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Microfinance as an aspect of corporate enterprise development and its impact on SMME growth and local economic development in South Africa

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Microfinance as an aspect of Corporate Enterprise Development and its impact on SMME growth and Local Economic Development in South Africa

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A research report submitted to the Faculty of Commerce, Law and Management, University of the Witwatersrand, in partial fulfilment of the requirements for the degree of Master of Management specialising in Entrepreneurship and New Venture Creation

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ABSTRACT

Corporate enterprise development initiatives have emerged as a response to government policy that has enabled the core competencies and the business efficiency of the private sector to drive sustainable Small, Medium, Micro Enterprises (SMME) and local economic development (LED). This report describes the impact of a corporate enterprise development initiative that provides microfinance on SMME growth and LED. The secondary data utilised in this study was obtained from the Anglo American Zimele Community Fund database of 270 SMMEs that received unsecured enterprise development finance between 2007 and 2009 with an amortisation schedule longer than 12 months in various communities throughout South Africa. The study made use of quantitative research and in line with the primary objective to quantify the impact of microfinance on employment and turnover at the firm level and its subsequent impact on employment and turnover at the regional level; the research strategy used was quasi-experimental. It suggests that microfinance has had a positive influence on the entrepreneurial performance measured in terms of employment and turnover growth of SMMEs which results in LED in the communities where these businesses operate. Results also allude to the fact that this initiative could be the solution that facilitates the increase in economic growth and employment creation in South Africa.

DECLARATION

I, **Gladwyn Milano Leeuw**, declare that this research report 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 Management in the University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination in this or any other university.

Gladwyn Milano Leeuw

Signed at …….

On the …….. day of …… 2013

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TABLE OF CONTENTS

ABSTRACT II

DECLARATION III

ACKNOWLEDGEMENTS IV

LIST OF TABLES VIII

LIST OF FIGURES IX

1 CHAPTER: INTRODUCTION 1

1.1 PURPOSE OF THE STUDY 1

1.2 CONTEXT OF THE STUDY 1

1.2.1 UNEMPLOYMENT AND POVERTY 1

1.2.2 SMME DEVELOPMENT 2

1.2.3 CHALLENGES IN THE SOUTH AFRICAN BUSINESS ENVIRONMENT 2

1.2.4 EMERGENCE OF ENTERPRISE DEVELOPMENT 3

1.2.5 LOCAL ECONOMIC DEVELOPMENT (LED) 4

1.3 PROBLEM STATEMENT 5

1.3.1 MAIN PROBLEM 5

1.3.2 SUB-PROBLEMS 5

1.4 SIGNIFICANCE OF THE STUDY 5

1.5 DELIMITATIONS OF THE STUDY 6

1.6 DEFINITION OF TERMS 7

1.6.1 EMPLOYEES 7

1.6.2 ENTREPRENEUR 7

1.6.3 ENTREPRENEURSHIP 7

1.6.4 ENTERPRISE 8

1.6.5 ENTERPRISE DEVELOPMENT 8

1.6.6 GROWTH 8

1.6.7 IMPACT 9

1.6.8 INNOVATION 9

1.6.9 JOBS 9

1.6.10 LOCAL ECONOMIC DEVELOPMENT 9

1.6.11 SMALL AND MEDIUM-SIZED ENTERPRISES 10

1.6.12 PERFORMANCE 12

1.7 ASSUMPTIONS 12

1.8 CONCLUSION 13

2 CHAPTER 2: LITERATURE REVIEW AND THEORETICAL FRAMEWORK 16

2.1 INTRODUCTION 16

2.2 BACKGROUND DISCUSSION 16

2.3 THE SOUTH AFRICAN BUSINESS ENVIRONMENT 19
2.4 FINANCE AS A MAJOR CONSTRAINT TO SMME DEVELOPMENT 22
2.5 THE EMERGENCE OF MICROFINANCE 27
2.6 ENTERPRISE DEVELOPMENT: A SOUTH AFRICAN PERSPECTIVE 33
2.7 CORPORATE ENTERPRISE DEVELOPMENT INITIATIVES 43
2.7.1 ANGLO AMERICAN ZIMELE 44
2.7.2 XEROX 46
2.7.3 SOUTH AFRICAN BREWERIES 47
2.8 MICROFINANCE AS AN ASPECT OF CORPORATE ENTERPRISE DEVELOPMENT INITIATIVES 49
2.9 ENTREPRENEURIAL PERFORMANCE 50
2.9.1 ENTREPRENEURIAL PERFORMANCE AT NATIONAL LEVEL 51
2.9.2 ENTREPRENEURIAL PERFORMANCE AT FIRM LEVEL 57
2.9.3 ENTREPRENEURIAL PERFORMANCE AT INDIVIDUAL LEVEL 61
2.9.4 SMME GROWTH MEASURES OF ENTREPRENEURIAL PERFORMANCE 63
2.9.5 HYPOTHESIS 1: CORPORATE ENTERPRISE DEVELOPMENT INITIATIVES THAT PROVIDE MICROCREDIT POSITIVELY INFLUENCE SMME ENTREPRENEURIAL PERFORMANCE AT FIRM LEVEL. 67
2.10 LOCAL ECONOMIC DEVELOPMENT 68
2.10.1 HYPOTHESIS 2: CORPORATE ENTERPRISE DEVELOPMENT INITIATIVES THAT PROVIDE MICROFINANCE TO SMMES IN VARIOUS COMMUNITIES HAVE A POSITIVE IMPACT ON THE LOCAL ECONOMIC DEVELOPMENT. 72
2.11 CONCEPTUAL FRAMEWORK 72
2.12 CONCLUSION 74

3 CHAPTER 3: RESEARCH METHODOLOGY 77

3.1 RESEARCH METHODOLOGY /PARADIGM 77
3.2 RESEARCH DESIGN 77
3.3 POPULATION AND SAMPLE 78
3.3.1 POPULATION 78
3.4 SOURCE AND PREPARATION OF SECONDARY DATA 79
3.4.1 RELIABILITY 81
3.5 DATA ANALYSIS AND INTERPRETATION 82
3.6 LIMITATIONS OF THE STUDY 84
3.7 EXTERNAL AND INTERNAL VALIDITY OF THE RESEARCH 84
3.7.1 EXTERNAL VALIDITY 84
3.7.2 INTERNAL VALIDITY 85

4 CHAPTER 4: PRESENTATION OF RESULTS 86

4.1 INTRODUCTION 86
4.2 DEMOGRAPHIC PROFILE OF RESPONDENTS 86
4.1.1 H_{1A}: CORPORATE ENTERPRISE DEVELOPMENT INITIATIVES THAT PROVIDE MICROCREDIT POSITIVELY INFLUENCE EMPLOYMENT GROWTH AT FIRM LEVEL. 91
4.1.2 H_{1B}: CORPORATE ENTERPRISE DEVELOPMENT INITIATIVES THAT PROVIDE MICROCREDIT POSITIVELY INFLUENCE TURNOVER GROWTH AT FIRM LEVEL. 95
4.1.3 H_{2A}: CORPORATE ENTERPRISE DEVELOPMENT INITIATIVES THAT PROVIDE MICROFINANCE TO SMMES IN VARIOUS COMMUNITIES HAVE A POSITIVE IMPACT ON THE EMPLOYMENT GROWTH OF THAT COMMUNITY 101

4.1.4 H_{2B}: CORPORATE ENTERPRISE DEVELOPMENT INITIATIVES THAT PROVIDE MICROFINANCE TO SMMES IN VARIOUS COMMUNITIES HAVE A POSITIVE IMPACT ON THE TURNOVER GROWTH OF THAT COMMUNITY. 104
4.5 SUMMARY OF THE RESULTS 107

5 CHAPTER: DISCUSSION OF THE RESULTS 110

5.1 INTRODUCTION 110
5.2 DEMOGRAPHIC PROFILE OF RESPONDENTS 110
5.3 HYPOTHESIS 1: CORPORATE ENTERPRISE DEVELOPMENT INITIATIVES THAT PROVIDE MICROCREDIT POSITIVELY INFLUENCE SMME ENTREPRENEURIAL PERFORMANCE AT FIRM LEVEL 111
5.3.1 H1A: CORPORATE ENTERPRISE DEVELOPMENT INITIATIVES THAT PROVIDE MICROCREDIT POSITIVELY INFLUENCE EMPLOYMENT GROWTH AT FIRM LEVEL. 111
5.3.2 H1B: CORPORATE ENTERPRISE DEVELOPMENT INITIATIVES THAT PROVIDE MICROCREDIT POSITIVELY INFLUENCE TURNOVER GROWTH AT FIRM LEVEL. 112
5.4 HYPOTHESIS 2: CORPORATE ENTERPRISE DEVELOPMENT INITIATIVES THAT PROVIDE MICROFINANCE TO SMMES IN VARIOUS COMMUNITIES HAVE A POSITIVE IMPACT ON THE LOCAL ECONOMIC DEVELOPMENT 112
5.4.1 H2A: CORPORATE ENTERPRISE DEVELOPMENT INITIATIVES THAT PROVIDE MICROFINANCE TO SMMES IN VARIOUS COMMUNITIES HAVE A POSITIVE IMPACT ON THE EMPLOYMENT GROWTH OF THAT COMMUNITY 112
5.4.2 H2B: CORPORATE ENTERPRISE DEVELOPMENT INITIATIVES THAT PROVIDE MICROFINANCE TO SMMES IN VARIOUS COMMUNITIES HAVE A POSITIVE IMPACT ON THE TURNOVER GROWTH OF THAT COMMUNITY. 113
5.5 CONCLUSION 114

6 CHAPTER 6: CONCLUSIONS, IMPLICATIONS AND RECOMMENDATIONS 115

6.1 INTRODUCTION 115
6.2 CONCLUSIONS OF THE STUDY 115
6.1 IMPLICATIONS AND RECOMMENDATIONS 116
6.1.1 PRE-FINANCE ENTREPRENEURIAL ORIENTATION ASSESSMENT TOOL 117
6.1.2 MENTORSHIP 118
6.1.3 TRAINING 118
6.1.4 NETWORKING PLATFORM 119
6.3 SUGGESTIONS FOR FURTHER RESEARCH 120

REFERENCES 121

7 APPENDIX A 153

7.1 CONSISTENCY MATRIX 153

LIST OF TABLES

Table 1: Classification of SMMEs 10

Table 2: Current BBBEE Scorecard 36

Table 3: Comparison between Current and Revised Scorecards 39

Table 4: Anglo American Zimele Salient Figures 2008 to 2012 (Anglo American Zimele Presentation, 2012) 46

Table 5: Entrepreneurial performance and Impact (OECD, 2009) 56

Table 6: Determinants of entrepreneurial performance (OECD, 2008:1) 57

Table 7: Descriptive Measures of Initial and Current Employment at Firm Level 92

Table 8: Descriptive Measures of Starting and Current Turnover at Firm Level 96

Table 9: Regional Employment Means 101

Table 10: Wilcoxon Matched Pairs Test for Regional Employment 103

Table 11: Regional Turnover Means 104

Table 12: Wilcoxon Matched Pairs Test for Regional Turnover 106

LIST OF FIGURES

Figure 1: Anglo American Zimele Structure (Anglo American Zimele Presentation, 2012) 45

Figure 2: Topic categories for entrepreneurship indicators (Ahmad and Hoffman 2008:18) 54

Figure 3: Measures of Entrepreneurial Performance (Sethi and Saxena 2009) 60

Figure 4: Conceptual Framework 73

Figure 5: Transaction Distribution of Loans Received per SMME 87

Figure 6: Number of SMMEs Funded per Industry 87

Figure 7: Amount of Funds Released per Industry 88

Figure 8: Amount of Loans Written Off per Industry 89

Figure 9: Analysis of the Proportion of Loans Written Off per Industry 89

Figure 10: Employment Growth of SMMEs 91

Figure 11: Box and Whisker Plot of Initial versus Current Employment (n=177) 93

Figure 12: Initial Employment Distributions (n=270) 94

Figure 13: Current Employment Distributions (n=270) 94

Figure 14: Turnover Growth of SMMEs 95

Figure 15: Box and Whisker Plot of Starting versus Current Monthly Turnover (n=177) 97

Figure 16: Starting Monthly Turnover Distributions 98

Figure 17: Current Monthly Turnover Distributions 98

Figure 18: Per Region Mean Employment Levels 102

Figure 19: Per Region Mean Turnover Levels..... 105

1 CHAPTER: INTRODUCTION

1.1 Purpose of the study

The purpose of this research is to determine whether corporate enterprise development initiatives that provide microfinance as an aspect of enterprise development have a positive impact on SMMEs in terms of employment and turnover growth and ultimately result in local economic development.

1.2 Context of the study

1.2.1 Unemployment and Poverty

Unemployment is considered to be South Africa's most urgent socio-economic challenge. Although the rate of unemployment has remained elevated since pre-1994, the dissemination of unemployment amongst civil society has changed since the end of Apartheid regime (Magruder, 2007:2). The informal employment sector has in the last decade been responsible for a majority of the job creation in the country (Casale, Muller, and Posel, 2004). Even though the informal sector has expanded, it remains relatively small in comparison to other countries at similar income levels (Maloney, 2004; Schneider, 2002). This is an indictment on the countries formal sector job creation ability which has not been able to absorb the ever expanding labour force (Davies and Thurlow, 2009). The unemployment rate is known to be one of the highest in the world and it is currently estimated at 25.2 per cent of the economically active population (Statistics South Africa, Quarterly Labour Force Survey, 2012). This has undoubtedly been a major contributor to the high level of inequality and poverty in South Africa, with the majority of South Africans still living below the poverty threshold (Rwigema, Venter, and Urban, 2008). The Human Development Index (HDI) which is considered to be a reliable measure of poverty ranks South Africa at number 123 out of 187 countries, with a reported score of 0.619 (a good score is a high one between 0 – 1)

(http://hdrstats.undp.org/en/indicators/103106.html). Also the continued increase in income inequality between high and low income groups is a major concern. However, small business and entrepreneurship development could serve as a facilitator in filling these economic gaps.

1.2.2 SMME Development

FinMark Trust (2006) suggests that one option to address unemployment would be to harness the employment creation ability of small businesses and to promote small business development. Therefore SMME development has been identified by government as a priority in the hopes it will create more jobs and solve the high unemployment condition. Schumpeter (1934) as cited in Wong, Ho, and Autio (2005) is considered to be one of the first economists to argue for new firm creation. According to Schumpeter (1947) new firms are the vital force behind the progress of capitalism. South Africa has a reputation for supporting big business and inhibiting competition, the small business sector in the country has unused potential to generate employment and more equitable income distribution. Berry, Von Blottnitz, Cassim, Kesper, Rajaratriam, and Van Seventer (2002) argues, however, that new SMEs are not the solution for South Africa's economic problems because they question the impact SMEs have on governments prescribed roles. Similarly, Shane (2009) suggests that encouraging start-ups is a valueless public policy that will urge people to start trivial businesses that will not produce expected economic growth. The Accelerated and Shared Growth Initiative South Africa (2009) has indicated that the country requires an average growth rate of 5% between now and 2014 to achieve the social objectives government has set for itself. However, despite their best efforts to support new SMEs, they have only achieved limited growth.

1.2.3 Challenges in the South African business environment

Smit, Cronje, Brevis, and Vrba (2007) define the business environment as all those influences on a firm both internal and external that could affect the operation of the firm.

According to Delmar and Wiklund (2008) the business environment is very important for the growth of new small enterprises. The Small Business Act of 1996 point out that up to 78% of small business started in South Africa is failing. It is therefore necessary for the South African government to implement specific economic and social policies that stimulate SMME development. Until these measures are applied, barriers to entry such as poor access to finance, high levels of criminal activity and a relatively unskilled labour force will continue to be features of the countries business environment (Ranchhod, 2006).

According to Herrington, Kew, and Kew (2010) access to finance and the overall lack of financial support is reported as a major contributor to the low rate of new firm creation and failure, after education and training in South Africa. Clarke, Kaplan, and Ramachandran (2006) suggest that improvement in the current investment climate is necessary for small enterprises to thrive. Surveys administered in Johannesburg and Durban to SMMEs, conducted by the World Bank (Chandra and Rajaratnam, 2001; Skinner 2005), showed that access to credit is considered to be a key constraint faced by emerging SMME and entrepreneurs (Rogerson, 2008). According to the FinMark Trust (2006) only two per cent of new SMEs in South Africa are able to access bank loans, while Foxcroft, Wood, Kew, Herrington, and Segal (2002) reported that 75% of SME applications for finance from the formal banking system are rejected in South Africa. The failure of the commercial banks to assist the lower end of the market needs to be addressed by encouraging banks to lend to SMMEs through market-oriented policy measures. If this does not work, government can make use of direct policy techniques such as the redirection of credit through legislation (Schoombee, 2000:764).

1.2.4 Emergence of enterprise development

Enterprise development has emerged from the policy periphery to become a priority in South Africa to address broad based transformation and increase the country's small business productivity (Government Gazette No.32305, 2009). These policies encouraged large corporates to provide financial or non-financial support to create new

enterprises, redevelopment and fund existing ones. The intention is to accelerate the growth SMME sector and create sustainable enterprise initiatives that respond to the need for increased economic growth (Department of Minerals and Energy, 2010).

Enterprise and supplier development could potentially provide the boost South Africa needs by creating jobs, however, due to the shortage of highly-skilled entrepreneurs and no incentives for corporate South Africa to truly adopt the concept. Enterprise development has never fully been exploited as an important tool to fast-track local economic development in South Africa (The Entrepreneurial Dialogues, 2009).

1.2.5 Local Economic Development (LED)

Local economic development has been considered more important since South Africa's transformation into a democratic government. National government is promoting LED as a mechanism to build vibrant economies throughout the country's various regions (Rogerson, 2009). Rodriguez-Pose (2001:11-12) has identified numerous advantages of embracing LED plans and policies as compared to traditional development programmes. Firstly, LED strategies attempt to encourage economic activity in municipalities by harnessing the specific comparative advantages in these regions. Secondly, the adopted policies advocate for the involvement of the local stakeholders to contribute toward creating quality jobs also known as decent work (ILO 2008). Thirdly, LED strategies get buy-in from the local people so they can share some control and accountability in their economic activity and future development. Finally, LED strategies assist in making local institutions more transparent and liable for their actions which are for the better of the development of local civil society (Rogerson, 2009).

However, successful LED programmes have thus far failed to achieve their objectives in most small towns and rural areas due to the unsustainable nature of local economies, the lack of capacity in local government structures and the failure to exploit the local economic potential (Binns & Nel, 1999). Fida (2008) suggest that SMME promotion is therefore imperative because they contribute to LED in various ways such as employment creation that absorbs the growing rural and urban labour force, providing

desirable sustainability and innovation in the economy as a whole, and a large number of people within the local communities rely heavily on the small and medium enterprises both directly and indirectly.

1.3 Problem statement

1.3.1 Main problem

Determine whether corporate enterprise development initiatives that provide microfinance have a positive impact on SMMEs.

1.3.2 Sub-problems

The first sub-problem is to determine the impact corporate enterprise development initiatives that provide microfinance have on SMME entrepreneurial performance in terms of employment and turnover growth.

The second sub-problem is to determine whether corporate enterprise development initiatives that provide microfinance have a positive impact on local economic development (LED)

1.4 Significance of the study

The study intends to fill a gap in the knowledge about corporate enterprise development initiatives. It will assess the ability of these interventions as support structures for entrepreneurs and SMMEs in a South African environment where major constraints exist (Herrington et al 2010). The focus of the research is specifically whether corporate enterprise development initiatives that provide access to credit facilitate SMME entrepreneurial performance and LED.

The paper will provide guidance to whether corporate enterprise development initiatives that provide microfinance should be encouraged by government policy in order to

alleviate socioeconomic problems such as job creation and sustainable economic growth. It will also benefit established organisations that are required to provide local procurement and enterprise development in order to do business in South Africa. It points out the costs and benefits these initiatives have for companies and SMMEs. Most importantly the research will contribute to the literature and current theoretical knowledge related to enterprise development.

Finally, local stakeholders require visible and tangible evidence of local development; however the anticipation thus far has been that local government would initiate the process. This expectation provides a novel prospect for private and public initiatives to make a meaningful impact in communities where they operate. In order to exploit this opportunity, the local public and private stakeholders must collaborate if they are going to create sustainable local economies. Therefore this study will provide evidence with regard to enterprise development policy that has driven the private sector to make a real difference in their local communities.

1.5 Delimitations of the study

An important focus of this study is microfinance as an aspect of enterprise development and its impact on SMME entrepreneurial performance in terms of employment and turnover growth. The study recognizes that there are various other aspects of enterprise development that are mentioned in the literature review but not focused on, such as mentorship, education and training, among others. There are also many other sources of finance such as leasing, equity and grants and access to capital such as banks and developments funds, however the research will centre on microfinance in the form of loans administered through a corporate enterprise development institution. The study also recognizes that not all enterprise development interventions function in the same way therefore SMMEs will have diverse experiences with corporate enterprise development initiatives. The population of the research comprises 270 SMMEs in 14 different regions in South Africa, which have received one or more loans at 6% interest per annum and up to R 1 000 000 from Anglo American Zimele Community Fund

between 2007 and 2009 and reports how they have developed by the 30 June 2012. The Anglo American Zimele model is the benchmark corporate enterprise development initiative according the IFC and has been duplicated throughout South Africa and internationally (IFC, 2008).

1.6 Definition of terms

1.6.1 Employees

Employees are defined as those individuals who work for a business and who have a formal or informal agreement which specify the terms of their employment. These individuals receive compensation in the form of wages, salaries, fees, gratuities, piecework pay or remuneration in kind (Eurostat-OECD 2007:74).

1.6.2 Entrepreneur

Individuals who generate value, through the creation, expansion or innovation of economic activity, by identifying and exploiting new products, processes or markets (Ahmad and Hoffman 2008).

1.6.3 Entrepreneurship

Although a single, universally accepted definition for entrepreneurship does not exist (Kuratko and Hodgetts, 1992), for the purposes of this study and to guide the research the following definitions are proposed:

Firstly that entrepreneurship is a vigorous goal-orientated process whereby an individual synthesises innovative thinking for the identification of marketplace needs and new opportunities with the ability to gain access to resources and adjust to the uncertain environment to achieve desired results while assuming some portion of risk (Smart and Conant, 2011:29).

Secondly, Rwigema and Venter (2004:6) define entrepreneurship as the process of theorising, arranging, initiating and innovatively developing a business opportunity into a potentially high growth business in a multifaceted, unstable environment.

1.6.4 Enterprise

The enterprise is the combination of legal units into an organisation that produces goods and/or services, which profits from a certain amount of autonomy in decision-making in terms of the allocation of its resources (Eurostat-OECD, 2007:77).

1.6.5 Enterprise development

Enterprise development is the application of entrepreneurship for growth of enterprises through the creation of a culture of developing enterprises to grow and be profitable. It is a policy to stimulate firm development philosophies that support innovative ideas that progress into commercial growing businesses by implementing various financial and non-financial business support programs (Kauffman Foundation et al, 2005).

Enterprise development also describes monetary and non-monetary support for existing or fostering of new HDSA companies in the mining sector of the economy, with the objective of contributing to their development, sustainability as well as financial and operational independence (Department of Minerals and Energy, 2010:iv).

1.6.6 Growth

The term growth is used in business demography to study how groups of enterprises develop. Growth is measured in terms of a change in size over time, whether it is the size of market value, number of employees, revenue or even production capacity (Eurostat-OECD, 2007:81).

For the purposes of this research report, growth will be measured in terms of a change in the number of employees and turnover.

1.6.7 Impact

Impact implicates a strong influence, effect, or a forceful consequence (Qin, 2010:1).

In the context of this study, impact will be defined as the effect or impression that microfinance has had on the employment and turnover growth of the businesses. This effect will be measured over time. The initial or starting employment and turnover represents the baseline of the company before receiving funding and the current measures the employment post investment.

1.6.8 Innovation

Innovation is generally defined in Dosi (1988) as the exploration, discovery, expansion, improvement, implementation and commercialization of new methods, new products, and new organizational structures and procedures.

1.6.9 Jobs

A job is defined as an explicit or implicit contract (relating to the provision of labour input, not to supplying output of a good or service) between a person and a resident institutional unit to perform work (activities which contribute to the production of goods or services within the production boundary) in return for compensation (including mixed income of self-employed persons) for a defined period or until further notice (Eurostat-OECD, 2007:84).

1.6.10 Local Economic Development

The procedure that encourages partnership arrangements between private and public stakeholders within of a defined territory, enabling a combined plan and execution of a collective development strategy, by making use of the resident resources and comparative advantage in a global context, with the ultimate goal of creating decent employment and stimulating economic activity. (ILO, 2006:38).

A constant process by which important interested parties and organizations from the public and private sector as well as civil society, work together to create a competitive advantage for the area and its organizations by decreasing market failures and eradicating bureaucratic impediments for local enterprises (Ruecker and Trah, 2007:101).

1.6.11 Small and medium-sized enterprises

According to the National Small Business Act 102 0f 1996, the SMME is considered to be a separate and distinctive business in any sector of the economy managed by one or more individuals. These include cooperatives and non-governmental organisations (NGOs), as well as branches or subsidiaries (Rwigema and Venter, 2004: 314).

The South African government has defined the SMME sector according to several factors such as ownership, employment size and formality (Governemnt Gazette 1995:8) resulting in a classification of businesses as shown in Table 1.1 below:

Table 1: Classification of SMMEs

Sector or Sub-sectors in accordance with Industrial Classification	***Size or Class***	***Total Full Time Equivalent of Paid Employees Less Than***	***Total Annual Turnover Less Than R (million)***	***Total Gross Assets Value (Fixed Property Excluded) Less Than R (million)***
Agriculture	Medium	100	R 4.00	R 4.00
	Small	50	R 0.40	R 2.00
	Very Small	10	R 0.15	R 0. 40
	Micro	5		R 0.15
Mining and Quarrying	Medium	200	R 30.00	R 18.00
	Small	50	R 7.50	R 4.50
	Very Small	20	R 3.00	R 0.18
	Micro	5	R 0.15	R 0.10

Manufacturing	Medium	200	R 40.00	R 15.00
	Small	50	R 10.00	R 3.75
	Very Small	20	R 4.00	R 1.50
	Micro	5	R 0.15	R 0.10
Electricity, gas and water	Medium	200	R 40.00	R 15.00
	Small	50	R 10.00	R 3.75
	Very Small	20	R 4.00	R 0.15
	Micro	5	R 0.15	R 0.10
Construction	Medium	200	R 20.00	R 4.00
	Small	50	R 5.00	R 1.00
	Very Small	20	R 2.00	R 0.40
	Micro	5	R 0.15	R 0.10
Retail and motor trade and repair services	Medium	100	R 30.00	R 5.00
	Small	50	R 15.00	R 2.50
	Very Small	10	R 3.00	R 0.50
	Micro		R 0.15	R 0.10
Wholesale trade, commercial agents and allied services	Medium	100	R 50.00	R 8.00
	Small	50	R 25.00	R 4.00
	Very Small	10	R 3.00	R 0.50
	Micro	5	R 0.15	R 0.10
Catering, accommodation and other trade	Medium	100	R 10.00	R 2.00
	Small	50	R 5.00	R 1.00
	Very Small	10	R 1.00	R 0.20
	Micro	5	R 0.15	R 0.10
Transport, storage and communication	Medium	100	R 20.00	R 5.00
	Small	50	R 10.00	R 2.00
	Very Small	10	R 2.00	R 0.50
	Micro	5	R 0.15	R 0.10
Finance and business service	Medium	100	R 20.00	R 4.00
	Small	50	R 10.00	R 2.00
	Very Small	10	R 2.00	R 0.40
	Micro	5	R 0.15	R 0.10
Community Social and Personal services	Medium	100	R 10.00	R 5.00
	Small	50	R 5.00	R 2.50
	Very Small	10	R 1.00	R 0.50
	Micro	5	R 0.15	R 0.10

1.6.12 Performance

In general connotation, performance is an outcome or result from an activity in relation to its determinants or correlates such as efforts and inputs. Performance refers to tangible outcomes like profit earned or loss incurred, percentage of marks obtained, number of units produced, etc. (Khanka, 2009:25).

In terms of this of this study, performance will be defined as the outcomes of employment and turnover growth. The performance will be measured from initial employment and turnover between 2007 and 2009 to current employment and turnover as at 30June 2012.

1.7 Assumptions

The SMME sector is considered to be the mechanism that drives the economic development for many countries. This research assumes that enterprise development initiatives and local procurement are essential in order to promote this development within South Africa. However, the current South African environment is not conducive for the growth aspiration of SMMEs therefore a great need exists for these and other public and private interventions (Beck and Demirguc-Kunt, 2006). Critics of small business development question the efficacy of pro-SMME policies noting specifically that all firms are operating in the same environment and that these policies could unintentionally be promoting uncompetitive behaviour (Beck and Demirguc-Kunt,. 2006:2932).

The research also assumes that access to finance is a pivotal factor in ascertaining growth and therefore the lack of finance presents an obstacle to SMME growth. SMMEs are traditionally more financially constrained than large firms and are therefore not able to easily access formal sources of finance (Beck and Demirguc-Kunt, 2006). Rogerson, (2008) contends that firms prefer to enter into countries with enhanced access to external finance therefore better access to finance will promote entrepreneurship

thereby strengthening the enabling environment for SMMEs.

Finally the research assumes that growth is a fundamental objective for the firm as investors give greater value to firms with positive opportunities for future growth (Rodríguez, Molina, González Pérez and Hernández, 2003:289). This is not just the objective of the leaders of larger firms, but also of those in small and medium-sized firms (Rodríguez et al, 2003). Although the pursuit of growth is not always the goal of entrepreneurs, many small businesses are started with limited growth ambitions. Lifestyle entrepreneurs for argument sake merely seek to sustain their lifestyle and growth is not a priority or an agenda (Rwigema et al, 2008).

1.8 Conclusion

The purpose of this chapter was to provide a background to the entrepreneurship problem and gap in knowledge that the research intends to address. The following chapter, at the outset, discusses the prescribed logic of the current South African policies that have been introduced to reduce poverty, unemployment and inequality. It depicts the prevailing SMME sector and describes the business environment that presents many difficulties for the growth and development of domestic small businesses. Then enterprise development is introduced from a South African perspective and its objectives, policy interventions and programmes to induce economic reform are scrutinised. The consequences of enterprise development policy initiatives are discussed in relation to its bearing on private sector operations in the country. The literature review also discusses corporate enterprise development initiatives that provide assistance to SMMEs in the form of microfinance and the impact this type of intervention will have on firm entrepreneurial performance with regard to employment and sales growth. Finally, chapter 2 debates the outcomes rationale behind local economic development policy and how corporate enterprise development initiatives can promote industrial decentralisation.

Chapter 3 describes the methodology that followed the literature review to address the hypotheses that were proposed as possible solutions to determining the impact

microfinance through corporate enterprise development initiatives have on SMME entrepreneurial performance and whether corporate enterprise development initiatives that provide microfinance have a positive impact on local economic development (LED). This section describes the basis for using quantitative research methodology and a quasi-experimental design to represent effectively the secondary data from the Anglo American Zimele Community Fund database. It describes the profile of the respondents, the population size and the purposive/judgemental sampling method exercised in order to draw conclusions with the data. Then it accounts for the descriptive statistics, such as frequencies, mean scores and cross tabulations, used in order condense the data. Finally, the chapter identifies potential weaknesses in the study relating to the methodology, sampling, and analysis methods and discusses external validity criteria, internal validity criteria and reliability criteria and how the study attempts to ensure to maximise your validity and reliability in the report.

Chapter 4 presents and describes the results obtained from the research. Initially it describes the demographics of the 270 SMMEs that received microfinance of between R 1 000 and R 1 000 000 with a loan amortisation schedule of longer than 12 (Twelve) months from Anglo American Zimele Community Fund. It compares the funded businesses between the 12 different industries and 14 different areas. Then it presents the results for hypothesis one: “corporate enterprise development initiatives that provide microcredit positively influence SMME entrepreneurial performance at firm level”, and hypothesis 2: “corporate enterprise development initiatives that provide microfinance to SMMEs in various communities have a positive impact on local economic development”, using summarised tables and figures. Each hypotheses is concluded and either accepted or rejected.

Chapter 5 discusses and explains the results with reference to the literature review conducted. To begin with, considers the results from hypotheses one and two in relation to the literature showing similarities such as the effect the global financial crisis in 2008 on economic growth and employment figures in South Africa. It also presents differences and alternatives between the findings in this study and previous studies such as Shane (2009) argument that new firms do not necessarily produce more jobs

than existing firms and that the policy to encourage typical start-ups is a fruitless way to enhance economic growth and create jobs. It also offers possible explanations and logical arguments with regard to failure rates, employment creation and turnover growth. Lastly, it summarises and reaffirms the conclusions regarding both hypotheses.

The last chapter summarises the findings and the conclusions with regard to corporate enterprise development initiatives that provide microfinance and their impact on SMME and local economic development. It then provides linkages between this research and those conducted by proponents of SME development and those that are calling for a greater provision of credit in the current South African environment. The also research sheds light on the relatively new phenomenon of corporate enterprise development. Furthermore, Chapter 6 provides specific implications and suggestions such as a pre-finance entrepreneurial orientation assessment tool, mentorship, training, and social capital interventions that should aid stakeholders in the enterprise development sector. Finally, the report provides suggestions for further research in the field of corporate enterprise and supplier development.

2 CHAPTER: LITERATURE REVIEW AND THEORETICAL FRAMEWORK

2.1 Introduction

Socio-economic factors such as high unemployment, poverty and inequality has caused the current administration to turn to entrepreneurship and SMME development to promote job creation, equity and economic prosperity. Enterprise development and local procurement has been made priorities in legislative policies such as the Mineral and Petroleum Resources Development Act 28 of 2002 and the Broad-Based Black Economic Empowerment Act No. 53 of 2003 to assist the competitiveness, transformation, and ultimately the growth of the domestic economy. The following section will describe the rationale behind SMMEs development and the strategy the South African government has adopted to re-address historic equalities and the current unemployment and poverty situation. It does so by discussing the premise of enterprise development, the role of finance and the function of microfinance as an aspect of corporate enterprise development initiatives. Furthermore, it deliberates the consequential entrepreneurial performance of SMMEs that are subject to these initiatives and the outcomes in relation to local economic development.

2.2 Background discussion

The preceding apartheid regime was characterised by segregated and unequal access to resources. The National Party government devised apartheid as a means for the white minority to control the economic and social system of South Africa. This minority then used its exclusive access to both political and economic power to promote sectional interests at the expense of other population and gender groups. The government excluded black people from the mainstream economy with development efforts largely concentrated on white individuals. Henrard (2002) describes how the early part of the 1950s were characterised by a spate of repressive laws being ratified.

Laws such as the Population Registration Act which required the classification of the population on the basis of race; the Group Areas Act which led to the creation of separate residential areas for each race; Bantu Building Workers Act which prohibited black people from performing skilled work in urban areas except in designated sections; Pass Laws restricting the movement of blacks and the Reservation of Separate Amenities Act prohibiting non-whites from using public amenities such as buses, beaches, post offices, restrooms, etc. (Attridge and Jolly, 1998). As a result of the apartheid restrictions on economic activity, income distribution became racially distorted and ranks as one of the most unequal in the world. It has not only effected economic disparities between the different groups of South Africans, but also inequalities in terms of regional economic growth within South Africa (Attridge and Jolly, 1998).

The election of the ANC into power in 1994 saw political control going out of the hands of the white minority which gave the deprived sections of the population hope that their problems would finally start being addressed (Blumenfeld, 1997). The government was faced with huge disparities in income and living conditions between the population groups. As a result the government introduced the Reconstruction and Development Programme (RDP), which primarily intended to reduce poverty and improve the living conditions of the poor (Blumenfeld, 1997).

However, South Africa continues to suffer from high unemployment with an official unemployment rate of estimate of approximately 25.2 per cent (Statistics South Africa, Quarterly Labour Force Survey, 2012). Mutezo (2005) points out that about 300 000 new jobs must be created annually in South Africa, if the country is to retain its present unemployment rates, especially taking into consideration the high number of new comers into the labour market. The country is experiencing thousands of job losses each year, owing to downsizing, re-engineering and re-organisation therefore without the creation of new SMMEs, South Africa is likely to stagnate and decline economically (Nieman, 2001:22).

FinMark Trust (2006) points out that one of the best ways to address the counties socio-economic difficulties is to promote small business development. Therefore, small

enterprises have increasingly been positioned as playing an important role in the economies of many countries. SMMEs are considered to be important engines of innovation, economic growth, employment and poverty reduction. In the contemporary capitalistic system entrepreneurs make an accelerative contribution to the economic development mostly through the creation of new resources and new technologies (Ağca, Dündar and Aydemir, 2008). In South Africa, SMEs contributed 56% of private sector employment and 36% of the gross domestic product (Ntsika Enterprise Promotion Agency, 2002). Rwigema and Venter (2004:393) estimated that the SMME sector contributes approximately 40 per cent of South Africa's GDP and accounts for between 500 000 to 700 000 businesses. They present a mode for the poorest people in our society to gain access to economic opportunities. Thus the role of SMMEs has been to actualize the opportunities of individuals to improve their quality of life and to serve as the foundation of local markets and private sectors.

However, Shane (2009) postulates that encouraging start-ups is a valueless public policy because there is no significant evidence that entrepreneurs create too few or uncompetitive businesses in the absence of government intervention. He suggests that several studies indicate that these policies encourage people to start negligible businesses that have little chance of success, have minimal economic impact, and produce slight growth in employment. He goes on to suggest that the notion of more economic growth by having more start-ups is flawed due to the fact that new companies would need to be more productive than existing companies but this is not the case, instead research conducted by Haltiwanger, Lane, and Speltzer (1999) revealed that firm output increases are subject to the firm age. This suggests that the typical new firm does not make better use of resources as opposed to the average existing firm, which is contrary to the expectation of economic growth benefits from the creation of new firms (Shane, 2009). He also argues that new firms don't create more jobs than existing firms and that in order to get to 50 per cent of net new jobs created by new firms, all firms that are nine years old and younger have to be considered as new (Shane, 2009:8-9). Therefore he states that encouraging the creation of start-ups will not produce the expected outcomes. Shane, instead, proposes that governments should focus on

supporting businesses with high growth potential (Shane, 2009). Enhancing economic growth and creating decent employment from entrepreneurs is about encouraging top class and high growth firms (Shane, 2009:11-12).

Nonetheless, the effect of new business formation on regional development could therefore depend on the quality of start-ups. Shane (2009) recommends that the growth oriented policies should be focused on stimulus of the quality of start-ups and not their mere number. A focus on high-quality innovative business concepts requires a strategy with major investments in different aspects of the current business environment. This constitutes an essential improving of the general internal and external obstacles to SMME performance (Piergiovanni and Santarelli, 2006).

2.3 The South African Business Environment

The current South African business environment is hardly conducive for the SMME sector to grow. Beck (2007) identified both firm-specific (internal factors) and systemic factors (external factors) that influence the performance of new SMMEs. The internal factors in a firm's ecosystem are those aspects that the firm can control. This includes factors such as finance, managerial competency of the owner, location, investment in information technology, cost of production and networking (Cassar, 2004; Barbosa and Moraes, 2004). The external variables include factors such as the prescribed and informational frameworks, macroeconomic environment, social factors (crime, corruption and ethics), technology and the regulatory environment. These state variables are largely uncontrollable by new SMMEs (Olawale and Garwe, 2010).

Several firm-specific factors have been identified as obstacles to South African SMMEs. Firstly, access to finance continues to impede SMMEs and has become a major hurdle to the expansion of this sector (Clarke et al, 2006; World Bank, 2006). Secondly, South African entrepreneurs' lack the managerial competencies to effectively manage their businesses. Herrington and Wood (2003) indicate the relatively unskilled labour force decreased the management capability in new firms in South Africa. Thirdly, low levels of social capital and no network ties, which constitute the goodwill that is generated

through social interaction and relationships that can be called upon to accelerate the achievement of resources (Rwigema et al, 2008:79; Adler and Kwon, 2002). Okten and Osili (2004) also discovered that the creation of networks helped entrepreneurs gain access to resources in external environment successfully. In addition, networks increase a firm's legitimacy. Ngoc, Le, and Nguyen (2009) also found that without efficient market institutions; networks are used to spread knowledge about a firm's good/service offerings. Finally, South African SMMEs fail to investment in research and development activities. Investment in R&D helps firms keep informed about new technologies that are becoming more important for firm survival (Olawale and Garwe, 2010). Schumpeter (1934) described innovation as the amalgamation of resources in a new way by entrepreneurs. For a new firm to grow and sustain that growth it needs to expand and renew its resource base with actions such as research, product development, and alliances (Baldwin and Gellatly, 2003; McKelvie and Davidsson 2009).

However, it is not only internal factors that are detrimental to growth and development of domestic SMMEs. Government is responsible for creating suitable business environment for SMMEs thrive in. The following state variables are impeding the progress of small businesses. Firstly, the fiscal and monetary policies such as inflation, interest rates and foreign exchange rates determine the demand for goods and services and therefore the growth of domestic SMMEs (Ehlers and Lazenby, 2007). Secondly, according to the South African Police Service Crime Statistics (2009) while the frequencies of the major of crime has decreased in recent years but business related crime, specifically small business crimes, have increased. Furthermore, crime increases the cost of doing business as business owners are forced to investments in security measures to reduce their probability of being victims of criminal activity. According to Transparency International (2008), the incidence of corruption in the public and private sectors are increasing in South Africa. Gaviria (2002) argues that the causes of corruption in the SMME sector are associated with problems in the regulatory compliance and bureaucracy. SMMEs have insufficiency bargaining power and influence to resist requests for illegal payments and similar solicitations. Thirdly, the

level of basic education affects a country's competitiveness and productivity. The lack of skilled labour can restrict business progress due to the inability of firms to move up the value chain and create more high-level or value-adding products (Herrington et al 2010). SMMEs require access to highly-skilled and properly motivated employees in order to continue growing. Mahadea (2008) finds the cost of skilled labour for SMMEs tends to be very high in South Africa, due to labour market regulations such as the Employment and Minimum Wage Regulations (Olawale and Garwe, 2010). Fourthly, the state of a country's infrastructure has a vital influence on the growth prospects of new SMMEs especially in developing countries such as South Africa. Developing nations are inclined to suffer from a poor condition of basic infrastructure such as transportation, telecommunication and electricity. For example, South Africa's electricity supply does not match the increasing demand which has led to power cuts also known as load-shedding which affects the production and sales of new SMEs (Kalra, 2009). And finally, the start-up and compliance costs on small businesses in South Africa are very high and the cost of regulation heavily impacts on the growth of new SMMEs. The processes to become compliant are time consuming and onerous on SMMEs such as registration for licences and pay taxes. According to Maas and Herrington (2006) most new SMMEs in South Africa are not aware of government efforts to assist them such as Khula Finance Enterprise (Khula) and Small Business Development Agency (SEDA).

Therefore, for South Africa to increase economic growth and employment creation, it needs a better environment and higher proportion of entrepreneurs to progress beyond the start-up phase of the business life cycle. In comparison with other measured countries, South Africa is the weakest in terms of new firm and established firm entrepreneurship, both of which are primary sites of job creation. These objectives are firmly recognised in the main development and macroeconomic strategies adopted by the South African government, in the Reconstruction and Development Programme (RDP) and the Growth, Employment and Redistribution (GEAR) (DTI, 1998:1).

2.4 Finance as a Major Constraint to SMME Development

The improvement of financial services for the small enterprise economy has proven to be a dominant challenge across Africa. Studies that questioned small business entrepreneurs throughout Africa about obstacles in their current business environment revealed that access to finance is consistently found to be one of the main obstacles for development (Rogerson, 2001). Theorists and practitioners often assume that problems, such as information asymmetries and difficulties enforcing legal contracts, undermine credit markets in developing countries (Karlan and Morduch, 2009). Woodcock in Buckland and Davis (1995:41) argues that the lack of knowledge pertaining to possible funding options, on the part of small businesses, is the problem and not really the access to the funding. However, in South Africa, not even access to short term funding is easily available to SMMEs. Mutezo (2005:39) highlights the following fundamental challenges as obstacles for South African entrepreneurs to gain access to funding:

- The small business may not be able to demonstrate its chances of success in order to persuade potential lenders
- The existing lending and financial institutions may not be able to cater for the special needs of small business finance
- The business person does not know how or where to source the finance

A developing country like South Africa has many other factors such as social, cultural, economic and political that adds complications to the provision of small business finance, and the growth of the SMME sector. Many studies have investigated the significance of finance and the access to finance for SMME owners. In a survey conducted in Great Britain on SMMEs has shown that access to finance is still considered to be the core cause of their failure (Mutezo, 2005). These findings are echoed in South Africa in the 2010 GEM report (Herrington et al, 2010). Financing is a critical part of business operations and without acceptable access to financing, the survival of the firm and its potential for growth is threatened (Rahaman, 2010).

The South African SMME finance sector has a complex spectrum of different types and forms of financiers and support agencies. The supplier network is composed of wide ranging financial products, investment criteria, and other enterprise development services (Ray, 2010). Still, there is a notably limited set of non-bank SMME funders, despite opportunities for growth and efforts to make the financial industry more inclusive of small business. The sector can be divided into three distinct subdivisions. The upper end comprises of commercial financial institutions and venture capitalists. These commercial entities target those established or aspiring SMMEs that already formalised and operate at a general level of business sophistication with formal business plans and have devoted some capital to business development (Ray, 2010).

The middle consists of a range of suppliers: some private equity and risk financiers such as Grofin, Business Partners, and Blue Financial, and others development finance institutions (DFIs), whose role is to bridge the gap left in the private capital markets by directing finance to those that cannot access the formal capital market. Some suppliers support a combination of small enterprises (Ray, 2010).

The lower end is made up of various Government institutions that attempt to bridge the gap between the access to finance and low income SMMEs that are unable to access private finance. These institutions provide grant money and support mechanisms which when compared to finance from the capital market becomes a disincentive for entrepreneurship (Ray, 2010). This is because improper presentation of finance in the market can suppress competitive desire and risk taking, and essentially disempower individuals. However, governmental interventions in the financial markets, to support and supply credit to small business, is a necessary to respond to the negative reception that SMMEs are receiving in the financial markets (Ray, 2010).

Thus, the challenge for the SMME finance sector is not so much access to finance but access to the right type of finance, and the way these financial tools are presented in the marketplace. Adequate financing is a critical component of SMME development; however, it is also evident that a disparity exists between public and private approaches to provide SMME finance (Ray, 2010). Rajan and Zingales (1998) in their study illustrate

how financial development accelerates economic growth by decreasing the cost of external financing, and that industries that dependent on external financing develop faster in a more financially developed market. Business finance is needed for all the different stages of the business lifecycle from start-up to expansion to growth. Yet a lack of adequate financing has been proven to inhibit small business sectors (Green, Kirkpatrick, and Murinde, 2006).

Access to finance especially loans and credit has been a major problem for much of South Africa, in particular those living in rural areas. With a lack of access to collateral and physical facilities largely because access to formal banking is inconvenient and expensive many South Africans remain unbanked (FinMark Trust, 2006; Karlan and Zinman, 2011). This exclusion has disproportionately affected the ability of the poor to acquire savings and has greatly limited the ability of the poor and low-income earners invest in maternal health, education, and environmental sustainability. Improving financial access for poor and disadvantaged SMMEs is part of broader efforts to stimulate inclusive financial systems. Bossoutrot (2005) research has shown that when a society has access to financial services, the opportunity of preventing people from falling into poverty becomes larger and it also helps people to come out from it. Financial services, he claims, thus increases the productivity and welfare of people in an economy (Bossoutrot, 2005). Therefore financial systems and services are required that assist all people across societies and consist of multiple financial providers that offer a variety of services (such as credit, savings, insurance, remittances, pensions and mortgages). Finance for the lower income market is central to developing inclusive financial systems, since many of the world's poor have been excluded from traditional finance (FinMark Trust, 2006).

Traditionally, interactions between a commercial bank and its customer functions well as long as the customers possess all the required securities needed for a lending contract. However, as soon as the customer does not possess these, the bank is out of formal options and the customer is no longer a possible client. Morduch (2008) argues that poverty reinforces poverty, in the sense that the average bank, who are lending to poor people, has less loan balance, than a bank that lend to wealthier people. Morduch

(2008) draws the conclusion that poor people lose twice; they start off with less capital, since their income is lower, and as a consequence of this, they have a lower access to the credit market, which could enable them to start up a small firm and offer a way out of their poverty.

Meyer (1998) finds commercial banks to be an important source of external credit for small firms. However, the practice of lending is a business for commercial banks therefore the bank needs to choose borrowers that succeed with their business. An individual needs to be an entrepreneur with a successful plan, and the problem for the bank is to know which one of these entrepreneurs to select. There are various programs and techniques to follow for the bank, and rules that have to be set and taken into account before starting to lend (OECD, 1996). For example, when banks lend money to people there is always some sort of collateral involved such as a house or some other valuable assets. It is to make sure that the bank has something that they can rely on in case the borrower cannot repay their loan (Armendáriz de Aghion and Morduch, 2005). For poor people, who cannot offer any security for their loans, there exist no regular bank credits, with a market interest rate, since the bank cannot afford to take on the higher risk of a non-collateral loan in the traditional sense. In addition to collateral, the bank or the financial institution adds to the interest rate an insurance premium, which pays for the costs if the project does not succeed (Hulme and Mosley, 1996). Therefore, banks have generally been reluctant to invest in the SMME and informal sector in South Africa. Schoombee (2000:752) points out a number of reasons for this such as:

- Increased risk: SMMEs in the informal sector could default on loan payments, owing to diminished cash flow.
- The inability of entrepreneurs to secure their loans: lack of collateral as a result of general conditions of poverty and limited resources.
- The high administrative costs involved in screening loan applications: limited business know-how and a general lack of skills and education in this sector, inadequate forecasting and planning are done in preparation for a loan.
- The low return banks face when investing in informal sector: banks cannot be

expected to conduct business which is not profitable.

- The various difficulties which entrepreneurs in the informal sector experience: language and cultural barriers.

Hollis and Sweetman (1998) contends that it is necessary for commercial banks to begin providing financial services to the relatively poor people that cannot offer credit guarantees but present viable venture concepts that can result in lucrative businesses. However, the formal financial institutions find offering these services to this economy risky, costly and unprofitable (Nikoi, 1995). Ntsika (2002:111) proposes that the hesitancy of commercial banks to provide financial services to small business is not just because of conservatism or racial biased bankers. It stems from their experience with unrealistic loan applications, the lack of feasible business plans and market assessments, the statistically high failure rate of small business, irredeemable collateral, and other complications which make small business finance unbeneficial for financial institutions. Their failure to adequately meet the demand of SMMEs has therefore promoted microcredit as a method of enabling small business to acquire productive capital (Hollis and Sweetman, 1998). Rwigema et al (2008) suggest that the large number of potential entrepreneurs that are being excluded from the formal banking sector for a number of reasons including:

- *Poverty*: A large proportion of the South African population is classified as poor, and do not have the money to subsist, let alone start a new business or secure a loan.
- *Gini coefficient*: measure of the distribution of income in society. In South Africa, the coefficient is additionally skewed along the lines of race, with white South Africans laying claim to the greatest share of the income. A large proportion, particularly black SA, lack access to critical capital to start businesses.
- *Unemployment*: SA has a very high unemployment rate.

Smith and Smith (2004:508) points out that there are various sources of business financing where the providers have different objectives, capabilities and constraints.

Some like banks seek low-involvement, low-risk investments, usually of short duration. Others, like business angels, seek high-risk, high involvement investments of moderate to long duration. Different financing sources protect the value of their investments in different ways. The practices of private suppliers of finance are driven by different motives to that of the public sector finance institutions. The former must ensure a return on investment, which also justifies the need for necessary restrictions and criteria to minimize risk. Whereas the latter's responsibility is to economic develop for all citizens. Still, the reasons why SMMEs are turned down for finance points to underlying business problems, and not necessarily a failure of the system to provide finance to those that need it. It is also clear that identifying a lack of financial and business knowledge does not address the difficulty SMMEs experience in accessing finance. Private financiers are aware of the barriers and difficulties that SMMEs face when trying to access formal credit but the risks to operate in this sector is too high for them.

As a result of the above mentioned difficulties experienced when sourcing money from the formal banking system many potential entrepreneurs are discouraged to set up new venture therefore alternative sources of finance were conceived. These alternatives include micro-financing, government agencies, and the community-based lending (Rwigema et al, 2008).

2.5 The Emergence of Microfinance

Microfinance emerged as a new approach to fighting poverty, supporting SMMEs and creating jobs. It is defined as the facility of providing relatively small loans to poor individuals to create employment and generate income (Gutierrez-Nieto, Serrano-Cinca, and Molinero, 2007:131). It is reportedly able to reduce poverty by fostering self-employment in low income communities by providing loans for working capital to SMMEs (Bauchet and Morduch, 2011). Microfinance has two main goals: the first is to influence development that affects more clients in the poorer population level (Johnson, Malkamaki, and Wanjau, 2006). The second goal is to achieve the first goal in a way that achieves financial sustainability and independence for both the SMMEs and micro

finance institution (Mersland and Strom, 2007). Due to most operators being non-compliant, they are generally not serviced by poverty alleviation programs that provide sector-specific support services. The most important of these programmes has been microcredit, which provides small loans that are collateral-free to equally responsible poor group members that can employ themselves and generate income (Rahman, 1999:67). Microfinance has enabled SMMEs to procure machinery, and improved position to hire labourers which decreased their reliance on labour brokers (Rahman, 1999). Rwigema et al (2008) suggest that micro-credit provides an imperative source of finance for entrepreneurs that have been marginalised from participating in formal banking system. In South Africa the sources of microfinance include:

Matshonisa	Private Institutions	Non-governmental Organisations
The informal moneylenders in townships and rural SA. Borrowers are expected to their loan together with the interest amount, which varies according to the amount borrowed, as soon as they get their monthly income. Siyongwana (2004:855-856) identified a number of key characteristics of informal moneylenders: • Loan sharks. • Service the needs of the poorest of the poor. Those that have been denied funding by the formal banking sector as result of a lack of security. • Transactions are based on trust (or fear) and knowledge of the clients little or no paperwork. • No records are kept of the transactions and few or no costs of administration. • Rural borrowers use money for productive purposes as well as for consumer goods. • Borrowers are largely middle-class salaried individuals who use loans to supplement their existing income.	Micro-lenders in the private sector provide small loans of, on average R 1 600, which are collateral-free, for the term of the loan. Micro-lenders require proof of income and ID documents before granting a loan, thereby excluding survivalist households (Baumann, 2005). • Regulated by MFRC as well as the NCA.	They usually serve as a channel for donor funding. (Baumann, 2005) points out a number of issues which hamper the ability of pro-poor NGO micro-finance institutions: • Most NGOs providing pro-poor micro finance operate in rural areas, and are far from their clients. • Penetration levels are particularly low. • More clients training is needed given the high levels of illiteracy among potential loan recipients. • NGOs have fairly high attrition rates of loan officers. • NGOs providing micro-finance might succumb to SA's restrictive labour relations environment. • South Africa lacks capacity building resources for pro-poor NGO's in general.

Sources of micro-finance (Rwigema et al, 2008:337-340)

Traditionally microfinance organisations have been subsidized by governmental or nongovernment organizations (NGOs) (Hollis and Sweetman, 1998). Where subsidies were provided, the microfinance institution would direct it to operational costs, small interest rates or relaxed repayment terms. Microfinance organisations also grappled with the function of savings with certain organisations prescribing saving as a precondition for funding but others choosing to remain focused on the provision of credit. The Grameen Bank attempted to encourage savings by its members or other locals. Hulme and Mosley (1996:56) shows that encourage savings are inclined to have lower amounts of nonpayers. Although savings may be key in terms of long-term sustainability of microcredit providers it may move focus away from the credit matters, and it also exposes those that choose to save to the same threats as the microcredit sources (Hollis and Sweetman, 1998).

Certain micro financiers placed strict limits on loan sizes and granting of multiple loans to safeguard that the financial assistance reaches those that need it most. This approach conflicts research that has shown that by granting second or third loans, the microfinance institution would already have acquired a profile on the borrower and it could persuade repayment by proposing larger amounts in the future if settlement is reached without default (Stiglitz and Weiss, 1983). Certain micro financiers have sustained the limits on their loan sizes because it permits them to focus their resources on the poorest debtors, while successful debtors are encouraged to join the ordinary banking system (Hollis and Sweetman, 1998). The Grameen Bank, for example, only services debtors with resources that are worth less than half an acre of land (Khandker, Khalily, and Khan, 1995).

From its beginnings in the late 1970s, the idea has been that access to small loans can help poor families build businesses, increase incomes, and exit poverty has blossomed into a global movement (Roodman and Morduch, 2009). The movement has captured the public imagination, drawn billions of dollars in financing, reached millions of customers, and garnered a Nobel Peace Prize in Bangladesh (Roodman and Morduch, 2009). According to Von Pischke (2002) modern microcredit has advanced since then to become more than just particular institutions that offer advances and savings to poor

persons at the margins of the financial markets. New microcredit providers are often non-profit organisations that service entrepreneurs and SMMEs that do not generally have access to a credit from formal banking organisations (Gutierrez-Nieto et al, 2007). Their goals have been to provide jobs for the public and create potential economic growth, or to offer income-openings and services to decrease poverty. Another objective that has materialized is the promotion and aid to small firms run by entrepreneurs who would normally not have had access to the financial market due to lack of collateral or that they are included in disadvantaged groups, like many women (OECD, 1996). Reille and Foster (2008) believes that the supply of microcredit has increased remarkably in the last years, mostly due to the entry of the individual investors and successes of Prof. Mohammad Yunus and the Grameen Bank in Bangladesh who were awarded the Nobel Prize for Peace, for their contribution to the reduction in world poverty. Professor Yunus started his now famous Grameen Bank in 1983 and with that he re-launched the microcredit method of lending money to poor people instead of giving them aid. The idea with the loans is to help poor people start up new businesses or to be used for emergency needs (Morduch, 2008).

The UN has recognised that:

> “microcredit “is not a panacea for poverty and related development challenges, but rather an important tool in the mission of poverty eradication ... [as] poverty is a multidimensional problem, embedded in a complex and interconnected political, economic, cultural, and ecological system”(United Nations, 2007:4).

Critics of microfinance have reservations about whether access to credit will cause the required shrinkage of poverty. Their assertion is that microfinance is not reaching the individuals that need it most (Scully, 2004), and that the poor are further marginalised from microfinance programs (Simanowitz, 2002). Ciravegna (2005) states that the poor persons choose not to join microfinance programs due to an absence of confidence and adversity risky credit. These marginalised individuals are largely too opposed to risk to borrow for investment in the future. Consequently the poorest people will receive narrow

benefit from microfinance initiatives. Prejudice from staff at microfinance institutions could dismiss the poorest people because affording access to credit is considered too risky (Hulme and Mosley, 1996; Marr, 2004). The due processes of these institutions are also inclined to the exclusion of the poorest people since applicants are required to have a registered business in order to be approved for loan finance (Kirkpatrick and Maimbo, 2002; Mosley, 2001). Finally, critics of microfinance are uncertain to whether microfinance is reaching its target market of youth and women. Studies have shown that women are more dependable and have higher repayment ratios which should mean that affording women access to microfinance should reduce poverty within households. However critics dispute these studies and suggest rather that women are pressured into giving the finances acquired to their men, who then use it for their personal objectives. This scenario creates further problems for the women who are held accountable for settlement of the loan (Goetz and Gupta, 1996). Although microfinance is proven to reduce poverty and fosters self-employment in low income communities' critics of Grameen Bank microcredit model of supporting SMMEs argue that supporting larger businesses may instead create more and better jobs for poor individuals (Karnani, 2007; Dichter, 2006). Karnani (2007) points out that individuals who start a microenterprise and borrow from microfinance institutions may prefer to find employment at steady wages, but turn to self-employment when wage jobs are unavailable (Emran, Morshed, and Stiglitz, 2007). These individuals may lack the skills or motivation to be successful entrepreneurs (Banerjee, Duflo, Glennerster, and Kinnan, 2010; Crépon, Devoto, Duflo, and Parienté, 2011). Nonetheless, even when considering all these concerns and criticisms very little doubt remains whether microcredit providers can produce a substantial transformation in the continued existence and prospects of SMMEs (Hulme and Mosley, 1996).

2.6 Enterprise Development: A South African Perspective

Since 1994, the South African administration has initiated and employed a range of policy plans aimed at fiscal restructuring and in particular plans that promote the vision and objectives of redressing economic disparities and unequal progress. Legislative policies such as the Preferential Procurement Policy Act, Act 5 of 2000 (PPPFA), the Broad Based Black Economic Empowerment Act, Act No. 53 of 2003 (BBBEE Act), the National Small Business Act, Act 102 of 1996 (NSBA), and the Petroleum Resources Development Act 28 of 2002 are for the realisation of the governments goals to diminish socio-economic problems. These Acts and other related policies, reinforce both the Bill of Rights and governments obligation to the Constitution of the Republic of South Africa, Act 108 of 1996 (Constitution). The 1995 White Paper on Small Business Development highlights the goals of the South African SMME promotion strategy as:

- Economic growth and development;
- Poverty alleviation;
- Income redistribution;
- Employment creation;
- Economic empowerment of previously disadvantaged population groups;
- Democratization of economic participation;
- Replacement of the present rather oligopolistic structure of the economy with one that allows a much higher degree of competition.

This significant strategic move since the implementation of the White Paper is the amalgamation of more institutions into the field of small business development and a more collaborative approach by government towards its associates in the public and private sectors. The National Small Business Act (1996) is therefore credited as the South African governments' attempt at exploiting the economic potential of a robust SMME sector and showing their dedication to its advancement and growth. The government's focus shifted from merely intending to boost the creation of new ventures, but also the formation of a conducive and sustainable business environment to that encourages the survival and growth of small businesses. According to Van Eeden,

Viviers and Venter (2003) the National Small Business Act (1996) has also been instrumental in the establishment of a favourable environment for entrepreneurs and SMMEs by providing for financial and non-financial governmental assistance. The following areas have been identified by government as possible enterprise development financial and non-financial initiative targets (Government Gazette, No.32305 2009:21):

- Management and labour skills transfer
- Establishment of administrative systems
- Establishment of cost control systems
- Planning, tendering and programming skills transfer
- Business skills transfer with emphasis on entrepreneurial and negotiation skills
- Technical skills transfer with emphasis on innovation
- Legal compliance
- Procurement skills transfer
- Establish credit rating/history
- Establish financial loan capacity/history
- Contractual knowledge transfer (Government Gazette, No.32305, 2009:21)

In order for SMMEs to qualify for enterprise development assistance according to the Codes of Good Practice the SMME must be a legal entity compliant with the South African Revenue Service. The business owner must employ at least three other people permanently and the business must be 50% or more black owned or 30% or more black women owned (Government Gazette, NO.32305,2009). Local procurement and enterprise development has emerged as a means to achieve these objectives by applying entrepreneurship to effect growth of enterprises. As its definition states, the objectives of enterprise development are to contribute to the sustainable development of small business in order to ensure their financial and operational independence (Department of Minerals and Energy, 2010: IV). The mission of enterprise development is to assist the competitiveness and transformation of the SMME sector, capturing economic value, and present opportunities to expand economic growth that allows for creation of decent jobs and widens scope for market access of South African capital

goods and services (Department of Minerals and Energy, 2010:2). In order to achieve this, the mining industry must procure services from BEE entities in accordance with the following criteria (Department of Minerals and Energy, 2010:2):

- Procure a minimum of 40% of capital goods from BEE entities by 2014.
- Ensure that multinational suppliers of capital goods annually contribute a minimum of 0.5% of annual income generated from local mining companies towards socio-economic development of local communities into a social development fund from 2010.
- Procure 70% of services and 50% of consumer goods from BEE entities by 2014.

The targets above are exclusive of non-discretionary procurement expenditure (Department of Minerals and Energy, 2010:2). The Codes for Good Practice Section 9 enacted in the Broad-Based Black Economic Empowerment Act 53 of 2003 cconsider the elements captured in table 2 to be the core components of the government's Broad-Based Black Economic Empowerment (BBBEE) strategy. BBBEE is governed by legislation, and therefore Codes of Good Practice have been put in place to measure compliance of South African businesses to transformation through a scorecard (Cargill, 2010).

Table 2: Current BBBEE Scorecard

BEE Elements	Weighting
Ownership	20
Management Control	10
Employment Equity	15
Skills Development	15
Preferential Procurement	20
Enterprise Development	15
Socio-economic Development	5

A company achieves a BEE recognition level on the basis of the total scorecard results. The Codes are applicable to all companies, with the exception of small to micro enterprises up to R5m annual turnover but business up to this threshold but less than R35m turnover can choose four of the seven elements by which to be measured (Cargill, 2010). There is no legal obligation for privately owned companies to comply with the codes, with the exception of the mining industry but failure to comply carries significant risk to doing business in South Africa (Cargill, 2010).

Enterprise development stipulates that South African corporates should spend 3% of their annual profits on support for black owned enterprises. This can be done either directly or by pledging funds to enterprise development agencies that work with eligible

companies (The Entrepreneurial Dialogues, 2009). There is a perceived lack of interest in enterprise and supplier development in the corporate sector for a number of reasons such as its positioning as a social objective rather than a commercial exercise that could be rewarding for both entrepreneurs and the corporates who provide funding. As a social objective, ED goes against the principle of maximising profits and there is no buy-in from top management as ED tends to be viewed as burden. The current mind-set of management is to get as many points as possible, with minimum effort, time, and resources put into ensuring that ED funds are appropriately disbursed (The Entrepreneurial Dialogues, 2009).

It is imperative for corporates to understand that ED can be much more than just a social investment. It can be a profitable exercise that can add significant value to the business. Interesting business case studies conducted in the US and the EU has shown that ED can be successful. For example, Investments in a company's value chain improve competitiveness, cost efficiency and quality – which all ultimately improve profitability. Corporates could have a lot to gain by applying this approach to their ED funding. When ED is positioned to resolve a social problem, it is inefficient and unsuccessful; a grave unintended consequence is that it makes entrepreneurs over-dependent on corporate 'hand-outs'. When South African corporates see the commercial rewards of a successful ED programme, top management will be more willing to include it in their business planning, budgeting and other business processes (The Entrepreneurial Dialogues, 2009).

Therefore the Advisory Council of the DTI has developed key recommendations and changes on areas that need refinement on the current Codes for Good Practice in order to strengthen broad-based black economic empowerment (BEE). B-BBEE Amendment Bill has been presented to Cabinet and approved for public release and commentary. The 60 day public commentary period started on the 4 October 2012 and will be concluded on the 4 December 2012 and the Bill will be going through the parliamentary process for finalisation. The revised Codes have far reaching consequences for businesses in South Africa such as:

- Revised allocation of points on all elements of the scorecard to emphasise new areas of importance to Government
- Revised the qualification criteria for awarding of a B-BBEE status
- Compliance with sub-minimums for Ownership, Preferential Procurement, Enterprise Development and Skills Development is now a requirement for eligibility for scoring on the Generic and Qualifying Small Enterprise (QSE) scorecards
- Elevated more than 50% black owned and 30% black women owned, black youth-owned or black designated groups-owned Exempted Micro Enterprises (EMEs) automatically qualify as a level 2 contributor; and
- 100% black owned and more than 50% black women owned, black youth-owned or black designated groups-owned EMEs automatically qualify as a level 1 contributor
- EME and QSE thresholds increased from R5 million to R10 million and from between R5 and R35 million to between R10 million and R50 million respectively
- QSEs must comply with all the scorecard elements
- Total points on the scorecard increased from 100 to 105
- Number of scorecard elements reduced from 7 to 5

Table 3: Comparison between Current and Revised Scorecards

Element	Code series reference	Current Weighting	Revised Weighting
Ownership	100	20 points	**25 points**
Management Control and Employment Equity		10 points	**Consolidated with Employment Equity 15 Points**
Employment Equity	200	15 points	**N/A**
Skills Development	300	15 points	**20 points**
Preferential Procurement	400	20 points	**Consolidation between Preferential Procurement and Enterprise Development 40 points**
Enterprise Development	500	15 points	
Socio-economic Development	600	5 points	**5 points**
TOTAL		**100 POINTS**	**105 POINTS**

The aim of these measures is to reduce the failure rates of these SMMEs thereby creating a positive entrepreneurship culture, improving the contribution of small business to economic growth, promote capacity among implementing agencies, and strengthen public-private partnerships (Rogerson, 2001). Cargill (2010) suggests that enterprise development is considered as one of the core components of the government's BBBEE strategy and this strategy is based on three pillars:

- Promotion of entrepreneurship through campaigns, leadership training and

awards

- Strengthening the enabling environment through more flexible regulations, better access to finance and markets, improved infrastructure facilities and business support,
- Enhancing competitiveness and capacity at the enterprise level through skills training, more focused quality-, productivity- and competitiveness-support and the facilitation of technology transfer and commercialisation of incubation (Cargill, 2010).

Pretorius and Van Vuuren (2003:519) therefore decided to investigate some of the programmes implemented by the South African government to increase enterprise development specifically the three implementation arms of the DTI namely:

- Industrial Development Corporation (IDC)
- Small Enterprise Development Agency (SEDA)
- Khula Enterprise Finance

The Industrial Development Corporation (IDC) established in 1996 to be a self-financing national development institution. Its main purpose is to promote the sustainable economic growth and the empowerment of the population in the country (Ntsika, 2002:129). The IDC has reportedly created thousands of direct jobs and billions of Rands in export earnings through SMME funding. The IDC has structured its service offerings to the entrepreneurs needs and the funding is done on the basis of debt or equity or a combination of the two (Ntsika, 2002:128).

The Small Enterprise Development Agency (SEDA) in 2004 was created to provide information on access to finance, market opportunities, how and where to access education and training. SEDA is responsible for non-financial services like marketing, training programmes, procurement advice, technology assistance, and mentoring businesses. Most of these services are rendered to SMMEs through services providers, such as Tender Advice Centres (TACs), Manufacturing Advisory Centres (MACs), Local Business Services Centres (LBSCs), Non-Governmental organisations (NGOs), and

Community Based Organisations (CBOs).

Khula Enterprise Finance Ltd was also established in 1996 in attempt by the South African government to attend to the issue of access to finance (Luiz, 2002). Khula provides assistance directly to entrepreneurs. It is a wholesale financier, which facilitates access to finance for SMMEs through mechanisms such as commercial banks, retail financial intermediaries (RFIs), and micro credit outlets (MCOs). According to Rwigema and Venter (2004:395) 1.5 million people have benefited directly or indirectly from Khula's assistance since.

Pretorius and Van Vuuren (2003:519) found that the core focus of these programmes includes finance, growth, expansion, and competitiveness elements that are more relevant for existing businesses. A review of the role and performance of these national agencies since its inception has however revealed that they have by-in-large been unsuccessful in bringing about the Government's SMME objectives (Nigrini and Schoombee, 2002). Monkman (2003) also conducted research that analysed the performance of government agencies to stimulate SMME development against key objectives and the study found:

1. Gaps between the needs of businesses and the services offered;
2. An inability of Government to build entrepreneurship; and
3. High levels of administration that negatively influence the productivity of the Government funding process.

Due to Government's separation of business development services from the provision of financial services these initiatives do not address the practical challenges facing South Africa's entrepreneurs (Ray, 2010). The current Government programs that support SMMEs target high growth firms, or those enterprises deemed more likely to succeed. This is particularly true in the informal economy, where only a very small group of entrepreneurs are identified to access business finance and business support services (Ray, 2010).

Ligthelm (2008) states that if local SMME development and growth is the desired goal for government programs, then the focus should be on small business growth potential, or the upper portion of the SMME sector that has the characteristics of a successful business, instead of broadly targeting the sector as a whole. Specifically, Lighthelm advises that policy initiatives should advance a dual approach. Firstly, target small businesses on an individual basis through traditional support programs. Secondly, design collective support programs to target survivalist businesses that exhibit limited growth potential, with a view to improve the overall business environment. Such a strategy will ensure the efficient allocation of resources for SMME development and growth (Ligthelm, 2008).

Therefore, Ray (2010) finds that SMME development in South Africa through existing government programs and efforts have had a limited effect. Rogerson (2008) identified that a key research gap exists in the form of evaluations of the effectiveness of government-led versus a private systems approach to SMME support. There is particularly a lack of studies that look at the contribution of private enterprise development finance and the degree to which this private finance is an efficient form of financing for SMMEs (Ray, 2010). The United Nations (2005) proposes that enterprise development initiatives that are focused on financing should attend to market failures such as private sector development, employment creation, income redistribution, import substitution, local economic development, as well as improving the poor industrial sector or developing new industries. Green et al (2006) states that a gap exists in supply-side research on small enterprises, including studies on the forms of finance available, and the links of different forms of finance and the impact on SMME development as well as the role played by the private and public sector. Therefore, although there are many insufficiencies that need to be addressed in the SMME sector the focus of the study is on access to finance, more specifically microfinance as an aspect of enterprise development which has been a perennial problem for most SMMEs in South Africa (Herrington et al, 2010).

2.7 Corporate Enterprise Development Initiatives

Corporate enterprise development initiatives is situated amongst growing concepts advocating the role and potential of private businesses in development, and how the core competencies and a business approach of the private sector can drive the development in the communities in which they operate (Ray, 2010). Ray (2010:2) research finds that the private sector can be an efficient tool to establish, grow, and develop small businesses for various reasons, first of all, private financiers look carefully at the character of the borrower, to detect elements of a successful entrepreneur and business venture. Second, private financiers become engaged in different phases of the business project, to educate and mentor the entrepreneur. Private sector providers are also in a position to supervise various styles of business development for SMEs. These interventions enhance the chances of small businesses to be successful in the long-run. Third, private financiers are also more efficient in bringing other investors to finance SMEs. The private financial market can act as a powerful stimulus for the SMME sector by providing a real and steady source of demand. Private companies that choose to provide enterprise development interventions are required to do their own checks and balances in order to manage their risk when dealing with SMMEs (Government Gazette, No.32305, 2009). Thus, companies may have to work closely with the SMMEs to ensure that their interventions produce substantial and sustainable outcomes so that targets are met. The advantage of this approach is that it also creates a positive externality in that the SMMEs benefit through skills transfers from much needed business support services. Corporate enterprise development initiatives could have the ability to improve SMME performance and facilitate growth in these small businesses which should generate new job creation and therefore contribute to economic development. Tendler (1994) however argues that limitations exist with regard to this approach in South Africa for the following reasons:

- The corporate sector is not really interested in outsourcing notwithstanding knowledge of international experience;
- Links that do exist are merely cosmetic to look politically correct;

- The subcontracting relationships which exist have a monopolistic element to them leading to dependence.

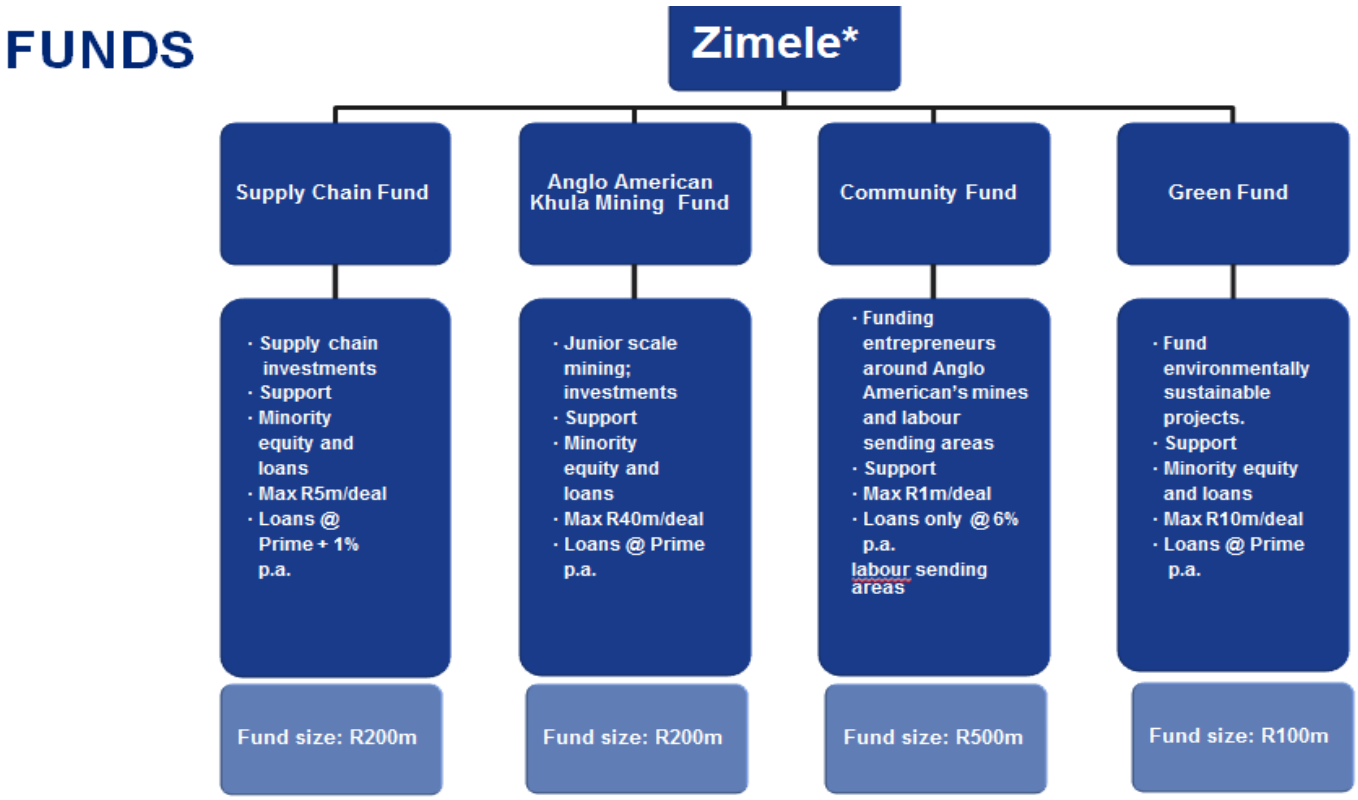
On the contrary, Luiz (2002) found that the companies that he examined in his study had real commercial opportunities in outsourcing and nothing cosmetic was apparent. He states that no real evidence of monopolistic relationships were evident (with the possible exception of the state, which through its late payment was holding companies financially hostage) (Luiz, 2002:56). The spectrum of enterprise development initiatives ranges from purely financial support, to a combination of financial and business support services, strictly business support services and business mentoring, and business incubation centres (Ray, 2010:35). A need exists in the South African SMME sector for small business to contribute more meaningfully to job creation; economic growth and more equal income distribution, therefore more comprehensive support initiatives and programmes are required. Below are some examples of enterprise development initiatives undertaken by private institutions that exhibit the mixture of finance and non-financial SMME support services:

2.7.1 Anglo American Zimele

In 1989 Anglo and De Beers established their Small and Medium Enterprise Initiative (SMEI) to formalise and dramatically expand their links with SMMEs. This represents one of the first corporate enterprise development initiatives in South Africa (Luiz, 2002). The objective was to empower black entrepreneurs through the creation and transformation of sustainable, profitable businesses. Anglo American Zimele is divided into four separate funds – the Supply Chain Fund, the Anglo American Khula Mining Fund, the Community Fund and the Olwazini Fund. The funds operate on a commercial basis, albeit with the social purpose of creating sustainable and economically viable enterprises by providing equity/loans, mentoring and access to value-enhancing opportunities.

As at 30 June 2012, these funds concluded 1751 transactions and provided R 655 million in funding for businesses that employed 23 002 people and were responsible for a turnover of R 2 475 Billion.

Figure 1: Anglo American Zimele Structure (Anglo American Zimele Presentation, 2012)



Luiz (2002:56) states that Anglo American Zimele is generally a success story which shows the potential for enterprise development. Zimele has had their share of failures too but their 23 year involvement with SMMEs, shedding a number of their non-core activities (thereby improving efficiency) in the process of creating SMMEs and has turned this unit into a profit-generating centre. It shows that such links can be profitable for both partners. The experiences of this initiative should, however, be more widely shared as it has the potential to stimulate similar endeavours by other large corporations (Luiz, 2002).

Table 4: Anglo American Zimele Salient Figures 2008 to 2012 (Anglo American Zimele Presentation, 2012)

SALIENT FEATURES
All funds 2008 to 30 June 2012 (BCTA)

	Total	Supply Chain Fund	Anglo American Khula Mining Fund	Community Fund	Green Fund
Number of transactions	1,751	44	20	1,684*	3
People employed	23,002	7,427	1,152	14,254	169
Turnover – Rm	2,475	944	462	1,063	6
Funding - Rm	655	111	176	367	0.8
Female entrepreneurs supported	35%	25%	14%	36%	66%
Youth supported	48%	11%	25%	49%	0%
* Companies	1,257	44	20	1,190	3
Repeat transactions with the same companies	494	0	0	494	0
Total	1,751	44	20	1,684	3
Cost per job - R	28,475	14,945	152,777	25,747	4,733
Average loan repayment rate		86%	90%	80%	80%

2.7.2 Xerox

In 1991 Xerox, in an attempt to increase its market share, adopted a strategy that incorporates the best elements of franchising and agencies into its concessionaires programme (Luiz, 2002). Xerox South Africa's growth of its local channel through its traditional dealer network and more metropolitan-based concessionaire programme has seen the company grow its channel revenues year on year by 25%. Xerox`s concessionaires are independently run businesses responsible for selling in specific regions to SME organisations (http://www.itweb.co.za/office/bytes/PressRelease.php?StoryID=46382).

The concessionaires secure orders and place them with Xerox, which will then process the orders and ensure their delivery. The concessionaires do not therefore have to purchase the equipment themselves. They are awarded

dealer prices and are free to work out their own margins as long as these do not exceed the recommended prices. Various incentive schemes are in place to reward sales, such as rebates based on their level of purchases. Xerox will loan up to 50% of initial funding (total start-up cost is anticipated at R 100000 - significantly lower than franchise agreements) (Luiz, 2002). Xerox also provides a comprehensive and continuous training programme on various facets of the business: Xerox processes, product training, human resource and sales training. For each concessionaire, a Xerox director will be appointed to their board purely on an advisory basis. These Xerox people will be appointed to compensate for areas in which the entrepreneur may be lacking in skill (Luiz, 2002).

The concessionaire programme is another example of innovative enterprise development and for South African entrepreneurs. It has the advantage that it requires no royalty or franchise fees to be paid by entrepreneurs and thus makes it more accessible to small businesses. These entrepreneurs gain access to Xerox international technology and investment in R&D. They indirectly become part of a multinational corporation and they gain access to Xerox training and sales skills and are able to free ride on its marketing strategy (Luiz, 2002). A drawback is that real equity is not acquired by the entrepreneur. The XFM programme brings outsourcing to the fore and has potential spin-offs in the realm of black economic empowerment through joint-venture companies (Luiz, 2002).

2.7.3 South African Breweries

The South African Breweries Beer Division's (SAB) commercial equity programme seeks to engage or create enterprises that are owned and/or controlled and operated by people from historically disadvantaged backgrounds in sustainable and mutually beneficial relationships (Luiz, 2002:59). The objective was to transform SAB’s supplier base so as to better reflect the realities of South African demographics and thereby to spread the benefits of dealing with SAB more equitably. Due to the new political dispensation SAB has therefore embarked on a repositioning strategy to exploit the opportunities that

were available (Luiz, 2002). As Janine van Stolk, SAB's Communications Manager explains, "For us, business and economic transformation is not a new concept". "For example, we launched our owner-driver scheme, in terms of which we assist former employees to launch their own transport companies and deliver our products to the trade, in 1987; today, they deliver around 60% of SAB's beer" (http://www.sabmiller.com/index.asp?pageid=149&newsid=821). He also goes on to say that, "Enterprise development is an integral part of our business' long term sustainability, helping to create jobs and wealth in the communities where we operate". "Encouraging enterprise development in our value chain is a key sustainable development priority for SAB, and our activities in this area are numerous and well integrated into our day to day business" (http://www.sabmiller.com/index.asp?pageid=149&newsid=821).

SABs enterprise development strategy is grounded in two areas that are important in the arena of black economic empowerment, namely equity access (ownership of the means of production), and operational management (skills transfer) (Luiz, 2002:60). SAB has examined its value chain looking for every conceivable opportunity to promote affirmative outsourcing. It has tried to ensure that black firms are made part of every aspect of the SAB value chain without compromising quality, service or cost effectiveness. SAB prefers the previously disadvantaged to have at least a 50% share although a smaller equity may be acceptable if the deal is really large. This it terms affirmative procurement (Luiz, 2002:60).

SAB’s commercial equity programme has its roots in the owner-driver scheme which was launched in 1987 (Luiz, 2002:60). SAB believed that the delivery side had outsourcing potential, but instead of looking outside the company, it realised that it already possessed a fleet of trucks and had existing drivers who had the necessary skills and understood SAB’s customer service ethos. However, they did not possess the necessary entrepreneurial skills. SAB thus undertook to support and train them in the area of business management including book-keeping, income tax and legal requirements, cash flow arrangements, and industrial relations. In the process SAB has shed its non-core activities which are in line with current international business practice. The

SAB programme is one which other firms could quite easily adopt as it requires little investment from the company (Luiz, 2002).

Initiatives like these and others in response to legislated local procurement and enterprise development are needed for SMMEs to increase their contribution to job creation, equity and access to markets. They are in touch with the local communities and can therefore obtain information about the loan taker at low cost. Their interest is generally not profit motivated but the creation of jobs, women's employment, development, and green issues. The Small Business Development Act (1996) indicates that up to 78% of the small businesses started in South Africa eventually failed. Therefore the private sector has an important role to play in addressing SMMEs' inadequacies in areas such as access to finance, knowledge transfer, and demand problems (Luiz, 2002). The aim of these initiatives is the reduction of the failure rates of these SMMEs thereby creating a positive entrepreneurship culture, improving the contribution of small business to economic growth, promote capacity among implementing agencies, and strengthen public-private partnerships (Rogerson, 2001).

2.8 Microfinance as an Aspect of Corporate Enterprise Development Initiatives

Enterprise development institutions that provide microcredit have developed into opportunities for institutions in the public and private sector to make socially conscious investments (Reille and Foster, 2008). There is a large demand for microfinance in the world, however in most parts of the world there is limited supply (Bossoutrot, 2005). Ray (2010:59) in her study of SMME finance found that both public and private practitioners identified private finance as more efficient than public finance given the quicker turnaround time for due diligence. Turnaround is important since small businesses owners cannot afford to wait long periods to know whether an application for funding has been approved or not. The ability of private organizations to source a wider range of investments is also an efficiency factor of the private sector. Nearly all interviewees discussed how the private sector is not as constrained by bureaucratic rules, legislative mandates, political considerations, and a fixed budget, which

translates into a greater freedom of action and ability to act more quickly than public officials (Ray, 2010:60). However, it was also noted across all her interviews that government funded programs were considered important to micro and small enterprises that require small business loans where private finance is not available (Ray, 2010).

Enterprise development initiatives that provide microcredit have to be sufficiently robust to endure the numerous challenges in the South Africa rural environment. Most areas in the country are infrastructural deprived and many people live below the poverty line (Hilson and Ackah-Baidoo, 2011:1191). Conditions continue to deteriorate rapidly across certain regions due to a combination of inappropriate donor policies, questionable leadership, and poor governance. These schemes could help empower South Africans to generate incomes on their own in many of the rural areas. This solution takes a redistributive and direct approach to poverty alleviation, and could facilitate the development of independent, self-sustaining penny capitalism (Mosley and Hulme, 1998:783; Hilson and Ackah-Baidoo, 2011:1192).

Underlying these microfinance programs is the belief that financial constraints retard entrepreneurship and entrepreneurs' performance. Little agreement remains among researchers about the actual extent to which financial constraints impact on entrepreneurs' performance (Parker and Van Praag, 2006:416). Entrepreneurial performance may lead to favourable outcomes on one performance dimension and unfavourable outcomes on a different one. For example in this study, access to a micro-loan could lead to increase in resources and may enable the firm to increase sales growth and overall performance. However, the requisite loan repayment commitment will decrease short-run profitability (Lumpkin and Dess, 1996). Therefore research should consider multiple indicators of entrepreneurial performance.

2.9 Entrepreneurial Performance

Understanding how and why some entrepreneurs succeed remains a major challenge for the entrepreneurship research community. One indicator of

success of countries, firms and individuals is their entrepreneurial performance, which includes financial as well as non-financial measures (Iakovleva, 2002). Chandler and Hanks (1994:78) supports this notion as they noticed that performance is a benchmark by which the entrepreneur would measure his/her success. Different researchers have reported different relationships of entrepreneurial performance. For example, Davis (1977) viewed entrepreneurial performance as a function of motivation and ability. Some researchers substitute motivation and ability with willingness and opportunity. They consider the individual preferences for the special features of self-employment and available outside options and their perceived attractiveness as the determinants of entrepreneurial willingness and, in turn, performance (Prag, Van, and Ophem, 1995). There are other researchers who consider entrepreneurial performance as a function of entrepreneurial context. Accordingly, they hypothesise that entrepreneurial performance = f (Entrepreneurs' Social Backgrounds, Motivational Forces, Knowledge and Abilities, Financial Strength and Environmental Variables). Van Vuuren and Nieman (1999:4) proposes that entrepreneurial performance is based on two pillars of entrepreneurship, namely, the starting of a business or the exploitation of an opportunity and the growth of the business idea. They suggest that entrepreneurial performance is a linear function of motivation, entrepreneurial skill and business skills. On the other hand, Nordqvist (2010) describes entrepreneurial performance as an expression of the firms' requirements to overcome the burden of keeping up with changes in their environmental and organizational setting. Nordqvist (2010:23) also goes on to define entrepreneurial performance as the sum of an organisations innovation, renewal, and venturing efforts where innovation involves creating and introducing products, production processes and organizational systems. A review of the entrepreneurial performance literature has revealed macro, meso and micro levels of analysis which will be discussed below.

2.9.1 Entrepreneurial performance at national level

On a national level entrepreneurial performance is viewed as a crucial input or resource of the economic decisions (Ağca et al, 2008). Ağca et al (2008) have

suggested that various factors facilitate the entrepreneurial performance of businesses at a macro level, such as the ease of doing business in economy; the availability of venture capital for business development; the risk of political stability; the impact of values of the society on competitiveness; the availability of legislations for easily creation of firms; and the bureaucratic barriers for business activity amongst others. These factors can be categorized into five main categories namely finance; human resources; legal arrangement; social, as well as cultural and political infrastructure (Ağca et al, 2008).

Firstly, financial resources are one of the most necessary inputs for entrepreneurs. Therefore the existence of an effective capital market is a very important facilitator of entrepreneurial activity in every country (Ağca et al, 2008:236). Entrepreneurs acquire their financial requirements from various sources; the most important of these sources are families, banks, governments, financial markets, business angels and partners. Many studies have shown that the reason behind the rapid development of high technologies and entrepreneurship in the USA is strongly associated with ventures having access to finance (Çetindamar, 2002). Finance is essential to generate enough resources to translate new product or service ideas that entrepreneurs have, into the new product or service. Therefore without adequate resources it is impossible to create a new product or service. Entrepreneurs mostly start to seek finance owing to absence of any cash inflow in the early stages of new ventures. The inadequate financial position of entrepreneurs might be a big obstacle to transform new product ideas into product ready for sale (Aydemir, 2005).

Secondly, the entrepreneur is considered to be the keystone of entrepreneurship which directly refers to human resources. The demographic structure of a community or structural features of a population in a country inform about entrepreneurial potential of the society (Ağca et al, 2008:235). Herrington et al. (2010) study that South Africans aged between 25 and 44 years are the most entrepreneurially active, accounting for between 50% and 60% of all early-stage activity and that males in the population are 1.2 times more likely to be involved in early-stage entrepreneurial activity than women

which is a degree in previous the years 1.6 times. The employment and education level also affect entrepreneurial performance. Thus the level of education provides not only an infrastructure of entrepreneurial culture that encourages and generalizes entrepreneurship, but also it develops and improves required skills and abilities entrepreneurs use when they create and manage new business organizations (Tüsiad, 2002).

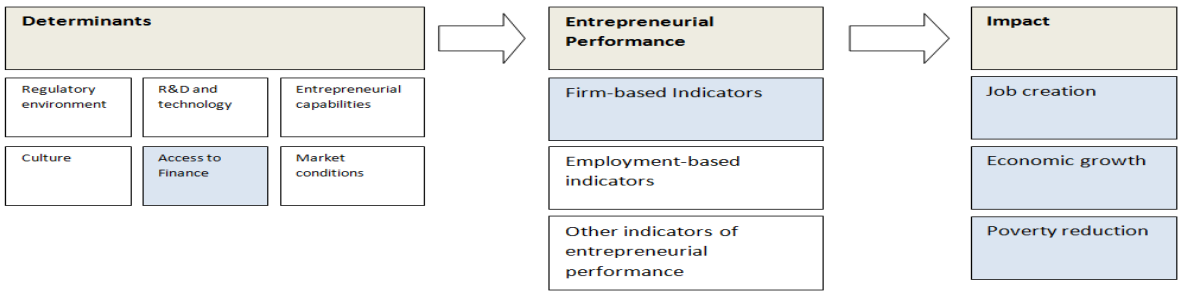
Thirdly, legal issues related to enterprises and entrepreneurs are the laws and legal arrangements towards proprietary, corporation law, tax and working life (Ağca et al, 2008:236). Entrepreneurs, who have technological breakthroughs, want to protect their ideas and inventions thus the protection of intellectual property rights is very important to encourage entrepreneurs for new inventions. Some deterrent effects associated with bureaucratic barriers and high costs to entrepreneurs towards formation of new business organizations are the important issues in terms of corporation law. Therefore, the facilitation of setting up and closing down a company is crucial for entrepreneurs (Ağca et al 2008:237). Similarly, it seems a necessity to support entrepreneurs especially at early stage of their enterprises by making new tax arrangements in the tax systems such as low tax rates, tax exemptions and tax benefits. It is argued that all these kind of practices may help making entrepreneurship more common in the societies. Entrepreneurship activities are more common and widespread in counties where tax rates and labour costs are low and flexible labour market exists (Tüsiad, 2002).

Finally, the social, cultural and political infrastructure of a country is crucial for the formation of entrepreneurship. Entrepreneurship is not only an effect of economic and technological factors but is also affected by values, attitudes, behaviours and institutional structures (OECD, 1998; Ağca et al 2008). According to Shane (2002) entrepreneurship implies patterns of thoughts, judgments, and behaviours. Thus, social acceptance of entrepreneurship is required for its development in a country. There are few people that will take risks, if risk taking isn't encouraged in a society. As the most successful example in terms of entrepreneurship and innovations, there is a social structure that supports and encourages in the USA. It is argued that structure

serves as a basis for entrepreneurial activities and innovations in the USA. Moral values, supports and corporative networks from the society provide easily solutions to the problems entrepreneurs face especially during the setting up stage of their firms. This makes great contributions for the development of entrepreneurial activities in a society (Tüsiad, 2002).

Ahmad and Hoffman (2008:18) also identified six determinants of entrepreneurial performance at a macro level namely access to capital, access to R&D & technology, entrepreneurial capabilities, market conditions, regulatory framework and culture as depicted in Figure 2.

Figure 2: Topic categories for entrepreneurship indicators (Ahmad and Hoffman 2008:18)



The model comprises of three stages; the first stage of the model contains the determinants that are shaped by national policy which in turn influences the countries entrepreneurial performance, alternatively defined as the amount and type of entrepreneurship that takes place (Ahmad and Hoffman, 2008). The final stage is the impact of entrepreneurship on higher level goals such as economic growth, job creation and poverty reduction. This model serves to aid policy makers understand how policies that they adopt will affect entrepreneurship and, eventually, the higher-level objectives in the economy and society (Ahmad and Hoffman, 2008).

The Global Entrepreneurship Monitor (GEM) is a worldwide research project whose objective is to measure entrepreneurial activity around the world through a comparison of national surveys around the world. The GEM approach goes beyond the limiting criterion of measuring entrepreneurial performance in terms of enterprise creation and focuses on other factors, particularly factors such as

on-going enterprise creation projects (Bonnafous-Boucher et al, 2011). However, this approach is also criticized for its methodological limits for it compiles different data sets and ends up with a ranking of entrepreneurial activity of all countries participating in the survey (Bonnafous-Boucher et al, 2011).

The GEM report of 2010 clearly indicates how South Africa is performing in relation to other countries with regard to entrepreneurship. In 2010, South Africa ranked 27thout of 59 countries, with its TEA rate of 8.9% being below the average 11.9 % of all participating countries (Herrington et al, 2010:4). In all the previous GEM surveys, South Africa's entrepreneurial performance in terms of relative position has consistently been below the average. 2010 was the first year that this trend has been reversed with South Africa's TEA rate of 8.9 % improving significantly on the 2009 TEA rate of 5.9%; however, it is still below the average 11.7 % for all efficiency-driven economies as well as significantly below the average 15.6 % for all middle- to low-income countries. According to the GEM data, a country at South Africa's stage of economic development would be expected to have a TEA rate in the order of 15 % (Herrington et al, 2010:4).

The OECD Eurostat entrepreneurship indicator programme represents an initial attempt to collect, compare and analyse international data on new job-creating enterprises. By measuring the rate of creation or closure of new companies, by studying the factors which enable them to grow, and by evaluating the impact of small companies on employment, economic activity and trade, the programme attempts to build a database capable of helping the public authorities develop an encouraging environment for entrepreneurship.

The OECD's approach focuses to a greater degree on determinants which cover a range of factors either favouring or constraining entrepreneurship. In this sense, the OECD's approach is more dynamic and exhaustive than the GEM's. It uses more performance inductors or factors that either promote or hinder it. However, like the GEM approach, it tends to emphasise the macroeconomic level. Evaluations of entrepreneurial performance are mainly applied at the national level and not an individual business level.

Table 5: Entrepreneurial performance and Impact (OECD, 2009)

Entrepreneurial Performance		
Enterprises	**Jobs**	**Wealth**
Rate of enterprise creation	Job growth rate in enterprises	Growth rate of enterprise turnover
Death rate of companies	Start-up rate per job	Start-up rate in turnover
Business Churn	Business ownership start up rate	Added value per start-up or small company
Survival rate at 3 and 5 years	Jobs in enterprises at 3 and 5 years	Performance in terms of innovation of start-ups and small companies
Proportion of old enterprises at 3 and 5 years	Average size of enterprises at 3 and 5 years	Export performance of start-ups and small companies
Impact		
Job creation		
Economic growth		
Poverty reduction		
Formalization of the informal sector		

The advantage of the OECD approach is that it covers not only enterprise creation but also the creation of jobs and wealth (Bonnafous-Boucher et al, 2011). The impacts of entrepreneurial performance on job creation at the national scale, as well as on economic growth, poverty reduction and the formalisation of the informal sector can thus be analysed at the level of individual countries. Like the GEM, the OECD provides an analysis of entrepreneurial performance focusing on determinants such as market access, access to funding, R&D and technology, and various forms of regulation, as well as entrepreneurial spirit and entrepreneurial culture.

Table 6: Determinants of entrepreneurial performance (OECD, 2008:1)

Determinants of entrepreneurial performance					
Regulatory framework	**Market conditions**	**Accessing Finance**	**R&D and Technologies**	**Entrepreneurial capacities**	**Culture**
Administrative barriers to entry	Anti-trust laws	Access to debt funding	R&D investments	Training and experience of entrepreneurs	Attitude to risk
Administrative barriers to growth	Competition	Business angels	University/industry interface	Business and entrepreneurship competencies	Attitude to entrepreneurs
Bankruptcy legislation	Access to the domestic market	Access to venture capital	Inter-firm technological cooperation	Entrepreneurial infrastructures	Desire to own business
Laws on security, health and the environment	Access to foreign markets	Access to other own capital	Technological diffusion	Immigration	Entrepreneurship education
Product regulation	Degree of public involvement	Capital markets	Broadband access		
Labour market regulations	Government contracts		Patents system; standards		
Justice and legal frameworks					
Social security					
Income tax					
Tax on capital					

2.9.2 Entrepreneurial performance at firm level

Studies on entrepreneurial performance have generally consisted of the effects of human capital and social capital of the firm on entrepreneurial performance. Frequently results would reveal the effect of human capital (Cooper, Gimeno-Gascon, and Woo, 1994; Van Praag and Cramer, 2001) or the effect of social capital (Yoon, 1991; Aldrich and Reese, 1993; Bates, 1994; Pennings, Lee, and Van Witteloostuijin, 1998) rather than a combination of the two.

Research suggests that human capital has a positive association with entrepreneurial performance which requires an investigation into its subsections such as the role of knowledge, experience and education. For example, prior knowledge strongly influences successful entrepreneurship (Storey, 1994;

Parker and van Praag, 2006). Moreover, it increases an individual's wealth of information and skills useful for the pursuit of an entrepreneurial opportunity, improves entrepreneurial judgment (Shane, 2000: 94), boosts business owners` entrepreneurial alertness (Westhead, Ucbasaran, Wright, and Binks, 2005), and prepares entrepreneurs to discover opportunities that are not apparent to others (Shane, 2000; Venkataraman, 1997). Storey (1994) emphasises experimental studies agree that the level of education of the entrepreneur is a significant positive contributing factor of firm growth. Learning has started receiving many pundits from both academics and practitioners (Harrison and Leitch, 2005). It is the learning process that produces knowledge, which is categorized into vicarious learning (learning by observing) and experiential learning (learning by doing). Shane (2000) emphasizes the importance of vicarious learning to the extent that much of the information and skills necessary for the exploitation of entrepreneurial opportunities can be learned through observation of others. In general, learning and knowledge are central for small businesses and their success (Levinthal and March, 1993; Zahra and George, 2002).

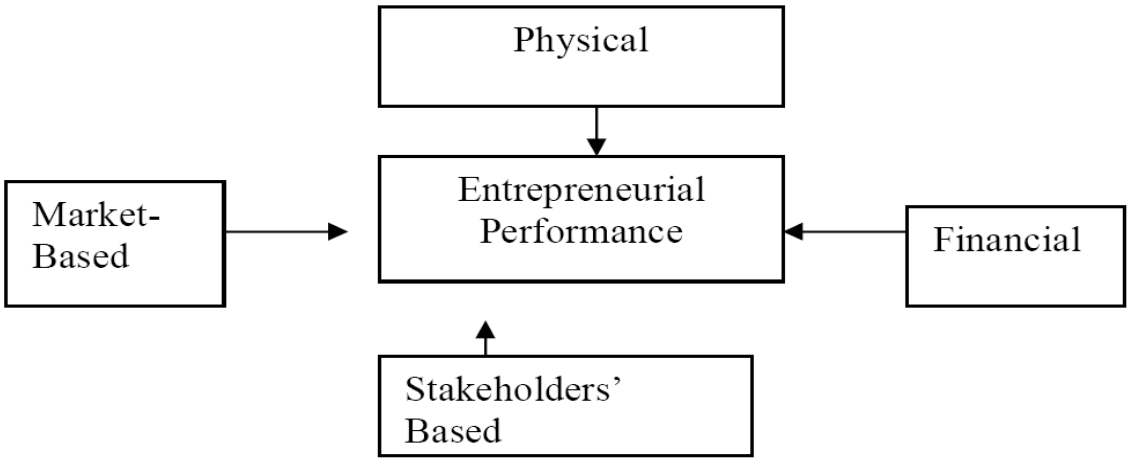
While human capital is a combination of individual's attributes, skills, or experience, social capital is actual or potential values and benefits resulting from his/her own social interactions and networks. The notion of social capital encompasses human actions that are shaped by societal factors. According to Putnam (1993), social networks provided by extended family or community based relationships are likely to amplify the effects of education, experience, and financial capital. In general, the effect of social capital on entrepreneurial performance is reflected in four aspects. First, social networks give entrepreneurs access to a variety of scarce resources (Zimmer and Aldrich, 1987; Bates, 1997; and Light, 1984). Second, social networks give entrepreneurs access to intangible resources such as credibility and competence (Bruderl and Preisendorfer, 1998; Bosma, Van Praag, Thurik, and De Wit, 2004). Third, since entrepreneurs are limited in their ability to assemble and absorb information for their decision-making process, they have to rely upon frequent external contacts, especially with distributors, suppliers, competitors, and customer organizations, to obtain necessary information and advices (Peters and Brush, 1996; Birley, 1985; Smeltzer, Van Hook, and Hutt,

1991; Brown and Butler, 1995). Fourth, social networks have reputational and signalling effects: Positive perceptions of a firm's network participation may lead to subsequent profitable business exchanges (Stuart, Hoang, and Hybels, 1999; Calabrese, Baum, and Silverman, 2000). In general, the characteristics of the networks in which entrepreneurs are embedded (such as size, density, diversity, centrality, etc.) are seen as identifying the impact of network participation on business performance (Hoang and Antoncic, 2003).

The ability to measure entrepreneurial performance proves to be a complex exercise for companies. It is considered to be an activity that is inherently messy, hard to control and fairly uncertain (Morris, Kuratko and Covin, 2008). Traditionally it has been measured through a set of economic indicators such as firm creation rate, survival rate, the percentage of enterprises taken over, the size of the SMME, and the percentage of SMMEs active in the export market (Bonnafous-Boucher et al, 2011:2). However in recent times various other approaches have been developed to measure entrepreneurial performance.

There are various measures of business performance include, longevity of survival or more popularly the age of the enterprise, sales growth, growth in market share, growth in market scope (local, national or international), growth in investment (in the same unit), growth in number of employees, profits and so on. Most of these are physical growth and financial growth parameters and have been the traditional measures of entrepreneurial performance. Of late, other measures of performance such as customers' satisfaction, employee satisfaction, image, credit rating, etc. are also becoming increasingly relevant. These measures are typically referred to as 'stakeholder-based' parameters. As the small firms grow into acquiring corporate identities, 'market' based parameters such as stock price, earnings per share (EPS) among others may also be the relevant measures of entrepreneurial performance. Figure 3 provides a look into the classification of the measures of entrepreneurial performance (Sethi and Saxena, 2009).

Figure 3: Measures of Entrepreneurial Performance (Sethi and Saxena 2009)



However, Jelinek and Litterer (1995) found difficulties in analysing entrepreneurial performance in companies. They argued for the importance of measuring the ways of thinking among those in the firm. They suggest that this approach would capture the constant innovation that results from entrepreneurial activity, which they call systemic flexibility. The authors conclude that shared management and measurement processes are necessary for facilitating a corporate culture and strategy that sustain entrepreneurial performance (Morris et al, 2008).

The purpose of measurement in highly entrepreneurial firms appears to differ from what it is in non-entrepreneurial firms. Management and measurement systems in entrepreneurial companies have much to do with firm's propensity for ambiguity absorption (Morris et al, 2008). The managerial systems in entrepreneurial firms are adept at dealing with high levels of ambiguity and uncertainty, which contributes to organisational flexibility. Ambiguity absorption is captured with measurement approaches that focus on cognitions, or how employees think, while also focusing on specific behaviours. Covin and Slevin (1991) emphasize the need to measure the frequency as well as the nature of product, service, and process innovations (failures and successes). The authors make it clear that flexible measurement systems must be designed to identify

emerging opportunities that arise while managers are busy tracking developments in existing products and markets as they evolve through their life cycles. Empirical evidence shows that the survival and post-entry performance of new firms depends on their capacity to adapt to the environment and apply the correct strategies.

Beyond the need to measure cognitions and behaviours is the importance of assessing performance outcomes that result from entrepreneurial actions within a firm. Consider the relationships between levels of entrepreneurship and company performance (Morris et al, 2008). During the 1980s, some argued that it was difficult for people to act entrepreneurially in what often had become bureaucratic organisational structures (Morris et al, 2008). At the same time, however, others were suggesting that companies of any size (in terms of sales volume and number of employees, among other dimensions), entrepreneurial actions were possible, should be encouraged, and could be expected to enhance firm performance (Burgelman, 1984; Kanter, 1985) (Morris et al, 2008).

2.9.3 Entrepreneurial performance at individual level

A brief summary of academic thinking on entrepreneurial performance would start in the 1950s and 1960s with David McClelland (1953, 1961) and others focusing on personality traits such as achievement motivation. In the 1970s and 1980s various other personality characteristics were also associated with entrepreneurial aptitude and success, such as locus of control, risk taking, problem-solving style, innovation, and values (Brockhaus, 1982; Hornaday and Aboud, 1971; Swayne and Tucker, 1973; Sonfield, 2008).

During the 1960s through 1980s, a second approach to the understanding of entrepreneurial success focused on demographics (Robinson, Stimpson, Huefner, and Hunt, 1991). People with certain similar backgrounds were predicted to be more successful in business ventures than were others. Demographic factors such as family background, birth order, role models, marital status, age, prior work experience, and work habits were identified as

predictors of entrepreneurial performance (Collins, Moore and Unwalla, 1964; Jacobowitz and Vidler, 1982; Sexton and Auken, 1982; Sonfield, 2008).

Both the personality traits approach and the demographic approach to explaining entrepreneurial success have received much criticism in recent years (Herron and Sapienza, 1992; Naffziger, Hornsby and Kuratko, 1994; Roberts, Stevenson, Sahlman, Marshalll, and Hamermesh, 2007). Today no one approach or explanation is universally or solely accepted (Busenitz, 1999), and an examination of the literature will provide a variety of factors which may correlate with entrepreneurial performance. For example, Becherer and Maurer (1999) focus on certain behavioural patterns; Bird (1988) sees entrepreneurial intention as the most important factor; Robinson et.al (1991) see "attitude" as the best explanation for entrepreneurial performance; Katz and Green (2007) concentrate on the entrepreneurial personality involving a variety of loose, non-psychological traits; and Roberts et al (2007:5) see entrepreneurship as a "behavioral phenomenon involving "the pursuit of opportunity without regard to resources currently controlled." Others have developed more complex models to explain entrepreneurial performance, such as Lumpkin and Dess' (1996) entrepreneurial orientation construct and the configurational approach" of Korunka, Frank, Lueger and Mugler (2003), both of which involve the total system of the entrepreneur, the company, and its internal and external environments (Sonfield, 2008).

The definition of entrepreneurial performance could create some confusion with the measure of entrepreneurial orientation. Entrepreneurial orientation (EO) is defined as an indication of entrepreneurial attitudes and practices at the firm level (Nordqvist, 2010:23). As such, EO determines a firm's inclination to be entrepreneurial, and is a measure of the firm's attitude to undertake entrepreneurial efforts. Callaghan and Venter (2011:30) explains that the five component dimensions of EO are namely, innovativeness, autonomy, proactiveness, competitive aggressiveness and risk-taking propensity, as suggested by Lumpkin and Dess (1996).

2.9.4 SMME Growth Measures of Entrepreneurial Performance

Brush and Chaganti (1998) find that there are a combination of factors that are important to positive performance and growth of SMMEs. Having previously discussed entrepreneurial performance it is important delve deeper into the performance measures of SMME growth. Business growth is typically defined and measured, using absolute or relative changes in sales, assets, employment, productivity, profits and profit margins (Olawale and Garwe, 2010:730). Although there are a number of factors that are found to be indicators and fundamental to the growth of firms in many empirical studies, many of the studies on firm growth has failed to recognize the heterogeneous nature of this phenomenon. Researchers have used numerous measures and methods for analysing firm growth, however there is still a need for a more comprehensive view on this issue.

Gibrat´s law has been a much revisited benchmark for research on the determinants of firm growth since its formulation in 1931 (Sutton, 1997). Classic economists found it difficult to explain the presence of firms with heterogeneous sizes. In this sense, Gibrat's Law explains the empirical evidence better. This law essentially states that a firm growth is independent of firm size. Empirical literature on the relationship between firm size and growth has for the most part rejected the model, while some have not been able to reject it when considering larger firms. Most empirical studies on the determinants of firm growth find that there is an inverse relationship between firm age and growth. For example Jovanovic (1982) suggests that firms only uncover their true efficiencies the older they get. Previous empirical literature suggests that other firm characteristics in addition to size and age may also affect firm growth. These characteristics include the firms' legal form, ownership structure and location among others.

Storey (1994) proposes that there are three categories of determinants that affect the growth of small firms and therefore the growth of new firms. The first category of factors relates to the person who founded the firm: his/her professional qualifications, family history, knowledge of the industry, etc. The second set of factors has to do with the organisation and characteristics of the

organisation or firm itself, e.g. the branch of industry or the legal form. The third category relates to strategic factors such as dependence on exports or technological standards, the competitive situation of the firm, or public subsidies.

It is therefore possible to propose that firm growth is affected by various types of determinants that can be divided into internal and external determinants. These determinants include:

Financial constraints have been suggested to be one of the most important barriers to growth (Storey, 1994). It has also been suggested, that especially small firms face difficulties in obtaining outside funding. Becchetti and Trovato (2002) find that firms' have been denied access to finance by their financial institutions are likely to have slower growth rates.

Firm age is a commonly investigated independent variable suggested to affect firm growth. The impact of this variable has been verified in the empirical literature. The general pattern between firm age and growth seems to be that young firms are more likely to grow faster. Almus and Nerlinger (1999); Davidsson, Kirchhoff, Hatemi-J, and Gustavsson (2002); Glancey (1998), Wagner (1995), and Wijewardena and Tibbits (1999) all find an inverse relationship between firm age and growth suggesting that older firms grow less rapidly than younger firms.

Firm size is another frequently investigated independent variable. The results of empirical studies on the relationship between firm growth and firm size are not equally unanimous. In most studies on small firms, e.g., Caves (1998), Harhoff, Stahl, and Woywode (1998), and Almus and Nerlinger (2000), Gibrat's law is rejected. Other studies, e.g., Evans (1987) and Hall (1987) suggest that deviations from the law become smaller when data on larger firms is used and finally Hall (1987) cannot reject the law for larger firms. The size of the firm at the time of formation is considered to be a major growth determinant as it suggests that the growth rate initially increases with firm size but then starts to decrease after a certain level.

Profitability of the firm has been identified as a determinant due to the fact that a number of surveys have suggested that small firms in particular are willing to finance their growth internally. Myers (1984) claims that capital structure is driven by the firms' desire to finance new investments first internally, then with low risk debt, and finally with outside equity only as a last resort. Carpenter and Petersen (2002) investigate a sample of small firms and find that the growth of small firms is constrained by internal finance.

A firms' location is another factor that influences a firm's operational environment and performance. Storey (1994) suggests that there are some locations in which firms are more likely to grow faster. According to research conducted in the U.K. firms located in rural areas can be expected to grow slower than those in urban centres. Davidson et al. (2002) obtains somewhat similar results by analysing firm in Sweden. His results suggest that firms located in a number of smaller communities grow slower that those located in the capital area. Almus and Nerlinger (1999) used regional population density as their location variable, and find weak evidence that location affects growth. Their findings show that firms located in densely populated areas exhibit higher growth rates.

The industry a firm belongs to helps to explain the different market conditions that the new firms have had to cope with. It is commonly accepted that firms in different industries exhibit different growth rates. Almus and Nerlinger (1999) split their sample into firms that operate high-tech, medium-tech and low-tech industries. Harhoff et al. (1998) use a sample of firms in the manufacturing, construction, trade and service industries.

Ardishvili, Cardozo, Harmon, and Vadakath (1998) and Delmar (1997) found similar growth indicators used in the empirical literature. Some of these indicators) are:

- The financial or stock market value
- The number of employees
- The sales and revenue

- The productive capacity
- The value of production
- The added value of production

Although all of these parameters are interconnected but not all of them react so quickly to external or internal changes. For example, it is obvious that sales are more changeable than productive capacity because firms can generally modify their sales more often than they can modify their assets. Kirchhoff and Norton (1992) compared employment, assets and sales and showed that they are interchangeable because they produce the same results when tested over a seven-year period. However, each variable can paint a different picture of the firm. These may be interesting depending on the purpose of the research. The purpose of this research is to determine whether corporate enterprise development initiatives that provide microfinance as an aspect of enterprise development programme have had a positive impact on SMME performance and ultimately LED. Therefore the most suitable variables for this outcome have been selected namely sales/turnover and employment growth.

Sales data are usually readily available and business owners themselves attach high importance to sales as an indicator of business performance. It is also easier to measure compared with some other indices and is much more likely to be recorded. Sales are considered to be a good indicator of firm size and may also be considered to be a precise indicator of how a firm is competing relative to their market (Barringer, Jones, Neubaun, and Donald, 2005). Sales can be easily influenced by a SMMEs decisions with regards to marketing strategies, financial decisions, and the like. Moreover, they can also be influenced by the decision to vertically integrate certain production processes and are sensitive to inflation and currency exchange rates (Delmar, Davidsson, and Gartner, 2003).

Shepherd and Wiklund (2009) find that employment growth seems to be the metric that shows best simultaneous validity. A strongly growing firm has the potential to create employment and product innovations generally positively impact employment (Harrison, Jaumandreu, Mairesse, and Peters, 2005). The use of employment as the measure of growth is very appropriate as it limits the

problems related to turnover and value-added measures, which are expressed in monetary units and may be affected by price changes in different countries (Goedhuys and Sleuwaegen, 2009). As Kimberley (1976) stated, the number of employees is the most widely used measure of growth and size. Moreover, employment is not sensitive to inflation or currency exchange rates. Scholars agree that this variable is a direct indicator of organizational complexity and is suitable for analysing the managerial implications of growth (Penrose, 1959). Obviously, using a measure such as the number of employees has several disadvantages. Delmar et al. (2003) mentioned that the number of employees does not reflect labour productivity increases, degree of integration, and other relevant decisions. Therefore the study will focus on these two different definitions of firm organic growth: employment growth and sales growth. As Hart (2000) argues that the limitation of using only the number of employees and sales is not important since all measures of size are highly correlated.

2.9.5 Hypothesis 1: Corporate enterprise development initiatives that provide microcredit positively influence SMME entrepreneurial performance at firm level.

a. ***H_{1a}: Corporate enterprise development initiatives that provide microcredit positively influence employment growth at firm level.***

b. ***H_{1b}: Corporate enterprise development initiatives that provide microcredit positively influence turnover growth at firm level.***

2.10 Local Economic Development

During apartheid, national government dictated any strategies with regard to industrial decentralisation at regional level especially in the country's marginalised homelands or Bantustan regions (Rogerson, 1994). Local economic development (LED) was an unchartered option and remained limited to minor programmes (Rogerson, 1999). Since South Africa's transition to a democratic government, a complete revolution has transpired in the approach to development planning (Rogerson, 2010). Grant and Dollery (2010) highlights that the most significant change to national strategy was the emergence of LED as an essential method to reform local administration. This strategy was legislatively ratified as a required directive for all local authorities by the Constitution in 1996 and subsequently established in the White Paper on Local Government in 1998. This initiated the notion of developmental local government (DBSA, 2000). The Local Government Municipal Systems Act of 2000 enacted a number of important roles and responsibilities of LED and introduced the Integrated Development Planning (IDP) (Nel and Rogerson, 2005). Toerien (2005:1) describes this transition in local government as South African local authorities' becoming the wardens of economic growth in their municipalities.

The South African government put LED into practice by initiating the Local Economic Development Fund (LEDF) in 1999 as part of their attempt to alleviate socio-economic problems (Binns and Nel, 2002). This initiative started the project-based method of LED throughout the country. The Fund enabled municipalities to request funding for ventures such as cultural tourism, agro-processing, business development incubators and construction programmes. The purpose of this initiative was noble however, the results from the LEDF was a number of unprofitable unsustainable projects that failed after the project finance concluded, ultimately not achieving local economic development (Rogerson, 2010). The Fund also created unintended consequences such as poorly conceived business plans with no feasibility assessments being conducted for the projects. In addition, due to the fact that stakeholders were

often not included in the process, a lack of ownership, no buy-in and no real long-term sustainable LED occurred (Patterson, 2008).

Due its inadequate performance the LEDF, it was decommissioned and the Municipal Infrastructure Grant (MIG) introduced. Similar results were experienced in the MIG as most municipalities used the grant funding for small projects, many comprising of necessity type programmes of which a preponderance proved to be unsustainable after the programme funding ended. Once again, these initiatives had no real impression on the socio-economic problems (Cohen, 2010; Rogerson, 2010). The DBSA (2008:2) suggests that because the main focus of most municipal LED initiatives were on a micro-level LED disoriented as the accepted tool for effective sustainable development.

In recent years, an increased emphasis on LED strategies in South African has been the concentrated on urban renewal and improvement in an attempt to decrease the socio-economic legacy of the apartheid era. The economic recession has added to the deterioration of living standards and unemployment facing many poor people in the country. This is made worse by the fact that the formal economy cannot absorb the growing labour market and the ever increasing retrenchment of workers, comprising of mainly youths (Abraham, 2003). Therefore, the development and growth of SMMEs can support local economic development through employment and economic activity generation. Policies and strategies that assist and encourage the growth of small business such as enterprise development are integral to produce better conditions for all.

The failure of LED to achieve its intended goals in many of South Africa's underprivileged and most deprived municipalities has manifested itself in the social unrest that has become a common feature in recent years (Good Governance Learning Network, 2008:84). Legassick (2010) insinuates that the increase in service delivery protests throughout the country is undoubtedly wrought by the pathetic execution of LED practice in these municipalities. The project-based method that has been employed to address operational and organisational barriers to local development thus far has been ineffective; therefore the 2006 LED Framework has suggested that a more complete and

tactical method be utilised to construct vigorous and pulsating domestic economies (DPLG, 2006).

Lately, there has been a shift towards market-led methods that are positioned to realise competitive and sustainable high economic growth rates (Nel and Rogerson, 2005). This new approach is focused on developing the competitiveness of municipalities in the country's major cities. The formation of effective policies and processes is an important first step for establishing this form of LED practice (DCOG, 2009). Several pro-growth LED interventions have been identified:

1. Programmes that boost organisational productivity and ease the cost of doing business or improve local logistical infrastructure in order to strengthen the relationship between economic growth and infrastructure capital expenditure with the various areas.

2. Programmes dedicated to rising safety and security in reaction to perceptions of crime and actual crime threatening small businesses (World Bank, 2010).

3. Programmes that develop collaborations between the private and public sectors and develop the local business environment in terms of the regulatory environment (Rogerson, 2010).

These pro-growth LED programmes have resulted in:

- Enhanced infrastructure development that exploits opportunities for both employment creation and SMME development in underprivileged areas;
- Creation of a conducive regulatory environment for SMMEs;
- Allocation of municipal land to assist urban agriculture interests;
- Policy interventions that vary between the promotion of regional information bases, zoning changes, marketing support and promotion, facilitation of periodic markets, and, assistance for development of appropriate vocational training;
- Improving business infrastructure to aid the actions of existing and potential entrepreneurs, including the provision of small business support

services, access to markets, access to premises, or mentorship, guiding and coaching;

- Preferential procurement to support the domestic SMME economy;
- Education and training to expand the skills base in deprived communities;
- Improvement and operation of a district business environment in which markets work for the poor; and
- Exploiting access to national government's Expanded Public Works Programme (Rogerson, 2006).

Four approaches overwhelm the present-day solutions to LED policy and practice environment, namely, good governance, promoting competitiveness, enterprise development, and the second economy (Rogerson, 2008). Enterprise development as an aspect of LED has traditionally been the core responsibility of DTI programmes (DTI, 2006). The outcomes from these initiatives have not been favourable at best and rather sub-standard (Rogerson, 2004). The government-led approach to enterprise development has not been able to effectively achieve its objectives which regard to numbers of recipients, geographic coverage, or types of recipients. Rogerson (2008b) proposes that enterprise development as an approach to LED should occur within a nurturing SMME development policy environment. He further states that a shift away from the conventional government-led method to increased participation of the private sector in a market development approach (Rogerson, 2008b). The market-led method would require a more facilitative role for government such as improving the business environment through regulatory change to assist SMMEs and enhancing private sector-led local economic development through the provision of various financial and non-financial support services (DTI, 2006). Public policies that regulate utility charges, local procurement, access to land in municipal areas, spatial zoning, and environmental standards, among others, are progressively being recognised as important factors that influence SMME performance for LED (Rogerson, 2008b). Enterprise development enables individuals to generate income to make a living; lifting them out of poverty, creating employment and empowering persons as well as the communities in

which they live. Therefore it is important to establish whether corporate enterprise development initiatives that provide microfinance to SMMEs in various communities throughout South Africa are making a positive difference in the communities in which they operate.

2.10.1 Hypothesis 2: Corporate enterprise development initiatives that provide microfinance to SMMEs in various communities have a positive impact on the local economic development.

a. ***H_{2a}: Corporate enterprise development initiatives that provide microfinance to SMMEs in various communities have a positive impact on the employment growth of that community.***

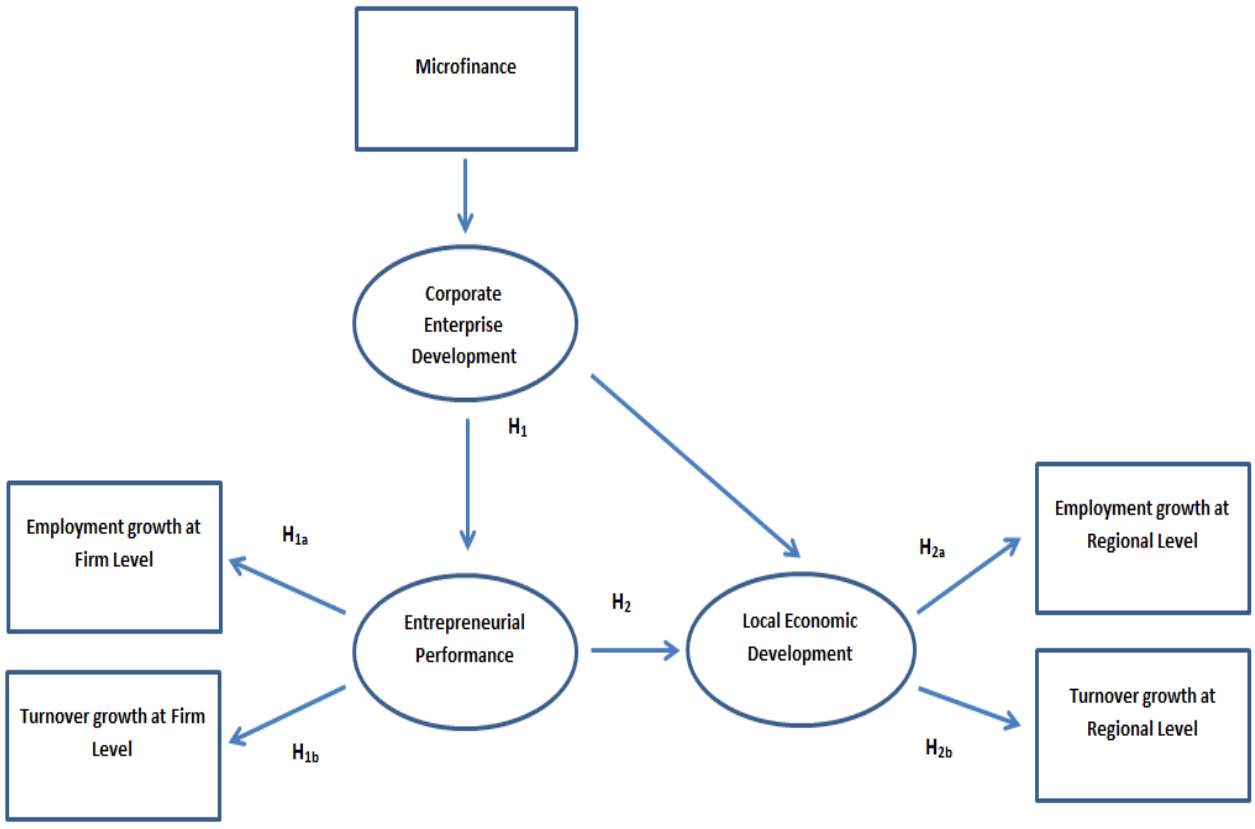
b. ***H_{2b}: Corporate enterprise development initiatives that provide microfinance to SMMEs in various communities have a positive impact on the turnover growth of that community.***

2.11 Conceptual Framework

This model depicts the theoretically based relationships that have been discussed in the literature review. The model depicts the relationships posited between the constructs of corporate enterprise development, SMME entrepreneurial performance and local economic development. The construct of corporate enterprise development is operationalized by the provision of microfinance, and entrepreneurial performance is operationalized by growth in employment and turnover/sales at the individual SMME/firm level. The construct of local economic development is operationalized by employment and turnover growth at regional level for the communities where funded SMMEs operate. The model posits that corporate enterprise development leads to increased entrepreneurial performance that in turn leads to local economic development at regional level for the communities where funded SMMEs operate.

The structural model diagram that represents these relationships is provided in Figure 1 using symbols from the McArdle–McDonald reticular action model (RAM) (Kline, 2011). According to Kline (2011), the RAM symbolism represents constructs with circles or ellipses, observed variables with squares or rectangles, and hypothesized directional effects of one variable on another with a single line headed by an arrow. Thus in Figure 1, corporate enterprise development, SMME entrepreneurial performance and local economic development are depicted with ellipses, the variables used to measure them are depicted with rectangles, and lines with single-headed arrows depict the hypothesised relations between corporate enterprise development and SMME entrepreneurial performance, and between SMME entrepreneurial performance and local economic development. This model represents the structure followed throughout the research.

Figure 4: Conceptual Framework



2.12 Conclusion

Solutions for South African social and economic problems such as high unemployment, a lack of sustainable economic growth and a range of inequalities continue to confound politicians, academics and economists. The governments' battle with huge disparities in income and living conditions between population groups, which was both inherited from the previous regime and created current one, continues and thus far policies such as the Reconstruction and Development Programme (RDP) have not yet achieved its desired outcomes. There is growing impatience and unrest in the majority of civil society, therefore, the country needs to increase its economic growth and employment creation rapidly.

As previously suggested, entrepreneurship and entrepreneurs contribute to the economic development of countries by introducing innovation to the current resources and technologies. Therefore, the growing trend internationally continues to be the promotion of SMMEs as they are considered to be engines of innovation, economic growth, employment, and poverty reduction. Following this trend, the South African government has focused much of its efforts on the development of the SMME sector to promote economic growth. The South African SMME sector, though, is already large but it exists on the periphery and often without links to the broader economy (Rogerson, 2008b). For the SMME sector to realise its potential as a dynamic, innovative centre it must develop links with the rest of the business sector that are mutually beneficial or otherwise it will only be a temporary phenomenon (Luiz, 2002).

Therefore, Government needs to focus more of its efforts on policies that will result in a strengthening and enabling environment for businesses with more flexible regulations, better access to finance and markets, improved infrastructure facilities and business support. A significant investment is required into SMME development in order to create both short-term and long-term capacity for labour absorption, as well as to improve income generation and redistribution. Critics argue that encouraging start-ups is a pointless public policy exercise; these policies lead people to start marginal businesses that are likely to fail, have little economic impact, and generate little employment. This

has been the case with the current government programs and efforts to support the SMME sector and needless to say it has had a limited effect (Ray, 2010).

However, the introduction of enterprise and supplier development policy and its objectives to contribute toward the sustainable development of small businesses in order to ensure their financial and operational independence could provide some improvements. Big business has been compelled into providing financial and/or non-financial assistance to SMMEs in the form of supplier and enterprise development. This policy can facilitate the competitiveness and transformation of the SMME sector; capture economic value, and present opportunities to expand economic growth. These initiatives should allow for the creation of decent jobs and increased scope for market access of South African capital goods and services.

Several firm-specific factors have been identified as obstacles to South African SMMEs but access to finance and a lack of financial support remains one of the largest contributors to low new firm creation and failure. In South Africa, not even short term funds are easily available to small entrepreneurs. The lack of access to collateral and physical facilities largely because access to formal banking is inconvenient and expensive therefore many South Africans remain unbanked. Entrepreneurs and SMMEs have thus sought out alternative sources of finance such as micro-financing, government agencies, and the community-based lending to counteract the evident failure in the formal banking system (Rwigema et al, 2008). This failure to adequately meet the demand of SMMEs has promoted micro-lending as a method of enabling small business to acquire productive capital. Micro-financing provides an important source of funding for those entrepreneurs excluded from formal financial institutions.

Enterprise development (ED) institutions that provide microfinance can consequently be a way for private institutions, the public sector and individuals to make socially conscious investments (Reille and Foster, 2008). These systems could help empower South Africans to generate incomes on their own in many of the rural areas. ED takes a redistributive and direct approach to poverty alleviation, and could facilitate the development of independent, self-sustaining penny capitalism (Mosley and Hulme, 1998:783; Hilson and Ackah-

Baidoo, 2011:1192). Corporate enterprise development initiatives have emerged as an example for how the core competencies and the business efficiency of the private sector can drive the development in the communities in which they operate (Ray, 2010). The advantage of this approach is that it creates a positive externality in that the SMMEs benefit from skills transfers and much needed business support services that produce substantial and sustainable outcomes. By addressing the financial constraint that impedes the South African business environment and entrepreneurship, these ED initiatives provide much needed support to SMMEs which should encourage their entrepreneurial performance. An increased entrepreneurial performance boosts important drivers of increased economic growth such as net employment and sales growth (OECD Statistics Directorate, 2008).

SMME facilitation of employment and economic growth, and the diversification of the local economic base into sectors where hardships has been experienced have further solidified the government's commitment to enterprise development at level of local government. Municipalities often seek innovative growth options to address the backlog and plug the employment gap that more traditional economic sectors seem unable to do (Binns and Nel, 2002). Local action and LED, specifically, have been encouraged by a range of government policy documents and acts of parliament such as the RDP and BBBEE. Politicians, academicians and developmental economists therefore agree that enhancing small business development and promoting entrepreneurship is a good strategy to contribute and promote local economic development. From the viewpoint of economic development, small businesses create almost half of new jobs in the economy, and it is assumed that they are good jobs (Edmiston, 2007).

3 CHAPTER: RESEARCH METHODOLOGY

The research process involves the application of various methods and techniques in order to create scientifically obtained knowledge by using objective methods and procedures (Welman and Kruger, 2001:2). This study was an empirical study designed to address the main problem identified in the research, which is to determine whether corporate enterprise development initiatives that provide microfinance have a positive impact on SMMEs with respect to employment and turnover growth, and facilitate local economic development (LED).The following sections outline the methods and procedures used in the empirical analysis.

3.1 Research methodology /paradigm

The study made use of quantitative research. Quantitative research is a form of statistical analysis and Saunders, Lewis and Thornhill (2009:598) define quantitative research as numerical data or data that has been quantified. Saunders et al (2009:151) state that quantitative methods are predominantly used as a synonym for any data collection technique or data analysis procedure that generates or uses numerical data. The present study had access to quantitative data on 366 SMMEs that received micro-credit from Anglo American Zimele Community Fund. In this research, data on the firm performance of the SMME recipients of microfinance was analysed to measure growth in employment and turnover at the firm and regional levels.

3.2 Research Design

The research design defined by Kerlinger (1986:279) is the plan and structure of investigation so conceived as to obtain the answer to the research question (Kerlinger, 1986:279).

In line with the primary objective of the research which was to quantify the impact of microfinance on employment and turnover at the firm level and its subsequent impact on employment and turnover at the regional level, the

research strategy used is quasi-experimental. A quasi-experimental study is a type of evaluation which aims to determine whether a program or intervention has the intended effect on a study's participants, but lacks the control of a true experiment, as it does not employ random assignment of participants to control and experimental groups' (Gravetter and Forzano, 2009:164). In the present research, the treatment condition employed was the provision of microfinance, and comparisons were drawn between measures of initial and versus current employment and turnover. In this real-world application, it is possible that extraneous historical variables, for example, changes in government SMME policy, may have contributed to the observed changes in SMME firm performance from before to after the provision of microfinance. Thus although the researcher attempted to control for extraneous variables by considering a single corporate enterprise development programme that provides microfinance, a causal relation between the provision of microfinance and SMME performance improvement cannot be asserted. Rather the research sought to ascertain whether firm performance and subsequent regional development was better after the provision of microfinance than before (Gravetter and Forzano, 2009).

As the research does not propose that microfinance was the only determinant of growth, the research does not have a high level of internal validity as there may be extraneous variables operating such as mentorship, education and training, and market conditions that effect the firm growth.

3.3 Population and sample

3.3.1 Population

The population is defined as a collection of all the observations of a random variable under study and about which one is trying to draw conclusions in practice (Wegner, 2003:5). The population for this research comprises all SMMEs in South Africa that have received unsecured loans of up to R 1 000 000 (One million Rand) with an amortisation schedule of longer than 12 months between 2007 and 2009 from the corporate enterprise development initiatives.

As not all the members of the population were accessible to the researcher, an experimentally accessible population or sampling frame was selected in the form of the all SMMEs that have received unsecured loans of up to R 1 000 000 (One Million Rand) with an amortisation schedule of longer than 12 months between 2007 and 2009 from Anglo American Zimele Community Fund. A sampling frame can be defined as the inventory of all the elements in a population and the actual sample that is then utilised from this inventory (Struwig and Stead, 2010). As the Zimele SMME recipients of microfinance may not be representative of SMME recipients of other sources of microfinance, it is possible that biases could exist between the opinion of members of the sampling frame and population. This sampling frame was selected because the researcher had access to the Anglo American Zimele Community Fund database because he works at Anglo American as the Corporate Portfolio Manager. Moreover, the criteria of R 1 000 000 (One Million Rand) in loan financing with an amortisation schedule longer than 12 months between 2007 and 2009 further restricted the sampling frame to the 270 SMME micro financing recipients from Anglo American Zimele Community Fund who fulfilled these criteria. There was thus no additional sampling method employed.

3.4 Source and Preparation of Secondary Data

The secondary data used was derived from the database of the Anglo American Zimele Community Fund (AAZCF) of SMMEs that received unsecured enterprise development finance. Secondary data analysis can be defined as second-hand analysis where it can include any data that is examined to answer a research question other than the question(s) for which the data were initially collected (Vartanian, 2010:3). The secondary data used in this study was obtained from the Anglo American Zimele Community Fund (AAZCF) database of SMMEs that received unsecured enterprise development finance from the institution with an amortisation schedule longer than 12 months in various communities throughout South Africa. The original data is used by Anglo American Zimele to report back to the United Nations development programme Business Call to Action in support of the Millennium Development Goals

(MDGs). Anglo American has committed to create and preserve 25 000 jobs within 1 500 companies by 2015.

The data accessed by researcher was not summarised at a group level; rather information on business names, functions, industry, current employment and financial position as well as the requirement for the loan and personal information about the management was available at the firm level of microfinance recipients. Thus the researcher was not restricted by having to use summary measures and tables reported in published articles about the operations of the developmental fund, but rather used original data at the SMMEs which decreased the limitation of secondary data analysis (Saunders et al, 2009). Stewart and Kamins (1993), in Saunders et al (2009), argue that researchers that use secondary data are at an advantage compared to researchers using primary data because the data already exists therefore it can be evaluated prior to use. The time spent evaluating potential secondary data sources is time well spent, as rejecting unusable data earlier can save much wasted time. Saunders et al (2009:268-272) identified various advantages and disadvantages of using secondary data such as:

Advantage:

- Fewer resource requirements
- Unobtrusive
- Longitudinal studies are feasible
- Comparative and contextual data
- Unforeseen discoveries
- Permanence data

Disadvantages:

- May be collected for a purpose that doesn’t match the need

- Access may be difficult or costly
- No real control over data quality
- Initial purpose may affect how the data is presented

The data collection process for this study had already been completed which saved time and money. The database gave the researcher access to business in several different provinces and cross-historical data that would otherwise take several years and thousands of Rands to collect. Historical data such as monthly turnover and employment was recorded before and after receiving funding along with other pertinent information required for the study. The database also had documentation of every SMME that AAZCF has funded from 2007 to date. Businesses that have received funding are required by their loan agreement with AAZCF to disclose their monthly turnover and employment statistics to the Fund. This allowed the research to examine the influence microfinance has had on the SMME over a period of time. The potential data of interest was transferred to a new file in a preferred excel program but the original data file was not altered.

3.4.1 Reliability

Reliability refers to the extent to which a scale produces consistent results if repeated measurements are made on a characteristics, alternatively it is the degree of consistency between multiple measures of a variable and the extent to which measures are free from random error (Malhotra and Birks, 2007). The reliability of the study is of a high standard because the data is audited by PWC every year, an extensive feasibility study is conducted by Anglo American Zimele Hub Managers in every area. The hub managers also corroborate the source of the data with the use of annual audited financial statements and the company's bank statements.

3.5 Data analysis and interpretation

Before beginning the statistical analysis, the data was checked. All the company information was checked for completeness and correct values. Secondly, the data was edited and unsatisfactory or missing information was updated. Editing is a review of the data in order to increase accuracy (Malhotra and Birks, 2007). Thirdly, the data was cleaned, meaning that it was extensively examined for consistency and the data that didn't meet the criteria of the study removed. Lastly, the data was statistically adjusted for and the data analysis strategies selected.

The data was analysed using descriptive statistics. Rosnow and Rosenthal (1999:10) define descriptive statistics as the condensing large volumes of data into a few summary measures. The researcher computed the frequencies of nominal variables such as the amount of deals conducted in each area and industry, and the mean scores on the numerical variables of employment and turnover. Frequencies are defined by Kerlinger (1986:127) as the number of objects in sets or subsets. More simply, the number of times a certain answer appears in the data. The mean calculates an average across a number of observations (Field, 2005:6). An examination of the averages and distribution of this scale will allow a conclusion regarding the relationship between micro-credit and entrepreneurial performance. Graphs were utilised to graphic representation of demographic results. Furthermore, cross tabulations were used to present data from various SMMEs, regions and industries that have different turnover and employment numbers. A cross tabulation is just a more advanced method of presenting frequency data. It presents the frequencies in a matrix. For example: Number of SMMEs within the same industry in the same geographic location (Field, 2005).

In order to compare the performance measures of employment and turnover, before and after the provision of microfinance at the firm level, inferential statistics were used to generalise from the sample to the population. Inferential statistics use samples of observation (scores from a measure) to infer observations probably found in a population (Struwig and Stead, 2010). At the firm level, the large sample size of 270 SMMEs allowed the researcher to

assume normality of the sampling distribution of the pretest-posttest differences in employment and turnover, and thus the parametric paired sample T-test was used (Struwig and Stead, 2010). This test is a form of inferential statistics, and compares the means of two variables. It computes the difference between the two variables for each case, and tests to see if the average difference is significantly different from zero. Paired-sample T-tests were employed to compare the means of starting and current turnovers. The level of significance is determined when interpreting the probability (p) value. If this value was less than 5% (0.05), it could be concluded that a significant difference between initial and current scores exists (Pallant, 2010:246).

The study also calculates the effect size also known as the strength of association of the statistical significance (Pallant, 2010:210). Effect size provides an indication of the magnitude of the differences between means, or the amount of total variance in the dependent variable that is predictable from the knowledge of the levels of the independence (Pallant, 2010:210). The study presents the degree to which initial and current (employment and turnover) are associated with one another post microfinance and not just whether the difference could have occurred by chance. The guide lines proposed in Pallant, (2010:210) for interpreting the values are:

- .2=small effect
- .5=moderate effect
- .8=large effect

The Cohen's d presents the difference in between the groups in terms of standard deviation units.

Comparisons that were performed at the regional level based on much smaller sample sizes and using data that were often highly skewed (Pallant, 2010), therefore the use of the nonparametric equivalent of the parametric paired sample T-test. The Wilcoxon matched pairs signed ranked tests is designed for the use with repeated measures such as when participants are measured on two occasions, or under two different conditions. It is the nonparametric alternative to the repeated measures t-test, but instead of comparing means the

Wilcoxon converts scores to ranks and compares them at time 1 and time 2 (Pallant, 2010:231).

3.6 Limitations of the study

The study is limited to:

- SMMEs that have received a microfinance from a corporate enterprise development initiatives (Anglo American Zimele Community Fund)
- Businesses that comply with enterprise development criteria (SMME, BBBEE Codes of Good Practice, Mining Charter).
- The aspect of microfinance in enterprise development
- Sales and employment variables of SMME entrepreneurial performance
- Certain fields that were captured by Anglo American Zimele Community Fund Staff

3.7 External and Internal Validity of the research

3.7.1 External validity

External validity or generalizability is the degree to which the study based on a sample applies to the population as a whole (Malhotra and Birks, 2007), alternatively it refers to the determination of whether the relationships found within a study on a sample can be generalised beyond that sample and study (Rosnow and Rosenthal, 1999). Although the sampling frame consisted only of SMMEs that have received unsecured loans of up to R 1 000 000 (One Million Rand) with an amortisation schedule of longer than 12 months between 2007 and 2009 the AAZCF model has been used as the benchmark model for SMME finance with companies such as IDF managers using it. Furthermore, the data was collected from all term loans of companies in numerous different areas and from businesses in several different industries throughout South Africa. The measures were based on the actual business growth experience by the recipients of the microfinance. Thus the external validity of the study is

considered adequate and if it were to be repeated the same results would be achieved.

3.7.2 Internal validity

Internal validity is the degree to which a measurement represents characteristics that exist in the phenomena under investigation (Malhotra and Birks, 2007). There are numerous threats to internal validity such as extraneous variables. Extraneous variables are variables that are not a part of the research at hand, however are said to have an influence on the variables that have been included, in the results and thus, the outcome of the study. The extraneous variables are not measured in the study but can increase or reduce the magnitude or intensity of relationships measured, more specifically independent and dependent variables (Struwig and Stead, 2010). The internal validity in this study is poor due to the fact that the effects of external forces such as the global economic crisis, business mentorship, and training were not accounted. Due to the quasi-experimental nature of the research design microfinance cannot be considered to be the only determinant of firm growth. The research has a lack of control over the extent to which the extraneous variables affect growth. Therefore the research does not have the level of internal validity that would be required to draw casual relationships between microfinance and entrepreneurial performance at firm level and local economic development at regional level.

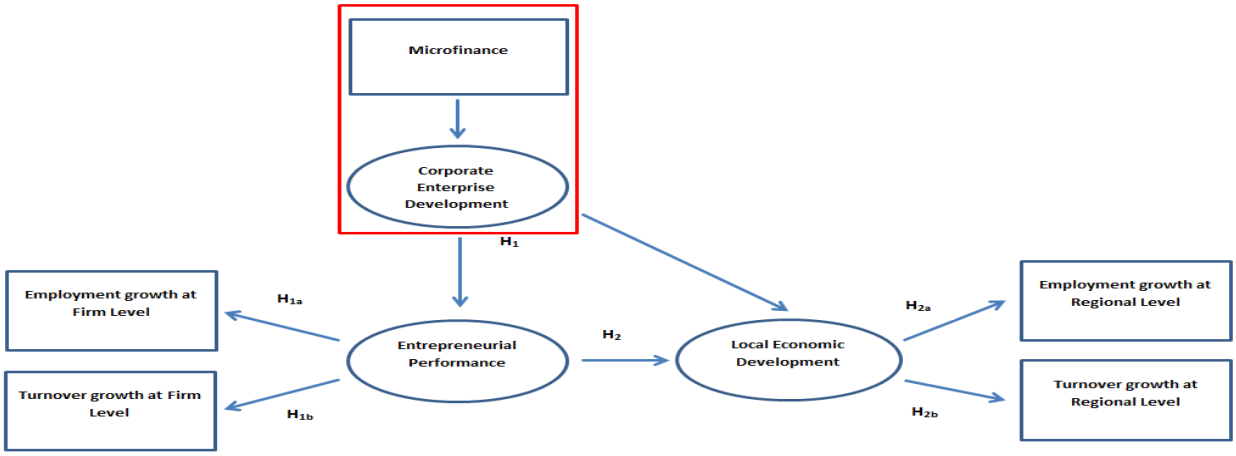
4 CHAPTER: PRESENTATION OF RESULTS

4.1 Introduction

This chapter is divided into three sections that present and describe the outcomes of the research conducted with the use of tables and graphs. Section 1 presents the details of the micro financing population such as the number of respondents, the amounts disbursed to respondents, and amounts written off. Section 2 presents the results pertaining to Hypotheses 1a and 1b that posit that corporate enterprise development initiatives that provide microcredit positively influence SMME entrepreneurial performance at firm level in terms of employment and turnover growth. Finally, Section 3 presents results to Hypotheses 2a and 2b that posit that corporate enterprise development initiatives that provide microfinance to SMMEs in various communities have a positive impact on the local economic development (LED).

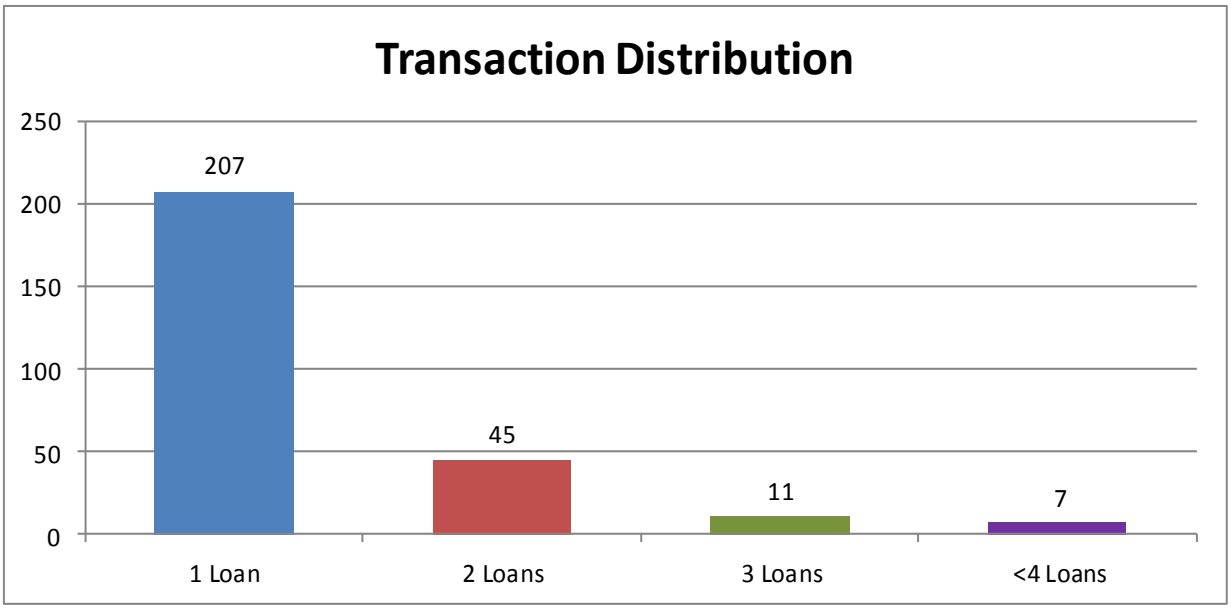
4.2 Demographic profile of respondents

This section of the presentation of the results relates to details of the micro financing population and is reflected by the rectangle around the construct of CED and microfinance. The data consisted of 270 SMMEs that received microfinance of between R 1 000 and R 1 000 000 with a loan amortisation schedule of longer than 12 months from Anglo American Zimele Community Fund. The 270 business transacted 365 times with the fund with some of the businesses coming back for numerous loans. The businesses funded represent 12 different categories and 14 different areas.



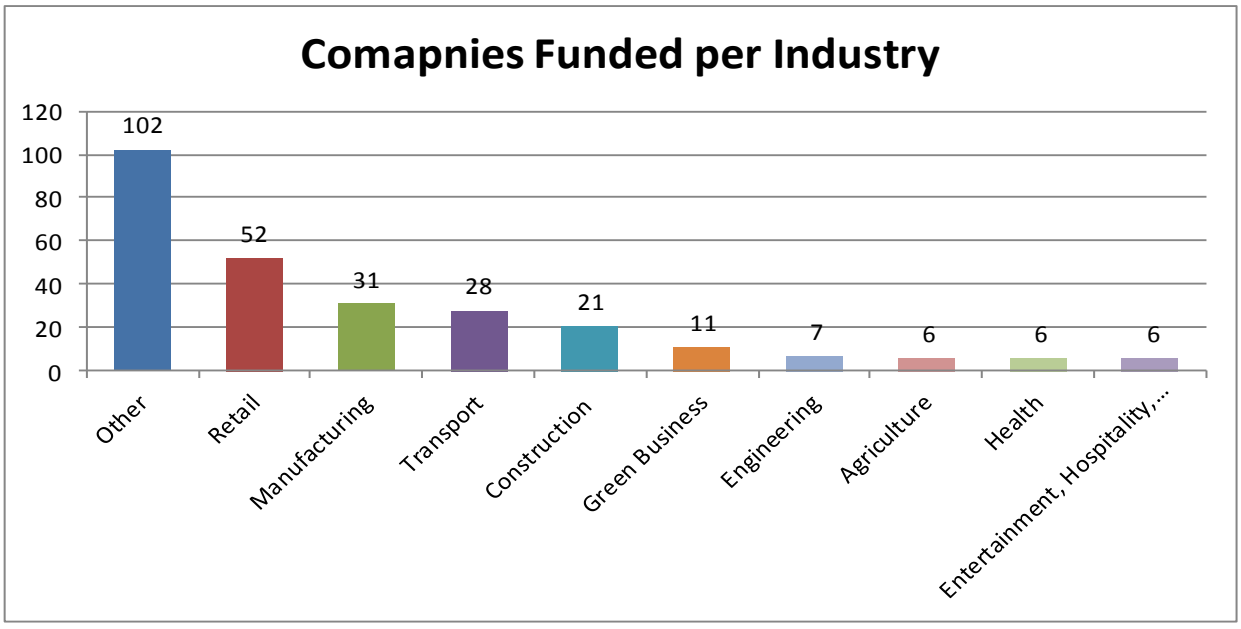
The data revealed, as depicted in Figure 5, that of 270 companies that received funding from AAZCF that 207 companies (77%) were approved for one loan and only 62 (23%) of the companies came for more.

Figure 5: Transaction Distribution of Loans Received per SMME



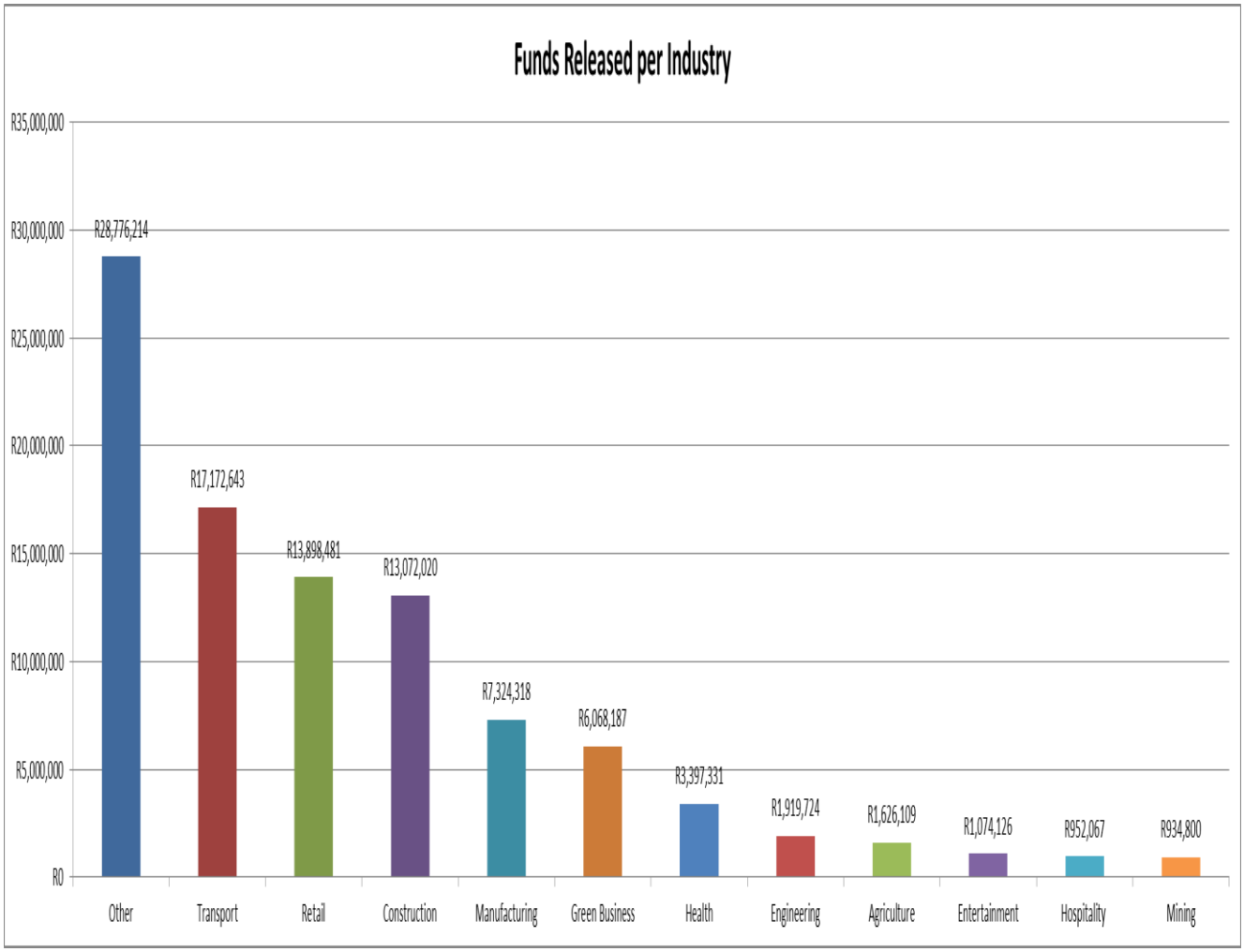
The 270 companies funded by AAZCF were involved in 12 different industries. The "other" category is an amalgamation of several different industries that were not identified in the data. The industry distributions are depicted below.

Figure 6: Number of SMMEs Funded per Industry



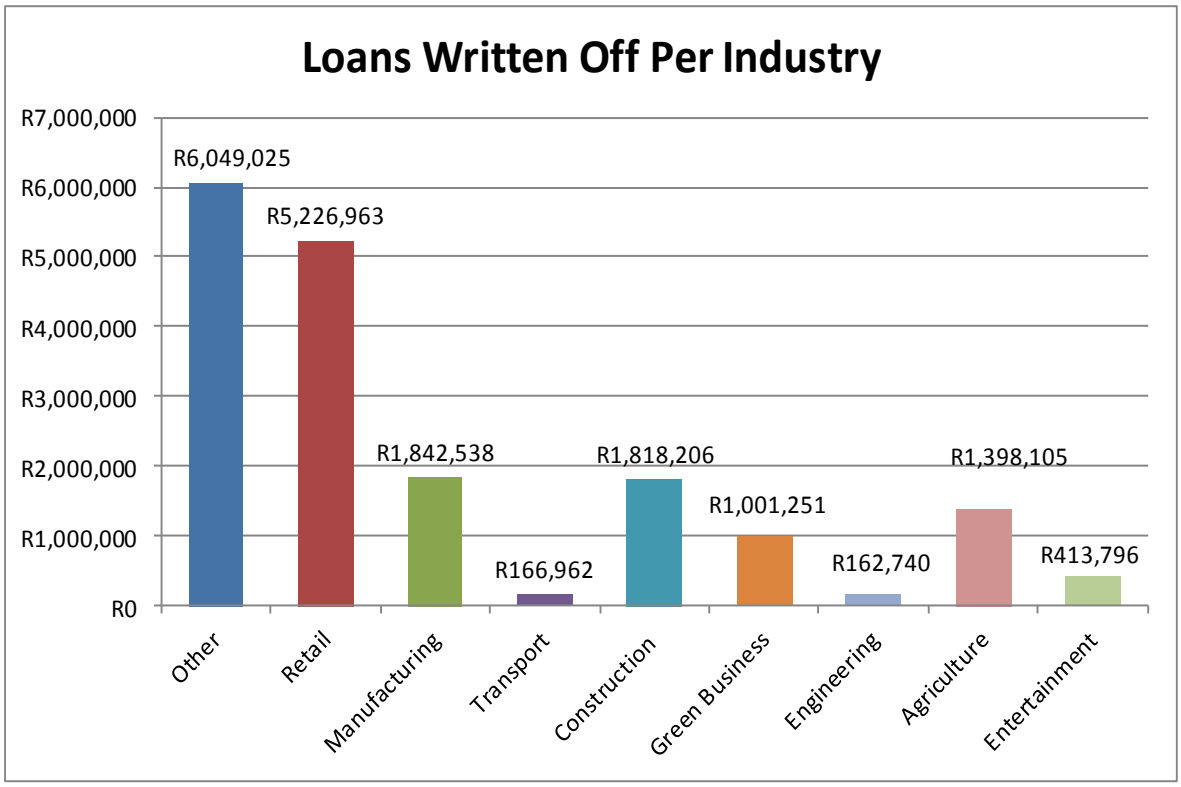
AAZCF released R 96 216 020 between 2007 and 2009 to small businesses on a term loan basis (amortisation schedule longer than 12 months). The majority of the funds were disbursed to “Other”, then Transport, Retail, Construction, Manufacturing, Green Businesses, Health, Engineering, Agriculture, Entertainment, Hospitality and Mining.

Figure 7: Amount of Funds Released per Industry



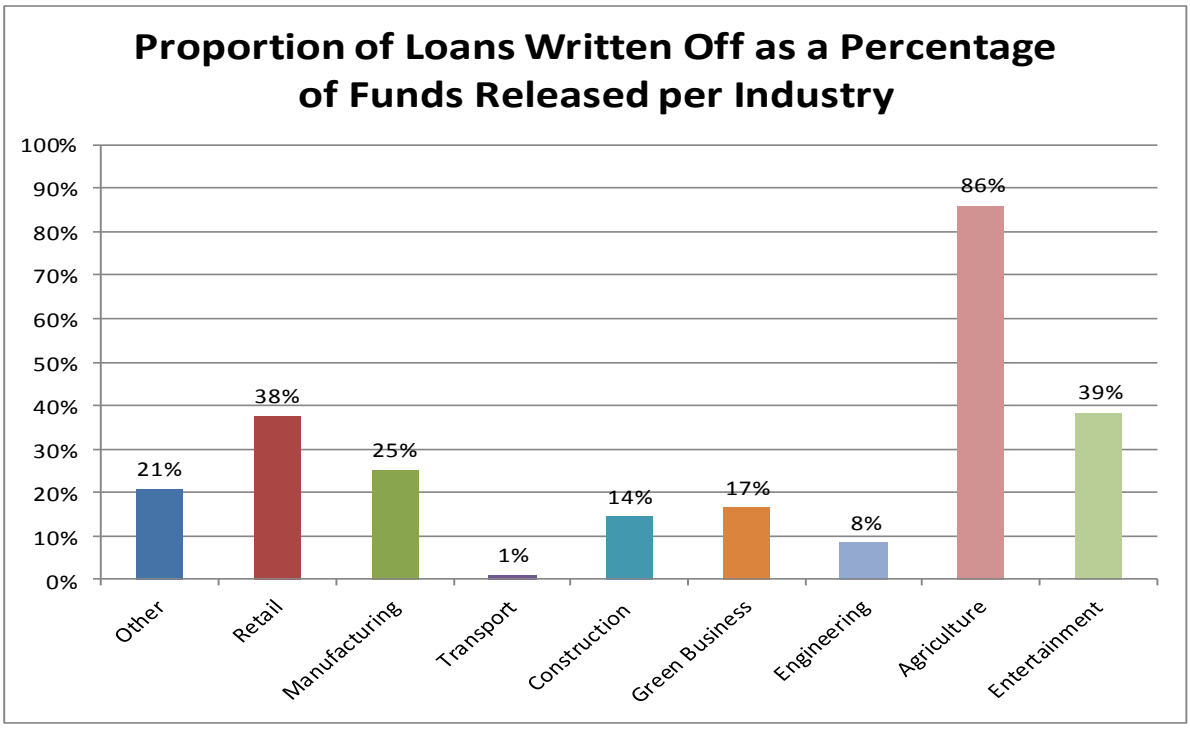
The data showed that of the 270 SMMEs, 93 (34.4%) failed which resulted in 18.8% or R 18 079 586 of the funds released being written off as bad debt. The most deals were written off in “Other”, 33%, another 29% of bad debts emanating from the retail industry, and a further 10% from firms in the construction and the manufacturing industries. The businesses funded in the Health, Hospitality and Mining industries presented a 100% loan recovery rate.

Figure 8: Amount of Loans Written Off per Industry



AAZCF wrote off the highest percentage of loans in Agriculture, Entertainment, Retail, Manufacturing, Other, Green Businesses, Construction, Engineering and Transport.

Figure 9: Analysis of the Proportion of Loans Written Off per Industry



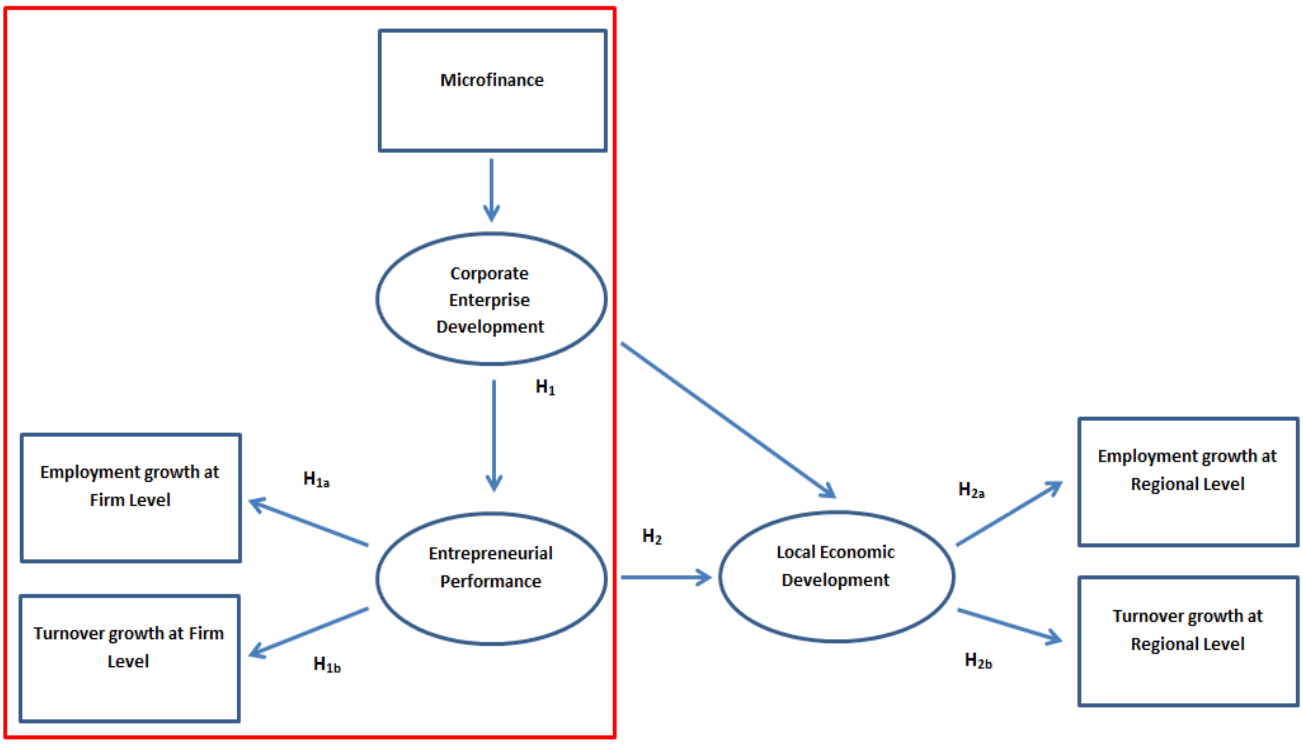
The following section discusses the results pertaining to the first hypothesis of the study. For convenience it is restated:

Hypothesis 1: Corporate enterprise development initiatives that provide microcredit positively influence SMME entrepreneurial performance at firm level. In order to present this effectively, employment growth of firms is analysed first as a measure of entrepreneurial performance, followed by the analysis of turnover growth of firms as a second measure of entrepreneurial performance. Accordingly, the hypothesis is broken down as follows:

H1a: Corporate enterprise development initiatives that provide microcredit positively influence employment growth at firm level.

H1b: Corporate enterprise development initiatives that provide microcredit positively influence turnover growth at firm level.

The presentation of the results is reflected by the rectangle around the construct of CED and entrepreneurial performance its indicators employment and turnover growth at firm level.

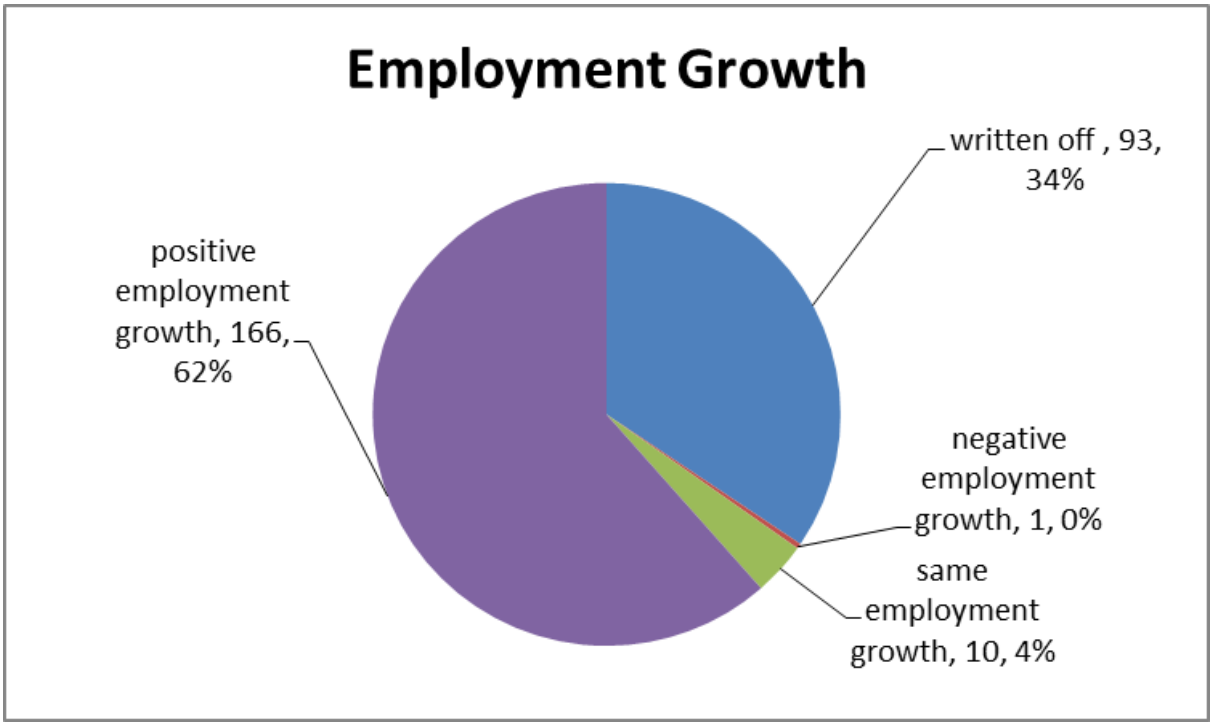


Throughout the results loans that were written off are acknowledged so as not to present biased results.

4.1.1 H_{1a}: Corporate enterprise development initiatives that provide microcredit positively influence employment growth at firm level.

Figure 10 illustrates the overall employment creation from the businesses that received finance from AAZCF. Of the 270 companies considered, 93 (34%) were written off. A further 166 (62%) of businesses had a positive employment growth, 10 (4%) of businesses had the same employment, and 1 (0%) of business had negative employment growth.

Figure 10: Employment Growth of SMMEs



Descriptive statistics of the central tendency and variability of SMME employment numbers before and after receipt of funding are supplied in Table 7.

Table 7: Descriptive Measures of Initial and Current Employment at Firm Level

	n	Mean	95% Confidence interval for mean		Median	Std.Dev.	Skewness	Kurtosis
Current employment excl write-offs	177	12.4	7.2	17.6	4	35.0	8.2	79.1
Current employment incl write-offs	270	8.3	4.8	11.8	3	29.3	9.9	116.3
Initial Employment excl write-offs	177	1.1	1	1.1	1	0.0	2.9	6.7
Initial Employment incl write-offs	270	1	1	1.1	1	0.3	0.3	6.8

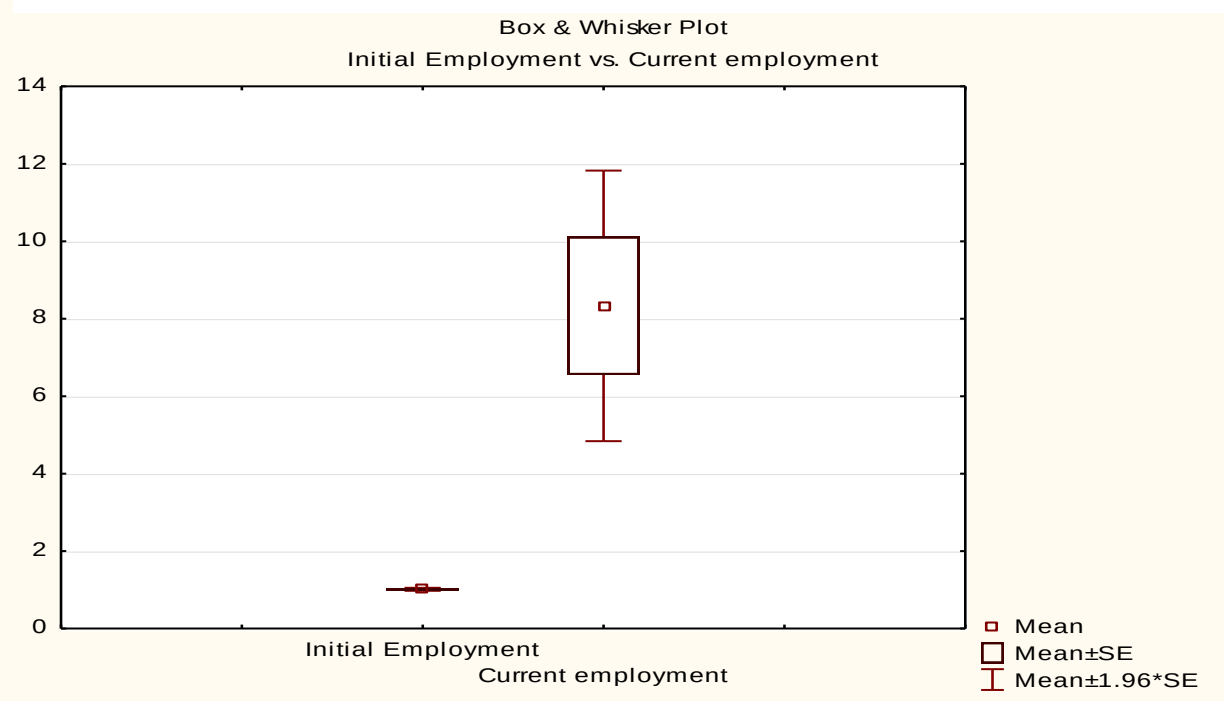
Considering all 270 SMMEs the median employment levels increased from one to three employees implying that at approximately half of the SMMEs had up to one employee before receiving finance from AAZCF, compared to up to three employees afterwards. Of the 177 SMMEs that were not written off, according to the median values for SMME employment levels, approximately half of the SMMEs had less than 1 employee prior to funding, compared to four employees after funding (Table 7).

Furthermore, the paired sample t-test revealed a significant difference between the initial versus current employment numbers of the 270 firms ($t(269) = 4.12$, $p<0.000$), with mean employment levels before funding of approximately 1 person per SMME (mean = 1.01), compared to approximately eight (8.33) employees per SMME after funding. Moreover excluding write-offs, the mean employment levels before funding were approximately 1 person per SMME (mean = 1.1), compared to 12.4 employees per SMME after the funding of the 177 firms ($t(176) = 4.29$, $p<0.000$). The effect sizes of these comparisons

including and excluding written off loans are small to moderate (Cohen's d = 0.25 and 0.32 respectively).

The box and whisker diagram (Figure 11) shows the extent of the differences of the distributions in the case of loans not written off.

Figure 11: Box and Whisker Plot of Initial versus Current Employment (n=177)



However owing to the extent of asymmetry in the distributions of employment after funding (current employment) (Figure 11) with skewness value of 8.2 and 9.9 (excluding and including loans written off respectively), the t test analyses were repeated using the nonparametric equivalent Wilcoxon test based on the ranks of the data.

Figure 12: Initial Employment Distributions (n=270)

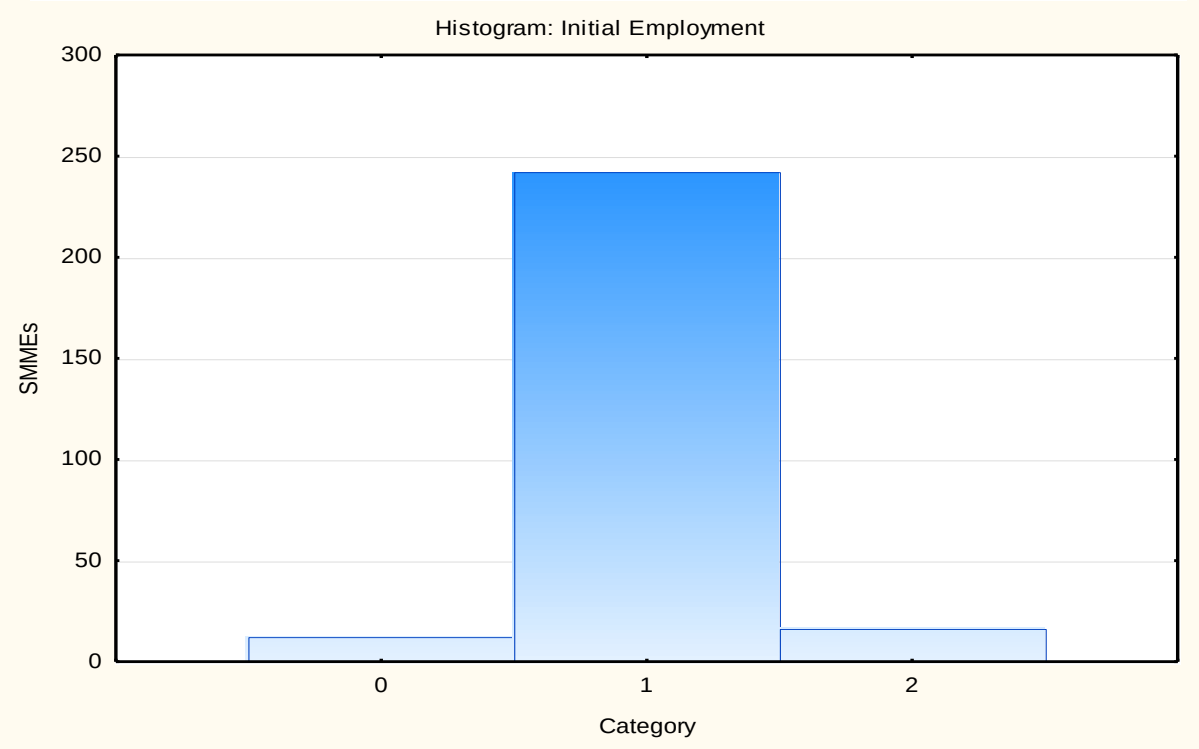
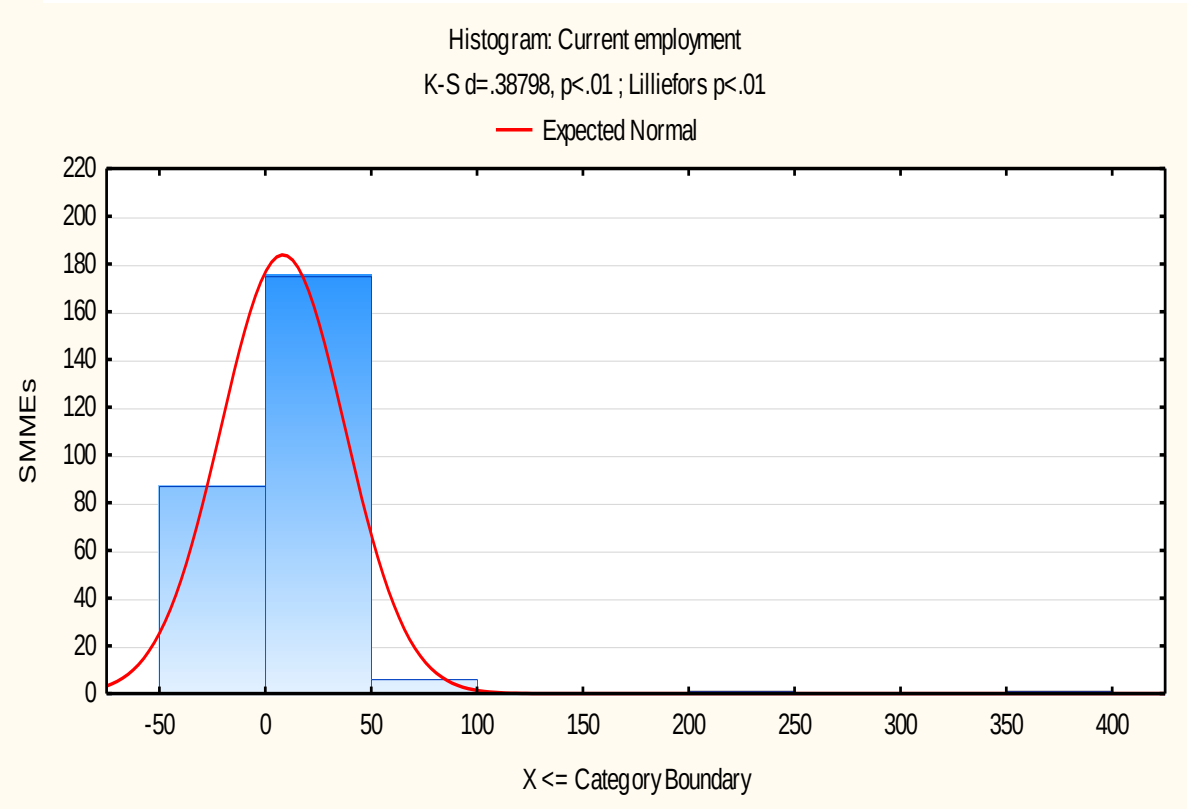


Figure 13: Current Employment Distributions (n=270)



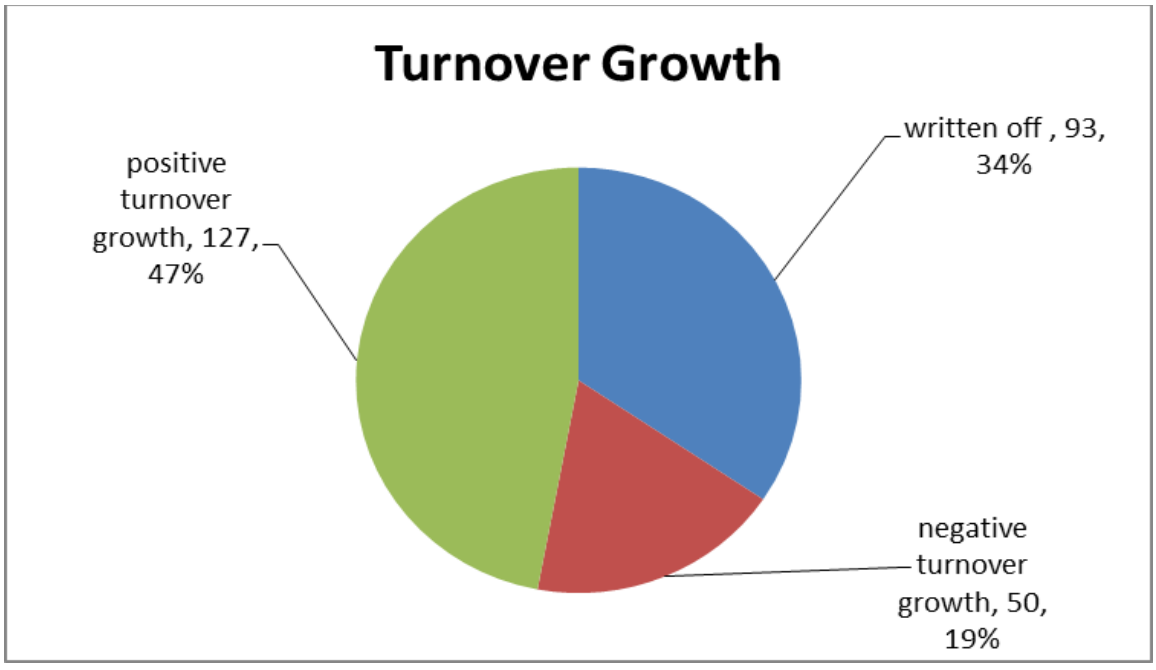
The result of the Wilcoxon matched pairs test was similar to the t test result and revealed that the SMMEs employed significantly more people after they received funding compared to before the funding, (Z=10.02 and Z=11.208; p< .001 including and excluding firms written off respectively).

Based on the significant results from the t-tests and Wilcoxon signed ranked tests and the histogram and Box and Whisker plots, including and excluding written off loans, Hypothesis 1a is supported implying that corporate enterprise development initiatives that provide microcredit positively influence employment growth at firm level.

4.1.2 H_{1b}: Corporate enterprise development initiatives that provide microcredit positively influence turnover growth at firm level.

A similar set of analyses to the employment comparison was performed for the comparison of the mean turnover levels of the SMMEs prior versus after funding, including and excluding written off loans. As depicted in Figure 14, 93 (34%) loans were written off. Furthermore, 127 (47%) of businesses recorded positive turnover growth, and 50 (19%) businesses had a negative turnover growth.

Figure 14: Turnover Growth of SMMEs



Descriptive statistics of the central tendency and variability of SMME turnover amounts before and after receipt of funding are supplied in Table 8.

Table 8: Descriptive Measures of Starting and Current Turnover at Firm Level

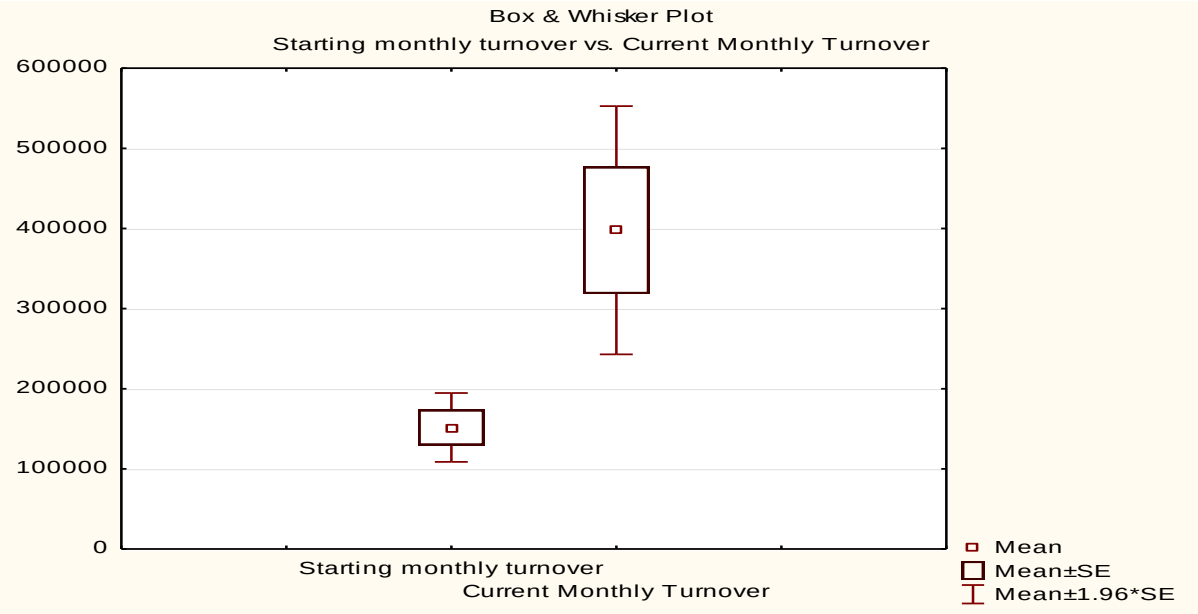
	n	Mean	95% Confidence interval for mean		Median	Std.Dev.	Skewness	Kurtosis
Current turnover excl write-offs	177	394277.20	240003.40	548551.10	129130.30	1042977.0	8.52	88.65
Current turnover incl write-offs	270	260905.9	157114.5	364697.3	38945	866237.1	10.18	128.54
Initial turnover excl write-offs	177	148794.60	106391.20	191197.90	66965.50	288298.0	5.86	41.15
Initial turnover incl write-offs	270	144936.5	113743.4	176129.7	66000	260335.9	5.80	43.23

According to Figure 14, of the 270 loans 127 almost half (47%) of the SMMEs have experienced positive turnover growth and 50 (19%) have experienced negative growth, with the other 93 (34%) having been written off. Considering only the non-written off loans, SMMEs are generating approximately 47% more monthly turnover currently when compared to their turnover prior to funding (Table 8). However, when considering all 270 SMMEs the median initial monthly turnover was R 66 000 compared to only R 38 945 after funding. The latter low figure is the result of including R 0 monthly turnovers for the 93 SMMEs that were written off as bad debt.

Furthermore, the paired samples t-tests show there is a significant difference between the initial versus current turnover at the firm level when considering all 270 SMMEs (t= -2.358, p<0.01), with mean turnover before funding of R 144 936.50 per SMME, compared to the higher amount of R 260 905.90 per SMME after funding. However, of the 177 that were not written off, the initial versus current turnover at the firm level is even more significant (t= -3.383, p<0.001), with mean turnover before funding of R 148 794.60 per SMME, compared to R 394 277.20 per SMME after funding. The effect size of these comparisons is small (Cohen's d = 0.14 and 0.25 including and excluding bad debt respectively).

The box and whisker diagram (Figure 15) shows the extent of the differences of the distributions.

Figure 15: Box and Whisker Plot of Starting versus Current Monthly Turnover (n=177)



However owing to the extent of asymmetry in the distribution of turnover after funding (current monthly turnover) (Figures 16 and 17) with skewness values of 8.52 and 10.18 (excluding and including loans written off respectively), the t test analysis was repeated using the nonparametric equivalent Wilcoxon test based on the ranks of the data.

Figure 16: Starting Monthly Turnover Distributions

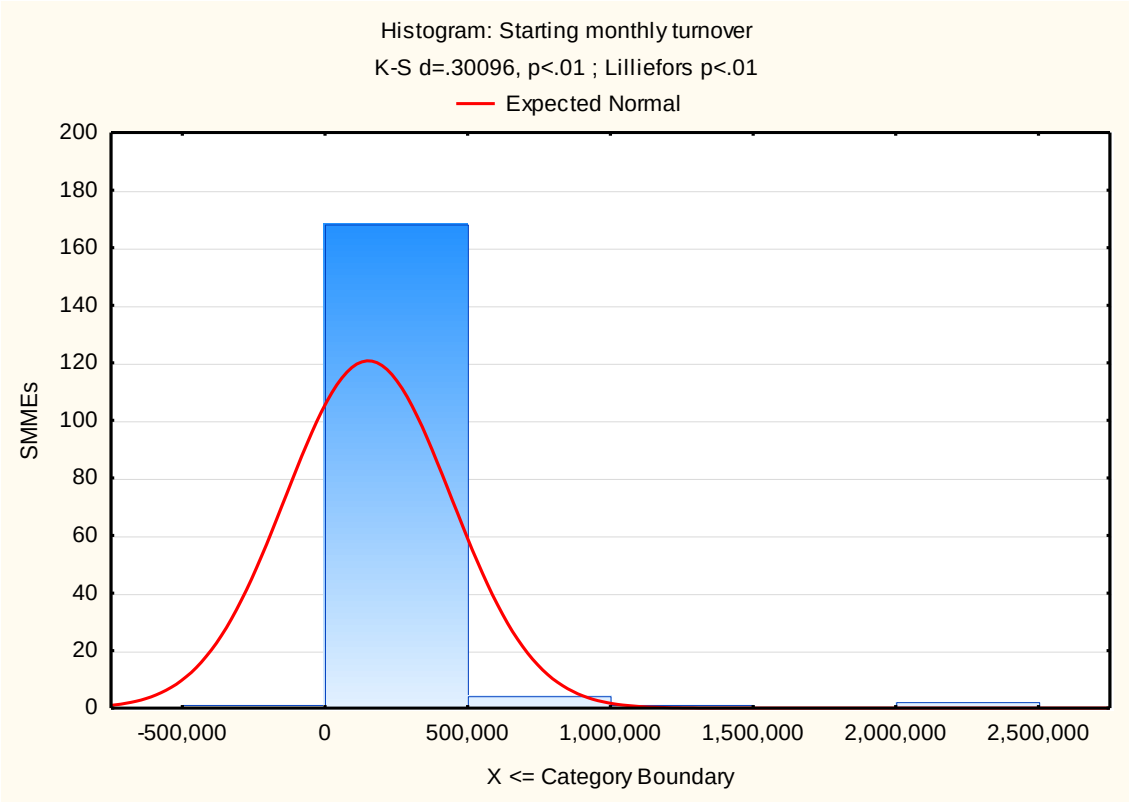
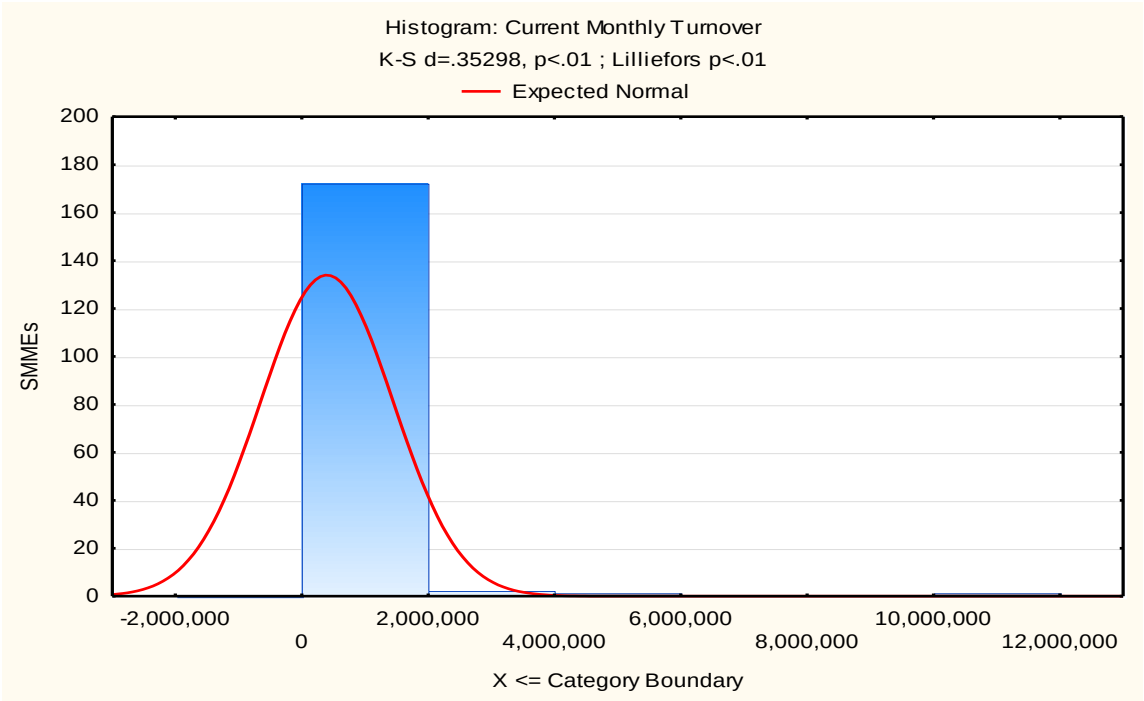


Figure 17: Current Monthly Turnover Distributions



The result of the Wilcoxon matched pairs test was similar to the t test result and revealed that the SMMEs generated significantly more turnover after they received funding compared to before the funding ($Z= 1.422$; $p<.05$ including firms written off) and ($Z= 7.284$; $p< .001$ excluding firms written off respectively).

Based on the significant results from the t-tests and Wilcoxon signed ranked tests, and the histogram and Box and Whisker plots, Hypothesis 1b is supported implying that corporate enterprise development initiatives that provide microcredit positively influence turnover growth at firm level.

When both the growth in employment and turnover are considered simultaneously for the SMMEs, 93 SMMEs were written off therefore experiencing neither employment nor turnover growth, only 1 business was found with both negative employment and turnover growth, whereas of the 166 businesses that experienced positive employment growth, most (119) had a positive turnover growth. Of the 10 businesses whose employment remained the same, eight had a better turnover and two had a negative turnover growth.

The following section discusses the results pertaining to the second hypothesis of the study. For convenience it is restated:

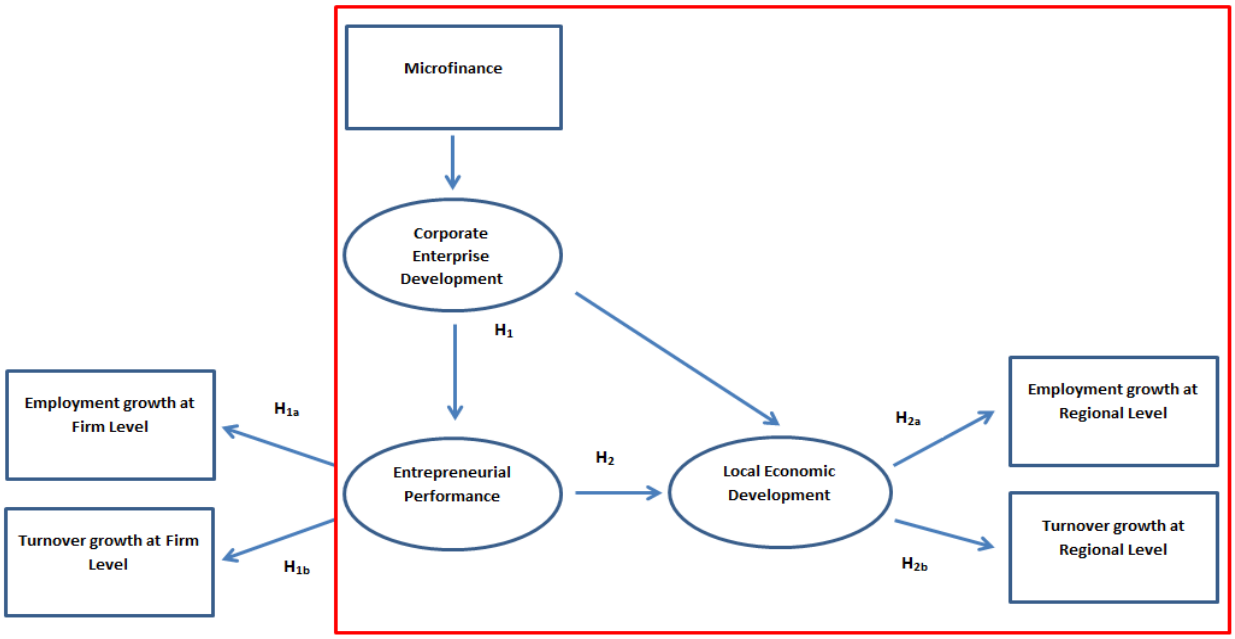
Hypothesis 2: Corporate enterprise development initiatives that provide microfinance to SMMEs in various communities have a positive impact on the local economic development.

In order to address this hypothesis effectively, the discussion will be subdivided into two discussions. The first relating to employment growth at regional level as a measure of local economic development (LED) and the second involving turnover growth at regional level as a measure of LED. Accordingly, the hypothesis is broken down as follows:

H2a: Corporate enterprise development initiatives that provide microfinance to SMMEs in various communities have a positive impact on the employment growth of that community

H2b: Corporate enterprise development initiatives that provide microfinance to SMMEs in various communities have a positive impact on the turnover growth of that community.

The presentation of the results is reflected by the rectangle around the construct of CED, entrepreneurial performance, and local economic development and its indicators employment and turnover growth at regional level.



4.1.3 H_{2a}: Corporate enterprise development initiatives that provide microfinance to SMMEs in various communities have a positive impact on the employment growth of that community

Table 9 illustrates the mean scores of employment growth of the firms considered collectively at regional level. There are 14 different regions represented throughout South Africa. In the table, a robot-type colour scale is used which identifies the regions with the highest employment levels as dark green to those with lowest levels as dark red. Intermittent shades from green through yellow to red identify values in between the highest and lowest employment mean scores. The table depicts the current and initial employment means as well as the net employment growth levels of the various regions. The mean employment values of the regions were 1.1 employees on average in the SMMEs of a region before funding, and 8.3 employees on average in the SMMEs of a region after funding. The mean employment level for the SMMEs in a region after receiving funding ranged from 1.9 in Middleburg to 24.8 in Burgersfort. These values were for the regions of all 270 SMMEs in the study.

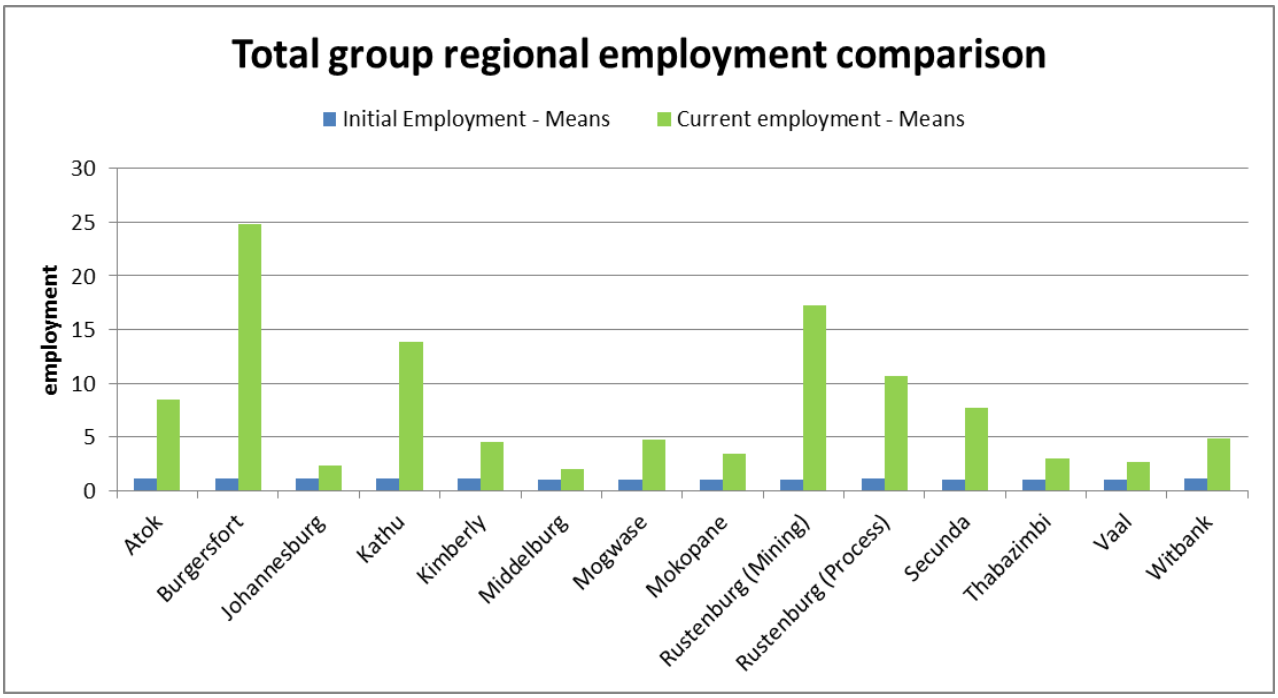
Table 9: Regional Employment Means

Region	n	Current employment - Means	Initial employment - Means	Net employment level growth means
Atok	22	8.5	1.1	7.4
Burgersfort	24	24.8	1.1	23.8
Johannesburg	11	2.4	1.1	1.3
Kathu	20	13.9	1.2	12.8
Kimberly	6	4.5	1.2	3.3
Middelburg	19	1.9	1.0	1.0
Mogwase	11	4.7	1.0	3.8
Mokopane	24	3.4	1.0	2.5
Rustenburg (Mining)	23	17.3	1.0	16.3
Rustenburg (Process)	12	10.7	1.2	9.3
Secunda	24	7.7	1.0	6.7
Thabazimbi	13	3.0	1.0	2.2
Vaal	36	2.6	1.0	1.7
Witbank	25	4.8	1.1	3.8
All regions	270	8.3	1.1	7.3

Figure 18 depicts the graphical comparison of the mean employment levels for the SMMEs in each region prior versus after receiving funding. It is clear to see that all regions experienced a growth in average employment.

It should be noted that the mean regional employment and turnover levels are different from the mean employment and turnover levels across all SMMEs; the regional means are the means of the regions, with each region given equal weighting regardless of the number of SMMEs in them, whereas the means across the SMME's do not take turnover into account.

Figure 18: Per Region Mean Employment Levels



The Wilcoxon matched pairs test for initial and current employment at regional level revealed significant differences between the mean employment levels of the SMMEs in a region before versus after receiving funding for 10 of the 14 regions. The regions for which significance was not found were Johannesburg ($Z=0.12$, $p>0.05$), Witbank ($Z=1.75$, $p>0.05$), Mogwase ($Z=1.60$, $p>0.05$) and Kimberly ($Z=1.21$, $p>0.05$).

Table 10: Wilcoxon Matched Pairs Test for Regional Employment

Region	N	T	Z	Significance	p-value
All	256	4565.0	10.02	***	0.000
Johannesburg	11	31.5	0.13		0.894
Vaal	35	178.5	2.24	*	0.025
Witbank	25	97.5	1.75		0.080
Secunda	24	38.5	3.19	***	0.001
Middelburg	16	30.0	1.96	*	0.049
Burgersfort	21	24.0	3.18	***	0.001
Rustenburg (Mining)	21	21.0	3.28	***	0.001
Atok	22	12.0	3.72	***	0.000
Mokopane	24	58.5	2.61	**	0.009
Mogwase	11	15.0	1.60		0.110
Thabazimbi	10	1.5	2.65	**	0.008
Rustenburg (Process)	12	3.5	2.78	**	0.005
Kimberly	5	3.0	1.21		0.225

- * p< .05; ** p<0.01; *** p<0.001

The mean score and the Wilcoxon signed rank test provide sufficient evidence to support Hypothesis 2a that corporate enterprise development initiatives that provide microfinance to SMMEs in various communities have a positive impact on the employment growth of that community.

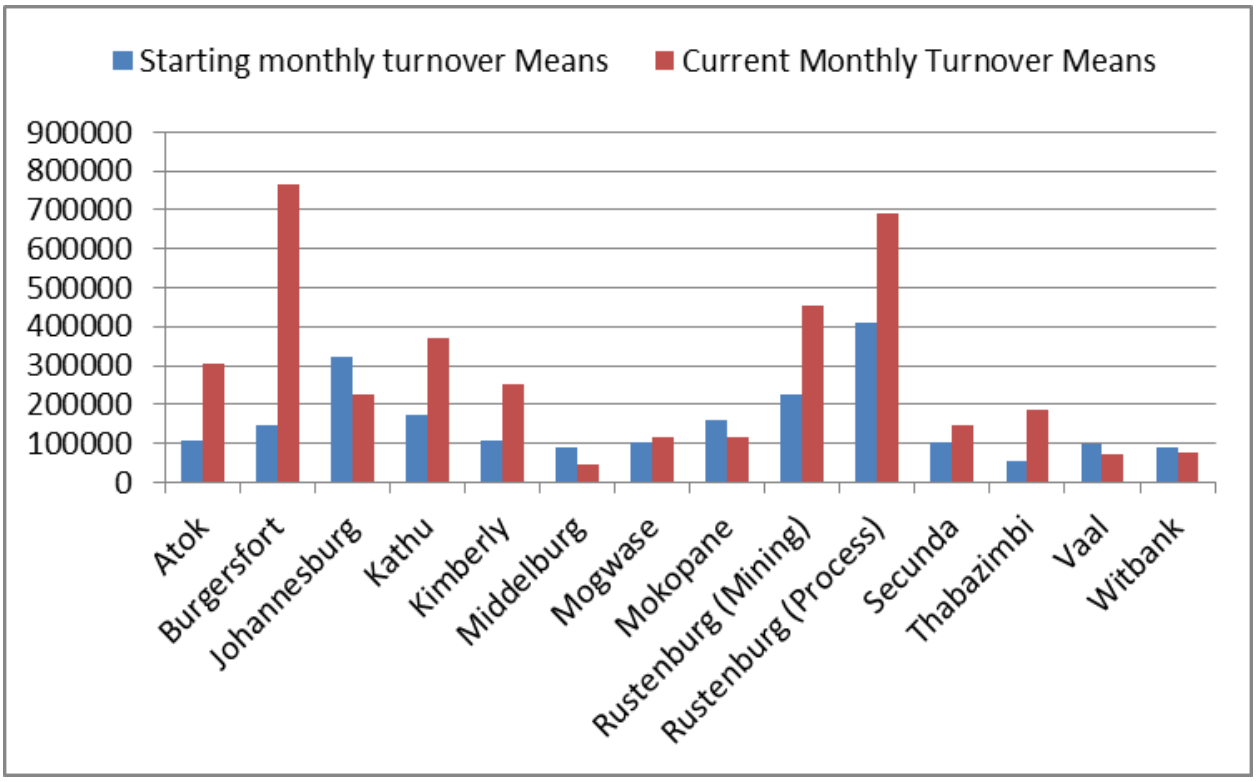
4.1.4 H_{2b}: *Corporate enterprise development initiatives that provide microfinance to SMMEs in various communities have a positive impact on the turnover growth of that community.*

Table 11: Regional Turnover Means

Region	n	Initial monthly turnover - Means	Current monthly turnover - Means	Monthly turnover change means differences
Atok	22	107031	303662	196631
Burgersfort	24	144882	764375	619493
Johannesburg	11	323816	227089	-96727
Kathu	20	170655	369332	198677
Kimberly	6	105936	253872	147936
Middelburg	19	90521	45172	-45349
Mogwase	11	102745	113971	11227
Mokopane	24	157954	116013	-41941
Rustenburg (Mining)	23	223501	452823	229322
Rustenburg (Process)	12	410987	690928	280692
Secunda	24	102851	144794	41943
Thabazimbi	13	56102	187399	131297
Vaal	36	97686	72819	-24867
Witbank	25	90502	75045	-15457
All regions	270	144937	260906	116003

Table 11 shows that the initial mean turnover levels for the SMMEs in a region ranged from R 56 102 in Thabazimbi to R 410 987 in Rustenburg (Process). The initial mean turnover levels for the SMMEs across all regions was R 144 937. Current mean turnover levels for the SMMEs in a region range from R 45 172 in Middle to R 764 375 in Burgersfort with an average mean turnover levels for the SMMEs in all regions of R 260 906. Burgersfort also experienced the highest average change in turnover levels for SMMEs at R 619 493 and 5 or 36% of the 14 regions showed a decrease in mean turnover levels for the SMMEs namely; Johannesburg (- R 96 727); Middleburg (- R 45 349); Mokopane (- R 41 941); Vaal (- R 24 867); and Witbank (- R 15 457). The per region mean turnover levels are graphically depicted in Figure 19.

Figure 19: Per Region Mean Turnover Levels



The Wilcoxon matched pairs test for initial and current turnover at regional level revealed significant differences between the mean turnover levels of the SMMEs in a region before versus after receiving funding for only 2 of the 14 regions, although the current turnover levels were higher than the initial in nine regions altogether. The regions for which significance was found is the Vaal ($Z=2.97$, $p<0.01$) and Atok ($Z=2.42$, $p<0.05$).

Table 12: Wilcoxon Matched Pairs Test for Regional Turnover

Wilcoxon Matched Pairs Test (Marked tests are significant at p <.05000)					
	Starting Monthly turnover & Current Monthly Turnover				
Region	**N**	**T**	**Z**	**Significance**	**p-value**
All	269	16341	1.42		0.155
Johannesburg	11	23	0.89		0.374
Vaal	36	144	2.97	**	0.003
Witbank	25	130	0.87		0.382
Secunda	24	143	0.20		0.841
Middelburg	19	78	0.68		0.494
Burgersfort	24	86	1.83		0.067
Rustenburg (Mining)	23	78	1.82		0.068
Atok	22	52	2.42	*	0.016
Mokopane	24	102	1.37		0.170
Mogwase	10	23	0.46		0.646
Thabazimbi	13	27	1.29		0.196
Rustenburg (Process)	12	19	1.57		0.117
Kimberly	6	9	0.31		0.753

- p< .05; ** p<0.01; *** p<0.001

The mean scores, t-tests, and the Wilcoxon signed rank test provide sufficient evidence that Hypothesis 2b that corporate enterprise development initiatives that provide microfinance to SMMEs in most communities have a positive impact of some amount on the turnover growth of that community is supported.

4.5 Summary of the results

The data consisted of 270 SMMEs that received microfinance of between R 1 000 and R 1 000 000 with a loan amortisation schedule of longer than 12 (Twelve) months from Anglo American Zimele Community Fund. The data revealed that 207 (77%) companies received 1 loan and only 62 (23%) of the companies came for more financial assistance. AAZCF released R 96 216 020 between 2007 and 2009 to these small business and 93 (34.4%) failed to repay their loan which resulted in 18.8% or R 18 079 586 of the funds released being written off as bad debt. However, businesses funded in the Health, Hospitality and Mining industries reported a 100% loan recovery rate.

The results showed that for the 270 companies, 93 (34%) were written off, 166 (62%) of businesses had a positive employment growth, 10 (4%) of businesses had the same employment number, and 1 business had negative employment growth. The t-tests and Wilcoxon tests revealed that there is a significant ($p < .05$) difference between the initial versus current employment levels of the firms, this difference being small to moderate in terms of effect size (Cohen's $d = 0.25$ and 0.32 including and excluding bad debt respectively). Initially, for all 270 companies the employment level across firms was 1.01 with a standard deviation = 0.3, with most of the firms with only one employee. Furthermore, for the loans not written off, the mean pre-funding employment level across the firms was 1.1 with a standard deviation = 2.9, with most of the firms still employing only one employee. After receiving funding, the mean for all 270 SMMEs increased to 8.33, yet for those not written off the mean increased to 12.4. It was thus concluded that the loan has a significant influence on current employment. Therefore, Hypothesis 1a that corporate enterprise development initiatives that provide microcredit positively influence employment growth at firm level is supported.

The analysis of data relating to Hypothesis 1b that corporate enterprise development initiatives that provide microcredit positively influence turnover growth at firm level showed that loans of 93 (34%) were written off, 127 (47%) of businesses had a positive turnover growth, and 50 (19%) businesses had a negative turnover growth Once again, both the paired samples t-test and the Wilcoxon test found significant differences ($p<.05$) between the initial versus current turnover of firms, but with a small effect size (Cohen's d = 0.14 and 0.25 including and excluding bad debt respectively). Initially, for all 270 SMMEs the mean turnover per firm was R144 936.50 with a standard deviation = R 260 335.90, after receiving funding the mean turnover per firm was R 260 905.90. However, for those not written off the mean turnover per firm was R 148 794.60 with standard deviation = R 288 298, and after funding the mean turnover per firm was R 394 277.20. It was thus concluded that the loan has a significant influence on current turnover. Therefore, Hypothesis 1b that corporate enterprise development initiatives that provide microcredit positively influence turnover growth at firm level is supported.

The mean employment values of the regions were 1.1 employees on average in the SMMEs of a region before funding, and 8.3 employees on average in the SMMEs of a region after funding. This reveals an average net growth of 7.3 employees for all regions. Significant regional differences were found for 10 of the 14 regions. However, no significant differences were found for Johannesburg ($Z=0.12$, $p>0.05$), Witbank ($Z=1.75$, $p>0.05$), Mogwase ($Z=1.60$, $p>0.05$) and Kimberly ($Z=1.21$, $p>0.05$). The study however determined that enough evidence exists that Hypothesis 2a that corporate enterprise development initiatives that provide microfinance to SMMEs in various communities have a positive impact on the employment growth of that community is supported.

Finally there was support for Hypothesis 2b: corporate enterprise development initiatives that provide microfinance to SMMEs in various communities have a positive impact on the turnover growth of was R 144 937, this value increased to an average for the funded SMMEs within regions of R 260 906 showing an increase across all regions of R 116 003. However, only for only two of the 14

regions was this increase large enough to be significant namely; Vaal ($Z=2.97$, $p<0.01$) and Atok ($Z=2.42$, $p<0.05$). The evidence suggests that the loans have a small positive influence on current turnover for most regions. Therefore H2b is supported; corporate enterprise development initiatives that provide microfinance to SMMEs in various communities have a positive impact on the turnover growth of that community.

5 CHAPTER: DISCUSSION OF THE RESULTS

5.1 Introduction

This chapter discusses the results of the research with reference to the literature review. Firstly, findings relating to the demographics of the sample are discussed by comparing what the study planned to find and what was actually obtained. Secondly, results pertaining to the two main hypotheses are discussed in relation to the literature, showing similarities, differences and / or alternatives between research conducted before this study and the findings in this research.

5.2 Demographic profile of respondents

Over three-quarters (207 or 77%) of businesses that AAZCF assisted only applied for 1 loan. This statistic could imply that for this majority one loan was enough for the business to become financially stable. However, the reality that 34% of the loans were written off suggests that although a majority of the businesses are still operational many of the businesses could not come back for a second loan because they were unable to repay the first loan. As Rahman (1999) suggested that microfinance programmes have helped SMMEs acquire superior machinery, and put them in an improved position to hire labourers and decrease their dependency on middlemen (Rahman, 1999). Rwigema et al (2008) also advise that micro-financing provides an important source of funding for those entrepreneurs excluded from formal financial institutions. The alternative could be that the microfinance pushed the SMME into over-borrowing and therefore even greater long term poverty as 63 (23%) of businesses came back for more than one loan (Banerjee et al, 2009; Karlan and Zinman, 2011).

The analysis also indicates that 93 (34%) of all business funded between 2007 and 2009 failed and were written off as bad debt. This amounted to R 18 079 586 (19%) of the funds released during this period being impaired. These figures are lower than the 78% of small businesses failing in South Africa

currently. However, these figures were not unexpected given the impact of the global financial crisis in 2008 on economic growth and employment figures in South Africa. Prior to this, the country's economic growth had not led to the creation of sufficient employment and this situation was further aggravated by the financial crisis (Herrington et al, 2009). However, this might not be the only reason for these businesses failing. As Shane (2009) suggests that policies that lead people to start marginal businesses that are expected to fail, have little economic impact, and generate little employment. In the same vain, the current South African environment is hardly conducive for the SMME sector to grow. Rogerson (2006:71) identified the several challenges as attributes to the failure rate of South African SMMEs in the current environment.

5.3 Hypothesis 1: Corporate enterprise development initiatives that provide microcredit positively influence SMME entrepreneurial performance at firm level.

5.3.1 H1a: Corporate enterprise development initiatives that provide microcredit positively influence employment growth at firm level.

The investigation into the influence of microfinance on entrepreneurial performance specifically employment growth revealed a majority of 166 (62%) of the businesses in the sample experienced an increase in employment, 10 (4%) businesses experienced no growth and 1 (0%) had negative employment growth post-financial assistance and 93 (34%) were written off. The initial employment amounted to 274 jobs and this number grew to 2 250 jobs as at the 30 June 2012. This depicts an overall net employment gain of 1 976 jobs, which is a 721% increase in employment. This number could have been higher but the businesses that failed resulted in 478 people losing their jobs. According to Harrison et al (2005) the potential to create employment is a sign of a strong growing firm. Consequently, these employment statistics suggests that SMMEs that survive the full term of their loan are going on to create employment but more interesting these firms are creating on average more than 8 times their initial employment.

5.3.2 H1b: Corporate enterprise development initiatives that provide microcredit positively influence turnover growth at firm level.

The investigation into the influence of microfinance on entrepreneurial performance, specifically turnover growth, revealed that 93 (34%) were written off, 127 (47%) of businesses had a positive turnover growth and 50 (19%) businesses had a negative turnover growth. This means that most of the businesses that succeeded, after receiving financial assistance increased their monthly turnover. Becchetti and Trovato (2002) also found that firms' have been granted access to finance is likely to have faster growth rates. The average monthly turnover for all the firms increased from R 144 937 to R 260 906, which is an average monthly increase of R 116 003 (80%) higher than initial monthly turnover. Showing that with financial assistance these SMMEs are able to almost double their turnover. They have optimised the microfinance and have turned it into cash generating activities for the business. However, for than more than half of the businesses experiencing no or negative growth that the financial assistance is not enough to influence their turnover creation alluding to the fact that further non-financial assistance such as mentorship, education and training would be required to assist them to deal with decreases in demand or even an increases in competition. The businesses that show an increase turnover have obviously been able to adapt to changing market conditions and have excelled.

5.4 Hypothesis 2: Corporate enterprise development initiatives that provide microfinance to SMMEs in various communities have a positive impact on the local economic development

5.4.1 H2a: Corporate enterprise development initiatives that provide microfinance to SMMEs in various communities have a positive impact on the employment growth of that community

All regions that had AAZCF hubs providing finance to SMMEs in the community experience an increase in employment from initial to current. This means that

the provision of financial assistance within the majority of the areas is higher after than before in employment growth. The impact of the employment growth is not significantly felt in all the areas as some are only experience small quantities of employment growth, but growth nonetheless. On average all the regions are experiencing approximately 7 times more employment growth after SMMEs have had access to enterprise development financial assistance. The failure of LED programmes to achieve their objectives in many of South Africa's poorest and most disadvantaged areas has been well documented. As hundreds of new job seekers are entering the market, this corporate enterprise development initiative has been able to absorb some of the unemployed in the different regions therefore assisting in the LED.

5.4.2 H2b: Corporate enterprise development initiatives that provide microfinance to SMMEs in various communities have a positive impact on the turnover growth of that community.

Nine of the 14 regions experienced an increase in turnover post financial assistance. Across all the regions, the average monthly turnover, increased by approximately 80% from R 144 937 to R 260 906 revealing an overall increase in turnover. This means for the most regions there is an increase in sales activity which could result in an increase in GDP for the area and potentially an increase in income per capita. This would better the local economic development for the region and improve the lives of the individuals living in the communities. Only 5 of the 14 regions recorded a decrease in monthly turnovers. Davidson et al (2002) suggests that firms located in a number of smaller communities grow slower that those located in the capital area. Almus and Nerlinger (1999) use regional population density as their location variable, and find weak evidence that location affects growth. Their findings show that firms located in densely populated areas exhibit higher growth rates. Therefore the increase or decrease in the turnover results could have been determined by the high capital growth of the area or the population density. However, areas such as Johannesburg and Witbank produced a loss in sales which suggests that population density and capital within the region did not affect the performance of the region.

5.5 Conclusion

The Anglo American Zimele Community Fund (AAZCF) funded 270 businesses in 14 areas in 12 different industries between 2007 and 2009. When analysing these businesses 3 to 5 years post-financial assistance the following key performance indicators were observed:

- 207 (77%) companies received only one loan
- Average disbursed amount of R 356 356, R 96 216 020 being disbursed between 2007 and 2009
- Average amount written off of R 192 336 and 18.8% of the AAZCF loan book being impaired.
- Increase in employment by 721%, with 62% of businesses reporting an improvement in employment
- Increase in turnover by 80%, 47% of businesses reported an improvement in turnover
- Average net employment growth of 7 jobs across all regions
- Average monthly turnover improvement of R 116 003 across all regions

The firm level examination revealed that the provision of microfinance significantly impacted the employment and turnover of SMMEs. The access to finance has improved SMME decision-making power by giving them more financial independence and incentivizing enterprise growth. Similarly, regional statistics supports the notion that private sectors access to finance combined with the social responsibility, environmental awareness, local knowledge, and job generation benefits the local economies where enterprise development initiatives are operational (Bennett, Grohmann, and Gentry, 1999:25). Together with the various data analysis and interpretation tools such as the frequency distributions, t-tests, Wilcoxon signed ranked tests, the Box and Whisker plots and summary statistics all provide sufficient evidence that that both Hypotheses 1 and 2 are supported.

6 CHAPTER: CONCLUSIONS, IMPLICATIONS AND RECOMMENDATIONS

6.1 Introduction

The following chapter will conclude the study. It will account for the implications the results pertaining to hypothesis one and two will have on managers within the enterprise development space, more specifically, managers of corporate enterprise development initiative that provide microfinance. It also provides four recommendations for improvements to the enterprise development initiative that should improve loan management and recovery rates of the fund. Finally, the chapter concludes by suggesting future research that could be undertaken in the SMME and enterprise development sectors.

6.2 Conclusions of the study

SMME development initiatives have become a priority by government to address socio-economic problems such as poverty and unemployment and to stimulate local economic growth. Enterprises development has thus shifted from the policy periphery to occupy now an increasingly more central role in South African development planning (Rogerson, 2001). Financing SMMEs has thus become more commercial, and this commercialization is increasing very strongly. The motivation for the continued extension of financing institutions is the presumption that expanding credit access is a relatively efficient way to fight poverty and promote growth (Karlan and Zinman, 2011). The first objective to determine the impact corporate enterprise development initiatives that provide microfinance have on SMME entrepreneurial performance in terms of employment and turnover growth has revealed that Hypothesis 1a that corporate enterprise development initiatives that provide microcredit positively influence employment growth at firm level is supported. Similarly, Hypothesis 2a that corporate enterprise development initiatives that provide microcredit positively influence turnover growth at firm level is also supported. Suggesting

that push for greater access to finance to stimulate entrepreneurial performance is an effective measure to combat socio-economic problems. Therefore, Hypothesis 2a that corporate enterprise development initiatives that provide microfinance to SMMEs in various communities have a positive impact on the employment growth of that community is supported.

Corporate enterprise development initiatives have been recognised as a policy strategy for local economic development (LED), however, successful LED programmes have proven elusive in most small towns and rural areas because of the slow processes of land reform, failure to emphasise sustainable local economies, weak local government capacity and limited engagement with local economic potential (Binns and Nel, 1999). Local procurement and enterprise development currently takes priority to address broad based transformation and an increase in the country's sustainable economic growth. The second objective was therefore to determine whether corporate enterprise development initiatives that provide microfinance have a positive impact on local economic development (LED). The study has shown that SMMEs contribute to local economic development in various ways such as by creating employment for the rural and urban growing labour force and by providing a large number of people within the local communities with increased sales. Likewise, Hypothesis 2b that corporate enterprise development initiatives that provide microfinance to SMMEs in various communities have a positive impact on the turnover growth of that community has proven true.

Thus, the main objective to determine whether corporate enterprise development initiatives that provide microfinance have a positive impact on SMMEs with respect to employment and turnover growth, and facilitate local economic development (LED) has been addressed.

6.1 Implications and Recommendations

Enterprise development institutions that provide microcredit can be described as facilitators for institutions within the private and public sector to make socially conscious investments (Reille and Foster, 2008). The research findings suggest

that corporate enterprise development initiatives are contributing toward the sustainable development of SMEs and assisting them in becoming financially and operationally independent. SMMEs that have received microcredit are improving their contribution to economic growth in the form of increased turnover and employment creation. However, 93 of 270 businesses failed out of the sample group which translates to a 34.4% failure rate. These failures resulted in 478 people losing their jobs and Anglo American Zimele Community Fund impairing R 18 079 586, which is 18.8% of the funds released. In order to further diminish these devastating results I recommend the following business interventions:

6.1.1 Pre-finance entrepreneurial orientation assessment tool

Entrepreneurial orientation (EO) characterises the strategies and procedures that entrepreneurs use to make decisions and take actions (Mintzberg, Raisinghani, and Theoret, 1976). Thus, EO can be described as the entrepreneurial processes that leaders use to define their firm's value proposition and maintain its vision (Rauch, Wiklund, Lumpkin, and Frese, 2009:6). Entrepreneurial orientation is assessed using Miller's (1983) three dimensions of EO which he referred to as innovativeness, risk taking, and proactiveness and Lumpkin and Dess (1996) two additional dimensions competitive aggressiveness and autonomy. The tendencies toward these dimensions in entrepreneurs and SMMEs have shown to benefit them in current business environment characterised by constant innovation and decreased product and business lifecycles. The continued income generation from current ways of operating are not guaranteed and businesses need to quickly adapt to change and react to new opportunities (Rauch et al, 2009). Ireland, Hitt, and Sirmon (2003) found that firms that adopt an entrepreneurial orientation strategy often produce strong business performance because they are anticipating market trends, frequently innovating and usually providing unique product/service offerings. Contemporary arguments suggest that EO leads to higher performance of firms; therefore I recommend that AAZCF adopts a pre-finance entrepreneurial orientation assessment tool that aids their pre-finance assessment of finance applicants. The entrepreneurial orientation assessment

tool should aid managers in the selection process and not become a prerequisite for selection. If the tool is used correctly it should decrease the failure rate of businesses funded and improve the recoverability of loans.

6.1.2 Mentorship

Mentoring can be defined as the long term passing on of support, guidance and advice. A mentor, coach or guide can become an essential asset to a growing company. Mentors encourage entrepreneurs to think and learn from the consequences of certain actions in critical situations in order to alter their reaction to the uncertain future and draw learning's from their current behaviours (Bisk, 2002; Sullivan, 2000). Mentoring allows entrepreneurs to gain a fresh perspective of their firms, while continuing to be the developers of its vision and value proposition (Cope and Watts, 2000). Cox and Jennings (1995:9) pointed out, good and bad entrepreneurs are distinguished by their ability to learn from their mistakes and mentorship can certainly play an important role in this respect. AAZCF can appoint industry specific mentors to their SMMEs to aid with specific common problems that occur in the business life cycle, help derive solutions for their current difficulties and be an objective sounding board for the entrepreneurs. The mentor's should have several years of experience that can prevent a business from making costly mistakes with just their insight. These interventions at such an early stage of SMMEs maturation are beneficial in reducing the contemporary high failure rate of businesses in the South African environment (Deakins, Graham, Sullivan, and Whittam, 1997). Therefore this proactive, post-finance, intervention can significantly reduce AAZCF already low business failure rate and improve the recoverability of their investment.

6.1.3 Training

According to De Cenzo and Robbins (1996:237), training provides a learning experience that creates a permanent change in an individual's abilities, understanding, approaches or even social behaviour. Rodrigues (2006:61) asserts that not enough black South Africans have gone through the education

system to attain a well-educated labour force. Entrepreneurial training and education cannot be just centred on knowledge and skills learnt in the classroom in a limited amount of time, but it also requires more applied involvement to be effective (The Foundation of Economic and Business Development, 2006:1). Garavan and O'Cinneide (1995:4) detailed the objectives of entrepreneurial education and training to be the acquisition of knowledge and relevant skills; the production of actions plans and the analysis of solutions; the development of empathy and support for all unique aspects of entrepreneurship; as well as the formulation of attitudes towards change that encourage new start-ups and other entrepreneurial ventures. AAZCF can partner with education and training institutions such as Boston, Wits Centre for Entrepreneurship and South African Institute for Entrepreneurship that'll provide the necessary programmes to start, build, and grow more successful ventures. AAZCF can partner with education and training institutions such as Boston, Wits Centre for Entrepreneurship and South African Institute for Entrepreneurship that'll provide the necessary programmes to start, build, and grow more successful ventures.

6.1.4 Networking Platform

Social capital is most effective for SMMEs when they identify networks and network relationships. Social capital can be defined as the relationships and networks from which individuals are able to derive support (Venter et al, 2010:79). Social capital provides businesses with linkages that will enable them to discovery opportunities, as well as identify, collect and allocate scarce resources that they would not ordinarily have access to (Davidsson and Honig, 2003:309). Networking equates to knowing influential people, establishing connections that will accomplished something, and working together with individuals from within a system to reach mutually beneficial outcomes. SMMEs funded by the AAZCF can be loaded onto a networking platform and leverage their common association with Zimele to construct new networks that could enable the acquisition of knowledge and resources for their respective ventures. Several reports point out this ability of networking to allow entrepreneurs access

to information and means to deal with business obstacles (Low and Macmillan, 1988).

6.3 Suggestions for further research

My hope is that this analysis will stimulate further research into the specific effects of microfinance as an aspect of corporate enterprise development. Corporate enterprise development is a relatively new phenomenon within the SME support arena and it is receiving much more attention as a requirement to do business in South Africa. Various models can be utilised to maximise the effect of the initiative with companies such as Riazcorp and Aurik using mentorship and training to support SMMEs therefore further studies can be conducted on mentorship, education, or training as aspects of corporate enterprise development and the impact it has had on SMMEs in South Africa. There are also many other sources of finance such as leasing, equity, and grants from institutions such as such as banks and governmental development funds. Companies such as Standard Bank and Absa as well as government institutions such as the DBSA is partnering with the private sector to do meaningful enterprise development programmes. These programmes require investigation therefore I propose that further studies examine the provision of enterprise development through traditional banking system and public private partnerships and the impact that it has had on SMMEs in South Africa. These studies in turn would allow for in depth discussion pertaining to the aspects of SMME development requiring further exploitation.

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7 APPENDIX A

7.1 Consistency matrix

Determine whether corporate enterprise development initiatives that provide microfinance have a positive impact on SMMEs with respect to employment and turnover growth, and facilitate local economic development (LED).					
Sub-problem	**Literature Review**	**Hypotheses**	**Source of data**	**Type of data**	**Analysis**

Determine whether corporate enterprise development initiatives that provide microfinance have a positive impact on SMMEs with respect to employment and turnover growth, and facilitate local economic development (LED).					
Sub-problem	**Literature Review**	**Hypotheses**	**Source of data**	**Type of data**	**Analysis**
Determine the impact corporate enterprise development initiatives that provide microfinance have on SMME entrepreneurial performance in terms of employment and turnover growth	Ağca, V., Dündar, S and Aydemir, O. (2008). Some Selected Determinants on Entrepreneurial Performance of Countries: An Empirical Study. Afyon Kocatepe University, Turkey	Hypothesis 1: Corporate enterprise development initiatives that provide microcredit positively influence SMME entrepreneurial performance at firm level. H1a: Corporate enterprise development initiatives that provide microcredit positively influence employment growth at firm level. H1b: Corporate enterprise development initiatives that provide microcredit positively influence turnover growth at firm level.	The current study makes use of the Anglo American Zimele Community Fund database, which was originally designed specifically to record employment and turnover data from the businesses in order for Anglo American Zimele Community Fund to report back to the Business Call to Action initiative. The data is also used by the corporate to report on their enterprise and supplier development stats as required by the mining charter.	Secondary data at the unit of analysis	Cross tabulations and summary statistics

Determine whether corporate enterprise development initiatives that provide microfinance have a positive impact on SMMEs with respect to employment and turnover growth, and facilitate local economic development (LED).					
Sub-problem	**Literature Review**	**Hypotheses**	**Source of data**	**Type of data**	**Analysis**
Determine whether corporate enterprise development initiatives that provide microfinance have a positive impact on local economic development (LED)	1. Rogerson, C. M. (2010). Local economic development in South Africa: strategic challenges. Development Southern Africa, 27, 481–496. 2. Stibbe, D. (2008). An introduction to partnerships for sustainable development in South Africa. Pretoria: GTZ, The Partnering Initiative and IDC.	Hypothesis 2: Corporate enterprise development initiatives that provide microfinance to SMMEs in various communities have a positive impact on local economic development.	The current study makes use of the Anglo American Zimele Community Fund database, which was originally designed specifically to record employment and turnover data from the businesses in order for Anglo American Zimele Community Fund to report back to the Business Call to Action initiative. The data is also used by the corporate to report on their enterprise and supplier development stats as required by the mining charter.	Secondary data at the unit of analysis	Descriptive statistics such as frequencies mean scores, cross tabulations and summary statistics.