

The physiognomy of SMMEs in South Africa and consequential national strategy reinforcement

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ABSTRACT

The diverse landscape and physiognomies of the small, medium and micro-enterprise (SMME) sector have caused immense challenges regarding reliable and comprehensive knowledge accumulation for this segment of the South African economy. This restraint has caused grave credibility concerns among many data users regarding the exactitude of SMME data, rendering such data largely unsuitable for policy and SMME business development purposes. Consequently, entrepreneurial aspirations and the vision to cultivate economic growth through sustainable small business development in South Africa, remain a pipedream. To provide specific direction to alleviate the undesirable state of affairs, this critique makes a case for SMMEs as an ingenious pathway to create jobs, increase levels of subjective well-being and improve standards of living. Consequently, the article presents a detailed review of features of and challenges facing SMMEs in an attempt to identify future strategies that are most likely to support the transformation of the SMME sector into a growth engine, ideally suited to address key development issues (poverty, income inequality and unemployment) hampering prospective overall economic growth in South Africa. Owing to the fact that the retail sector dominates the small business sector of South Africa, the endorsed strategy presents an equivalent reference framework for future small retail business development, growth and sustainability.

Key words – Small business, small, medium and micro-enterprise (SMME) sector, small retail sector, business sustainability and sophistication, small business policy framework

The diverse landscape and physiognomies of the small, medium and micro-enterprise (SMME) sector have caused immense challenges regarding reliable and comprehensive knowledge accumulation for this segment of the South African economy. This restraint has caused grave credibility concerns among many data users regarding the exactitude of SMME data, rendering such data largely unsuitable for policy and SMME business development purposes. Consequently,

entrepreneurial aspirations and the vision to cultivate economic growth through sustainable small business development in South Africa, remain a pipedream. To provide specific direction to alleviate the undesirable state of affairs, this critique makes a case for SMMEs as an ingenious pathway to create jobs, increase levels of subjective well-being and improve standards of living. Consequently, the article presents a detailed review of features of and challenges facing SMMEs in an attempt to

identify future strategies that are most likely to support the transformation of the SMME sector into a growth engine, ideally suited to address key development issues (poverty, income inequality and unemployment) hampering prospective overall economic growth in South Africa. Owing to the fact that the retail sector dominates the small business sector of South Africa, the endorsed strategy presents an equivalent reference framework for future small retail business development, growth and sustainability.

PROBLEM STATEMENT AND AIM

Reliable and comprehensive knowledge accumulation on the state of the small, medium and micro-enterprise (SMME) sector of South Africa is widespread but mostly uncoordinated and unparalleled. These limitations pose serious barriers to efficient policy formulation and support initiatives aimed at developing SMMEs. Consolidation of the body of existing literature in support of SMME development will present an opportunity to deliberate the dynamics of a key economic sector targeted to drive South Africa's future growth and employment agenda. Unravelling the taxonomy, distinct traits and challenges faced by SMMEs presents an ideal platform to design novel future business formation and growth strategies for especially the small retail trade industry currently dominating the SMME market. This article applies a literature review to consolidate the existing body of completed and recorded work produced by researchers, scholars and practitioners. Ultimately, this methodology aims to identify, evaluate, synthesise and deliver an organised critical account of information, ideas and knowledge regarding SMMEs to guide the modelling of a reinforced growth and development strategy for SMMEs, and particularly small retail businesses, in South Africa.

Against this background, this article explores SMMEs' classification distinctions; SMME scope, influence and physiognomy; and entrepreneurial dynamism and capacity to justify an objective analysis of the availability and reliability of SMME knowledge intelligence to ultimately judge the complexities and exogenous factors impacting on the sustainability of small business. These

elaborations are key when considering small business policy development and implementation, which are also addressed. The article concludes with modelled intervention strategies aimed at increasing the anticipated employment and growth of SMMEs, and particularly small retail businesses, in South Africa.

RESEARCH METHODOLOGY

The origin of the deliberations and resultant innovative strategies modelled for the SMME sector in South Africa, as presented in this editorial, was a research literature review (desktop research) of existing information. This process entailed a systematic and explicit procedure whereby numerous local and international secondary information sources on the SMME sector were collated, analysed concurrently and consolidated to finally formulate the recommended interventions suitable to guide future SMME growth and sustainability policies. More specifically, this process entailed a contextual analysis of the data collection methodologies of numerous diverse authors and local and international case studies conceived through qualitative and quantitative research on the SMME sector. This circumstantial exploration resulted in a thorough understanding of a host of complex issues impacting on the quality of accessible SMME data intelligence and future SMME development and growth. Congruently, the unravelling of the taxonomy of the SMME sector further extended and strengthened the knowledge levels regarding international best practices, which partially sanctioned the modelling of recommendations to policy makers, development agencies, entrepreneurs and SMMEs, particularly retail trade, managers towards the advancement of living standards and economic stability. The article will provide an overarching review of the major trends in the small business economy as evident from numerous quantitative statistical sources.

DEFINITION DISCREPANCIES

The definition of SMMEs is a significant issue when considering small business policy development and implementation and depends primarily on the purpose of the classification.

TABLE 1
Broad definitions of SMMEs in the National Small Business Act

| Size | Examples | Number of Employees | Annual Turnover (Rand) | Gross Assets, Excluding Fixed Property |
|------------|---|---|--|--|
| Micro | Hawkers, vendors and subsistence farmers. | Fewer than 5. | Less than R150 000. | Less than R100 000. |
| Very Small | Operating in the formal market with access to technology. | Fewer than 10 to 20 ¹ depending on industry. | Less than R200 000 to R500 000 ¹ depending on industry. | Less than R150 000 to R500 000 ¹ depending on industry. |
| Small | Generally are more established than very small enterprises and exhibit more complex business practices. | Fewer than 50. | Less than R2m to R25 m ¹ depending on industry. | Less than R2m to R4.5 m ¹ depending on industry. |
| Medium | Enterprises are often characterised by the decentralisation of power to an additional management layer. | Fewer than 100 to 200 ¹ , depending on industry. | Less than R4 million to R50m ¹ depending upon industry. | Less than R2 m to R18 m ¹ depending on industry. |

¹ Mining, electricity, manufacturing and construction sectors

Against this background, a plethora of definitions were discovered in the literature. As a starting point, the exploratory research initially relied on a clarification of the ‘entrepreneurship’ concept. In this regard, the explanation chiefly relied on the Global Entrepreneurship Monitor (GEM) that defines entrepreneurship as ‘...any attempt at new business or new venture creation, such as self-employment, a new business organization, or the expansion of an existing business, by an individual, a team of individuals, or an established business’ (Amorós, Bosma & GERA, 2014). Clearly, entrepreneurship embraces the creation of a new enterprise, which includes SMMEs. In a closer exploration of the meaning of small firms in particular, it was evident that there is no single, uniformly accepted definition for a ‘small’ firm. A further complicating factor is that both the terms ‘small business’ and ‘SMME’ are frequently used synonymously. The most acknowledged depiction of SMMEs in South Africa is imbedded in the National Small Business Act 102 of 1996 (Republic of South Africa, 1996) as amended by the National Small Business Amendment Acts 26 of 2003 and 29 of 2004 (Republic of South Africa, 2003 & 2004), that defines SMMEs in a number of different ways, generally with reference either to the number of employees

and/or to turnover bands. Taken in its broadest sense, the concept of a ‘small business’ can be very wide-ranging. It includes any form of economic activity – registered or not – that provides its owner with an income but remains below the thresholds for a large enterprise. Officially, a ‘small business’ is defined in Section 1 of the National Small Business Amendment Act 29 of 2004 as ‘... a separate and distinct business entity, including co-operative enterprises and nongovernmental organisations, managed by one owner or more which, including its branches or subsidiaries, if any, is predominantly carried on in any sector or sub sector of the economy mentioned in Column I of the Schedule14...’ The classification of small business according to the National Small Business Act 2 of 1996, as amended by the National Small Business Amendment Acts 26 of 2003 and 29 of 2004, has been amended slightly to focus on a national classification of SMMEs in preference to a sectoral classification, with distinctive exemplars across business size category as outlined in table 1.

The use of the term ‘SMME’ in South Africa has become a common descriptor for small, medium and micro-enterprises, with the term ‘SME’ used interchangeably. Elsewhere in

Africa, the acronym MSME is used for micro-, small and medium enterprises.

In the final instance, dissimilarities in definitions have resulted in various estimates of the size of the SMME sector in South Africa and have likewise confounded SMME policy development and implementation in the country.

SIZE, SOPHISTICATION AND IMPACT

SMMEs are an essential panacea for improving the standards of living in a society and the stability of a country. More specifically, this sector is believed to contribute to economic development. This is because entrepreneurs create new businesses, and new businesses create jobs, provide people with a variety of products and services, intensify competition, increase productivity through technological change and positively impact individual lives on multiple levels. It is generally accepted that the small business sector serves as an incubator for growth and employment. To reflect on the latter, it should firstly be stated that **statistics on the small business sector in South Africa are insufficient in the sense that no official centralised data repository is available regarding the number of small enterprises.**

In cases where data are available, the numerous **data collection efforts largely remain independent and uncoordinated.** These assessments are derived from the analysis of the numerous data collection efforts of leading independent, government and research entities over the past decade. The article specifically analysed the work published by the following entities (Stats SA, 2014; Stats SA, 2013a; Stats SA, 2013b; Stats SA, 2013c; Stats SA, 2012a & b; Stats SA, 2009; Amorós, *et al.*, 2014; UCS, 2011; FinMark Trust, 2010; Ligthelm, 2011):

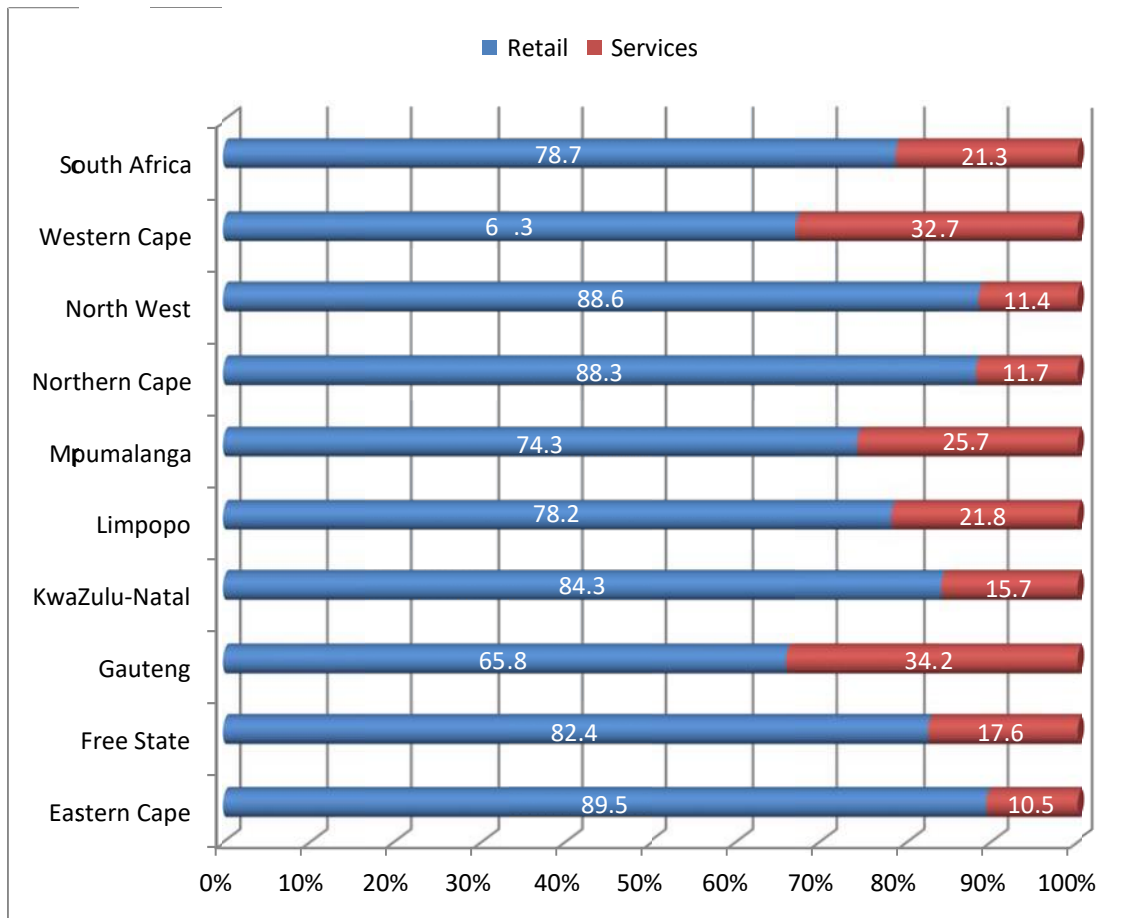
- Statistics South Africa (Stats SA)
 - Labour Force Survey
 - Survey of Employers and the Self-Employed
 - SA Integrated Business Register

- SA statistics on liquidations of close corporations and companies
- Companies and Intellectual Property Registration Office (CIPRO)
- Companies and Intellectual Property Commission.
- National Credit Regulator (NCR)
- Department of Trade and Industry (dti)
- Southern African NGO Network (SANGONeT)
- The Global Entrepreneurship Monitor (GEM) Consortium
 - Adult Population Survey
- United Nations Industrial Development Organisation (UNIDO)
- Numerous independent consulting and research entities and universities
 - Human Resource Development Council (HSRC)
 - Underhill Corporate Solutions
 - FinMark Trust
 - Bureau of Market Research at the University of South Africa (Unisa)
 - Centre for Innovation & Entrepreneurship at the University of Cape Town Graduate School of Business

The key input sources listed above are disaggregated in the sub-sections to follow in an attempt to identify information discrepancies and anomalies that make it almost impossible to design effective and sustainable policies regarding SMMEs from consolidated business intelligence.

Despite these shortcomings, the analysis represents a first attempt to collate numerous data collection endeavours on small business physiognomies into a condensed format with the aim to consolidate, disseminate and integrate small business information into a single piece of intelligence that could direct strategy formulation of future SMME development, growth and sustainability. It needs to be reiterated that the analysis does not attempt to question the accuracy of the information gathered by the various entities, but rather to stress concerns regarding uncoordinated attempts.

FIGURE 1
Geographic distribution of small business



Size of the SMME market

When citing estimates for the size of the SMME market of South Africa, figures range between the extremes of 2.4 million (Stats SA (2007) in UCS, 2011) and 6 million (FinMark Trust, 2010). The 2010 FinScope study in particular reveals that there are 5 579 767 small business owners in South Africa owning 5 979 510 small businesses. Of the latter, 17% are formally registered, 66% are owner-run and have no employees and 32% provide from 1 to 10 jobs (FinMark Trust, 2010). To further demonstrate the discrepancy in the number of non-VAT registered small businesses in South Africa, FinMark Trust (2010) estimates amount to 5 164 661 while Stats SA (2009) estimates a much lower figure at 1 076 000.

Furthermore, when analysing the diverse SMME landscape in South Africa, it is evident that the largest proportion (23%) of small business owners resides in Gauteng (USC,

2011). Of these, a significant majority (78.7%) offered retail services as shown in figure 1.

When comparing the size of the service sector in the 2010 FinMark Trust study (2010 = 21.3%) with the outcome of a study commissioned by the National Credit Regulator (NCR) towards the end of 2011, a slightly higher percentage of 34.2% (USC, 2011) is quoted for small service providers of which 10.4% render a professional service (i.e. medical or legal service) and 58.9% a skilled service (i.e. plumbing or hairdressing). The 2011 NRC study further shows that small businesses in Gauteng tend to be larger than small businesses in other provinces and their contribution to job creation the most significant (3.691 million). This profile is very different from that of Limpopo Province, for example, where 9.8% of small business owners reside (UCS, 2011). Of these, 78.2% offer retail services of which 66.7% trade something in the same form that it was bought and 20.3% buy something to sell but add value before reselling. Compared with Limpopo,

small retail businesses in particular are more dominant in the Free State, North West, Northern Cape and the Eastern Cape (see figure 1). **The business sophistication outlined below and geographic anomalies outlined above clearly argue in favour of more decentralised strategy formulation.**

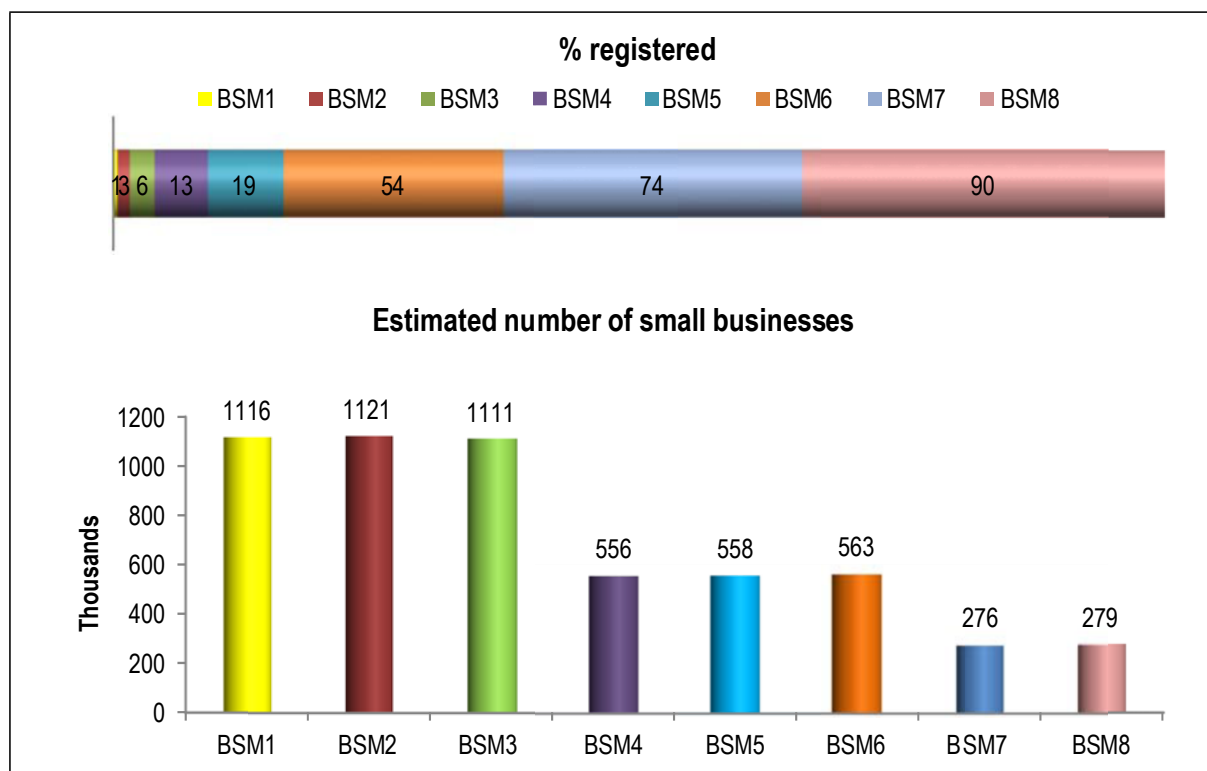
The disaggregation of small business according to business sophistication level (measured by, among others, factors such as registration status, compliance, access to basic amenities (i.e. electricity, water) and communication (i.e. landline, Internet) is reflected in figure 2.

Clearly, businesses at different sophistication levels have different needs, which are often ignored when government support mechanism and strategies are designed. Instead, a ‘one-size-fits-all’ policy is currently the approach of contemporary **small business support mechanisms**. However, it is not only this approach that is derailing effective small business policy formulation and landscaping but further incongruities are also evident in the estimations of small business’ contribution to economic growth and employment as witnessed from the discussion below.

Contribution to economic growth

Due to the lack of wide-ranging data on small business production figures, it is a precarious task to undertake an estimation of SMMEs’ contribution to the GDP, let alone to draw firm conclusions from the year-to-year comparison of the results obtained in such an exercise. Consequently, the quoted GDP figures should be interpreted as presumptions rather than strong assertions. Against this background, an independent study by the United Nations Industrial Development Organisation (UNIDO, 1999) shows that SMMEs represent over 90% of private business and contribute to more than 50% of GDP in most African countries. These findings reveal similarities with a local study conducted by Abor and Quartey (2010) that revealed that 91% of formal business entities in South Africa are SMMEs. The latter study also showed that SMMEs contribute between 52% and 57% of GDP. In turn, the Southern African NGO Network (SANGONeT 2014) quotes that SMMEs in South Africa contribute around

FIGURE 2
Small business by business sophistication measure (BSM)



40% of total GDP. **These independent quotes clearly display immense variance, probably due to different definition applications and segregated study objectives to measure the impact of SMMEs.** Similar deficiencies are notable when reflecting on entrepreneurial capacity, namely; the ability of SMMEs to generate employment, remain in operation and grow production. These are important dimensions for policy-makers as a high rate of small business attrition can be costly to the economy in terms of un- or under-utilised investment, and have dire consequences the entrepreneurs' own financial position.

ENTREPRENEURIAL CAPACITY

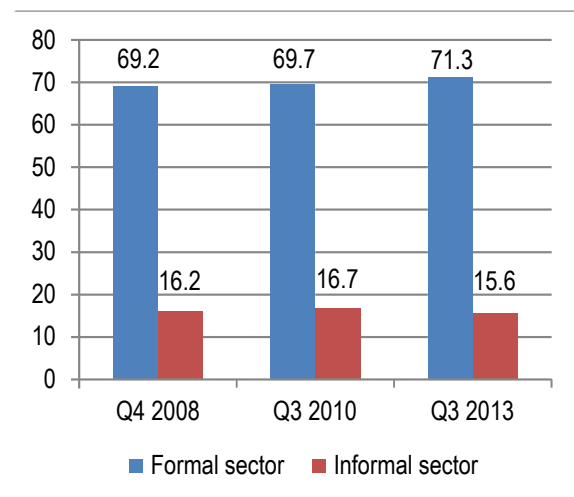
As mentioned, entrepreneurial capacity denotes the ability of SMMEs to grow production (discussed above), generate employment and remain in operation. The latter two dimensions are elaborated in more detail below.

Ability to generate employment

South Africa's economic roadmap, the National Development Plan (NDP), envisages growth, particularly employment growth, powered by 'small and expanding firms'. More specifically, the NDP predicts that about 90% of jobs will be created in small and expanding companies by 2030 (National Planning Commission, 2011). These prospects are directly linked to SMMEs' ability to grow successfully. When reflecting on employment estimates, figures by the United Nations Industrial Development Organisation (UNIDO, 1999) at the start of the new millennium showed that SMMEs employ 22% of the adult population in developing countries. International comparative figures quoted by the World Bank in 2007 estimate the SME contribution to employment generation at 39% for South Africa, which is much lower than, for example, the figure for China set at 78% (UCS, 2011). More recent figures quoted for South Africa show that SMMEs account for at least 60% of employment (Abor & Quartey 2010; FinMark Trust, 2010). The 2010 FinScope survey indicates that a total of 11.6 million job opportunities are created by SMMEs. Of these, almost a third (31.5%) are available in the

more sophisticated small businesses (see BSM segments 7 and 8 of figure 2) while just more than half the jobs (54.1% or approximately 6.3 million jobs) are available in SMMEs with a very low to zero probability of being VAT registered (see BSM segments 1 to 5 of figure 2) and 67% of small businesses only employ a single owner. Research by the Human Resource Development Council (HSRC) also reveals that 70% of all workers in South Africa are employed by companies with fewer than 50 workers while 45% of all employed people work in firms with fewer than 10 employees (Jones, 2013). Furthermore, when analysing employment data trends published by Stats SA (2013a, b and c), it is evident that the market share of especially informal small business to create jobs has deteriorated over time (see figure 3).

FIGURE 3
Percentage growth in employment by business classification



A key concern emerging from the small business employment ability analysis is the seeming stagnation of established small businesses. Existing enterprises seem to have a low propensity to create additional employment, leading to an expanding pool of individual self-employed or employer survivalist micro-enterprises. In addition, the static rate of formal SMME employment creation suggests that there is little progression between survivalist micro-enterprises and more formal small enterprises. Furthermore, it also seems highly unlikely that small businesses are progressing to medium-sized enterprises. From a policy perspective, these

conclusions suggest that, while broad entrepreneurship programmes are important, the key issue is less about entrepreneurial opportunities and more about entrepreneurial capacity. Furthermore, the fact that South Africa is currently classified at the bottom-end of opportunity entrepreneurship and new firm activity, also paints a bleak picture for sustainable business and future growth. To expand on these thoughts, the sustainability of small business operations in South Africa is explored.

SMME sustainability

The contribution of the SMME sector cannot be sustained without the creation and sustenance of new SMMEs. New SMMEs are seen as a significant component of the solution to South Africa's development issues, which include poverty, income inequality and unemployment. South Africa's SMMEs in particular are generally young (start-ups) and there exists high ratio between start-ups and new firms, unlike other countries. This observation suggests that in South Africa, many businesses either never progress beyond the start-up phase or close. To better conceptualise the concept surrounding 'small business sustainability', it must firstly be clarified that a new SMME is described in the Global Entrepreneurship Monitor (GEM) as *a business that has been in existence for more than three months but less than forty two months*. According to GEM, the probability of a new SME surviving beyond 42 months and becoming an established firm is less likely in South Africa than in any other Global Entrepreneurship Monitor participating country (Amorós, *et al.*, 2014). Further analysis of **small business dynamics** reveals that the survival rate of new entrants is low. This confirms the outcome of the work on developing economies published by Sam and Kelby (1998), which reaffirms the strong consensus that prevails among analysts of the small business sector that it is characterised by phenomenally high business mortality. In this regard, the failure rate of new SMMEs in South Africa is set at about 75% and is one of the highest in the world. The low early-stage entrepreneurial activity in South Africa is further evident from statistics quoted by the Companies and Intellectual Property Commission, that show that a high 80% of all

new small businesses in South Africa fail within the first five years (Majokweni, 2013). Furthermore, only 130 of the 300 businesses selected in 2007 by the Bureau of Market Research's (BMR) informal business survey were still in operation in 2011 (Ligthelm, 2013). This represents a survival rate of 43.3% after five years. From the 2007 – 2011 longitudinal small business study by the BMR (Ligthelm, 2013), the most important reasons for business failure are those surrounding financial sustainability. In 2008, 2009 and 2010, no less than 39.3%, 51.5% and 29.2% respectively of small businesses closed due to a lack of profitability or customers.

The high mortality concerns highlighted above are exacerbated when noting that only 12.8% of South Africans have the entrepreneurial intention to start a business within the next three years (Amorós, *et al.*, 2014). In this regard, the 2013 Global Entrepreneurship Monitor report shows that the established business ownership and nascent entrepreneurship rates are as low as 2.9% and 6.6% respectively for South Africa. These findings position South Africa at the bottom-end of opportunity entrepreneurship and new firm activity, which is regarded as the lowest among all sub-Saharan countries. Also, 2013 BMR data (Ligthelm, 2013) shows that only 35.3% of business owners would like their children to take over their businesses – an indication of the extent to which business owners perceive entrepreneurship as something to be aspired. Conversely, the majority would like their children to become salaried employees in either the public or private sector.

The literature review revealed complexities and sustainability issues that inhibit SMMEs from fulfilling their desired role in the economy as well as reasons for closing down. Alongside this several major critical factors that complicate the SMME landscape and specific support mechanism targeted at SMMEs were identified. In summary, these include the following:

Finance

Among the top problems faced by SMMEs is funding and access to finance. The total financing gap for both formal and informal SMMEs is estimated at around 45-48% in

South Africa (UCS, 2011). This figure suggests that a sizeable proportion of economically significant SMMEs cannot obtain financing from banks, capital markets or other suppliers of finance. In fact, about 75% of all applications for bank credit by new SMMEs are rejected. By virtue of being formally registered and having a bank account, only formal SMMEs have access to banks, capital markets or other suppliers of finance. It is estimated that around 20% of these SMMEs are registered with the Companies and Intellectual Property Commission (CIPC) and have a bank account. Of the formal SMMEs, less than 100 000 (27.3%) successfully apply and receive funds from the formal financial sector. On the contrary, when turning the attention to the informal SMMEs, the picture becomes more dismal. It is estimated that almost half the SMMEs are not registered, hence they are operating informally. Owing to their informality, most (84.7%) are financially excluded from the formal financial market and inevitably do not have access to finance. Factors inhibiting SMMEs' access to credit include: the lack of business managerial experience and skills, insufficient information on available products; relatively low levels of financial literacy and poor business plans. There is a possibility that there is sufficient credit being made available, but the stringent terms and conditions under which it can be accessed are not favourable for the SMME sector it is intended to serve. In other words, there are sufficient 'quantities' of funding available, but the 'quality' of funding (i.e. the product design/services being offered) does not match the needs of the sector. **In this case, the policy response should not be designed to increase the amount of credit available to the sector, but should involve revisiting the product offering of the credit already available and ensuring that it meets the needs of the SMME sector it is intended to serve.**

Severe skills shortages

SMMEs suffer from poor management skills as a result of a lack of adequate training and education, leading to high rates of business failure. **The lack of managerial competence places significant constraints on SMME development.** Even though SMMEs tend to attract motivated managers, they can hardly compete with larger firms. The scarcity of

management talent has a magnified impact on SMMEs. The lack of support services or their relatively higher unit cost can hamper SMMEs' efforts to improve their management because consulting firms are often not equipped with appropriate cost-effective management solutions for this sector. The skills gap in the SMME sector as a whole emanates from the fact that entrepreneurs cannot afford the high cost of training and advisory services, while others do not see the need to upgrade their skills due to complacency. Research by the Centre for Innovation & Entrepreneurship at the University of Cape Town's Graduate School of Business shows that the more highly educated an entrepreneur is, the more likely they are to create jobs (Jones, 2013). However, South Africa's education system is not effectively developing people with the skills or the confidence needed to be successful entrepreneurs. Though education will take time to fix, **government could relax the regulatory environment to make things a little easier for small business owners. There is a growing realisation that small business support policies that merely provide a favourable environment for small business are not effective. More specific and targeted policies that focus particularly on enhancing the business management skills of business owners are required.** Management is one of the crucial factors determining business sustainability and growth. The role of management in the growth of businesses should be measured by factors directly within the control of the individual business which could include, inter alia, financial planning, marketing, logistic functions such as procurement policy, stock control, pricing and competition policy.

Regulatory issues

The readings encountered in the preparation of this article revealed an immense burden of compliance with regulations for small businesses. In some cases, businesses need to comply with more than 45 laws and have to submit up to 24 returns a year, which is time-consuming and costly, especially if they need specialist help. To demonstrate that small firms continue to battle a tangle of red tape, statistics show that companies employing fewer than 21 people are spending approximately 5% of turnover on dealing with

red tape (Jones, 2013). Likewise, according to Jones (2013), those employing 21 to 30 people spent 2%; those employing 31 to 40 people, slightly less than 3%; and those employing more than 40 people were spending just more than 2% of their turnover on resolving red tape. SMMEs spent the equivalent of eight working days per month dealing with red tape in 2013. Furthermore, it takes between 60 to 90 days to complete all the necessary administrative processes before opening a new business. Inefficiency on the part of the South African Revenue Service (SARS) (paying refunds, resolving problems, and issuing tax clearance certificates) in particular is cited as a major red tape burden. **Consequently, it could be argued that red tape hurts vulnerable small firms the most and government policies are a constraining factor on new business development in particular.** Labour laws are also a further constraint on hiring staff and inflexible labour legislation and black economic empowerment are seemingly inhibiting small business growth in particular.

Unproductive state-run incubators and small business support programmes.

Although government policies emphasise the need for a vibrant SMME sector as ideal productive job creator, progress has been disappointing to date. After a review in 2009 of all SMME support programmes, the Department of Trade and Industry (dti) decided to start focusing on incubation. It introduced the incubation support programme¹ in September 2012 with the aim of establishing 250 incubators by 2015/2016. To date only 13 projects have been approved with a total project value of R373m (Jones, 2013). In fact, state-run incubators have created an

¹ The Department of Trade and Industry (dti) initiated the Incubation Support Programme (ISP) to develop incubators and create successful enterprises with the potential to revitalise communities and strengthen local and national economies. In continuing to strengthen economic development through broadening participation in the economy, the ISP aims to ensure that small, micro- and medium enterprises (SMMEs) graduate into the mainstream economy through the support provided by the incubators. The ISP is one of the support measures to encourage partnerships in which big business assists SMMEs with skills transfer, enterprise development, supplier development and marketing opportunities.

average of less than one job per business. This is according to a report by independent research service Trade & Industrial Policy Strategies (Tips, 2012) in which South African entrepreneurship was compared with that of Malaysia and Chile. In comparison, Brazilian incubators create on average 4.2 jobs per business, Chile's incubators create on average 1.5 jobs and those in Malaysia create 2.5 jobs. When judging the success of support programmes for small businesses in general, perturbing statistics from the Global Entrepreneurship Monitor (GEM) 2012 annual survey reveals that only 14% of South Africans intended to open a business in the next three years. Only 7% of the population is involved in early-stage entrepreneurial activity, compared with 9% in 2011. The average of similar countries is 14%. Furthermore, despite the numerous public and private programmes, start-up businesses struggle with access to useful advice and finance. The programmes are largely uncoordinated and the many training initiatives are not standardised. There is scarcity of research done on the effectiveness of government programmes to access finance, markets and business support. Awareness and the uptake of these schemes have been very low to date. A lack of awareness stems from poor marketing and a mismatch between the products offered on the supply side and that which is required by the SMME market. The current setup has also proved to be problematic for strategic coordination purposes as programmes tend to be implemented in isolation of each other and also poses risks for the effectiveness of funding programmes to small businesses. Besides a lack of awareness, other major reasons cited for failure of government support include:

- Uneven distribution (concentration in metropolitan areas).
- The high cost of searching for support services, which are not been mitigated by effective information on how and where to access support.
- Cumbersome administrative requirements of government programmes resulting in user fatigue and high levels of disappointment. (Many of the mentors used have little or no business experience,

struggle to understand basic accounting concepts and are consequently not capable of adding value to their clients.)

- The needs of small business are ignored.
- Initiatives that are working are too small to have a meaningful impact on the economy and joblessness. Concurrently, considerable funds are pumped into ineffectual programmes.

Equipment and technology

In terms of technology, SMMEs often have difficulty gaining access to appropriate technologies and information on available techniques. In most cases, SMMEs utilise foreign technology with a scarce percentage of shared ownership or leasing. They usually acquire foreign licenses, because local patents are difficult to obtain.

The weak economy

The economic slowdown has a negative impact on business growth in general. Inflation, with specific reference to steep rises in administered prices and municipal accounts affect SMMEs in particular. The theory of economic growth and employment proposes that when the demand for goods and services increases, more labourers will be required to produce such goods and services. As these individuals earn wages, they will add to the higher demand by increasing their spending on goods and services, contributing to higher economic growth. Thus, economic growth contributes to employment growth and vice versa and companies may therefore expect an increase in their client base when real GDP increases strongly.

Other factors

Include uncertainty about the supply of services, the tumultuous political climate, crime and corruption and access to international markets.

These major factors hamper the ability of small business to grow and create jobs. They also threaten the survival of smaller companies and divert attention away from a company's core business and make it more difficult to establish a new business.

STRATEGY RECOMMENDATIONS / INTERVENTIONS

The exploratory research revealed that it is almost impossible to obtain accurate and or congruence statistics of small business in each category (namely micro-, small and medium), or across various sectors of the economy and geographic borders. The lack of data is particularly noticeable among unregistered businesses that employ either casual labour or offer employment only to the owner. Due to these limitations, the exact number of existing small businesses is unknown, the extent to which the sector actually contributes to GDP is also speculative and number of people small businesses employ is unclear. This lack of accurate data largely hampers research and the ability of government agencies and non-governmental organisations (NGOs) to offer the correct targeted assistance to businesses in the small, medium and micro-arena. Also, a lack of clear and accurate statistics is a major stumbling block to South Africa's attempt to develop more effective policies and support schemes for small enterprises. Against this background, the following interventions are suggested:

i) Instigate a dedicated business research and modelling programme

Due to the paucity of quantitative data available on business activity and dynamics in South Africa, it is recommended that a dedicated business research and modelling programme with specific emphasis on integrating small business dynamics in a macroeconomic model be initiated. This initiative will support the idea of introducing a degree of consistency in the statistics to be used for policy and review purposes. The problems of financial information asymmetry in particular could be addressed by, for example, *encouraging the reporting of trade credit information to private commercial credit bureaus to increase SMME access to financial credit*. This information would help lenders to assess the credit risk profiles of small businesses. The availability of information could also serve to spur the development of trade credit as a substitute for financial credit. This recommendation also

supports the idea of introducing credit ratings for SMMEs in South Africa.

ii) Increase the levels of formality of SMMEs (i.e. their legal status)

This can be achieved through the compulsory registration of SMMEs that have not yet registered, at minimal or no cost to SMMEs.

iii) Address the age of the business and entrepreneurial practice.

The age of a business reflects its market experience and normally affects its ability to grow and move to the next size class. Market experience and size are also important variables that determine access to resources. Furthermore, age reflects business maturity and the ability to manage the business through the ups and downs of a business cycle. Older businesses tend to reflect greater market experience and maturity with a higher level of sustainability than younger businesses. A factor that correlates positively with business sustainability is the initial rationale for venturing into the business world. Opportunity-motivated entrepreneurs (i.e. those entering the business market due to a lucrative business opportunity) tend to be more successful than necessity-motivated entrepreneurs who became business owners in an effort to escape poverty and unemployment (owners of successful businesses apply substantially more entrepreneurial actions than those that ceased to exist and they are more sophisticated and formalised - a sign of entrepreneurial conduct). Entrepreneurial actions, such as updating business and operation plans, formulating marketing strategies and regularly analysing the competitive environment lead to the adjustment of strategies such as changing/limiting the product range and reducing employment – ultimately aimed at ensuring business sustainability. Being unemployed prior to establishing a business often spells business failure or a lack of trading-up to higher business levels. Thus, dedicated support is required for those entrepreneurial small businesses with high employee growth expectations. In summary, entrepreneurial support should aim to encourage productive, innovative entrepreneurship which could stimulate economic growth and job creation. The above confirms that entrepreneurship and business

formation are key elements to economic growth and development. However, what matters for economic growth and employment creation is that the focus should be on productive and innovative entrepreneurship in the formal economy.

iv) Train and build capacity

There is a need to provide training and promote capacity building to address the poor level of managerial competence and skills of the small business owner. It is crucial to build on current programmes and establish new ones if warranted to improve the levels of managerial competence of the small business owner. Moreover, it will be beneficial to work with industry to facilitate the development of practical skills across the labour force. This will require an expansion of the education curriculum to improve the capabilities as well as the motivations of students to engage in entrepreneurial activities; promote practical training programmes with quality, experienced educators. Further recommendations include the design of programmes that provide mentorship by experienced entrepreneurs (mentorship/incubation programmes) as well as the formation of partnerships to facilitate the transfer of technology to the private sector, such as with government and university collaboration.

v) Promote the growth and sustainability of small businesses

South Africa still lags behind other developing countries in promoting the growth and sustainability of small businesses. One of the reasons for this poor uptake of facilities available, including financing, is the lack of a 'single source of information' or a one-stop-shop of all available support programmes and how to access them. Consequently, it is proposed that institutional arrangements need to be streamlined through the establishment of a centralised agency to coordinate all small business support programmes, funding and even research endeavours. This will best be achieved by establishing a separate government department to deal specifically with SMMEs, entrepreneurship and support for this sector. This initiative will overcome the problem that South Africa faces as being one of the few countries that does not have a separate ministry for SMME development.

Moreover, the uneven spread of institutional support to small business and especially the generally somewhat restrictive regulatory environment seem to be key explanatory factors in the low growth rates of many established SMMEs. Therefore, the following additional two recommendations are supported:

vi) Market, monitor and evaluate current government programmes

There are a plethora of government support initiatives (i.e. Small Enterprise Development Agency (Seda), National Empowerment Fund (NEF), National Small Business Advisory Council, Khula Finance Limited, SA Micro-finance Apex Fund (Samaf), Technology Innovation Agency (TIA), National Youth Development Agency (NYDA) and Micro-Agricultural Financial Institute of South Africa (Mafisa)) for SMMEs, driven by the Department of Trade and Industry (dti), Department of Economic Development (DED), Department of Science and Technology (DST), the Presidency and Department of Agriculture. To endorse and reconcile these support initiatives, the following is recommended:

- Firstly, increase awareness of the small business programmes and schemes available to small business.
- Monitor and evaluate SMME funding programmes on a regular basis. This will assist government to keep abreast of the applicability of the various programmes and schemes. The immediate objective of the evaluation of current programmes and schemes will be to identify reasons why awareness and uptake has been low. This is regarded as a good starting point upon which the current policies and interventions can be assessed in terms of their suitability/ appropriateness of the locality/segment at which they are targeted. This emphasises the recommendation that small business development initiatives must get down to the level where small businesses actually operate, and must be targeted specifically in the different sectors and value chains, and in specific localities to address small businesses' diverse characteristics, needs, constraints and opportunities.

vii) Relax the regulatory environment

Government is encouraged to reduce the cost and complexity of regulatory compliance and bureaucracy associated with starting a business. To support this, government should improve administrative efficiency in order to reduce red tape. This will also require the creation of a level playing field, ensuring that regulations are fairly and consistently enforced. Moreover, government procurement opportunities must be more accessible to small businesses alongside streamlined tender processes, improved transparency and on time payment. To further achieve the recommended relaxation of regulations, government needs to introduce more flexibility in respect of labour laws and reconsider black economic empowerment (BEE). These initiatives could be reinforced by identifying and implementing policies that encourage the youth to start businesses. Finally, government must create tax incentives for small businesses to not only grow employment but likewise stimulate start-ups of small business.

viii) Address the failure to access financial services

Finally, South Africa needs to address the failure to access financial services, including credit, due to various perceptions small business owners have of the requirements needed for access. This will require the introduction of new funding models and encourage and possibly incentivise financial institutions and individuals or corporations to provide capital to entrepreneurs without the stringent collateral requirements of commercial banks.

CONCLUSION

This article reviewed various definitions of SMMEs and also discussed the characteristics and contributions of SMMEs to economic development, and the constraints to SMME development. In reviewing the definitions of SMMEs, it was concluded that there is no single, universal, uniformly acceptable definition of SMMEs, which complicates efforts to estimate actual economic and employment growth prospects of this sector. Despite these limitations, the reflection on the

SMME sector presented an ideal platform to recommend a conceptual policy framework that could enhance the role of small business in job creation, economic empowerment, redistribution of wealth and poverty reduction. The article argues that a one-size-fits-all approach to develop growth and sustainable strategies for the small business sector is not feasible. Instead intervention should be targeted in terms of specific and unique needs of particular small business sectors operating in diverse spatial locations. Besides the various policy and support strategies advocated a final admonition remains. This entails a pronounced paradigm shift away from small-scale subsidised government programmes to increased private sector involvement in the delivery of business development services (BDS) to the SMME economy. As evidenced internationally, this high-impact strategy could promote access to and use of services by entrepreneurs to help them to operate efficiently and to grow their businesses. This strategy advocates large-scale sustainable support of small businesses and assisting small enterprises to overcome barriers to increased profitability by improving their productivity and access to markets. Overall, it is firmly believed that the proposed interventions should form the key pillar for transforming the small business sector, and especially the small retail sector of South Africa. However, it is important that the interventions should not be isolated from the commendation that small-business development requires a two-pronged approach: one that focuses on sector-based support for emerging entrepreneurs that is able to work with people on the ground, that is flexible and adaptable and provides a support system for a sustained period; and the other that focuses on established businesses with the potential to scale up. In fact, business development and growth (in the formal economy) should be elevated to become one of the South African government's priority programmes, to urgently address the below-average entrepreneurial and business performance of the country. Worldwide, there is a growing awareness that the promotion of productive and innovative entrepreneurship and new firm formation and growth is the only means of achieving sustainable global economic recovery and growth. In fact, the Obama Administration singled out the promotion of high growth and

innovative entrepreneurship as the key element of the USA's Innovation Strategy for achieving sustainable growth and quality jobs. In similar vein, South Africa should substitute the notion of *job creation* with *enterprise creation* as jobs cannot be sustained independent of business development.

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