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Factors to decrease failures of Small and Medium Enterprises in Gauteng South Africa.

Applied Research Proposal

Submitted by

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Declaration

FIRST STATEMENT

I, the undersigned, Mbasa Metuse hereby declare that this thesis entitled "Factors to reduce SMEs failure in South Africa" is my own original work. It has not been and will not be submitted or presented for the award of any other degree, diploma, fellowship, or similar title at any other institution.

Signature  18/10/2023 .

Date .

SECOND STATEMENT

I thereby grant the consent for my dissertation, if it is accepted to be accessible for photocopy and interlibrary loan and to be available at the institution

Signature  18/10/2023 .

Date

Dedication

I dedicate this project to the Almighty God for the wisdom and power he granted me to carry out and compile this research. Glory to his name I also dedicate this work to my classmates and colleagues for teamwork and guidance throughout the process

Abstract

The objective of this study was to investigate the factors to decrease the failures of Small and Medium Enterprises (SMEs) in Gauteng South Africa. The study was quantitative in nature and the study was conducted in the Gauteng region, targeting the SMEs that are currently registered on SEDA. A total number of 150 questionnaires were distributed electronically to the participants and all 150 questionnaires were returned. The study focused on the four major factors that can be used to decrease failures of SMEs in South Africa namely: Economic situations, political situations, managerial factors, and financial situations. Data was collected and captured on Excel sheet as a preparation for data analysis, SPSS was used to analyze and generate frequency tables and charts. The findings of the study suggested that political situations, managerial situations, economic situations and financial situations play a big role on SMEs stability. The study further provided insight on how these situations or factors can be implemented better to decrease SME failure in South Africa. Based on the findings it is clear that political situations, managerial situations, economic situations and financial situations have been affecting SMEs and if these factors are implemented and controlled differently, they can be good mechanisms towards the reduction of SMEs failure in South Africa.

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CHAPTER 1: INTRODUCTION AND BACKGROUND OF THE STUDY

1.1 Overview of the study

The issue of SME failure has been a focus by both researchers, government, and business practitioners (Pooe 2016). It is vital to understand the causes of SME failure in South Africa as they are perceived to be many. However, focusing on causes of SME failure needs a long-term solution on what can be done to reduce SME failure in South Africa. For example, Omoroyi (2016) stated that in most cases, exposed challenges can be turned out to be a solution to the same problem.

With this has been said, this study aims on the factors to decrease SME failure in South Africa. The motive of this study is based on current conditions of SMEs in South Africa. For example, currently, the South African economy is under stress (Beck & Demirguc-Kunt 2020). This forced more small and medium business struggle in many aspects. Although many school of thoughts have addressed on the issue of SMEs development, very little have addressed on the factors that hinders SMEs development and their interventions. The primary objective of this study is to identify the factors that can be used to decrease SME failure in South Africa. The research question addressed will be on the factors that can be used to decrease the failures of most Small and Medium Enterprises in the Gauteng province of South Africa and to what extent the characteristics of the owner-manager, the nature of the firm, and company strategy, together with the economic and government factors, impact upon the growth of Small and Medium Enterprises (SMEs).

Although there are various factors that affects SMEs development in South Africa, the current study will focus on the growth of small firms, the characteristics of the owner-manager, the nature of the firm itself, the business strategies adopted, and the external factors concerned all these four components need to be combined appropriately for growth to be achieved (Thorgren & Williams, 2020). This study will look at the market failures and the lack of formal institutions that creates private governance systems in the form of long-term business relationships and tight, ethnically based, business networks (Curristine, 2016). Policy interventions will be needed to improve the platform for relation-based governance mechanisms and to address the exclusionary of

tight networks and in the wake of the pandemic, such policies are to ensure the survival of these SMEs.

1.2 Problem statement

It is without doubt that SMEs contribute much towards the growth of many economies. For example, recent empirical research has shown that many developing countries rely on small scale business to grow their economies (Hasanat 2020). Currently in South Africa the contribution of SME to the economic growth tends to be a challenge. This is caused by a vast number of SMEs failing to sustain their business due to many factors. (Curristine 2016). Although recent research has shown interest on SME failure, it is still unclear on how SMEs can be assisted to reduce their failures and be more sustainable. This has triggered an interest by the current study to explore on the factors that tend to be barriers to success of SMEs and provide solutions through theoretical and empirical research on how these factors can implemented, controlled, or managed differently to reduce SME failure in South Africa. Some have focused on SME training, government interventions, financial support, and technological adoption as key successful factors for SME growth (Chinomona 2016).

With this has been pointed and deeply researched, it is important to note that SMEs are still experiencing many challenges and failures. It is also clear that many have focused on political factors, managerial factors, financial factors, and economic factors as barriers towards SME success. However, little is known on how these factors can be used as successful factors that can decrease SME failure in South Africa. Recent data indicates that SME failure rates in Gauteng have remained a persistent concern, affecting business owners, employees, and the overall economic landscape. While there is existing research on this issue, it is imperative to analyse the most current and relevant sources to comprehensively understand the problem.

The objective of this research is to identify and assess the factors that lead to SME failures in Gauteng, South Africa, with a focus on recent developments, challenges, and opportunities. This study will seek to provide up-to-date and actionable insights into the key factors that contribute to SME failures, enabling policymakers, stakeholders, and business owners to develop effective strategies to mitigate these challenges and foster the growth and sustainability of SMEs in the region.

To address this issue, a thorough examination of current data, government policies, economic conditions, and business practices will be undertaken. Additionally, interviews and surveys with SME owners and relevant stakeholders will be conducted to gain firsthand perspectives on the challenges and potential solutions. Ultimately, the research will aim to provide evidence-based recommendations that can inform policies and initiatives aimed at reducing the high failure rate of SMEs in Gauteng, South Africa.

1.2 Purpose of the study

Given the current challenges that are faced by SMEs in South Africa, there is great scholarly gap between the interventions and actual factors that are in place to address these challenges. Therefore, the purpose of this study is to explore and address the determinants and interventions to decrease the failures of Small and Medium Enterprises in Gauteng Metropolitan Province, South Africa.

1.4 Significance of the study

This study is vital as it ought to provide solutions by exploring the possible factors that decrease SMEs failure in South Africa. Given the high rate of SME failure in South Africa, it is important to explore on the various factors that can be used by SMEs to reduce their failure as it will reduce the failure rate and improve the economy through employment and globalization.

The significance of a study on the successful factors to decrease failures of Small and Medium Enterprises (SMEs) in Gauteng, South Africa, is multifaceted and holds great importance for various stakeholders, including businesses, policymakers, academics, and the broader society. Here are some key points that highlight the significance of such a study:

1. Economic Impact: SMEs play a crucial role in the South African economy, contributing significantly to employment, GDP, and economic growth. Reducing the failure rate of these businesses can have a direct positive impact on job creation and economic stability in the region.
2. Employment Opportunities: By identifying and implementing successful strategies, SMEs can maintain their operations and potentially expand, leading

to increased job opportunities for the local population. This is especially important in a region like Gauteng, which faces ongoing employment challenges.

3. Poverty Alleviation: Successful SMEs can uplift individuals and communities by providing a source of income, thus helping to alleviate poverty and reduce income inequality.
4. Investment Attraction: A lower failure rate among SMEs can make the region more attractive for both local and foreign investments. This can lead to increased capital inflow and business development, further fueling economic growth.
5. Innovation and Competitiveness: Understanding the factors that contribute to the success of SMEs can lead to the promotion of innovation and competitiveness within the sector, thereby contributing to the overall economic health of the region.
6. Policy Formulation: The study's findings can inform government and policymaker decisions on how to best support and regulate SMEs. This can lead to more effective policies and programs designed to decrease business failures and foster entrepreneurship.
7. Knowledge Sharing: The research can provide valuable insights and best practices that can be shared with SMEs, business associations, and entrepreneurial networks, enabling them to adopt strategies that reduce their risk of failure.
8. Academic Contribution: The study can add to the academic literature on SMEs and entrepreneurship, contributing to the body of knowledge in this field. It can also serve as a basis for further research and scholarly work.
9. Risk Mitigation: A better understanding of the factors contributing to SME success can help entrepreneurs and business owners identify and mitigate risks, leading to more sustainable businesses.
10. Community Well-being: A thriving SME sector contributes to the overall well-being of the community by creating a more stable business environment, improved living standards, and a sense of community pride.

1.5 Research Objectives

Below stated are the research objectives. For the purpose of this study is vital to explore the research objectives

- To assess economic conditions and identify how they can be used to decrease SME failure in South Africa
- To identify the current financial situation of SMEs and assess how they can reduce SME failure in South Africa
- To identify management situations within SMEs and assess how they can decrease SME failure in South Africa
- To address on political situations and how they can reduce SME failure in South Africa.

1.6 Research questions

1. How do economic conditions help to decrease SME failure in South Africa?
2. Do financial situations affect SMEs development? If so, how can financial situations be used to reduce SME failure in South Africa?
3. In what ways can management situations can reduce SME failure in South Africa?
4. How does political situations assist SMEs from failing?

1.7 Hypothesis statement

Based on the above research questions and problem statement the following hypotheses were formulated.

H1: Improved economic conditions reduce SME failure in South Africa.

H2: Favorable financial situations decrease SME failure in South Africa.

H3: Effective management situations lead to reduced SME failure in South Africa.

H4: Supportive political situations assist SMEs in South Africa in avoiding failure.

1.8 Ethical considerations

The following ethical considerations were implemented during the research.

1. Informed Consent:

- The researcher obtained informed and voluntary consent from all participants involved in the study, including SME owners, employees, and any other relevant stakeholders. Ensured that they understand the purpose of the research, their role, and how their data will be used.

2. Privacy and Confidentiality:
    - The researcher safeguards the confidentiality and anonymity of participants by using codes or pseudonyms instead of real names in research reports.
    - Secure all data, both personal and business-related, to prevent unauthorized access or disclosure.
    - Clearly communicate the steps taken to protect the data and ensure it is only used for research purposes.
3. Data Protection:
    - Adhere to data protection laws and regulations in South Africa and any relevant international standards when handling sensitive data.
    - Use secure data storage and transmission methods to prevent data breaches.
4. Cultural Sensitivity:
    - Recognize and respect the cultural norms and values of SME owners and stakeholders in Gauteng. Adapt research methods and questions to avoid causing offense or discomfort.
5. Equity and Fairness:
    - Ensure that research methods are designed to avoid discrimination and bias based on factors such as race, gender, or socioeconomic status.
    - Promote inclusivity and make an effort to include underrepresented groups in the study.
6. Beneficence:
    - Strive to ensure that the research benefits the SMEs in Gauteng by providing valuable insights that can contribute to their success and sustainability.
    - Share the research findings with the participants, as appropriate, and the broader community to promote transparency.
7. Avoid Harm:

- Minimize any potential harm that may arise from participation in the study. Ensure that the research does not put participants or their businesses at risk.

8. Transparent Research Practices:
    - disclose your research objectives, methodology, and any potential conflicts of interest to participants and stakeholders.
    - Make research findings accessible and comprehensible to the wider public.
9. Collaboration and Consultation:
    - Collaborate with local experts, organizations, or government bodies to ensure that your research aligns with the needs and priorities of SMEs in Gauteng.
10. Ethical Review:
    - Seek ethical approval from relevant institutional review boards or ethics committees to ensure that the research is conducted by ethical guidelines.
11. Continuous Monitoring:
    - Continuously monitor and evaluate the ethical implications of the research as it progresses and be prepared to make necessary adjustments.
12. Honesty and Integrity:
    - Conduct the research with the utmost honesty and integrity, avoiding any fraudulent or misleading practices in data collection, analysis, and reporting.

1.9 Conclusion

In conclusion, Chapter 1 has laid the foundation for our exploration into the critical issue of decreasing Small and Medium-sized Enterprises (SMEs) failure in South Africa. This chapter has provided an essential backdrop by introducing the context, significance, and objectives of our study. We have examined the challenges and obstacles that SMEs face in South Africa, such as limited access to funding, regulatory burdens, and market competition, and have highlighted the vital role that SMEs play in the nation's economic development.

Additionally, we have underscored the importance of this study in terms of economic growth, job creation, and poverty alleviation in South Africa. As we progress into

subsequent chapters, we will delve deeper into understanding the specific factors that contribute to SMEs' failures and develop strategies and recommendations to mitigate these challenges. Our research must seek not only to identify these factors but also to provide practical solutions and policy recommendations to bolster the resilience and sustainability of SMEs in South Africa.

This study's ultimate goal is to contribute to a more favorable environment for SMEs to thrive and prosper, paving the way for economic growth and social progress in the nation. Chapter 1 has set the stage for our comprehensive examination, and in the chapters that follow, we will delve into the intricacies of the South African SME landscape, dissecting the multifaceted challenges, and working towards a brighter future for these vital economic contributors.

1.14. OUTLINE OF THE STUDY/RESEARCH FLOW STRUCTURE

This thesis has five chapters with the contents as mentioned below:

CHAPTER 1: Introduction and background to the study

This chapter provides the research background. In particular, it explains the background of the problem, purpose, research objectives, justification, scope, and the significance of the study.

CHAPTER 2: Theoretical review

Chapter 2 Will present the literature review on the proposed variables

CHAPTER 3: Research design and methodology

This chapter will discuss issues such as the sampling technique and method of data collection, while statistical techniques will also receive attention.

CHAPTER 4: Data analysis

This chapter covers descriptive statistics with SPSS and CFA and path modelingmodeling with AMOS was formed subsequently for SEM.

CHAPTER 5: Conclusion and recommendations recommendations

This chapter presents the conclusions drawn from the research findings and the implications of the findings, recommendations, limitations and future research directions.

CHAPTER 2: LITERATURE REVIEW

2. Introduction

The previous chapter provided the background of the study, it also justified its purposes and aim and addressed the research objectives and research questions for this study. This chapter will provide an in-depth view of the literature. Various concepts pertaining the SEMs failure prevention will be addressed.

2.1 Institutional theory

This study borrows from the institutional theory. An institutional theory is a capable path for exploring the borders between businesses or society that have been shaped SMEs in various ways to sustainable growth (Fauzi & Sheng, 2020). Explaining that sustainable pursuits is not primarily a voluntary act, as the performance of firms are featured with several challenges, including government rules and marketplace pressures. Therefore, institutional theory focuses on factors that are externally or internally central within the firm and sustainable innovation. From the institutional theory of sustainable growth for small and medium-sized enterprises, opportunities with normative, coerciveness, and mimetic drivers to influence small and medium-sized enterprises to shape environmental, social or economic decision-making and to legitimise the vision of sustainable business practice (Shibin et al., 2020; Caldera, Desha & Dawes, 2019). Sustainable business practise 'is an aspiration for an increasing proportion of small and medium-sized enterprises around the world, promising profitability, resilience and positive social and environmental impacts' (Caldera et al., 2019)

The institutional theory therefore explains the situations that SMEs operate in which hinders them from success it touches on how the economy, finances, and politics has an impact on business success.

2.2 The SME sector in South Africa

The Banking Association of South Africa (BASA) has identified Small and Medium Enterprises (SMEs) as productive drivers of inclusive economic growth and development in South Africa and around the world (Cornwall & Naughton, 2013). Some researchers have estimated that, in South Africa, small and medium-sized

enterprises make up 91% of formalizedformalized businesses, provide employment for about 60% of the labour force and total economic output accounts for roughly 34% of GDP (Sibanda 2018).

In addition to contributing significantly to the economy, SMEs also contribute to diversification by developing new, unsaturated sectors of the economy (Man 2018). In addition, innovative and technology-based small and medium enterprises can provide a platform for local, regional, and international growth, especially in Brazil Russia India, China and South Africa (BRICS) (Pooe 2017).

South Africa is not the only country that recognises the importance of SMEs. Although the definitions of SMEs differ, their importance is globally acknowledged (Kushnir 2010). In other countries they are recognised as Micro, Small and Medium Enterprises (MSMEs) while in South Africa they are determined as SMMEs. This does not change the importance or benefits to the world's economy. The study, based on 132 economies, shows that globally there are 125 million registered formal MSMEs (SMEs as per the South African concept), including 89 million in emerging markets. Formal SMEs employs more than one third of the total population. This implies that the employment rate within this sector is moderate (Kushnir et al., 2010).

The SMEs dominate almost half of the laborlabor force in the private sector across the globe. They also account for 99% of private enterprises in the European countries and not only that, but a huge contribution has also been noted in the Sub-Saharan economies (Makina et al., 2015). SMEs are regarded as the cornerstone in the reduction of unemployment and poverty worldwide (Nkwinika & Munzhedzi, 2016). Donga et al. (2016) supported this by stating that SMEs are perceived as the keystone in the South Africa context with the potential to reduce unemployment, asset creation, skills development, and attraction of investors.

SMEs comprise over 60% of the South African economy, through job creation opportunities, poverty alleviation, and adding value to the increase of Gross Domestic Product (GDP) (Young et al., 2012). Smit & Watkins (2011) postulate that on average most SMEs experience difficulties in becoming going concern entities, which implies that the existence of SMEs in South Africa hangs in the air without balance as evidenced by the facts addressed above. Unfortunately, the level of support to SMEs in South

Africa remains fragmented and challenging. Increasing attention is needed to revive SME success.

Owners, managers, and the government need to work more coherently to raise the level of business sustainability (Mafini 2018). They must put their heads together to close all the gaps that hinder small business prosperity such as financial, policy, marketing, absence of proper business plans, and environmental challenges amongst others.

The unemployment rate in South Africa is progressively increasing and regarded as very high, with great attention paid to SMEs as part of the solution, with a need for investment for economic revival (Rajaram & Neill, 2009). Lekhanya (2010) further argued that the high unemployment rate is due to the high failure rate of emerging entrepreneurs.

Meyer and Landsberg (2015) have indicated that the unemployment rate in South Africa is unacceptably high. This is due to an uneven income distribution in the economy, population growth rate and low productivity. Small and Medium enterprises are regarded as a great lifesaver in the reduction of the unemployment rate. Makina (2015) pointed to the fact that SMEs' primary objective is the high contribution to economic growth through job creation to the unskilled and semi-skilled individuals who would otherwise remain unemployed. Apart from economic growth, SMEs are regarded as the key drivers of employment and innovation.

SMEs are of great importance in South Africa as they are key role players in poverty alleviation through job and creation and adding to economic prosperity by increasing the Gross Domestic Product (Berry et al., 2002). The latter has also been acknowledged by De Jongh (2012). The proof of job creation was evident by an increase in Gross Domestic Product.

The Bureau for Economic Research (2016) noted the prominence of small enterprises by recognizing them as the key drivers of economic growth and job creation. SMEs, especially those operating in the informal sector help to provide a living to a great number of people. The importance of SMEs has also been noted by Abor & Quartey (2010). SMEs provide benefits as they are regarded as the corner stone by policymakers to speed up economic growth in developing countries.

The high failure rate leaves much to be desired. High failure rate can be mitigated by government intervention through financial support, skills development and any other

form of aid that could assist SMEs. Mahembe (2011) added that SMEs are recognised as key drivers through which the growth of a developing country can be achieved. The growth is recognised by creating more employment opportunities, increase in production, increasing exports and introducing innovation and entrepreneurship skills. SMEs are beneficial to the economy compared to large scale enterprises because of their flexibility.

They easily adapt to diverse market conditions and can withstand different economic conditions (Kayanula & Quartey, 2000). The SMEs in the Maritime industry in South Africa play an important role in economic development as do any all-small businesses in other industries. Their main aims are poverty alleviation, reducing unemployment and inequality. The ocean economy programme framework will help the nation at large to address unemployment, poverty and inequalities in the South African economy (Khanyile, 2016).

SMEs do not fulfil their rationale for existence if they fail at their start–up phase. The challenges faced my maritime SMEs are like those faced by all sector SMES. Gordon et al. (2014) estimated that 75% of SMEs fail within their first 3 years of existence, while Bruwer (2010) estimated a failure rate of between 70% and 80%. Fatoki & Odeyemi (2010) estimated that 75% of SMEs fail at the start-up phase due to a lack of financial access. Most of their loan applications are rejected and they end up relying on internally generated funds that are insufficient to sustain their business needs.

The failure rates of SMEs are attributed to internal and external drivers such as poor managerial skills, limited access to funds, and the lack of a risk assessment background of owner/ managers. Abor & Quartey (2010) concur with the latter when stating that in spite of their potential role of accelerating growth and the creation of jobs in developing countries, many obstacles hinder the realisation of SMEs' full potential.

These obstacles are identified as lack of finance, poor managerial skills, lack of equipment, poor technology, lack of support services and a relatively higher unit cost that can hamper SMEs' efforts to improve their management.

In general, when a business fails, and by implication SME's, the focus is on the financial skills and issues and usually not on other issues (Man 2017). It is mostly assumed that businesses fail due to a lack of cash flow, or not enough revenue without thinking of the other contributing aspects to such a situation. This study will focus on the several

issues, and more specifically skills, of SMEs. In this regard, the problem to be addressed will be on a lack or even incorrect marketing actions by SME's.

This can and will contribute towards the failure of a business and therefore warrants attention. This approach is underscored by amongst others Bateman and Snell (2016) when they argue that they realised something was wrong with the business as the opportunities identified did not match the results they expected. They found that businesses generally could not sustain themselves due to a lack of sufficient cash reserves, and that sales were not enough to generate cash flow due to amongst others a lack of marketing skills or management was ineffective.

2.2. Challenges faced by SMEs in South Africa

2.2 .1 SME Financial Challenges

2.2.1.1 Access to funding

SMEs in South Africa, as well as small businesses in many other parts of the world, have become used to banks and venture capital firms slamming the door in their faces when they look for financing to establish or expand their businesses (Cant 2018). Lack of financing is a perennial challenge for small businesses. Moreover, 63% of South African businesses believe that banks do not provide small businesses with enough funding (Man 2018). It is estimated that just over half of South African businesses need to find alternative sources of funding (Okumba & Mafini 2018).

When running a small business, cash is king and one of the greatest risks is the inability to manage cash flow effectively. CEO of Credit Guarantee Insurance Corporation, Charles Nortje stressed that it does not matter how much profit you are turning, you need to find a way to turn that into cash or your business is not stable (Steven 2019).

Tyler (2019) explained how the brain processes information into routine patterns, which essentially allow us to function effectively. However, these patterns are not conducive to the creation of new ideas, a fundamental aspect of entrepreneurship. Using the principle of 'Provocation' (first introduced by Edward de Bono), Tyler explained how it is necessary to break the 'normal patterns' of thinking and create new neural paths that will lead to new ideas which may initially seem to make no sense. Yusuf Randera-Rees, CEO and founder of the Awethu Project, said SMEs could use transformation as an opportunity to grow their business and at the same time, do good for the country.

Tyler (2019) insisted that in order to see the opportunities brought about by transformation, people need to witness how it adds value to a business after all nobody wants to give away 51% of their business simply to keep a client you already have.

One of the greatest challenges for both SMEs and entrepreneurs is gaining access to markets despite preferential procurement requirements, which means many large corporates, are actually looking to buy from small businesses (Mahlangu 2020). Secondly, it is difficult and very costly for smaller businesses to comply with onerous procurement requirements with the cost of compliance to a small business much higher relative to turnover than it is to a larger company. The panel agreed that without economic growth it was hard for small businesses to create new opportunities. However, for their part, SMEs need to ensure they are market ready and offer a low risk product or service.

Entrepreneurial start-ups frequently crash and burn as soon as they attempt to scale their business, (Goldberg 2022). Entrepreneurship is too often invoked as a panacea to rising unemployment and, while it certainly promises a lot, it rarely delivers on these promises, (Boris 2017). It is useful to learn from the mistakes of others, he said, adding that entrepreneurship is not an armchair sport but requires individuals who are highly proactive with a sense of urgency and are able to spot opportunities.

2.2.1.2 Access to banking services.

For those SMEs with acceptable "credit histories" and sufficient collateral, access to bank credit appears to be satisfactory (Falkina 2017). For start-ups, micro-enterprises, entrepreneurs from previously disadvantaged communities or any other group with limited collateral or weak (or limited) credit histories access is more limited (Falkina 2017). Okumba further noted that this does not necessarily indicate a weakness in the banking environment or in credit allocation. It may indicate a need for greater institutional variety, for increased innovation, and a greater emphasis on mentoring.

Falkina (2017) further identified a number of weaknesses in the competitive environment. This may well mean that with increased competition, the supply of finance and level of innovation could increase, with the consequence that access to finance could deepen and the cost of finance to SMEs could decrease. Another area of concern is SMEs' access to money transfer services and the cost of such services.

The importance of SMEs in the economy expresses itself in their contribution to the GDP and employment, which is likely to be as high as the large enterprises' contribution. SMEs do not contribute to the same extent to capital formation and maybe investing as little as 25 percent of gross capital formation. Within the current context of negative growth in employment creation by both large enterprises and the government sector, SMEs have a major socio-economic role to play.

2.2.1.3 Equity finance.

The size of the enterprise and its stage of growth or development impact its financial needs and determine the most likely suppliers of finance Odinga (2020). Equity finance is important for young, high-growth, and potentially high-risk enterprises. SMEs' participation in the country's venture capital and private equity has been limited to date Sibanda (2020). This may be related to insufficiently developed "exit options" and weak IPO markets. In addition, there is a concern that the international trends of venture-capital investment shifting towards later stages of business development and larger individual transactions will also adversely affect South African small businesses.

The estimations point to a probable contribution to GDP of more than 50%, and a contribution to employment of more than 60% - however, making definitive statements is difficult and estimations vary considerably. However, there is some ambiguity in this observation.

2.3. SME Economic Challenges

SMEs are viewed as the strength of economic growth in all countries including South Africa and creating employment, as well as acting as supplying goods and services to big organizations (Paul, Parthasarathy & Gupta, 2017:328). The World Bank (2015) adds that SMEs contribute approximately 45 percent of employment and 33 percent of the national income in most developing economies. Several factors contribute to the growth of SMEs, including access to finance, market opportunities, the availability of infrastructure and services, entrepreneurial skills, strong government support in the form of partnership formations, leadership, and having a safe and secure environment to do business in (Wonglimpiyarat, 2015:296).

These factors could be referred to as economic determinants which if created through an enabling environment, could lead to increased business growth and potentially increased economic development and growth (Meyer, 2014:26). Adomako, Danso and Ofori Damoah (2012:45) believe that for SMEs to grow, entrepreneurial literacy is needed. In addition, on the importance of SMEs and its link to the economy, Balarezo and Nielsen (2017:4) add that the role of SMEs is limited by the problems related to limited access to lines of credit, especially from banks and other institutions.

The success of a new venture depends on the state of the national economy at the time the business is launched (Baron, 2014; Ligthelm & Cant, 2012:5; Viviers et al, 2011; Nieman, 2016:22, Gurol & Atsan, 2016:28). Examples of the economic factors are discussed briefly below:

2.3.1 Enterprise Density

Enterprise density is defined as the number of firms in each population at a given time and refers to the percentage of existing and possible entrepreneurs (Panco & Korn, 1999:6). In South Africa the enterprise density is low at 2%, meaning there is room for expanding active enterprises, and this low density acts as a disincentive to firms to exit (van Vuuren & Nieman, 1999:2; GEM, 2015:17).

2.3.2 Inflation

Inflation has an effect on entrepreneurship (Viviers et al, 2001:4; Ligthelm & Cant, 2017). South Africa's inflation figure of 11% in mid-2008 means that value of wealth decreases, consumers tighten their belts and thus there are fewer opportunities for entrepreneurs.

2.3.3 Interest rates

Low interest rates facilitate access to capital and thus resources required for entrepreneurship (Ligthelm & Cant, 2012). South Africa's high 15% prime interest rate (in mid 2019) limits both consumption rates and the amount of capital that can be raised (Viviers et al, 2020). Factors affecting SME success

2.3.4 Unemployment

Unemployment impacts on the entrepreneurship process (Viviers et al, 2020). Where there is high unemployment a lot of people are pushed into entrepreneurship for survival (Wickham, 2018; Dollinger, 1999); at the same time because of this high unemployment and limited earnings, markets are naturally limited (Ligthelm & Cant, 2002:5). South Africa's high unemployment rates mean that thereare more people opting for self-employment yet spending power is limited.

2.3.5 Exchange rates

Exchange rates are a major factor in entrepreneurship (Viviers et al, 2020:4; Ligthelm & Cant, 2002:5). South Africa's weak rand means that there is more opportunities inm the export market but that there is less capital for investing in local SMEs.

2.3.6 Taxation

One of the key factors inhibiting SME development is taxation (Robertson et al, 2003:311). If tax rates are high, they reduce the profit incentive drastically (Ahwireng-Obeng & Piaray, 1999:78). In South Africa costs associated with meeting VAT (Clover & Darroch, 2005:242) and corporate tax (Viviers et al, 2001:4) are among the highest in the world. The complexity of the tax system further raises the cost of doing business, as many SME do not have the capacity to administer tax returns and thus need to consult experts for a fee to meet these legal requirements (Luiz, 2002:65).

2.3.7 Change

The ability to deal with change is a key factor in the success of SMEs (Viviers et al, 2001:4), as change and its related uncertainty are where market opportunities lie (Kirzner 1973; Knight, 1964). Change includes rapidly changing technology (Ligthelm & Cant, 2002:37) and changing market forces (Shane & Venkatarman, 2000:220). South Africa re-entry into the global economy after decades of international trade sanctions opened the floodgates of change (Morris & Zahra, 2000:92). Sadly, most SMEs in South Africa lack the capacity to deal with a changing business environment (Strydom & Tustin, 2003:4) and are thus doomed to eventual extinction (Panco & Korn, 1999:7).

2.3.8 The business environment

Positive features of the business environment of a country provide SMEs with opportunities, threats, information and access to role models (Hisrich & Peters,

2002:73; Guzman & Factors affecting SME success (Santos, 2020; Henning, 2013), which are factors determining SMEs / entrepreneurial success (Pretorius et al, 2015; Nasser et al, 2013). Too many shocks in the business environment, however, push risks to unacceptable levels (Themba 2017). The challenge facing most governments is to provide a business environment that supports and promotes a vibrant entrepreneurial culture (OECD, 2018). In South Africa entrepreneurs view the environment as unstable (Viviers et al, 2019:3; Morris & Zahra, 2000:96; Kangasharju, 2010:33).

2.4 SME Political Challenges

In South Africa, the political climate and legal requirements of doing business in a country is a major stumbling block to the development of entrepreneurship (Dockel & Ligthelm, 2015). Examples of the political institutional factors may include macro-economic policies, legislation, frameworks, regulations and laws are factors that can facilitate or hinder entrepreneurship development (Clover & Darroch, 2015;). Appropriate trade, labour, investment and tax policies and regulations can give an enabling environment that encourages investment and sustainability of entrepreneurs as the new source of wealth and job creation in the economy (Ahwireng-Obeng & Piaray, 2018).

On the other hand, a hostile external environment presents legal and regulatory constraints which stifle entrepreneurship and increase the costs of doing business (Finmark, 2016). In South Africa some of the government regulatory laws are considered a threat to the SME sector (Clover & Darroch, 2015). Unavoidably, the challenge facing the new South African government is to institute enforceable rules, regulations, and policies with the aim of promoting a national interest that includes the vibrancy of business enterprise (Ahwireng-Obeng & Piaray, 2017). Although some overregulation is still an issue, South Africa has seen significant trade deregulation that has supported entrepreneurship (Luiz, 2012:55). Factors affecting SME success.

2.4.1 The judiciary

Reliability of the judiciary is important for entrepreneurial development, as it can provide legal protection against the infringement of intellectual property rights, enforce contractual obligations between parties, implement competition laws, as well as administer company law (Ahwireng-Obeng & Piaray 2017). South Africa's judiciary system is strong thus affording businesses some type of protection.

2.4.2 Bureaucracy

Bureaucratic corruption and red tape can significantly increase business costs, as well as the time spent negotiating with corrupt officials makes products and services uncompetitive in the marketplace (Ahwireng-Obeng & Piaray 2017). There is a high level of bureaucracy in South Africa.

2.4.3 Costs of compliance

Most SMEs feel they lack capacity to deal with government requirements in general (Rwigema & Venter, 2014). In South Africa the cost of compliance with legislation is high and is seen as a threat to the SME sector and entrepreneurship (Viviers 2018; Ligthelm & Cant, 2018).

2.4.4 Public support

The government's SME support programmes could ensure that SMEs get ongoing support in the form of knowledge and expertise to ensure growth of the business beyond the initial incubation and early survival (Nasser et al, 2003:399; Ligthelm & Cant, 2012:5). Lack of public sector support has a negative impact on entrepreneurship development in a country (Clover & Darroch, 2015). In South Africa, while the support is typically provided in the form of incentive programmes or inducements to encourage the founding of new enterprises (Mueller & Thomas, 2017), many SMEs have no knowledge about existing government support mechanisms or how to access them (Finmark, 2016). Some SMEs find that services like grants or procurement opportunities are complicated, inflexible or inadequate for actual SME needs (Fielden 2020 & Luiz, 2019).

political instability such as the war in the Congo, the political unrest in Zimbabwe, South Africa's political predominance in the region, a disintegrated regional economy and the instability of emerging markets all negatively affect the business environment, with many SMEs from the region flooding into SA and increasing competition for the local SMEs (Ahwireng-Obeng & Piaray, 2017).

While we may have many initiatives purported to support the creation of the entrepreneurial infrastructure we need in South Africa, building small businesses that contribute to the economy and create jobs remains one of our biggest development

challenges. Our transformation is intimately tied to our support of small businesses and how deliberate we are in addressing barriers to growth and SME financing availability.

2.5 SME Management Challenges

2.5.1 Access to funding

Getting access to start-up capital is a long-standing issue for start-ups and entrepreneurs. Most banks in South Africa are less willing to risk lending money to new businesses and ask for a number of requirements to be met in order to qualify for a business loan (Durrup 2018). This unfortunately means that many SMEs don't meet the strict requirements (Mafini 2020). Few SMEs or start-ups have their own capital to inject into a new business idea, resulting in a very important first roadblock for many entrepreneurs who just need the finance to get potentially very good ideas off the ground.

2.5.2 Poor Infrastructure

South Africa's history of droughts, load shedding and poorly maintained roads and vehicles is a big challenge for start-ups (Okumba 2020). Weak or inconsistent infrastructure halts processes decreases manufacturing times and reduces the ability for entrepreneurs to connect with relevant industry experts online. For many entrepreneurs who already have a limited amount of resources they can give towards manufacturing, delivery and connecting online, it can significantly halt a business's growth.(Mahlangu & Chinomona 2014)

2.5.3 Lack of skills

With many skilled workers leaving the country for better opportunities in developed countries, South African entrepreneurs have a limited pool of people with the right expertise to draw from (Mathu & Pooe 2017). Whether it's finance, sales, law or marketing, start-ups will have to search for the right skills to build their business unless they have worked their way into the right network (Mathu & pooe 2017.

2.5.4 Minimal innovation

With a weak economy, many start-ups are begging out of necessity due to unemployment rather than to plug a hole in the market or disrupt an industry (Gurol & Atsan, 2016). With limited technological resources, funding and skills, SMEs go into survival mode and operate just to make an income and not to change things for the better (Tustin, 2018).

As this is the case, less research and innovation goes into how a business might work optimally for the current market and economic climate, leading to ideas that are less likely to succeed (Edgar 2016). Despite these challenges, several SMEs do survive and make it in South Africa. There are a number of alternative funding resources for small businesses (Mahlangu 2017). This, combined with a problem-solving attitude can lead to a successful business venture. Entrepreneurs must take this attitude to heart and reach out to established SMEs, online network groups and resources to find the best possible towards business success.

The South African government is cognisant of the importance of SME's and has built framework for SME development and support (SEDA 2017). The SME Sector is actively promoted by several Government initiatives, including The National Small Business Act of 1996, which defines SME's and provides for the establishment of the National Small Business Council and the Ntsika Enterprise Promotion Agency (Ntsika)

2.6 Risk management of SMEs In South Africans

Empirical studies show that the attitudes of SMEs towards risks and their risk assessment differ significant from that of large firms. Start-up SMEs usually faces a high degree of uncertainties and the necessity to make quick decisions (Frese et al., 2020). Henchel (2018) states that risk management is a challenge for SMEs in contrast to larger firm they often lack necessary resources, with regard to human capital, data base and specificity of knowledge to perform a standard and structured risk management. Similarly, Matthews & Messeghem (2013) stated that most SMEs do not have necessary resources to employ specialists at every position in the firm. They focus on their core business and have generalists for the administration function.

In contrast to larger firms, in SME one of the owners is often part of the management team. His intuition and experience are important for managing the firm (Dickinson, 2001). Therefore, owner or manager in SME is often more responsible for many different tasks and important decisions. Sparrow (2001) found that risk management practices in SMEs relate to the beliefs and attitudes of founding entrepreneurs. SMEs do not tend to use special techniques to optimize significant risks.

Janney & Dess (2016) noted that SMEs are away from adopting a positive approach towards risk management due to limitations such as inadequate infrastructure, limited

managerial and technical expertise, lack of financial and intellectual resources to generate substantial technological developments and change, weak information networks to locate and recognize information and knowledge that is especially relevant to them, and low investment in research and development. Similarly, a study of Turpin (2012) states that most SMEs have no official risk strategy which is due to problems of communication with of delegating risk management competencies to employees.

2.7. Summary

This chapter provided a detailed literature review, started with a background on SMEs in South Africa. It has provided the information on economic situations faced by SMEs in South Africa, the information from other studies stipulated various situations and also the financial and economic situations as well as political situations. The following chapter will provide research methodology.

2.8 Conclusion

Considering the literature, it is certain that SMEs are regarded as the main contributors to the economy; improve standard of living as well as reducing the unemployment rate. Their success, however, is not something one can really count on as they face many challenges. These challenges are a lack of financial support, poor management skills and poor technological advancement. These challenges will give rise to risks and then lead to poor performance within the SME sector.

The literature reviewed painted a blink picture in terms of measuring the effectiveness of business incubators. Most BIs have a self-reporting system in which their success is reported according to the number of SMEs they supported and graduated from their program, and nothing is about meeting the needs of SMEs or aligning their needs to their beneficiaries' needs. Due to the lack of empirical studies, it is difficult to conclude on how effective BDS is in reducing the failure rate, but given the literature reviewed in this paper, there is a clear misalignment between BIs and SMEs.

There are many studies that show that the biggest need for SMEs is access to markets and access to funding, but these are not the primary focus of BDS providers, thus misalignment and ineffectiveness exist. Getting access to start-up capital is a long-standing issue for start-ups and entrepreneurs. Most banks in South Africa are less willing to risk lending the money to new businesses and ask for a number of requirements to be met in order to qualify for a business loan. This unfortunately means

that many SMEs don't meet the strict requirements. Few SMEs or start-ups have their own capital to inject into a new business idea, resulting in a very important first road block for many SMEs who just need the finance to get potentially very good ideas off the ground.

CHAPTER 3: RESEARCH DESIGN AND METHODOLOGY

3.1 Research philosophy

Research philosophical paradigm are sets of beliefs and practices that regulate inquiry within a discipline by providing lenses, frames and processes through which study is carried out (Steven & Edwards, 2008). In the current study, the philosophical approach of natural scientists is observed in positivism as the study is based on observable social

entities. The research strategy is approached based on data collection and Analysis. These collected data was tested and confirmed which can be used for further research. Another feature of this philosophy is that the positivist researcher follows a highly structured methodology to facilitate the hypothesis. Furthermore, positivism works on quantifiable observations and accordingly statistical analysis is obtained.

3.2. Research Strategy

A structured questionnaire was used as a data gathering instrument. From the questionnaire, items were identified that at face value were believed could contribute to constructing a particular index of SME sophistication. In the context of this study the availability of the data, as well as the original questionnaire used and the sampling frame targeted during the survey, are therefore considered incidental and serves solely to illustrate the purpose of this study. The strategy of inquiry is described as quantitative.

3.3 Research Approach

This study is quantitative in nature. Conducting surveys is one of the most common quantitative research methods. It is a survey that is carried out with one respondent at a time. Quantitative data was be collected in a variety of ways. In experimental settings, data was directly collected. Questionnaires and self-administered wwereused to collect quantitative data by asking respondents to report experiences, demographics.

3.4 Research design

Research design can be defined as the blueprint within which research is conducted. According to (Boru, 2018) research design is the procedures for collecting, analysing, interpreting, and reporting data in research studies. In this study a quantitative methodology was be used to collect data from the chosen SMEs. Quantitative methodology was chosen due to the number of SMEs in South Africa; therefore the researcher aims to have a quantity survey to have as many opinions as possible to validate the results.

3.5 Target population and sampling

In research, population refers to the aggregate of all the units that are eligible to participate in a study (Creswell & Plano 2007:112; Salkind 2012:95). The target population for this study is SMEs that are registered on SEDA and those who operate in the Gauteng region. The reason for the chosen population is for easy access and Gauteng being the golden city with various types of SMEs.

3.6 Sample Frame

A sampling frame is a researcher's list or device to specify the population of interest, in other words it's a list from which units are drawn from a population to sample. A simple random sampling method was be used to select SMEs from the provided data and list of those registered under SEDA and those who operate in the Gauteng region. This is because it provides the techniques to recruit participants who can give in-depth and comprehensive information about the topic investigated.

3.7 Sampling Size

Sample size refers the number of participants or observations included in a study. According to (Kaur, 2021) it is the act of selecting several observers or duplicates to include in a statistical sample. He also added that it assists greatly in the increasing quality of evidence-based research. The sample size for this study was 150 SMEs. Since the study is quantitative 150 was valid for the purpose of validity results as Zhu (2008) states that when using SPSS the larger the data sample the better results you produce.

3.8 Research instrument

The research instruments are regarded as the research mechanisms that serve the purpose of questioning or collecting data from the respondents (Chinomona 2014). In this study, a questionnaire was designed using adopted questions from previous researchers. The researcher suggested adopting the questions from previous studies for ease of use. For example, using primary data maybe time-consuming since a pilot study should be done and confirm the reliability and validity of measurement items (Zhu 2008). Since this research is quantitative, A questionnaire was designed to collect the data. A questionnaire was designed using adopted measurement items from previous researchers. The questionnaires were designed in a manner of a five-point Likert scale (1 strongly disagree to 5 strongly agree). In this manner mean values were generated. To measure political situations 5 measurement items were used and were adopted from

Omoroyi (2014), and 5 measurement items were used to measure managerial situations, financial situations, and economical situations and these were adopted from a study by Kaur (2018).

3.9.1 Data collection

For the purposes of this research, in questionnaires were used. The advantage of questionnaires is that they give the participants the freedom to read and answer (Fisher, 2015, Wilson, 2013). The questionnaire was web-based and self-distributed to several SMEs around Gauteng. For simplicity, the questions were created in a more accommodative way using simple vocabulary to avoid confusion. The participants were given more freedom in the manner they answered and were encouraged to be as honest as possible. After data was collected it was then coded int excel sheet in preparation for data analysis.
Below are some different methods that were used to collect data:
Surveys or questionnaires created using online survey software are playing a pivotal role in online data collection be is quantitative or qualitative research. The surveys are designed in a manner to legitimize the behavior and trust of the respondents. More often, checklists and rating scale type of questions make the bulk of quantitative surveys as it helps in simplifying and quantifying the attitude or behavior of the respondents.

There are two significant types of survey questionnaires used to collect online data for this study.

Web-based questionnaire: This is one of the rulings and most trusted methods for internet-based research or online research. In a web-based questionnaire, the receive an email containing the survey link, clicking on which takes the respondent to a secure online survey tool from where he/she can take the survey or fill in the survey questionnaire. Being a cost-efficient, quicker, and having a wider reach, web-based surveys are more preferred by the researchers. The primary benefit of a web-based questionnaire is flexibility; respondents are free to take the survey in their free time using either a desktop, laptop, tablet, or mobile.

Mail Questionnaire: In a mail questionnaire, the survey is mailed out to a host of the sample population, enabling the researcher to connect with a wide range of audiences. The mail questionnaire typically consists of a packet containing a cover sheet that introduces the audience about the type of research and reason why it is being conducted along with a prepaid return to collect data online. Although the mail questionnaire has a higher churn rate compared to other quantitative data collection methods, adding certain perks such as reminders and incentives to complete the survey help in drastically improving the churn rate. One of the major benefits of the mail questionnaire is all the responses are anonymous, and respondents are allowed to take as much time as they want to complete the survey and be completely honest about the answer without the fear of prejudice.

3.10 Reliability and validity

In quantitative paradigm researchers always attempt to delimit phenomena into measurable or common categories that can be applied to all the subjects (Winter, 2000). Therefore, construction of instrument(s), and administration in standardized manner based on the predetermined procedures is the primary requirement of quantitative researchers. But the question is if the measuring instrument measures what it is supposed to measure. In the broadest sense, (Salkind, 1997) the validity of an instrument is on focus. The most important issue in the research is to ensure reliability and validity. Joppe (2000) defines reliability as: "The extent to which results are consistent over time and an accurate representation of the total population under study is referred to as reliability and if the results of a study can be reproduced under a similar methodology, then the research instrument is considered to be reliable". Kirk and Miller (1986) identify three types of reliability referred to in quantitative research, which relates to:

- The degree of consistency of results
- The stability over time
- The similarity within a given time period.

Salkind (1997) defines reliability as something that is reliable was perform in the future as it has in the past. A reliable test or measure of behavior can measure the same thing more than once and was result in the same outcome.

3.11 Data analysis and procedures

The data analysis was commenced with the coding of the data from the questionnaire into the Microsoft excel spreadsheet. Descriptive statistics with Statistical Package for Social Sciences (SPSS) version 24.0 and path modelling with Analysis of Moment Structures (AMOS 24.0) was formed subsequently for SEM. SEM demonstrates and tests the theoretical linkages of a proposed study and the significance of the relationships between the constructs (Hair, *et al* 2010:20). SEM stipulates a technique where separate relationships are allowed for each set of dependent variables, and it provides an estimation technique for a series of separate multi-regression equations to be estimated simultaneously. By assessing each relationship simultaneously, rather than separately, an incorporation of all the multi-scale items can be used to account for measurement errors within each scale (Hair *et al* 2010:20).

The Kruskal-Wallis and Mann-Whiteney U tests was be utilised to establish whether respondents varied in terms of green packaging management. The fitness of the measurement and structural model was be examined using absolute fit indices that was include the chi-square value over degree of freedom, the goodness-of-fit index (GFI), RMSEA and incremental fit indices, that is, the comparative fit index (CFI) and Tucker-Lewis index (TLI).

3.12 Ethical consideration

For most professions, ethical codes in research are an integral part of their overall ethics, though some research bodies have evolved their own codes (Kumar 2015: 216). In this study, the following ethical issues were examined as they relate to participants:

• **Informed consent** – Participation voluntary participated and based on sufficient information and an adequate understanding of the research and the consequences of their participation. This implies that the researcher disclosed all relevant information and any possible risks of participation, especially issues around what will happen to the data obtained.

• **Voluntary participation and no coercion** – As implied by the principle of informed consent, participation was voluntary and not subject to any coercion or threat of harm for non-participation. Non-coercion was taken to mean that there should not be payments for participation; however, any such payment should be commensurate with

the amount of time and normal income expectations of the participants and should not be excessive such that it would constitute a bribe or inappropriate inducement.

• **Right to withdraw** – Consistent with the principle of voluntary participation, participants must know that they can withdraw at any time and have any of their data already recorded removed from the analysis where this is possible.

• **Full disclosure of funding sources** – An implication of the principle of informed consent is that there must be full disclosure of the sources of funding for the research.

• **No harm to participants** – It is fundamental that no harm must come to participants because of their participation in the research. This means not only that participant must not be exposed to pain or danger during the research (such as in a psychological experiment or medical trial), but also that there must be no adverse consequences to a person as a result of their participation.

This latter issue can be complicated. For example, a researcher cannot guarantee that an employer would not act against an employee for their participation or for comments they might make, although such a risk should be addressed by ensuring the anonymity and/or confidentiality measures discussed below. At the very least, the researcher must do their utmost to protect participants from any harm, and to ensure under the principle of informed consent that the participant is fully appraised of all possible risks from participation. Sometimes, participation in social research was necessarily cause a participant to reflect on personal issues, bringing about emotional distress. Here the researcher's obligation is to ensure that the research interaction does not finish until there is some resolution of the emotional distress that has arisen, and that there is recourse to follow-up assistance or counselling.

3.13 Summary

This chapter provided the research design and methodology for this study. The chapter explained and justified the chosen quantitative methodology and provided with the research philosophy that was adopted. Furthermore, the data collection procedures were provided and explained in detail. Chapter 3 provided the target population, sample size,

sampling frame and research instruments. The following chapter will provide the analysis of the results that was generated in this chapter.

CHAPTER 4: DATA ANALYSIS AND INTERPRETATION

4.1. Introduction

Previously, research methodology, research design, target population, sample size, sampling methods and data collection were presented. The current chapter start by providing the data analysis procedures. The presented data are based on the quantitative data, which were collected from the chosen small and medium enterprises in the Gauteng region in South Africa. The demographic frequency tables and charts was initiate the analysis by providing information regarding the type of organisation, the size of the SMEs, ownership, and number of employees. The second part of the analysis was present data on managerial factors that prevents SME failure. Furthermore, the chapter was proceeded by presenting the information on Economic factors and political

factors. The chapteprovidingprovide information on the reliability and validity of the study as well as regression weights using CFA.

4.1.1. Response rate

In survey research, response rate, also known as completion rate or return rate, is the number of people who answered the survey divided by the number of people in the sample. It is usually expressed in the form of a percentage. The term is also used in direct marketing to refer to the number of people who responded to an offer. In this study a total number of 8000 SMEs registered on SEDA in SA were deemed to be a good sample frame. From the 800 SMEs, 150 SMES were chosen randomly based on the accessibility and permission from the directors of the SMEs. Therefore, 18 percent response rate was achieved in the current study.

4.2. Demographic information

4.2.1. Number of employees

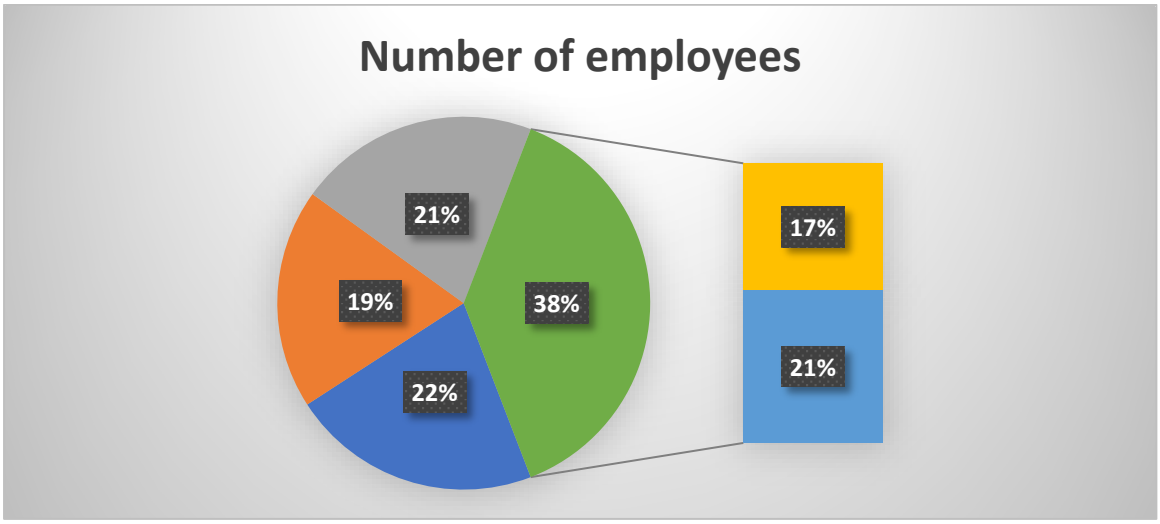


Fig 4.2.1: Number of employees (own source)

As shown in Figure 4.2.1, the results meant for the number of employees employed by the surveyed SMEs in the Gauteng region in South Africa are provided. A maximum number of 150 SMEs were chosen as a sample size. The results clarify that out of the 150 participated SMEs 21 percent (10 SMEs) employed a maximum number of 50 employees, 19 percent of the SMEs employed a maximum of 100 individual 21 percent of the SMEs employed a maximum of 200 employees and 20.9 percent of the SMEs employs 98 individuals. Given the above results, the majority (38) of SMEs are certified to be large SMEs as they employ many employees as compared to other SMEs. According to Chen (2014:234), a company's size is determined by the number of its

employees. Therefore, the above information stipulates that the majority of the SMEs in Gauteng are large SMEs rather than SMMEs.

4.2.2. Type of business

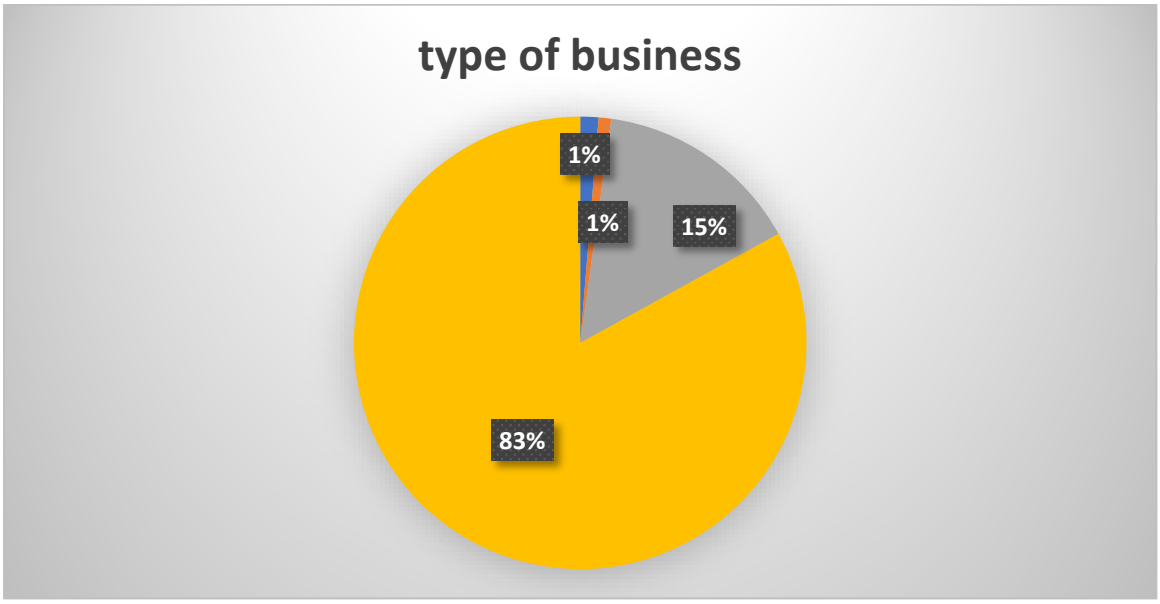


Fig 4.2.2. Type of ownership (own source)

Figure 4.2.2 presents information on the type of business of the sampled SMEs for this study. Evident from the results, the least of the SMEs from those who participated in the current survey are sole proprietors and corporative, which constitutes the lowest percentage of 1 percent irrespectively followed by close corporations which constitutes a valid percentage of 15 percent. Lastly, most of the SMEs are private SMEs with a valid percentage of 83 percent. Given these figures and results, it can be concluded that most of the SMEs in the Gauteng region are privately owned. These results are in line with the findings by Mahlangu (2016) where most of the SMEs in South Africa privately owned hence, they experience so many challenges on startup and sustainability.

4.3. Analysis of variables

4.3.1. Managerial situations on SMEs failure

Item	Description	Strongly Agree (%)	Agree (%)	Neutral (%)	Disagree (%)	Strongly Disagree (%)
MS1	Insufficient domain of the business method took the venture to fail	108(72%)	19(13%)	15(10%)	3(0.02%)	5(0.03)
MS2	Being the only person controlling everything overload the work and took the business to failure.	95 (63)	32(21)	12(0.08)	15(10)	8(0.05)
MS3	Ineffective and inefficient communication with employees took the business to failure.	81(54)	39(26)	18(12)	9(0.06)	3(56.5)
MS4	Insufficient business management experience took the business to failure.	75(50)	28(19)	16(11)	11(0.07)	20(13)
MS5	Ineffective and inefficient communication with customers, suppliers, or other outside organisations took the business to failure.	108(72)	30(20)	10(0.06)	2(0.01)	0

Source: own compilation

Table 4.1: Managerial situations

Information obtained in Table 4.3.1 presents that among the 150 respondents, two respondents for every three strongly agreed towards the impact of lack of managerial skills and knowledge on business success. The questionnaire was designed to generate information on various managerial aspects that can impact a business. Out of the 150 despondences, it is evident from table 4.3.1 that many SMEs have managerial challenges, and most of them a owner/individually managed. Lack of support from the government and business support mechanisms may lead to SMEs not affording to hire

managers with experience due to affordability. Also, it was raised that communication skills are very important for customer care and satisfaction. SMEs need support in terms of training of staff member and the owners to acquire skills and knowledge that will help them to sustain their businesses.

Approximately 70 percent (n = 108) of the respondents either strongly agreed or agreed that SMEs are struggling with management and communication skills. A study by Mafini and Dlodlo (2014) further supports these findings where it stipulate that if business owners lack managerial skills and knowledge they are more likely to fail. Also, Mahlangu (2017) found out that most SMEs are struggling due to a lack of management skills and knowledge.

4.3.2. Economical situations

4.3.3. Table .2: Economical situations

Item	Description	Strongly Agree (%)	Agree (%)	Neutral (%)	Disagree (%)	Strongly Disagree (%)
ES1	The whole set of strict procedures in licensing the business in pre-start-up stage consumed all the money and contributed to failure.	82(55.0)	38(25.0)	10(0.06)	5(0.03)	5(0.03
ES2	Shortage of skilled people in the area made it difficult to obtain a qualified employees and contributed to the failure of business.	81(53.0)	36(22.7)	12(0.08)	8(0.05)	5(0.03)
ES3	The inadequate supplying of water and electricity in the area increased the operations cost and took the business to failure.	79(52.0)	39(25.3)	19(0.16)	7(0.43)	6(0.04)

ES4	Insufficient support of the economy in the purchase of raw material took the business to failure.	(55.5)	28(12.1)	(24.3)	(4.8)	(3.3)
ES5	Inadequate infrastructure conditions where the business was located made it difficult for consumer to buy goods.	(55.9)	(15.8)	(20.8)	(5.7)	(1.8)

Source: own compilation

Table 4.2: Economic conditions

Table 4 is a statistical summary constructed based on economic conditions that mainly impact SMEs from the respondents. For every item under economic conditions, more than 60 percent of the respondents either agreed or strongly agreed to the questions posed. None of the questions asked was contrasting another.

Most of the respondents either agreed or strongly agreed that there their SMEs are suffering from the current economic conditions. Some of the factors incudes; the whole set of strict procedures in licensing the business in the pre-start-up stage consumed all the money and contributed to the failure, inadequate supplying of water and electricity in the area increased the operations cost and took the business to failure. insufficient support of the economy in the purchase of raw material took the business to failure and Inadequate infrastructure conditions where the business was located made it difficult for consumer to buy goods. It is evident that economic conditions posed for SMEs in Gauteng makes it difficult for them to operate effectively, if these economic conditions are to be addressed, they can create a better way and solutions that prevent SMEs failures.

4.3. Financial situations

Item	Description	Strongly Agree (%)	Agree (%)	Neutral (%)	Disagree (%)	Strongly Disagree

						(%)
FS1	Insufficient financial accounting skills took the venture to failure.	49 (21.3)	49(17.1)	12(52)	15(2.2)	25(7.4)
FS2	Insufficient control of the business resources (finance, raw material or finished product, equipment) contributed to the failure of the business.	57(24.7)	66(28.9)	74(32)	16(7.1)	17(7.3)
FS3	Using a unique account for business and personal use contributed to the failure of the business..	66(28.8)	74(32.3)	45(19.3)	16(7.1)	29(12.5)
FS4	Less capital for cash flow in start-up stage contributed to the failure of business.	131(56.8)	53(23.2)	2(1)	30(13)	14(6)

Source: own compilation

Table 4.4: Financial Situations

Table 4.4 presents the results of responses based on financial situations obtained from the respondents. There was a sharp decline in positive responses to most of the items in this section compared to other sections. Half of the respondents were neutral if their SMEs' financial conditions were adequate to sustain their businesses. In other words, not all SMEs are struggling due to lack of financial management, rather they have indicated that financial support and access is a major challenge in their businesses, in some cases they cannot compete with other SMEs globally due to finances. Therefore, if more access is to be granted to SMEs it will be easier for them to operate effectively without failing.

4.5 Reliability tests

Reliability refers to the similarity of results provided by the independent but comparable measures of the same object or construct, or an index of consistence (Iacobucci & Churchill 2010:258). In this study, the researchers employed item-total correlation values, Cronbach's coefficient alpha (α), Composite Reliability (CR), and Average Variance Extracted (AVE) to check the measurement validity. A test is seen as being reliable when it can be used by several different researchers under stable conditions, with consistent results. Reliability reflects consistency and replicability over time. Furthermore, reliability is seen as the degree to which a test is free from measurement errors since the more measurement errors occur the less reliable the test (Fraenkel & Wallen, 2003:456).

In the same way, Maree (2007:149) asks how far the same test would produce the same results if it was administered to the same children under the same conditions. This helps the researcher and educator to make comparisons that are reliable. The more errors found in an assessment the greater its unreliability and visa-versa. Reliability is a very important factor in assessment and is presented as an aspect contributing to validity and not opposed to validity. Messick (1989:7) transformed the traditional definition of validity with reliability in opposition - to reliability becoming unified with validity. Thereby Messick (1989:7) has accepted a unified concept of validity, which includes reliability as one of the types of validity; thus contributing to the overall construct validity. As Messick (2012:200) states: Hence, construct validity is a *sine qua non* in the validation not only of test interpretation but also of test use, in the sense that relevance and utility as well as appropriateness of test use depend, or should depend, on score meaning.

4.6. Cronbach's coefficient alpha

The Cronbach's alpha value is an index that is used to measure the internal consistency of all the items that measure the same construct. It reflects on the method of domain sampling.

According to Iacobucci and Churchill (2010:259), Cronbach's coefficient α is one of the most common internal stability approaches that determine the mean reliability coefficient for all possible ways of splitting a set of items in half. Accordingly, Cronbach α is the most used approach for assessing the reliability of a measurement scale with multi-point items. The value of α, which ranges from zero to one, signifies the level of reliability in the measurement. The closer the value of α is to one, the higher the level of reliability. Alternatively, where the value of α is low, there may be too few items or little homogeneity among the items, although there are no fixed rules for evaluating the magnitude of reliability coefficients and, as such, depend on the purpose of the study (Iacobucci, *et al* 2010:259). The coefficient α for the different constructs in this study is computed using the reliability procedure in the SPSS (version 24) software.

The researcher tested the internal reliability of each construct using the standardized Cronbach's coefficient alpha, where a higher level of Cronbach's coefficient alpha showed higher reliability of the measurement scale. Higher item-total correlations were employed in complement of the Cronbach's coefficient alpha and they revealed statistical agreement among the measured items. The results of scale reliability tests are shown in Table 4.7.

Table 4.7: Accuracy analysis statistics: Cronbach's coefficient

CONSTRUCT	CRONBACH ALPHA VALUE
Managerial situations (MS)	0.879
Economical situations (ES)	0.8.54
Financial Situations (FS)	0.896
Political Situations (PS)	0.823

Source: own compilation

Table 4.7: Accuracy analysis statistics: Cronbach's coefficient

Table 4.4.7 stretched information on reliability statistics. In lieu of the current study's purpose, the Cronbach alpha value is used to measure the internal consistency of all the items that measure SME failure prevention mechanisms. An average threshold of 0.7 was used to check the internal consistency of the constructs. Evidently, Nunnally and Bernstein (1994:24), observed that if Cronbach alpha value exceeded the recommended threshold of 0.7 it satisfies the reliability of the research measures. It is shown in Table 4.4.7 that financial situations have a value of 0.879 while economic situations constitute a value of 0.854. Although all the constructs exceeded the recommended threshold, political situations generated the highest alpha value with a valid value of 0.896 Additionally, in the study, the tests revealed that all constructs have Cronbach's alpha values above 0.8, which noticeably means that all constructs have good internal consistency. Thus, refining the items to increase the reliability of the study was not required.

4.8. Composite reliability

Composite reliability (CR) index is collectively used to check the internal consistency of the measurement model. It is calculated using the following formula: (CR): $CR\eta = (\Sigma\lambda yi)2/[(\Sigma\lambda yi)2+(\Sigma\varepsilon i)]$, where $CR\eta$ = CR, $(\Sigma\lambda yi)2$= square of the summation of the factor loadings; $(\Sigma\varepsilon i)$= summation of error variances (Hair *et al*., 2010:22). The resultant coefficient is then compared with and must be like that of the Cronbach's α. Consequently, it is recommended that the threshold for the CR value be 0.7 (Hair *et al*., 2010:22).

In this study, CR was performed using index test to evaluate the internal reliability of each construct. Previous studies by Nunnally, *et al* (1994:23) and Hair *et al*. (2010:50), advocate that a CR index that is greater than 0.7 depicts an adequate internal consistency of the construct. Using the formula given earlier to calculate composite reliability, the results were found and tabulated in Table 5.8.

Table 4.8: Composite reliability

Accuracy Analysis Statistics: Composite Reliability Research Construct	**Composite Reliability**

Economical situations (ES1 -ES5)	0.76
Financial situations (FS1 – FS5)	0.87
Managerial Situations (MS1 -MS4)	0.75
Political Situations (PS1 – PS5)	0.88

Source: own compilation

Table 4.9: Composite reliability

4.*9*.1 Validity Tests

Construct validity was done for this study. It is concerned with whether an instrument or test measures the attributes that it is supposed to measure, given the context in which it is applied. It can be defined as the extent to which differences in observed scale scores reflect true differences between objects on the characteristics being measured, rather than systematic or random errors (Cant 2013). For this study validity was necessary to check the accuracy of the measurement items. Since one never has direct evidence of the true value of the concept under measurement, validity assessment is a complex issue. Hence, there are three basic approaches employed in this study to estimate the validity of an instrument: content validity, predictive validity and construct validity. However, for this study, the focus is primarily on testing construct validity

4.*9*.2. Construct validity

Construct validity lies at the very heart of scientific and pragmatic progress (Iacobucci & Churchill 2010:257). It is concerned with the extent to which a measure relates to other measures to which it should be related (Hair *et al.,* 2010:45). To establish this type of validity, two categories of construct validity normally need to be determined: convergent validity and discriminant validity. Factor analysis is a common evaluator of both convergent and discriminant validity. Factor analysis is an interdependence analysis tool that simplifies data analysis by taking advantage of the correlations among the p-variables, extracting the data that overlap and reducing the problem to just a few core variables (Iacobucci, *et al* 2010:491). Convergent validity is an element of construct validity.

4.9.3. Convergent validity

Convergent validity refers to the extent to which the scale items show homogeneity within the same construct being measured (Zhu, Ma & Zhao 2010:140). Preferably, an item is expected to highly correlate with other items that measure the same constructs (convergent validity). In contrast, it is expected that these items do not correlate too highly with items that measure different constructs (discriminant validity) (Iacobucci & Churchill 2010:258). Convergent validity was assessed by checking whether individual item loadings for each corresponding research construct were above the recommended value of 0.5 (Anderson & Gerbing 2011:47).

The results indicated the factor loadings which ranged from 0.62 minimum to 0.89 maximum value. Therefore, all the items finally used had a loading of more than the recommended threshold of 0.6, indicating acceptable individual item convergent validity, as more than 60 percent of each item's variance was shared with its respective construct. This evidence supported the convergent validity of all scale items. Furthermore, the CR was above the recommended threshold of 0.6, therefore, further validating the existence of convergent validity. Convergent validity complements discriminant validity.

4.9.4. Discriminant validity

Yin (2013:228) defines discriminant validity as to the extent to which scale items show heterogeneity between different constructs and it ensures that measures of unlike constructs load on separate constructs. This study employed the correlation matrix and the chi-square CFA test methods to check the discriminant validity of the research constructs.

4.9.5. Correlation Matrix:

When research concepts are different their correlation value should be less than one (1.0). Yet, a correlation value between constructs of less than 0.7 is advocated for in the empirical literature to confirm the existence of discriminant validity (Nunnally 1994:10) Otherwise, discriminant validity related to the correlation matrix can be tested

by checking whether the AVE for two constructs is greater than the square of the correlation between the constructs. The discriminant validity of the research constructs in this study was checked by evaluating whether the correlations among the latent constructs were less than 1.0. Table 5.11 provides examples of assessing discriminant validity.

Table 4.10: Correlations between constructs

	MS	**FS**	**ES**	**PS**
MS	1.00			
FS	.797***	1.00		
ES	.878***	.738**	1.00	
PS	.732	.729	.612	1.00

4.8. Summary

Chapter 4 attended to six main issues, namely normality and linearity, descriptive analysis, testing for measurement accuracy, and checking that the models fit to the specified sample data. It also addressed the testing of the proposed hypotheses made using SEM. Generally, the measures were found to be adequately acceptable, therefore, reliable and valid. In addition to this, the findings of the research model constituting this study indicate that the specified sample data fit the conceptualized model well. The implications of these research findings and an overall conclusion are provided in Chapter 5.

CHAPTER 5: RECOMMENDATIONS AND CONCLUSION

5. Introduction

Reflecting on the previous chapters, it is important to reiterate what the set goals were and what was achieved practically toward answering the research problems. In Chapter 1, it was noted that the objective was to obtain information on the factors that reduce SME failure in South Africa. To do this, a literature review was conducted to serve as a backdrop to this research. Chapter 2 covered the theories on the causes of small business failure and possible solutions to those factors. Chapter 3 then highlighted some key issues that needed to be addressed to enable a locally based explanatory model to be developed. In this study, the thrust of Chapters 3 and 4 was the need to place the perceptions of the owners of small and medium enterprises at the center of the research to satisfy one of the key principles of realist research requiring researchers to always endeavor to interpret hermeneutically the texts of research. In this chapter research findings and recommendations will be provided by further interpreting the results obtained in the chapter pertaining the SMEs.

5.2 Research findings

The aim of this study was to investigate successful factors to reduce SME failure in South Africa specifically in the Gauteng region. The study seeks to address four factors namely; economic situations, managerial situations, political situations, and lastly financial situations that reduce SME failure in South Africa. Since the current study was quantitative several methodological processes had to be followed to satisfy the purpose of this study. A sample size of 150 SMEs was drawn from the SEDA database and only those SMEs who are registered were chosen. The questionnaire was designed, and it was distributed physically and via email. Four main objectives were set to be answered in this research.

After conducting literature and collecting the data the following findings on the objectives were discovered.

5.2.1 To determine the managerial situations that reduce SME failure

The above objective tends to address the managerial factors or situations that can be used to reduce SME failure in South Africa. Based on the literature it was discovered that there are various factors and situations that suppress SMEs to be sustainable, these

factors can also be possible solutions if they are addressed differently. Firstly, Both the literature and the findings show that most SMEs fail because of a lack of management skills. Currently, in South Africa, most of SME owners have limited knowledge and managerial skills on how to manage and implement different sustainable strategies in their businesses. According to Mafini (2018), most successful businesses are well-managed and structured and are owned by individuals with the required skills in the industry. Managerial skills differ as they include and are not limited to proper planning, strategizing marketing, competing, and communication. It is without a doubt that if SME owners and employees are given these skills it was improve the way business is conducted and eliminate the risk of failure. Therefore, managerial situations can be solutions to SME failure if the proper skills are provided and implemented properly.

5.2.2 To determine the economic situations that reduce SME failure

The second objective aims to investigate economical situations that can reduce SME failure in South Africa. Information was obtained from both literature and analysis of the data collected in Chapter 3. Although some researchers argue that it is difficult to analyse the economic as a unidimensional factor (Chinomona 2018), it was found that most of macro economic factors affect SMEs and these include inflation rate, lack of funding, unemployment rate, and global competition. Most of the SME owners disclosed that inflation rates are affecting their businesses as it weakens the rand power. Although SMEs are operating locally most of the products are not locally manufactured and this forces them to operate outside their boundaries. This then requires the government to provide with funding as a support mechanism to assist those SMEs that were be struggling financial. From the results, it is clear that the fuding from the government is not as easily accessible due to various factors. If viable structures are set to control and implement funding for SMEs this was reduce failure during tough times such as inflations, taxes, and pandemics.

5.3.3 To determine political situations that reduce SME failure

The third objective was to determine the political situations that reduce SME failure in South Africa. As for late, South Africa is faced with more political challenges that have led to unrest, corruption, and withdrawal of most reliable investors. It is evident from the literature that corruption and abuse of power is a major problematic political factor. The corruption goes beyond the unequal distribution of funds. The businesses also

suffer from other tariffs such as rentals and rates from the municipalities that keeps on raising. Minimum wage proposals and business licenses that control operating hours also has an impact on SME performance. From the results obtained it is clear that if there are more transparent ways of distributing and access to funding it was assist SMEs to sustain their businesses and also eliminate corruption.

5.3.4 To determine financial situations that reduce SME failure in South Africa

On the basis of the findings, it is clear that financial reporting and the credibility of the reports affect the stability and the sustainability of SMEs. The inadequacy, inexperience and lack of knowledge of staff who deal with financial reports, poor administration, and lack of control of financial processes including lack of current knowledge and information about accounting software are the key factors that negatively impact the stability and consequent sustainability of SMEs. Prior research shows that accounting information systems are crucial in managing transactions of the organization. Therefore, the contributions of proper financial reporting was accurately assist SMEs in tracking financial information to determine the effectiveness and efficiency of their operations. However, neglecting to comprehend or track financial information can rapidly prompt risky business circumstances, for example, low income or the likelihood of insolvency.

5.4 Theoretical findings of the study

The current challenges of SME failure are associated with a lack of transparency in the economy (Wen Land 2018). The findings further explained that, if proper economic administrative and transparency are to be implemented, it will provide a sound and comprehensive economic planning and the alternation of policies in the economy. Samsami and Salem (2016) viewed that, the availability and quality of the financial information of companies are key factors influencing investors' investment decisions (Wen Land, 2018). Financial situations is related to financial issues such as the accuracy of the information, the completeness of information, and its timeliness (Vishwanath & Kaufmann, 2016). There are various reasons for SME managers to focus on financial situations, particularly financial transparency and investment. For example, given the degree of the market investment risk for SMEs, investors intend to move on with accurate and relevant information about their operations and financial health. The information is attributed to the bank loans, capital partnerships with the

current or new shareholders, joint investment with suppliers, customers, or domestic or foreign competitors, proceeds from the sale of a part of the company, etc. if such information is provided to SMEs this can reduce failure in their operations. The political situations affect the business at large, depending on the political policies and transparency of a country, for SMEs to succeed these political challenges need to be addressed and be more favorable in the interest of the SMEs and other private businesses.

5.5 Contribution of the Study

This study contributes theoretically and empirically to the board of knowledge by providing solutions to SMEs that will enable them to reduce operational failure. The study focused on four main factors namely: economic situations, financial situations, managerial situations, and political situations that can be used as enablers to reduce SMEs failure in South Africa. The study provided both scholars, government, and managers of SMEs with theoretical knowledge on how the four mentioned factors can be beneficiary to SMEs and avoid failures. This study is also important as it is the first study to explore these factors as possible solutions to SMEs whilst other studies have posed them as a threat to SMEs.

5.5 HYPOTHESIS FINDINGS OF THE STUDY

H1: Improved economic conditions reduce SME failure in South Africa: The research conducted on the relationship between improved economic conditions and SME failure in South Africa has yielded compelling evidence in support of the hypothesis. Analysis of relevant data has consistently demonstrated that as the overall economic environment improves, SMEs are better positioned to weather challenges and sustain their operations. Notably, during periods of economic growth and stability, SMEs in South Africa exhibit higher resilience and a decreased likelihood of failure. This finding underscores the crucial role of a robust economic framework in fostering a conducive environment for the growth and sustainability of small and medium businesses in the country.

H2: Favourable financial situations decrease SME failure in South Africa: The research investigating the impact of favourable financial situations on SME failure in South Africa has revealed a strong correlation between sound financial health and reduced rates of SME failure. By ensuring access to adequate financial resources,

including capital and credit facilities, SMEs are better equipped to meet their operational needs, expand their business activities, and navigate through challenging market conditions. Empirical data consistently demonstrate that SMEs operating within a supportive financial landscape experience enhanced stability and are more capable of withstanding economic fluctuations, thereby contributing to the overall economic development and resilience of the South African business landscape.

H3: Effective management situations lead to reduced SME failure in South Africa: An in-depth analysis of the management practices within the context of SMEs in South Africa has emphasized the critical role of effective management in mitigating the risk of business failure. The research findings unequivocally indicate that SMEs led by competent and strategic management teams are better positioned to identify and capitalize on emerging opportunities, implement robust risk management strategies, and foster a culture of innovation and adaptability. Such proficient management practices significantly contribute to the long-term sustainability and growth of SMEs in South Africa, thereby underscoring the importance of strong leadership and managerial capabilities in ensuring business success and minimizing the likelihood of failure.

H4: Supportive political situations assist SMEs in South Africa in avoiding failure: The comprehensive evaluation of the influence of political conditions on SME performance in South Africa has established a direct link between supportive political environments and the resilience of small and medium businesses. The research findings underscore the significance of political stability, favourable regulatory frameworks, and government initiatives that foster an enabling business environment for SMEs. It is evident that when SMEs operate within a conducive political climate characterized by transparent policies, reduced bureaucratic hurdles, and adequate support mechanisms, they are better equipped to thrive, expand, and contribute significantly to the overall socio-economic development of South Africa. Such findings emphasize the indispensable role of political support and conducive policy environments in bolstering the growth and sustainability of SMEs and fostering a vibrant and dynamic business ecosystem in South Africa.

In conclusion, the findings of the hypotheses provide a comprehensive understanding of the various factors that contribute to the resilience and success of SMEs in South

Africa. The positive correlations established between improved economic conditions, favorable financial situations, effective management practices, and supportive political environments emphasize the multifaceted nature of the challenges faced by SMEs and underscore the significance of addressing these factors holistically to foster a thriving entrepreneurial landscape in South Africa. These findings present valuable insights for policymakers, business leaders, and stakeholders, highlighting the importance of implementing targeted interventions and initiatives that prioritize the enhancement of economic, financial, managerial, and political frameworks to support the sustainable growth and development of SMEs in South Africa.

5.6 Recommendations

With SMEs playing a pivotal role in the South African economy creating jobs, improving life style of many South Africans, poverty reduction and noticeably, contributing to the gross domestic product, it is the responsibility of the South African government to ensure their growth and sustainability. Based on the findings and the conclusions of the study, the following recommendations are intended to improve the financial, economic, managerial, and political reporting of SMEs which, according to this study is one of the major contributory factors towards the limitation of SMEs failure:

- Substantial assistance is needed from the government and well-established organizationsorganizations to mentor and educate the leadership of SMEs. As recommended by Olawale and Garwe (2010: 736) government support agencies that can help new SMEs with finance and training such as SEDA should be rigorously marketed to create awareness on financial reporting.
- The existing government incubators should support SMEs with in-depth accounting programs, workshops and training for those SMEs that do not have adequate knowledge and understanding of financial reporting as stipulated by the IFRS. This was improve the awareness of the importance of financial accounting and its purpose towards stability, innovation, growth and sustainability of small businesses.

- SMEs need support from government with, resource control, administration and data control. If this is not rectified, it can detract potential investors.
- Due to the ever-evolving business sector, SMEs need to send their staff members for workshops and training to enhance staff capabilities.
- Businesses continuously need new, fresh ideas, to maintain a standard or better achieve their goals than competitors. This was not only improves staff capabilities, but also their level of integration and cohesiveness, which is vitally needed for the business operations to be efficient and productive (Kavanah and Drennan, 2008: 279).

5.7 Conclusion

Although politics are on the centre of policy making that affect SMEs, the change in the policies is not done by policymakers secretly; meanwhile, it does not occur based on the deep and delicate expert arguments and calculating the economic cost-benefit for the whole society. However, the political cost-benefit plays a major role. The political pressures coming from different aspects create the resultant forces, which ultimately determine the next direction of policy (maintenance or change). Today, the central role of SMEs in determining the economic growth of developed and developing countries is not covert for any government. Considering the economic problems of South Africa in the field of small businesses, the present study investigated the succesful factors to reduce failures of SMEs using binary models.

In this regard, after analysing the political factors affecting the survival of SMEs, the general suggestions are presented for the positive orientation to the political and economic policy-making factors for the survival and growth of small businesses.

The macroeconomic environmental conditions have a direct impact on how to choose the acceleration of rising energy prices. For example, the acceleration of rising should be moderate in the conditions of deep recession and high inflation in the economy, and the continuation of these mild changes in the future is naturally regarded as the next necessity.

On the other hand, the effectiveness of rising energy price depends on the fact that the price change should be accompanied with the complementary macroeconomic policies such as enhancing the capacity of banking facilities, adopting commercial and financial

policies to encourage the use of technologies leading to more energy efficiency, adopting fiscal and monetary policies to control inflation and stabilize the foreign exchange market, and taking the appropriate production and investment orientations. In general, considering the monetary, financial, currency, and commercial policy-making and other political factors affecting the economy, such as foreign and domestic policy, are required to realize these conditions.

The economy should become knowledgebase in order to form an intellectual property system so that if an individual earns an educational achievement, the system supports him/her. No entrepreneurship achieves success unless the intellectual property is supported. Further, the underlying causes of economic problems in South Africa encompass the lack of focus in the structure of economic decision-making, not using the experience of knowledge and practice owners, placing the foundations of creating wealth on non-productive and rent activities rather than on innovation and productive industrial activities, and the non-alignment of foreign policy with the economic one. In fact, the governmental economy was supposed to become a competitive economy, but it turned into crony capitalism in practice instead. This crony structure resulting from the relationship between wealth and power has led to two important consequences in the economy of South Africa, which refer to the current pattern of the economy as non-productive and non-public.

This study only included SMEs situated in Gauteng. The findings, therefore, may not be generalised to other areas outside Gauteng. However, they can be used to enhance performance and promote accurate financial reporting to ensure the financial stability of SMEs. The study also limited to a quantitative study, other methodologies can be used to generate similar or different results or perspective.

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