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The effect of regulation on SMME's in South Africa : a research article focusing on labour laws and government bereaucratic procedures

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THE EFFECT OF REGULATION ON SMMEs IN SOUTH AFRICA

A RESEARCH ARTICLE FOCUSING ON LABOUR LAWS AND GOVERNMENT BUREAUCRATIC PROCEDURES

Research proposal submitted by

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DECLARATION

I, Mahashane Anneline Myakayaka, 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.

Mahashane Anneline Myakayaka

Signed at ……

On the …….. Day of ……..2019

DEDICATIONS

I dedicate this work to my loving husband and best friend Lanyard, whose constant encouragement and belief in me kept me going and made me believe in myself. I appreciate your partnership in parenting and persistent challenges in intellect. To my heart and son Angulo, your ever-adorning eyes for me made me believe I was a heroin and were a constant source of inspiration, your continuous laughter and smiles of pure happiness, even in difficult times, made me believe in miracles.

To my loving parents who stepped into my shoes when I could not, I am forever grateful for your unquestioning support and love for me.

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Appendix 2: Data Analysis

Appendix 3: SMME Toolkit

Appendix 4: Acronyms

ABSTRACT

Background: Owing to the importance of SMMEs and their contribution to the South African economy, the South African government has been attempting to resolve the regulatory constraints and challenges that face these businesses. However, despite these attempts, South African SMMEs still have the highest failure rates in the world and struggle to succeed at the levels that drive the growth of the economy.

Aim: This research article is to investigate if regulation has a negative effect on SMMEs and consequently contributes to their failure, more specifically, the effects of government bureaucratic procedures and labour laws.

Setting: The research draws on primary data from twelve participants that are SMMEs, reports from research institutions and the resulting secondary data in the sector of SMMEs in South Africa.

Methods: This research used qualitative research design, with data being collected through semi-structured interviews.

Results: The findings extend research on SMMEs and suggest that while SMMEs have found a way of dealing with regulatory compliance, the burden of doing so is significant, in that it takes up too much time and funds to be compliant and this is contributing to their failure. More specifically, the inability to hire and fire due to the strict labour laws, government inefficiencies, corruption and lack of communication on ever-changing laws, such as broad-based back empowerment laws, are a some of the negative contributors.

Conclusion: To meet the targets set out in the National Development Plan, the South African government needs to have targeted initiatives based on the experiences in the sector, needs to be more communicative of the already existing efforts and support for SMMEs, must implement SMME targeted policy and regulatory reform, and more urgently, root out corruption.

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CHAPTER 1. INTRODUCTION

1.1 Objective, context and significance of the research article

The objective of this research article is to analyse and investigate the effect of laws and regulation on small, medium and micro enterprises ("SMMEs") in South Africa, with a specific focus on labour laws and the South African government ("Government") bureaucratic procedures.

Until the Small Business Partner's ("SBP") groundbreaking research project, the SME Growth Index, which was geared towards establishing solid and evidence-based research on the SMME sector in South Africa, unlike other countries, South Africa did not until recently, have extensive research on SMMEs and their performance, their contribution to the economy and the rate of employment (SBP, 2014). It is this SBP (SBP, 2014) report that forms the baseline research of this research article.

Close to 70% to 80% of SMMEs in South Africa fail within the first five years, with only 1% of SMMEs who started with less than five employees growing to employ 10 or more employees (Moneyweb, 2016).

The likelihood of SMMEs in South Africa surviving past 42 months from the start of their operation is less likely than in other parts of the world, with about 75% of the SMMEs failing in the first year (SBP, 2014); (Olawale & Garwe, 2010). These South African statistics are some of the highest failure rates in the world, and a key indicator that SMMEs in South Africa are facing significant challenges and could be operating in a hostile environment (SBP, 2014); (SiMODiSA START UP, 2019); (Olawale & Garwe, 2010).

The National Development Plan ("NDP") articulates a plan to grow South Africa's economy to three times its size by 2030 (SAICA, 2015; SBP, 2014). Further, the NDP states the Government targets to reduce unemployment from a rate of 25% to 14% by 2020 and to 6% by 2030 and creating 90% of the employment

opportunities from SMMEs (SAICA, 2015) (SBP, 2014). The Department of Trade and Industry ("DTI") states that the Government has prioritised the advancement of SMMEs as a catalyst to achieve economic growth and development (The Department of Trade and Industry, 2018).

Numerous studies have found that SMMEs in South Africa face, as one of their main and critical challenges, legal and regulatory compliance challenges and more specifically labour laws and Government bureaucratic procedures (SAICA, 2015); (SBP, 2014). The SBP (2014) report on SMMEs, is one of the largest and comprehensive studies on SMMEs in South Africa, supports the above view (SBP, 2014). It found that SMMEs face major challenges to be able to grow and be successful in South Africa (SBP, 2014). Further, the report found that legal and regulatory constraints, such as the labour laws and Government bureaucratic procedures, are among some of the regulatory challenges that contribute to this failure (SBP, 2014). The World Bank enterprise survey of 2017 also confirmed the view that legal and regulatory compliance is a challenge for SMMEs in South Africa (International Finance Corporation - World Bank Group, 2017).

The narrative above has been identified and confirmed by the South African Parliament's White Paper on the National Strategy to the Development and Promotion of Small Business (Parliament, 1995). The White Paper identified legal and regulatory compliance constraints as being one of the main challenges facing the SMME sector and more specifically states that "inappropriate or unduly restrictive legislative and regulatory conditions are often viewed as critical constraints on the access of small enterprises into the business sector and as obstacles to their growth" (Parliament,1995). This view is supported by Abor and Quartey (2010) who state that one of the key challenges faced by SMMEs is regulatory related (Abor & Quartey, 2010).

It is thus no surprise that President Cyril Ramaphosa ("President Ramaphosa"), articulated in that there would be a drive by the Government to improve

consistency in legislation and regulations that affect small business (Ramaphosa, [Full speech]: ANC president Cyril Ramaphosa's January 8th Statement, 2018). Further, President Ramaphosa stated that there would be a drive to create capacity in the Presidency for conducting impact assessments of new and existing regulations and legislation to ensure alignment with the NDP (Ramaphosa, [Full speech]: ANC president Cyril Ramaphosa's January 8th Statement, 2018). President Ramaphosa also stated in his first state of the nation address as the President of the Republic of South Africa that Government would reduce the regulatory barriers affecting small businesses (Ramaphosa, South African President Cyril Ramaphosa’s full speech: #SONA2018, 2018). Thus, acknowledging and confirming what various surveys as discussed above have found, that legal and regulatory compliance appears to be a challenge faced by SMMEs (International Finance Corporation - World Bank Group, 2017); (SAICA, 2015); (SBP, 2014); (SiMODiSA START UP, 2019).

Although it is noted that there are a variety of laws and regulations that cause challenges for SMMEs, this research article will focus on labour law constraints and Government bureaucratic processes.

It is stated that researchers need to ensure that their research is relevant and adds value to society (Bless, Higson-Smith, & Kagee, 2006). Considering the above statistics, it is clear that there is a need to extend the research into the challenges faced by SMMEs in the legal and regulatory space.

CHAPTER 2. LITERATURE REVIEW

2.1 Introduction

This literature review uses academic research and the abundant grey literature as a basis for attempting to find results on the objective of this research article. The academic research includes a minimum of 20 peer-reviewed journals. The grey literature includes studies, surveys and reports by Government, the private sector and research institutions, working papers, and news articles.

The literature review begins with the definition of SMMEs. It is then followed by a discussion on the importance of SMMEs, the effect of labour laws on SMMEs, the effect of Government bureaucratic procedures on SMMEs, the research methodology, and then a conclusion.

2.2 Definition of SMMEs

Globally, there is no universal definition of SMMEs. However, there are some common factors used in the definition. Some of these factors include the size of employees and the turnover of the company (Abor & Quartey, 2010). In the South African context and thus the context of this research article, the South African legislated definition of SMMEs is utilised (National Small Business Act, 1996). The National Small Business Act 102 of 1996, as amended by the National Small Business Amendment Acts 26 and 29 of 2003 and 2004 respectively ("the Act"), confines the definition of SMMEs to a few characteristics such as, the sector and sub-sector the SMME is present in, the number of employees employed by SMMEs, the annual turnover and the value of capital assets (National Small Business Act, 1996). In the Act, SMMEs are defined as small, micro or medium-sized businesses that have:

- Less than 200 employees*;
- Annual turnover of less than R64 million*;
- Capital assets of less than R23 million*;

- Owners having direct managerial involvement; and
- Informal, formal registered enterprises, non-VAT registered enterprises (National Small Business Act, 1996).

**Note this is a paraphrased definition, the thresholds are different in various sectors, and this reflects the maximum thresholds.*

SMMEs are further categorised under the Act by type which are survivalist, micro, very small, small and medium. Although the definitions are not detailed hereunder, it is important to understand the different types of SMMEs as these enterprises are faced with complex and dynamic challenges which can be varied depending on their size and growth cycle (SiMODiSA START UP, 2019).

In this research article, SMMEs that were considered for data collection were those that are very small, small and medium enterprises in the manufacturing and engineering industries. All of which service a multinational engineering company in various ways, and who are classified as level 1 – 5 under the Broad-Based Black Economic Empowerment Act No 53 of 2003, as amended by the B-BBEE Amendment Act No. 46 of 2003 and its Codes of Good Practice (B-BBEE Act") (Broad-Based Black Empowerment Act).

2.3 The contribution of SMMEs to economic development in South Africa

Worldwide, SMMEs are a key contributor and a driving force for the economy of a country, particularly in the developing world, as they become primary employers, reduce poverty, facilitate export growth and significant contributors to Gross Domestic Product ("GDP") (Jones, 2016; Wang, 2016; Mustafid, 2013; Abor & Quartey, 2010). Also, the sentiments of SMMEs or entrepreneurs on regulation and laws, and whether these are obstructive, are a crucial consideration for investment decisions by prospective investors in any economy (Pillay, 1999). Abor and Quartey (2010) confirm this view by indicating that SMMEs are often described as "efficient and prolific" employment creators, are

the start of growing businesses and the heart of the nation's economy (Abor & Quartey, 2010). Olawale and Garwe (2010) also state that there is a huge focus around the world on SMMEs and the development of this sector for the purposes of growing economies (Olawale & Garwe, 2010). SMMEs also become key consumers, significant contributors, now and in the future, and a countervailing force against curbing some of the socioeconomic issues, such as poverty, especially in emerging economies (Abor & Quartey, 2010).

The World Bank (2017) views SMMEs as growth generators and key employers in poverty-stricken regional areas, primarily since they can employ the locals and their ventures are generally more labour intensive (International Finance Corporation - World Bank Group, 2017). Further, SMMEs drive competition, efficiency and innovation in markets (Makgamatho, 2017). SMMEs are also a key driver for economic participation by driving inclusiveness for parts of countries that would otherwise not participate in the economy (Makgamatho, 2017; Kesper, 2001). Abor and Quartey (2010) support this view as they contend that SMMEs improve efficiency in domestic markets, produce scarce resources, and this is due to their regional footprint and labour-intensive nature (Abor & Quartey, 2010).

In South Africa, SMMEs accounted for close to 40% of GDP and 90% of the jobs created between the years 1998 and 2005 (Jones, 2016). In 2014, SMMEs still contributed 34% of South Africa's GDP and employed 60% of the country's workforce (SiMODiSA START UP, 2019). SMMEs also made up 90% of the private sector business from 1998 to 2005 (Abor & Quartey, 2010). The importance of SMMEs in South Africa is solidified by how the Government created a specific Ministry of Small Business Development which has the aim of providing support and promoting SMMEs and which also clearly states that SMMEs are seen as an essential factor for the achievement of the national growth objectives of South Africa (Department of Small Business Development, n.d.).

Despite these efforts by Government, Ramukumba (2014) details that the total entrepreneurship activity in South Africa in 2010, was ranked behind countries such as Ghana, Zambia, Brazil and Chile, showing that South Africa was not doing as well as expected to foster the success of new businesses (Ramukumba, 2014). This seems to indicate that despite its efforts to promote the growth and success of SMMEs, the Government's efforts might not have been as successful as expected and it is for this reason that many in the private sector have stepped in to assist in the growth and stability of SMMEs (Cant & Ligthelm, 2002).

A report by SiMODiSA Start-Up (2019) showed that although 20% of the respondents to their research said that there were a significant improvements in the ecosystem in South Africa for SMMEs, 53% felt that the there was a slight improvement, and the rest felt that the situation either remained the same or had gotten worse (SiMODiSA START UP, 2019). These findings are not surprising as South Africa dropped about 14 positions in the Global Competitiveness Report (2017) with some of the contributing reasons being uncertainty in the politics of the country, which in turn drive how laws and regulations are dealt with (Schwab & Sala-i-Martín, 2017).

As South Africa declines in the World Banks's Ease of Doing Business report rankings, countries such as Rwanda and the United Arab Emirates ("UAE") are improving (The World Bank, 2019). In addition, countries in general, such as New Zealand, the UK, Canada, Japan and Mexico, are working at reducing regulatory constraints and red tape to allow SMMEs to thrive (SiMODiSA Start Up, 2014). Rwanda is comparable to South Africa as it is also a developing country and the UAE is comparable as it is listed as an emerging and developing economy together with South Africa (Amedeo, 2019; Chen, 2018). Both Rwanda and the UAE are improving all their indicators for doing business with the exception of paying taxes and resolving insolvency, respectively, and they have far outranked South Africa (The World Bank, 2019). This is the case even in the procedure of starting a business where in South Africa it takes fifty-two days total

for all processes to be completed, but a mere five days in Rwanda and four days in the UAE (The World Bank, 2019).

In addition, South Africa has corruption listed as the most problematic issue to deal with when doing business (Schwab & Sala-i-Martín, 2017). Corruption was also listed as one of the factors that create obstacles to the success and growth of SMMEs in a report by the Centre for Development and Enterprises (The Department of Trade and Industry, 2018). It is then no surprise that in his 2019 state of the nation address President Ramaphosa's mentioned rooting out or effectively ridding the country of corruption, in one way or another from South Africa, eleven times (The Presidency, 2019).

It is thus no doubt, given the views above, that creating an enabling environment that can drive the sustainability and success of SMMEs is key to economic growth. SMMEs need a conducive and enabling environment to be able to start, expand, operate and be successful in running their businesses, and Government should not be an obstruction (Mahadea & Pillay, 2008). In the South African context, the success of SMMEs can mean contribution to the alleviation of poverty, reduction of the unemployment rates, the number people of welfare, and the extreme inequality in the society, thus driving the Government's growth targets as stated in the NDP.

Proposition 1: The Government has failed to create an enabling environment for SMMEs to succeed.

2.4 Effects of labour regulation

SMMEs in developing countries face a variety of challenges, and labour laws are consistently raised as one of these challenges (Wang, 2016). The consideration of the effects of labour laws on SMMEs is not a new phenomenon (Potobsky, 1992). In 1986 the EU had already identified that compliance with labour laws

would be one of the issues that SMMEs would face and as such enacted for there to be exceptions and specific consideration for SMMEs (Potobsky, 1992).

South Africa has one of the most developed labour regulations in the world (Benjamin, Bhorat, & Cheadle, 2010). Coming from an apartheid history that excluded most of the country's population from economic participation, the Government succumbed to the pressure of enacting the Labour Relations Act No. 66 of 1995, as amended, the Basic Conditions of Employment Act No. 75 of 1995, as amended, the Employment Equity Act No. 55 of 1998, as amended, and the Skills Development Act No. 97 of 1998, as amended (herein collectively called labour laws) (Benjamin, Bhorat, & Cheadle, 2010). These labour laws were an effort to protect employees from unfair labour practices, unfair dismissals, and other conduct by employers (Benjamin, Bhorat, & Cheadle, 2010). Further, these labour laws were passed to promote the inclusion and fair opportunity for all South Africa's citizens (Benjamin, Bhorat, & Cheadle, 2010). However, these laws have implications on SMMEs and compliance with such can be costly, and in some instances, as some reports have found, can have negative implications for SMMEs (Benjamin, Bhorat, & Cheadle, 2010).

A report by Cant and Lingthelm (2002) on new Government legislation including labour laws, scored the highest averages regarding the factors that have a negative influence on SMMEs (Cant & Ligthelm, 2002). A Finscope survey (2010) as cited by Ramukumba (2014) listed labour regulations as one of the factors that are the main barrier to the growth of SMMEs (Ramukumba, 2014). The World Bank Enterprise Survey (2007) found that labour regulations were the sixth biggest challenge that businesses face in South Africa (The World Bank, 2007). The World Bank's report on doing business in South Africa ranks restrictive labour laws as some of the most problematic factors for doing business in South Africa (The World Bank, 2019).

The Government has however taken some steps, some of those rather controversial. Some of the labour law amendments and attempted reforms undertaken by the Government have included amendments to the Labour Relations Act, the Basic Conditions of Employment Act, and the introduction of the new National Minimum Wage Bill (Runciman, 2017).

Benchmarked against the African regional average, South Africa's percentages, concerning the strictness of labour laws, was much higher (International Finance Corporation - World Bank Group, 2017). The SAICA report (2015) and the SBP report (2014) quotes the World Economic Forum's Global Competitiveness Report (2014/15) that states that South Africa's labour laws and regulations are the most problematic element in doing business and ranks South Africa 143rd out of 144 countries in the world for less stringent hiring and firing practices (SAICA , 2015); (SBP, 2014). Further, quoting the World Bank 2004 Investment Climate Survey, Mahadea and Pillay (2008) state that labour laws in South Africa are difficult to comply with, and further contribute to the difficulty for companies to hire and fire workers (Mahadea & Pillay, 2008). Benjamin et al. (2010), in a journal discussing the cost of doing business in South Africa, however, state that the cost of hiring and firing in South Africa are at levels that are low compared to world standards (Benjamin, Bhorat, & Cheadle, 2010).

The SBP (2014) SME Growth index report shows that labour issues such as the incorporation of bargaining councils, the Commission for Conciliation, Mediation and Arbitration ("CCMA") and Workman's Compensation were high on the list of issues raised in the survey (SBP, 2014). Labour laws, together with inadequate skills, made up about two-thirds of the responses to challenges in the labour environment (SBP, 2014). Furthermore, the report found that over half of shrinking firms found labour laws as the most significant barrier to employing staff (SBP, 2014).

The labour regulation macro environment challenge in South Africa is outside the control of SMMEs, and it is the reason why the Government has made some attempts to restructure labour laws to ease the compliance constraints by SMMEs (Doussy, 2006). However, despite the efforts, the view is still that labour laws are unsupportive of employment especially for SMMEs (SiMODiSA START UP, 2019). What is emerging is a picture that shows that in general labour laws are restrictive to doing business in South Africa and as a result, SMMEs struggle to succeed in such an environment.

Proposition 2: Labour regulation has some effect and, in most cases, a negative effect on SMMEs in South Africa, despite reforms by the Government.

2.5 Effect on SMMEs by Government Bureaucratic Procedures

Inefficient Government bureaucratic procedures rank as some of the top 5 most problematic factors for doing business in South Africa (The World Bank, 2019). Government bureaucratic procedures for the context of this research article means policy and legislation that SMMEs must comply with in starting, operating and expanding their business. Examples of this include permits, certificates and licenses to run a business. Although understanding that there are other policies and legislation that SMMEs must comply with that do not fall within the ambit of this definition and that these might have some effect on the SMMEs, these regulations and policies will not be discussed and analysed in this research article.

The SBP (2014) SME Growth Index discussed above that 60% of SMMEs believe that Government bureaucratic procedures burden had increased in South Africa over the years (SBP, 2014). The SAICA report (2015) also identifies Government bureaucratic procedures as a major challenge and barrier for SMMEs (SAICA, 2015). The World Banks Enterprise Survey (2007) found that bureaucratic

procedures, defined as permits and licenses, was the eighth largest challenge that businesses face in South Africa (The World Bank, 2007).

The SBP (2014) indicates that the Government is aware of some of the challenges surrounding their bureaucratic procedures (SBP, 2014). Amongst other initiatives, this is seen in how the DTI and the Department of Cooperative Governance and Traditional Affairs issued guidelines on the reducing of municipal bureaucratic procedures (SBP, 2014). This initiative was, however, seemingly curbed by the introduction of a system which required certain businesses to have mandatory licensing to be in business (SBP, 2014). Although the Government might be correct in their intentions and efforts, it seems Government still implements bureaucratic procedures that might not be necessary.

Some of the examples of the extent of Government bureaucratic procedures in South Africa includes how it takes one hundred and twenty-seven days to handle licensing issues in South Africa with eighteen procedures needed to be followed (SBP, 2014; International Finance Corporation - World Bank Group, 2017). In addition, there are high start-up costs such as licensing and registration requirements which continue to burden SMMEs (Abor & Quartey, 2010). Another report then speaks to how most SMMEs mention compliance with B-BBEE Act as a major challenge faced in operations (SiMODiSA START UP, 2019).

It is thus no surprise that most researchers suggest the reduction of Government bureaucratic procedures as one of the reforms required to create a sustainable operating environment for SMMEs (Mahadea & Pillay, 2008); (Olawale & Garwe, 2010); (SiMODiSA START UP, 2019).

Proposition 3: Government bureaucratic procedures are far more restrictive in South Africa than other countries, and this has a potentially negative effect on SMMEs.

2.6 Problem Statement

Analyse and investigate regulation that SMMEs need to comply with in South Africa and how it affects them, with a specific focus on labour laws and Government bureaucratic procedures.

Research has shown that South African SMMEs face significant challenges in the economy and are struggling to grow and survive at the rate of their counterparts in similar economies (SBP, 2014); (Olawale & Garwe, 2010); (SAICA, 2015).

This study extends this notion that South African SMMEs face significant challenges in the economy and are struggling to grow and survive at the rate of their counterparts in similar economies by unearthing causes of the failure of SMMEs. The research does this by investigating the following research questions:

The first sub-problem

Has the Government improved in creating an enabling environment for SMMEs in South Africa?

The second sub-problem

Do SMMEs find it easy to comply with labour regulations since recent reforms?

The third sub-problem

Has Government reform in its bureaucratic procedures improved for SMMEs?

2.7 Conclusion

Despite the Government's efforts to support and promote SMMEs by setting up different funds, a small business focused department and agencies for support, entrepreneurship is still rather low in South Africa compared to other countries that are at a similar rate of development. Further, SMMEs failure rates are still

one of the highest in the world which is indicative of the environment in which they operate (SiMODiSA START UP, 2019; SBP, 2014; Pillay D. M., 2008). It is said that SMMEs spend on average up to eight days a month, R18 000 a month trying to comply with regulation (SBP, 2014).

It is important that Government bureaucratic procedures, the excessive costs that follow and possible restrictive labour laws should be dealt with as it has been shown above that these might hinder the growth and success of SMMEs and consequently hinder the improvement of the social and economic prospects of South Africa (SAICA, 2015; SBP, 2014; Pillay, 2008). In addition, an enabling environment needs to be created so SMMEs can thrive (SiMODiSA START UP, 2019; SAICA, 2015; SBP, 2014).

Hypothesis

Considering the above literature review, it is hypothesised that

H1: Regulation in South Africa has a negative effect on SMMEs

H2: Regulation contributes to the failure of SMMEs.

CHAPTER 3.RESEARCH METHODOLOGY

In this chapter 3, the research methodology will be discussed, starting with an introduction of the methodology chosen, the sample and the sampling process. The interviews and how these were conducted including an overview of the interviews will be discussed. Followed by how the data collected from the sample was analysed and interpreted then will be discussed. Further, the validity and reliability of this research, its limitations, assumptions made and lastly ethics are touched on will be discussed.

3.1 Research Methodology

The research methodology to be used in this research article is qualitative. Qualitative research is related to a specific quality and investigates human behaviour and underlying motives and desires (Kothari, 2004). In using this method, researchers try to identify answers to questions that show how social experiences are created and given meaning (University of Southern Califonia, 2019). The primary goal of this research is to identify how regulation effects on SMMEs in South Africa. The research also wants to understand why there is such a high failure rate of SMMEs in South Africa, particularly by looking at the contribution of regulation to this failure.

3.2 Sample and Sampling Technique

The goal for the sampling of this research was to ensure that the SMME types, very small, small, and medium were part of the sample to be interviewed. In addition, SMMEs interviewed had to have been operating for at least five years. The reason for this is that in South Africa, SMMEs are said to fail in the first three and half years, to ensure that those that have been active and had enough experience in operating their businesses to be able to share some insight to the challenges being faced, this period had to be set (Olawale & Garwe, 2010).

Utilising purposeful sampling, which is a method where participants in the research are pre-selected based on a criterion driven by the research problems, twelve suppliers that serve a multinational engineering company in various ways were selected (Center for Innovation in Research and Teaching, 2019). The criteria for selection was that the participants had to be an SMMEs, have a level one to five B-BBEE certificates and be in operation for more than five years. A predetermined sample size of twelve was selected as the minimum number of interviews to conduct. A more significant number of participants were contacted to set up dates to participate in the study to ensure that if the first twelve did not wish or were unable to participate, more could be interviewed to reach the minimum sample size.

The sample was selected from a supplier database provided by one multinational engineering company which services the mining and construction sector.

3.3 Procedure for collection data: Interviews

In using a qualitative method that is most suited for identifying substantive issues, interviews are best suited to identify such issues (Strauss & Corbin, 1990). Interviews were done with twelve SMMEs to unearth the challenges faced in the sector.

One on one semi-structured interviews were also conducted to be able to increase the credibility of the data collected. The questions asked as part of the data collection are reflected under the research instrument attached as **Appendix 1** of the Supplementary Information ("Research Instrument"). Where the participants went off on a tangent, they could do so as far as it was relevant to the research at hand. It is stated that telephonic interviews could add value as they allow for participants to be much more relaxed and more inclined to share information that could be deemed sensitive (Novick, 2008). It is for this reason that the interviews were done in most instances telephonically. Others were done face to face depending on the availability of the participants and their preference.

The participants were contacted before the interviews were held to be requested to participate in this research. Dates were then set up to interview the participants, and the Research Instrument was shared with the participants before the time to allow them to read up on the background of the research and prepare for the interview.

Guided by the literature review, the Research Instrument reflected questions which had the purpose of testing the hypothesis and answering the sub-problems unearthed in the literature review. On the day of the interview, the background of the research was given, together with informing the participants that as part of the research their details would be kept confidential, no remuneration would be provided for participation, and that they could opt out at any time should they wish to do so.

The interviews were recorded with a device to ensure that there would be an ability to revert to the recordings to remember what was said by the participants. Notes of the interviews were also taken by the researcher as back up of the recordings taken. To ensure that the questions in the Research Instrument were all answered and dealt with in the interviews, the researcher printed the questions for each interview and ticked the questions as they were being answered.

3.3.1 *Overview of interviews*

Number of interviews	12
Average time	25 minutes
Total time spent	305 minutes
Longest time	50 minutes
Shortest time	15 minutes

3.4 Data analysis and interpretation

Altinay and Paraskevas (2014), as cited in Ramukumba (2014), indicate that surveys are usually used for collecting data on SMMEs (Ramukumba, 2014). Reports such as the SBP's SME Growth Index report (2014) which is arguably the most extensive study or survey in South Africa on SMMEs and the comprehensive SAICA report (2015) were used together with peer-reviewed and grey literature, which is abundant in the field of SMMEs (SBP, 2014) (SAICA , 2015). The literature review was used to look at any secondary data that is produced in the sector and any positions that contributed to the answering of the research problem. Literature and reports from no more than the past fifteen years were utilised. The reason for the long period is that it is essential to understand the context of the challenges that SMMEs faced in the early years of South Africa's democracy and whether such a situation has improved.

The thematic analysis method is a commonly used method in qualitative research to analyse data (The University of Auckland, New Zealand, 2019). This method is used to identify patterns in data by using the open coding method and then results in the identification of themes (The University of Auckland, New Zealand, 2019). Open coding is a method in which a researcher investigates the data to identify the meaning, ideas and thoughts behind the data and then identifying categories that data (Khandkar, 2019).

In using the thematic data analysis method, line by line open coding was used to detect keywords, and from such categories were identified. The categories then led to the discovery of the themes which were then grouped and clustered to deal with the research problems in this research article. The themes are shown in **Appendix 2** of the Supplementary Information in a tabular format together with the responses that correlate with such themes.

Triangulation is a method used to validate and analyse data in qualitative research (Bekhet & Zauszniewski, November 2012). More specifically the

methodological triangulation method is said to be most beneficial when research is attempting to confirm more comprehensive data (Bekhet & Zauszniewski, November 2012). This method was then utilised to validate the more comprehensive secondary data from the literature review with the primary data from the interviews.

3.5 Trustworthiness

Trustworthiness in the context of qualitative research is identifying and confirming that the research is credible, transferable, confirmable and dependable (Statistics Solutions, 2018). In addressing trustworthiness in the research, several procedures were followed, and these are detailed in this section 3.5.

For credibility, records of the collected data in the interviews, methods and insights found in the analyses of such data were kept in a log throughout the data collection process to contribute towards consistent data findings.

In ensuring transferability, it was demonstrated in the introduction of this research that the data that was collected, the context of this research and the findings thereof are important for the South African economy and SMME sector.

To ensure confirmability and dependability, an independent party who has completed an MBA was then requested to double check the open coding to ensure its credibility. In addition, this independent party was requested to listen to a random sample of the interviews to ensure that the summaries of such were accurate, to look through the categories and subsequent themes identified and lastly the initial findings. This was also done to curb bias.

One of the strategies of increasing trustworthiness in research is using triangulation (Krefting, 1991). Patton (2001) cited by Golafshani (2003) states that the use of triangulation can strengthen a study by combining methods (Golafshani, 2003). This method of analyses is one of the strategies that are used to increase the trustworthiness of this research and more specifically the

criteria of the dependability, confirmability, and credibility of research (Krefting, 1991). It has already been stated above that this is the method that was used in this research article.

This research article thus focused on using different data sources, such as the surveys and subsequent reports, grey and peer-reviewed literature and primary data from the interviews done. The research from the literature review as stated above and the findings thereof were used as the main points of departure, and the primary data from the interviews were used to cross-examine the results found, where possible. The triangulation method used for the findings under the comprehensive literature review, use of secondary data in the form of reports from surveys done in the SMME sector, and the sample of interviews conducted allowed for a generalisation of the findings, and thus fulfilled the need for the external validity of the research (Golafshani, 2003). These sources of information also allowed for this research to have logical consistency and coherence, thus satisfying the internal validity of the research.

3.6 Limitation of the research article

Limitations of this research include:

- The surveys and subsequent reports used were not peer-reviewed;
- The reports define SMMEs differently, and this might not be representative of all types of SMMEs;
- South Africa does not have a wealth of substantial research in the SMME sector and the SBP (SBP, 2014) is relied on as a baseline for this research study and this could lead to biases by deeming this article to have a heavy reliance on the report.
- The reports define and scope out regulation and labour laws differently, and this might create inconsistency in the analysis;
- There are different methodologies used by the reports that are cited in the literature review;

- There is an assumption that the reports are accurate;
- The findings of the reports might not triangulate with the supporting literature and other sources of information;
- The sample of interview participants might not be viewed to be enough to make findings and does not represent the entire population of SMMEs;
- The data collection for this research was only limited to South Africa; and
- There were different challenges found from the participants of the interviews than that of the literature review which could not be dealt with under this research article.

3.7 Assumptions

The following assumptions are made in this research article:

- There was adequacy in the sample number of SMMEs that were the basis of the reports cited in the literature review;
- The centres conducting the research which are cited in the literature review have done significant work in the SMME sector and are considered as credible in their respective fields;
- The reports are accurate;
- The survey's findings and secondary sources used are enough to make general statements on the state of the SMME sector; and
- The participants to be interviewed were truthful and did not have other motives.

3.8 Ethics

As part of this research, it was essential to consider the ethical implications of the research and the data collection. The participants of the interviews conducted were asked to consent to their participation before the interviews were conducted. An explanation was given on the objective and context of the research to ensure that the consent is informed before it was given. The Research Instrument was shared prior to the interviews being done for the same reason, and so the

participants could familiarise themselves with the questions to be asked. All the participants were of majority age and had the capacity to give consent at the time of the interviews. The participants were also informed that their details would be kept confidential and no personal data would be shared as part of the research and the write up of the research article.

Lastly, participants were informed that no incentives or remuneration would be given to them and this was made clear prior to them agreeing to participate in the interviews. All of the participants were comfortable to proceed in this manner.

CHAPTER 4. PRESENTATION OF RESULTS

In this Chapter 4, the data collected through the interviews will be presented with excerpts from the participants. The background of the participants together with the profile of their companies will also be presented. The coding method used to identify the themes will be discussed, and after that, the identified themes will then be presented in line with the propositions from the literature review. Finally, a conclusion of the chapter will be covered.

4.1 Participants and Company Background

The participants that were interviewed presently work or supply services in the manufacturing and engineering sector. With the most experience in operating an SMME being twenty-six years and the lowest five years, there was a wealth of knowledge on the industry and the experience of operating an of SMME in South Africa. Some of the participants have also done business in other countries on the continent of Africa and beyond, with others having started their businesses prior to South Africa’s democracy in 1994.

The researcher was able to contact and get access to senior management of all the SMMEs, and in most cases, the founders of the businesses were interviewed or assisted in directing the researcher to relevant senior managers. The participant's background and the company details are as follows:

Participant	Role	Company Profile and duration of operation
P1	Director of company	Engineering business supplying components and parts to equipment sold to the mining sector. Company has been operating for 18 years.
P2	Founder and director of company	Company suppliers rock used in equipment sold to the mining sector. Company has been operating for 7 years.
P3	Business development manager	Freight forwarding company for companies in various sectors. Company has been operating for 6 years.
P4	CA and financial manager	Repair of parts and components of equipment in the construction sector. Company has been operating for 25 years.
P5	Director and co-founder of the company	Field service and repair of equipment for the mining sector. Company has been operating for 26 years.
P6	Accountant and CFO for the company	Offer repair services for equipment for the mining sector. Could not say how long the company was operating for, but company has been operating for more than 10 years.
P7	Founder and director of the company	Provides repair and maintenance for parts for equipment for the mining sector. Company has been operating for 6 years.
P8	Director and managing director of the company	Provide spares and supplies to companies in the mining industry. Company has been operating for 18 years
P9	Sales and marketing head of the company	Company provides branding and visual marketing support to companies in different sectors. Company has been operating for 5 years.
P10	Director for the company	Provides repair services for the equipment in the mining sector. Company has been operating for 21 years.
P11	Co-founder of the company	Manufacturer of small equipment and components for equipment for the mining sector. Company has been operating for 6 years.
P12	MD of company of the group that houses the cooperative	Cooperative provides onsite tyre services to large companies that provide support to the mining sector. Company has been operating for 10 years and cooperative for 6 years.

4.2 Line by line open coding

In using the line by line open coding method, the interview summaries were used to find keywords and to identify categories based on the responses from the participants. This process was repeated a few times to ensure that no key insights were missed from the interviews. In addition, an independent party was asked to repeat the process to ensure that the findings and analyses were confirmable and dependable. At all times the research problems, propositions, hypothesis and the main objective of this research was kept in mind to ensure that relevant categories were identified and only those that were relevant were further explored. In keeping an open mind, the researcher tried to ensure to identify and elevate categories that were not necessarily popular amongst the participants, but important in that they were dealing with the main problem statement and satisfied the objective of this research.

The identified categories are shown in **Appendix 2** of the Supplementary Information, with their correlating propositions and responses from the participants. As shown in Appendix 2, to be able to identify the themes of the study, the questions were grouped in the order of the proposition they would resolve. The categories then assisted in identifying the five themes which are shown thereunder, and which were then further explored and will be discussed to resolve the main problem statement of this study. General impressions by the researcher and comments were then made on the relevant themes for the discussion of the results.

Proposition 1: The Government has failed to create an enabling environment for SMMEs to succeed.

Theme 1: Expert support for starting a business

The first theme to be identified is the difficulty of starting up a business in South Africa. The participants have a view that they cannot or do not attempt to register a business on their own. All the participants, but for one, called on external

support to register their businesses. It is possible that this could be the case because it is difficult to set up a company in South Africa or there is a lack of information and confidence in doing so.

More specifically the participants stated:

- "A customer company assisted with setting up the business and paid for all the finances to do so. The customer used an accountant/consultant."
- This was all done by the SMME, and it took three years to comply and get the business entirely running and compliant.
- "Consultants such as accountants, auditing firm assisted in setting up the business."
- “A bookkeeper (consultant) set up the business and did all registrations. Initially started as a small business and did not set up anything formally, until we had to join an industry body and to hire more people.”

In addition, there was a wide range in terms of the costs spent in setting up a business. This surprisingly did not collate to the time it took to set up the business in that the participant spending the most did not necessarily set up the business the fastest. This is seen in how a participant states that they spent R50 000, but it took them thirteen weeks to set up the business and yet another who spent R20 000, took three weeks. This could be due to the complexities of the different businesses being set up, as it can be seen how one SMME that set up a cooperative instead of a company took much longer, up to thirty-four weeks, to set up the business.

Theme 2: Government corruption

Although only mentioned by two of the participants, Government corruption was listed as one of the issues that hinder the success of SMMEs. Despite the infrequency of this being mentioned from the interviews, this salient point was identified as the second theme. Some of the participants mentioned that:

- "Government should relax their regulation and stop corruption. There are audits done, and the company must comply regardless of its size… Other companies seem to get away with not being compliant with audits despite auditors checking on them regularly."
- "There also needs to be less corruption."
- "There is a real need for assistance and more inclusive solutions for SMMEs. SMMEs have no idea where to get information and if they find someone who can assist there is usually a fee to be charged. An example is made of when funding was being sought, and every Government official that was met with wanted a "facilitation fee" that was so exorbitant, it did not make sense and was worth it. There is a need for transparency."

The preceding views could also be the seen as a contributor to why SMME stated that no support was given to them from a Government perspective, and perhaps could speak to the lack of trust of Government and any support they offer.

Theme 3: No support for SMMEs

To support the proposition that there has not been an enabling environment for SMMEs in South Africa, the participants also raised concerns on what support is there for SMMEs. Ten out of the twelve participants raised lack of support as an issue. Some of the statements made by the SMMEs were:

- "What is the government doing? It would be nice to know where to start and how it works."
- "Inputs on the changing laws and new regulations that one has to comply with would be helpful."
- "Government should present to SMMEs when new regulations or laws are introduced and identify the SMMEs that need support and information on the new regulations and then should explain the consequences of non-compliance for the SMMEs."

- "There is a need for a place where regular updates on the changing laws could be given, more information on what Government support is there, ideas on how to engage with government, a knowledge base from the government that is easily accessible for free."
- "Relax requirements for SMMEs."
- "if SMMEs under a certain threshold were entitled and not expected to comply with certain regulations, to allow for them to survive and be effective and to make things easier for SMMEs."

It can be seen from the response above that some other sentiments included the request for more communication on changes to the laws and regulations that affect SMMEs as these changes are made. However, there is also a distinct voice on the relaxation of the requirements, regulations and processes that SMMEs need to comply with.

Proposition 2: Labour regulation has some effect and in most cases a negative effect on SMMEs in South Africa.

Theme 3: Ability to hire and fire

Majority of the participants indicated that labour laws are rather easy to comply with and to follow except for the ability to hire and fire employees. Although initially stating that compliance with labour law was rather easy when asked what they would change about the laws and regulations in general, some of the responses were:

- "There is a difficulty with employing and then dismissing employees as SMMEs are not able to let go of people easily when going through in tough economic conditions."
- " It is difficult to get rid of employees when they do not meet expectations and when things are tough financially, so less strict regulations on labour laws, there also needs to be less corruption."

It can then be deduced that the day to day labour laws are easy to comply with. Although some SMMEs used external support to comply with labour laws, others had in-house resources and were able to easily comply to some extent with the laws. It is worth stating that the amounts spent on complying with such laws, ranges from the lowest spend being six hundred rands (R600) a month and to the highest being fifteen thousand rands (15 000) during the same period, particularly when there are complex matters.

Some of the participants stated:

- “Consultants easily provide labour support.”
- “External legal support provides updates and holds seminars at a cost and the company sends employees to attend to ensure that they are kept abreast at all times. Internal human resources also ensure compliance with the support of a legal firm."
- “In terms of compliance with labour laws, 80% done internally and 20% done externally using consultants.”

Proposition 3: Government bureaucratic procedures are far more restrictive in South Africa than other countries, and this has a potentially negative effect on SMMEs.

Theme 5: B-BBEE Act and other processes have a negative effect on SMMEs

Compliance with South African Revenue Service and the tax regulations was mentioned by the participants as some of the processes that are difficult to comply with. In most instances the participants having to rely on expert external support to comply. The most frequently mentioned issue with the compliance with Government bureaucracies must be the B-BBEE Act and its regulations. With

most of the SMMEs feeling as though they had to give away their hard-earned businesses to strangers to be able to survive, some state:

- "If things could go back to where they were, no BEE, no giving away of ownership in the business. The current state of BEE is unfair. A previous company that was partnered with for BEE did not bring anything into the business, and the company went under due to this and had to be closed down."
- "Relaxation or removal of BEE as this does not help with running a business and also BEE Act does not support anyone, and the real people do not benefit from it."
- “Do away with all the legal requirements for small business. For example, doing away with BEE and provident fund.”

Another issue that was mentioned that has a negative effect on SMMEs are inefficiencies within Government departments. The SMMEs mentioned that the inability for Government to implement and process the very same processes and bureaucracies they require businesses, and particularly SMMEs, to comply with continues to have a negative effect. More specifically the SMMEs mention:

- “Processes with Government need to be more efficient as they waste time due to the delays in the Government and then also end up being expensive processes."
- "Running a business in South Africa when the company was started was the easiest than in other countries. External auditors were used to setting up the business with the support of a Canadian investor and multinational. However, as time went on, in the 1990s, the regulations were inconsistent, and the goal post was constantly changed, BEE was introduced, and things became difficult to comply with. The company then approached a customer to assist with setting up a cooperative to be able to comply with the ever-changing BEE rules, especially in the mining sector, and especially requirements on ownership."

On average it was seen that the participants are spending R12 500 a month to comply with Government bureaucratic procedures. However, most were not able to say how much time they spend each attempting to comply as most of the support for compliance is outsourced to external experts and as such the average was not able to be calculated.

Conclusion

In this Chapter 4, the findings from the data of the interviews were presented. In following the thematic process and line by line open coding of analysing data, five themes were identified based on the frequency of the issues being mentioned but also based on the pertinence of the issues. Further, the presentation of the participants' responses was then collated to such themes. It is these themes that will be discussed further in the next chapter to identity and attempt to test the hypothesis and propositions found in the literature review and answer the research problem.

CHAPTER 5. DISCUSSIONS OF FINDINGS

In this chapter 5, in utilising the triangulation method, the research data collected will be discussed against the literature review. The main objectives and the sub-problems identified will be kept in mind during the discussion. Lastly, the view of the researcher will also be presented.

Enabling environment

Although Government has for several years planned to improve its economy and the unemployment rates, with the intention of having SMMEs as the biggest contributor to such growth, it has been clearly shown in the literature review that SMMEs that the South African environment is not conducive and does not seem to be improving towards ensuring that SMMEs thrive (SiMODiSA START UP, 2019; SAICA, 2015; SBP, 2014). It has also been shown that compared to other comparable markets such as Rwanda and the UAE, South Africa continues to fail to improve the conditions for SMMEs despite its several initiatives (Schwab & Sala-i-Martín, 2017). In addition, it was shown that SMMEs take much longer to set up business in South Africa than other comparable jurisdictions such as Rwanda and UAE having processes that take less than a week to complete. To make matters worse, in South Africa this process does not only take much longer, in most instances requires expert support. Several studies have shown that South African entities continue to fail at extremely high rates and the perception is that of the environment in which they function is a hinderance to their success, continues to get worse with both SMMEs and the global community not seeing significant improvements (SiMODiSA START UP, 2019; Schwab & Sala-i-Martín, 2017; SAICA, 2015; SBP, 2014).

The interview data has not only confirmed the challenges that SMMEs face in the economy but have also confirmed that such challenges still exist in current South Africa. Participants often indicated that not only they were not aware that the

Government had any initiatives, but that there was no trust of Government implementing any processes efficiently.

As an addition to these challenges, SMMEs currently face corruption. Seen as a significant contributor to South Africa's rating in the ease of doing business, corruption was another reason why the economic environment is not conducive for SMMEs to succeed (Schwab & Sala-i-Martín, 2017). The Participants confirmed that this is still very much the case in South Africa in 2019. A couple of the participants mentioned how corruption is an issue and a hinderance to them doing business with their encounter with corruption ranging from unwarranted and illegitimate audits to requests for exorbitant commission fees for access to funding that seemed out of scope.

Although the Government consistently indicates that there is support for SMMEs and initiatives to improve the ease of doing business, such sentiments are not echoed by SMMEs (The Presidency, 2019). It is also clear that SMMEs are not in an environment that they can thrive, let alone survive. There is this a need to consider the processes that are to be followed in setting up a business and an urgent need for decisive and effective prosecution for corruption and the culture that flows from it. Lip service on the rooting out of corruption is not adding any value to the South African economy let alone the sector the Government hopes to grow tremendously, SMME.

Labour Laws

It is a common opinion that South Africa has one of the most restrictive labour laws in the world, and this is reflected in most of the secondary data and literature review that this is apparently a hinderance to the growth and success of SMMEs (SiMODiSA START UP, 2019; Schwab & Sala-i-Martín, 2017; SAICA, 2015; SBP, 2014). The South African hiring and firing practice, governed by labour laws, rank the second worse in the world, and it is said that they are difficult to comply with

(International Finance Corporation - World Bank Group, 2017; Mahadea & Pillay, 2008).

There are two aspects that emanate from the data collection in relation to labour laws. One is the ability to "hire and fire" and the other compliance with labour laws in general.

The Participants indicated that it was difficult to dismiss employees in difficult times due to the laws. Most indicated the need to have the freedom to reduce their workforce as and when needed by the business. It is well understood that the labour laws emanated from the need to protect employees from unfair practises, and in addition to promoting inclusion and fair opportunity for all South Africans following the treacherous past (Benjamin, Bhorat, & Cheadle, 2010). However, the laws and protections given to employees from dismissals are too onerous and are causing a hinderance and need to be reconsidered in line with their purpose and the new objectives of the Government (Benjamin, Bhorat, & Cheadle, 2010).

Data from the participants, however, shows that although there is alignment with the secondary data findings on the difficulty to "hire and fire", especially when undergoing difficult financial times, SMMEs found the labour laws, in general, easy to comply with. This is a surprising result given that there is constantly a call for labour law reforms and the constant drive to bring about these reforms (Runciman, 2017). Using external support in most instances to do comply with these laws, SMMEs spent very little amounts of money on external support. Some of these participants were also able to have inhouse support to comply with such laws. This finding is a different element of what is found in current research.

The above findings, therefore, show that the suggestion by the literature review that labour laws always have a negative effect on SMMEs was not entirely true. There are aspects of these laws that SMMEs continue to find easy to handle.

Government Bureaucratic

Research has shown that Government bureaucratic procedures in South Africa are rather onerous on the business community, so much so that it can take up to 127 days for a business to deal with licensing issues (Abor & Quartey, 2010). These processes are also followed by high costs (Abor & Quartey, 2010). These issues also include the compliance with tax regulations, B-BBEE Act and its regulations, which companies, including SMMEs, need to comply with to do business effectively (SAICA, 2015; SBP, 2014). Another signal that there are challenges in this regard is the period in which it takes SMMEs in South Africa to set up their businesses for operations and this process taking longer than in other countries and requiring expert support (Schwab & Sala-i-Martín, 2017).

The South African government is also aware that its bureaucratic procedures are a significant challenge for SMMEs. This is seen in how in January of 2019 it announced a strategy to cut red tape and the bureaucratic hurdles small business face, although the process is still in strategic phases with the clear actin programmed aimed at 2020 to 2024 (Ensor, 2019).

This position was confirmed by the Participants with majoring of them stating the tax regulations and the B-BBEE Act, and its regulations are one of their biggest challenge in operations. In almost all the cases that the B-BBEE Act was mentioned by the participants, it was said to have a negative effect on SMMEs. In addition, the participants spend on average R12 500 trying to comply with these regulations and this, although the amounts not being the same but close to in quantum, confirms the SBP findings that stated that SMMEs spend on average 18 000 (SBP, 2014).

Despite the significant number of processes that SMMEs are required to comply with, the compliance with such is also riddled by Government inefficiencies. Some of the participants stated that the processes with the Government need to be more efficient as they cause delays and are expensive.

The intention of regulation by the South African Government is clear and seem positive. However, there is a need for serious consideration of whether they are fulfilling and benefiting those they intend to.

CHAPTER 6. CONCLUSION AND RECOMMENDATIONS

In this Chapter 6, the conclusion of the study will be discussed, considering whether the hypothesis was proven, the aim of the research satisfied. In addition, recommendations will be made to the challenges found. Finally, the topics for further research will be presented.

Conclusion

The hypothesis to be tested for this research article was that regulation in South Africa might have a negative effect and be contributing to the failure of SMMEs. In doing so, the main problem of investigating and analysing how regulation, with specific focusing on labour laws and Government bureaucratic procedures, affect SMMEs, has been answered.

Although previous numerous quantitative studies were done in this regard, this qualitative research was enough to confirm that the hypothesis is true, South Africa has a negative environment for SMMEs to succeed and regulation is contributing to this failure. Specifically, labour laws, in the context of hiring and firing, and Government bureaucratic procedures, are significant contributors to the failure of SMMEs as already shown by the reports cited in the literature review. The inability to let go of employees also causes SMMEs to fear to employ more people when they can, as they are concerned on how they will keep up with the costs of having more employees when their businesses go through tough financial times. A surprising finding from the participants SMMEs stating that labour laws, in general, are rather easy to comply, but for the ability to hire and fire. This can be used by the Government to guide initiatives toward reforms that are much needed for these laws, for the benefit of the protection of SMMEs.

A non-surprising finding is the dislike of the B-BBEE Act and regulations which are seen as not only administratively burdensome but also ineffective. Although there are extreme views in this regard, these still need to be considered and perhaps the administrative burden reduced. B-BBEE has its place in the South

African society and has allowed for many who were not able to participate in the economy to do so. However, its implementations should not be such a burden for SMMEs. Another unsurprising finding is the challenge that Government corruption causes for SMMEs. This issue requires swift and urgent attention in a manner that has not been done before.

Recommendations

The research conducted in this article is useful to identify where to focus to allow and drive SMMEs success in South Africa. Some of the main recommendations include:

- The Government must have a greater focus on communicating, education and marketing the initiatives it has in place. None of the SMMEs interviewed mentioned any initiatives that they were aware that the Government is running, although some exist. The Government has had some initiatives targeted at SMMEs, such as road shows, but these are not penetrating as fast as they should. There should be a focus on publicising, communicating and marketing these initiatives much more than currently, with a specific focus on sectors that grow the economy much more. These initiatives must also not only focus on B-BBEE compliant SMMEs or those operated by black youth but also experienced South Africans can transfer skills and knowledge to those that are historically disadvantaged, especially in sectors such as mining, construction and manufacturing.
- There is an urgent need to consider how regulation can have exemptions and exceptions to allow SMMEs grace periods and space to grow and in turn grow the South Africa economy.
- There is a need for training of SMMEs on how to comply with regulation, how to follow procedures, and how to set up a business with ease. This would then ensure that SMMEs are relieved of the need to constantly use external consultants and experts at a cost, which majority of them are

doing. This can be done by a simple toolkit that is developed with the idea of giving SMMEs one place for basic information on how to set up a business, what processes one must comply with and where to go for support. An example of a toolkit of this nature is shown under **Appendix 3** of the Supplementary Information.

- The Government needs to deal with the inefficiencies that riddle the public sector. It is worth having units in all Government departments that SMMEs can approach either for licensing, certificates or approvals in operating or starting up their business. These units, however, need to have a great understanding of the challenges SMMEs face and be extremely efficient to allow for the acceleration of processes for this sector.
- There is a significant need for consideration of the processes that are there for the management, employment and dismissal of employees and for those to be relaxed for SMMEs. The onerous processes that include the employee favouring CCMA processes need changing to make things easier for SMMEs to employ and let go of employees that do not perform. These rules and processes of dismissal in the South African labour laws do not make provision for SMMEs and treats big businesses in the same way as SMMEs. This is not practical as SMMEs do not have the same financial muscle to handle these processes as big business does. However, keeping in mind the intention of labour laws in South Africa, the recommendation is not for an outright disregard of the protection of employees, but rather as an example, employees working for SMMEs being required to work for a company for a certain period before having certain protections. This would allow for the SMMEs to also identify whether employees are to the standard that is required, prior to having them having certain remedies in law for dismissals.
- Solutions and the reform of regulations and policy with the purpose of the protection of SMMEs need to be based on and to consider the challenges SMMEs face at different stages, growth cycles and the dynamics in which

the SMMEs find themselves. This is because a survivalist SMME would not face the same challenges as a potentially high growth company and the regulations need to account and be aware of that to be effective and not create processes and laws that become barriers to entry.

- Lastly, consideration of what other economies are doing, in an effort of being more efficient should be top of mind. This would allow for South Africa to learn new insights and ensure a change in thinking on how to tackle these issues that SMMEs constantly face.

Areas for further research

Several issues were raised by SMMEs during the data collection process that could be further researched. Some of these include the burden that the lack of funding has on SMMEs in South Africa and the effect of tax regulation on SMMEs.

A quantitative methodology could be utilised to conduct the same research with a much larger sample. Also, SMMEs in different industries could be included as part of the research.

In addition, another study could be to consider the challenges that SMMEs face at different stages of their life cycle, as a start-up might not have the same challenges as an SMME operation for more than five years or 10 years.

Lastly, there is a definite need for research that investigates what specific support SMMEs would benefit from other than support related to regulatory compliance.

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