the bottom 4 companies are bargaining power of buyers, industry rivalry and threat of new entrants. These dominant forces are attributed to poor skill profile and competency as well lack of capital to enter into lucrative mining segments. The bargaining power of buyers is caused by high competition which enables them to force down the prices and switch from one supplier to another. This erodes the SMMEs profit. The industry rivalry and threat of new entrants result in price war which subsequently leads to low profit margins or no growth at all. The competition between the established companies and SMMEs adversely affect the SMMEs growth. These bottom 4 companies are likely to remain as survivalists businesses that are not capable of creating jobs unless they improve the skills and competency level in order to change the market segment.

## 5.7 Summary

In this chapter, the findings related to each research objective were analysed. At least 4 of the 12 companies have shown good progress in terms of business growth, the middle 4 companies have a potential to grow but have not made significant progress since the establishment. The last 4 companies are stagnant and operating as survivalists. The barriers that are affecting the growth of these companies include education & training, location, access to finance as well as public and private institutions. Notwithstanding, some of the companies have manged to overcome these barriers. Moreover, the mining segments that the SMMEs choose to pursue has an impact on the growth of the business due to industry forces such as bargaining power of supplier, bargaining power of buyer, industry rivalry, threat of entry. The threat of substitutions seems to be low in the mining industry due to the nature of the business. Overall, most companies are hindered by industry rivalry and bargaining power of supplier due to high competition in mining segments that they have chosen to pursue. The next chapter will recommend the best practices for achieving growth in the mining industry.

# 6 CONCLUSIONS AND RECOMMENDATIONS

## 6.1 Introduction

The SMMEs are recognized as key drivers of economic growth globally; however South Africa has not yet reaped the benefits because the contribution of SMMEs to employment is low due to slow growth or no growth in reference to an increase in sales and employment. This problem was explored in the mining industry of the Mpumalanga province since mining sector should be the major driver of growth but yet, the unemployment rate remains high. This implies that the growth of SMMEs is hindered by various barriers. Nevertheless, there are SMMEs that managed to overcome these barriers and are achieving sustainable growth. In responding to this problem, the growth of SMMEs in the Mpumalanga mining industry was assessed with the objectives of identifying the barriers that are impeding the SMMEs from achieving a sustainable growth, establishing how the SMMEs that have achieved sustainable growth overcame the barriers, identifying the growth opportunities SMMEs consider and pursue. The next sections summarises the significant findings in accordance with these objectives, recommend the best practices for achieving growth in the mining industry and make suggestions for future research.

## 6.2 Summary of research findings

Machado (2016), asserts that there is no consensus with regards to ways of measuring growth; however Delmar et al. (2003) argues that sales and employment are the most common used growth measures. The metrics used for this study are sales and employment as per Delmar et al. (2003) findings. The analysis of results of the twelve interviewed SMMEs indicated that 4 of the 12 SMMEs have achieved a significant increase in sales and employment. The middle 4 companies have achieved some growth in relative terms but the increase is minimal in absolute terms. The bottom 4 companies could not provide sales data but the responses from the interviews suggested that they are not growing and are therefore operating as survivalist businesses. Furthermore, the following barriers to SMME growth were identified;

- *Education and training*

The level of education is high amongst the interviewed SMMEs, however only 33% of the SMMEs have qualifications related to the mining segment that they are operating in. A low number of SMMEs has received business related training but only at business development stage. The mismatch between skills, competency and field of work is hindering the SMMEs from achieving sustainable growth. However, those SMMEs that have qualifications related to their field of work have competitive advantage due to expertise gained.

- *Location*

The geographical location of the suppliers in relation to the critical buyers is pivotal to accessing the market. This factor is not a constraint to all the respondents since they are able to exploit opportunities offered by established mining companies.

- *Access to finance*

  Access to finance remains one of the major barriers to SMME growth. The study showed that half of the respondents started businesses from their own wealth. This type of funding is enough to start a business but might not be sufficient for business expansion in the long run or to develop a business that is capital intensive. Additionally, the companies that were funded by banks seem to be doing well as compared to the rest. These are the companies deemed to have low credit risks by the banks. It was also found on this research that the SMMEs can also obtain funding from the Enterprise and Supplier Development programmes offered by established mining companies.

- *Public and private institutions*

  Both public (government) and private institutions (mine ESDs) are contributing to SMME development by offering non-finance and finance benefits. It is evident from the results that some of the SMMEs are not taking full advantage of these benefits due to lack of knowledge or understanding.

This study further established that the SMMEs in the Mpumalanga mining industry have a preference for supply of mining consumables & tools and event management instead of core mining segments such as load & hauling, rehabilitation, civils & construction and etc. The most preferred segments are not attractive due to high competition that leads to SMMEs not earning profits or getting bare minimum to survive. Furthermore, the companies that are growing are operating in high capital intensive segments that are core to mining. These segments are attractive due to low competition in the market and high barrier to entry and thus leading to bargaining power of supplier. Although the gender has no direct impact on growth, the Mining Charter implemented in 2018 prioritises women owned and controlled companies with regards to market access. It was deduced from this study that the growth streams that the SMMEs pursue in the Mpumalanga mining industry are impacted by the barriers explained above.

## 6.3 Recommendations

The following recommendations can assist the SMMEs to achieve sustainable growth in the mining industry;

- The SMMEs that are already operating in core mining segments should acquire skills and competencies relevant to that segment in order to gain competitive advantage and run the business efficiently.
- Those SMMEs that are in business but operating in non-core mining segments should consider getting skills and competencies in core mining segments. This will enable them to diversify into attractive mining segments.
- SMMEs should consider exploring other sources of formal funding such as Enterprise and Supplier Development offered by the established mining companies.

- Market and product development is crucial in the growth of SMMEs. This strategy will enable them to increase their footprint in the industry and thereby increasing revenue.
- Collaboration amongst established mining companies through Enterprise and Supplier Development programmes will enable the companies to optimize the resources for the effective development of a wider group of SMMEs and not just those in the mining towns. This will enable an inclusive economic growth of Mpumalanga province and a country as a whole.

- Collaboration amongst SMMEs though strategic partnerships may enable the SMMEs to leverage each other's strength and thereby facilitating growth.
- Companies should consider  increasing the women ownership in order to take advantage of the Mining Charter
- Lastly, collaboration between public and private sector in developing the SMMEs will lead to sharing of resources that are key to the development of SMMEs.

## 6.4 Suggestions for further research

The sample for this research was based on SMMEs in Mpumalanga mining industry and the sample was mainly based on SMME database provided by SEDA, eMalahleni branch and few referrals from other SMMEs. Furthermore, the interviews were conducted on 12 SMMEs that were accessible to the researcher and were willing to participate. Additionally, the sales and employment data provided were up to the interviewee's discretion and hence no support evidence was provided. This could have compromised the findings. This research could be undertaken on a bigger sample covering other sectors within Mpumalanga or the country as a whole. Additionally, further studies could be undertaken on a bigger sample covering all the commodities in all the provinces.

The current research also lends itself to a number of future studies that could be undertaken, as described below;

- The Effectiveness of the mine companies’ Enterprise and Supplier Development programmes in contributing to employment through the development of SMMEs

- Collaboration between government and private sector to bridge the skills and competency gaps required r  to prepare the SMMEs for future business opportunities in the mining industry

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# 8 APPENDICES

## Appendix 1: Semi-structured interview questions for SMME owners

### A: Business Strategy

1. In which mining sector does your company operate?
2. When was the company established and how long has it been operational?
3. How is the company funded?
4. How many directors/partners/members does the company have?
5. How many employees does your company have? And how many of those are full time employees?
6. What is the vision of your company?
7. What is the mission statement of your company?
8. How does the company generate revenue?
9. What is the company's five year plan?

### B: Individual Factors

10. What is your background and what are your qualifications?
11. How many years of experience do you have?
12. How is your qualification/background utilized in your current field?
13. Are you aware of the government institutions that support small businesses?
14. Why did you start a business?

### C: Business Performance

15. How is growth measured in your company?
16. Is your company growing?
17. What factors has affected growth in your company?
18. How did you address the factors which affected the growth?
19. Is your company achieving sustainable growth?
20. Which measures have you put in place to ensure that the growth is sustainable?
21. Have you identified potential growth opportunities?