INVESTIGATING THE CHARACTERISTICS AND CHALLENGES OF SMMES IN THE ETHEKWINI METROPOLITAN MUNICIPALITY

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ABSTRACT

Globally, SMMEs have been lauded for their significant contributions to GDP, employment creation and poverty reduction. Notwithstanding the plethora of financial and non-financial support initiatives, the SMME sector in South Africa endures a high business failure rate. Detractors of SMME development initiatives contend that policymakers often formulate their strategies on inaccurate sector statistics. As such, policymakers in South Africa are being urged to focus on the collection and collation of statistics relating to the nature of SMMEs. It seems logical that this attempt must first begin at a local level – as accurate data at a local level will facilitate accurate records at the provincial and national levels. The major aim of this study is to conduct a potential of the SMME systematic inquiry in order to describe the key characteristics and challenges of SMMEs that operate in the eThekwini Metropolitan Municipality.

Key Words: Challenges, Formulate, Statistics, Municipality, Potential, Globally, Data, Clusters, Financial, Operational

Introduction

Globally, Small to Medium Enterprises (SMEs) have been lauded for their significant contributions to Gross Domestic Product (GDP), employment creation, poverty reduction and equitable distribution of wealth. In South Africa (SA), Small, Medium and Micro Enterprises (SMMEs) form the majority of enterprises in the economy and feature prominently as a driver of the country’s development and transformational agendas.

The Aim of the Study

The major aim of this study is to conduct a systematic inquiry in order to document and describe the key characteristics and challenges of Small, Medium and Micro Enterprises (SMMEs) that operate in the eThekwini Metropolitan Municipality.

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1 International terminology  
2 South African terminology
Research Objectives

- To profile the financial characteristics of SMMEs which operate in the eThekwini Metropolitan Municipality?
- To profile the operational characteristics of SMMEs which operate in the eThekwini Metropolitan Municipality?
- To identify the key challenges faced by SMMEs with specific reference to business success.
- To assess SMME business owner’s awareness and use of national agencies as well as agencies in the eThekwini Metropolitan Municipality that are mandated to support SMMEs.
- To provide recommendations to policymakers on how to craft strategies which are in support of SMME success in the eThekwini Metropolitan Municipality

Definition of SMMEs

Globally, defining SMMEs (or SMEs as they are more commonly referred to worldwide) is certainly a difficult task. Many countries have their own definitions. Therefore, no single, universal and uniformly applied definition of exists. The challenge of creating a universal definition is further compounded by the unique characteristics of different industries – where the application of certain defining criteria in one sector might lead to all firms being classified as small, while the defining criteria, when applied to a different sector might lead to a different result.

In South Africa, the challenge of defining a small business and stipulating the criteria that differentiate small, medium and micro enterprises in no less pronounced. Some authors, (see for example; Abor and Quartely, 2010; Mutyenyoka and Madzivhandila, 2014; and Skosana, 2014), have attempted to provide a common definition of SMMEs; “SMMEs include registered businesses with less than 250 employees”. However, this definition does little to differentiate micro, small and medium enterprises from each other. The National Small Business Act of 1996 as amended by the National Small Business Amendment Acts of 2003 and 2004 (NSB Act) defines a small business 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”

Whilst the definitions of each enterprise category per sector are certainly complex, the National Small Business (NSB) Act (1996) does attempt to account for variations according to industry sector. Perhaps more importantly, the NSB Act (1996) provides broad criteria – mostly quantitative- for the classification of each entity that falls within the SMME domain.
RESEARCH METHODOLOGY

Target Population

According to Bryman and Bell (2011), in research, a target population can be defined as all of those elements that the researcher is interested in. Choosing the correct target population is critical to the relevance of the findings.

Given the nature of the research, its intentions, aims and objectives, the target population for this study comprised of all SMME owners that operate in the eThekwini Metropolitan Municipality. According to Chetty (2010:13) “The eThekwini Metropolitan Municipality is the largest port and city on the east coast of Africa. It has a population of over 3 million people with a growth rate of 2.3%, and is South Africa’s second largest city. The municipality is responsible for an area of over 2 297 square kilometres, including 98 kilometres of coastline.” The geographical location and relative size of the eThekwini Metropolitan Municipality is depicted in the figure below.

Figure 3.2: Geographical location of eThekwini Municipality

Sampling Strategy

Rationale for Sampling

As the preceding discussion suggests, the eThekwini Metropolitan Municipality is indeed a very large geographic area. Saunders, et al. (2008) claim that sampling is often necessary when the target population is too large or too geographically dispersed. In addition, the adoption of sampling is necessary if the researcher has limited time and resources at his or her disposal. For
the purposes of the current study, sampling was been adopted - given the size and dispersion of the target population as well as the required time and resources that would be required to include all elements of the target population.

Sample Size

In quantitative research, the size of a sample and the manner in which the sample is drawn, impacts on the extent to which a researcher is able to generalise his or findings sample statistics back to the target population (Burns and Burns, 2008).

However, it must be noted that there is paucity in the availability of statistics related to the number of SMMEs that currently operate within the eThekwini Metropolitan Municipality. Therefore, an important question to ask at this stage is: “What is an adequate sample size?” There appears to be no “hard and fast” answer to this question – especially in the absence of a sampling frame. This notion is supported by the numerous scientific formulae and general rules that have been proposed by researchers and statisticians over time. The majority of these calculations and estimations are based on the expected margin of errors and the confidence interval that are related to the sample (Fowler, 2008; Lee and Lings, 2008; and Quinlan, 2011).

According to Kothari (2011), in order for the sample size to be accurate and representative of the target population, the appropriate margin of error to use is 5% and a confidence level of 95% (where Z=1.96).

Using the following equation: 
\[(Z\text{-score})^2 \times \text{StdDev}^2(1-\text{StdDev}) / (\text{margin of error})^2,\]
the necessary sample size is calculated to be 384 samples.

However, given the time and resource constraints that are imposed on the researcher, it is neither practical nor feasible to conduct research amongst 384 small business owners. Notwithstanding the fact that a smaller sample may not be as representative as a larger sample, for the purposes of this study a relatively reasonable sample size of 250 samples was drawn.

Limitations and Delimitations of the study

According to Saunders et al. (2008), it is very rare to find a research undertaking that is free from any flaw. As such, identifying and explicitly stating the limitations and delimitations of a study, is regarded as good research practice. Limitations refer to those aspects that may influence the outcome of the study, but which, a researcher has no control over – i.e. shortcomings or circumstances that may restrict the adoption of a particular method or technique in research. Delimitations, on the other hand, refer to the boundaries of the study which are controlled and consciously selected by the researcher. The discussion below highlights the major limitations and delimitations of the current study.

Limitations

Arguably, the most obvious limitation to this descriptive, quantitative study is related to the lack of an available sampling frame. This phenomenon, however, is not unique to the eThekwini
Metropolitan Municipality or the KwaZulu Natal Province. In fact, inaccurate information relating to SMMEs and the unavailability of a suitable sampling frame is evident from the fragmented SMME databases throughout South Africa. Those SMMEs operating in the informal sector further compound the challenge of accessing a suitable sampling frame. Another limitation to the current study is related to the use of a survey strategy, wherein a close-ended questionnaire was used to gather data. It is assumed that participants will respond truthfully. However, it must be noted that the nature of the study seeks to uncover potentially sensitive information related to SMME characteristics. As such, it is plausible that some SMME owners may not be entirely truthful when responding. Based on the nature of the questionnaire, especially the length and types of questions/statements, it is possible that participants may have experienced fatigue as well as struggled to accurately answer some questions that are recall dependent. The allocated time frame to conduct the study – given that it is a mini dissertation – did not permit the inclusion of a very large sample. As such, whilst a sample of 250 was deemed to be practical and feasible – especially given the researchers available resource – the sample size may not be representative of the entire target population.

**Delimitations**

Three major delimitations of the study should be noted. First, no effort has been made to focus on a specific industry (e.g. SMME’s in the manufacturing, retail of financial service industry). Second, the research was not limited to any specific size of SMME (e.g. micro, small or medium enterprise). The reasoning behind these delimitations is that, from observation, at a local, national and international level, it is often difficult to create and sustain support initiatives that are targeted at a specific industry or a specific SMME size. Therefore, by uncovering the characteristics of most types of SMMEs which operate in various industries, this research will be able to provide an overview of the characteristics and challenges facing the SMME sector in general. Finally, it must be noted that this research undertaking does not purport to investigate or infer the state of entrepreneurship in South Africa. The field of entrepreneurship - especially the study of entrepreneurial traits, is indeed a complex domain that overlaps the field of psychology. Whilst it is acknowledged that entrepreneurship and SMME creation are theoretically connected, this relationship has not been investigated.
RESULTS, DISCUSSION AND INTERPRETATION OF FINDINGS

Figure 4.5.1

The figure above illustrates that a relatively large percentage of participants (58%) are between the ages of 30 and 39. Approximately one in every four participants (24%) is between the ages of 50 to 59. The remaining participants 11% and 8% are between the ages of 29 to 29 and 40 to 49, respectively.

These findings are similar to that of the 2010 Finscope study which found that in excess of 60% of small business owners are between the ages of 30 and 59. In the context of SMME development policies, age is an important indicator of the extent to which policies are stimulating business creation amongst youth. In this study, youth accounted for only 11% of the responses. This may suggest that SMMEs ownership amongst youth is a concern for policymakers—especially given the high unemployment rate within this group.

These findings, if representative of the SMME landscape in the eThekwini Metropolitan Municipality, have major implications for policymakers. Based on the relatively low percentage of respondents that are in their youth, it would appear that policies and strategies aimed at stimulating business creation amongst youth—especially those who are unemployed—appear to be failing.

Gender

Figure 4.5.2

Based on the figure above, it is evident that the majority of participants (81.6%) are male. In this study, women represent less than 20% of the sampled SMME owners.
In chapter 2, it was highlighted that SMMEs have an important and critical role to play in addressing gender transformation and redistributing wealth (Fida, 2008). Furthermore, it is noted that woman of all races are classified as “previously disadvantaged” under employment equity laws. However, based on these findings it can be argued that the SMME sector does not necessarily provide a platform for redressing gender inequality. A report released by Seda (2013) revealed that woman face unique challenges in establishing their own businesses. Chief amongst these is gender discrimination when seeking finance from traditional financial institutions, including state owned institutions. These findings also contradict the findings from the 2010 Finscope survey which found that females constitute 60% of SMME owners in South Africa.

**Nationality**

**Figure 4.5.3**

The majority of participants (89.2%) in this study are South African. The remaining participants (10.8%) are not South African. The issue of foreign-owned SMMEs is double-edged. On one hand, the foreign owned SMMEs able to create employment and provide goods and services to the surrounding community. However, on the other hand, these foreign-owned SMME increase the competition for locally owned SMMEs. Furthermore, it has not been established if foreign-owned SMMEs contribute significantly towards South Africa’s GDP. Deputy Trade and Industry Minister Elizabeth Thabethe has conceded that managing this sensitive issue is certainly a challenge, but is one that requires a concerted effort on the part of Government to realise the benefits if foreign-owned SMMEs (Pyle, 2013).

**Type of entity**

**Figure 4.5.4**
As the figure above depicts, 36% of SMMEs were registered as close corporations, 14.4% as private companies and 7.2% as a partnership. The remaining 42.4% of participants conduct their business operations in the capacity of a sole proprietor. It is important to note that close corporations, private companies and some partnerships are limited in terms of liability. On the other hand, sole proprietors do not enjoy this benefit and are therefore exposed to risks beyond their investment in their business. Whilst it is logical to assume that every business owner would prefer to be exposed to limited, rather than unlimited liability, the reality is that some business owners cannot afford to or find it too cumbersome to register their businesses. As a consequence, they face the risk of losing their personal assets, if their business is liquidated or shuts down (Jenkins, 2014).

The New Companies Act of 2008 is also promulgated with the intention of easing the regulatory burden on SMME owners wishing to register their businesses. However, since coming into effect in November 2010, this Act seems to have made the process of registering simpler, but the cost higher (Business Partners, 2012). The impact of the new Act on new business registrations is yet to be formally investigated.

**Did you have a comprehensive business plan when the business was established?**

![Figure 4.5.5](image)

The primary findings reveal that in the majority of responses (58.8%) a comprehensive business plan was not formulated when the business was initially established. Only 24.8% of participants indicated that this crucial founding document was created when the business was established. The remaining 16.4% of participants could not remember.

Business plans are a mandatory requirement for any credit application to a financial provider. Therefore, it can be argued that if an SMME owner does not have a comprehensive business plan; it is very unlikely that he/she will ever be considered for any type of finance. Furthermore, there is evidence to suggest that those SMMEs with business plans are generally more profitable than those who do not possess one. These findings, however, are not unique to the eThekwini Metropolitan Municipality. A recent study in the United Kingdom revealed that in excess of 1.5 million small businesses are currently operating without a business plan (Miller, 2014).
Did you conduct a location analysis before choosing your current premises?

**Figure 4.5.6**

The findings presented in the figure above indicate that 48.8% of participating SMME owners conducted a location analysis prior to moving into their current premises. The remaining participants stated that they; did not conduct this type of analysis (48%), could not recall (2.8%) or did not know what a location analysis was (0.4%). Given the budgetary constraints that most SMME owners begin with, it can be argued that a business premises is selected primarily on its affordability rather than its ability to simplify logistics or provide a competitive edge for business owners. As a consequence of a poor location, SMME owners may find it difficult to reach their target market or procure the necessary services and goods from suppliers timeously. The costs of running a business may also escalate if a poor location is selected (Gaskill, 2007).

**Indicate which form(s) of taxation you are registered for**

**Figure 4.5.7**

Tax payments constitute one the main avenues through which SMMEs contribute towards GDP and economic development. The primary findings reveal that whilst it is mandatory for all business entities and working individuals to be registered for tax, only 81.6% of participants claimed to be formally registered with SARS. Vat registration was noted with 22% of participants and Pay as You Earn (PAYE) with 22.4% of participants.

Whilst there have been significant attempts to reduce the tax burden of SMMEs, it appears that tax registration is certainly one of those issues that will require a concerted effort by the revenue
According to Niemand (2014), the regulatory tax burden on SMMEs is a significant constraint to the growth of the sector. There are various tax requirements for all businesses. However, Niemand (2004) found that these requirements (turnover tax in particular) are poorly understood by small business owners. As a result, small business owners are exposed to the risk of receiving non-compliance fines from the South African Revenue Service (SARS).

**Do you have a business banking account at a commercial bank?**

*Figure 4.5.8*

<table>
<thead>
<tr>
<th>Business banking account at commercial bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
</tr>
<tr>
<td>No</td>
</tr>
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</table>

Approximately 6 out of every 10 participants (60.4%) indicated that they have a business banking account at a commercial bank. The remaining 39.6% of participants indicated that they did not.

According to Burrows (2013), banking is one aspect that is often overlooked by many SMME owners. There are many reasons for this. For example; (i) the high cost of service charges certainly reduces the money that is available to business owners, (ii) it is not uncommon for cash driven SMMEs to never deposit monies received – simply because those monies will be used for daily operations, and (iii) business owners do not understand the importance of saving excess cash. However, Burrows warns that it is impractical to operate a business without the assistance of a commercial bank. The availability of overdraft facilities, loan facilities and saving facilities can certainly contribute toward the success and growth of SMMEs. Besides this assertion by Burrows (2014), it is also important to note that the availability of banking applications on smart phones and tablet PC’s can certainly assist any SMME owner in managing his/her finances on a continuous basis.
Years in operation

Figure 4.5.9

Segregation SMMEs according to their years in existence is important in the context of support initiatives. The research findings reveal that more than 50% (18% + 40.4%) of SMMEs in the sample are what McCarthy (2007) refers to as the critical growth phase. The remaining 41.6% of SMMEs have been in existence for more than 5 years and can therefore considered to be established.

McCarthy (2007) found that SMMEs are exposed to the greatest amount of risk during the first three years of their existence – especially as they struggle to set up their operations and situate themselves in the local market. As such, the failure rate amongst SMMEs which are in their infancy (0 to 3 years) is much higher than those SMMEs which manage to operate beyond 3 years. Naidoo (2009) found that those SMMEs which have managed to stay afloat for more than 3 years are able to read the market in a meaningful way and be proactive, instead of reactive – as is the case in the first 3 years of operations. Furthermore, the experience of operating in a particular industry for more than 5 years enables business owner to begin to develop standardised procedures which ultimately assist in making operations more efficient.

Total business experience

Figure 4.5.10

Learning from previous mistakes is critical to the success of any business owner. Therefore, it can be argued that the more business experience a SMME owner accrues, the better equipped
he/she will be to deal with challenges. The findings reveal that 39.2% of SMME owners are relatively new to owning and operating a business. A relatively smaller percentage of participants (16.4%) have between 3 and five years of business experience. The remaining 44.4% indicated that they possess considerable experience in owning and operating a business (5 years or more).

Chiliya (2012) found a strong, positive correlation between business experience and business success amongst grocery shop SMMEs in South Africa. As a consequence, the author concluded that those owners with 10 or more years of business experience were more likely to succeed. Therefore, it can be said that previous business experience is a critical success factor in the context of SMME development.

**Indicate your highest level of education**

*Figure 4.5.11*

![Highest level of education](image)

The findings presented in the figure above indicate that the majority of SMME owners who participated in the study (73.2%) lack any form of higher education qualification. Approximately a quarter (26.8%) stated that their highest level of education was beyond that of secondary schooling.

Chiliya (2012) found that the ability to organise and execute business activities is linked to the education of a small business owner. The ability to identify viable business ideas is also closely linked to education. Therefore, in the context of SMME development, education is also a critical success factor.
With reference to your education, were any of the qualifications business related?

Figure 4.5.12

![Business related qualifications](image)

The previous questionnaire item (4.5.11) uncovered that 73.2% of participants did not possess any higher education qualification. Of the remaining 26.8% of participants, only 10.8% (N=250) possessed a business related qualification. Obtaining a business related qualification, for example, a Bachelor/Diploma in business management or administration can certainly equip small business owners with the basic principles and theoretical knowledge that is required to successfully establish and execute business activities. Combined with business experience, possessing the relevant business related qualification can improve the probability of success for SMMEs.

With reference to your education, were any of your qualifications related to the industry that you currently operate in?

Figure 4.5.13

![Sector related qualifications](image)

As discussed in sections 4.5.11 and 4.5.12, only 26.8% of all the participants possessed a higher education qualification. Within this group, 10.8% (N=250) possessed a business related qualification. Furthermore, the findings presented in the figure above, indicate that 3.2% (N=250) possess a higher education qualification that is related to the industry in which they operate.

Possessing a qualification that is related to the industry in which a SMME owner operates in is sometimes a necessary requirement. For example, an SMME owner that is involved in the
manufacturing of chemicals, should ideally possess expert theoretical knowledgeable in the subject area.

**Have you received any formal business training?**

![Formal business training chart]

Notwithstanding the fact that only 26.8% of participating SMME owners possesses a higher education qualification, formal business training initiatives have the potential to equip business owners with the necessary skills and knowledge that is required to operate a successful business. However, less than a third (27.2%) of participants has attended formal business training sessions. The remaining participants indicated that they have not attended formal business training (65.2%) or are unsure (7.6%)

Whilst it is claimed that business training is offered via the auspices of the various national, provincial and local SMME support structure, information relating to these activities is not forthcoming. Internationally, a study conducted by the OECD (2012) concluded that on-going and regular business training initiatives can improve the extent to which SME owners are able to organise and position their business activities in order to take advantage of opportunities and negate threats.

However, the recommendation of on-going and regular training is perhaps an unfeasible strategy in South Africa. Is it practical for a SMME owner to close his/her business to attend training – especially if he/she does not have employees?
Sector of operation

Figure 4.5.15

SMMEs from diverse sectors where included in this study. The figure above illustrates that sector with the highest responses (20.8%) was transportation. This encompasses trucking, logistics, and freight and passenger transportation. Other sectors where relatively large responses were received from include Retail and Wholesale (19.2%), manufacturing (16.4%), and food and beverage (14.8%). The remaining responses came from SMMEs which operate in the Clothing and Personal Grooming sector (11.2%), Business consulting (7.2%), Automotive (7.6%) and Advertising (2.8%) sectors.

The industry in which SMMEs operate can have a major impact on their success. The commencement capital, assets and human resource requirements vary considerably across industries. As such Business Partners (2012) suggest that SMME owners conduct comprehensive research prior to investing in a particular industry.

Amongst other things, SMMEs should be fully aware of the existing competition, barriers to entry, the nature and type of customers, as well as the availability of suppliers in that particular industry. The potential growth of the industry should also be estimated.
Do you conduct your business operations with the use of computers and/or laptops?

As can be seen in the figure above, a relatively large portion of respondents (39.6%) do not conduct their business operations with the use of computers and/or laptops. The remaining participants, (60.4%) indicated that they do use laptops and computers to conduct their business operations – albeit, 24.4% often and 36%, sometimes.

The manner in which business is conducted in the 21st century is greatly influenced by technology. Key business operations are conducted efficiently via the medium of laptops, computers and tablet PCs. Furthermore, the use of such technologies can increase the extent to which a small business owner can reach his/her target market as well as considerably reduce the costs of conducting business transactions. Whilst Seda cognisant of this notion and has developed a Technology Programme, the adoption of technology seems to be very low. Arguably, this could be due to two main factors; (i) the high cost of purchasing and maintaining ICT equipment and (ii) insufficient knowledge on what ICT equipment is available and how to use these (Seda, 2014).
Are you able to access the internet for business purposes?

Figure 4.5.17

The primary findings from the study reveal that more than half of all respondents do not have access to the internet for business purposes on a regular basis – 23.6% do not have access and 18.8% rarely have access. Thirty six percent of respondents indicated that they have access to the internet a few times a week and a further 21.6% indicated that they have access on a daily basis.

According to Wiertz (2011) internet adoption is largely influence by the cost and availability of internet services. The internet provides a platform through which SMME owners are able to market their products, source goods, and network and communicate with most stakeholders. Accessing relevant information is made easy by the internet. Furthermore, the internet provides a gateway for SMME owners to expand their target market regionally, nationally and globally, thus enabling them to compete in a much larger scale. Despite the benefits of the internet, access and affordability are two major constraints that are stifling adoption amongst SMME owners.

Section B: Financial characteristics

Understanding the unique financial characteristics of SMMEs is critical to the provision of financial support initiatives. Therefore, this section will describe and comment on the financial characteristics of SMMEs which operate in the eThekwini Metropolitan Municipality.
Major source of funding (commencement capital)

Figure 4.6.1

The figure above illustrates that the majority of participants (59.6%) used their personal savings as the major source of commencement capital. Approximately one in every five participants (20.4%) was able to obtain a personal loan from a commercial bank in order to fund their start-up. On the other hand, 18.4% of participants funded their start up with loans from family or friends. A very small portion (1.6%) of participants started their businesses with funding from governmental agencies.

Bruwer (2010) claims that SMMEs often cannot access finance via commercial or governmental institutions for a variety of reasons. The risky nature of small start-ups is often a deterrent to institutions which have a low appetite for risk. As a consequence, SMME owners are forced to look internally (usually to their savings and loans from close family and friends) for commencement capital. This notion is confirmed by the primary findings which reveal that the majority of participants turned to personal savings as a major source of commencement capital. Furthermore, the primary findings seem to corroborate the findings of Cullen et al. (2013) who found that less than 2% of SMMEs are able to access start-up funds that are made available by SMME financial support initiatives.
Approximate initial investment (commencement capital)

The figure above illustrates that the initial investment by SMME owners in the eThekwini Metropolitan Municipality varies considerably. For example, 32% of respondents invested between R1 and R49999, 7.6% invested between R50000 and R99999, 17.2% invested between R100000 and R149999, 16.4% invested between R150000 and R199999, and 19.2% invested R200000 or more. The remaining 7.6% of participants could not recall their approximate initial investment.

It is evident that SMME owners who participated in this research have invested considerably in establishing their businesses. From a personal point of view, these owners stand to lose a considerable amount of money if their businesses fail.

Whilst it is evident that a considerable pool of money has been invested collectively, these figures do not provide deeper insight regarding the adequacy of the investment. For example, a SMME owner may have invested R1 million in his/her start up. However it does not necessarily imply that this amount is sufficient for the purchase of the necessary resource to conduct their business. This notion is supported by Dzansi and Tasssin-Njike (2014) who found that insufficient commencement capital combined with a lack of access to finance is the second most contributors to SMME failure.
Average monthly sales

Figure 4.6.3

The average monthly sales of SMMEs that participated in this research vary considerably. For example, 32% of participants indicated that their average monthly sales are between R1 and R9999, 8% indicated it is between R10000 and R19999, 17.2% indicated that it is between R20000 and R29999, 7.2% indicated that it is between R30000 and R39999, 19.2% indicated that it is between R40000 and R49999 and the remaining 16.4% of participants indicated that their sales are more than or equal to R50000 per month.

Tracking daily, monthly and yearly revenue is an important aspect of financial management of large and small businesses. If revenue is incorrectly calculated and recorded, profit calculations will also be inaccurate. It should be noted that revenue alone does not provide insight into the overall success of a SMME. Whilst the ability to generate sales is certainly a component of SMME success, total sales figures should always be interpreted within the context of total expenditure. Therefore, the following sections will elaborate on costs.
Similar to the distribution of monthly sales responses, the average fixed monthly costs also vary considerably among SMME owners that partook in this study. However, the figure above illustrates that a relatively large percentage of respondents (21.2%) did not calculate their average fixed monthly costs. Of the remaining participants, 18.4% indicated that their average fixed monthly costs were between R1 and R4999, 24.8% between R5000 and R9999, 19.2% between R15000 and R19999, and the remaining 16.4% of participants indicated that their average fixed monthly costs are greater than or equal to R20000.

Managing fixed costs is a critical task that every business owner should conduct. High fixed costs reduce profits and place a burden on owners when production and or sales are low. Calculating and recording fixed costs can assist SMME owners in determining the minimum quantity that he/she should sell in order to break–even or be profitable.
Average monthly variable costs

Figure 4.6.5

The figure above illustrates that the majority of respondents (77.2%) do not calculate their monthly variable costs. Of the participants that do calculate their monthly variable costs, 3.2% incur between R1 and R4999 in variable costs per month, 0.4% incurs between R5000 and R9999, and the remaining participants (19.2%) incur R20000 or more in variable costs per month.

According to Erisia-Eke and Raath (2013), financial skills largely determine the extent to which a SMME owner is able to accurately calculate and record the variable expenses associated with each unit of output. Together with sales and fixed costs, variable cost enable SMME owners to accurately calculate their profit margins and make sound financial decisions based on these margins. Given that the majority of participants are failing to calculate their variable costs, it can be argued that financial literacy amongst SMME owners is low as well as the fact that the financial decisions made by the majority of them are not based on accurate calculations.
What is the main factor which influences your selling price?

Figure 4.6.7

Main factor influencing selling price

<table>
<thead>
<tr>
<th>Factor</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>A fixed mark-up formula based on the cost of goods</td>
<td>36.4%</td>
</tr>
<tr>
<td>The average market price</td>
<td>28%</td>
</tr>
<tr>
<td>I determine the price of goods based on what I think is fair</td>
<td>35.6%</td>
</tr>
</tbody>
</table>

In general, financial management principles advocate that the selling price of a good should be determined by a mark-up formula that takes into consideration fixed costs and the variable costs and other operating expenses. In this study however, only 36.4% of participants determine their selling price via this approach. Of the remaining participants, 28% indicated that they base their selling price on the average market price and 35.6% indicate that they determine their selling price on what they perceive to be a fair price.

Fakoti (2008) explains that the calculation of a business’s selling price can be determined via many accounting techniques. However, the same author explains that these techniques are very rarely accurately applied by new SMMEs – if applied at all. Fakoti uncovered that 32% of participants in his study, determined their selling price on what they deemed to be fair. A further 56% of participants in his study conceded that they did not know of any selling price mark-up technique and therefore could not perform accurate calculations.

Despite the importance of applying a fixed mark-up on their selling price, on 36.4% of participants in the current study did so. The remaining participants (63.6%) are essentially basing their selling price in a manner that could potentially impact on their ability to be profitable and remain successful.
What is the total value of your fixed assets?

Figure 4.6.8

According to the Generally Accepted Accounting Principles (GAAP), a fixed asset is a long-term item that is tangible and which a company firm owns. It is used to generate income and is not expected to be converted into cash any sooner than at least one year's time. The figure above illustrates that approximately one in every three respondents (33.2%) do not possess fixed assets. Of the remaining participants, 28% possess fixed assets to the value of between R1 and R49999, 35.6% to the value of between R50000 and R99999, 0.4% to the value of between R100000 and R249999 and 2.8% to the value of between R250000 and R499999.

Whilst not necessarily inferring causation, Monks (2010) found that a strong positive relationship exists between the value of fixed assets and profitability amongst SMMEs. This implies that, in general, there is a trend between owing fixed assets and being profitable. Mutezo (2009) also notes that fixed assets can serve as collateral and can significantly improve SMME owner’s chances of securing credit for growth and development purposes. In the current study, approximately a third of participants do not possess fixed assets, and therefore, stand a very slim chance of securing funding to expand. On the other hand, the majority of participants own fixed assets that are valued at below R100 000. Therefore, if successful, the amount of funding will not necessarily be great. Struwig (2011) also explains that the unwillingness or incapability of SMME owners to save and invest in fixed assets has a major influence on their business’s growth.
Indicate the total value of your debt

Figure 4.6.9

<table>
<thead>
<tr>
<th>Value of total debt</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>I do not have any debt</td>
<td>7.6%</td>
</tr>
<tr>
<td>R1 to R49 999</td>
<td>32%</td>
</tr>
<tr>
<td>R50 000 to R99 999</td>
<td>22%</td>
</tr>
<tr>
<td>R100 000 to R249 999</td>
<td>22%</td>
</tr>
<tr>
<td>R250 000 to R499 999</td>
<td>16.4%</td>
</tr>
</tbody>
</table>

The total value of debt, similar to many of the characteristics presented prior to this item, varies considerably across SMME owners in the eThekwini Metropolitan Municipality. Whilst a relatively small portion (7.6%) indicated that they do have any debt, the majority indicated that they do. Thirty two percent of participants indicated that their business is liable for between R1 and R49999, 22% indicated that their business is liable for between R50000 and R99999, a further 22% indicated that their business is liable for between R100000 and R249999 and the remaining 16.4% indicated that their business is liable for between R250000 and R499999.

Given that the majority of participants indicated that the major form of commencement capital was personal savings, as well as the fact that SMMEs find it difficult to obtain funding, it is surprising to note that only 7.6% of participants are debt free. As an argument, it could be said that SMMEs experience significant cash flow problems subsequent to start-up, and therefore turn to overdraft facilities offered via banks, loans from family, friends and business associates as well as micro loan lenders. This argument is supported by Cullen et al. (2013) who state that whilst it is logical to assume that SMME owners would not be overburdened with debt (due to a lack of access to finance), the reality is not so. In fact, given the source of credit for most SMME owners (loans from family, friends and business associates); the amounts are not based on the owners ability to repay the debt. As such, the reality that prevails is that SMME owners are often forced to refinance most loans that they have previously taken – due to their inability to meet their obligations.
Do you offer credit facilities to your customers?

Figure 4.6.10

The figure above illustrates that the majority of SMME owners who participated in this research (70%) do not provide credit facilities to customers, whereas the remaining 30% do. The availability of reasonable and affordable credit facilities can significantly boost firms’ sales. For SMMEs, the provision of credit facilities enables them to compete with larger organisations which almost always have credit facilities and are able to purchase larger quantities at discounted prices. The recent global financial crisis, combine with economic issues in South Africa have lowered the ability of the average consumer to purchase goods with cash. As a consequence, the consumers are turning to firms that provide credit facilities. Based on the findings, it can be argued that the majority of participants do not have an appetite for risk that is related to the provision of credit. The provision of credit has both a positive and negative impact on SMMEs and will be discussed in the relevant succeeding sections.

Indicate the percentage of your monthly sales that is on credit

Figure 4.6.11
As noted in the previous item, 70% of SMME owners who participated in this research do not provide credit facilities to customers. Of the participants that do offer credit facilities, 7.6% (n=250) do not calculate the percentage of credit as a portion of their total sale, 3.2% (n=250) indicated that between 25% and 49% of their monthly sales is on credit and 19.2% (n=250) indicated that between 50% and 74% of their monthly sales is on credit.

Brijlal et al. (2014) opine that cash management is very important to the financial well-being of a SMME. Whilst the provision of credit facilities can serve to attract customers, it should be stated that if credit sales are allowed and the business owner does not accurately record these sales, he/she will have difficulty in recouping their accounts that are receivable. In situations where the majority of sales are on credit, SMME owners may face severe liquidity issues which could impact on their ability to be successful. The impact of poor cash management is further discussed in succeeding the sections.

**What are your credit terms?**

**Figure 4.6.12**

![Credit terms](image)

The figure above illustrates that most participants (23.4%) that do offer credit facilities to their customers, do so on a one month interest-free term. The remaining 7.6% indicated that they do not necessarily stipulate payback terms and that their customers pay them whenever they can. The absence of a predetermined payback period can reduce the extent to which an SMME owner can budget his/her cash. As a consequence, he/she will be unable to plan and organise his/her activities efficiently. Even in the case where a one month interest free term is extended to debtors, the SMME owner should fully understand that he/she will most probably experience cash flow problems – especially if his/her creditors terms are less than one month.
Do your debtors pay you on time?

Figure 4.6.13

The figure above illustrates that most participants (22%) that do offer credit facilities to their customers, do not get paid by their debtors on time. The remaining participants indicated that they do get paid on time – albeit, 0.4% most of the time and 7.6% sometimes.

According to Erisia-Eke and Raath (2013), the average bad debt that is written off on a yearly basis by each SMME is in the region of R20000 and R45000. The inabilities to collect their accounts that are receivable places sever cash flow constraints on the SMME. When debtors do not pay on time, SMME owners often look to debt finance to continue with their daily operations. As a consequence of the service and interest charges associated with debt, the SMME owners’ profits are significantly reduced. In the current study, the majority of those participants that do offer credit facilities do not get paid on time. Therefore, it can be argued that these business owners are bound to experience cash flow problems.
Do you purchase trading stock on credit?

Figure 4.6.14

The figure above illustrates that 28% of participants do not purchase trading stock on credit. However, due to a flaw in the questionnaire design (which was not detected by the pilot study), 7.6% also indicated that they never purchase trading stock on credit. Therefore, more than a third of the participants (35.6%) do not purchase trading stock on credit. Of the remaining participants, 19.6% (n=250) indicated that they purchase all of their trading stock on credit, 41.6% indicated that they often purchased trading stock on credit and 3.2% indicated that they sometimes purchased stock on credit.

As mentioned previously, SMMEs which cannot recoup their accounts that are receivable are bound to experience cash flow problems. As a result, SMME owners are then forced to purchase their stock on credit whilst waiting to recoup their credit sales. Whilst this system (cash to cash cycle) occurs in every industry and amongst all sizes of enterprises, it should be noted that the terms of credit provision is extremely important. If a SMME owner extend a one month interest free credit term to his/her customers, then he/she should have at least more than a month interest free term with his/her suppliers. If not, the cash flows of that particular SMME will be severely impacted. If interest is incurred, the profitability of the SMME is also lowered (Fakoti, 2012).
Are you able to pay your creditors on time?

Figure 4.6.15

As can be seen in the figure above, 8% of participants indicated that they are often able to pay their creditors on time and the remaining 64% indicated that they sometimes paid their creditors on time. The remaining participants indicated that they did not purchase trading stock on credit. Related to the preceding factors which impact on cash flow, SMME owners ability to payback his/her supplier/creditor, is largely influenced by the degree to which he/she is able to recoup monies from debtors. Eresia-Eke and Raath (2013) suggest that SMME owners should be familiar with and regularly calculate the cash-to-cash-cycle ratio in order to better manage their cash flow. Ultimately, if a SMME cannot remain liquid, then it is almost certain that the business owner will consider accruing further debt, which inevitably lowers profits.
Indicate how often you apply the following financial management tools, techniques and standards

Figure 4.6.16

<table>
<thead>
<tr>
<th>Application of financial management tools, techniques and standards</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monitoring my cash position</td>
</tr>
<tr>
<td>-----------------------------</td>
</tr>
<tr>
<td>Daily</td>
</tr>
<tr>
<td>Weekly</td>
</tr>
<tr>
<td>Monthly</td>
</tr>
<tr>
<td>Yearly</td>
</tr>
<tr>
<td>I have never made use of this financial management tool/technique</td>
</tr>
</tbody>
</table>

Chapter two elaborated on the notion of finances being a scarce resource and the fact that appropriate step should be adopted in order to efficiently utilise and maximise this scarce resource. In general, financial management tools, techniques and standards can be applied at various intervals in order to add value to a firm. The findings presented above illustrate the frequency at which participants apply the various financial management tools, techniques and standards.

The only financial technique that was applied on a daily basis was the monitoring of cash position. This was noted amongst 40.4% of the respondents. According to Cullen et al. (2013), cash is a scarce resource that must be measured and monitored on a daily basis in order to ensure that the SMME remains liquid. Having sufficient cash reserves on hand can assist SMME
owners in taking advantage of cash discounted purchases and to cover unforeseen business expenses. Insufficient cash on hand may lead to the use of credit – which is costly. Furthermore, Ngary et al. (2014) caution that excess cash reserves may not be good for SMMEs. Excess cash reserves should be invested in order to provide for growth at a later stage.

In terms of weekly financial management, 0.4% indicated that they monitor their cash position, 0.4% indicated that they applied the standards of GAAP and 16.8% indicated that they engaged in budgeting. According to Özaysar (2014:1) “Generally Accepted Accounting Principles, or GAAP, comprise a set of rules and regulations set forth by the Financial Accounting Standards Advisory Board (FASAB) and the Governmental Accounting Standards Board (GASB). The accounting cycle is one part of GAAP, which all professional accountants must follow to ensure the accuracy and reliability of their organizations’ financial statements.” Adhering to these principles is very important for all business entities – including SMMEs. By accounting for income and expenses according to GAAP on a daily basis, a SMME owner’s financial record will be universally readable. Financial statements that are constructed according to this principle are also a mandatory requirement for loan applications. The standardised format may also assist SMME owners in comparing their performance against similar companies. If the basic daily accounting entries of a SMME are not entered according to GAAP, there is a high probability that the financial statements will be inaccurate and unreliable.

According to Castellina (2014), the activities of budgeting, forecasting and planning are important to SMMEs – as they are to larger firms and multinational corporations. These 3 activities force the SMME owner to look towards the future and craft a plan of action that is aimed at minimising future risks and capitalising on expected opportunities. However, Haribhai-Pitamber and Dhurup (2014) claim that the paucity in financial records within SMMEs, combined with the inaccurate recording of financial data, makes the task of forecasting, planning and budgeting a daunting and futile activity. Despite this, Haribhai-Pitamber and Dhurup strongly believe that forecasting, planning and budgeting - if applied accurately – can lead to lower costs, a healthy cash flow and overall business success, ceterus parabas.

In terms of financial management tools, techniques and standards that are applied on a monthly basis, 51.6% of participants indicated that they monitor their cash position, 7.2% apply the standards of GAAP, 0.4% measure their overall financial performance, 14.4% engage in forecasting activities, 31.2% engage in financial planning, and 22% engage in budgeting. On a yearly basis, half of the respondent apply the standards of GAAP, 60.4% measure their overall financial performance, 35.6% engage in forecasting activities, 19.2% engage in financial planning activities and the same percentage of respondents engage in budgeting activities.

Surprisingly 7.6% of participants indicated that they never monitor their cash position, 42.4% do not apply the standards of GAAP, 39.2% do not measure their overall financial performance, half of the respondents do not engage in forecasting activities, a further 49.6% do not engage in financial planning activities and 42% do not budget their finances.
Are your financial records internally audited?

Figure 4.6.17

<table>
<thead>
<tr>
<th>Audited financial records</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
</tr>
<tr>
<td>57.6%</td>
</tr>
</tbody>
</table>

Whilst it is not a mandatory requirement, more than half of the participants surveyed (57.6%) indicated that their financial records are audited. The remaining 42.4% do not audit their financial records.

According to Thomas (2014), an internal audit can assist SMMEs in many ways – even though it may be a costly and time consuming process. Internal audits may assist SMME owners in identifying fraud and theft by employees, cash misuse, and compliance with the firm’s financial procedures. Ngary et al. (2014) found that 54% of a sample comprising 138 Fast Food SMMEs did not conduct internal or external audit due to it not being a mandatory requirement. However, the same respondents also indicated that they did not perceive an internal audit as adding value to the company’s financial performance. However, Brijlal et al. (2014) advocate that internal audits can be conducted in a cost effective manner by the SMME owner and should result in enhanced financial control.

Section C: Operational Characteristics

Indicate the generic strategy that your business has adopted

Figure 4.7.1

<table>
<thead>
<tr>
<th>Generic strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost leadership</td>
</tr>
<tr>
<td>46.4%</td>
</tr>
</tbody>
</table>

The figure above illustrates that the most common generic strategy that has been adopted by SMME owners is a cost leadership strategy (46.4%). This is followed by the adoption of a focus
strategy (adopted by 34.4% of the participants) and a differentiation strategy (adopted by 19.2% of the participants).

According to Ibrahim (2007), understanding a SMME’s generic strategy can yield useful insights into its daily operations. Therefore, generic strategies that are adopted by SMMEs in the eThekwini Metropolitan Municipality were identified in this research. As can be seen, a relatively large percentage of participants (46.4%) have adopted a cost leadership strategy. However, Ibrahim warns that SMMEs may not have the capacity and resources to achieve the economies of scale which are capable of enabling them to be the cost leader. Mapilia et al. (2014) support Ibrahim’s (2007) assertion and go on to suggest that the differentiation and focus strategies are more suitable for sustaining a competitive edge in the long run.

In addition, Maboa (2011) found that whilst small businesses may subscribe to a specific general strategy, their operational set-up is not conducive to the attainment of the specified strategy. Using participants that chose the differentiation strategy, Maboa (2011) demonstrated their lack of market research and hence, their inability to determine customer requirements. As such, whilst these SMME owners’ products may have been differentiated, the reality is that the aspects of differentiation may not be valuable to customers.

**Indicate the organisational structure of your operations**

![Organisational structure](image)

The majority of participants indicated that their organisation is functionally structured. The remaining participants (16.4%) indicated that they have adopted a more complex, divisional organisational structure.

According to Lorette (2014), many SMMEs begin their operations without a formalised business structure. Thereafter, the adoption of a formalised structure is driven by trial and error. The findings provide insight into the complexity of operations. Whilst a functional structure is
geared to specialisation, it is also more appropriate for a business that sells only one type of product or service. The functional structure is simple to adopt and implement. Understanding a SMMEs organisational structure provides insight into the formalisation of operations. Even though the majority of participants indicated that they have adopted a functional organisational structure, it does not necessarily imply that their operations are not formalised. The finding also seem to suggest that the majority of SMME owners sell only one type of good or good that belong to the same category. A relatively smaller percentage of respondents (16.4%) have more complex operations and have therefore adopted a matrix structure in order to produce different goods or many goods from different product categories.
Indicate which forms of advertising your business employs
Figure 4.7.3

<table>
<thead>
<tr>
<th>Forms of advertising</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other electronic media</td>
<td>0%</td>
</tr>
<tr>
<td>Other print media</td>
<td>20.8%</td>
</tr>
<tr>
<td>Vehicle signage</td>
<td>31.6%</td>
</tr>
<tr>
<td>Social media</td>
<td>43.6%</td>
</tr>
<tr>
<td>Flyers</td>
<td>60.8%</td>
</tr>
<tr>
<td>Sponsoring of events</td>
<td>0%</td>
</tr>
<tr>
<td>Street poles</td>
<td>28.4%</td>
</tr>
<tr>
<td>Billboards/signage boards in public areas</td>
<td>72%</td>
</tr>
<tr>
<td>Websites</td>
<td>60%</td>
</tr>
<tr>
<td>Television</td>
<td>0%</td>
</tr>
<tr>
<td>Radio</td>
<td>19.2%</td>
</tr>
<tr>
<td>Bulk SMS</td>
<td>0%</td>
</tr>
<tr>
<td>Mass emailing</td>
<td>16.4%</td>
</tr>
<tr>
<td>Direct mail</td>
<td>0%</td>
</tr>
<tr>
<td>Magazines</td>
<td>19.2%</td>
</tr>
<tr>
<td>Local newspaper/tabloid</td>
<td>50%</td>
</tr>
<tr>
<td>Major national/provincial newspaper</td>
<td>0%</td>
</tr>
</tbody>
</table>

The figure above illustrates the various forms of advertising that SMME owners have pursued. The most common forms of advertising (employed by 50% or more of the sample) include: Billboards and signage boards in public areas (72%), Flyers (60.8%), Websites (60%) and Local/tabloid newspapers (50%). Other common forms of advertising that have been used by
participants include Social media (43.6%), Vehicle signage (31.6%), Street poles (28.4%) and other print Media (20.8%). Other forms of advertising that have been applied (but by less than 20% of the sample) include; Radio (19.2%), Mass emails (16.4%) and Magazines (19.2%). Chilipunde (2010) postulates that when it comes to advertising, SMME owners tend to employ a scattergun approach where different forms of advertising are pursued in the hope that one will pay off. Xesha et al. (2014) further explain that SMME owners often lack the skills to identify the most appropriate advertising form that will reach their intended target market. Ngubane et al. (2015) are of the opinion that advertising methods are largely determined by the type of industry and the target audience.

Based on the findings from this study, it is evident that most forms of advertising that have been adopted by participants require monetary investment. The use of Social media websites (which is essentially a free form of advertising) was used by less than half of the participants. Whilst this may be attributed to SMME owner’s inability to own and operate technological equipment such as computers, smartphones and tablet PC’s, it must be noted that the majority of 21st century consumers are actively involved on social media websites. As such, for a business not to have a presence on any of the social media websites, it is highly probable that they are missing out on sales from a large percentage of their target market (Ward, 2013).

**Indicate your average monthly spend on marketing activities**

**Figure 4.7.4**

![Marketing related activities spend](image)

 Approximately one in every four participants (25.2%) indicated that they do not spend money on marketing related activities. This, however, does not imply that they do not engage in marketing related activities – especially since there are a variety of means to market a product without incurring a cost. Fifteen percent of participants spend between R1 and R499 on marketing related activities.
activities per month, whereas 29% spend between R500 and R999 per month. The remaining 30.8% spend between R1000 and R4999 on marketing related activities per month. To date, there is a dearth of studies that elaborate on the specific spend on marketing related activities by SMME owners in South Africa. The primary findings reveal that approximately a quarter of participants do not spend money on marketing related activities. The remaining three quarters do. As such, it is important to note that SMME owners are actively attempting to market their products. However, it is unclear if they are able to calculate their Return on Investment (ROI) and if this return is positive.

The primary findings also revealed that respondents refrain from sponsoring events. However, Mapila et al. (2014) explain that by sponsoring minor events, many benefits may accrue to the SMME owner. On one hand, the sponsoring of events builds brand awareness, product awareness and enables the SMME owner to expand his/her network. On the other hand, there is a possibility for the SMME owner to incorporate the sponsoring of events into a corporate social responsibility (CSR) initiative which ultimately creates a positive image of the SMME amongst community stakeholders.

Number of permanent employees

**Figure 4.7.5**

<table>
<thead>
<tr>
<th>Number of permanent employees</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>I do not have permanent employees</td>
<td>29.2</td>
</tr>
<tr>
<td>1 to 5 employees</td>
<td>40</td>
</tr>
<tr>
<td>6 to 9 employees</td>
<td>14.4</td>
</tr>
<tr>
<td>10 to 49 employees</td>
<td>16.4</td>
</tr>
</tbody>
</table>

SMME are often lauded for their ability to generate employment opportunities. In this research, 29.2% of SMME owners do not hire permanent employees. However, the majority of SMME owners that participated in this research do hire permanent employees. Forty percent of
participants indicated that they hire between 1 and 5 permanent employees, 14.4% hire between 6 and 9 permanent employees and 16.4% hire between 10 and 49 permanent employees. According to the 2014 (third) Quartely Labour Force statistics, SMMEs in the formal economy in South Africa employed approximately 60% of the country’s workers. However, it can be seen in the figure above that not all SMMEs contribute equally toward employment. The findings from the current study contradict to findings which Bruwer and Bornman (2013). In the current study, 29.2% of respondents indicated that they do not hire employees, whereas; in a sample of 125 SMMEs Bruwer and Bornman found that 96% of SMMEs do not hire employees. The two most cited reason for not hiring employees was financial constraints and inflexible labour laws. The findings from the current study also reveal that more two thirds of the participants do hire employees, although the majority of employers only hire between 1 and 5 employees.

Number of part-time employees

Figure 4.7.6

As the figure above illustrates, the majority of participants (92.4%) do not hire part-time employees. On the other hand, of the 7.6% (n=250) that do hire part-time employees, between 1 and 5 employees are employed.

Part-time employees can considerable increase the capacity of a SMME during periods of high demand. However, in the current study, a very small percentage of respondents turned to part-time employees for assistance. There could be many reasons for this. One reason could be that SMMEs do not experience high variations in demand. Another reason could be that SMME owners are reluctant to hire employees given the inflexible nature of labour laws.
Notwithstanding the low utilisation of part-time employees, Naidoo (2009) advocates that SMME owners can significantly increase output during periods of higher production, simply by hiring part-time employees. If short-term contracts are adequately drafted, the SMME owner should not experience difficulties with labour laws.

Are any of your family members involved in the day-to-day operations of the business?

Figure 4.7.7

As can be seen in the figure above, family involvement in the day-to-day operations of SMMEs is common. The findings reveal that just over a third of all participants (66.8%); include family members in their business activities. The remaining participants (33.2%) do not include their family members in their day to day activities.

Hadebe (2014) as well as Haribhai-Pitamber and Dhurup (2014) claim that it is not uncommon for family members of the owner to be involved in the daily operations of a SMME. The reasoning for this is provided by Hadebe (2014), who postulates that SMME owners trust family members more than outsiders – since family members have a vested interest in the success of the business. Hadebe further hypothesises that family members may be more willing to work harder and to work longer in order to ensure that the business meets its objectives. The findings from Hadebe’s study are similar to the primary findings of the current study – in both studies; the research reveals that the majority of SMME owners involve their family members in the daily operations of the firm.
Do you export any goods that your business produces?

Figure 4.7.8

Exporting seemed to be an uncommon practice amongst participants – the majority (92.8%) did not engage in this activity. On the other hand, 7.2% indicated that they did export. Exporting goods can increase sales for SMME owners, especially if the local market is saturated. Given the explosion of ICT, the efficiencies that have been realised by international courier companies and the general shift towards international trade agreements, SMMEs can considerably expand their target market (Jassiem et al., 2012).

Furthermore, the depreciation of the South African currency (ZAR) should be encouraging exports. However, in the current study, only 7.2% of respondents export goods and/or services. The notion of an expanded market stemming from exports is explained by Haribhai-Pitamber and Dhurup (2014) who explain the case of SMMEs and the ExIm Bank in Indian. The ExIm Bank is fully committed to assisting SMMEs source imports to serve as inputs, as well as market the goods that they wish to export. A total business solution is offered to SMMEs that wish to import or export goods. Given the aforementioned, one could speculate that SMME owners are unaware of the benefits that could accrue through importing and exporting goods and services. It could also be argued that there is insufficient support for SMMEs that wish to import or export goods.

Do you import any goods or inputs?

Figure 4.7.9
As can be seen in the figure above, more than a quarter of all participants (26.4%), import goods and inputs. The remaining participants (73.6%) indicated that they did not import any goods or inputs.

According to Monks (2010), importing cheaper inputs as well as finished goods is one way which an SMME can remain competitive. However, this benefit can only be accrued if the SMME owner purchases the goods directly from the international supplier – and usually in large quantities. The resources requirements that are need to import goods is often beyond the reach of most SMME owners. As such, SMME owners tend to rely more on local distributors and wholesalers who have imported goods. As a consequence, SMME owners are capable of purchasing lower quantities, albeit at a higher price. In the current study, just over a quarter of SMME owners are involved in importing activities. It should also be noted that in some cases, for example, a local taxi service, the SMME owner would not be required to import any goods.

**How many suppliers does your business operations rely on?**

![Figure 4.7.10 Numer of suppliers](image)

Within the context of logistics and supply chain management, relying on many suppliers can become a troublesome management task for small businesses. The primary findings reveals that 42.4% of participants rely on one to three suppliers, 0.4% rely on four to six suppliers, 42.8% rely on seven to nine suppliers and the remaining 14.4% indicated that they rely on 10 or more suppliers.

According to Tancott (2015), the efficiency of a supply chain for a SMME is largely determined by the quality of the services provided by its suppliers. SMME which cannot afford to purchase large quantities from suppliers, are often regarded by suppliers as less important than those firms who are capable of purchasing often and in large quantities. As a consequence, SMME owners may be forced to incorporate the services of different suppliers – those which are capable of supplying larger quantities and those that are better suited for delivering smaller quantities. The
result of having many suppliers is that the price and quality varies across suppliers. Therefore, the more suppliers a SMME owner relies on, the higher the probability that his/her price and quality of a particular product will vary.

**Indicate your relationship with your suppliers, in general**

**Figure 4.7.11**

The nature of the relationship that a business owner has with his/her suppliers impacts on the extent to which suppliers will be flexible to the owner’s attempts to meet customers’ requirements. The findings reveal that the majority of participants (58%) have an average relationship with their suppliers, 30.8% have a poor relationship with their suppliers and the remaining 11.2% have an excellent relationship with their suppliers.

Thakkar (2008) hypothesises that the relationship between suppliers and SMMEs is dependent on numerous factors. From the SMME owner’s perspective, a relationship with a supplier is rated as being excellent if the supplier is capable of delivering the required good – regardless of the quantity or notice period. On the other hand, Suppliers tend to foster better relationships with those SMME owners who are capable of purchasing larger quantities and on a regular basis. Thakkar (2008) also explains that the relationship between SMME owners and suppliers is influenced by the number of suppliers in a particular industry and the demand for a particular product.

In the current study, the primary findings reveal that the majority of participants share an average relationship with their suppliers. However, it should also be noted that a relatively large percentage of respondents also have a poor relationship with their suppliers. If suppliers are unable to deliver the right products with the required quality and price in a timely manner, it can be said that SMME owners will often experience difficulties in conducting their operations.
What is the average value of inventory that you keep on hand?

Figure 4.7.12

<table>
<thead>
<tr>
<th>Average value of inventory kept on-hand</th>
</tr>
</thead>
<tbody>
<tr>
<td>I do not keep inventory on hand</td>
</tr>
<tr>
<td>I do not calculate the average</td>
</tr>
<tr>
<td>inventory kept on hand</td>
</tr>
<tr>
<td>R10 000 to R19 999</td>
</tr>
<tr>
<td>R20000 or more</td>
</tr>
</tbody>
</table>

Inventory is central to most firms’ business. Keeping too little inventory on hand can result in a situation where a business owner forgoes an important sale. On the other hand, keeping too much of inventory on hand can expose the business owner to risks in the form of poor liquidity, obsolescence of stock and excess inventory holding costs. The findings from the study reveal that 35.6% of respondents do not keep inventory on hand (possible due to the fact that they offer services that do not require inventory), 11.2% do not calculate the inventory that they keep on hand, 31.2% keep inventory to the value of R10000 to R19999 and the remaining 22% of participants indicated that they keep R20000 or more worth of inventory. In most cases, inventory is central to the operations of SMMES and larger firms alike. Even though more than a third of respondents indicated that they do not keep inventory on hand, the issuer of inventory management is important to the success of the SMME. According to Mokone (2011), if too little inventory or no inventory is kept on hand, the SMME owner may be forced to forgo a lucrative sale. On the other hand, if the SMME owner keeps too much of inventory on hand, there is the risk that the inventory may become obsolete (especially in the cases of perishable goods and fast moving consumer goods). There costs of storing the inventory for long periods of time may also reduce the profitability of the SMME. Therefore, the accurate forecasting of required inventory levels is important to SMME owners and is discussed in the succeeding section.
Do you apply any forecasting techniques to determine your inventory requirements?

Figure 4.7.13

As can be seen in the figure above, inventory forecasting is not a common practise amongst respondents. The majority of participants (91.2%) do not apply any forecasting technique to determine their inventory requirements. A small percentage of respondents (8.4%) indicated that they do apply a forecasting technique to determine their inventory requirements and the remaining participants (0.4%) indicated that they were unsure. Indeed, most forecasting techniques rely on historical data to predict future requirement and may not predict inventory requirements with absolute precision. However, it is one way which the SMME owner can reduce the risks that are associated with keeping too little or too much of inventory (Banker, 2013).

For SMME owners wishing to maximise their profits and remain liquid, the management of inventory is very important. This would require the SMME owner to keep accurate records of past inventory purchases and sales in order to estimate future demand for their products. If inventory requirements can be determined with a reasonable degree of accuracy, the SMME owner will be able to align his/her operations in order to cater to fluctuating demand (Ngubane et al., 2015).
Section D: Key challenges to business success

Indicate the extent to which the following macro factors pose a challenge to the success of your business

Figure 4.8.1

Macro challenges

The figure above illustrates the extent to which participants perceive macro challenges as impacting on the success of their businesses.
Access to finance was rated as a major challenge by more than half of the participants (53.6%), as a moderate challenge by 19.6% and as a minor challenge by 19.2% of the participants. The remaining 7.6% of participants indicated that access to finance was not a challenge. Given the risk that is associated with a sector that experiences such high failure rates, it is not surprising to find that supply side concerns create a shortage of access to affordable finance (Peters, 2009). Furthermore, Cullen et al. (2013) provide a deeper synthesis of the access to finance concern. The authors argue that merely increasing the availability of funding through organisations such as Sefa does little to increase access to finance for SMME. Even when SMMEs are eligible for debt finance, the interest rate that is associated with the risk often renders the option of credit to be an impractical and unfeasible route.

High interest rates were rated as a major challenge by 62% of the participants, as a moderate challenge by 30.4% and as not being a challenge by 7.6% of the participants. Bromfield (2014) explains that higher interest rates in South Africa can be expected for the near future – especially given the increase in inflation and consumer debt, as well as a contracting economy. SMMEs will increasing suffers from higher interest rates – especially those which are overburdened with debt. To date, there is a dearth of studies which have purported to measure the impact of interest rates on the success of SMMEs.

Low consumer demand appeared not to be a challenge to the business success. The majority of participants (58.8%) indicated that it is not a challenge, whilst the remaining 40.8% indicated that it is a minor challenge. These findings contradict the findings presented by Hess and Rust (2010). Hess and Rust found that low consumer demand is major challenge to the success of SMMEs in the USA, Brazil and certain European countries. A possible explanation for the difference in consumer demand may be attributed to consumer’s access to credit. Based on Hodgson’s (2014) findings, it appears that South African consumers have not cut down on spending and have instead, turned to credit offering to drive their consumption. Hodgson further revealed that South Africans are spending in excess of three-quarters of their income on debt repayments. If this is indeed the case, SMME owners should brace themselves for decreasing consumer demand – given that consumer’s access to credit which is beyond their means, is fast diminishing.

The majority of participants (56.8%) indicated that load shedding is a major challenge whilst 14.8% indicated that it is a moderate challenge. Surprisingly, a relatively large portion of the respondents (28.4%) indicated that load shedding was not a challenge to their business. On the other hand, the high cost of electricity is rated as a major challenge by 60.8% of the participants, as a moderate challenge by 18.4% and as a minor challenge by the remaining 20.8% of participants. Whilst it is impractical to assume that there is a wealth of literature which documents the impact of load shedding on SMMEs success (given that it is a relatively new phenomenon), the are unconfirmed media reports (see for example: Orie, 2015) which claim that load shedding may lead to at least a 10% increase in the failure rate of SMMEs. Nevertheless, the current findings reveal that loadshedding is indeed a challenge – at least two thirds of participants in this study indicated that it is a major or moderate challenge to their success.

With regards to high taxation, 74.4% of participants indicated that it is a major challenge to business success and 14.8% indicated that it is a moderate challenge. The remaining 10.8% indicated that they are unsure if high taxation impacts on their business success. Sali et al. (2014) found that high tax rates are a major challenge to the success of all the SMMEs surveyed. Whilst
the findings from the current study are not entirely in line with what Sali et al. (2014) uncovered, they certainly serve to reinforce the perception that high tax rates is certainly a challenge. Chilipunde’s (2010) study uncovered that SMME owners felt that they could not reinvest profits into growth activities simply because the high tax rate significantly reduced their Net Income after Tax (NIAT). Given its negative impact on growth activities, high tax rates is certainly a challenge to the success of SMMEs.

Unnecessary red tape is rated as a major challenge to 10.8% of participants, whilst 44.8% indicated that it is a moderate challenge and 36.8% indicated that it is a minor challenge. The remaining 7.6% indicated that unnecessary red tape is not a challenge to their business success. Tlhomola et al. (2010) opine that the regulatory framework and its associated red tape is the main reason why so many small businesses operate in the informal economy. Oni and Fakoti (2014) add that most SMMEs are ill-equipped and do not have the time to dedicate towards navigating the regulatory sphere. Unnecessary red tape is therefore a challenge to the success of SMMEs because it inevitably side-lines or denies them access to services which are offered solely to SMMEs that comply with all regulatory requirements. Unnecessary red tape within the regulatory environment also reduces the probability of SMMEs being able to tender for Government contracts via the Preferential Procurement policy gateway.

Crime was rated by 39.2% of the participants as being a major challenge. Half of the participants indicated that crime was a moderate challenge and the remaining 10.8% indicated that it was a minor challenge. As can be deduced, crime is rated as either a major or moderate challenge by approximately 90% of the participants. Storom’s (2011) revealed that crime had negatively impacted on at least 89% of the participants in his study. In attempting to explain the impact of crime on business success, Storom explains that owners are forced to invest in extra security measures at their premises, bear the cost of stolen goods, make monthly payments to security patrol companies as well as insure their goods against theft. Ultimately, these payments all serve to reduce the owner’s profits, and in some cases, eliminate it altogether. Mlatsheni and Liebrandt (2011) concluded that SMME success in South Africa is significantly influenced by the direct and indirect costs that are associate with crime.

Increased competition due to global integration appears not be a challenge to the success of participants businesses. The majority of participants (66.4%) indicated that it was not a challenge, whilst a relatively small portion or respondents (14.4%) indicated that global competition is a minor challenge. The remaining 0.4% of participants indicated that global competition is a moderate challenge. These findings do not corroborate the prediction that was made by Karl Marx. Marx predicted that small businesses would eventually meet their demise through large Multi-National Corporations which are spurred on by the forces of globalisation. However, it can be argued that the impact of globalisation on SMMEs is yet to be fully felt. However, there is an increasing trend towards free trade and away from protectionism. Whilst not formally documented, it is a known fact that textile SMMEs operating in the eThekwini Municipality were forced to cease trade following the influx of cheaper imports. This can be confirmed by the dearth of textile SMMEs in the region.

Similar to global competition, the availability of skilled human resource pool is rated as being not a challenge by the majority of participants (64.4%). Approximately one in four respondents (25.2%) indicated that the availability of skilled human resources is a minor challenge and the remaining 10.4% of participants indicated that this is a moderate challenge. These findings run
contrary to the factual claim that South Africa is experiencing a critical and scarce skills shortage. (De Villiers and De La Harp, 2012). There may be many possible explanations to this variance. However, Abor and Quartely (2010) put forward a very plausible explanation. The authors opine that that SMMEs are often labour intensive but require low to semi-skilled workers. As a result, SMME workers do not necessarily require employees who are highly skilled. Despite this explanation, De Villiers and De La Harp (2012) argue that for SMMEs to remain competitive and also be able to compete on a global scale, they require skilled workers who are capable of adding value to businesses in the knowledge economy.

Within the context of macro challenges, the findings from the study seem to corroborate Ingle’s (2014) study which concluded that crime, red tape stemming from the regulatory and legislative environment and high interests are the most common challenges which pose a threat to SMME success.

**Micro Challenges**

**4.8.2.1 Indicate the level of competition in your industry**

*Figure 4.8.2.1*

As can be seen in the figure above, the majority of participants (63.6%) perceive the competition in their respective industries to be high. Eight per cent of respondents perceive competition to be average and the remaining 28.4% perceive competition in their industry to be very high. Competition is a force that faces most private sector businesses. Ponelis (2014) is of the opinion that SMMEs often fail to conduct adequate market research prior to investing in a particular investing in a particular business. Their decisions are based largely on informal discussions with acquaintances, family members, colleagues and friends. As a result, SMME owners are typically not fully aware of the existing competition that prevails within a certain local industry or the threats of potential entrant (i.e. the barriers to entry). SMMEs often find themselves competing
aggressively with other SMMEs as well as larger firms. Resultantly, SMME owners are forced to reduce their prices in order to remain competitive. Obviously, this has a major impact on both gross and net income. If the SMME owner is unable to reposition his/her product through differentiation or serving a niche market, he or she is bound to experience challenges that would place the success of their business in jeopardy.

**Indicate the extent to which the following micro factors pose a challenge to the success of your business**

**Figure 4.8.2.2**

The figure above illustrates the extent to which participants perceive micro challenges as impacting on the success of their businesses.
Weak management skill is rated as a moderate challenge by the majority of participants (93.2%) whilst the remaining participants (6.8%) rated this as being a minor challenge. Peters (2009), claims that SMMEs often run in perpetual crisis mode. As a consequence, the owner of the SMME needs to be equipped with the necessary skills to manage these daily challenges. Problem solving skills is an important tool in the arsenal of management skills that a SMME owner possess. De Villiers and De La Harpe (2012) opine that the task of managing daily operations as well as attempting to overcome a plethora of challenges can become a daunting task for a SMME owner if he/she does not have the necessary management skills.

On the other hand, weak financial skills is rated as a major challenge by 31.6% of the participant and as a moderate challenge by 10.4%. More than a third of participants (34.8%) regard weak financial skills as being a minor challenge and the remaining 23.6% of participants indicated that this is not a challenge. Tabot and Brijlal (2014) found that within the domain of financial management, working capital management often stifled the potential success and growth of small businesses. Jassiem et al. (2012) also identified the inability of SMME owners to accurate forecasting techniques. Ngary et al. (2014) found poor costing methods severely impacted on SMME owners abilities to manage their businesses financially. In addition, Maboa (2011) claimed that the ability to manage the financial aspects of a SMME is largely dependent on the owner’s ability to keep accurate accounting records.

High input and material costs are rated as being mainly a major challenge (40.4%) or a moderate challenge (41.6%) to the success of participants businesses. Approximately one in every ten participants (10.8%) indicated that high input and material costs is a minor challenge whilst the remaining 7.2% of participants rated this as not being a challenge. Soni (2011) found that the rising cost of electricity, water, office space internet connectivity fuel and other business consumables that are used to generate outputs have significantly reduced the net profits of SMMEs which operate in the eThekwini Metropolitan Municipality. In addition, Bornman and Bruwer identified that increasing inflation has led to higher wage demand from employees – thereby significantly increasing the input costs of many businesses.

The majority of participants (75.2%) indicated that a poor understanding of consumer requirements is a moderate challenge whilst 14.4% indicated that this is a minor challenge to the success of their businesses. The remaining 10.4% of participants indicated understanding consumer requirements is not a challenge. Chalera (2006) found that SMME owners are often reluctant to spend money on marketing research. Their approaches to determining consumer preferences are often unscientific and lead to invalid conclusions. As a result, SMME owners may struggle to fully identify consumer requirements. Aigbavboa et al. (2014) add that even when the shift in consumers preferences in noticeable in the marketplace, SMME owners are reluctant to modify their product offerings and marketing strategies due to the potential risks. However, Aigbavboa et al. argue that it is a bigger risk for SMME owners to provide products which they think consumers need, instead of products that consumers actually demand.

Fourteen per cent of participants indicated that an inability to fully access their target market is a major challenge, whilst 26.8% indicated that this is a moderate challenge. The same challenge was rated as being a minor challenge to 30.8% of the participants, whilst the remaining 28.4% indicated that gaining full access to their target market is not a challenge. Chalera (2006) found that in excess of 90% of SMMEs in the souvenir manufacturing subsector failed to fully access their intended target market. These SMMEs were almost entirely reliant on government
initiatives and support programmes to market their products to the intended target market. However, it is important to note that access to the intended target market can vary significantly across sectors and industries as well as across product categories. Although poor networking skills was not indicated to be a major challenge, 28.4% of participants did indicate that it is a moderate challenge. Approximately one in every five respondents (20.8%) indicated that poor networking skills is a minor challenge whilst more than half of the respondents (50.8%) indicated that poor networking skills did not impact on their businesses success. Meyer’s (2013) study revealed that networking emerged as a critical enabler to the growth and development of SMMEs. Meyer’s findings demonstrated a positive relationship between networking and the growth and expansion of SMMEs – thereby illustrating the value that a network may have to SMME owners. Meyer also postulated that those SMME owners who were involved with growing and evolving networks inevitably benefited from these developments and were able to conduct their business operations with mentorship and guidance from other members of the progressive network.

Section E: Awareness and use of support structures in the eThekwini Metropolitan Municipality and nationally
Indicate your awareness of the following National Support Structures

![Figure 4.9.1](image)

**Awareness of National Support Structures**

<table>
<thead>
<tr>
<th>Agency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>NYDA</td>
<td>7.2</td>
</tr>
<tr>
<td>IDC</td>
<td>45.2</td>
</tr>
<tr>
<td>NEF</td>
<td>7.2</td>
</tr>
<tr>
<td>Seda</td>
<td>7.6</td>
</tr>
<tr>
<td>Sefa</td>
<td>7.2</td>
</tr>
<tr>
<td>NYDA</td>
<td>40.8</td>
</tr>
<tr>
<td>IDC</td>
<td>18.8</td>
</tr>
<tr>
<td>NEF</td>
<td>56.8</td>
</tr>
<tr>
<td>Seda</td>
<td>18.8</td>
</tr>
<tr>
<td>Sefa</td>
<td>76.4</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Awareness</th>
<th>Seda</th>
<th>Sefa</th>
<th>NEF</th>
<th>IDC</th>
<th>NYDA</th>
</tr>
</thead>
<tbody>
<tr>
<td>I am fully aware of the services provided by this agency</td>
<td>7.6</td>
<td>7.2</td>
<td>7.2</td>
<td>45.2</td>
<td>7.2</td>
</tr>
<tr>
<td>I have heard of this agency but I am not entirely sure of the services it provides</td>
<td>73.6</td>
<td>16.4</td>
<td>36</td>
<td>36</td>
<td>52</td>
</tr>
<tr>
<td>I have never heard of this agency</td>
<td>18.8</td>
<td>76.4</td>
<td>56.8</td>
<td>18.8</td>
<td>40.8</td>
</tr>
</tbody>
</table>
The figure above illustrates the responses to the questionnaire item which sought to uncover participant’s awareness of national support structures for SMMEs. As can be seen in the figure, 7.6% or participants are fully aware of the services provided by Seda, 7.2% are fully aware of the services provided by Sefa, 7.2% are fully aware of the services provided by the NEF, 45.2% are fully aware of the services provided by the IDC and 7.2% are fully aware of the services provided by the NYDA. Furthermore, 73.6% of participants have heard of Seda but are not entirely sure of the services that it provides, 16.4% have heard of Sefa but are not entirely sure of the services that it provides, 36% have heard of the NEF but are not entirely sure of the services that it provides, 36% have heard of the IDC but are not entirely sure of the services that it provides and 52% have heard of the NYDA but are not entirely sure of the services that it provides. Lastly, 18.8% of participants have never heard of Seda, 76.4% have never heard of Sefa, 56.8% have never heard of the NEF, 18.8% have never heard of the IDC and 40.8% have never heard of the NYDA. Previous studies which sought to uncover awareness of government support for SMMEs in South Africa (see for example, Berry et al., 2002; Rogerson, 2004 and FinScope, 2010) failed to assess the exact extent of awareness amongst SMME owners. However, in this study, awareness was measured along a continuum which ranged from never hearing of a specific support agency, to hearing of that specific support agency and thereafter being fully aware of the services that are provided by the specific support agencies. In doing so, the findings reveal that less than 10% of the participants are fully aware of the services that are offered by Seda, Sefa, the NEF and the NYDA. Mukhove (2014) observes that the South African Government has been steadfast in establishing numerous support schemes which are administered via the aforementioned national support agencies and aimed at SMME owners. Support ranges from financial support and business plan writing assistance to setting up operations, developing and researching products, marketing support and business expansion consulting. The support is indeed diverse and arguably comprehensive. Information on these support schemes is available primarily through the National Directory of Small Business Support Programmes (Dti, 2014). Despite the diversity and scope of the support that is purportedly provided via the national support agencies, there is one major issue. Awareness of these support schemes and agencies is extremely low. Awareness has always been low and a challenge for most support agencies. This was noted by Berry et al. in 2002, thereafter by Rogerson in 2004 and more recently by the Finmark commissioned FinScope study in 2010. According to the FinScope study, 75% of SMME owners were not aware of any support agencies or schemes. The findings from the current study seem to follow the trend of low awareness of support agencies amongst SMME owners. According to Mukhove (2014) awareness of the IDC and the services that it provides was noted amongst 45% of SMMEs. The findings from the current study confirm the awareness of support agencies is highest for the IDC. However, Mukhove (2014) also found that more than 80% of SMME owners had never heard of any of the other SMME support agency. Mago and Toro (2013) are of the opinion that low awareness of national support agencies are directly related to poor marketing efforts by these agencies. This notion is supported through
their research which reveals that 70% of SMME owners felt that national support agencies are failing to communicate their existence effectively.

Unarguably, low awareness of these national support agencies impacts on the access and use of these support services by SMME owners. The succeeding section will elaborate on the use of national support agencies amongst SMMEs.

**Indicate if you have used the following National support structures**

**Figure 4.9.2**

<table>
<thead>
<tr>
<th>National Support Structure</th>
<th>I have never made use of the services offered by this agency</th>
<th>I have made use of the services offered by this agency at least once</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seda</td>
<td>5.6%</td>
<td>94.4%</td>
</tr>
<tr>
<td>Sefa</td>
<td>1.2%</td>
<td>98.8%</td>
</tr>
<tr>
<td>NEF</td>
<td>0%</td>
<td>100%</td>
</tr>
<tr>
<td>IDC</td>
<td>0%</td>
<td>100%</td>
</tr>
<tr>
<td>NYDA</td>
<td>2.8%</td>
<td>97.2%</td>
</tr>
</tbody>
</table>

The figure above illustrates participant’s responses regarding the use of national support structures which are tasked with providing financial and non-financial support to SMMEs throughout South Africa.

As can be seen, no participant has previously enlisted the services of the NEF or the IDC. The use of national support structures seems to be very low. Only 5.6% of participants have made use of the services provided by Seda, 1.2% have made use of the services provided by Sefa and 2.8% have made use of the services provided by the NYDA.

Given the low awareness of national support agencies, it is hardly surprising that use of the services provided via these agencies is extremely low. The agency which participants used the most was Seda. However, even in this instance, a very small percentage of respondents actually made use of the services by Seda.

The findings from the current study seem to corroborate the findings presented by Chimucheka and Rungani in 2011. Chimucheka and Rungani found that 92% of SMME surveyed indicated that they had never applied for support from any agency. Besides being unaware of the specific services offered by the various support agencies, the second most cited reason for not procuring the services of these agencies was being unaware of the application procedures. The study also revealed that the high costs and time that are associated with searching for appropriate support services also results in user fatigue and discouragement.
Mago and Toro (2013) opine that the low use of national support agencies is not limited to poor awareness. The authors are of the opinion that the staffs who are employed at these support agencies are often poorly trained and ill equipped to assist SMME owners efficiently. Their claim is supported by Aigbavboa et al. (2014) who found that 64% of SMME owners rated the service which they received from national support agencies as being very bad or bad.

**Indicate your awareness of the following support structures in the eThekwini Metropolitan Municipality**

*Figure 4.9.3*
The figure above illustrates the responses to the questionnaire item which sought to uncover participant’s awareness of SMME support programmes in the eThekwini Metropolitan Municipality.

As can be seen, full awareness of programmes was only indicated by 7.2% of participants for the Cooperative development programme and 60.4% for the Durban Business Fair. Furthermore, 58.8% of participants have heard of the Access to Finance Programme but are not entirely sure about the services it provides, 60% have heard of the Business Linkages Programme but are not entirely sure about the services it provides, 23.6% have heard of the Business Development Programme but are not entirely sure about the services it provides, 60.4% have heard of the Tourism Development Programme but are not entirely sure about the services it provides, 16.4% have heard of the Cooperatives Development Programme but are not entirely sure about the services it provides and 28.8% have heard of the Durban Business Fair but are not entirely sure about the nature of this event.

Approximately 4 in every ten participants (41.2% and 40%) have never heard of the Access to Finance Programme and Business Linkages Programme, respectively. The majority of participants, (76.4%) have never heard of the Business Development and Cooperative Development Programmes. The Tourism Development Programme was never heard of by 39.6% participants, and 10.8% have never heard of the Durban Business Fair.

To date, there is a dearth of research which seeks to identify SMME owner’s awareness of support programmes in the eThekwini Metropolitan Municipality. The primary findings from the current study reveals that there is partial awareness of these support programmes. For example, many respondents were aware of the Access to Finance, Business Linkages and Tourism Development programmes but were not entirely sure of the service that are provide through these programmes. If these findings are indeed representative of the SMME population in the eThekwini Metropolitan Municipality, it can be argued that local support initiatives are as poorly market as the national support initiatives. Given the budgets that have been allocated to these support programmes, there can be no excuse for poor marketing and failing to create awareness amongst SMME owners who operate in the municipality.
4.9.4 Indicate if you have used the following support structures in the eThekwini Metropolitan Municipality

Figure 4.9.4

Use of support structures in the eThekwini Metropolitan Municipality

<table>
<thead>
<tr>
<th>Support Structure</th>
<th>Use of Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Access to finance programme</td>
<td>98.4%</td>
</tr>
<tr>
<td>Business linkages programme</td>
<td>100%</td>
</tr>
<tr>
<td>Business development programme</td>
<td>100%</td>
</tr>
<tr>
<td>Tourism development programme</td>
<td>99.6%</td>
</tr>
<tr>
<td>Cooperative development programmes</td>
<td>100%</td>
</tr>
<tr>
<td>Durban business fair</td>
<td>88%</td>
</tr>
</tbody>
</table>

The figure above illustrates participant’s responses regarding the use of SMME support and development programmes in the eThekwini Metropolitan Municipality. As the figure illustrates, the use of support programmes is uncommon amongst the majority of SMME owners that participated in this research. Of the six programmes on offer, only three were utilised by responses. Furthermore, only 1.6% of participant made use of the Access to
Finance Programme, 0.4% made use of the Tourism Development Programme and 123% made use of the Durban Business Fair.

As noted in chapter 2, only a single researcher (Chetty, 2010) has focused the attention of their research on the use and impact of support programmes in the eThekwini Metropolitan Municipality. Chetty’s study found that 72% of SMMEs had never accessed support services which are offered at the local level.

The findings from the current study reveal that the use of support programmes by SMME owners operating in the eThekwini Metropolitan Municipality is much lower than initially reported by Chetty in 2010. As such, it would appear attempts to increase awareness and promote the use of support programmes in the eThekwini Metropolitan Municipality seem to be regressing rather than progressing.

CONCLUSIONS AND RECOMMENDATIONS

Findings from the Study

A summary of key findings from the literature review and the primary research are presented in the succeeding subsections.

Findings from the Literature Review

Quantitative research is deductive in nature and therefore begins with theory. In order to establish a theoretical framework for analysis, literature pertaining to the research objectives was reviewed.

As stated in Chapter 1, the four main objectives of the study were: (i) to profile the financial characteristics of SMMEs which operate in the eThekwini Metropolitan Municipality, (ii) to profile the operational characteristics of SMMEs which operate in the eThekwini Metropolitan Municipality, (iii) to identify the key challenges faced by SMMEs with specific reference to business success and to assess SMME business owner’s awareness and use of national agencies as well as agencies in the eThekwini Metropolitan Municipality that are mandated to support SMMEs. The key findings from the literature review are presented below.

- The importance of SMMEs is noted throughout the world. In South Africa, SMMEs have been earmarked to redress the socio-economic ills that currently plague the country’s economy. Despite the fact that SMMEs contribute significantly towards national GDP and employment and are labelled as the engines of economic growth, there is a major concern that the failure rate amongst SMMEs is too high. The National Development Plan (NDP) has great expectations of the SMME sector – 9.9million jobs must be created by this sector over the next 15 years. In order to meet this tremendous expectation, SMMEs will require sufficient support to survive and thrive. However, support initiatives can only be effective if policymakers fully understand the unique characteristics of SMMEs.

- As regards the definition of SMMEs, there appears to be an issue with the classification of entities that fall within this broad term. As a consequence, most comparisons between entities that are classified as either a Small, Medium or Micro enterprise are often unreliable and difficult to conduct. Furthermore, most classification parameters are
quantitative in nature and lack the value of qualitative understanding. The correct application of classification parameters is critical to the formulation of targeted – instead of generalised - support policies and initiatives.

- Inaccurate measurements of SMME performance also make it difficult for policymakers to gauge the impact of their policies and support strategies. In general, it appears that there is paucity of data related to the SMME sector.

- Literature pertaining to the financial aspect of SMMEs is largely focused on the issue of access to credit. Very few studies seek to uncover the specific financial characteristics of SMMEs. Brijlal et al. (2014) explain that there are five crucial financial aspects of SMMEs that must be understood in order to comprehend the unique nature of these entities, namely; commencement capital, earnings and expenses, assets, debt and cash flows. Ngary et al. (2014) recommend that, given the scarcity of financial resources which are available to SMMEs, owners ought to apply the following financial management techniques in order to become efficient: monitoring of cash position, accounting and measuring results, forecasting, planning and budgeting.

- Mapila et al. (2014) claim that a business’s operational characteristics are determined by its generic competitive strategy. In general, for SMMEs, the differentiation or focus strategies are recommended over the cost leadership strategy. Furthermore, De Villiers and De La Harpe (2012) claim that organisational structures also influence the operational characteristics of SMMEs.

- Dzansi and Tassine-Njike (2014) claim that there are three major operational areas which SMMEs should manage, namely; Marketing and sales, Human resources, and Inventory and logistics.

- Chilipunde (2010) and Xesha et al. (2014) claim that SMMEs are often weak at marketing and therefore do not get valuable returns on their investment. This is especially due to their scattergun approach to marketing. Marketing research was also found to be non-existent. The average monthly spend on marketing and sales generation activities was not found in any of the literature surveyed.

- Mahadea and Pillay found that SMME owners are reluctant to hire employees due to the cost implications as well as the constraints of labour regulations. Haribhai-Ptamber and Dhurup (2014) found that family involvement is also common within the context of human resources.

- Lofving et al. (2008) found that inventory management is largely dependent on the volatility of cash flows experienced by SMMEs. Jassiem et al. (2012) also alluded to the importance of importing and exporting activities to the inventory management and competitiveness aspects of SMMEs.

- The major national support agencies were identified as being; the Small Enterprise Development Agency (Seda), the National Empowerment Fund (NEF), the Industrial Development Corporation (IDC), the National Youth Development Agency (NYDA) and the newly formed Small Enterprise Finance Agency (Sefa). The impact of these agencies was found to be a high in certain areas but low in general.

- Support programmes within the eThekwini Metropolitan Municipality ranged from access to finance, business linkages and business development, to tourism development
and cooperative development as well as the Durban Business Fair. Literature pertaining to the impact of these programmes was limited to only a single research undertaking by Chetty (2010).

- Challenges to SMME success are categorised according to the macro environment and the micro environment. Macro challenges include, inter-alia; access to finance, low consumer demand, load shedding, high tax and interest rates, red tape stemming from the regulatory and legislative landscapes, crime, competition stemming from global integration and the availability of skilled human resources. Micro environmental challenges include, inter alia; poor management and financial skills, a lack of business acumen and problem solving skills, changing market requirements, poor product quality, rising input costs, local competition and poor locations.

Findings from the Primary Research

This section provides a synthesized summary of the primary findings as per each objective of the research undertaking. Ultimately, this section will demonstrate that the research aim and objectives have been achieved.

Profile the financial characteristics of SMMEs which operate in the eThekwini Metropolitan Municipality

Approximately 60% of respondents created their business with the personal savings. Loans from family and friends as well as from banks were also utilised as the major source of funding. Most SMME owners invested less than R150 000. In terms of monthly sales, the majority of respondents indicated that they earn less than R30000 in revenue. At least 2 in every 10 and 7 in every 10 respondents did not calculate their fixed and variable costs, respectively. There were mixed responses with regards to the manner in which selling prices were calculated. However, just over a third of SMME owners calculate their selling prices scientifically. The majority of respondents possess assets to the value of R99 999 or less (approximately a third do not own any fixed assets). Similarly, the majority of respondents are liable for debt to the value of R99 999 or less (whilst only 7.6% do not have any debt). Credit facilities for customers were only offered by 30% of the respondents and approximately 2 in every 10 respondents indicated that credit sales accounted for between 50 and 74% of their sales. Of those respondents that did offer credit to customers, most indicated that their credit terms are “one month interest free”, however, the majority of these respondents indicated that debtors did not pay them on time. Whilst 28% of the respondents indicated that they do not purchase trading stock on credit, more than 40% indicated that they purchase trading stock on credit, very often. Furthermore, these respondents indicated that they are sometimes able to pay their creditors on time. The most common financial management tools that are applied by respondents on; (a) a daily basis: monitoring of cash position, (b) a weekly basis: budgeting, (c) Monthly basis: monitoring of cash position, (d) yearly basis: measuring overall financial performance. The most unused financial management tool is forecasting. Finally, the majority of the participants indicated that their financial statements are audited – implying that they do keep financial records.
Profile the operational characteristics of SMMEs which operate in the eThekwini Metropolitan Municipality

The primary findings reveal that the majority of respondents operations are guided by the adoption of a cost leadership strategy and a functional organisational structure. The most common forms of advertising adopted by respondents include: Billboards and signage boards in public areas, flyers, websites and local newspapers and tabloids. The majority of the respondents indicated that they spend between R500 and R4999 on marketing related activities per month (whilst 1 in every 4 participants indicated that they do not spend money on marketing activities). Approximately 29 and 92 per cent of respondents do not employ permanent and part-time employees, respectively. However, the majority of respondents indicate that they employ between 1 and 9 permanent workers. More than two thirds the respondents indicated that their family members are involved in the day to day activities of the business. In terms of exporting and importing goods, 7.2% and 26.4% do so, respectively. A large portion of respondents depend on one to three suppliers, whilst a similar portion relies on seven to nine suppliers. In addition and in general, respondents rated their relationships with their suppliers as being average. As regards inventory, more than a third do not keep this form of current assets whilst more than 10% do not calculate the average worth inventory kept. A relatively large portion keeps between R10 000 and R19 999, whilst the remaining respondents keep R20 000 or more. The overwhelming majority of respondents do not apply any forecasting technique to determine their inventory requirements.

Identify the key challenges faced by SMMEs with specific reference to business success

Access to finance, high interest rates, the energy crisis (cost and availability), and high taxation are the major macro challenges to the majority of participants. Moderate macro challenges that were identified by the majority of participants include unnecessary red tape and crime. Low consumer demand, high competition due to global integration and the availability of skilled human resources are macro factors that did not pose a challenge to the majority or participants. In terms of micro challenges, the majority of respondents indicated that that the completion in their industry is high. Other responses to micro challenges drew mixed responses. For example, weak financial skills was rated by more than thirty per cent of respondents as being both a major challenge and a minor challenge, respectively. High input and material costs was rated by the majority of respondents as being either a major or moderate challenge. The inability to fully access their target market was rated as being either a minor challenge or not a challenge by the majority of respondents. Approximately half of the respondents indicated that a poor networking skill is either a moderate or minor challenge, whilst the remaining half indicated that this is not a challenge. Finally, weak management skills and a poor understanding of consumer requirements were, in both instances, rated as a moderate micro challenge by the majority of respondents.

Assess SMME business owner’s awareness and use of national agencies as well as agencies in the eThekwini Metropolitan Municipality that are mandated to support SMMEs

In terms of awareness relating to national support agencies, the majority of participants have never heard of Sefa and the NEF. Full awareness of the services offered by the IDC was indicated by a relatively high percentage of respondents. With regards to Seda and the NYDA, the majority of respondents indicated that they have heard of these agencies but were not fully aware of the services that they provide.
Owing to the low awareness of national support agencies, it was not surprising that the majority of participants had never used the services offered by these agencies. Only the services provided by Seda, Sefa and the NYDA were accrued – albeit by a very small percentage of participants in each instance. The services of the NEF and the IDC were not used by any of the respondents.

In terms of awareness of support programmes offered by the eThekwini Metropolitan Municipality, the majority of participants are fully aware of the services offered by the Durban Business Fair. However, the majority of participants further indicated that they have heard of but are not fully aware of the services that are offered via the Access to Finance Programme and the Tourism Development Programme. In addition, the majority of respondents indicated that they had never heard of the Business Development Programme and the Cooperative development programme.

The use of programmes offered by the eThekwini Metropolitan Municipality, similar to that of national support agencies, is very low. Only 1.6% of the participants have made use of the Access to Finance Programme, 0.4% have made use of the Tourism Development Programme and 12% have made use of the Durban Business Fair. None of the participants had ever made use of the services offered via the Business Linkages Programme, Business Development Programme or the Cooperatives Development programme.

**Conclusions from the Study**

The major aim of this study was to conduct a systematic inquiry in order to document and describe the key characteristics of SMMEs that operate in the eThekwini Metropolitan Municipality. The findings reveal that SMMEs are indeed a very diverse group of business entities. In fact, the diversity of their nature, including their key financial and operational characteristics, makes it very difficult to provide a simple overview of this sector. From the findings, a trend can be observed. It may be impractical and unfeasible for policymakers to collect such detailed information on SMMEs throughout eThekwini, KZN or even South Africa. Therefore, instead of trying to reach the SMME sector, policy makers should attempt to encourage SMMEs to come to them. This can be achieved via the improved marketing of support services. The collection of the relevant data relating to the nature of SMMEs can then be collected when the owners apply for assistance. In reality, this will enable policymakers to formulate strategies based on the characteristics of those SMMEs that do require support. The SMME support landscape would need to be transformed (whilst not trying to reinvent the wheel). The details the required transformation can be found in the succeeding section where recommendations are provided.
RECOMMENDATIONS

This section provides recommendations on strategies which are in support of SMME success as well as recommendations for further research.

Recommendations for Strategies that Support SMME Success

The identification of the financial and operational characteristics of SMMEs provides useful insight into the nature and constitution of these unique entities.

It is important to note that any attempt to provide recommendations on SMME support strategies must be practical, feasible and achievable in a reasonable amount of time. These recommendations must also take into the history and prevailing landscape of SMME support strategies.

The findings from the study reveal that the challenges experienced by SMME owners - whilst indeed severe and threatening - are not unknown to the eThekwini Municipality or the South African Government. In fact, most of these challenges appear to burden SMMEs globally. Furthermore, it appears as though the South African Government as well as the eThekwini Municipality have devised a plethora of programmes, schemes and initiatives to be delivered by numerous agencies to assist SMMEs in overcoming these challenges.

Why then, are SMMEs failing at such an alarming rate?

The findings from this study reveal that, whilst there is sufficient support available to SMMEs, the awareness of these agencies is very low. Besides failing to market these support agencies adequately, it must be argued that the number of agencies providing support services is extremely high. The National Directory of Small Business Support Programmes (dti, 2014), indicates that there is excess of 90 service providers throughout South Africa which are mandated to provide SMME support. Is the average SMME owner expected to be fully aware of the services provided by each of these entities? Surely this cannot be a reasonable expectation of SMME owners – above and beyond that task of operating and managing their businesses. This notion is supported by the newly appointed Minister of Small Business Development, Ms Lindiwe Zulu:

“The state of SMME development is in disarray with different sectors and tiers of government acting without any coherence…if we are unsure of what we are doing, how can we expect the public to be sure…?” (Monama, 2014:1)

Based on the fact that there are too many support agencies throughout South Africa, it would seem inane and futile to recommend the creation of additional support agencies or to advocate for specialised support services in the eThekwini Metropolitan Municipality specifically. Rather, it would be best to consolidate these support agencies and redefine the provision of SMME support at a national level and ensure that the implementation is consistent at the local level and throughout every province.

The recent establishment of the National Department of Small Business Development provides a window of opportunity to consolidate and refocus the trajectory of SMME support in South Africa.
What is required is the implementation of a “One-Stop Shop” concept, where potential and existing SMME owners are able to access the various support programmes, schemes and initiatives. Given that a multitude of resources has already been invested for the provision of SMME support the implementation of this concept should be feasible. Ideally, support for SMMEs should clearly be separated into financial and non-financial support. Furthermore, all SMME support agencies should be consolidated under one of two agencies, namely Seda (for non-financial support) and Sefa (for financial support). This will certainly simplify the SMME support landscape. Furthermore, the consolidation of the ninety support agencies into two major support agencies will result in synergies in the provision of support, ensure uniform delivery of support throughout South Africa as well as simplify the process of creating awareness amongst SMME owners. Ideally, support for SMMEs should be focused around three phases, namely the; (i) Pre start-up phase, (ii) Start-up phase and (iii) Development and growth phase. A discussion on the support that should be provided by Seda and Sefa at each stage is presented below:

- **Pre Start-up Phase**
Prior to registration of a SMME, Seda should provide support services in the form of business idea generation and stress-testing of the business idea. If the idea is deemed to be feasible in general, Seda should provide market research assistance to the potential SMME owner. Being able to identify, inter-alia, the existing competition, stage of industry growth and ease of entry, can significantly reduce the risk of SMME failure. If market entry is deemed to be feasible, Seda can assist the potential SMME owner in crafting an appropriate business plan. Initially, Seda may find the aforementioned tasks difficult. However, as it begins to build a repository of market related information in the various industries, it will be in a position to identify the majority of threats and opportunities that are associated with each industry. The testing of ideas combined with market research and the subsequent creation of a comprehensive business plan will serve to reduce the risks of SMME failure and ultimately make it less risky to finance these entities. It is also recommended that Seda explores the possibility of engaging with international experts on SMME creation and development. In doing so, the support activities provided at the pre start-up phase could be approached in a refreshed and innovative manner.

Assuming that Seda has approved a specific business idea as being feasible (by stress-testing the business idea, assisting SMME owners with market research and developing a business plan), Seda should refer the potential SMME owner to Sefa. The allocation of funds could be granted based on the extent to which the business is deemed to be risky. For example, Seda could provide recommendations to Sefa on the risk associated with a particular business idea/ business plan. Based on the risk that will be identified along a continuum, Sefa can choose to allocate funds to the potential SMME owner. If funds are not awarded due to there being a high risk of failure, detailed reasons should be provided by Sefa. The potential SMME owner should then be referred back to Seda in order to ensure that the issues are addressed. If the idea is deemed to be unfeasible, then a new idea should be generated. Ultimately, the processes that are involved at the pre start-up phase must be geared towards reducing risks and advising potential SMME owners on ideas which are not feasible to pursue and markets which are impractical to enter. In doing so, these Seda and Sefa may be able to significantly reduce the failure of SMMEs
• **Start-up Phase**
Assuming that Sefa has awarded the potential SMME owner the necessary funding to begin operations, then, Seda must be involved at this stage. Seda should provide assistance to the potential SMME owner on issues related to business registration, tax registration and other regulatory issues. Seda should partner with SARS and the Companies and Intellectual Property Commission (CIPC) in order to streamline these processes. Seda should thereafter provide assistance to the officially registered SMME owner with issues relating to, identifying an appropriate location, acquiring the relevant machinery and equipment, setting up operations and labour recruitment. Whilst this does seem like a mammoth task for Seda to achieve on a large scale, it must be noted that Seda will merely be acting as the coordinator of non-financial support services. In order to achieve such comprehensive support, Seda will certainly need to look towards partnering with other sectors, stakeholders and SMME owners. Partnering with the private sector, international stakeholders as well as successful local SMMEs will be a critical success factor in the revised support strategy. Sefa must also be actively involved at the Start-up phase. It must be compulsory for all SMME owners who have been granted funds to attend an initiate financial management training session, where, inter-alia, basic bookkeeping skills, accounting skills, budgeting and forecasting skills are acquired. Furthermore, Sefa should be prescriptive with regards to the manner in which funds are spent by SMME owners. As a general approach, a specific portion must be invested in assets. This will ensure that Sefa will be able to recoup at least some of its investment if the business fails. Furthermore, there needs to be more accountability on the part of Sefa. The current approach whereby funds are merely granted to SMME owners is not viable. Sefa must be actively involved in the support of SMME owners from a financial advisory position. Start-up phase support should be provided for SMMEs which are in existence for up to 3 years.

• **Development and Growth Phase**
Support relating to the development and growth of SMMEs should be provided for existing SMMEs which have been in existence for more than 3 years. In order to ensure that the activities of established SMMEs continue to contribute towards economic growth in a meaningful way, there needs to be expansion and growth. As such, Seda and Sefa should be actively involved in the provision of the necessary non-financial and financial support respectively. Every growth opportunity should be treated as a new idea, and the entire process, starting from idea generation should be followed again (obviously this would exclude the business and tax registration assistance – as this would not be required). Seda should also provide import and export as well as horizontal and vertical integration assistance in order to develop existing SMMEs. Whilst Seda would continue to minimise the risk of the expansion by stress testing the expansion ideas and assisting with expansion plans, Sefa should continue to provide expansion funding and ensure that funds are utilised efficiently.

• **Critical success factors for the proposed support initiatives:**
  – Financial and Non-financial support should only be provided by Sefa and Seda respectively. This would require that all existing support agencies be amalgamated.
  – The delivery of support should be coordinated through a “One-Stop-Shop” concept. As a recommendation, an office named the Small Enterprise Advisory Agency (SEAA) (pronounced
as “Siya”) should be established in every municipality and should essentially be a house for Seda and Sefa at the local levels. SEEA should provide administrative assistance, be responsible for the marketing of Sefa and Seda services and be the intermediary between Seda, Sefa and the public.

- In order for Sefa and Seda to provide comprehensive support, it is critical that both partner with the private sector, international stakeholders as well as local SMMEs which are successful. The development and use of relevant databases is also deemed as being critical.

- In order for the proposed initiatives to yield the desired outcomes and be successful, there needs to be more accountability on the part of Seda and Sefa. Through being actively involved in the creation and development of SMMEs, these two agencies will have greater influence over the success of SMMEs. Therefore, it is recommended that Seda and Sefa be made to report to the newly establishes Department of Small Business Development on a quarterly basis. Reports should detail the number of new businesses established as well as the number of businesses which have failed under the assistance and guidance of these two agencies. As such, accountability – especially regarding the granting of resources and its subsequent management – is a critical success factor to the proposed initiative.

Obviously, for the purpose of this research, detailed recommendations of a proposed strategy cannot be provided. However, the recommendations which have been presented can serve as an overall guide to the amalgamation and consolidation of the numerous support agencies in order to ensure the success of SMMEs in South Africa. An overview and graphic representation of the proposed recommendations is provided below.
Figure 5.1 Proposed recommendations for a coordinated approach to SMME support

- **Amalgamation of ninety SMME Support Agencies into two**
  - **Sefa** *(financial support)*
  - **Seda** *(non-financial support)*

**SEAA** *(located in every municipality and responsible for: administrative assistance, marketing of Seda and Sefa services and serving as an intermediary between Seda, Sefa and the public)*

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<tr>
<th>Phase</th>
<th>Recommendations and Support</th>
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<tr>
<td>Pre Start-Up Phase</td>
<td>Seda: Assistance with idea generation [minimise risk] (\rightarrow) stress testing of ideas [minimise risk] (\rightarrow) market research [minimise risk] (\rightarrow) Business plan writing [minimise risk] (\rightarrow) Sefa: final risk assessment (\rightarrow) grant funds or refer back to Seda for re-evaluation in order to minimise risk</td>
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<tr>
<td>Start-Up Phase (0-3 years)</td>
<td>Seda: Assistance with business and tax registration, selecting appropriate location, acquiring the relevant machinery and equipment, setting up operations and labour recruitment. Sefa: financial management training session, where, inter-alia, basic bookkeeping skills, accounting skills, budgeting and forecasting skills are acquired. Be prescriptive with regards to the manner in which funds are spent by SMME owners</td>
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<tr>
<td>Development and Growth Phase &gt;3 years</td>
<td>Growth opportunity should be treated as a new idea, and the entire process, starting from idea generation should be followed again [exclude the business and tax registration] Seda: provide import and export as well as horizontal and vertical integration assistance Sefa: continue to provide expansion funding and ensure that funds are utilised efficiently</td>
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Recommendations for further research

Based on the findings and the recommendations put forth in this research, it would appear as though further research is required in within the domain support services offered to SMMEs. Given the proposed transformation SMME landscape and consolidation of the SMME support services, further research is required in order to determine:

- The entire spectrum of support services provided by the 90 support agencies.
- The most feasible manner in which these agencies can be consolidated under Seda and Sefa.
- The required resources in order to successfully implement this consolidation.
- The resource requirements of the Small Enterprise Advisory Agency (SEAA).
- The possible techniques that would be most effective in marketing and creating awareness of the transformed support landscape.
- The database considerations for the recording, storing, retrieval and use of SMME characteristics to be captured whenever owner applies for support.

CONCLUSION

Based on the importance of SMMEs and their alarming rate of failure in South Africa, this study sought to describe the key characteristics of SMMEs in the eThekwini Metropolitan Municipality. The findings revealed that SMMEs are certainly a very diverse group of business entities – especially based on their financial and operational characteristics. The challenges faced by SMMEs in the eThekwini Metropolitan Municipality are no different when compared with SMMEs in other province as well as other countries. Awareness and use of national support structures as well as support programmes in the eThekwini Metropolitan Municipality is very low. Based on these findings, the major recommendation to policymakers is to transform the SMME sector by consolidating the support services in order to achieve synergies as well as the equal and uniform distribution of support to SMMEs. Policymakers will need to make the support landscape much simpler for SMME owners to navigate. In this regard, the effective communication of changes is deemed to be a critical success factor. Ultimately, the current approach to SMME support has not been successful on a scale that is large enough to have any impact. Even the newly appointed Minister of Small Business Development, Ms Lindiwe Zulu concedes: “…getting South Africa onto a high-growth trajectory demands that we fundamentally change our game plan and place small businesses and co-operatives at the centre of our war against poverty, inequality and unemployment. Developing a strong and growing SMME community is a cornerstone of the NDP’s vision. SMEs are expected to be central to job creation efforts, in line with international trends.” (Mkhulu, 2014:1). The establishment of the Ministry of Small Business Development provides a window of opportunity for policymakers to revive the SMME sector and to ensure that this sector it is equipped to contribute towards the broader aims and objectives of the National Development Plan.
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