

The role of government support programmes in SMME development in South Africa

Byren M Archary

**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 Business Administration**

Johannesburg, 2009

ABSTRACT

The previous Minister of Finance, Mr Trevor Manuel, once stated that small business represents an important vehicle to address the challenges of job creation, economic growth and equity; given the appropriate enabling environment, it can make an indelible mark on the South African economy.

This report set out to determine the role of government support programmes in developing the SMME sector in South Africa.

To address this problem, the research was segmented into the following critical questions:

- What is the prevailing opinion on the impact of government support programmes thus far in promoting small business development?
- In the face of the prevailing enabling landscape, which factors continue to influence the development of small businesses in South Africa?

This exploratory research used a qualitative approach to collect data. The sample consisted of an official from a government department, four representatives of small business support agencies and 31 small business owners. In total the sample consisted of 36 participants.

Although a qualitative approach has been criticised for being anecdotal and lacking both the means to reproduce and generalise the outcomes, multiple data streams were used to ensure the integrity and reliability of the results.

Two interview schedules were developed and used during the semi-structured interviews to collect the primary data. The first schedule was developed specifically to solicit responses from government and small business support agencies. The second schedule was used when interviewing small business owners.

To counter the threat of an illogical and poorly constructed interview schedule, this research ran a pilot study as part of its verification exercise. The interview schedule was sent to five policy beneficiaries (i.e. small business owners) for comments and suggestions on improving it. These five small business owners did not form part of the final sample.

Based on the balance of evidence, the market regarded the impact of the government support programmes as ineffective and having done little to develop and grow the sector. The prevailing opinion was that policy and strategy seemed effective only in theory. Furthermore, support agencies were regarded as ineffective and seen to be operating in isolation of each other and government. Officials from these agencies were not adequately trained to assist small business owners with queries and advice.

Equally discouraging, the research uncovered that historical factors limiting the growth potential of small businesses persisted. This means, that although government has promulgated several pieces of legislature such as the Small Business Development Act and the Integrated Strategy on the Promotion of Entrepreneurship and Small Enterprise to improve the small business landscape, it has failed to address the basic problems of finance, training and development needs, shortage of scarce skills and improving business skills sets.

The role of government support programmes is therefore proving to be ineffective because of several reasons:

- Poorly trained officials that offer ineffective advice and information to small business owners;
- A lack of dynamic and sustainable marketing campaigns that draw public attention towards the support programmes available;
- A lack of a central repository of information related to the small business sector;
- Tedious and bureaucratic processes that offer neither acknowledgment of receipt of applications nor notification of awards;

- Small business support agencies working in isolation of government programmes and at times offering contradicting information with regard to the tender application processes;

Addressing these pitfalls and ensuring proper implementation and synergy strategies will ameliorate the impact of government support programmes in developing the small business sector in South Africa. This report concludes by making some recommendations on how these pitfalls may be overcome.

DECLARATION

I, Byren Mitchel Archary, 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 Business Administration in the University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination in this or any other university.

BYREN MITCHEL ARCHARY

Signed at Johannesburg on the _____ day of _____ 2009.

DEDICATION

This report is dedicated to my wonderful parents, Poovan and Sandra Archary, who remain my North Star and foundation respectively. Everything that I have achieved thus far was due to their wisdom, encouragement and sacrifices.

ACKNOWLEDGEMENTS

I wish to express my sincere gratitude to those who have assisted me in the compilation of this research report.

In particular, I would like to thank the following:

- Dr Geoff Bick, for providing me with the initial guidance on the report.
- Prof Gillian Marcelle who encouraged me to look at the whole picture.
- The government officials, representatives of small business support agencies and small business owners who gave of their time and comments to enrich this research; this work would not have been completed without your dedication to the SMME process in South Africa.
- My beautiful sisters, Abigail and Chanel, and my brother Kelvin, for being so encouraging, critical and understanding during another Master's degree.

TABLE OF CONTENTS

ABSTRACT	II
DECLARATION.....	V
DEDICATION	VI
ACKNOWLEDGEMENTS.....	VII
LIST OF TABLES.....	XI
LIST OF FIGURES	XI
1. INTRODUCTION	1
1.1. PURPOSE OF THE STUDY	1
1.2. CONTEXT OF THE STUDY.....	1
1.2.1. INTRODUCTION.....	1
1.2.2. THE GLOBAL FINANCIAL CRISIS AND ITS IMPACT ON THE SOUTH AFRICAN ECONOMY	2
1.2.3. IMPACT OF THE GLOBAL FINANCIAL CRISIS ON THE SOUTH AFRICAN ECONOMY.....	3
1.2.4. SOUTH AFRICA'S 2009 GENERAL ELECTIONS	4
1.2.5. CONCLUSION	5
1.3. PROBLEM STATEMENT	6
1.3.1. MAIN PROBLEM.....	6
1.4. SIGNIFICANCE OF THE STUDY	6
1.5. DELIMITATIONS OF THE STUDY	7
1.6. DEFINITION OF TERMS	7
1.7. ASSUMPTIONS	9
2. LITERATURE REVIEW	10
2.1. INTRODUCTION.....	10
2.2. IMPACT OF GOVERNMENT SUPPORT PROGRAMMES IN PROMOTING SMALL BUSINESS DEVELOPMENT	10
2.2.1. SMME LEGISLATION AND POLICIES	11
2.2.2. PERFORMANCE OF GOVERNMENT SMME SUPPORT.....	17
2.3. INFLUENCING THE DEVELOPMENT OF SMALL BUSINESSES IN SOUTH AFRICA	25
2.3.1. STARTING A SMALL BUSINESS IN SOUTH AFRICA.....	25
2.3.2. STRATEGIC BUSINESS PLANS AND FINANCE.....	27
2.3.3. TRAINING AND STRATEGIC PARTNERSHIPS	30
2.4. CONCLUSION OF LITERATURE REVIEW	35

3.	RESEARCH METHODOLOGY	38
3.1.	INTRODUCTION	38
3.2.	RESEARCH DESIGN	38
3.3.	POPULATION AND SAMPLE	41
3.3.1.	POPULATION	41
3.3.2.	SAMPLE AND SAMPLING METHOD	41
3.4.	DATA ANALYSIS AND INTERPRETATION	42
3.5.	LIMITATIONS OF THE STUDY	43
3.6.	VALIDITY AND RELIABILITY	44
3.6.1.	EXTERNAL VALIDITY	44
3.6.2.	INTERNAL VALIDITY	44
3.6.3.	RELIABILITY	44
3.7.	CONCLUSION	45
CHAPTER 4:	ANALYSIS OF RESULTS	46
4.1.	INTRODUCTION	46
4.1.1	SAMPLE PRESENTATION AND ANALYSIS	46
4.1.2	RESPONSE RATES TO PARTICIPATE IN SURVEY	48
4.1.3	DEMOGRAPHICS OF SMALL BUSINESS OWNER PARTICIPANTS	52
4.1.4	PROFILE OF BUSINESS ACTIVITIES	55
4.2	DISCUSSION: RESEARCH QUESTION ONE	59
4.2.1	POOR POLICY IMPLEMENTATION	60
4.2.2	SMME SUPPORT PROGRAMMES	61
4.2.3	ALLEGED CORRUPTION AND NEPOTISM	63
4.2.4	POOR SUPPORT FROM AGENCIES	63
4.2.5	INEFFECTIVE MARKETING AND AWARENESS CAMPAIGNS	64
4.3	DISCUSSION: RESEARCH QUESTION TWO	65
4.3.1	STRATEGIC BUSINESS PLANS AND FINANCE	66
4.3.2	TRAINING AND STRATEGIC PARTNERSHIPS	67
4.3.3	FACTORS NEEDED TO GROW THE SMALL BUSINESS	68
4.4	CONCLUSION	68
CHAPTER 5:	CONCLUSION AND RECOMMENDATIONS	71
5.1.	INTRODUCTION	71
5.2.	CONCLUSION OF THE STUDY	72
5.3.	RECOMMENDATIONS	75
5.3.1.	RECOMMENDATIONS TO GOVERNMENT	75
5.3.2.	RECOMMENDATIONS TO SUPPORT AGENCIES	76
5.3.3.	RECOMMENDATIONS TO SMALL BUSINESS OWNERS	77
5.4.	SUGGESTIONS FOR FURTHER RESEARCH	78

REFERENCES 79

APPENDIX 1 88

APPENDIX 2 92

APPENDIX 3 96

LIST OF TABLES

Table 1: Profile of respondents (Source: author).....	42
Table 2: Number invited and accepted (Source: author)	47

LIST OF FIGURES

Figure 1: Strategic Pillars of the Integrated Strategy (Source: DTI 2006)	16
Figure 2: The Scott and Bruce Model for Growth (Source: Scott and Bruce 1987)	26
Figure 3: Porter's Diamond Model (Source: Porter 1990)	33
Figure 4: Independent Database: Email delivery rates (Source: author)	48
Figure 5: Independent Database: Email responses (Source: author)	49
Figure 6: Government Database: Email delivery rate (Source: author)	50
Figure 7: Government Database: Email responses (Source: author)	50
Figure 8: Government Database: Email delivery rates (Services Specific) (Source: author)	51
Figure 9: Government Database: email responses (Services specific) (Source: author)	52
Figure 10: Independent Database: Gender distribution (Source: author)	53
Figure 11: Government Database: Gender distribution (Source: author)	53

Figure 12: Government Database: Distribution of Company Owners (Source: author).....	54
Figure 13: Independent Database: Gender distribution of Company Owners (Source: author)	55
Figure 14: Independent Database: Position in Company (Source: author)	55
Figure 15: Government Database: Position in Company (Source: author)	56
Figure 16: Independent Database: Business Cycle (Source: author).....	57
Figure 17: Independent Database: No of Employees (Source: author).....	57
Figure 18: Government Database: Business Cycle (Source: author).....	58
Figure 19: Government Database: No. of Employees (Source: author)	58

1. INTRODUCTION

1.1. PURPOSE OF THE STUDY

The purpose of this report is to investigate the role of government support programmes in developing small, medium and micro enterprises (SMMEs) in South Africa.

This report will present some of the substantial body of evidence that supports small business as a feasible vehicle to counter unemployment, poverty and social discrepancy in the country.

In addition, it will present the various pieces of legislature and policy that currently define the small business landscape as a lead up to establishing the impact of support programmes and existing factors that continue to define the development of this sector.

Taken as a collective, these factors will be used to address the role of government support programmes in small business development in South Africa.

1.2. CONTEXT OF THE STUDY

1.2.1. INTRODUCTION

At the time of writing this report, major critical events are affecting the global economy and South Africa: the global financial crisis and its impact on the South African economy, and South Africa's general elections including run-up events.

Therefore, as point of departure, it is prudent to first describe these events and then relate these back to the impetus of this research report, which is to determine the role of government support programmes in developing small-, micro- and medium-sized enterprises (SMMEs) in South Africa.

1.2.2. THE GLOBAL FINANCIAL CRISIS AND ITS IMPACT ON THE SOUTH AFRICAN ECONOMY

According to Terrones et al (2009), the global economy is experiencing an *en-masse* contraction not seen since the Great Depression of the 1930s. The authors highlight that a large number of advanced economies have fallen into recession. Emerging economies have slowed abruptly due to the reduction of direct foreign investments and the paucity of trade through exports.

The Economist (2008) suggests that despite emergency measures administered by the world's central banks, the global recession is unlikely to be averted. Some economists predict that consumer spending will reduce at its fastest pace since the 1980 recession.

The global financial crisis has been spurred by the collapse of the United States sub-prime mortgage market (Danninger et al 2009). The British economy, which stalled in the second quarter of 2008, has now fallen into recession. Even European economies, such as Germany, have not been able to avoid the recession fall-out. According to The Economist (2008), household spending in Germany has been falling since December 2008.

Japan's economy experienced a contraction at an annualised rate of 3% owing to weak exports, slow investments and high food and fuel prices. Collectively these factors significantly reduced consumer confidence and spending. Despite having buffers against the full effect of the down-turn in the global markets, the stronger yen (against other international weaker currencies) did not significantly improve exports or Japan's economy prospects (The Economist 2008).

According to a Morgan Stanley report (as quoted from The Economist 2008) many emerging markets, such as India, Brazil and South Africa, will be hard hit by the widening crisis as foreign investments fall. The report estimates that capital flows to emerging economies could fall to \$550 billion in 2009 from around \$750 billion in 2007 and 2008 respectively. This will have a knock-on effect on economies that rely heavily on foreign finance; the result predicted that 80 developing countries are likely to run current-account deficits of more than

5% of Gross Domestic Product (GDP) in 2009. However, China with a fastest growing economy has shown some resilience against the financial crisis.

1.2.3. IMPACT OF THE GLOBAL FINANCIAL CRISIS ON THE SOUTH AFRICAN ECONOMY

According to the Economist Intelligence Unit (EIU) report (EIU 2008), South Africa's economic growth is forecast to slow to 3.3% in 2009, owing to power shortages, weak household demand and the global downturn. The report argues that the impact of the current power crisis on growth and investment will depend on government's ability to manage the situation effectively. South Africa's prudent macroeconomic policy has resulted in fiscal improvements and some stabilisation in the inflation, growth, debt and liquidity indicators. Despite the global crisis, South Africa's economic conditions are more favourable now than they have been in previous years. This comes off the back of major sporting events such as the Indian Premier League, the Confederation Cup of Nations and the 2010 FIFA Soccer World Cup.

In addition, South African policy will continue to focus on building infrastructure, nurturing industry, improving skills, accelerating land reform and reducing crime. Small business development is still seen as an integral component in achieving these priorities (EIU 2008).

Finance Minister, Trevor Manuel, admitted that South Africa's growth rate had deteriorated sharply when he delivered his 12th annual budget speech on 11 February 2009. Mr Manuel pointed out that with commodity prices generating lower export earnings, weaker consumer spending as well a slow-down in private sector investment, growth in 2009 is forecasted to be 1.2%, which is the lowest rate since 2008.

In fact, according to the Statistics South Africa (StatsSA) report, real GDP at market prices decreased by 1.8% during the fourth quarter of 2008 (StatsSA 2009).

Parsons (2008) suggests that economic growth is underpinned by the level of total investment spending in South Africa. Given the world class events that South Africa will be hosting, the country may avoid the full impact of the recession if fiscal and monetary policies remain flexible.

In April 2009, the EIU revised its forecast by stating that South Africa's economy will contract to 1.5% in 2009, with a weak recovery to 2% in 2010 (EIU 2009). The report predicts that the economies of the United States, European Union, United Kingdom and Japan will all enter a recession; as a result global trade will shrink by 5.2% in 2009 with an expected rebound to 1.7% in 2010. It is expected that public consumption will grow by 5.5% in real terms in 2009, supported by public investment in infrastructure and by selected private investment. Real GDP growth is forecast to rebound in 2010, helped by the preparations for and hosting of the 2010 FIFA World Cup.

However, the EIU report is confident in the stability of the South African economy, which is evident on government's commitment to keep the current fiscal and monetary policies unchanged.

1.2.4. SOUTH AFRICA'S 2009 GENERAL ELECTIONS

In 2008, South Africa's political environment changed with the resignation of President Thabo Mbeki after he was recalled by South Africa's ruling party, the African National Congress (ANC).

The ANC recalled Mr Mbeki after the High Court ruled that corruption charges against ANC President, Mr Jacob Zuma, were probably politically motivated. Judge Chris Nicholson, presiding High Court Judge, ruled that the National Prosecuting Authority (NPA) did not follow proper procedures when conducting and charging Mr Zuma with corruption and pointed to high-level political interference in pursuit of a prosecution.

Mr Kgalema Motlanthe was appointed as the interim president and 11 ministers resigned, including the deputy president, in the run up to the 2009 general elections. Some ministers, however, resigned out of courtesy and were

subsequently reappointed, including Finance Minister, Trevor Manuel. The ANC had hoped that its quick and decisive action to replace Mr Mbeki would forestall any loss of confidence, both on the financial markets and among the electorate (EIU 2008).

In its 2008 report, the EIU (EIU 2008) was confident that South African financial institutions were sufficiently strong enough to ensure that the transition was not destabilising.

In 2009, the NPA dropped its corruption charges against Mr Zuma and in April 2009, the ANC won the general elections with Mr Zuma as its presidential candidate. The ANC victory signalled continuity and analysts expect that there are unlikely to be any major policy shifts given the present global economic climate (EIU 2009).

1.2.5. CONCLUSION

On the balance of evidence presented above, both the economic and political ratings for South Africa are viewed as stable. With government's commitment to keep fiscal and monetary policies unchanged, and continued focus on social and economic upliftment the prospects for South Africa under the Zuma administration look good over the next five years.

The discussion on the economic crisis and its implications for the South African economy, as well as an overview of the 2009 general elections, validates the description of relevant pieces of legislature that currently define the landscape in which SMMEs operate in South Africa as elaborated further on in this report. It also reinforces the collection of the various academic arguments presented as being appropriate and well suited for the purposes of this report.

1.3. PROBLEM STATEMENT

1.3.1. MAIN PROBLEM

This report set out to investigate what the role of government support programmes is and what it should be in developing the SMME sector in South Africa.

To address this problem, the research is organised the following critical questions:

What is the prevailing opinion on the impact of government support programmes thus far in promoting small business development?

In the face of the prevailing enabling landscape, which factors continue to influence the development of small businesses in South Africa?

1.4. SIGNIFICANCE OF THE STUDY

The report establishes current opinion on the impact that government support programmes are having on developing the small business sector in South Africa.

A further significance of the study is that it identifies potential factors that continue to influence the growth in this sector. This is critical given the various legislature and policy that government has committed to in redefining the environment that small business owners operate in.

The report will provide some recommendations to government departments who are regarded as policy makers, small business development agencies who are regarded as policy implementers and finally, small business owners who are direct beneficiaries of legislature and policy.

Small business support agencies will benefit from this study in that their clients provided a coal-face perception on the standard of their services rendered.

Finally, the small business owner will be advantaged from gaining the perspectives from officials in government and support agencies on how to improve their profile. This has the potential of providing a significant competitive advantage to small businesses, who find themselves competing in markets that are dominated by larger organisations with greater experience, resources and capacity.

1.5. DELIMITATIONS OF THE STUDY

The research reported on is limited to:

- Some small businesses based in Gauteng.
- Small enterprises that operate on a 'not for profit' basis are excluded from the study. Similarly survivalist- and micro-enterprises are excluded from the scope of study.
- Broad-based Black Economic Empowerment (BBBEE) enterprises are not the focus of the study.

In addition, it is useful to note that:

- Preferential procurement policies and other government initiatives for small enterprise development will be introduced as enabling conditions only and not reasons for product or service failures.
- Results obtained from Gauteng may not be applicable to the rest of South Africa and may not be extended forward to medium- or large-sized organisations or backward to survivalist- and micro-enterprises.

1.6. DEFINITION OF TERMS

For the purposes of this study, the words "business", SMME and "enterprise" are used interchangeably.

A small enterprise is defined as

“...a separate and distinct business entity, including co-operative enterprises and non-governmental organisations, managed by one owner or more which, including its branches or subsidiaries, if any, is predominantly carried on in any of the sectors or sub-sector of the economy.” (RSA 1996:2).

The White Paper on National Strategy for the Development and Promotion of Small Businesses in South Africa (RSA 1996:2) goes on to further sub-divide small business as:

- **Survivalist enterprises:** These enterprises are typically established by individuals who are unemployed and borne out of a need for survival. There is little capital investment, business management acumen and support structures that result in low generation of income and little market penetration.
- **Micro-enterprises** are characterised by having a single owner with a work force of less than five. Little attention is paid to formally establishing the enterprise in terms of obtaining business and tax registration certificates, and typically these enterprises are home-based. Like survivalist enterprises, there is little business management skills. However, unlike survivalists, these enterprises show a higher potential of growing into small businesses depending on the prevailing environment in which it operates.
- **Small enterprises** are formally established entities having registered business and tax certificates, premises and a work force ranging from between five to fifty employees.

- Medium enterprises are typified as having an upper limit of capital assets valuing around five million rand and a staff compliment of 200.

This report will refer to all businesses in these categories as the SMME sector.

1.7. ASSUMPTIONS

The study assumed that each of the databases accessed would provide sufficient representation of small businesses in various service sectors. This was a fair assumption since both the government department and the independent accreditation company had dealings with small business owners that provided a variety of services, ranging from office equipment to landscaping.

A second assumption was that the sample would be gender representative, as well as having a balance between advantaged and disadvantaged individuals. This critical assumption would ensure that the results presented were not biased towards any race or gender.

2. LITERATURE REVIEW

2.1. INTRODUCTION

This chapter will review the literature relevant to the research questions. In particular the review will be segmented into the following critical areas of discussion:

- An academic assessment of government's legislation and policies introduced to promote small businesses in South Africa;
- The performance of the support structures set up by government;
- The criteria and influences involved in starting a small business in South Africa;
- The versatility and capability of small business owners to develop and implement strategic business plans, as well their ability to access finance;
- The ability and frequency of small businesses to engage and coordinate training initiatives and develop strategic partnerships.

2.2. IMPACT OF GOVERNMENT SUPPORT PROGRAMMES IN PROMOTING SMALL BUSINESS DEVELOPMENT

South Africa's entry into democracy in 1994 not only marked its arrival onto the global market arena but also highlighted domestic obstacles that were created by the legacy of apartheid. These obstacles stifled socio-economic growth and stability and unfairly allocated opportunities to the minority of South Africans (DTI 1995).

Although there are vast volumes of literature that debate the ill effects of apartheid on South Africa, this report recognises the legitimacy of those debates without restating them here, except to support Visagie's (1997:660) sentiments that

“...segregation in education, health, wealth and employment left deep scars of inequality and economic inefficiency...that for decades discriminatory practises and legislation resulted in a vast majority of the South African society being disenfranchised and dispossessed.”

The legacy of apartheid left the SMME sector underdeveloped (Visagie 1997) and prompted government to focus on local economic development; to plan some interventions aimed at creating enabling conditions that would promote the small business sector in South Africa.

Local economic development has been identified as a key strategy to address development and reduce poverty (Binns and Nel 2002). Nel and John (2006) suggest that local economic development has been strongly influenced by the international experience and refined within a South African context. Some of the constraints to local economic development include high costs, narrow economic focus, declining resources base, delays in designing and implementing strategic plans and inadequate involvement of the private sector (Binns and Nel 2002, Nel and John 2006).

In order to provide a balanced review of the SMME sector, in particular to evaluate the role thus far of government support in its development, a good starting point will be to provide a brief background to the policies that shape(d) the social and economic landscape, in particular those that had an influence-bearing impact on SMMEs, in post-apartheid South Africa.

2.2.1. SMME LEGISLATION AND POLICIES

South Africa's most pressing challenge was and remains to stimulate economic growth while suppressing the rising level of unemployment. In an attempt to meet these challenges, government introduced its Reconstruction and Development Programme (RDP) in 1994 (RSA 1994).

The White Paper on Reconstruction and Development (South Africa 1994) states that the objectives of the RDP were to provide a policy framework that

supported a sustained development of human resources, labour market reform and to establish an effective collective bargaining-based right for all South Africans; to fully integrate all organs of government into a drive towards this national goal of renewal; and to ensure coherent socio-economic progress.

Further, the basic principles of the RDP were creating integration and sustainability with a focus on the South African people, especially historically disadvantaged individuals; ensuring safety and security while driving towards nation-building and full democracy enjoyed by all (RSA 1994).

In 1996, however, government closed the RDP Office (Lewis 2001).

Visagie (1997) saw the RDP as an ambitious programme that primarily served as a strong selling point of the African National Congress in its run up to the first democratic elections. In contrast, Lewis (2001) considered the RDP to be a comprehensive plan to reduce poverty while improving service delivery and human resources development especially amongst previously disadvantaged individuals.

According to Blumenfeld (1997) the failure of the RDP to make a significant impact on stimulating economic growth and reducing the number of unemployed South Africans rendered the transition into democracy superficial and suppressed any chances for long-term socio-economic stability.

The author is critical of the RDP's institutional arrangement citing that it was unclear from the start what the duties of the Office were: whether the RDP Office served as an auditor of the activities of line departments or as a development planning agency.

Lewis (2001) also criticises the separate institutional structure located in the President's Office for adding to the confusion in terms of financial accountability and the delegation of authority.

Binns and Nel (2002) support the argument that the RDP could have played a fundamental role in alleviating poverty through the generation of new employment opportunities, but because of blurred roles of office bearers and

reporting structures, it failed to make any significant impact on the livelihood of South Africans. South Africa, according to the authors, still displays a highly polarised society: sophisticated urban centres, at the level which will rival metropolitans in some developed countries, exist alongside crime-ridden informal settlements where the provision of fresh running water and electricity is seen as a luxury.

Blumenfeld (1997) states that the main lessons learnt from the failure of the RDP are that dynamic policies are needed to stimulate and maintain growth in an emerging economy; that goodwill cannot be substituted for clear political initiatives; and clear institutional structures are a *sine qua non* for successful development planning and economic policy.

In 1995, government published its White Paper on National Strategy for the Development and Promotion of Small Business in South Africa (RSA 1995). This document marked government's first clear intention to level the socio-economic playing fields using SMMEs as a critical component to create an environment where every citizen had an equal opportunity to generate wealth and security through entrepreneurship. Trevor Manuel (former Minister of Finance) fully endorsed this document, and said (as quoted from the White Paper, RSA 1995:5):

"SMME represents an important vehicle to address the challenges of job creation, economic growth and equity...with the appropriate enabling environment, SMMEs can make an indelible mark on this economy..."

The process of drafting the White Paper included several broad stakeholder engagements and in doing so government recognised that in order to transform the SMME sector it (SMMEs) would require focused policy and a sustainable enabling environment. Even at this early stage, government saw the need for

SMMEs to be equal partners in all the economic sectors and regarded itself as playing a central facilitating role in this process.

The White Paper highlighted the potential of SMMEs to absorb a large portion of the unemployed, counter big business domination and work towards balancing the prevailing unequal distribution of income and wealth. Based on international case studies, the White Paper identified some characteristics that produced successful SMMEs included having reliable and current statistics on the performance of small businesses, fostering high levels of human capital development and consistent investment resulting in leading edge research and development (RSA 1995).

Within the South African context the White Paper recognised that policy relating to the legal and regulatory framework needed to be reassessed and adapted to better suit small businesses. In addition, it recognised that barriers to market entry needed to be lowered and that there should be sufficient support to enable the acquisition of skills and management expertise.

Government, in light of the need to address the legal and regulatory framework, published its Small Business Development Act of 1996 (RSA 1996), which was amended in 2003 (RSA 2003).

The Small Business Development Act outlined the establishment of the Ntsika Enterprise Promotion Agency and the National Small Business Council.

Ntsika was established to provide training, advice, and any other non-financial services to small businesses in accordance with the Council. The Council was established to represent and promote the interests of small business. In addition, it was decided that the Council would serve in an advisory capacity to the national, provincial and local tiers of government.

In 2006, the Department of Trade and Industry published its Integrated Strategy on the Promotion of Entrepreneurship and Small Enterprises (DTI 2006). This document is the central driver of the DTI's programmes aimed at creating enabling conditions for SMME development. The integrated strategy sets out a strategic framework through which the state intended to foster entrepreneurship

and grow the small business sector in South Africa. It builds on the objectives of the White Paper but indicates a definite shift in thinking by stressing integration between different socio-economic policy areas; public and private sectors; and founding different entrepreneurial and small enterprise promotion institutions.

Similar to the White Paper, the integrated strategy identifies the prevailing legal and regulatory environment; access to markets, finance and business infrastructure; supply of scarce skills and the tax burden as some of the constraints to small businesses.

This strategy emphasised integration across the entire entrepreneurship continuum. It included integration of related policy; programmes between the private and public sector and activities of different small enterprise development institutions. Furthermore, the DTI's strategy recognised the need for improving coordination within various government departments and its tiers.

The strategy is broadly based on three fundamental pillars (Figure 1): increasing supply to finance and non-financial support services; creating demand for the products and services of small enterprises; and redefining the regulatory constraints currently experienced by small businesses.



Figure 1: Strategic Pillars of the Integrated Strategy (Source: DTI 2006)

In order to address the demands set out in the first strategic pillar, the DTI established the Small Enterprise Development Agency (SEDA) to provide localised non-financial support to small businesses. The DTI intended this to be achieved through strategically establishing a network of access points; local access to micro-finance; and taking a more retail approach to providing SMMEs with finance.

In addition, the DTI established a range of funding incentives to improve access to finance for small businesses. These funding access points are managed by institutions such as the South African Micro-finance Apex Fund (Samaf) and Khula Enterprise Finance Limited.

Khula, in partnership with the country's major commercial banks, is tasked with developing a spectrum of financial portfolios including credit guarantee schemes.

The Thuso Mentorship Scheme provides advisory services geared towards assisting small business entrepreneurs such as compiling their business plans.

The National Empowerment Fund (NEF) offers a range of finance products for start-up, business growth and rural socio-economic upliftment with a focus on previously disadvantaged individuals.

There are also initiatives aimed at empowering women and the youth under the auspices of the South African Women Entrepreneurs' Network and the Umsobomvu Youth Fund (UYF) respectively.

The Technology for Women in Business (TWIB) is an initiative aimed at advancing women in business by incorporating leading edge technology innovation into their business practises. Recognising that South Africa is currently regarded as a technology consumer rather than a technology generator, there is a definite thrust to develop local technology skills.

The SEDA Technology Programme is a growing network of incubators and technology-support centres which assisted in developing the South African Business and Technology Incubation Association (SABTIA).

2.2.2. PERFORMANCE OF GOVERNMENT SMME SUPPORT

Brink et al (2003) point out the macro-economic environment focuses on exogenous factors that are beyond the control of small business management, but falls squarely in the domain of government.

In theory government interventions seem well positioned to support the SMME development in South Africa.

Lewis (2002), however, sees these interventions as government's 'unfinished agenda' and points out that there is no 'quick fix' solution but that economic change is an ongoing process that requires multi-government department and private sector involvement. The author is complimentary of government's stance towards establishing credible and prudent fiscal stability, reducing inflation and the 'reunification of the dual exchange rate'. However, there are

concerns over key policy decisions regarding trade, competition, privatisation, exchange rate management and foreign exchange controls. These, unless properly defined and managed, have the potential to stifle both small and large(r) businesses in South Africa.

Beyene (2002) is critical of the low impact that government support programmes have had on improving the performance of SMMEs. The author argues that the very instruments put in place to develop SMMEs are not sufficiently prepared for its prescribed purposes and that there is little interface between the policy-makers. The author's argument is based on the findings of an Economic Commission for Africa (ECA) survey of 13 African countries conducted in 2000. The results that are specific to the South African context indicate that the complexity of regulations increase transactions costs, which place SMMEs at a significant disadvantage to the larger organisations. Furthermore, there is a lack of transparency in implementing SMME support programmes. This, according to the author, deliberately benefits other stakeholders rather than targeting SMMEs.

Rogerson (2004) agrees with this by saying that existing government SMME programmes are weak and have largely been biased towards medium-sized enterprises over micro-enterprises and the informal economy. The author highlights internal contradictions and diverse objectives towards national SMME promotion as concerns and states further that these divergent policy objectives require equally divergent policy instruments.

This is supported by Damane (2006) who regards the capacities of affiliates as uncertain with an explicit recommendation to provide these with additional training. The author also lists the poor service delivery of national entities and competition between local government-appointed agencies as serious limiting factors to SMME development.

Layman (2008) and the Women's Budget Initiative report (WBI 2003) are critical of government's bureaucratic procedures and regard small business registration and the municipal regulation act as suppressants to SMME development. Preferential procurement practices are also described as inhibitors because the

existing system is conventional and not conducive to stimulating the SMME sector. Finally, government payment for services rendered is often delayed thereby restricting the cash flow projections of many SMMEs.

Rogerson (2008) argues that most SMMEs are not even aware of the laws that govern them; many don't even comply with the regulations because these are seen as time-consuming and expensive. Based on an analysis of several surveys, the author concludes that the regulatory framework creates significant costs to efficiency for the small business, thus suggesting that it discourages business growth.

In contrast to these arguments, Mosai (2006) suggests that the interventions installed by government show a definite shift from a welfare state administration to a development state mentality, with a strong emphasis on poverty reduction and employment creation.

Bukula (2008) is supportive of the White Paper on Small Business Development and suggests that from the outset this, together with the incentives programmes, have proven comprehensive in supporting small business development in South Africa.

The author is cognisant of the factors that impede the development of small businesses and suggests that government, through its agencies, should provide closer contact especially in problem areas. Expanding on this point, the author suggests that service delivery needs to be improved through ongoing training and developing content-specific solutions.

With regard to government's marketing support programmes, Bukula (2008) suggests that more key departments should be established at provincial and local levels and that adequate funding and training should be provided to these agencies. The author further suggests that government should regularly establish consultative and advisory forums and develop dynamic programmes that evolve with the changing needs of the SMME sector.

Beyene (2002) is complimentary of the incentives provided by Department of Trade and Industry (DTI) through its Small Enterprise Development Agency

(SEDA), especially in terms of the marketing support. Incentives such as the facilitation of access to international markets, compensation of costs incurred in developing new export markets and buying raw material in bulk and making this available to SMMEs at lower prices were given special credit.

Pretorius and van Vuuren (2003) confirm the contribution of the SEDA programmes; however, describes these as being focused on assisting their service providers rather than the entrepreneurs which are supposed to be the prime beneficiaries. The authors suggest that this may be acceptable as Ntsika's strategy does require a strong service component to impact on the SMME sector thus validating the extra attention.

A strategy for SMME support needs to combine entrepreneurial, technological and managerial competence with real market opportunities and access to resources.

This argument is taken up by Sathyamoorthi (2002) who suggests that in order for enabling policies to be effective, it requires that correct institutional arrangements are made to monitor the implementation process. In addition, SMMEs need to be fully aware of the regulations that define the markets that it operates in.

Enabling policy and regulatory frameworks suggested by Bayene (2002) should include elements that promote stable fiscal and monetary policies; reasonable interest rates and financial incentives; minimizing the costs associated with registering a business; and facilitating business transactions such as infrastructure.

Pretorius and van Vuuren (2003) argue that a more comprehensive analysis of the relationship between culture and entrepreneurship can inform policy makers' decisions regarding new venture creation. The authors raise the point that an entrepreneurial culture is not entrenched in South Africa's apartheid legacy therefore it is more flexible in its response to socio-economic shifts.

Currently government core incentive programmes offered by Khula and the DTI seem to favour more established organisations rather than start-ups. These

programmes lack the flexibility to influence anything other than what they were designed for.

The Women's Budget Initiative report (WBI 2003) describes the awareness of government marketing support programmes as being low and that these programmes do not fully support poorer, less educated or rural people. The report states that some programmes are implicitly biased towards either men or women. The report further argues that access to reliable disaggregated statistics is limited and queries the success rate of these programmes in the absence of this information. WBI (2003) warns that it is not good practice in terms of accountability not to have efficient monitoring and evaluation instruments built into policy development.

Bologna (2006) is of the opinion that government serving as the sole support vehicle for small business development will not be enough to make an impression on poverty reduction. The author suggests that by developing sustainable partnerships between the SMME sector, government and the private sector small businesses survival rates will significantly improve and sees this shift in conventional thinking as a critical requirement. Partnerships with the private sector build future markets; it reduces distribution costs and promotes a more diverse and self-sustaining local economy.

With specific consideration to SMMEs, Lewis (2002) argues that in order to promote expansion, there needs to be increased demand and business visibility. Lewis (2002) argues that demand hinges heavily on growth within the economic environment and hence stimulating this environment may prove beneficial not only to businesses but all South Africans as well.

The question then arises as to how government may stimulate the market in such a way so as to promote growth?

A possible solution is by allowing greater foreign investment into the country, but this must be balanced so that it is not at the level where local businesses are going to be disadvantaged.

One such method may be through partnerships and special trade privileges for South Africa's small businesses. However, the author is critical of government's role thus far.

Chandra et al (2001) also cite insufficient demand as a primary reason for slow investment and employment growth, resulting in a weak demand pull from the market and a constrained supply push from businesses. The authors go on to raise two other critical areas that promote small business failure thus highlighting the weaknesses in the enabling conditions: Skills shortage and inadequate access to and/or high cost of capital.

The Greater Johannesburg Metropolitan Council – World Bank Survey (GJMC-WBS) of approximately 800 SMMEs across 8 manufacturing and service sectors indicate that almost 70% of the number of entrepreneurs had formal sector experience and that less than 5% were first-time entrants with no previous work experience and/or individuals with long employment histories but having non-transferable skills (Chandra et al 2001). This suggests that unless adequate training is provided, the SMME sector cannot possibly provide the necessary jobs for the poor and unemployed.

GJMC-WBS presented the following statistics regarding the programmes being administered by the Department of Trade and Industry, Khula and SEDA:

- Around 7% - 34% of SMMEs were aware of these programmes.
- Around 0,5% of SMMEs made use of these programmes.
- Less than 10% of these programmes were used.

Limited resources constrain many SMMEs from formally introducing training initiatives into their businesses. This suggests that government should elevate the status of these programmes and ensure that a mass awareness of them is generated amongst SMMEs. A counter argument is that the onus rests with small business to actively seek out and engage with the training programmes.

The World Bank report (World Bank 2000) raised a similar argument for greater business awareness and extended on this by suggesting that government

should play a bigger role in SMME promotion and marketing, as well as providing more tenders and contracts. In its assessment of the interventions provided by government thus far, the World Bank is critical of the low awareness and even lower usage of the programmes. The report suggested that government improve its support systems especially the awareness of the programmes offered by the Department of Trade and Industry and its agencies.

SMMES generally use private savings and retained earnings to finance the majority of its investment capital. SMMES, owing to limited collateral and start-up funds, pose a major financial risk to commercial banks. It is for this reason that many commercial banks are reluctant to extend SMMES a line of credit. SMMES cited in the GJMC-WBS survey stated that firm size, age of entrepreneur and/or business proved (in some cases) to be some of the limiting conditions when loans were applied for.

Lewis (2002) is critical of local government suggesting that it (local government) sometimes seems divorced from national policy. An argument that local government should play a more emphasised role especially in improving the business environment through increased safety and security measures, infrastructure provision and ensuring that ethical standards and attitudes of local officials be improved is put forward.

This argument is supported by Atkinson (2002) who argues that because local government is intrinsically multi-sectored, it needs to play a more definite role in addressing spatial issues, gender redress and economic reform. The author is critical of the point that local government does not play a more active role in national policy making highlighting that many municipalities have to write their own implementation plans in support of the Integrated Strategy.

The South African Chamber of Business review of SMMES (SACOB 1999) indicates that labour regulations add further pressure on SMMES. The following three problems were commonly cited by the SMMES surveyed by SACOB (1999):

- It creates additional expenditure for the business.

- Labour regulations as ‘excessively onerous’.
- It limits flexibility and independence.

SACOB (1999) observed that some SMMEs are deliberately stifling their own growth in terms of staff numbers so as to avoid complying with the labour act. It goes on to state that there needs to be a balance between employer rights and trade union and/or employee rights. SACOB (1999) states that the regulatory environment should principally serve as a facilitator to enhance the SMME sector. This may be achieved through decentralising certain management functions thereby lowering the barriers to entry of small businesses.

The point of lower barriers to entry is supported by Van Vuuren and Groenewald (2007). The authors suggest that government should look to broaden the portfolios of supporting subsidies and better equipping state-supported funding institutions.

Kirsten and Rogerson (2002) view that linkages between the SMME and private sectors allow for outsourcing and subcontracting activities that could see a strengthening in small businesses. The authors suggest that government plays a larger role in “leveraging large enterprises into adopting empowerment strategies” and should develop and implement policy that limit the dominance of larger businesses in the market. The shortfall of this recommendation is that large businesses will be intentionally disadvantaged and this suggestion seems to go against government’s intention of creating fair and levelled market conditions.

In the next section of the literature review, the analysis considers factors that contribute to SMME success.

2.3. INFLUENCING THE DEVELOPMENT OF SMALL BUSINESSES IN SOUTH AFRICA

Thus far, this report has reviewed literature which suggests that the economic and political environments in South Africa are relatively stable and that policies aimed at creating an enabling environment for small businesses to operate in is mediocre. This section will now review factors that contribute to SMME success.

South African small business owners operate in an environment characterised by high levels of unemployment, poverty and crime, and, low levels of literacy (van Vuuren and Groenewald 2007). In this section, the views and opinions on how the small business functions within these contexts are explored.

The section is segmented into subject areas that are critical to the success and sustainability of a small business. First a discussion will be based on the factors that influence the start-up of many small businesses. This is followed by a review of business strategies and financial practices conducted in the daily running of a small business. In the third segment, further education and training initiatives, coupled with debates on strategic partnerships, are reviewed and matched against the success of the business.

Taken as a collective, the second section of the literature review presents a clear academic argument on reasons why small businesses function the way they do in South Africa.

2.3.1. STARTING A SMALL BUSINESS IN SOUTH AFRICA

The vital role that small businesses and entrepreneurship play in stimulating economic activity, job creation, poverty alleviation and the general upliftment of living standards has been recognised both internationally and locally (van Vuuren and Groenewald 2007).

Scott and Bruce (1987) have identified five growth stages that a small business goes through in its development (Figure 2). Each growth phase has its own

characteristics and inherently comes with its own degree of risk. The authors state that these risks at each stage can be mitigated by proactive and knowledgeable managers.

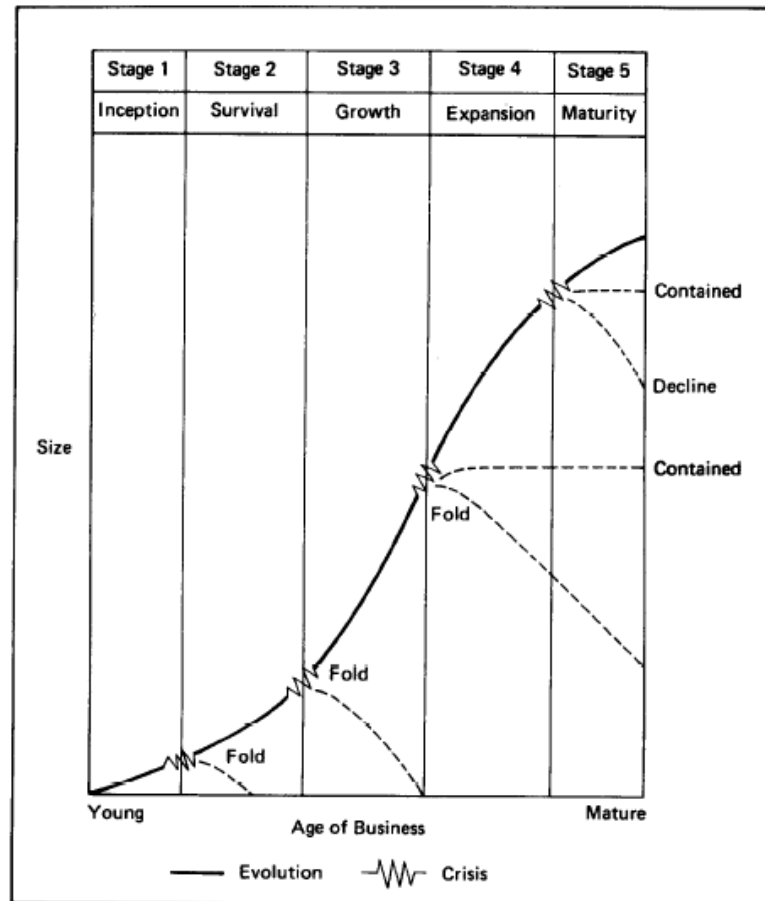


Figure 2: The Scott and Bruce Model for Growth (Source: Scott and Bruce 1987)

Atherton (2007) points to the fact that levels of start-up of new businesses are considered by policy-makers and in policy studies as a measure of overall entrepreneurial activity in a country.

The Global Entrepreneurship Monitor (GEM) gives an indication of a country's entrepreneurship intensity. According to this instrument, South Africa is not up to the relative standard if it intends sustaining economic growth rates that will create wealth for the majority of South Africans (GEMS quoted in van Vuuren and Groenewald 2007).

In addition, the author suggests that there are several pre-start factors that feed into the decision to start one's business. These include attitudinal and experiential changes that move an individual towards an engagement in a business start-up, knowledge of business dynamics and relevant business skills set.

Both Perren (1999) and van Vuuren and Groenewald's (2007) arguments suggest that the factors listed by Atherton (2007) are not only necessary during the pre-start phase, but are needed throughout the business cycle to ensure development and growth. The authors have identified personal management and involvement, role models, effective time management and support from partners and advisors as four factors that sustain the development of a small business.

In a survey of 312 entrepreneurs, van Vuuren and Groenewald (2007) found that differences exist in the needs and factors influencing male and female entrepreneurs, as well as the age and stage of the business life cycle; little attention was given to use of role models and entrepreneurs did not regard support as important as the business matured.

Interestingly, it was found that a 1% change in firm size led to a 7% change in the probability of survival. Furthermore, a 1% change in the age of the business led to a 13% change in the probability of survival (Stokes and Blackburn 2002).

Hajimanolis (2000) presented a similar argument and suggests that a small business's managerial skill and capabilities, coupled with internal technological resources, drive its innovativeness. The author goes on to identify that the lack of use of sophisticated and innovated management tools as a common failing in the start-up phase of the small business, and suggests that the strategies adopted tend to be informal, inflexible and medium rather than long-term.

2.3.2. STRATEGIC BUSINESS PLANS AND FINANCE

Sharma and Mahajan (1980) suggest that in order to understand success rates of small businesses one first needs to know the planning process of the firm; by

analysing the strategic plans and/or its implementation, one is able to gain a realistic current and future view of the performance of the business. The authors argue that ineffective or poor management usually leads to mistakes in formulating and implementing strategic directions for the business.

According to Clover and Darroch (2005) owners frequently lack the ability to present a convincing business plan to prospective clients. This places the business at a significant disadvantage and reduces the potential for attracting return and future clients.

In studies relating to functional management skills, competence in the area of strategic marketing and business plan formulation was frequently cited as key determinants impacting on the success or failure of a small business. Research conducted on 92 small firms revealed that strong entrepreneurial style and innovativeness improved the overall performance (Chaston 1996).

A similar outcome was obtained by Laforet and Tann's (2006) survey of 100 manufacturing small businesses in the United Kingdom. The authors found that a major set back to small businesses was a lack of strategic planning. Their results showed that market anticipation and innovativeness drove success rates higher. In addition, businesses with fluid strategies were able to develop new products quicker by a rapid change in process and production methods. In general, small businesses that took a long-view strategic approach performed significantly better than those with short-term or ad hoc business approaches.

Castellanos (2000) found that during the first three years of operation, many newly established businesses are not properly prepared or trained to meet market and competitor challenges. The author stresses that proper managerial experience and ability are fundamental. However, established businesses (those that have been in operation for more than five years) developed strategies of growth more consistent with their economic and financial structure and possibilities. These strategies reflected the same robustness and attention to detail as larger companies.

Jauch et al (1980) examined 358 businesses over a 45-year period to determine the impact that environment and strategy had on the short-term

success of a business. The authors found that small businesses rise and fall according to their strategic responses to challenges stemming from the environment. Furthermore, specific challenges stemming from suppliers, distributors, customers, competitors and the government have a direct bearing on short-term success. It was suggested that opportunities and challenges provided by the environment should be the focal point for strategic action.

The lack of initial and/or continued finance has been identified as a major stumbling block to small businesses (Jauch et al 1980, Chandra et al 2001, Rogerson 2001, Pretorius and Shaw 2004, and Goldstock 2007).

Chandra et al (2001) argue that although fiscal and monetary control are necessary levers of macro-economic growth, these need to work together with interventions at the micro-levels in the operation of labour, land and capital markets. According to the authors, most newly established businesses are funded through private savings; were access to finance has been identified as an issue, it was related to the firm size, age and race of the owner.

Banks are reluctant to finance new business ventures owing to risks associated with creditworthiness and security. These determining factors persist even in the face of a well presented business plan.

Pretorius and Shaw (2004) see financial institutions as having a long history of dealing mainly with large corporations that have proven track records, while managing the needs of a small business are not yet fully developed. They argue that banks have clear guidelines for evaluating applications; however, each financial institution has its own priorities and weighting averages. The process for applying for financial assistance is complicated, lengthy and at times not linked to the feasibility of the business plan presented. The authors make the following propositions when banks consider a funding application:

- Banks standardise the guidelines for evaluating an application;
- Guidelines for selection of a venture for financing are dominated by its potential for success;

- Creditworthiness should not be the dominant factor in the decision of financing a business.

The South African Chamber of Commerce (SACOB) takes on a different perception to finance.

SACOB suggests that perceiving the lack of access to finance as a major obstacle to growth is misplaced in as much as it obscures the shortcomings of the entrepreneur, the business concept and the management structures of the small business. The principle problems are therefore access and cost of finance; high cost of loan finance that means that small businesses are often forced to pay risk premiums to financial institutions.

SACOB goes on to report that measures that aim to reduce the costs of loan finance to small businesses by non-market means should not be a favoured policy instrument, but should be narrowly targeted if used at all (SACOB 1999).

In a survey of 359 small businesses in South Africa, Brink and Cant (2003) noted a low progression rate. The survey shows that less than 50% of newly established businesses survive beyond five years. The survey also revealed widespread agreement that obtaining finance followed by the reduction of heavy operating expenses are critical to raise survival rates of newly established businesses. The authors suggest that training programmes, specifically focused on common problems experienced by SMMEs be implemented by properly trained individuals.

2.3.3. TRAINING AND STRATEGIC PARTNERSHIPS

Entrepreneurship training should be seen as one of the basic requirements to starting and running a business. Owing to the potential small businesses have to contribute significantly to job creation, social stability and economic welfare, training small business owners in all aspects of business will elevate how they approach the rapidly changing environment (Ladzani and van Vuuren 2002).

Given that small business owners do not have uniform experience, knowledge of business management and resource base to work from; a uniform training plan will prove ineffective (Atherton 2007).

Small business owners have indicated that organisational learning in entrepreneurial ventures should be developed through action learning (Stokes and Blackburn 2002).

Lewis (2002) has stated that the shortage of skilled labour is a major constraint for many small businesses and for South Africa in general. This, coupled with the fact that many SMMEs tend not to recruit from the higher education sector because of financial reasons, results in the small business being placed at strategic disadvantages (Laforet and Tann 2006). According to Clover and Darroch (2005), increased skills training may also improve an entrepreneur's ability to overcome many of these disadvantages.

Goldstock (2007) points to the balance between access to skills and expertise on the one hand and finance on the other as the *Holy Grail*. It further underlines why many government initiatives fail in that they expect expertise from SMMEs (for example in the complexities of qualifying for tender funding) rather than offering them those expertises.

The Women Entrepreneurship Programme (WEP) was developed after a need had been identified that in order to promote women participation in the small business sector better training initiatives needed to be installed. In their survey of 180 women entrepreneurs, Botha et al (2007) found that the most recurrent weakness was the lack of business education and training. The authors further identified that training programmes specifically aimed at women need to be specifically developed; linked to services such as mentoring and aftercare; skills- and sector-based; and focused on developing life-skills such as budgeting and planning.

Rogerson's (2001) view is that gender-differentiated programmes are not only essential for policy development, but also for training programmes. The author put forward that policy and training support should contain an element which is

aggressive in terms of seeking out and helping these groups of women address their particular needs.

Chandra et al (2001) found that small businesses that undertook skills training reduced future amounts invested in training per employee. In addition, the authors suggest that the low magnitude of training could be a result of resource constraints or a poor awareness of external training opportunities.

In his introduction of the concept of clusters, Porter (1990) argues that, paradoxically, distinct competitive advantage can no longer be established through conventional instruments such as natural reserves, labour, and currency, but rather on continuous innovation; making more productive use of conventional inputs. He defines clusters as

“...geographic concentrations of interconnected companies and institutions in a particular field critical masses – in one place – of unusual competitive success in particular fields.” (Porter 1990:32).

In short, Porter says that a competitive advantage in modern-day economics is gained by having related companies working in close proximity and partnership with each other. He further explains that productivity, innovation and new business formation define how clusters drive competition.

The factors for the competitive advantage and cluster model are illustrated by the Diamond Model (Figure 3).

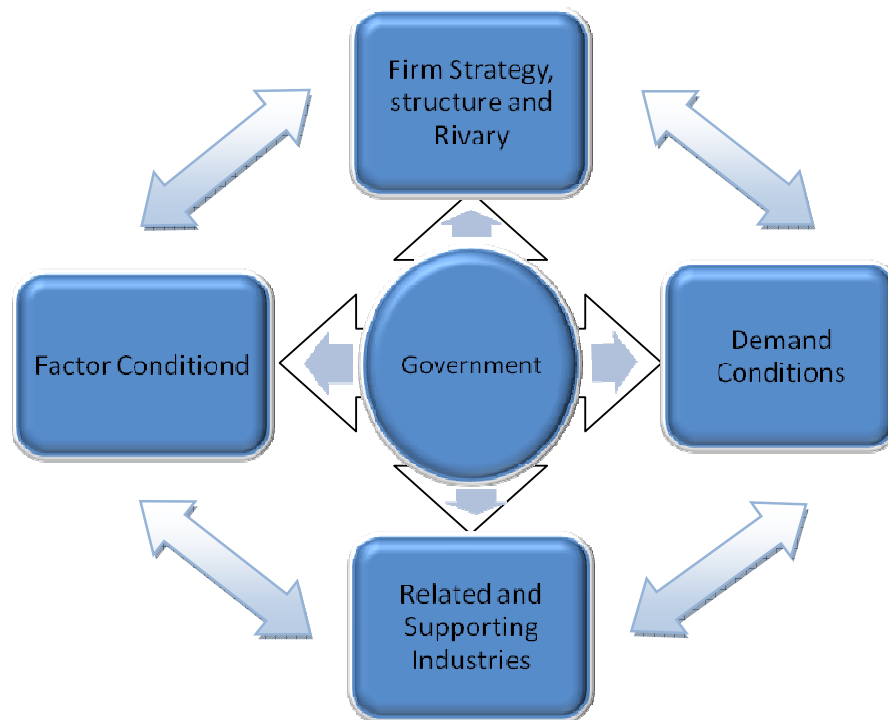


Figure 3: Porter's Diamond Model (Source: Porter 1990)

- **Firm Strategy, Structure and Rivalry:** Porter states that external conditions affects and actually designs the structure of business and that external competition forces it to become more innovative.
- **Demand Conditions:** A business's turnaround time is greatly affected by the timelines customers set for the provision of good and services. Environments where customers demand rapid service delivery as a prerequisite for future business deals, forces a business to develop processes that are able to meet these demands.
- **Related Supporting Industries:** This refers to other businesses that contribute to or derive some benefit from the industry cluster. These may include industries upstream or downstream along the value chain.

- Factor Conditions: Porter argues that specialised factor conditions are created not inherited. These include specialised and skilled labour, capital and infrastructure.
- Government: Porter's Diamond Model sees governments acting as change catalysts that provide enabling conditions and requirements that foster higher levels of innovation, productivity and growth in the industry.

These defining elements are used by De Wit (2001) in his analysis of the Amish furniture industry, which is primarily made up of a network of small businesses. De Wit views clusters as an encompassing array of interconnected industries and other related entities that derive a mutual benefits from the close proximity to one another. Enright (1999) (as quoted in De Wit) supports this view and extends on Porter's model by introducing *inter alia* industrial organisation, innovative capacity and competitive position.

Lee et al (1999) also argue in favour of strategic partnerships as a way to better penetrate markets that are dominated by established and (perhaps) larger businesses. These relationships have the potential to increase and defend market share, leverage better conditions of sale as credit worthiness increases, and such partnerships engender technology and skills transfers as each business in the cluster learns from each another.

There are some limitations to the arguments presented by Lee et al (1999) in that there is an assumption that competition will come only from outside of the strategic alliance. The primary objective of any business is to derive profit through competitive advantage and so what may start out as a partnership may quickly turn to competition. The danger is that owing to the alliance, each party has inside information on the other's work ethic and plan. In order to counter this, partners should have confidentiality and restraint of trade agreements in place.

A similar argument is presented by Gumede and Rasmussen (2002) who emphasis that regular communication and access to information are over-arching in that these provide the market awareness necessary to anticipate and

react to any market changes. In addition, small businesses are perceived as being more credible by banks and suppliers when it has linkages to other enterprises.

Kirsten and Rogerson (2002) view the role of government as critical in encouraging strategic partnerships between small and larger businesses. This, in their view, may be obtained by means of outsourcing, subcontracting and joint tender submissions. The authors warn that unless deliberate policy interventions are made to counter the dominance of larger businesses and foster positive links with SMMEs, the best prospects for small business development seems poor.

2.4. CONCLUSION OF LITERATURE REVIEW

This section summarises the main conclusions arising from the literature reviewed and presents the report's research questions.

The material reviewed suggests that South Africa has made significant progress since it's entry into democracy in 1994. The state has been active in recognising and putting into place measures to counter the ill effects of apartheid.

The Reconstruction and Development Programme was the first such measure. However, due to blurred roles and responsibilities, the RDP did not meet the objectives for which it was designed (Blumfeld 1997, Lewis 2001, Binns and Nel 2002).

Recognising the potential small business has to absorb a large percentage of the unemployed workforce and to create a degree of economic and social growth in the country, government promulgated the Small Business Development Act (RSA 1993) and later the Department of Trade and Industry introduced its Integrated Strategy on the Promotion of Entrepreneurship and Small Enterprises (DTI 2006). Both pieces of legislature were intended to show government's firm commitment to developing the small business sector.

However, the evidence presented indicates that key policy decisions regarding trade, competition, privatisation, exchange rate management and foreign exchange controls need to be reviewed (Lewis 2002).

Academia is of the opinion that government support programmes have had a low impact on improving the performance of SMMEs and are generally biased towards medium-sized enterprises and away from micro-enterprises and the informal sector (Beyene 2002, Rogerson 2004).

A further area of concern was the bureaucracy and slow response time from government and support agencies (Layman 2008) and this led to concluding that government's existing processes will not be enough to make an impression on poverty reduction (Bologna 2006).

Based on the literature review presented, the following first critical research question arose:

What is the prevailing opinion on the impact of government support programmes thus far in promoting small business development?

Another theme of this report is the factors that enable SMME growth and development. Literature in the previous section showed that comprehensive business strategies and financial plans, as well as effective training and strategic partnerships were important factors.

It was found that SMMEs frequently had problems associated with poor management (Sharma and Mahajan 1980) and a lack of ability to craft a comprehensive business plan with supporting financial statements (Clover and Darroch 2005). Start-up businesses showed poor strategic marketing abilities, thereby gaining little exposure for their products and services (Chaston 1999). However, companies that had been in operation for five years or longer have, either through experience or training, developed long term strategies comparable to those of the larger competitors (Castellanos 2000).

Start-up finance is a major stumbling block for many businesses that are less than three years old, with many small business owners drawing from personal cash reserves to float their undertaking.

It was shown that banks are more inclined to service larger organisations because of the lower risk profile these organisations present (Pretorius and Shaw 2004).

With regard to training and strategic partnerships, agencies failed to give due consideration to small businesses not being homogenous entities, despite having common difficulties. It was recommended that training and support programmes should be flexible in design to cater for individual business needs (Atherton 2007).

Skill shortages hamstring not only the South African market, but exacerbate the operational difficulties faced by the small business sector (Lewis 2002). Some small business owners lack basic training and skills sets necessary for them to effectively compete in the South African market (Botha et al 2007). Despite the advantages of strategic partnerships to reduce the skills and resource shortages (Porter 1990 and De Wit 2001), many small businesses view this option as a potential threat to their competitive advantage (Lee et al 1999). As such many small businesses opt not to engage in consortiums or other partnerships and thereby limited their selling potential to government and other clients.

Collectively, the consolidation and discussion presented above brings the second critical research question to bear:

In the face of prevailing enabling conditions, which factors continue to influence the development of small businesses in South Africa?

3. RESEARCH METHODOLOGY

3.1. INTRODUCTION

This exploratory study used a qualitative approach to investigate the role government support programmes play in small business development in South Africa.

A qualitative approach is used when data are collected from descriptions and individual perceptions (Appleton 1995). The sample consisted of government officials, officials from agencies whose mandates are small business support and development, and finally small business owners.

Although a qualitative approach has been criticised for being anecdotal and lacking both the means to reproduce and generalise the outcomes, Mays and Pope (1995) argue that these shortfalls can be overcome through research vigour. The authors suggest that proper accounts of the method being used in data collection and analysis should be documented so that any other independent researcher, under similar research conditions, may broadly obtain the same conclusions.

Essentially, the two goals of qualitative research should be accountability and plausibility of the phenomenon under scrutiny (Mays and Pope 1995). According to del Barrio (1999:7) qualitative research does not require extensive statistical analysis beyond the “translation to absolute or percentage frequencies”; this further reinforces the chosen research method as this study will use individual perceptions of the SMME landscape in South Africa as a source of data.

3.2. RESEARCH DESIGN

The study was conducted in two phases. The first phase obtained secondary data by means of the literature review. This established the prevailing landscape as defined by the policies government has in place to support South

African SMMEs, factors influencing the performance of SMMEs and brings the research questions into perspective.

In order to ensure that the data are reproducible and general (Mays and Pope 1995), a method called triangulation was used in the second phase of the study.

Triangulation is seen as combining methodologies in a study of the same phenomenon (Denzin 1978 as quoted in Jick 1979). The second phase of the study focused on the obtaining primary data from policy makers (government departments), policy implementers (agencies mandated to support SMME development) and policy beneficiaries (owners of SMMEs).

The use of multiple data-streams raises the reliability of the study and incorporates a broader perspective on the problem being investigated (Jick 1979). Thus, the second phase of this study used semi-structured interviews as its instrument to collect primary data.

According to Barriball and White (1994), semi-structured interviews are well suited for exploring perception and opinions as it allows for a deeper probe for information thereby enriching the results of the study.

Further advantages of using this type of interview style are increased response rates; opportunities for respondents to gain clarity on any questions that they may not have fully understood; and facilitation of in-depth discussions that encourages the respondent to speak about their own experiences (Appleton 1995).

Equally important are the outcomes of the semi-structured interview; interest and confidence levels are built up during the interview as familiarity grows; there is now the opportunity to interact face to face with the interviewer/researcher thereby getting better clarity or a deeper understanding of certain issues; and the respondent can elaborate on some of their responses in the questionnaire (Barriball and White 1994).

Two interview schedules were developed and used during the semi-structured interviews to collect the primary data. The first schedule (Appendix 2) was

developed specifically to solicit data from government and small business support agencies. The second schedule (Appendix 3) was used when interviewing small business owners.

Although semi-structured interviews create platforms for respondent biasness (Vicsek 2007); Appleton (1995) states that these provide data that highlights major issues, which can be further probed during subsequent interview sessions.

Hutchinson and Wilson (1992) highlight irrelevant and vague questions, which lack a logical sequence showing no progression from a general to a specific perspective as potential threats to the semi-structured interview. A further threat that the authors identify is the use of closed-ended questions in the schedule. This type of question does not allow for theory generation and interpretative analysis.

To counter the threat of poor questions being included in the interview structure, this research ran a pilot study as part of its verification exercise. The interview structure was sent to five policy beneficiaries (i.e. small business owners) for comments and suggestions on improving it. These five small business owners do not form part of the final sample.

Reeves et al (2006) suggest that a further weakness of using semi-structured interviews is that there are poor linkages between data collection and analysis. The authors' state that researchers merely transcribe large portions of recordings with little explanation or clarification and that there is no underpinning qualitative methodological approach.

DiCicco-Bloom and Crabtree (2006) counter this by stating that qualitative data analysis should take place at the same time as the data is being collected. This method reduces lag time and any loss of insights the researcher may have had during the interview. Furthermore, the authors regard semi-structured interviews as part of an iterative research process where an integration of secondary data with primary data often results in new questions and a greater understanding of the research problem.

3.3. POPULATION AND SAMPLE

3.3.1. POPULATION

The population comprised policy makers from the relevant national government departments; policy implementers from agencies whose mandates are the support of SMME development in South Africa; policy beneficiaries from SMMEs in the Gauteng Province. This study targeted SMMEs in the financial services, catering, communication and ICT sectors.

3.3.2. SAMPLE AND SAMPLING METHOD

This study collected data from one official in a national government department involved in making strategic policy decisions in support of SMME development in South Africa. In addition the results obtained may be relevant to this government department only.

The sample also included respondents from four SMME agencies in the Gauteng province responsible for the implementation, monitoring and evaluation of these policies. Finally, 31 small businesses in Gauteng that (for the purposes of this report) are regarded as policy beneficiaries were interviewed.

The SMMEs selected for this study formed part of a national government department's database of service providers, as well as a database from an independent accreditation agency. These service providers came from various economic sectors: financial and banking services sector, transport, storage and communication sector, and the community, social and personal sector.

It should be noted that this is a non-exhaustive database based on convenience.

Potential interview candidates were formally invited to participate in the study via email. The invitation briefly outlined the purpose of the study and included the interview schedule. In addition, the recipient was offered three options in which to participate: either by completing the questionnaire online; agreeing to a

telephonic conference or a personal interview. To raise the response rate the researcher telephonically contacted each potential respondent to establish their willingness to participate and their preferred manner of interview. Depending on the interview candidate's preference, the researcher planned to set up at least one interview; subsequent interviews would have depended on the level of clarity needed to fully interpret the questionnaire and the interview transcripts.

As discussed above two interview schedules were developed, hence resulting in two letters of invitation. The first (Appendix 2) was sent to officials from government and SMME support agencies. The second letter of invitation (Appendix 3) was sent to small business owners.

Table 1: Profile of respondents (Source: author)

Position of Individual	Organisation
Senior Management Service	National government department
Officials	SMME support agencies
Managers/Owners	Gauteng-based SMMEs

3.4. DATA ANALYSIS AND INTERPRETATION

This study followed the three-stage analysis technique described by Miles and Hauberman (1984) as cited in Appleton (1995). It began with a data reduction process that sees the researcher distilling the data to draw out insights from the analysis of the transcripts, audio recordings and the researcher's personal notes.

At this stage of the data analysis, the researcher used the 'concept mapping' technique. Novak and Cañas (2006) describe concept maps as 'graphical tools for organising and representing knowledge'. A concept map consists of nodes that represent concepts and labelled lines that represent the relationship between a pair of nodes (Ruiz-Primo and Shavelson 1996).

The advantage of concept maps is that it aims to answer specific research questions, referred to as focus questions that set the context for the map, through visually representing concepts and linking related concepts using cross-links (Novak and Cañas 2006). Daley (2004) as quoted in McNaughton (2006) supports concept maps as an effective tool especially when used to analyse data obtained from qualitative research.

Another advantage of concept maps is the introduction of cross-links. Cross-links allow the researcher to establish relationships between various concepts and to investigate the impact these links have on the concepts, either individually (one-directional impact) or collectively (bi-directional impact). Cross-links further representative creative leaps on the part of the researcher and an extension of knowledge generation.

Stage two of the data analysis process involved converting the data into a narrative text. Semi-structured interviews by their very nature allow for open-engagement and flexibility but have the potential of introducing researcher-bias (Lindsey 1997). Hence focus questions will continuously be used to ensure that the narrative is a true reflection of the results of the concept map. Stage three, based on the validity of the analysis, will see a conclusion being drawn in response to the research questions posed in the study.

3.5. LIMITATIONS OF THE STUDY

- The empirical data is not sector specific. Thus, although a sufficient number of interview candidates were obtained to make the sample statistically viable; one may not be able to deduce the state and challenges of individual sectors. This can however be directed to future research activities in this area.

- Not all of the agencies mandated to support SMMEs in Gauteng responded to the request to participate in the survey despite numerous attempts. This resulted in a limited perspective on the SMME landscape without sufficiently broad involvement from policy makers.

3.6. VALIDITY AND RELIABILITY

3.6.1. EXTERNAL VALIDITY

Sandelowski (1986) (as cited in Appleton 1995) defines external validity as “the generalisation of findings and the representative-ness of subjects, tests and testing solutions”.

Owing to the instruments used in data collection, and by their very nature, the external validity of this research may be low. This report does not aim to make generalise-able conclusions.

3.6.2. INTERNAL VALIDITY

Triangulation, originating from a war-time strategy, is a method of improving internal validity by using multiple data sources to improve accuracy (Jick 1979). This study will incorporate secondary data in the form of an analysis of the literature review and primary data in the forms of a questionnaire and semi-structured interviews to raise the level of internal validity.

Further, according to Mays and Pope (1995), validity may be further improved by feeding the findings back to the interview candidates to determine whether these are a reasonable account of the interview.

3.6.3. RELIABILITY

Reliability is the “degree of consistency or dependability with which an instrument measures the attribute it is designed to measure” (Polit and Hungler 1991, as quoted in Appleton 1995).

Mays and Pope (1995) points out that the reliability of semi-structured qualitative interviews may be improved by keeping meticulous transcripts and by audio or video recording the interviews. The latter has the added benefit that the interviewer can focus more of their attention on what is being said and the body language of the respondent so that deeper discussion on certain issues may be explored.

Furthermore, audio aids allow the interviewer the opportunity to revisit the interview as often as required. This study will employ both transcripts and audio recordings to achieve higher levels of reliability.

3.7. CONCLUSION

Qualitative research using semi-structured interviews have been criticized for being difficult to reproduce. However the current section has qualified its use and has also indicated the critical gate-keepers that will ensure that the data produced are accurate and reproducible.

A method of triangulation will be used in gathering and analysing the data. Triangulation consists of obtaining data from multi-streams and validating after synthesis. The report obtained its first stream of data from an initial literature review. Three groups formed part of the sample and data was recorded in writing and using an audio recorder.

The analysis of the results will follow in the next chapter.

CHAPTER 4: ANALYSIS OF RESULTS

4.1. INTRODUCTION

The current chapter presents the findings and analysis of this report. It begins with a presentation of the sample and response rates. The second section presents findings related to the first research question:

What is the prevailing opinion on the impact of government support programmes thus far in promoting small business development in South Africa?

This is followed by findings relating to the second research question:

In the face of the prevailing enabling landscape, which factors continue to influence the development of small businesses in South Africa?

Collectively, these questions are used to address the research problem:

What is the role of government support programmes in SMME development in South Africa?

The chapter concludes with a critical discussion of the results.

4.1.1 SAMPLE PRESENTATION AND ANALYSIS

The sample consisted of three groups: an official from a government department, officials from agencies that are mandated to promote and support the development of small businesses in South Africa, and finally small business owners. The number of participants invited and those who accepted to form part of the survey are illustrated below (Table 2). The details of each interview candidate are presented in Appendix 1.

Although responses were received from the government department and small business support agencies, only small business owners were requested to provide statistical information. As such, the statistical results presented below

are specific to the small business owners only. The statistical results are presented under three broad categories: the first category presents the response rates from requests to participate in the survey. This is followed by the structure of the sample in terms of the demographic profile. The last category presents an overview of the characteristics the small business that made up the sample.

Interviewing three distinct groups in the small business sector allowed this report to gain valuable insight into problems that were regarded as priorities, what government thought of small business owners and vice versa, and what each group thought the way forward should be. The report took note of areas that seemed to be convergent, but more on areas where there was no consensus.

In order to make direct reference to some of the comments while maintaining the anonymity of the respondents, the government department and small business support agencies are referred to as SA(y), where $y = \{1, \dots, 5\}$. Small business owners are referred to as SB(x), where $x = \{1, \dots, 31\}$.

Table 2: Number invited and accepted (Source: author)

Respondents	Invited (successfully delivered)	Accepted
Government Department	1	1
SMME Support Agencies	5	4
SMMEs	131	31

4.1.2 RESPONSE RATES TO PARTICIPATE IN SURVEY

Two independent databases were accessed to obtain the contact details of potential interviewees. One database was obtained from a government department and the other from an organisation responsible for accrediting BEE status to small businesses in the Gauteng province. Results relating to the accreditation organisation will be presented first followed by the government department's database.

Using the service providers listed on the independent database, a total of 54 emails were sent out to potential participants of the survey. Of the emails sent out, 39 (72%) were successfully delivered while the remaining 15 (28%) were returned (Figure 4).

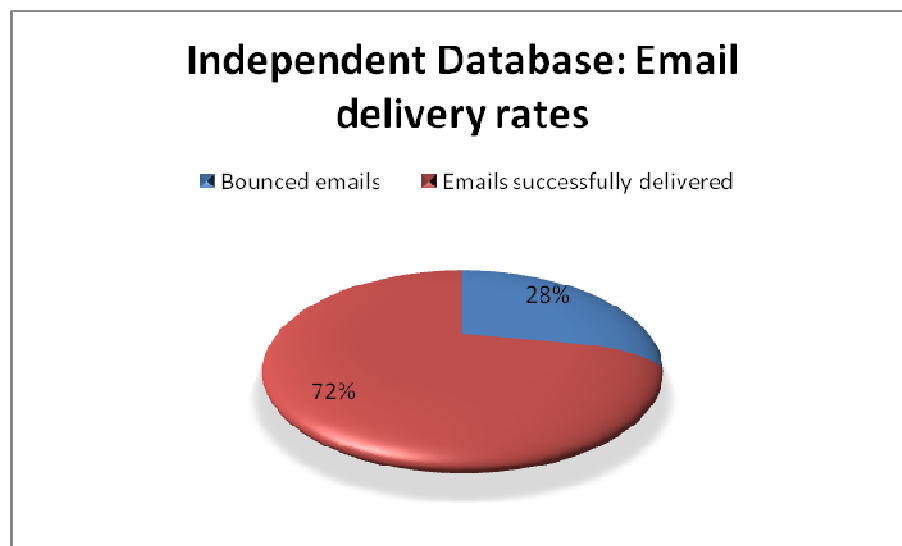


Figure 4: Independent Database: Email delivery rates (Source: author)

Hence the potential sample from the independent database was 39 small business owners. Figure 5 shows the responses received from these small business owners. Of the 39 successfully delivered emails, 10 participants (26%) agreed to take part in the survey, while 9 (23%) declined. 20 participants (51%) did not respond to the email.

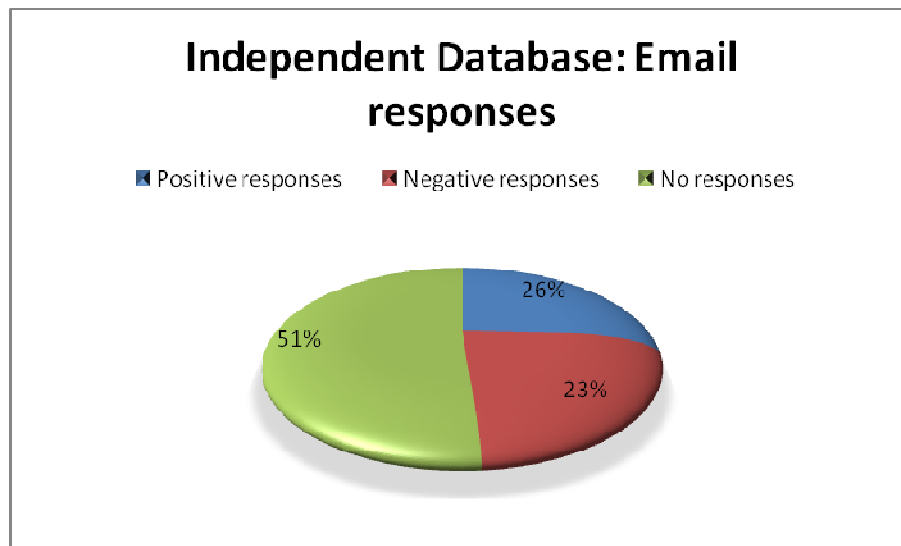


Figure 5: Independent Database: Email responses (Source: author)

In comparison, 195 emails were sent out using the service providers listed on the government department's database. A staggering 103 (53%) of these email invitations were returned undelivered with only 92 (47%) being successfully delivered (Figure 6).

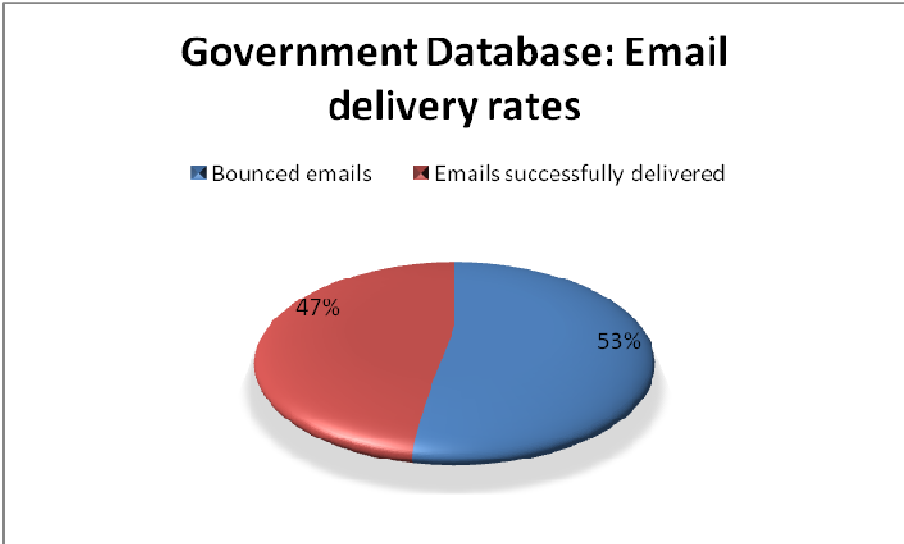


Figure 6: Government Database: Email delivery rate (Source: author)

Of the 92 emails that were successfully delivered, 21 (23%) respondents agreed to participate in the survey, 9 (10%) declined, and 62 (67%) did not respond (Figure 7).

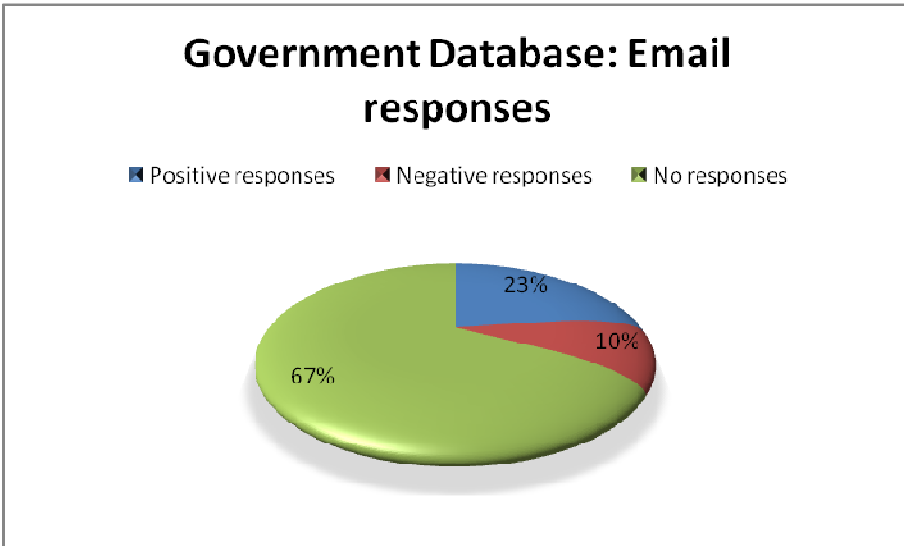


Figure 7: Government Database: Email responses (Source: author)

Owing to the government department database segmenting service providers into different sectors, it was possible for this report to represent delivery and response rates per sector. The breakdown of the 195 potential participants into the various sectors is represented in Figure 8.

Graphic Design and Catering Services dominated the number of participants with 54 candidates each. However, 35 (67%) of the emails sent to graphic design service providers bounced and 26 (51%) of the invitations sent to the catering service providers were undelivered.

Computer services which posted 48 potential participants had a delivery success rate of 23 out of 48. This translated to 48% of the emails being delivered. 63% and 80% of the emails sent to service providers of office equipment and government services respectively were successfully delivered.

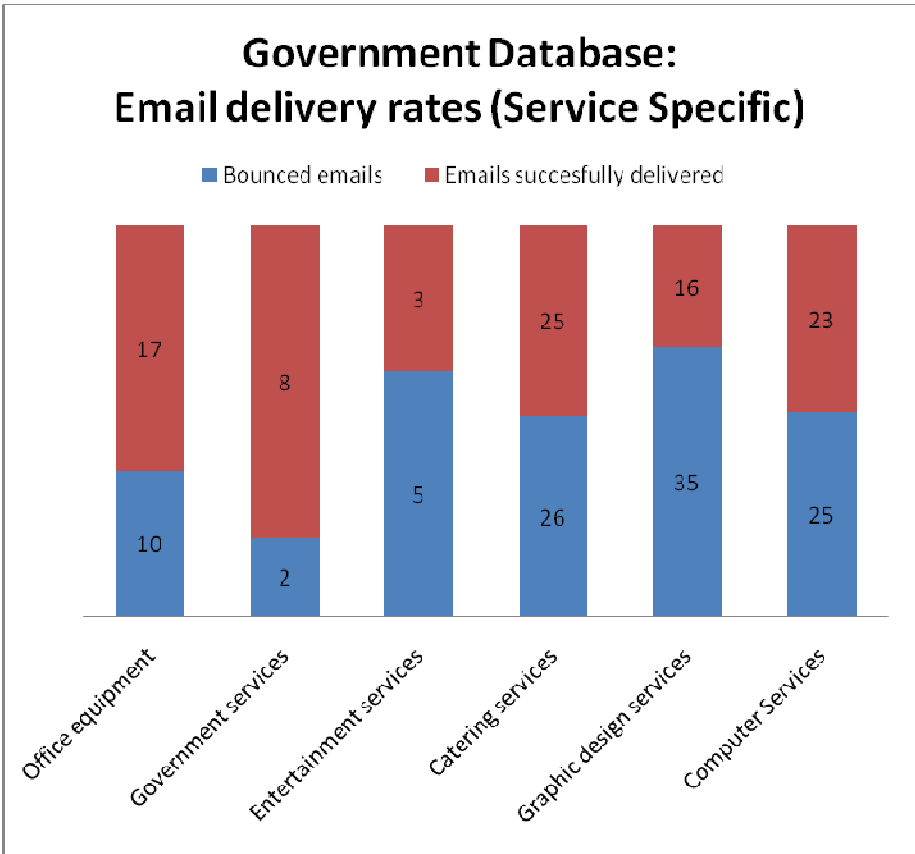


Figure 8: Government Database: Email delivery rates (Services Specific) (Source: author)

The response rate, as expected by the report, was low, given the medium used to engage potential participants. All sectors posted high non-response rates with the highest coming from the office equipment providers (88%). 72% of the emails delivered to catering services returned with a non-response (Figure 9).

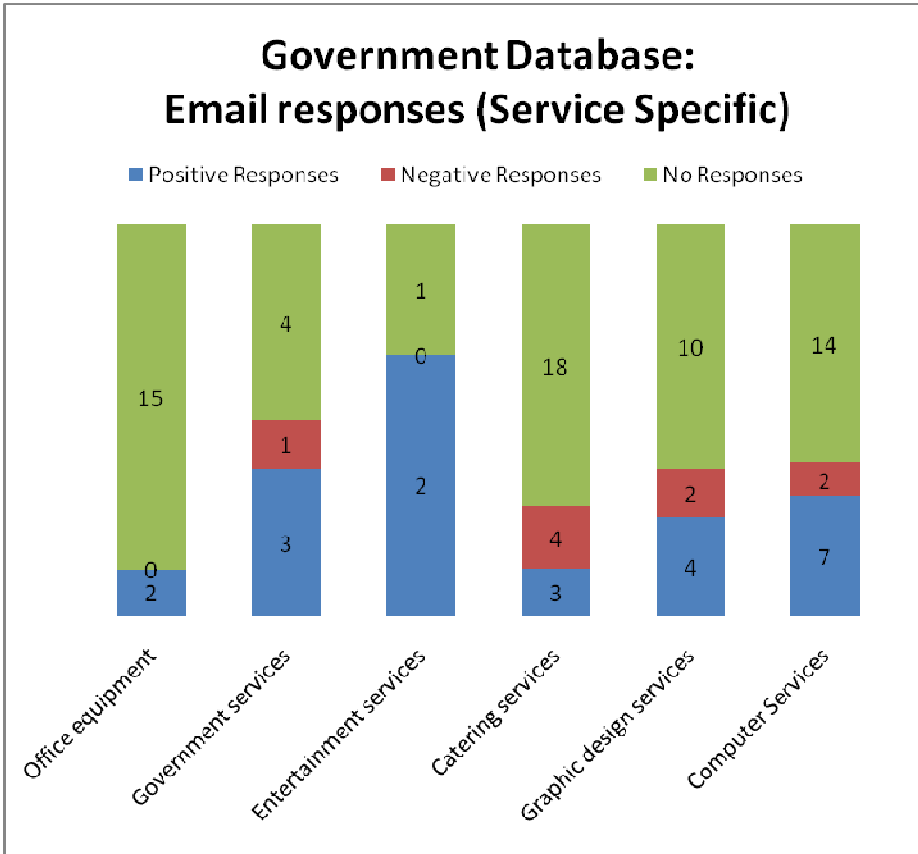


Figure 9: Government Database: email responses (Services specific) (Source: author)

In total, 31 small business owners participated in the survey with 21 coming from the database supplied by the government department and the remaining coming from the independent database.

4.1.3 DEMOGRAPHICS OF SMALL BUSINESS OWNER PARTICIPANTS

The sample structure is described in terms of gender and the gender distribution of company owners. With regard to the independent database, 59% of the respondents were female (Figure 10). Of the 21 small business owners

that responded positively from the list provided by the government department, 54% was male (Figure 11).

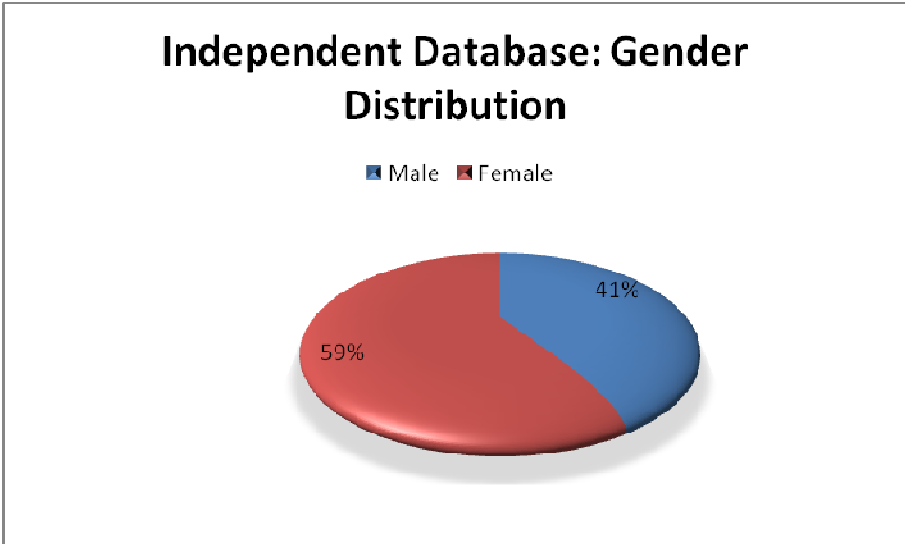


Figure 10: Independent Database: Gender distribution (Source: author)

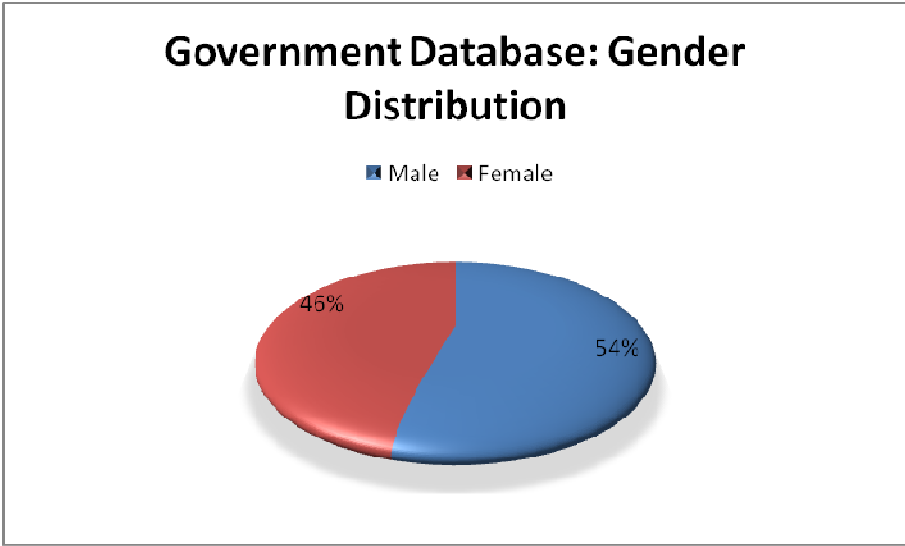


Figure 11: Government Database: Gender distribution (Source: author)

Overall, the sample consisted of a fair balance between male and female respondents, implying that the perspective and opinions received was balanced and not biased towards a single gender.

Surprisingly there was little difference between both databases in terms of the distribution of ownership in the small businesses sampled. The respondents from the government database showed that the majority (47%) of small businesses were owned by males, with 29% being females, and joint partnerships between male and female making up the rest of the sample (Figure 12). While the independent database had 38% joint partnerships, 37% male owners and 25% female owners (Figure 13).

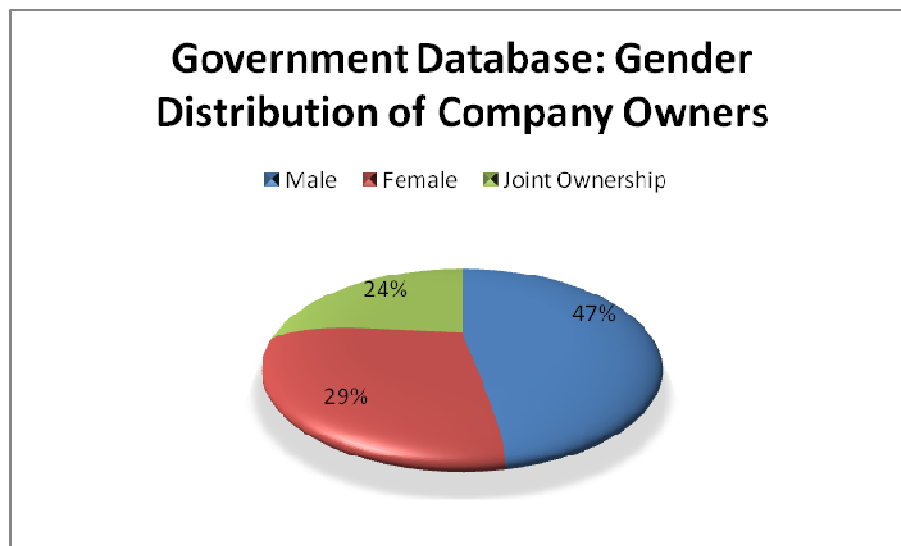


Figure 12: Government Database: Distribution of Company Owners (Source: author)

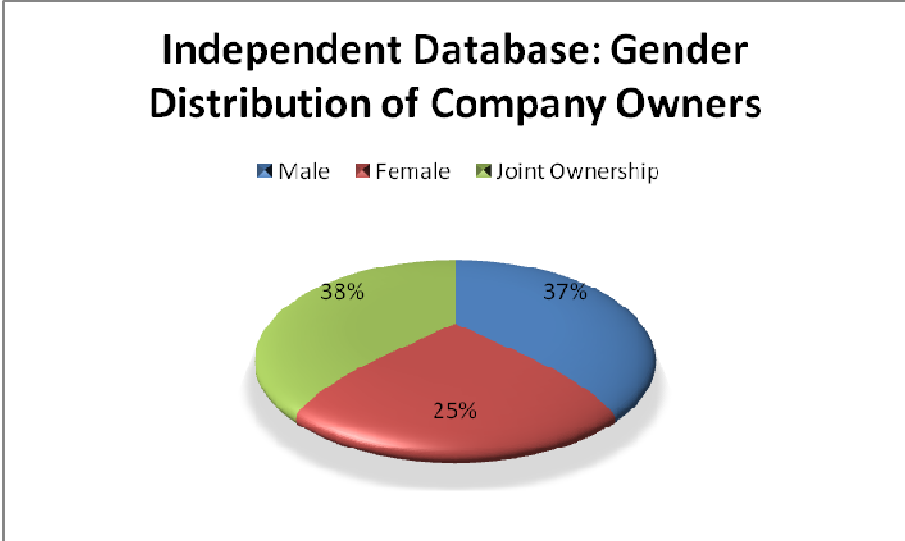


Figure 13: Independent Database: Gender distribution of Company Owners (Source: author)

4.1.4 PROFILE OF BUSINESS ACTIVITIES

This section focuses on providing the profile of the entrepreneur’s business in the sample. Aspects covered include the role of respondents in the business, the length of time the business has been in operation, and the size of the business in terms of employee numbers.

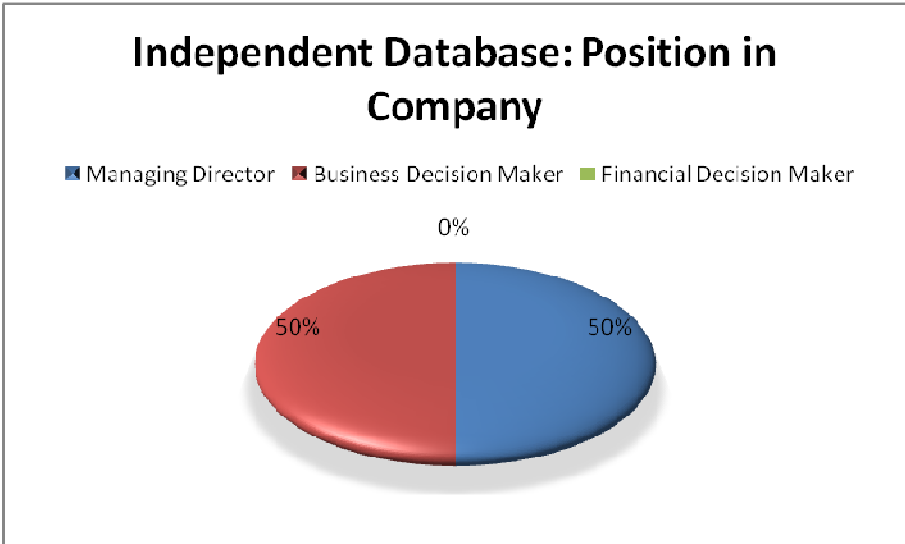


Figure 14: Independent Database: Position in Company (Source: author)

50% of the respondents from the independent database were either managing directors or business decision makers. There were no financial decision makers (Figure 14).

With regard to the respondents listed on the government database, the results reflect 59% were managing directors and 41% were business decision makers. Similar to the respondents from the independent database, no individual was formally appointed as the financial decision maker (Figure 15)

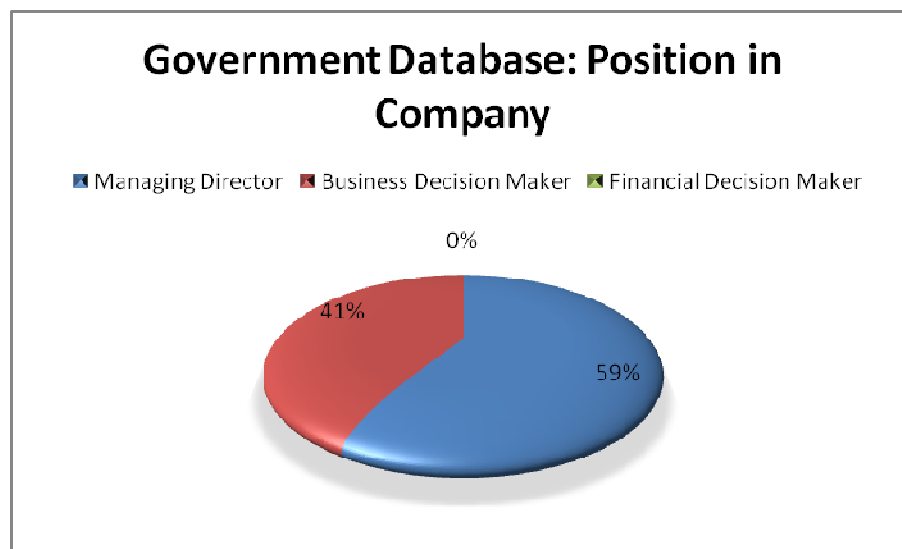


Figure 15: Government Database: Position in Company (Source: author)

A large portion (63%) of the small businesses sampled from the independent database was well established, having been in operation for more than five years. The sample did not comprise businesses in the start-up or early stage of development (Figure 16).

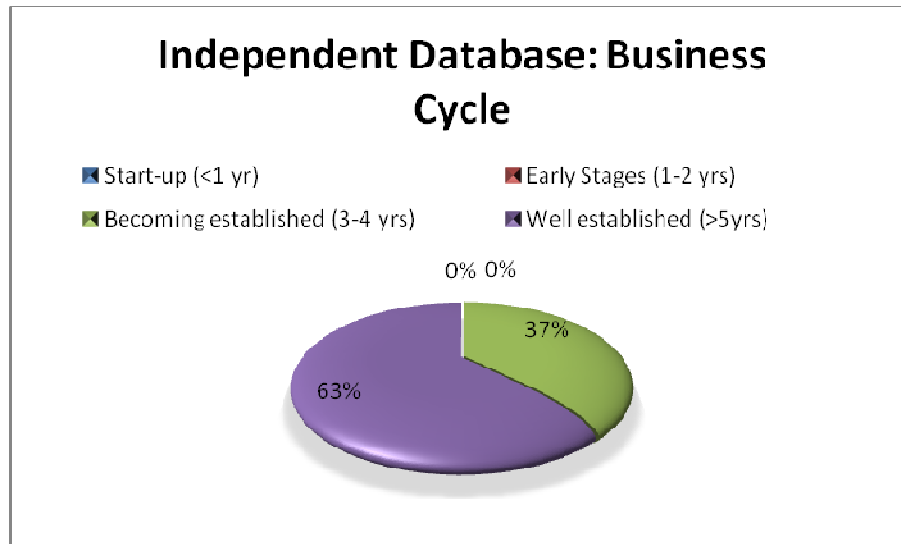


Figure 16: Independent Database: Business Cycle (Source: author)

Based on the age of the business, Figure 17 shows that 38% of the businesses were able to employ between six to ten staff. Half the sample was able to employ between 11 to 20 staff. None of the businesses employed more than 31 staff members.

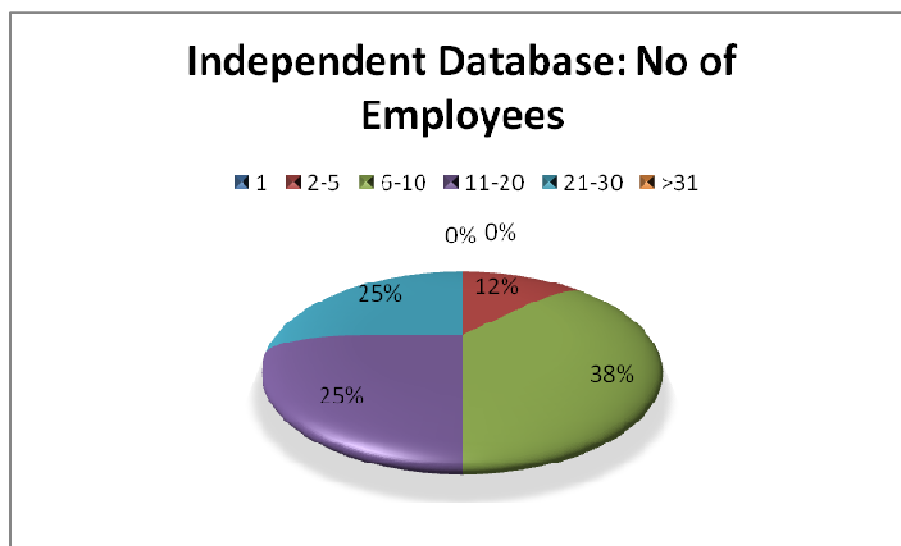


Figure 17: Independent Database: No of Employees (Source: author)

A similar result was observed from the respondents from the government database. Over half of the sample (53%) was well established businesses, while 29% were becoming established. Again, there were no businesses in the start-up phase (Figure 18).

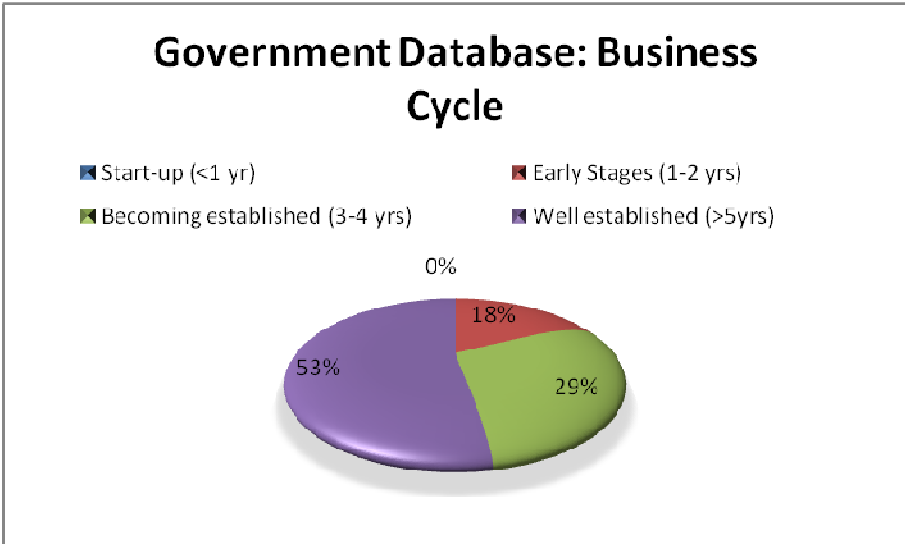


Figure 18: Government Database: Business Cycle (Source: author)

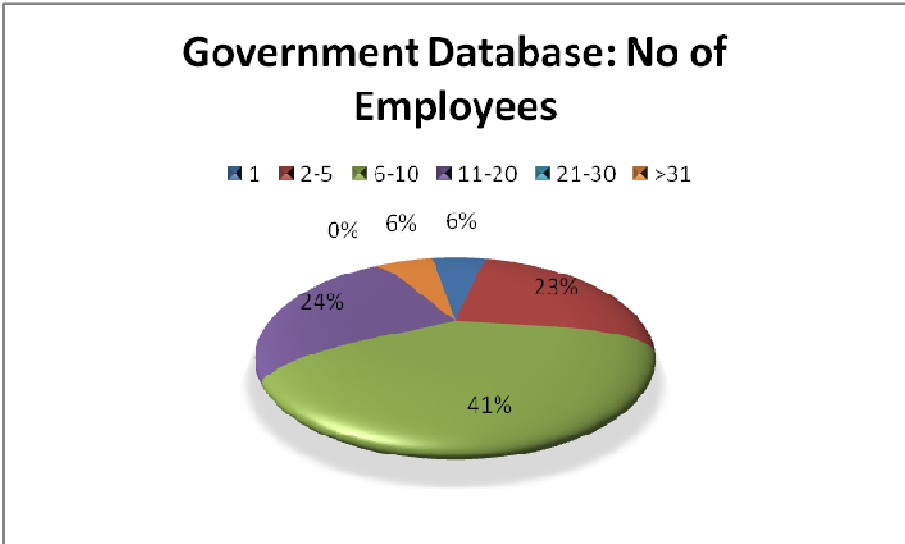


Figure 19: Government Database: No. of Employees (Source: author)

The result from the government department shows that 41% of small businesses are employing between six to ten staff members. 6% of the sample has a staff compliment of more than 31 people (Figure 19).

4.2 DISCUSSION: RESEARCH QUESTION ONE

What is the prevailing opinion on the impact of government support programme thus far in promoting small business development in South Africa?

The results of the study showed that a large portion of the sample was dissatisfied with the impact that government support programmes had in small business development in South Africa.

Seven respondents (33% of the sample of 31) had a positive view of government's support programmes. The respondents reported that given South Africa's apartheid legacy it was be expected that there would be a slow rate at which government is transforming the small business sector. It is within this frame of reference that the respondents see government initiatives as progressive. This follows a similar argument presented by Lewis (2002) when the author stated that there are no short-term policy solutions to poverty alleviation and job creation.

SB1 stated that:

"...despite the disparity in economic and social standards, government has made significant inroads towards raising the profile of small businesses in the country."

Other positive comments emanating from the interviews were the improvement of small business registrations. *SB20* stated that registering a small business, Pay-As-You-Earn (PAYE) tax, Value Added Tax (VAT) and income tax has become easier and less tedious. This is an important point to note, as a common difficulty experienced by small businesses is the bureaucracy and slow turn-around times (Damane 2006 and Layman 2008).

Networking opportunities were considered to be on the increase and more effective through workshops and public engagement forums. *SB2* and *SB3* agree that increased advertisement of government support programmes has benefited their business generation potentials.

SB16 was complimentary of the agencies supporting small business development but suggested that the scope should be broadened to assist entrepreneurs especially from areas peripheral to metropolitan areas.

However, despite the favourable views, the dominant opinion was that government support programmes were failing to achieve their desired results. Of the 31 small business owners interviewed, 24 (77%) expressed the view that they had little faith in government support programmes to ameliorate the survival and maturation stages of small businesses.

In particular, weak policy implementation plans, alleged corruption and nepotism, poor agency support and weak awareness campaigns featured most frequently in the responses. Each of these areas is discussed in more detail below.

4.2.1 POOR POLICY IMPLEMENTATION

SB4 is critical of the government's policies stating that these seem to be feasible in theory but fall well short of the mark with regard to implementation. The respondent suggests that there are conflicting practices between government and support agencies and this translates into a lack of commitment to awarding small businesses large and multi-year contracts, thereby hindering cash flows and sustained operations.

In addition, the respondent raised the point that some agencies are in direct competition with small businesses for government tenders. Given the resources and capacity these agencies have at their disposal, the respondent felt that it placed small businesses in a strategically weak position and limited business opportunities. This perception follows in the same vein of argument presented by Beyene (2002) and Damane (2006) in that the very processes

installed to improve small businesses in South Africa are not sufficiently or effectively carried out to make any definite impact on the sector. The seemingly disjointed and silo-operations that exist between agencies and the various levels of government exacerbates the situation.

SB8 describes government policy as “shocking”, suggesting that its activities in relation to implementation should be executed economically, efficiently, effectively and with a high level of transparency. The respondent sees independent and regular audits of government and small business support agencies’ activities as a proper means to ensure high service delivery.

SB5 sees government policy aimed more towards Broad Based Economic Empowerment (BEE) ratings than assisting small businesses. This is surprising as BEE, by its very design, is supposed to assist individuals from previously disadvantaged communities to compete on an equal footing with advantaged individuals for government tenders and contracts.

SB10 noted that engaging with government and support agencies required time and commitment away from the office. Having limited skilled resources, the respondent felt that her business could ill afford to allocate resources time away from the office to attend meetings and workshops, which to date, according to her experience, has had no tangible outcomes.

4.2.2 SMME SUPPORT PROGRAMMES

The officials interviewed described the services provided by government and support agencies in the following categories:

- Non-financial support: These are interventions such as developing business plans, marketing tools, mentoring and financial management systems.
- Financial support in terms of providing loans.
- Capacity building and business skills training.
- Supply of information.

- Business advice.

According to SA2, its most popular initiative has been access to finance. This agency has seen an increase in the uptake of loan facilities by small businesses (the actual number was undisclosed by respondent).

Recognising the importance of mentorship, SA3 identifies preferential access to industry-specific mentorship and business consultants as being both in high demand and beneficial to small business owners. The respondent recognises that as a shareholder in many small business endeavours, the success of its investment model bears out in the excellent results that the agency posted in the 2007/8 financial year. The agency's investment portfolio has grown to over R 1.6 million over this period, with deals of more than R 1 million been approved to 682 businesses.

Despite these positive responses from government and support agency officials, all but three of the small businesses sampled indicated having knowledge of and attempting to access at least one support programmes available.

All of the small businesses that applied for support, either from government or support agency (or both), found out about the available programmes via printed materials, workshops or the internet.

The common difficulties listed by these small businesses include:

- Long and tedious application processes;
- No acknowledgment of receipt of application or feedback regarding the outcome. Many of the small businesses (29 of the 31 sampled) reported that at least one of their applications has yet to register acknowledgement or decision. This is an alarming statistic considering that the same number of small businesses have made at least three applications only.
- Some government and agency employees are thought to be ill prepared or trained to effectively and efficiently assist small business owners' requirements.

- BEE accreditation is at the cost of small businesses.
- Information sessions such as workshops are regarded as disjointed between the theory presented and the practical requirements of the small business.

4.2.3 ALLEGED CORRUPTION AND NEPOTISM

According to *SB17*, alleged race discrimination, nepotism and corruption dominate tender decisions. In addition, *SB8* views the selection criteria as being poor owing to the many conditions set for small businesses to meet.

SB7 is of the opinion that although government is trying to stamp out corruption, most tender decisions are awarded based on individual and personal relationships rather than its creditworthiness and potential for success.

SB23 sees alleged bribery in the form of gifts and discounts by some large businesses to secure preferential service provider rights as a means of excluding small businesses.

4.2.4 POOR SUPPORT FROM AGENCIES

Support agencies have also not been able to escape the criticism of small business owners.

SB11 regards agencies as being redundant. According to *SB16*, the criteria set by some agencies for funding are both tedious and require upfront collateral. The respondent is equally critically of the slow turn-around time for payment from agencies for services rendered, thus introducing cash flow problems into the business and limiting the opportunity to tender for more contracts.

SB14 and *SB18* share a similar opinion and view support agencies as inefficient and ineffective with little penetration in the rural areas. There seems to be a lack of cooperation between many of the agencies; each agency has its own processes that seem to function in isolation of other agencies and government policies (*SB22*). *SB23* views the performance of agencies as “dismal and pathetic”. The respondent’s experience with three agencies has resulted in the

submission of large volumes of documentation according to the stringent criteria set by these agencies, but resulted in either no acknowledgment of receipt or progress report.

4.2.5 INEFFECTIVE MARKETING AND AWARENESS CAMPAIGNS

Despite government setting up support programmes and appointing agencies to develop the small business sector in South Africa, respondents displayed limited knowledge of what is available and how to access these.

SB19 cited limited access to Internet and other mediums of information as major hurdles preventing engagement with government and agency initiatives. The respondent goes on to state that given South Africa's low literacy rate, many potential subsistence entrepreneurs are being excluded from accessing support and marketing initiatives.

SB21 takes up the argument of a lack of a central information repository that avails the necessary programmes and contact officials to the public. The interview candidate found searching for information time consuming and costly, given the high bandwidth costs in South Africa. In addition, many internet sites were either outdated or returned error messages when certain documents were attempted to be accessed.

According to *SB12* and *SB13*, interacting directly with agencies raised awareness of any promotional campaigns available. However, given limited capacity and skilled resources, the interview candidate found this means of engagement as time consuming.

4.3 DISCUSSION: RESEARCH QUESTION TWO

This section will review findings relating to the second research question:

In the face of the prevailing enabling landscape, which factors continue to influence the development of small businesses in South Africa?

The primary focus of the current section is to compare the academic view of conditions that influence the growth potential of small businesses with actual experiences from the sample of small business owners. This is extended by comparing the perceptions from officials from government and small business support agencies. The output of this section is to determine, in the face of the prevailing enabling environment, which factors continue to influence, either positively or negatively, the development of small businesses in South Africa.

The section is segmented into the following headings: strategic business plans and finance; training and strategic partnerships. This runs parallel to the discussion presented in the literature review (Section 2.2) and allows for direct comparisons and debate. In conclusion, the report will present what small business owners perceive as critical to growing their businesses.

The state has ambitious aspirations for small businesses:

“Small businesses have the potential of making an indelible mark on the South African economy by absorbing many of the unemployed and under-employed work forces” (RSA 1995:13).

In developing a sustainable enabling environment the Integrated Strategy on the Promotion of Entrepreneurship and Small Enterprise (DTI 2006) plans to increase the supply for financial and non-financial support services by streamlining resources from the public sector; creating a demand for small enterprise for products and services with new policy derivatives; reducing small enterprise regulatory constraints by establishing a regulatory impact assessment framework (see Figure 1, pg 16).

4.3.1 STRATEGIC BUSINESS PLANS AND FINANCE

Start-up finance has been identified as a long standing problem faced by many small business entrants (Jauch et al 1980, Chandra et al 2001, Rogerson 2001, Pretorius and Shaw 2004, and Glodstock 2007). This was confirmed by this empirical study.

84% of the respondents listed cash flow constraints as the major factor impeding their growth. Surprisingly, only two respondents listed obtaining a loan from a financial institute as a problem. *SB14* and *SB19* stated that financial institutions that advertised small business support offered little help and that the application process and feedback on loan applications were poor.

The majority of respondents listed late payment from government as the major contributor to negative cash flows. *SB24* states that government departments take between 120 - 190 days to pay for services rendered. This places serious restrictions on the small business to meet any infrastructure and capital costs. *SB23* sees government spending as disproportionate with large annual roll-overs of funds.

Accreditation and proper registration onto government department databases featured highly as well. *SB9* found the registration process tedious and time consuming with no feedback loop. In addition the respondent listed access to the latest tender information as a limiting factor. This complaint was taken up by *SB15* and *SB16* who individually stated that, in addition, late notification of tender results hamstrung their operations.

SB11 suggested that government provide multi-year tenders to small businesses to relieve cash flow burdens. In addition, *SB14* suggests that work experience should be specific to the tender and to the tier of government issuing the tender. *SB3* stated that the procurement process should be audited and a revised criteria be developed to assess small businesses.

SB13 and *SB17* highlighted the difficulty experienced with regard to maintaining proper financial records, especially in response to tax requirements. This is an

interesting point to note as none of the small business owners regarded themselves as financial decision makers (Figures 14 and 15).

According to *SA3*, small businesses can not obtain funding due to lack of security and little or no capital available to contribute as deposit. The respondent suggests that an important exercise for a small business owner to undertake is a feasibility study in order to ensure that the business will not only be financially viable, but also have the ability to generate profits.

4.3.2 TRAINING AND STRATEGIC PARTNERSHIPS

Ensuring properly trained staff will elevate the potential of a small business to sustain and grow its operations (Ladzani and van Vuuren 2002).

SA1 has identified that many small business owners lack basic business skills and education, which makes it difficult for them to draft proper business plans and financial statements.

Given that many small businesses have limited cash resources, skills development is seen as an added expense despite the obvious benefits. *SB10* found retaining staff after they become suitably trained difficult as they became more attractive for employment opportunities from larger organisations.

SB22 also listed skills transfer and staff retention as problems and suggested that government provide subsidised training for small business skills development.

All of the small business owners interviewed saw their greatest source of income coming from government tenders. However, there was a definite convergence that completing the tender document was both time consuming and tedious. *SB21* stated that the time take to complete a tender document was not matched with regard to the feedback results or the success rates. In addition, many of the small business owners suggested that tenders were awarded to larger organisations because of the level of detail comprising their tender application.

The common recommendation emanating in response to this is that government clearly stipulates that larger organisations partner with small businesses in the tender application.

This would work well on several levels: the profile and experience base of the small business is increased; income is generated; skills transfer and the generation of intellectual partnership are increased.

4.3.3 FACTORS NEEDED TO GROW THE SMALL BUSINESS

The following factors were identified by the sample of small business owners in order to grow their business by an additional ten employees.

- Proper data management and information services:
- Subsidised training and marketing initiatives;
- Revised tender processes and compulsory partnerships between larger and small businesses in response to tender invitations;
- Medium to long term projects with shorter payment cycles;
- Endorsing funding when tenders have been awarded.

4.4 CONCLUSION

The sample consisted of individuals in senior management who are directly responsible for making critical operation and strategic decisions. This is important to note as the results presented and analysed are based on information obtained directly from business decision makers.

Most businesses in the sample were older than five years and therefore can be regarded as established. The data also indicate that the businesses sampled had overcome the hurdles that cause many start-up businesses to fail. Hence, according to the definition presented in Section 1.6, this study accurately represents the opinions of small enterprise owners.

It was surprising to note that none of the businesses employed a financial advisor to assist in costing operations.

With the regard to the first research question, on the balance of evidence presented, 77% of the candidates interviewed during this research viewed government and small business support agencies promotion of SMME development in South Africa as poor.

Respondents agreed that given South Africa's history, government is showing good commitment to improving the small business sector. However, government's key drivers seem to fall down at the implementation stage. Many of the respondents feel that government and small business agencies work in isolation of each other and promulgate processes that are sometimes in conflict with each other. In addition, some agencies compete with small business for tenders.

Alleged racism, nepotism and corruption featured highly in the responses from the sample. Small business owners are of the opinion that non-professional relationships with officials involved in the tender process unfairly sway the decision of tender adjudication committees.

The tender process was also described as being tedious, complicated and often times proving fruitless. In addition, many of the small businesses do not have spare capacity to attend tender briefing sessions, workshops and business workshops. This, the respondents felt, was another pitfall in the small business environment.

Finally, all respondents felt that there was little opportunity for subsistence entrepreneurs to fully engage with support programmes. Given South Africa's high unemployment and low literacy levels, engaging with communities on the periphery of metropolitan areas could have high economic spin-offs.

With regard to the second research question, this report found that many of the historical problems encountered by small business owners persist, despite the various pieces of legislature and initiatives put in place by government.

84% of the respondents listed cash flow constraints as the major factor impeding their growth. In addition, all respondents who had previous work experience with government and/or agencies listed late payments as a serious inhibitor to sustained business operations. In some cases, payment took as long as 190 days.

Some small businesses lack strategic business skills needed to professionally and succinctly address the criteria set out in tender applications. Respondents have indicated that a pro-active subsidy from government for professional business services will raise the profile and professionalism of small businesses.

An interesting point to note is that of the small businesses that undertake skills development initiatives within their organisation, staff retention became an issue. Many of the staff left shortly after being trained as their profile become more attractive to the work market.

Lack of access to information was an area that many of the respondents stated needed immediate and comprehensive attention. This related to the provision of templates on how to construct valid and professional business plans and financial statements, tender schedules and award notices, and potential workshops and training initiatives. With regard to the service provided by the agencies, respondents suggested that these officials need to be better trained.

Registering as potential service provider was cited as being tedious, time consuming and producing little positive results. The respondents raise the point that they do not receive any acknowledge of receipt or any updates. This point follows on from the response rate observed when potential candidates were invited to participate in the survey. The government database posted a 47% success rate. This means that more than half of the service providers listed on the database would not be contacted should any potential tenders arise (Figure 6). In comparison, the independent database posted a success rate of 72% (Figure 4).

The results of the study have implications for design of policy interventions and for managing support programmes. There are also insights that are relevant to small business owners. These are discussed in the chapter which follows.

CHAPTER 5: CONCLUSION AND RECOMMENDATIONS

5.1. INTRODUCTION

At the time of writing this report, the global economy was displaying recession-type characteristics. In 2008, the United States was rocked by the sub-prime mortgage market debacle and the ripple-effect of this caused chaos on international financial markets. Banks across the world began implementing emergency measures to counter and stall the impact of a global recession.

South Africa's real Gross Domestic Product at market prices decreased by 1,8% during the fourth quarter of 2008 (StatsSA 2009). In April 2009, the Economist Intelligence Unit's forecast stated that South Africa's economy will contract by 1,5% in 2009 with a weak recovery to 2% in 2010 (EIU 2009). This rebound comes off the back of international events such as the FIFA World Cup Soccer. A further factor in mitigation of an economic recession in South Africa is government's commitment to keep fiscal and economic policies unchanged.

South Africa faced political changes in 2008 as well. Mr Thabo Mbeki was recalled by the African National Congress (ANC) after a High Court ruling found high level political interference in the corruption charges against the president of the ANC, Mr Jacob Zuma. Mr Mbeki willingly resigned and the 2009 general elections were successfully held with Mr Zuma being appointed as South Africa's president.

The global economic crisis and political flux in South Africa were key factors considered in conducting this research. Since both conditions were characterised as stable by the Economist Intelligence Unit, the literature, analysis and findings presented in this report are valid.

Thus, the report felt confident is setting out to determine the role of government support programmes in small business development in South Africa. This broad research theme was segmented into the following critical questions:

What is the prevailing opinion on the impact of government support programmes in promoting small business development in South Africa?

Which factors continue to influence the development of small businesses in South Africa?

This chapter summarises the findings and presents the conclusion of this research. It begins by drawing conclusions with regard to the first research question. Following this is a conclusive discussion of the results relating to the second research question. A synthesis of the two research questions draws a conclusion to the research theme of this report.

5.2. CONCLUSION OF THE STUDY

The first research question set out to determine what is the prevailing opinion on the impact of government support programmes in promoting SMME development in South Africa?

South Africa's entry in democracy in 1994 highlighted the pitfalls created by the apartheid legacy. Recognising the potential of SMMEs to reduce the high levels of unemployment and poverty in the country, government promulgated critical pieces of legislature: The White Paper on National Strategy for the Development and Promotion of Small Business in South Africa in 1995; the Small Business Development Act in 1996; and the Integrated Strategy on the Promotion of Entrepreneurship and Small Enterprise in 2006.

The Integrated Strategy identified that the prevailing legal and regulatory environment, access to markets, finance and business infrastructure, supply of scarce skills and the tax burden constrained the growth and development of the small business sector.

Academia is of the opinion that government support programmes have had a low impact on improving the performance of SMMEs and are generally biased towards medium-sized enterprises and away from micro-enterprises and the informal sector (Beyene 2002, Rogerson 2004).

A further area of concern was the bureaucracy and slow response time from government and support agencies (Layman 2008) and this led to concluding that government's existing processes will not be enough to make an impression on poverty reduction (Bologna 2006).

Of the 31 small business owners interviewed, 24 (77%) expressed that they had little faith in government support programmes to ameliorate the survival and maturation stages of small businesses.

Furthermore, respondents were of the opinion that government's policies, although theoretical sound; fell well short of the mark when it came to implementation strategies.

Support programmes were ill-administered by officials from small business support agencies. This led to the recommendation that officials from these agencies receive relevant and current training so that queries can be competently and effectively responded to.

The tender process was also described as being tedious, complicated and often times proving fruitless. In addition, many of the small businesses do not have spare capacity to attend tender briefing sessions, workshops and business workshops. This, the respondents felt was another pitfall in the small business environment.

The tender process is well regarded by many of the small business owners sampled in this research as critical to generating a sustained income. However, the results obtained in this study show that 57% of all service providers on the government database could not be reached because of inaccurate contact details (Figure 6).

Finally, all respondents felt that there was little opportunity for subsistence entrepreneurs to fully engage with support programmes. Given South Africa's high unemployment and low literacy levels, engaging with communities on the periphery of metropolitan areas could have high economic spin-offs.

In conclusion and in response to the first research question, this report found that opinion was low with regard to the impact government support programmes were making on the development of the small business sector in South Africa.

The second research question focused on identifying factors that continue to influence the development of small businesses in South Africa. This is a significant question to address given government's commitment to grow the sector to its full potential. A clear indication of progress though the initiatives put in place by government and small business support agencies would have been if historical factors no longer limited the sustained growth of SMMEs.

Academic evidence on the matter showed that finance, poor business skill sets and a lack of strategic partnerships limited the development of small enterprises. The results obtained from the research sample had a similar outcome.

The following factors were identified by the sample of small business owners in order to grow their business by an additional ten employees.

- Proper data management and information services;
- Subsidised training and marketing initiatives;
- Revised tender processes and compulsory partnerships between larger and small businesses in response to tender invitations;
- Medium to long term projects with shorter payment cycles;
- Endorsing funding when tenders have been awarded.

84% of the respondents listed cash flow constraints as the major factor impeding their growth. The majority of respondents listed late payment from government as the major contributor to negative cash flows. This placed serious restrictions on the small business to meet any infrastructure and capital costs.

Accreditation and proper registration onto government department databases featured highly as well. In addition, owners viewed the provision of large and

multi-year contracts as a means to relieve cash flow burdens, raise the profile and provide valuable project experience to the small businesses.

Small businesses are not homogenous entities despite having common problems. A common shortfall of start-up enterprises is the lack of viable and appropriate business skills. Many of the respondents felt that proper training should be subsidised and that officials from small business development agencies should be properly trained to address the individual needs of the entrepreneur.

As a consequence of the results obtained from the sample, this report concludes that historic factors limiting the growth of the small business sector persist. In the next section, the report will provide recommendations to government, small business support agencies and small business owners how they can improve the sector.

5.3. RECOMMENDATIONS

This section is organised in three parts. The first part will provide recommendations to government, then to small business support agencies and finally to small business owners.

5.3.1. RECOMMENDATIONS TO GOVERNMENT

The development and maintenance of a central repository that allows access to all small business related information should be considered. Companies should know exactly where to obtain relevant and current information pertaining to tender applications, training and networking opportunities.

The tender process needs to be assessed to avoid supporting larger organisations based on experience and better business skill sets. In addition, multi-year and large contracts should be awarded to small businesses should the potential for success be deemed sufficiently high.

Strategic partnerships between larger and small businesses should be set as a condition in the tender application process. This will eliminate large businesses

from dominating the tender awards and give small businesses the necessary exposure, revenue and experience to compete effectively in the market.

Government needs to ensure that payment periods are reduced. This will provide small businesses with positive cash flows for longer periods of time.

Government databases need to be validated and standardised so that proper records management can take place. This research has shown that 53% of all potential service providers could not be contacted due to incorrect contact details.

Government should provide subsidised training and awareness programmes on business management, project management, financial statement preparation and strategic marketing. In addition, Government should provide training incentive packages to small businesses to promote skills development. Small businesses that undertake training programmes should then be given preferential treatment in the award of tenders.

Government should actively and transparently conduct regular campaigns and audits to root out alleged corruption and nepotism.

Finally, government should adopt a more active role in the development of SMMEs, especially small businesses on the lower end of the market. The emphasis should shift from government relying on the private sector to develop small business towards a more balanced and strategic partnership.

5.3.2. RECOMMENDATIONS TO SUPPORT AGENCIES

This report has shown that small business support agencies are regarded as being ineffective in developing the sector. Agencies should concentrate on grouping sectors into different batches and levels. For example, the textile industry should have individuals from government mentoring them according to individual needs.

Agencies should be more proactive in their engagement with small business. Key performance indicators should be linked to regular performance

assessments. Officials should be trained at the appropriate level to provide efficient and effective service to the needs of the small business owner.

On an annual basis, agencies should report on its spending patterns and frequency of awards to distinct and regular small businesses. This will provide a clear indication of market growth and remove the possibility of multi loan or contracts being awarded to the same group of small business owners.

Agencies should subsidise broadband costs and should provide monthly newsletters to small businesses on critical events such as training workshops, tender preparation techniques and potential strategic partnerships.

Marketing campaigns should be development to promote the services rendered by small businesses. This will raise the profile of the sector and provide free exposure of the small business to potential clients.

5.3.3. RECOMMENDATIONS TO SMALL BUSINESS OWNERS

Small business owners should conduct proper and detailed market research to test the viability and sustained demand for their products and/or services. In addition, developing plans to adapt to market changes and competitor threats are essential to secure and defend market share.

SMMEs should actively engage individuals that are able to keep proper data and financial statements. This will allow for the owner to establish exactly what the financial and operating status of the business is.

Small business owners should reconsider the value of strategic partnerships and use this option to actively compete for government tenders and contracts. A possible mitigation factor to early business failure is to engage established business owners. SMME owners should attend trade association meetings and develop strong networking opportunities.

With regard to the creation of an enabling environment, SMMEs should lobby for friendly regulatory conditions. This may be achieved by attaining membership to business associations and bargaining or chamber movements.

At the level of business support, small businesses should seek information on various support programmes provided by government and other agencies, and then build the necessary capacity to absorb and respond to these programmes.

5.4. SUGGESTIONS FOR FURTHER RESEARCH

This report limited its research to small businesses in the Gauteng province. As such the results presented may not be representative of other provinces. Each province in South Africa has distinct advantages and problems. As such the study can be extended to other parts of South Africa.

The research could be extended to subsistence business owners to identify the difficulties faced by them. Subsistence business owners generally operate on the periphery of metropolitans and have limited access to agencies. In addition, many have limited internet access as well. Proper training and support programmes should be considered for development in direct response to the needs of rural areas.

Tenders were regarded as the primary source of revenue for many of the small businesses. In addition, BBBEE accreditation was seen as raising the profile of and employability of small businesses. However, accreditation is costly and these costs need to be carried by the SMME. Government should consider establishing tender recruitment agencies. Based on the model of an employment agency, these centres will provide the valuable link between government and the small business owner. Given that SMME have limited manpower, expertise in the tender process, and access to tender information; the tender recruitment agency will scan through tender invitations and then direct tenders to the most appropriate SMME. In addition the agency could assist and even partner the SMME in responding to the tender.

Limited access to internet facilities has been cited as a stumbling block to many SMMEs. A costing study should be conducted to determine increasing internet access to small business that is not linked to any financial institutions.

REFERENCES

1. Appleton, V. (1995) Analysing qualitative interview data: Addressing issues of validity and reliability, *Journal of Advanced Nursing*, 22, pp. 993-997.
2. Atherton, A. (2007) Preparing for business start-up: "Pre-start" activities in the new venture creation dynamic, *Journal of Small Business and Economic Development*, 14(3), pp. 404-417.
3. Atkinson, D. (2002) *Local Government, local governance and sustainable development*, last accessed 12 February, 2009, www.hsrcpress.ac.za
4. Barriball, K. and White, A. (1994) Collecting data using a semi-structured interview: a discussion paper, *Journal of Advanced Nursing*, 19, pp. 328-335.
5. Bayene, A. (2002) Enhancing the competitiveness and productivity of small and medium scale enterprises (SMEs) in Africa: An analysis of different roles of national government through improved support services, *Africa Development*, 27(3), pp. 130-156.
6. Binns, T. and Nel, E. (2002) Supporting local economic development in post-apartheid South Africa, *Local Economy*, 17(1), pp. 8-24.
7. Blumenfeld, J. (1997) From icon to scapegoat: The experience of South Africa's Reconstruction and Development Programme, *Development Policy Review*, 15, pp. 65-91.
8. Bologna, S. (2006) 'Partnerships for small enterprise development', in *Small Business Summit*, Cape Town, SEDA.

9. Botha, M., Nieman, G. and van Vuuren, J. (2007) Measuring the effectiveness of the women entrepreneurial programme on potential, start-up and established women enterprises in South Africa, *South African Journal of Economic Management Sciences*, 10(2), pp. 163-183.
10. Brink, A. and Cant, B. (2003) 'Problems experienced by small businesses in South Africa', in 16th Annual Conference of Small Enterprise Association of Australia and New Zealand, Australia, University of Ballarat, pp. 1-20.
11. Bukula, S. (2006) 'Strengthening the public sector system for small enterprise development: Service delivery models and inter-Governmental linkages', in *Small Business Summit*, Cape Town, SEDA.
12. Castellanos, R. (2000) Small and medium young enterprises' strengths and weaknesses: Empirical study of a sample of industrial firms, *Journal of Small Business and Enterprise Development*, 8(1), pp. 28-36.
13. Chandra, V., Moorthy, L., Nganou, J-P., Rajaratnam, B. and Schaefer, K. (2001) *Constraints to growth and employment in South Africa*, Discussion Paper, 2, The World Bank, South Africa.
14. Chaston, I. (1996) Small firm: Assessing the interaction between entrepreneurial style and organisation structure, *European Journal of Marketing*, 31(11-12), pp. 814-831.
15. Clover, T. and Darroch, M. (2005) Owner's perception of the factors that constrain the survival and growth of small, medium and micro agribusiness in Kwazulu-Natal, South Africa, *Agrekon*, 44(2), pp. 238-263.
16. Damane, A (2006) 'Key lessons for the integration of service delivery for SMME support', in Annual Small Business Summit, Cape Town, SEDA.
17. Danninger, S., Balakrishnan, R., Elekdag, S. and Tytell, I. (2009) 'How linkages fuel the fire: The Transmission of financial stress from advanced

to emerging economies', in World Economic Forum *World Economic Outlook*, pp. 139-175.

18. del Barrio, C., Gutierrez, H., Hoyos, O., Barrios, A. and van der Meulen, K. (1999) *The use of semi-structured interviews and qualitative methods for the study of peer bullying*, last accessed 20 March, 2008, http://www.gold.ac.uk/tmr/reports/aim2_madrid1.html.
19. Department of Trade and Industry (the dti) (1995) *White Paper on National Strategy for the Development and Promotion of Small Business in South Africa*, South Africa.
20. Department of Trade and Industry (the dti) (2006) *Integrated Strategy on the Promotion of Entrepreneurship and Small Enterprises*, South Africa.
21. De Wit, T. (2001) *Summary Brief A Case Analysis of Porter's Cluster Theory in the Amish Furniture Industry*, last accessed 19 Feb, 2008, from <http://www.sbaer.uca.edu/research/sma/2001/16.pdf>.
22. DiCicco-Bloom, B. and Crabtree, B. (2006) The qualitative research interview, *Medical Education*, 40, pp. 314-321.
23. The Economist Intelligence Unit (2009) *Country Report: South Africa*, Report, Economist Intelligence Unit, London.
24. The Economist Intelligence Unit (2008) *Country Report: South Africa*, Report, Economist Intelligence Unit, London.
25. The Economist (2008) *Bad, or worse: At best, the world economy is on the brink of recession*, last accessed 20 March 2009, <http://www.economist.com/finance/displaystory.cfm?story>.

26. Goldstock, A. (2007) *SME Survey*, Research Report, Standard Bank, Johannesburg.
27. Gumede V and Rasmussen, K. (2002) Small manufacturing enterprises and exporting in South Africa: A preliminary assessment of key export success factors, *Journal of Small Business and economic Development*, 9(2), pp. 162-171.
28. Hadjimandis, A. (2000) A resource-based view on innovativeness in small firms, *Technology Analysis and Strategic Management*, 12(2), pp. 263-281.

<http://cmap.ihmc.us/publications/researchpapers/theoryunderlyingconceptmaps.pdf>.
29. Hutchinson, S. and Wilson, H. (1992) Validity threats in scheduled semi-structured research interviews, *Nursing Research*, 41(2), pp. 117- 119.
30. Jaunch, L., Osborn, R. and Glueck, W. (1980) Short term financial success in large business organisations: The environment-strategy connection, *Strategic Management Journal*, 1(1), pp. 49-63.
31. Jick, T. (1979) Mixing qualitative and quantitative methods: Triangulation in action, *Administrative Science Quarterly*, 24(4), pp. 602-611.
32. Kirsten, M. and Rogerson, C. (2002) Tourism, business linkages and small enterprise development in South Africa, *Development Southern Africa*, 19(1), pp. 29-59.
33. Ladzani, W. and van Vuuren, J. (2002) Entrepreneurship training for emerging SMEs in South Africa, *Journal of Small Business Management*, 40(2), pp. 154-161.

34. Laforet, S. and Tann, J. (2006) Innovative characteristics of small manufacturing firms, *Journal of Small Business and Enterprise Development*, 13(3), pp. 363-380.
35. Layman (2008) 'Small/Micro Business vs. Medium Business', in *Small Business Summit*, Cape Town, SEDA, last accessed 20 March, 2008, from <http://www.seda.co.za>
36. Lee, K., Lim, G. and Tan, S. (1999) Feasibility of strategic alliance as an entry strategy into markets dominated by major competitors, *Journal of Small Business and Economic Development*, 7(1), pp. 43-57.
37. Lewis, J. (2001) Policies to promote growth and employment in South Africa, *The World Bank*, South African Department, 16.
38. Lewis, J. (2002) Promoting growth and employment in South Africa, *African Region Working Paper*, 32.
39. Lindsay, J.M. (1997) *Techniques in human geography*, Routledge, London.
40. Lloyd, H (2002) Small and medium enterprises (SMEs): Instruments of economic growth and development in a South African regional dispensation, *European Regional Science Association*, pp. 1-25.
41. Mays, N. and Pope, C. (1995) Qualitative Research: Rigour and qualitative research, *British Medical Journal*, 311, pp. 109-112.
42. McNaughton, M-J. (2006) *Determinants and effects of foreign merchant bank entry into South Africa*, Master of Business Administration, University of Witwatersrand, Johannesburg.

43. Mosai, S. (2006) 'The impact of local Government programmes on small, micro and informal business', in *Small Business Summit*, Cape Town, SEDA.
44. Novak, J. and Cañas, A. (2006) *The theory underlying concept maps and how to construct them*, last accessed 24 August, 2008,
45. Parsons, R. (2008) The South African Economy: Will it survive "the perfect storm?", *Management Today*, May 2008, pp. 10-14.
46. Perren, L. (1999) Factors in the growth of micro-enterprises (Part 2): Exploring the implications, *Journal of Small Business and Enterprise Development*, 7(1), pp. 58-68.
47. Pretorius, M. and Shaw, G. (2004) Business plans in bank decision-making when financing new ventures in South Africa, *South African Journal of Economic Management Sciences*, 7(2), pp. 221-241.
48. Pretorius, M. and van Vuuren, J. (2003) Contribution of support and incentive programmes to entrepreneurial orientation and start-up culture in South Africa, *South African Journal of Economic and Management Science*, 6(3), pp. 514-528.
49. Porter, M. (1990) Cluster's and the New Economies of Competition, *Harvard Business Review*, Nov 1998, pp. 77-90.
50. Reeves, S., Lewin, S. and Zwarenstein, M. (2006) Using qualitative interviews within medical education research: why we must raise the "quality bar", *Medical Education*, 40, pp. 291-292.
51. Rogerson, C. (2001) In search of the African miracle: Debates on successful small enterprise development in Africa, *Habitat International*, 25, pp. 115-142.

52. Rogerson, C. (2004) The impact of the South African Governments SMME programme: A ten-year review (1994-2003), *Development Southern Africa*, 21(5), pp. 775-784.
53. Rogerson, C. (2008) Tracking SMME development in South Africa: Issues of finance, training and the regulatory environment, *Urban Forum*, 19, pp. 61-81.
54. Ruiz-Primo, M. and Shavelson, R. (1996) Problems and issues in the use of concepts maps in science assessment, *Journal of Research in Science Teaching*, 33(6), pp. 569-600.
55. Sathyamoorthi, C. (2002) Government policy and entrepreneurial performance: The case of small, medium and micro enterprises in Botswana, *Pakistan Journal of Applied Sciences*, 2(5), pp. 563-569.
56. Scott, M and Bruce, R. (1987) Five stages of growth in small business, *Long Range Planning*, 20(3), pp. 45-52.
57. Sharma, S. and Mahajan, V. (1980) Early warning indicators of business failure, *Journal of Marketing*, 44(4), pp. 80-89.
58. Republic of South Africa (1994) *White paper on the reconstruction and development programmes*, Government Printer, Pretoria.
59. Republic of South Africa (1995) *White paper on the national strategy for the development and promotion of small businesses in South Africa*, Government Printer, Pretoria.
60. Republic of South Africa (1996) *Small Business Development Act*, Government Printer, Pretoria.

61. Republic of South Africa (2003) *National Small Business Amended Act*, Government Printer, Pretoria.
62. South African Chamber of Business (1999) Developing the small business sector in South Africa, *South African Chamber of Business*.
63. Statistics South Africa (2009) *Gross Domestic Product: Annual estimates per region 1995-2007 Fourth quarter: 2008*, Report, Statistics South Africa, Pretoria.
64. Stokes, D. and Blackburn, R. (2002) Learning the hard way: Lessons of owner-managers who have closed their business, *Journal of Small Business and Enterprise Development*, 9(1), pp. 17-27.
65. Terrones, E., Scott, A. and Kannan, P. (2009) 'From recession to recovery: How soon and how strong?', in World Economic Forum *World Economic Outlook*, pp. 103-138.
66. van Vuuren, J. and Groenewald, D. (2007) A critical analysis of the influence of start-up factors in small businesses, *Acta Commercii*, pp. 269-280.
67. Vicsek, L. (2007) A scheme for analysing the results of focus groups, *International Journal of Qualitative Methods*, 6(4), PP. 20-34.
68. Visagie (1997) SMME's challenges in reconstructing South Africa, *Management Decision*, 35(9), pp. 660-667.
69. Women's Budget Initiative (WBI), (2003), What's available? A guide to Government grants and other support available to individuals and community groups, In: Improvement of the Quality of Life and Status of Women Conference, Cape Town.

70. World Bank (2000) *South Africa: Constraints to growth and employment - evidence of the small, medium and micro enterprise firm survey*, Report, 24330-ZA, World Bank, Johannesburg.

APPENDIX 1

TABLE OF RESPONDENTS

	Name	Name of Firm	Sector
1.	Sunday Piet Mahlangu	Department of Trade and Industry	Public
2.	Christel Potgieter	Gauteng Enterprise Propeller	Support Agency
3.	Petro Botha	Business Partners Ltd	Support Agency
4.	Nomsa	South African Micro Apex Fund	Support Agency
5.	Don Mashele	Khula Enterprise Finance Limited	Support Agency
7.	Nola Chetty	Cullin Africa	Manufacturing
8.	Caroline Pedzi	Mulaudzi and Associate Consulting	Consulting
9.	Gildah More	Bogosi Consulting	Consulting
10.	Maite Nathaniel Sebolai	BCIT (Pty) Ltd	IT
11.	Jane Thompson	Integrated Spatial Solutions (Pty) Ltd	IT
12.	Gerrit van Dyk	i-Kno Knowledge Solutions (Pty) Ltd	IT

13.	Mpho	M&H Suppliers	Office Supplies
14.	Maria Motau	Ibhubesi Information Technologies	IT
15.	Nic Buchanan	Umlando Wezithombe	Graphic Designs
16.	Caroline Heard	The Kashan Group	Marketing
17.	Tebogo	Tebogo Graphic Design	Marketing
18.	Avinash Bisnath	Kai Batla Minerals Industry Consultants	Consulting
19.	Reshoketswe Makena	Reshoketse Trading cc	Office Supplies
20.	Thulani	Logistics Today	IT
21.	Elizabeth Kwindu	Ditshepiso Transport & Tours	Logistics
22.	Dalton	Drive Through Driving School	Logistics
23.	Ralton Pillay	Big-In Trading	Construction
24.	Mpho Sono	Thabempho Trading cc	Office Supplies
25.	Sandra Ndlovu	SIMS Khula Trading (Pty) Ltd	Skills Development Consultant
26.	Jabulani Ndlovu	Ndlovu Electronic Secure Systems	Office Equipment
27.	Karl Bailey	EMPOWERRisk (Pty) Ltd	Consulting

28.	Kegobotjeng Makua	e-5 Creations	Interior Design
29.	Ken Masalesa	Betlang Designs	Office Supplies
30.	Brain Abrahams	Mantuba Business Communications (Pty) Ltd	Graphic Design
31.	Cameron Diesel	Partners International	Construction
32.	Langa Twise	Afrisystems cc	Consulting
33.	Koos Terblanche	Bushindo Business Enterprise cc	Security Services
34.	Fida Shamsodeen	Combined Systems (Pty) Ltd	Consulting
35.	Walter Smuts	Expertron Group (Pty) Ltd	Consulting
36.	Drake Humise	Keara Trading Enterprise cc	Office Supplies

APPENDIX 2

LETTER OF INTRODUCTION AND INTERVIEW SCHEDULED FOR GOVERNMENT OFFICIALS AND GOVERNMENT-APPOINTED AGENCIES



TO WHOM IT MAY CONCERN

RE: The role of government support programmes in SMME development in South Africa

As part of my thesis towards a Masters degree in Business Administration (MBA) from WITS Business School (WBS), I am conducting research into the role of government support programmes in small business development in South Africa. The title of my thesis is: *The role of government support programmes in SMME development in South Africa*.

The purpose of this research is to investigate:

- (1) What is the prevailing opinion on the impact of government support programmes thus far in promoting small business development?
- (2) In the face of the prevailing enabling landscape, which factors continue to influence the development of small businesses in South Africa?
- (3) What measures should either be promoted or developed to further the role of government (and its agencies) in the development of the small business sector?

You are kindly invited to participate in this exploratory study. You can participate in one of three ways:

- (1) Completing the interview schedule presented below and emailing it back

to me by 12:00 on Monday (01 December 2008).

- (2) Agree to a telephonic interview that lasts between 30-45 minutes. Please suggest a date and time that is most convenient for you. This will be done during the week starting 01 December 2008.
- (3) Agree to personal interview at a mutually convenient date, time and venue during the week starting 01 December 2008.

There is no obligation and all information will be treated with the strictest confidence. Should you not wish to participate, please suggest other government and/or agency officials whom I may contact with this request.

Interview Schedule

1. In your opinion, what are the factors that either positively or negatively influence the development of small businesses in South Africa?
2. What should small business owners do for themselves to address these factors?
3. What support initiatives/programmes does your organization have in place to assist small businesses in addressing these factors?
4. Which of these initiatives have proven to be most popular and have made a quantifiable impact on improving small business performance?
5. Which of these initiatives have proven to be less successful and what are the reasons for this?
6. What follow-on assistance/guidance is provided by your organization to small businesses that are successful in their applications so that they implement the initiatives/programmes to its fullest capacity?
7. Which marketing strategies do you employ to create awareness of your organization? How effective have these strategies proven to be?
8. How does your organization stimulate market awareness of its support initiatives/programmes? How effective has this been?
9. How does your organization stimulate the market itself thereby improving small business participation in the various economic sectors?

10. Should the roles of government and its support agencies in small business development be changed? And if yes, then what measures should either be promoted and/or developed to further improve the roles of government and its support agencies, and the development of the small business sector?

Your participation will greatly enrich this study. Should you require any additional information, my contact details are as follows:

Work: 012 843 6867

Mobile: 083 604 12 19

Email: byrenmitchel.archary@dst.gov.za

Warm regards,

BYREN ARCHARY

MANAGER: SCIENCE PLATFORMS UNIT

APPENDIX 3

LETTER OF INTRODUCTION AND INTERVIEW SCHEDULE FOR SMALL BUSINESS OWNERS



TO WHOM IT MAY CONCERN

RE: The role of government support programmes in SMME development in South Africa

As part of my thesis towards a Masters degree in Business Administration (MBA) from WITS Business School (WBS), I am conducting research into the role of government support programmes in small business development in South Africa. The title of my thesis is: *The role of government support programmes in SMME development in South Africa*.

The purpose of this research is to investigate:

- (1) What is the prevailing opinion on the impact of government support programmes thus far in promoting small business development?
- (2) In the face of the prevailing enabling landscape, which factors continue to influence the development of small businesses in South Africa?
- (3) What measures should either be promoted or developed to further the role of government support programmes in the development of the small business sector?

You are kindly invited to participate in this exploratory study. You can participate in one of three ways:

- (1) Completing the interview schedule presented below and emailing it back to me by 12:00 on Monday (01 December 2008).
- (2) Agree to a telephonic interview that lasts between 30-45 minutes.

Please suggest a date and time that is most convenient for you. This will be done during the week starting 01 December 2008.

- (3) Agree to personal interview at a mutually convenient date, time and venue during the week starting 01 December 2008.

There is no obligation and all information will be treated with the strictest confidence. Should you not wish to participate, please suggest other small business owners who I may contact with this request.

Statistical Information

1. Name of Organisation: _____
2. Name of Interview Candidate: _____
3. Position of Candidate in Organisation: _____
4. Years in Operation: _____
5. Service(s) Rendered: _____
6. No. of Staff: _____
7. No. of woman: _____
8. HDI %: _____
9. SMME %: _____
10. BEE Rating: _____

Interview Schedule: Specific Focus Points (approximately 20-30 minutes)

1. What is your opinion on the way government and/or its appointed agencies is/are promoting SMME development in South Africa?
2. Generally, what additional (if any) government support should be implemented to improve SMME performance?

3. Please list the government SMME support programmes that you are aware of?
4. What medium (printed materials, television, internet, etc) made you aware of the government support programmes?
5. Which of these SMME support programmes have you used and how (if at all) has this assisted you in running your business?
6. What influenced your decision to use these programmes over the others?
7. What is your opinion on the support from government and/or its support agencies in assisting you in to access and implement these programmes?
8. What are the more common and frequent difficulties experienced by your business?
9. List the enabling conditions that you think would be necessary in order for your business to employ 10 additional staff members?
10. What should be the role of government support in ensuring that these conditions are met?

Your participation will greatly enrich this study. Should you require any additional information, my contact details are as follows:

Work: 012 843 6867

Mobile: 083 604 12 19

Email: byrenmitchel.archary@dst.gov.za

Warm regards,

BYREN ARCHARY

MANAGER: SCIENCE PLATFORMS UNIT