

**A framework to enhance the sustainability of  
Small and Medium Size Enterprises in selected  
municipalities of the North West Province of  
South Africa**

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## **DECLARATION**

I, Paul Saah, declare that this dissertation entitled, “A framework to enhance the sustainability of small and medium size enterprises in selected municipalities of the North West Province of South Africa” is my work. This work has not been submitted in any university for any degree. All sources used in this study are indicated and duly acknowledged by means of direct and indirect references.

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Signed

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Date

## **DEDICATION**

I dedicate this work to God Almighty, who gave me the grace, strength and knowledge to complete the study.

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I acknowledge and thank the following people whose supervision and support have contributed to the success of this dissertation:

- Many thanks go my promoters, Professor Wedzerai Musvoto and Professor Costa Hofisi for their guidance, motivation and encouragement throughout the duration of this study.
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May the Almighty God, in His infinite mercy, continue to bless you all. Amen.

## **ABSTRACT**

Small and Medium Enterprises (SMEs) are increasingly becoming the productive drivers of economic growth and development in South Africa. This is so because SME sector is the engine of employment creation and the key contributor to the GDP of the country. Despite their contribution to the development of the economy, the rate of failure and discontinuity of SMEs in South Africa is still one of the highest in the world. A lot of business scholars have addressed the issue plaguing the sector by identifying the causes of SME failure but have not provided a solution on what needs to be done for these business ventures to become sustainable. The purpose of this study therefore was to develop a framework for enhancing the sustainability of SMEs in municipalities of the North West province of South Africa. A number of objectives were set to accomplish the purpose of the study that built up to the development of the proposed framework to enhance the sustainability of SMEs in this region. In order to attain the objectives of this study, the study used five principal theories that address the sustainability of SMEs: the financial gap theory, the resource dependence theory, the theory of mergers and acquisitions, investment theory and trickle-down theory.

The pragmatist research paradigm underpinned supported the adoption of a sequential explanatory mixed method approach for collecting and analysing quantitative data in a first phase, while the qualitative phase was built on the outcomes of the preliminary quantitative results. The target population of this study was drawn from the current number of formal (duly registered) SMEs in the North-West province as indicated by the Central Supply Database of the Provincial Department of Finance. This population was chosen from the four district municipalities of the North-West province of South Africa and a non-probability sampling method was used to select a sample size of 400 small business owners and managers for the quantitative phase and 20 for the qualitative phase. The Statistical Package for Social Science was used to analyse quantitative data and Atlas-Ti software was used to analyse qualitative data.

The findings of the study indicate that the major causes of SME failure and discontinuity in the North West province is due to various factors such as lack of strategic business planning, lack of sufficient finance, poor management, lack of innovation, lack of business research and low level of human capital education and training. Therefore, it is imperative for SME owners and managers to formulate and pursue a strategic business plan for their businesses, seek for measures to foster an improved flow of finances and implement strategic management in their businesses. More so, it is necessary for SME owners and managers to be innovative in business,

conduct business research and upgrade the level of education and training of their human capital to ensure successful and sustainable business enterprises. More importantly, because of their contribution to economic growth of the country, the government should endeavour to support and encourage this sector to develop by offering financial and technical assistance to small business enterprises through relevant departments and agencies.

## **KEYWORDS**

*Framework; sustainability; Small and Medium Size Enterprises; survival; failure; North-West province; South Africa.*

## **LIST OF ACRONYMS AND ABBREVIATIONS**

ANOVA:	Analysis of Variance
BEE:	Black Economic Empowerment
BEE:	Black Economic Empowerment
BER:	Bureau for Economic Research
CFA:	Confirmatory Factor Analysis
CSF:	Critical Success Factors
DSBD:	Department of Small Business Development
DTI:	Department of Trade and Industry
EES:	Economic Empowerment Schemes
EFA:	Exploratory Factor Analysis
GDP:	Gross Domestic Product
GEM:	Global Entrepreneurship Monitor
HRM:	Human Resource Management
IBM:	International Business Machines
ICT:	Information and Communication Technology
IDC:	Industrial Development Corporation
IDP:	Individual Development Plan
KHULA:	Khula Enterprise Finance
LED:	Local Economic Development
NDP:	National Development Plan
NEF:	National Empowerment Fund
NEPA:	Ntsika Enterprise Promotion Agency
NRGI:	Natural Resource Governance Institute
NTTC:	National Technology Transfer Centre

NYDA:	National Youth Development Agency
OECD:	Organisation for Economic Co-operation and Development
PCA:	Principal Component Analysis
QDA:	Qualitative Data Analysis
RDP:	Reconstruction and Development Programmes
SADA:	South African Development Agency
SADC:	Southern African Development Community
SAMAF:	South African Micro Finance Apex Fund
SARS:	South African Revenue Services
SAS:	Statistical Analysis System
SBDC:	Small Business Development Corporation
SEDA:	Small Enterprise Development Agency
SEFA:	Small Enterprise Finance Agency
SMEDP:	Small Medium Enterprise Development Programme
SMEs:	Small and Medium Size Enterprises
SMME:	Small, Medium and Micro Enterprise
SPSS:	Statistical Package for the Social Sciences
TAC:	Technology Advisory Centre
UK:	United Kingdom
USA:	United States of America
UYF:	Umsobomvu Youth Fund
VAT:	Value Added Tax
WTO:	World Trade Organization



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## **CHAPTER ONE**

### **GENERAL OVERVIEW OF THE STUDY**

#### **1.1 Introduction**

Small and Medium Size Enterprises (SMEs) have been recognised as playing an important role in the economic growth of many countries in the world and studies demonstrate that these businesses are also an essential part of development in several countries today (Okpara, 2011). This makes the SME sector the backbone and the main stimulus of economic development of the global economy, especially those of the developing nations. Olawale and Garwe (2010) assert that governments worldwide now place a lot of emphasis on developing the SMEs sector in order to stimulate economic growth. This is the principal reason why the development and sustainability of SME sector is very important. Smit and Watkins (2012) argue that SMEs stimulate economic growth and contribute in reducing the socio-economic problems of many countries in the world.

Modimogale and Kroeze (2011) note that other studies have proved that SMEs in many developing countries account for a substantial stake in economic production and employment and for that reason, they are directly linked to poverty reduction in these countries. This generates the conception that SMEs are the major employers and income generators of many an economy. For example, Modimogale and Kroeze (2011) contend that the SME sector in Africa plays a major role in creating employment opportunities and improving opportunities for income generation as well as contributing immensely in the sustainable economic growth in countries all over the continent. According to National Credit Regulator (2011), SMEs employ an average of 22% of the workforce in Africa and other developing and emerging countries in the world. It is also projected that the SME sector in these countries contribute to over 50% of employment creation, the generation of income to improve the gross domestic product (GDP) and represent over 90% of private businesses in these developing and emerging countries.

Annandale (2013) avers that strategic integration of sustainability could assist SMEs to better anticipate and respond to long run trends and the effect of resource use. Hence, implementing sustainable business practices and demonstrating a passion for sustainability of SMEs in the North West province could unlock competitive advantages over those of other regions that are not sustainable. The National Small Business Act of South Africa of 1996, as amended in 2003, describes an SME as a separate and distinctive entity including cooperative enterprises and

non-governmental organizations managed by one owner or more. This includes subdivisions, affiliates of the entity is predominantly carry out in any sector, or sub-sector of the economy mentioned in the schedule of size standards and can be classified as SME by satisfying the criteria mentioned in the schedule of size standards (Government Gazette of the Republic of South Africa, 2003). One of the fundamental criteria used to determine SMEs in South Africa is the number of employees, annual turnover, total assets and ownership. Wiklund *et al.* (2009) assert that an SME in the South African context is any business venture that has one or more of the following features : having less than 250 employees, having a yearly turnover of less than R64 million, having a total asset of less than R10 million and with the owners involving directly in managing the business.

Abor and Quartey (2010) estimate that the SME sector constitutes 91% of formal businesses and contributes to 61% of job creation in South Africa. The White Paper on National Strategy for the Development and Promotion of Small Businesses in South Africa (1995), endorses the point that the SME sector is an important vehicle in job creation and economic growth in the South African economy. Consequently, the SME sector in South Africa is important for the government's initiatives in promoting the creation of jobs and the generation of income to improve the GDP of the country. Falkena *et al.* (2002) have also projected that the SME sector creates employment opportunities to over 60% of the country's working population. In this regard, Bankseta (2011) concludes that the SME sector is a vehicle for GDP improvement and unemployment reduction, since the formal sector of the economy continues to shed jobs.

The main purpose of this study is to develop a framework for the sustainability of SMEs in municipalities of the North West province of South Africa. Mandipaka (2015) contends that the impact of SMEs is very important because they play an essential role in a thriving economy. Based on the foregoing, as well as the background to the research problem, this study aims to address the sustainability of SMEs in selected municipalities of the North West province. In the light of the problems plaguing SMEs sector in the municipalities of the North West province of South Africa, it is imperative to develop a framework that would enhance their sustainability because of their importance to the economy. Therefore, this study proffers a framework whose implementation could enhance the sustainability of the SMEs sector in municipalities within the jurisdiction of the North West province of South Africa.

## 1.2 Background to the Study

The creation of the Small Business Development Corporation (SBDC) in the 1980s was the first initiative by the government to promote the growth of the SME sector (Ruiters *et al.*, 1994). Before the 1980s, not much attention was given to the SMEs by the government to encourage the development of the sector. Berry *et al.* (2002) argue that the 1995 White Paper on the National Strategy for the Development and Promotion of Small Businesses in South Africa was the first effort by the government to formulate a policy framework that targeted the whole spectrum of the small business enterprise sector. The main purpose of this policy strategy was to create a conducive environment for the growth of SMEs to enhance economic development of the country. Berry *et al.* (2002) add that the mechanisms for the promotion of small business outlined in the White Paper became constitutional through the National Small Business Act, which also provides the first comprehensive definition of SMEs in South Africa.

Kalane (2015) asserts that in 1994, the government put in place strategies to ensure that most individuals benefited from the formal economy. The aim of these policies was to broaden the economic base of the country to ensure that SMEs got support through the Reconstruction and Development Programmes (RDP). This RDP scheme was one of the government's initiatives and measures to develop the SME sector. Van der Nest (2004) contends that the government expanded over the years purposely to empower small business ventures by training potential entrepreneurs, by affirmative procurement and equity ownership as well as implementing affirmative action. Therefore, economic empowerment was initiated in 1994 and enforced during the early 2000s to ensure that there is equality in the ownership and control of economic resources to increase the participation and involvement of the less privileged people in economic activities of the country. Van der Nest (2004) further states that the government initiative of empowering SMEs greatly encouraged the less privileged people to take part in the development of the economy of the country that resulted in the creation of many small businesses in South Africa at the beginning of the 21<sup>st</sup> century.

Smit and Watkins (2012) argue that the significance of small business enterprises is acknowledged in many African countries just like in developed countries such as the United States of America (USA) and the United Kingdom (UK). In these developed countries, SMEs play a significant role in economic development and accounting for industrial employment of an estimated one third of the labour force with a higher percentage of output. This justifies the fact that SME sector plays a central role of economic development in both developed and

underdeveloped nations of the world. Smit and Watkins (2012) further note that SMEs are pivotal to economic growth and employment creation, specifically in countries such as South Africa that has a high unemployment rate, estimated at up to 40%. Government Gazette of the Republic of South Africa (2003) states that to aid in the facilitation of the SME environment, the government of South Africa has tabled the National Small Business Act of 1996 amended with Act 29 of 2004 to provide equal standing to SMEs in the economy.

Given their highly conservative nature, SMEs face limitations of access to finance as South African banks are less likely to lend to entrepreneurs to start up business ventures, especially those in predominantly rural areas of the provinces (Financial Services Regulatory Task Group, 2007). Consequently, most potential entrepreneurs with sound business acumen cannot establish their businesses and most of the existing ones lack of funding for expansion and growth. According to the Global Entrepreneurship Monitor (GEM) (2014) reports, the absence of access to funding is one of the main causes for small business failure in South Africa. This implies that limited access to funding is one of the main causes for small business failure in municipalities of the North West province. The Bureau for Economic Research (BER) (2016) notes that other challenges encountered by SMEs in South Africa that contribute enormously to their dwindling and winding up include low levels of business research and development, ineffective government bureaucracy, bad infrastructure, burdensome labour laws, increase crime and lack of access to markets.

SMEs in South Africa have a general yearly failure rate in the range of 70 and 80 percent (Bruwer and Watkins, 2010). This means that the failure and discontinuity rate of SMEs in South Africa is very high and must be addressed. Kolver (2012) mentions that concerns should be raised to prevent South African economy from moving to the second division and in the end turning into a failed country. The Global Entrepreneurship Monitor (GEM) Reports of 2001-2010 noted that South African SMEs likewise experience the ill effects of ineffective administration that results from the absence of satisfactory education and training. Mahembe (2011) adds that the ineffective management of SMEs is a significant cause of the high failure rates of small business ventures in the country. SME owners and managers most often do not understand important issues they should concentrate on for their businesses to thrive and be sustainable. The sources for SMEs obtaining data regarding the market for their products are limited. Therefore, measures such as developing a framework to redress this phenomenon is necessary to encourage the growth and sustainability of the SME in South Africa.

The National Development Plan (NDP) sets out quite a lot of aspiring goals for the development of SMEs in the country, including an objective for 90% of employment chances generated by this sector by 2030. Kalane (2015) argues that different reasons such as over expansion and ineffective working capital management, inability to effectively manage competitive environments, and lack of managerial planning skills, are some of the reasons why SMEs fail to grow and are not sustainable. The poor performance of SMEs in South Africa, including the North West province, is because most of them go operational when they have not conducted accurate business research in terms of the market requirements and commercial dynamics. This demonstrates that a lack of business research to understand business dynamics and the lack of business skill and experience are some of the characteristics of entrepreneurs within North West Province. Mamabolo *et al.* (2017) argue that most entrepreneurs lack the necessary information and skills to operate their businesses and some of them do not also have the required education and do not even undergo adequate training before operating a small business. Consequently, most of those SMEs run by such entrepreneurs fail and even discontinue within a short period.

South Africa lags behind other emerging and developing countries in stimulating the development and sustainability of small business ventures and consequently its economy is in the grip of a recession as most SMEs are closing down (Business Environment Specialists, 2009). This stimulates a need to boost the SME sector in order to enable small businesses to survive and be sustainable. Brink *et al* (2002) states that the survival rate of small business enterprises in South Africa, especially in rural communities such as those in the North West province, is relatively low to the extent that less than half of newly established small business enterprises survive beyond five years. Business Insight of GEM data for 2014 demonstrates that South Africa has one of the highest SME failure rates as compared to other emerging economies such as Brazil, India and China (GEM, 2014). Kalane (2015) holds that the rate of SME failure in South Africa is as high as 63% in the first two years of operation. This high rate of SME failure also applies to the North West that is a part of the country. He also adds that according to the Forum SA (2010), 71% of SMEs dwindle and even wind up within five years of trading.

Mthabela (2015) states that even though the South African government has made effort to assist in developing the SME sector, most of them still fail to develop into successful and sustainable businesses. This implies that more efforts such as developing a framework to enhance the sustainability of SMEs need to be actualised to contribute to the development of the sector.

Statistics South Africa (Quarter 2: 2015) indicates that about 69% of SMEs and employers in South Africa operate formally; meanwhile the greater majority operate informally (up to 80%). According to this data, there are significantly more informal SMEs compared to formal ones in the North West province. According to Statistics South Africa (Quarter 2: 2015), rural communities of the country tend to have more informal SMEs due to the high prevalence of hawkers and informal traders in these areas.

### **1.3 Research Problem**

Despite the contributions of SMEs to economic growth of the country, their failure rate in South Africa is still one of the highest in the world. Von Broembsen *et al.* (2005) assert that approximately 75% of South African SMEs do not grow to become big and established enterprises as most of them shrink and some even wind up within the first five years of operation. These researchers also add that the possibility of new SMEs surviving beyond 42 months is less likely in South Africa than in any other Global Entrepreneurship Monitor (GEM) sampled country. This bleak forecast shows that the survival rate of SMEs in South Africa is very low while their failure and discontinuity rate is high. Smit and Watkins (2012) argue that research conducted on African SMEs confirmed that on average, there is more discontinuity than growth in the range of SMEs, with approximately only 1% of them increasing the number of their employees from five or less to ten or more. This implies that many new SMEs in municipalities of the North West province are unable to fulfil their developmental goals and missions of becoming large enterprises in South Africa now and in the future.

The Bureau for Economic Research (2016) states that according to Statistics South Africa (StatsSA), during the last seven years, the number of formal and informal SMEs in South Africa increased insignificantly by only 3%, from 2.18 million in 2008 to 2.25 million in 2015. This increase in the rate is significantly less than the 14% expansion in Gross Domestic Product (GDP) experienced over the same period of seven years. The Bureau for Economic Research (2016) further notes that the number of both formal and informal SMEs in the North West province reduced from 155 698 in 2007 to 109 860 in 2008. This shows that there was a 29% reduction in small businesses in this province within a year. The Bureau for Economic Research (2016) also adds that over the last seven years, formal and informal SMEs in the North West Province increased insignificantly from 109 860 in 2008 to only 112 856 in 2015. This proves that there is a slow growth in this sector, as compared to the 14% expansion in GDP over the same period.



According to the Central Supply Database of the Provincial Department of Finance for the North West (2017), the current number of formal (duly registered) SMEs in this province is only 8 403; the rest are informal (not duly registered). This is because according to BER (2016), SMEs in this province are not growing proportionately to the 14% expansion of the GDP registered in the period of eight years from 2008 to 2016. Consequently, these businesses are not sustainable in these municipalities. This pace is contrary to the mission of the North West Provincial Department of Economic and Enterprise Development. The North West Provincial Department of Economic and Enterprise Development (2017) states that its mission is to accomplish the development of a diversified, vibrant and well-coordinated sustainable economy that shall create employment opportunities and reduce, if not eradicate, joblessness in the North West Province.

Business Environment Specialists (2009) contend that the growth and sustainability of small business enterprises in the entire South Africa does not get enough support and encouragement. As a result, most of these SMEs are shrinking and some of them are even closing down within the first five years of operation. Buys' (2012) framework for sustainability of SMEs amplifies that for small businesses to succeed and become sustainable, they need to have a strategic business plan, substantial finances, effective management system and effective marketing strategies. Meanwhile, GEM Report (2010), Mahembe (2011), Kolver (2012), GEM (2014) and BER (2016) point to the fact that, apart from some minor causes, the major causes of failure and unsustainability of SMEs are lack of strategic business planning, lack of sufficient finance, poor management, lack of innovation, lack of business research and low level of education and training.

**Lack of strategic business planning:** A portion of the elements that add to the intricate financing issue faced by SMEs are the lack of information by small business owners and their failure to draw up strategic business plans at the inception of their business to ensure success, growth and sustainability (Smit & Watkins, 2012). This is an indication that strategic business planning is required from the inception of business to guide an enterprise to succeed.

**Lack of sufficient finance:** South African financiers are less disposed to fund SMEs because of their apparent abnormal state of risk exposure and a feeble expected return. This is accentuated by the South African miniaturized scale venture overviews, with the unavailability of records as one of the essential obligations confronted by SMEs. Clearly South African banks and other financial service providers are unwilling to lend money to business enterprises that

are at the inception phase, meaning that they are ready to fund those in their later phase of advancement than those that are still striving to develop in the sector (St-Pierre and Bahri, 2006). Therefore, SMEs actually need a source of funding if their expansion and growth is the ideal.

**Poor management:** The Global Entrepreneurship Monitor (GEM) Reports (2001-2010) notes that South African SMEs experience the ill effects of poor management abilities, which emanate from an absence of sufficient education and training. Kalane (2015) equally argues that different reasons such as ineffective management abilities, the failure to viably oversee initiated business plans, and ineffectual working capital administration, are some of the reasons why South African SMEs do not grow and are not sustainable. Naicker (2006) holds that the absence of managerial skills and training is a vital reason for small business failure, complemented by absence of experience and an authoritative culture that hinder the development of SMEs in South Africa. This proves that effective management is one of the catalysts that could enhance SME success and sustainability.

**Lack of innovation:** Innovation is the implementation of a new or significantly improved process, product or services as well as a new marketing method, or a new organisational method in external relations, business practices and workplace organisation (OECD, 2015). South African SMEs, contrary to SMEs in other developing countries, are not innovative and this is a hurdle to their survival. This culminates in a high discontinuance rate of small business ventures in the country (Smit & Watkins, 2012). Hence, SMEs in South Africa are required to be innovative in order for them to survive, grow and become sustainable.

**Lack of business research:** Basic issues hinder the growth of SMEs in South Africa. This is because, contrary to SMEs in other emerging and developing economies, small business ventures in South Africa do not supplement larger enterprises with specific items or services, yet they compete with bigger firms in similar products because of the lack of business research (Rogerson, 2008). The Bureau for Economic Research (BER) (2016) also notes that other major challenges encountered by SMEs in South Africa that contribute enormously to their shrinking and winding up include low levels of business research and development. This justifies the fact that SMEs need to conduct business research in order to understand business dynamics that will enable them to succeed and be sustainable.

**Low level of education and training:** There is evidence that SME owners and employees are hounded by the complex problem of funding because they are deficient in knowledge and

they are indisposed to learning business data and general entrepreneurial skills. This is because of low level of human capital education and training that prompts low levels of entrepreneurship and a high failure rate of South African SMEs (Kotze and Smit, 2008). The Global Entrepreneurship Monitor (GEM) Reports (2001-2010) further contend that SMEs in South Africa suffer from ineffective management because of low level of education and training of small business owners and managers. Hence, a reasonable level of education and training of SME owners and managers and employees is essential to enable them acquire business acumen and skills to operate their enterprises successfully and sustainably

The purpose of this study is to identify ways of addressing the high failure rate and unsustainability of SMEs in municipalities of the North West province. This study therefore seeks to clarify the factors (independent variables) influencing the elements that are critical for the sustainability of SMEs (dependable variable) in municipalities under the jurisdiction of the North West province of South Africa. In this regard, the study develops a framework that strives to enhance the sustainability of SMEs in this region.

#### **1.4 Research Questions**

The major causes of failure and unsustainability of SMEs raised in the problem statement lay the groundwork for the specific research questions that this study seeks to address. The specific research questions of this study are as follows:

- What factors are critical to the successful implementation of strategic business plan among SMEs in municipalities of the North West province?
- What are the funding sources essential in enhancing sustainable SMEs that strive to grow within municipalities of the North West province?
- What are the essential elements for the effective management of SMEs in municipalities of the North West province?
- Which elements are important for innovation within SMEs in municipalities of the North West province?
- What components are necessary to conduct business research effectively amid SMEs in municipalities of the North West province?
- Which items are crucial in enhancing the level of education and training of human capital among SMEs in municipalities of the North West province?

- What is the proposed framework to enhance the sustainability of SMEs in municipalities in the North West province?

### **1.5 Aim of the Study**

The overall aim of this study is to develop a framework to enhance the sustainability of SMEs in municipalities of the North West province of South Africa.

### **1.6 Research Objectives**

The general objective of the study is to determine how SMEs in the municipalities of the North West province could be sustainable. However, to address the specific research questions, the specific objectives of this study are set to:

- Identify critical factors for the successful implementation of strategic business plan among SMEs in municipalities of the North West province.
- Identify the essential sources of finance available for SMEs that strive to grow within municipalities of the North West province.
- Identify effective management strategies for SMEs in municipalities of the North West province.
- Determine the important success factors for innovation within SMEs in municipalities of the North West province.
- Examine the critical success factors for the effective conduct of business research amid SMEs in municipalities of the North West province.
- Determine the crucial success factors to enhance the level of education and training of human capital among SMEs in municipalities of the North West province.
- Develop a framework for enhancing sustainable SMEs in municipalities under the jurisdiction of the North West province.

### **1.7 Theoretical Foundations and Literature Review**

The theories that underpin this study are the financial gap theory, resource dependency theory, theory of merger and acquisition, investment theory and trickle-down theory. The conceptual framework of this study was conceived from a meta-analysis comprising the views of different business reports and scholars on factors affecting the survival and sustainability of SMEs. The study focuses on a meta-analysis of various authors on the different factors that enhance the sustainability of SMEs from 2012 to 2017. This contextualises the current study in 2018. Based on the constructs identified as factors affecting the survival and sustainability of SMEs, the

meta-analysis also presents a synopsis of these factors. Factors such as strategic business plan, availability of finance, effective management, innovation and business research are acknowledged from previous reports and research of business scholars as the elements that affect SME sustainability. The construct of education and training as derived from the meta-analysis stands as one of the factors that influences the sustainability of SMEs as depicted in Table 1.1 below.

**Table 1.1: Meta-analysis of factors influencing the sustainability of SMEs**

Business reports and authors	Constructs (Views of business reports and researchers)					
	Strategic Business Planning	Availability of Finance	Effective Management	Innovation	Business Research	Education and Training
Buys (2012)	√	√	√			
Wawira (2013)			√	√	√	
Agwu & Emeti (2014)	√	√	√			
Baleseng (2015)	√	√	√	√		
BER (2016)		√			√	
GEM (2017)	√	√		√		
This current study (2018)	√	√	√	√	√	√

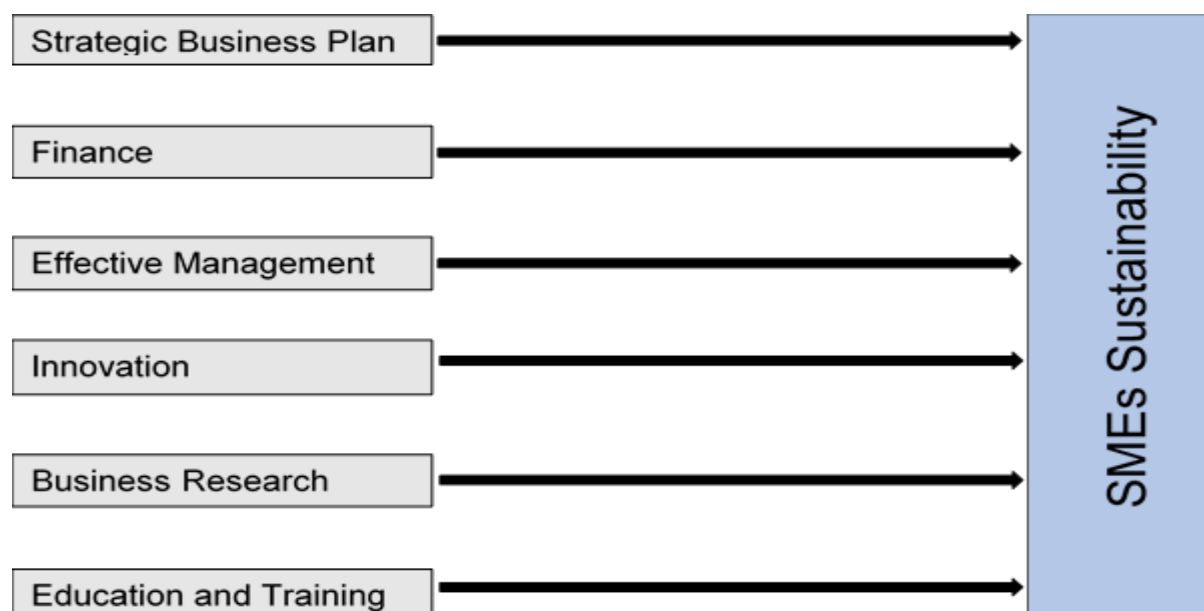
**Source:** Researcher's compilation

From the six constructs in the table above, existing literature has identified and stressed only five factors influencing the sustainability of SMEs, namely strategic business planning, availability of finance, effective management, innovation and business research. This study adds to these five factors by proposing that education and training equally influences the

sustainability of small business enterprises in municipalities of the North West province of South Africa. This is derived from the recognition that a reasonable level of education is required for small business owners and managers to develop a good strategic business plan, know how to access the available sources of finance, gain effective management skills, be innovative and be able to conduct business research to improve their businesses. This implies that the higher the educational levels of SMEs owners and managers, the more they could apply and implement other predictor factors that enhance SME sustainability, and the more their businesses are likely to be sustainable. Based on the meta-analysis presented in Table 1.1, a framework as depicted in Figure 1.1 is proposed. This framework is tested in the empirical and non-empirical sections of this study to determine the validity of this proposal. Figure 1.1 presents the factors that are considered to influence the sustainability of SMEs in municipalities of the North West province of South Africa as an initial framework constructed for this study.

### 1.8 Conceptual Framework of the Study

Conceptually, the proposed factors that contribute to the sustainability of SMEs in municipalities of the North-West province are the independent variables which include strategic business plan, availability of finance, effective management, innovation, business research and education and training as depicted in Figure 1.1.



**Figure 1.1: Conceptual framework of the study**

**Source:** Adapted from Buys (2012)

## **1.9 The Definition and Measurement of Sustainability**

Kuhlman and Farrington (2010) define sustainability as a state of development that accomplishes the requirements of the present-day without compromising the capability of future generations to accomplish their own desires. Derivative from this definition, sustainability projects the future ability ability to maintain or support an activity or process to ensure continuous success over the long term. Salimzadeh *et al.* (2013) defines business sustainability as the challenge to simultaneously expand social and human welfare while decreasing their ecological impact and ensuring the effective achievement of organisational objectives. Moloi (2013) explains sustainability of SMEs as the ability of small businesses to be profitable in the long-run. This implies that sustainable SMEs are small business enterprises that maintain their cash flow and remain profitable in the long term. Therefore, the challenge of sustainable development for any business is ensuring that it contributes to a better quality of life today without compromising the quality of life of upcoming generations. If businesses are to respond to challenges, they need to demonstrate a constant improvement of their economic, social and environmental performance outcomes.

The use of sustainability as a metric implies expanding the traditional business reporting framework to incorporate social and environmental performance in addition to economic performance, but these three principles do not provide a measurement system. Dizdaroglu (2017) postulates that the measurement of sustainability is the quantifiable base for informed sustainability management. This means that many uncertainties surround the construct and quantification of sustainability. Dalal-Clayton and Sadler (2014) assert that there are various metrics used for measuring sustainability, which are still evolving such as indicators, benchmarks, audits, indexes and accounting, assessment, appraisal and other reporting systems. Sustainability is fast becoming a yardstick for improving industries integral to effective business strategies. Martins *et al.* (2007) argue that the essence for measuring sustainability is to benchmark performances, improve business operations, track down progress and evaluate processes in business operations. Therefore, it is difficult to measure sustainability because there is no consensual definition that incorporates the multiple components of the economy, society, governing institutions and interaction with the natural environment.

Bell and Morse (2013) assert that many methods of measuring sustainability have been developed and each has its own specific uses, strengths and weaknesses. This implies that there

is no standard measurement for sustainability, hence the understanding of sustainability in the context of this study is limited to the “likelihood of sustainability.” Bell and Morse (2013) stipulate that the limitations of sustainability measurement vary from issues of boundary setting, which is defining the entity, data selection that is defining the information standardization, which is defining data importance, and methodological appropriateness, which is defining process of measurement. Consequently, these limitations of sustainability measurement portray the importance of scrutinizing the sufficiency of monitoring methods as they represent a push towards more accurate metrics in sustainability.

### **1.10 Motivation for the Study**

South Africa lags behind other developing countries in encouraging the development and sustainability of small business enterprises and consequently its economy is in the grip of a recession as most small business ventures are closing down (Business Environment Specialists, 2009). Since the municipalities of the North West province are an integral part of South Africa, it implies that this region also suffers the same fate as the entire country. Therefore, a top priority of the government must be to grow small business ventures in the formal sector and to provide appropriate support, as well as a conducive environment for opportunity-driven entrepreneurs in municipalities of the North West province. Jooste (2012) thinks that economic growth in a developing country such as South Africa can be attained by encouraging the growth and sustainability of SMEs.

Brink *et al.* (2002) states that the survival rate of South African SMEs, especially in rural communities such as those in the North West province, is relatively low to an extent that less than half of newly established business enterprises in these areas survive beyond five years. Business Insight of Global Entrepreneurship Monitor (GEM) data for 2014 demonstrates that South Africa has one of the highest SME failure rates as compared to other emerging countries such as Brazil, India and China (GEM, 2014). This calls for the development of a framework for enhancing the sustainability of SMEs in order to curb the high rate of small business failure and discontinuity in this region. Kalane (2015) holds that SME failure rate in South Africa is as high as 63% in the first two years of operation. He also adds that according to the Forum SA (2010), 71% of SMEs shrink and even wind up within five years of trading. Mthabela (2015) states that even though the South African government has made effort to assist in developing the SME sector, most of them fail to develop into successful and sustainable business enterprises. Mthabela (2015) also holds that many researchers have projected that the failure



rate of SMEs in South Africa is within the bracket of 70% and 80%. Therefore, this is a major problem for South Africa and for the North West province in particular.

A study conducted by the Global Entrepreneurship Monitor (GEM) 2014 revealed that South African SMEs have generally been performing very poorly because they go operational when they have not conducted proper research in terms of the market requirements and commercial dynamics. The poor performance of SMEs, according to GEM (2014) report, is also because small business owners and managers lack the necessary information and skills to operate these businesses. Most of them do not have the required education and do not even undergo sufficient training before setting up business. Hence, the identification of the problems associated with unsustainability of SMEs in the entire South Africa including the North West province, is a call for the need to develop appropriate training programmes to address these issues to assist in equipping the small business owners and managers with the necessary skills to survive in this contemporary competitive world. This study develops a framework to enhance the sustainability of SMEs in municipalities of the North West province of South Africa. This is spurred by a passion for sustainable SMEs in the North West province that could unlock competitive advantages over small business ventures in other provinces of South Africa.

### **1.11 Significance of the Study**

This study is significant because it explores the problems encountered by SMEs in selected local municipalities of the North West province of South Africa in their business operations, which lead to their shrinking, and winding up. The study seeks to identify and propose possible measures that could be implemented by the South African government to improve the development of the sector in these municipalities. Essentially, the study investigates the shortcomings of the various entrepreneurs, small business owners and managers that result in the failure and winding-up of their enterprises within the North West province. The study further identifies problem areas where the SME proprietors, together with government organizations, could focus upon in the future to ensure the success and development of the sector in South Africa including municipalities of this province. Most importantly, this study is envisaged to develop a framework to enhance the sustainability of SMEs in municipalities within the jurisdiction of the North West province of South which could influence the future structuring and management of small business enterprises in this region.

### **1.12 Delimitation of the study**

The scope of this research traces the practices and challenges in four district municipalities of the North West province. These district municipalities are: Ngaka Modiri Molema District, Bonajala Platinum District, Dr Kenneth Kaunda District and Dr Ruth Segomotsi Mompati District. The respondents and participants in this study are small business owners and managers in the aforesaid district municipalities. The district municipalities were selected for their urban and semi urban contexts that make them vital sites for studying the challenges of SMEs in this province as compared to some district municipalities that host very few small business ventures. This study is specifically focuses on the sustainability of SMEs in these selected municipalities of the North West province.

### **1.13 Chapter Outline**

*Chapter one* provides the general overview of the study specifically the introduction, the background to the study, problem statement, the research questions, aim of the study, objectives of the study, conceptual framework of the study, motivation of the study, significance of the study and delimitations.

*Chapter two* interrogates the theoretical foundations and perspectives of SMEs.

*Chapter three* reviews recent and relevant literature and discusses the sustainability of SMEs. This is relevant literature regarding the conceptual framework that strives to enhance the sustainability of SMEs and therefore focuses on strategic business plans, availability of finance, effective management, innovation, business research and education and training.

*Chapter four* addresses the research methodology adopted in this study which include: research philosophy, research design, the research population, data collection techniques, data analysis, validity and reliability and ethical considerations.

*Chapter five* is data analysis and focuses on the presentation of results obtained from the questionnaires administered for quantitative study and the discussion of the findings.

*Chapter six* is data analysis and the presentation of results obtained from interview for qualitative study and the discussion of the findings.

*Chapter seven* discusses the findings, presents the framework and proffers a conclusion and recommendations.

### **1.14 Chapter Summary**

This chapter provided the foundation for the research on the sustainability of SMEs in four district municipalities of the North West province of South Africa. The principal causes of failure and unsustainability of SMEs were heightened, and the conceptual framework of the study proposed a remedy to this problem by suggesting variables that could be implemented by entrepreneurs or small business owners and managers for sustainable SMEs. The effective implementation of these proposed measures, which constitute the objectives of the study, is the major success factor for achieving sustainability of SMEs in the selected municipalities of the North West province. In sum, this chapter presented an introduction to the study, a background to the study, the research problem, research questions, aim and objectives of the study. This chapter also discussed the conceptual framework of the study, motivation, the significance, the delimitation as well as the chapter outline of the study. Therefore, the next chapter (two) addresses an overview of small business enterprises and theoretical perspectives on SMEs.

## **CHAPTER TWO**

### **OVERVIEW AND THEORETICAL PERSPECTIVE OF SMES**

#### **1.1 Introduction**

Small and Medium Size Enterprises (SMEs) in South Africa, especially those of the selected municipalities of the North-West province, are by no means easy to establish and grow into successful and sustainable entities as demonstrated in this chapter. The purpose of this chapter is to present a general overview of SMEs and discuss the major theories underpinning the sustainability of SMEs. The chapter is divided into two major sections. The first section of this chapter gives a general overview of SMEs, which include a comprehensive definition of SMEs, characteristics of SMEs and the importance of SMEs in the development of the economy. The second part of this chapter examines the theoretical perspectives that analyses the philosophy and ideas that underpin the success and sustainability of SMEs.

#### **2.2 An Overview of SMEs**

The phrase Small and Medium Size Enterprises (SMEs) is increasingly becoming familiar in South Africa in recent times. The acronym "SME" is recognised globally by renowned organizations such as the World Trade Organization (WTO), the United Nations and even the World Bank. It is important to look at the global landscape of SMEs and their current state in South Africa concerning stimulating economic growth in the country. Focus is on the general scope of SMEs, a comprehensive definition of SMEs, characteristics of SMEs and the importance of SMEs in the South African economy.

##### **2.2.1 Comprehensive Definition of SMEs**

Mahembe (2011) conveys that the benefit of the SME sector is recognized worldwide, but there is a serious challenge in defining exactly what SMEs entail. However, in attempting to define SMEs, it is imperative to make a distinction between small, micro and medium-sized entities (SMMEs) and small and medium-size enterprises (SMEs). In South Africa, these two terms describe small business enterprises. According to Labuschagne (2015), business entities are classified as SMEs if two or more of the following features are visible in the business. These features indicate that business entities are SMEs:

If their management are independent because the managers are often the owners of the businesses

If capital for the business is provided by only some few people who are the owners

If the business entities operate mainly in the region where there are located and

If the business entities are small when compared to bigger companies in the same industry.

There is therefore no precise definition of SMEs that is utilised by all business scholars or statistical agencies. Despite the lack of universality in the definition and the nonalignment with the set criteria, the importance of SMEs is indispensable. Hatten (2011) avers that SMEs are called by adjectives that indicate their size, hence economists have a tendency to separate them into classes in accordance with some quantifiable indicators. He further adds that the most frequently used criterion to differentiate large and small business entities is the number of employees. This suggests that the number of employees is an important criterion used to determine whether an enterprise is an SME or a big business. However, Gibson and Van der Vaart (2008:4) contend that even though no particular definition of SMEs seems accepted, small businesses are:

Officially registered with formal registration bodies or the government;

Obligated to pay social security charges and taxes to the government;

Capable of permitting their staff to take annual and sick leave but still earning their payment;

Capable of providing skill training for their staff;

Capable of investing capital with a repayment period of longer than one year;

Capable of contributing to the local communities where they operate.

Rogowsky *et al.* (2010) suggests that annual revenue and the number of employees are the criteria that used to define SMEs. Mahembe, (2011) adds that in practice, the worldwide definition of SMEs uses the annual business turnover combined with the number of employees, applying it to particular industry or region. Therefore, the definitions of SMEs are non-subsidiary, self-governing businesses with a definite number of staff and an amount of annual revenue. According to the Organisation for Economic Cooperation and Development (OECD), the number of personnel differs in different countries across the world and according to national statistical systems. For instance, while the US considers SMEs to be businesses with less than

500 employees, the European Union's maximum boundary is 250 employees (Wiese, 2014). This difference is contextual and dependent on the statistical and economic criteria applied in the particular context. Mahembe (2011) professes that in the case of the economic definition, a business is an SME when it meets the following criteria:

If the business entity has a lesser market share in terms of the overall market;

If the owner is the manager or part of the management team of the business;

If the business enterprise is operated independently as if it is not part of a bigger enterprise.

Mahembe (2011) adds that, on the other hand, the statistical definition uses three key areas to define SMEs:

Measuring the scope of the businesses and their influence on employment, GDP and exports;

Comparing the level to which the businesses' economic and financial contribution differ and change over time; and

A cross-country evaluation of the businesses' economic and financial contribution.

The acronym SME is commonly used in the European Union (EU) and by international organisations such as the United Nations, the World Bank and the World Trade Organisation. Moloi (2013) claims that SMEs are business entities or firms with either a total balance sheet of €10-43 million or an annual turnover of €10-50 million and contributing a percentage to the GDP of a country in which the businesses operate. However, the classification of SMEs in the United States of America (USA) is slightly different from that of the European Union. Bharati and Chaudhury (2012) assert that according to the USA business criteria, for a business or firm to be classified as an SME depends on the industry within which the business operates, its total revenue, the form of ownership, and number of individuals it employs which most may be as many as 500 employees.

Kushnir (2010) notes that in the USA, for a business entity to be classified as an SME for Small Business Administration (SBA) programs, small business size standards define the maximum size that a business concern, and all of its affiliates, may be. This implies that there are certain standards that a business enterprise must meet for it to be classified as an SME. A standard is often specified in the number of employees or average annual revenue. Kushnir (2010) further adds that Small Business Administration has established two commonly used size standards to classify SMEs in the USA, which are \$7 million in average annual revenue

for most non-manufacturing industries and 500 employees for manufacturing and mining industries. There are many exceptions to the commonly used size standards in the USA and these are the primary size standards by different industries, which are:

### **Construction**

General building and heavy construction contractors: \$33.5 million

Special trade construction contractors: \$14 million

Land subdivision: \$7 million

Dredging: \$20 million

### **Manufacturing**

About 75 percent of the manufacturing industries: 500 employees

A small number of industries: 1,500 employees

The balance: either 750 or 1,000 employees

### **Mining**

All mining industries, except mining services: 500 employees

### **Retail Trade**

Most retail trade industries: \$7 million

A few (such as grocery stores, department stores, motor vehicle dealers and electrical appliance dealers), have higher size standards, but none above \$35.5 million.

### **Services**

Most common: \$7 million

Computer programming, data processing and systems design: \$25 million

Engineering and architectural services and a few other industries have different size standards.

The highest annual-receipts size standard in any service industry: \$35.5 million

## **Wholesale Trade**

According to Kushnir (2010), for small business federal contracts, 100 employees, and the enterprise is obliged to deliver the product of a small domestic manufacturer, as stated in SBA's non-manufacturer rules, except renounced by SBA for a certain category of products. For procurements made under the Simplified Acquisition Procedures where the purchase is not more than \$25,000, the non-manufacturer may deliver the goods of any domestic manufacturer.

For loans and all other programs: 100 employees is the primary size standards applicable for all industries.

## **Other Industries**

Kushnir (2010) claims that because of the wide variation in the structure of business concerns and industries in divisions such as communications, finance, agriculture, transportation, electric, gas, sanitary services, real estate and insurance, there is no common pattern of size standards for the classification of business enterprises as SMEs in the USA.

Unlike in the USA, in Europe, the European Union through its commission endorses the criterion of the number of staff as the main size standards for the classification of business enterprises as SMEs. Berisha and Shiroka (2015) profess that the European Commission has introduced a financial criterion that is nevertheless essential in helping to understand the actual size and performance of a business enterprise and its position compared to its competitors. They further note that the European Commission determines, through a guide, the criteria for defining and classifying business entities such as annual balance sheet number of employees and annual turnover. Hence, this leads one to conclude that reaching the criteria of the number of personnel as a size standard to classify SMEs in Europe is obligatory but fulfilling the two financial criteria is a choice of the business entity. On this note, the size standards for the definition and classification of business enterprises as SMEs in the European Union is presented in Table 2.1.



**Table 2.1: Definition of Small and Medium Size Enterprises (SMEs) with European Union standards**

Enterprise indicators (2/3)	Number of employees	Total assets	or	Total annual sales
Medium	> 50; ≤ 300	>\$3,000,000; ≤\$15,000,000	or	>\$3,000,000; ≤ \$15,000,000
Small	> 10; ≤ 50	>\$100,000; ≤ \$3,000,000	or	>\$100,000; ≤ \$3,000,000
Micro	< 10	≤ \$100,000	or	≤ \$100,000

**Source:** Berisha and Shiroka (2015)

If the two criteria of size standards to classify SMEs in the European Union and the World Bank are compared, it is approximately the same especially for quantitative standards of number of staffstaff except for the fact that the World Bank raises its upper threshold for medium-sized businesses to 300 workers, but discrepancies are common in monetary standards. Besides differences in currency (EUR/USD), while the European Union uses the criteria of annual revenue and total balance sheet, the World Bank uses the criteria of total assets and total annual sales. This makes the financial criteria of both institutions not to have any basis of comparability, making the two definitions of SMEs substantially different from each other (Berisha and Shiroka, 2015). The European Union's micro enterprise has a turnover of up to two million Euros, while for the World Bank it must not be more than annual sales of up to one hundred thousand US dollars. The European Union sets maximum threshold of fifty million Euros to differentiate medium businesses from small and micro ones, while the World Bank sets its own at only fifteen million US dollars for the two financial standards.

Although the number of employees is the most common criterion used for size standards to define and classify SMEs in many countries and organisations, this criterion has many discrepancies and modifications with regards SME statistical reporting. Carter and Jones-Evans (2006) conclude that many economic scholars, sources and organisations such as the EU and the World Bank define and classify SMEs as enterprises with a cut-off range of 0-250

employees but the definition commonly implemented in business studies is that of the European Union. They also add that even though the EU endorses this definition, it is compulsory for businesses enterprises and institutions looking for funds from it. Kushnir *et al.* (2010) assert that a study of the World Bank in a magazine branded as MSMB Country Indicators discloses that out of 132 countries included in the research, 46 (which is one third) of them define SMEs as business enterprises with fewer than 250 employees. This implies that even though different countries have varying standards to classify SMEs, the number of employees is one of the principal criteria. Kushnir et al. (2010) further add that because of the controversy involved in the standards of classifying SMEs, each organisation or country exercises autonomy in defining SMEs specifically to fit their own economic conditions, which has resulted in today's great multiple definitions. The distribution of SMEs definition and classification by number of employees in some different countries around the world is depicted in Table 2.2 below.

**Table 2.2: Distribution of SMEs definition and classification by number of employees in some different countries around the world**

	Micro	Small	Medium	SME	Large
EU countries, Iceland, Norway, and Switzerland	1 - 9	10 - 49	50 - 249	1 - 249	250 +
Australia	0 - 9	10 - 49	50– 199	0 - 199	200 +
Canada	0 - 9	10 - 49	50 - 499	0 - 499	500 +
Japan	4 - 9	10 - 49	50 - 249	1 - 249	250 +
Korea	5 - 9	10 - 49	50 - 199	5 - 199	200 +
Mexico	0 - 10	11 - 50	51 - 250	1 - 250	251 +
New Zealand	1 - 9	10 - 49	50 - 99	0 - 99	100 +
Turkey	1 - 19	20 - 49	50 - 249	1 - 249	250 +
United States	1 - 9	10 - 99	100 - 499	1 - 499	500 +

**Source:** Berisha and Shiroka (2015)

From the table above, there are differences and similarities in the distribution of SMEs definition and classification into micro, small and medium size enterprises by number of employees in some selected countries around the world. It can be observed that majority of countries from the selected list classify micro businesses as those enterprises with number of employees ranging from 0 to 10 except for Turkey with up to 19 as a maximum threshold. In

the same manner, most countries from the list classify small businesses as those enterprises with employees ranging from 10 to 49, except for Turkey with a range of 20 to 49 and the US with a range of 10 to 99 employees. Most countries classify medium businesses as those enterprises with employees ranging from 50 to 249 and 250. The exceptions are Australia and Korea with a range of 50 to only 199, Canada with a range of 50 to up to 499, New Zealand with a range of 50 to only 99 and the US with a range of 100 to 499. Therefore, SME are defined as business enterprises that employ from 0 to 249 and 250 individuals. The exceptions are Australia with only 0 to 199 employees, Canada with 0 to 499 employees, Korea with 5 to 199 employees, New Zealand with only 0 to 99 employees and the US with 0 to 500 employees. This implies that any business enterprise that employs more than the maximum threshold stipulated by each of these countries in their various definition and classification of SMEs are considered as large enterprises.

Other than the global conception of SMEs and the freedom each country exercises in defining SMEs specifically to their own context, the question of an SME is a major concern in South Africa. The South African Department of Trade and Industry (DTI, 2012) describes an SME as a small business entity which is owned and run by a single individual for the sake of providing life sustenance to himself and his direct employees. This includes categories classified as formal small and medium-sized enterprises, informal sector enterprises, micro-enterprises and survivalist enterprises. It also includes business entities in all stages of evolution, from pre-establishment to start-up, emerging, stable or expanding, as well as business concerns that are on the verge of collapsing. This demonstrates that SMEs cover the full spectrum of business enterprises more than big enterprises and publicly owned corporations. However, just like the global case of SME definition where emphasis is more on number of staff, annual revenue and the total assets, the South African context also defines small business enterprises using the number of workers, the annual revenue and the total assets (Mahembe, 2011). Although there is no universal definition of SMEs accepted by South African economic scholars, the definition by the National Small Business Act 102 of 1996 is adopted for this study. According to Hadebe (2010), the National Small Business Act 102 of 1996 defines SMEs in the South African context as separate and distinct business enterprises that include cooperative enterprises and nongovernmental organisations. These are managed by one owner or more which, include their branches or affiliates, if any, is mainly carried on in any sector or sub-sector of the economy (Republic of South Africa 1996b, p.2). There, the

broad definitions of SMEs in South Africa by the National Small Business Act 102 of 1996 is summarised in table 2.3 below.

**Table 2.3: Broad definition of SMEs in South Africa by the National Small Business Act 102 of 1996**

Enterprise size	Number of employees	Annual turnover	Gross assets (excluding fixed property)
Small	Fewer than 50	Less than R2m to R25m depending on the industry	Less than R2m to R4.5m depending on the industry
Medium	Fewer than 100 to 200, depending on the industry	Less than R4 million to R50 m depending upon the industry	Less than R2 m to R18 m depending on the industry

**Source:** Wiese (2014)

From the summary of broad definitions of SMEs in South Africa by the National Small Business Act 102 of 1996, one perceives the differences in the distribution of SMEs definition and classification into small and medium size enterprises by number of staff, annual revenue and total assets. Small enterprises are those businesses with less than 50 employees and medium enterprises are those businesses with less than 100 to 200 employees depending on the industry. The Act also stipulates that in terms of annual turnover, small enterprises are those businesses with less than R2m to R25m depending on the industry, while medium enterprises are those businesses with less than R4m to R50m depending on the industry. Finally, in terms of gross assets (excluding fixed property) according to the Act, small enterprises are those businesses with less than R2m to R4.5m depending on the industry, while medium enterprises are those businesses with less than R2m to R18m depending on the industry.

A summary of the description of the categories and classification of SMEs using size standards stipulated by the National Small Business Act 102 of 1996 is presented in Table 2.4 below.

**Table 2.4: Summary of the description of the categories of SMEs**

Category	Description
<b>Small enterprise</b>	The upper limit is 50 employees and turnover of R3 million. Small enterprises are generally more established than very small enterprises, and they make use of more sophisticated business practices.
<b>Medium enterprise</b>	The maximum number of employees is 100, unless the company operates in the mining, electricity, manufacturing or construction sectors, in which case the upper limit is 200 employees and turnover of R26 million. Medium enterprises tend to show a decentralisation of power and make use of an additional management layer.

**Source:** Motsetse (2015)

According to the 1996 National Small Business Act, small enterprises are also further grouped as small and medium enterprises (SME), as well as small, medium and micro enterprises (SMME). The National Small Business Act 102 of 1996 specifies the standards used to define or classify a business entity as a micro, a very small, a small or a medium enterprise by following a set of thresholds that classifies them. The Act equally uses the same features such as the number of staff, yearly turnover, and total assets, not including fixed assets to categorize SMMEs (Nxaba, 2014). SMEs are defined by the National Small Business Act (102 of 1996) (SA, 1996) to categorise or classify the different sectors or industries in which these business enterprises operate in South Africa (Labuschagne, 2015). This implies that the meaning of SMEs may be different depending on the type of sector or industry in which the business is operating or categorises in.

The National Small Business Act 102 of 1996, reviewed in 2003 and 2004 by the National Small Business Amendment Act, designates the thresholds of each sector as well as sub-sectors (Kalane, 2015). However, the South African definition of SMEs in this context still takes into cognisance the number of personnel, the yearly income and the overall assets of the business in the sectors or sub-sectors according to the standard industrial classification (SIC) (Mahembe,

2011). A summary of the thresholds for the classification of medium, small, very small, and micro enterprises according to the National Small Business Act no 102 of 1996 of South Africa, amended in 2003 and 2004 is presented in Table 2.5 below.

**Table 2.5: Thresholds for the classification of medium, small, very small, and micro enterprises according to the National Small Business Act no 102 of 1996 of South Africa**

Sectors or sub-sectors in accordance with the Standard Industrial Classification (SIC)	Site class or	Total full-time equivalent of paid employees (Less than)	Total annual turnover(Rm) (Less than)	Total gross asset value (fixed property excluded) (Rm) (Less than)
Agriculture	Medium	100	5.00	5.00
	Small	50	3.00	3.00
	Very small	10	0.50	0.50
	Micro	5	0.20	0.10
Mining and Quarrying	Medium	200	39.00	23.00
	Small	50	10.00	6.00
	Very small	20	4.00	2.00
	Micro	5	0.20	0.10
Manufacturing	Medium	200	51.00	19.00
	Small	50	13.00	5.00
	Very small	20	52.00	2.00
	Micro	5	0.20	0.10
Electricity, Gas and Water	Medium	200	51.00	19.00
	Small	50	13.00	5.00
	Very small	20	5.10	1.90
	Micro	5	0.20	0.10
Construction	Medium	200	26.00	5.00
	Small	50	6.00	1.00
	Very small	20	3.00	0.50
	Micro	5	0.20	0.10
Retail, Motor Trade and Repair Services	Medium	200	39.00	6.00
	Small	50	19.00	3.00
	Very small	20	4.00	0.60
	Micro	5	0.20	0.10
Wholesale Trade, Commercial Agents and Allied Services	Medium	200	64.00	10.00
	Small	50	32.00	5.00
	Very small	20	6.00	0.60
	Micro	5	0.20	0.10

Sectors or sub-sectors in accordance with the Standard Industrial Classification (SIC)	Site class or	Total full-time equivalent of paid employees (Less than)	Total annual turnover(Rm) (Less than)	Total gross asset value (fixed property excluded) (Rm) (Less than)
Catering, Accommodation and Other Trade	Medium	200	13.00	3.00
	Small	50	6.00	1.00
	Very small	20	5.10	1.90
	Micro	5	0.20	0.10
Transport, Storage and Communications	Medium	200	26.00	6.00
	Small	50	13.00	3.00
	Very small	20	3.00	0.60
	Micro	5	0.20	0.10
Finance and Business Services	Medium	200	26.00	5.00
	Small	50	13.00	3.00
	Very small	20	3.00	0.50
	Micro	5	0.20	0.10
Community, Social and Personal Services	Medium	200	13.00	6.00
	Small	50	6.00	3.00
	Very small	20	1.00	0.60
	Micro	5	0.20	0.10

**Source:** Kalane (2015)

From the table above, South Africa's thresholds of classification of businesses into medium, small, very small and micro enterprises are low. These South African thresholds of classification of businesses are low as compared to the standards of some organisations such as the European Union and the World Bank and some developed countries such as the United States of America and Canada. This is because some businesses that are considered as small or medium enterprises by in the United State of America or in many European countries are classified as large business enterprises in South Africa (Department of Trade and Industry, 2008). Considering the number of workers used to define the category of a business across the spectrum of meanings and/or classification, medium businesses in South Africa are those that employ between 100 and 200 employees. Small businesses are those that employ approximately 10 to 50 employees, very small businesses are those that employ between 5 to 20 employees whereas micro businesses are those are that employ between 1 to 5 employees in the various sectors or sub-sectors according to the standard industrial classification (SIC).



As earlier stated, there are several definitions of SMEs. In the South African context, an SME is considered as a business entity with a number of between 1 and 200 employees.

The definition of SMEs is clearer when the elements that characterise these businesses are well articulated. Therefore, it is necessary to discuss the characteristics of SMEs.

### **2.2.2 Characteristics of SMEs**

It is not every SME that has the capacity to grow and increase in size and eventually become a large business. Labuschagne (2015) argues that many business enterprises are perfectly suited when run on a small scale for many years because of the small size of the population of the community, which constitute their market. Because of the small size of their market, some SMEs are bound to remain small to serve the local community where they operate. . However, De Lalaingstraat (2013) claims that other SMEs in rural settings still aspire to grow into big businesses. Small-scale enterprises exhibit distinct characteristics that make them different from their bigger competitors and are the same in every underdeveloped and developed country on the globe. Despite the most common and official classification of SMEs as business enterprises with less than 250 employees in the case of South Africa and many other countries and organisation such as EU and World Bank, and fewer than 500 employees in the case of the USA and Canada, there is no consensus on the definition of small businesses.

Wiese (2014) contends that the term SME could be a misleading contradiction because relatively large firms listed in the lower quintile or quartile of the database of financial, statistical and market information on active and inactive global companies in the world (COMPUSTAT) and Centre for Research in Security Prices (CRSP) data tapes are often subjectively classified as small business enterprises for convenience in empirical studies. According to Wiese (2014), business concerns are classified as SMEs if they possess most if not all of the following characteristics:

(1) **Number of employees:** Small scale business enterprises employ smaller number of employees in most cases less than 250 employees in the case of South Africa and many other countries and fewer than 500 employees in the case of the USA and Canada to run the business operation (Wiese, 2014). Therefore, this means that smallest business enterprises are run entirely by single individuals or small teams who are the owners of the businesses.

(2) **No publicly traded securities:** SMEs do not have neither debt nor advertise and sell stocks or the shares of their businesses in organized stock exchange markets (Grundling and Kaseke, 2010). This implies that SMEs do not advertise and sell their shares in stock markets such as



such the Johannesburg Stock Exchange (JSE), London Stock Exchange and New York Stock Exchange markets. This characteristic feature makes SMEs unique because since they do not sell their shares to the public, they have fewer sources of funding, and they do not have a ready market valuation for their shares. Grundling and Kaseke (2010) further note that SMEs do not trade their shares to the public because stock exchange markets are relatively expensive for some enterprises, especially those in their early stage of inception and in rural settings serving only their local communities.

(3) **Owners have undiversified personal portfolios:** Investment in SMEs often constitutes a greater percentage of the founders' personal wealth (Fatoki, 2014). This implies that most SME owners may only achieve some personal diversification through their bank accounts, self-employment pension accounts, life insurance policies and small stock portfolios. Shinozaki (2012) notes that a large holding in a risky business equally entails a riskier personal portfolio for the founders of the business enterprise.

(4) **Limited liability is absent or ineffective:** The liability of SMEs is not limited because most small business enterprises are sole proprietorships and partnerships. Bickle (2012) asserts that SMEs are not always liable to their debts since their organizational forms do not have provision for limited liability, even for small business entities organized as a corporation, they are always ineffective to protect their owners from personal losses. Bickle (2012) further adds that in case of business failure, SMEs are required by their creditors to provide guarantee or put up non-corporate personal assets such as their personal belongings, especially landed properties as collateral security for loans.

(5) **First generation owners are entrepreneurial and prone to risk taking:** Through the procedure of self-selection, individuals who are willing to take risks of uncertainty, to manage their own business enterprises and work long hours to push through their concepts for new products and markets, are the ones who often start up new business concerns. These individuals who are the first-generation owners require a potential high return from their businesses and are therefore willing to take the corresponding higher risks to breakthrough in business (O'Higgins, 2012).

(6) **Management and expertise:** Most often, SME owners manage their businesses most often with little or no management skills and experience unlike large corporations that are managed by skilful and experienced managers (Grundling and Kaseke, 2010). This explains why most SMEs have a slow growth while most big businesses have more growth potential.

(7) **Experiences high cost of market and institutional imperfections.** Bickle (2012) claims that due to their inadequacies, limited managerial resources and their small sizes, the cost of running a business is higher for SMEs than for large corporations. This is because SMEs are probably paying proportionally more failure costs or in bankruptcy in the event of business failure. They also pay more for transaction costs of financing, litigation costs, negotiation costs and cost of compliance with regulations.

(8) **Relationships with stockholders are less formal:** Labuschagne (2015) states that SME managers and owners deal with their stockholders personally and therefore rely on the frequency of past and possible future dealings, individual reputation could be of great importance. Consequently, the relationship between SME owners and outside stockholders is informal, less contractual and more implicit. Labuschagne (2015) further adds that due to this kind of informal relationship between SME owner and managers with other stakeholders of the business, information collected about small business enterprises is often fragmented and private. This makes the cost of monitoring and bonding for SMEs to be relatively high as compare to the cost incur by large firms for the same purpose.

(9) **Resources and finance:** Grundling and Kaseke (2010) contend that only 46.1% of SME owners keep financial records since they only keep record of overall sales, stock and cost of sales. Consequently, this makes it difficult for SMEs to obtain funding from investors which is one of the greatest challenges widely recognized as a hindrance for business growth. Therefore, most SMEs' sources of finance or capital are ultimately from family contributions, personal savings, spouse salary, government pension, and, income from other jobs.

(10) **Strategy:** Wiese (2014) notes that quite a lot of studies have revealed a relation between premeditated planning and business accomplishment implying that conceiving and implementing a good strategic business plan give a greater possibility for that business to succeed and be sustainable. However, most SMEs often fail to conceptualise and implement effective strategic business planning because of lack of well-developed administration and lack of resources, limited access to finance, human capital and customer capital.

(11) **Locations:** Most SMEs are located in townships and mostly in rural settings where they serve the local population in the communities where they operate (Bickle, 2012). This explains why many of these businesses are bound to remain small because the size of their market too is small. Bickle (2012) adds that SMEs are not likely to have markets or sales outlets in many other provinces, states or countries. For instance, a large number of small business enterprises

operate from a single retail store, service outlet or office, while most of them operate only to make a small profit that caters for the basic needs of the owners and their families.

(12) **Ownership and taxes:** Most SMEs' owners prefer to establish their businesses as limited liability companies, partnerships or sole proprietorships (Shinozaki, 2012). Such owners of these forms of business organisation try as much as possible to minimize their expenditures and avoid the hassle of business registration. Shinozaki (2012) further notes that these forms of business entities do not usually file their own taxes but instead, the owners report business expenditure and income on their personal tax returns. This implies that many SMEs do not literally pay taxes, they evade taxes and rather pay little fee for operation.

(13) **Revenue and profitability:** Generally, the revenues for small business enterprises are lesser than that of firms operating on a bigger scale. Government Gazette of the Republic of South Africa (2003) stipulates that Small Business Administration (SAD) classify SMEs as businesses that make less than a specific amount of revenue, depending on the kind of business. According to SAD, the maximum revenue budget for SMEs designation is set at \$21.5 million per annum for service business enterprises. This assumption is however faulty because lower revenue does not necessarily mean lower profitability. O'Higgins (2012) argues that because of this maximum revenue budget for SMEs designation at \$21.5 million per annum that most small businesses are focusing their goals on the fact that there is need for every establish business to yield profit.

(14) **External environment and business success:** SMEs typically entice their customers and staff by giving them workstation culture that has value relationships and is more participatory with family members and other significant external role-players (Shinozaki, 2012). Therefore, a wider dream of success for SMEs require new relationships, new performances and new business tools. SMEs appear to be successful and sustainable as soon as they collaborate with other business enterprises to share technologies, lessen cost production and create interacting opportunities.

The analyses above illustrate the major features used to identify SMEs and distinguish them from large businesses since they possess different characteristics. Therefore, understanding the characteristics of SMEs leads to a discussion of their importance and the role they play in the global economy and South African economy in particular.

### **2.2.3 Importance of SMEs in the Economy**

SMEs are important agents in stimulating economic development because of their contributions to the growth and stability of many economies of the world, including that of South Africa. Oduntan (2014) affirms that SME sector across the globe provides a platform for the training of indigenous entrepreneurs who drive the wealth creation process in many countries. He also adds that it has even been established by scholars of economics that SME sector is a nursery for entrepreneurship where individual creativity and innovation drive economic growth. Therefore, the sector can be equated to a university where a vast majority of entrepreneurs receive training on how to effectively operate small-scale businesses. In this regard, the significance of SMEs in the development of the economy is viewed from two perspectives, which are their importance in the global economy and contribution to economic growth in South Africa.

#### **2.2.3.1 Importance of SMEs in the Global Economy**

The whole world is still struggling to recover from the global economic crisis of 2008, and SMEs are considered the main drivers for growth in any economy. They have been the centre of debate in many countries today. Jain and Chen (2013) show that the global financial crisis of 2008 generated new problems for SMEs, but businesses are however still obviously contributing enormously to the employment and gross domestic product (GDP) of many countries in the world today. Bouri *et al.* (2011:7) further state that SMEs in many countries make the backbone of their economies, especially in developed countries, even though the sector is not well developed in Africa and other developing countries. However, the contribution of SMEs to economic fundamentals such as employment creation and the generation of income to improve the GDP differs from country to country. D'Imperio (2012) indicates that SMEs contribute up to 51% of the GDP and employment levels in high-income countries and an average of 16% in developing countries. The variation in the contribution of SMEs to economic development in countries throughout the world is because developed countries have bigger SME sectors and lesser informal sectors than underdeveloped countries with smaller SME sectors and bigger informal sectors. This implies that developed and richer countries have more open economies while those of the underdeveloped and poor countries are relatively closed.

SMEs are perceived as employment multipliers because the new jobs they create lead to more employment opportunities in some industries such as manufacturing. For instance, a business in the manufacturing industry with 50 employees in 1965 and 100 of them in 1994, had

multiplied its workforce by two within 29 years and probably by three in 2017 (Wiese, 2014). It follows that SMEs can be equally referred to as a local multiplier effect because they boost overall domestic consumption in the countries where they operate. This is also because according to Jain and Chen (2013), SMEs could have two to three times influence on domestic spending as compared to the impact on domestic spending created by bigger business enterprises in the countries where they operate. This implies that SMEs are a driving force of economic strength because they create a progressive influence on the national economies of many countries by creating employment and fostering a competitive business environment. Shinozaki (2012) contends that the cost of creating jobs in the SME sector is less than the cost of creating jobs in the big business sector, because big commercial enterprises are typically more capital intensive, unlike SME sector, which is more labour intensive.

To evaluate the significance of SMEs contribution to the worldwide economy, it is important to define their impact in the most advanced countries of the world. Labuschagne (2015) claims that SMEs in Europe were considerably more resistant than big companies during the 2008 global financial crisis, principally regarding their rate of employment. The more than 20 million SMEs have been playing a significant role in the economies of most countries in Europe since the global economic crisis of 2008 and by 2012 this sector has employed about 86.8 million individuals. These 86.8 million individuals represent 66.5% of all employment opportunities created within that period and brought about 57.6% of the total value created by the private sector across the continent within the same period. Muller *et al.* (2014) asserts that since the global financial crisis of 2008, the employment size in Europe today comprise a large share of the European economy. Therefore, the SME sector in Europe has played a crucial role in improving the continent to its present position today.

SME sector also plays a dynamic role in assisting developing economies in the world that struggle to look for responses to the downturn cycles and considerable crisis of unemployment (Gilroy, 2014). Therefore, the SME sector in these countries serve as an actual channel and means of job creation, alleviating poverty and growing productivity. Gilroy (2014) also states that according to the Small Business Administration (SBA) Office of Advocacy, SME sector represent 99.7% of total employment in the US alone. This implies that recovery of the global economic crisis and recession, the sustainability of the world growing population and the future of innovation, greatly depend on the global SMEs sector. Philip (2010) affirms that SMEs are the agents of global economic recovery and growth because they stimulate entrepreneurial skills, private ownership and they are also flexible and can adjust rapidly to supply situations

and fluctuating market conditions. This is because apart from contributing to the GDP and generating employment, SMEs also help to diversify economic activities and contribute significantly to international trade in both developed and developing economies.

SMEs in Europe are economically imperative with 98% of an estimated 19.3 million businesses being small enterprises, providing up to 65 million employment opportunities, thereby making them the major contributors to economic growth, job creation and poverty alleviation across the continent (Moloi, 2013). In USA, which is one of the most economically influential countries in the world, SMEs create 50% of private employment and in other advanced economies such as China, Austria, and Canada, SMEs' job creation is even more than 50% (Davies, 2011). This story is the same even in Africa and other developing countries since SME economic activities often trickle-down from developed countries to underdeveloped ones. Idemobi (2012) states that, 70% of firms operating in Nigeria are classified as SMEs, while more than 50% of business enterprises operating in Kenya are defined as SMEs. In the Southern region of Africa, the Namibian SME Gazette (2012) reports that 50% of enterprises in Namibia are SMEs which contribute enormously to national economic growth and job creation in the country. Therefore, SMEs in this part of Africa are the engines that drive the national economies of Southern African Development Community (SADC) member countries. For instance, according to the National Credit Regulator (2011), Statistics South Africa (2011), about 91% of all formal enterprises in South Africa are SMEs and they contribute 55% towards employment and 38% towards GDP.

The 2009 GEM report stresses that there is a strong relationship between the rate of economic growth of a country and its level of entrepreneurship (GEM, 2009). This justifies the reason why private enterprise have been given more consideration from both the press and economic scholars because of the increasing recognition of the significant socio-economic contributions that entrepreneurship brings in the global economy. GEM (2009) report further adds that some of these social and economic contributions by SMEs to the global economy include poverty alleviation and improved living standards of citizens. Meanwhile some of the economic contributions include sustaining a favourable balance of payments, balance of trade, economic growth, and job creation. Therefore, one can conclude that SMEs are an indispensable panacea for stimulating economic growth, stabilising economies and improving the standards of living of individuals in the global economy today. The World Bank (2007), however, made an estimated classification and structuring of SMEs and their contribution to economic

development in some selected countries from five continents in the world with specific emphasis on their involvement in employment generation as presented in Table 2.7 below.

**Table 2.6: SME participation in the economies of selected countries**

Country Name	Structure of the MSME Sector (% of all MSMEs)			SME Participation in the Economy		
	Micro	Small	Medium	SMEs	SMEs per 1,000 people	SME employment (% total)
Brazil	93.9	5.6	0.5	4 903 268	27.4	67.0
China	n/a	n/a	n/a	8 000 000	6.3	78.0
Egypt	92.7	6.1	0.9	1 649 794	26.8	73.5
United Kingdom	95.4	3.9	0.7	4 415 260	73.8	39.6
Ghana	55.3	42.0	2.7	25 679	1.2	66.0
India	94.0	3.3		295 098	0.3	66.9
Mexico				2 891 300	27.9	71.9
Malawi	91.3	8.5	0.2	747 396	72.5	38.0
Russian Federation				6 891 300	48.8	50.5
United States	78.8	19.7	1.5	5 868 737	20.0	50.9
South Africa	92.0	7.0	1.0	900 683	22.0	39.0

**Source:** World Bank (2007)

From the World Bank report presented in the Table 2.7 above, it is estimated that SMEs contributed to 67.0% of total employment in Brazil in 2007, 78.0% in China, 73.5% in Egypt, 39.6% in the United Kingdom, 66.0% in Ghana, 66.9% in India, 71.9% in Mexico, 38.0% in Malawi, 50.5% in Russian Federation, 50.9% in the United States and 39.0% in South Africa. Therefore, SMEs are recognised worldwide as the most important drivers of innovation, in accounting for a great share of actual invention and modernization. These enterprises are important to both investors and customers. According to Jain and Chen (2013), economic development initiated on innovation would be maintainable and boost the overall economy. SMEs are most likely to embark on innovative activities such as research and development which result in spending in high technology industries, and 90% of businesses embarking in these activities are small business enterprises.

### **2.2.3.2 Importance of SMEs in South Africa**

The significance of SMEs in South Africa can be demonstrated through a wide range of schemes the government maintains for assisting growth of the sector. The DTI (2005a) acknowledged that the development of SME sector is one of the ways that can be used to gain access to foreign markets, to reduce the high levels of unemployment as well as the best means to create income and improve the GDP of the country (Hadebe, 2010). In this regard, the importance of SMEs in South Africa is evaluated from two perspectives: SMEs contribution to employment creation and SMEs contribution to the gross domestic product (GDP).

#### **2.2.3.2.1 SMEs Contribution to Employment Creation in South Africa**

SMEs are common in all divisions of the economy and are well known as the major employers in South Africa. Small Enterprise Development Agency (SEDA) (2007) classifies major divisions in the South African economy into seven different areas which are: agriculture, construction, manufacturing, trade and communications, trade and tourism, personal services, and finance and business services. According to SEDA (2007) report, SME sector alone absorbed approximately 25% of the total South African workforce and still has the potential to upgrade human capital and generate more jobs for jobseeker in the country. Therefore, it would almost be impossible to achieve an increase in employment rate, competitiveness and redress the historical inequalities through the growth and sustainability of SMEs in the economy without positive economic growth and policy objectives. Hadebe (2010) professes that the South Africa government has a major policy to increase employment and eradicate poverty among its population to redress the historical inequalities by reducing unemployment rate in the country. Thus, the re-integration of South Africa into the worldwide economy in 1994 posed a question on the country's capability to effectively compete at the international scene.

The Banking Association of South Africa (2014) contends that SMEs in the world and particularly those in South Africa are recognised as profitable drivers of comprehensive financial improvement and development. This indicates the positive contribution of SME to economic advancement of the South African economy. Kalane (2015) confirms that many scholars have observed and acknowledged that SMEs' contribution to formal business enterprises in South Africa is up to 91% and that they provide employment to approximately 60% of the labour force in the country. However, the mode of operations of SMEs in South Africa is generally more labour intensive, giving them a high potential and capacity to generate employment opportunities for the numerous job seekers in the country. This is because the labour-intensive nature of SMEs is higher than that of big business enterprises. Oduntan (2014)



acknowledges that more per unit energy consumed and jobs per unit of investment capital are created by SMEs than big business enterprises, which has greatly helped in curbing the problem of high unemployment in most countries including South Africa. He adds that SMEs play an important role in reducing the rate of inequality by providing employment opportunities and alleviating poverty among South African citizens. Therefore, SMEs contribute immensely in solving the problem of unemployment in South Africa by employing both unskilled and skilled workers thereby providing them means of livelihood, which is an essential role in any economic development process of a country.

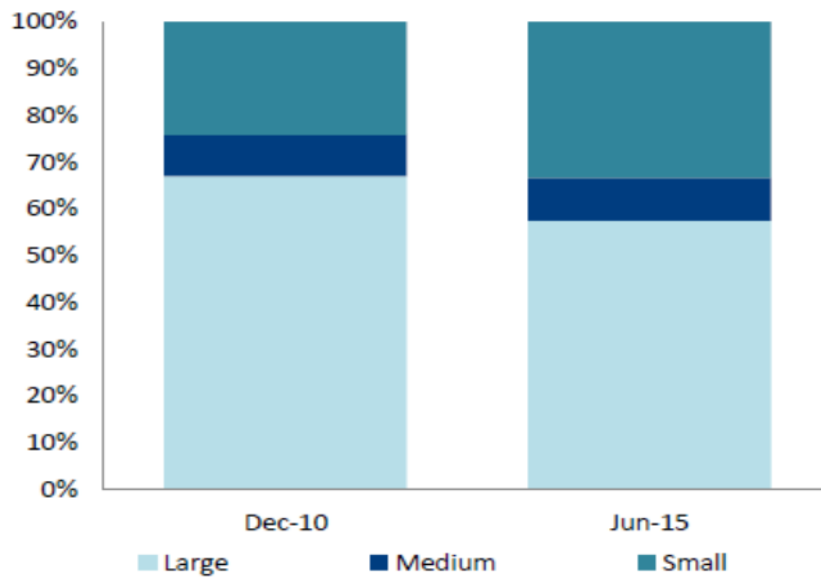
The South African government realised the importance of SMEs to the economy as early as 1995 when the then Minister of Trade and Industry - Trevor Manuel - clearly addressed the issue of high unemployment rate. According to Abor and Quartey (2010), the minister of Trade and Industry held that with millions of underemployed and unemployed South Africans, the government was obliged to give its full attention to the task of creating employment opportunities and generating equitable and sustainable economic growth. They add that the minister also held the view that small business enterprises are the most important vehicle and means to tackle the challenges of equity, economic growth and job creation in the country. In this regard, he emphasised that the actual engine of equitable and sustainable economic growth in South Africa is the private sector. Therefore, because of their contribution to economic growth, the South African government has been committed in doing all it can to create an environment in which the SME sector can grow and be sustainable.

Scarborough and Zimmerer (2003) argue that since SMEs are more labour intensive, it is obvious that they create more employment opportunities in South Africa than large enterprises. Therefore, in order to accomplish the government's top agenda to curb the high rate of unemployment, its top priority must be to grow small businesses in the formal sector. The government is also obliged to provide a conducive environment as well as appropriate assistance to opportunity-driven entrepreneurs who wish to establish new businesses not out of necessity but because they recognise and seize opportunities. This is because according to Scarborough and Zimmerer (2003), opportunity-driven entrepreneurs are good at mobilising resources, generating new business ideas, and ultimately creating employment opportunities. Therefore, SMEs are very important in economic development of the South Africa judging from their enormous contribution toward poverty alleviation, equality and improving standard of living of citizen through the creation of employment opportunities.

#### **2.2.3.2.2 SMEs Contribution to the GDP in South Africa**

The Gross Domestic Product (GDP) is the sum of net operating surplus (NOS), consumption of fixed capital and all wages earned in a given period of time (BER, 2016). In addition to the creation of work opportunities across the various divisions of the economy, SMEs equally contribute significantly toward the gross domestic product (GDP) of South Africa. Hence, their contribution toward the GDP make a positive impact to the economy of South Africa because the prospects of a country are evident in its economic development rate. According to Labuschagne (2015), two appropriate sources of SMEs' contribution to the GDP that were put out by Small Enterprise Development Agency (SEDA) and the Department of Trade and Industry (DTI) in 2005 and 2007 indicated that in 2004 alone, SMEs contributed approximately 40% GDP of South Africa and the same estimate in 2014. This means that in South Africa, SME sector stimulates economic growth especially as small enterprises are very essential for competitive and efficient markets. Labuschagne (2015) adds that according to the Amalgamated Banks of South Africa's (ABSA) SME Index (2015), many concerns have been raised about the decreasing number of SME in South Africa.

SMEs sector is a vehicle that assists job seekers and employees who are receiving meagre wages in South African to have more access to economic prospects thereby contributing up to 40% in boosting the GDP of the country (Stats SA, 2014). From the Stats South African data, a proxy for SMEs contribution to the GDP can be derived by summing the profits, depreciation and combined salaries earned in a given period respectively. In this regard, the Bureau for Economic Research (BER) estimated the proportion of SMEs contribution to the GDP of South Africa of 2010 and 2015 as depicted in Figure 2.1 below.



**Figure 2.1: A diagrammatic representation of SME contribution (in percentage) to South African GDP of 2010 and 2015**

**Source:** Bureau for Economic Research (BER) (2016)

The contribution of the various categories of business enterprises toward South African GDP of 2010 and 2015 and the percentage changes between these two periods is also presented in tabular form by the Bureau for Economic Research (BER) (2016) as depicted in Table 2.6 below.

**Table 2.7: A tabular representation of the amount of SMEs' contribution to South African GDP of 2010 and 2015**

R Million	December 2010	June 2015	% change
Large	234619	257056	10%
Medium	31125	40982	32%
Small	84932	149464	76%
<b>Total</b>	<b>350667</b>	<b>447502</b>	<b>28%</b>
RSA GDP	634375	851095	34%
% SMEs	18%	22%	

**Source:** Bureau for Economic Research (BER) (2016).

From this aggregate, SMEs contributed 18% to South African GDP in the fourth quarter of 2010 (in December) and their contribution increased to 22% by the second quarter 2015 (in June). Regarding SMEs' contribution to the GDP, another study carried out by Abor and Quartey (2010) estimates that SMEs constitute about 91% of the formal business entities in South Africa and that these enterprises contribute between 52% and 57% to GDP.

Briefly, the importance of SMEs in the economy is very significant especially as agents of stimulating economic development because of their contributions to the growth and stability of the global economy including that of South Africa. SBP Alert (2013) asserts that many studies have demonstrated that the SME sector is the main engine for creating employment and the key contributors to the GDP worldwide, including South Africa. It has also been validated that SMEs' contributions to economic development, especially in job creation and contribution to GDP, are prominent in both developed and developing countries even though these contributions appears to be more significant in the emerging economies than the advanced ones. Under fair conditions, a vibrant SME municipality has the capacity to be a dynamic and transformational force in any economy. When likened to large enterprises, SMEs increase career and employment growth, GDP progress, entrepreneurship, poverty alleviation, competition, innovation as well as encourage economy-wide efficiency (SBP Alert, 2013). Based on this understanding of the significance of SMEs in the economy, it is imperative to discuss the theoretical perspective of SMEs.

## **2.3 Theoretical Perspective of SMEs**

Scholars have put forth several theories to explain SME success and sustainability. The major theories underpinning SME sustainability are the financial gap theory, the resource dependence theory, the theory of mergers and acquisitions, investment theory and trickle-down theory. These theories form the underlying foundations for SMEs survival and sustainability.

### **2.3.1 Financial Gap Theory**

The financial gap theory has its roots in the 1930s when the Report of the Macmillan Committee observed a problem of small businesses tending to be discriminated upon by investors and financiers such as the commercial banks. The financial gap theory was bolstered by Bolton in 1971 in his quest to examine the accessibility of finance for business and the use of funds by the small business enterprises (Asplund and Henriksson, 2012). It may be deduced from Asplund and Henriksson's assertion that Bolton postulated the financial gap theory in order to reveal the discrimination that SME faced by investors in terms of financing because

they prefer to fund bigger enterprises than small ones. OECD (2006) states that the financial gap philosophy postulates that there are many small business enterprises that require legitimate financial support from the government, investors and financiers such as the commercial banks and can utilize these funds judiciously, but they cannot acquire it due to stringent requirements from the financial system. Hence the financial gap theory discusses the incapability of SMEs to identify the requirements for external sources of finance while the sponsors do not also find it easy to mobilise the SMEs due to lack of knowledge about the nature of their business procedures.

Asplund and Henriksson (2012) note that the financial gap theory explains that there is a gap between investors and/or financiers and small business owners with underlying reasons often linked to either insufficient funds from the financiers or inadequacies from the business owners or sometimes both parties. According to these scholars, financial gap is derived from a “knowledge gap” between SMEs and financiers where the financiers do not understand the situations of the entrepreneurs and the entrepreneurs do not satisfy the investors’ or financiers’ demand for information and had insufficient knowledge of different prospects of raising capital. Hence, it is the financial gap between the financiers and the entrepreneurs that leads to the inadequacies and the lack of requirement from the financial system such as collateral security to obtain loan from commercial banks. Asplund and Henriksson (2012) further argue that in the absence of external funding, the only option left for small business owners to raise funds for their businesses is through personal savings, friends and family relations. Therefore, this explains why most small businesses are limping and struggling because of lack of sufficient funding for expansion and growth. OECD (2006) stipulates that the financial gap theory suggest that entrepreneurs and small business owners should strive to obtain facts on how to apply for external financial support from the government or other investors. Meanwhile the financial markets should also endeavour to scrutinize the business profiles of the SMEs to offer them reasonable financial support to ensure that the financial gap is closed so that the sector can maximize its output.

There has been a national and even worldwide recognition of the need to improve access to financing for SMEs on reasonable terms by encouraging more innovative solutions and initiatives for facilitating small business enterprises’ access to financing, from the inception or establishment of their businesses through all stages of development (Asplund and Henriksson, 2012). This lead one to assume that the worldwide and nationwide initiative to improve and facilitate access to financing for SMEs is because of the recognition of their importance to

economic development of the global economy and individual nations. OECD (2006) argue that many business scholars have hypothesized a financing gap for SMEs, implying that there are a considerable number of these businesses that could use funds productively if they were available. However, potential entrepreneurs and small business owners cannot get finance from the formal financial system and therefore recommend measures to foster an improved flow of financing to SMEs for their growth and sustainability. This is because according to OECD (2006) SMEs are now globally recognised as a key source of innovation, dynamism and flexibility in advanced industrialised countries, as well as in developing economies. If the SME sector does not have access to external funds for investment, the capacity to increase investment per entrepreneur and improve productivity and wages, the development of the sector gets seriously impaired.

The financial gap theory is important to the sustainability of SMEs, especially those within the municipalities of the North West province because according to Asplund and Henriksson (2012), the theory advocates for legal funding of small businesses by the government and other financiers such as commercial banks. The motivation of SMEs to stimulate growth in this sector by the government and other financiers by providing funding to potential entrepreneurs and small business owners enhances the survival and sustainability of these businesses. Also important to the study is that according to OECD (2006), the financial gap theory creates the awareness of the requirements of SMEs to source for funds from the government and other financiers such as commercial banks for their growth and sustainability.

### **2.3.2 Resource Dependency Theory**

Nienhüser (2008) stipulates that Jeffrey Pfeffer and Gerald Salancik put the resource dependence theory forth in 1978. This theory explains how the external resources of organizations affect the behaviour of the organization and that the procurement of external resources is an important principle of the tactical and strategic management of any business enterprises. This implies that SMEs depend on their external resources for them to thrive and be sustainable. Nienhüser (2008) further adds that an essential hypothesis of the resource dependence theory is that dependence on important and critical resources influences the actions of organizations and those organizational actions and decisions that can be explained depending on the dependency situation. This leads one to believe that one thing always depend on another for it to succeed to be sustainable. Davis and Cobb (2010) on their part contend that resource dependence theory was originally develop to offer a different perspective to economic theories of mergers and board interlocks, and to understand precisely the type of inter-

organisational relations that have played such an important role in recent market failures. According to them, the motivation of managers running the business of organizations was to ensure that the organizations survive and have their own autonomy, while also upholding stability in the enterprises' exchange relations.

The three principal ideas of resource dependency theory are that those organizations have strategies to enhance their autonomy and pursue interests, that social context matters and that it is important to understand the internal and external actions of organizations (Davis and Cobb, 2010). It can be deduced that resource dependency theory provides an externally focused point of view of why business enterprises acquire other firms in order to succeed and be sustainable. Davis and Cobb, (2010) also note that resource dependency theory calls for the implementation of adaptive tactics to lessen dependence level from other interested party and seek for other coalition means like merger to stimulate the growth of business enterprises.

Hillman *et al.* (2009) contend that merger enables business enterprises to acquire their transacting partners and lessens an enterprise's dependence on other firms in their environment. This proves that merger can be used by SMEs as a means to reduce direct competition among firms in the same line of business so that they can survive and be sustainable. In the same regard, Park and Mezias (2005) assert that this theory is equally a principal theoretical perspective to understand joint ventures and other inter-organizational relationships. It should be noted that joint ventures are usually formed between interdependent firms or business organisations to decrease domestic and international environmental complexity and gain resources. Park and Mezias (2005) further note that the alliances formed in periods of low environmental munificence have more favourable stock market reaction, demonstrating the magnitude of dependency that successfully predicts these forms of alliance.

### **2.3.3 The Theory of Mergers and Acquisition**

Golubov *et al.* (2013) contend that the first and foremost merger and acquisition wave was branded by horizontal mergers which formed the telephone, oil, mining, steel, and railroad giants thereby defining the elementary transportation and manufacturing businesses in the US. Meanwhile, the acceptance of antitrust laws in the early 20th century and especially during the First World War, led to the end of the foremost merger and acquisition wave in the US. Hence, the theory philosophises merger and acquisition as a means for businesses such as SMEs to grow and be sustainable. Roberts (2010) describes a merger or an acquisition in a business as the amalgamation of two or more businesses into one new corporation. He adds that in the 21st

century business world, mergers and acquisitions have been a very vital strategic tool used to accomplish specific business goals and objectives. This implies that merger and acquisition is a means that SMEs can use to succeed and be sustainable. Mboroto (2012) on his part says that merger and acquisitions occur when the assets and liabilities of two legal entities are combined to form one legal entity. He further notes that if merger and acquisition is to be defined separately, then merger is the merging or consolidation of two businesses or firms on an equal basis. Arvanitis and Stucki (2015) stipulate that acquisition is the absorption of a smaller business or firm by a larger one with the smaller one either becoming a subsidiary of the larger firm or with the smaller business combined into the larger business. In this case, the smaller business loses its identity whereas the larger business takes control of the smaller one's assets and liabilities. Hence, from the two descriptions, whether merger or acquisition, the bottom line is that two or more firms or businesses join together to expand and be sustainable in business. Therefore, with regards to these descriptions, mergers and acquisitions can be used interchangeably in the business world because both of them fundamentally lead to the same outcome whereby two business entities integrate to become one. The only difference between a merger and acquisition from these descriptions is only in the way the incorporation of the two entities are brought about.

SMEs merge to make synergies or cooperation between the acquirer and the target which will increase the value of the business entity. Merger of SMEs will occur only if there is an expectation to produce enough realisable synergies or enormous profit to make the deal beneficial to the both parties involved in the transaction (Hitt *et al.*, 2001). This implies that if the profit in value to the target is not encouraging, then the owners of the target business entities would not accept to sell or submit to the acquisition, and if the gains are not encouraging to the owners of the bidding business entity, the bidder would not also accept the deal of merger. Cefis *et al.* (2009) claim that according to the theory of mergers and acquisitions, the amalgamation of business entities or synergies offer significant benefits because businesses with greater market power charge higher prices on their products and consequently make greater profits through consumer surplus. This is because greater market power allows for the prevention of new potential businesses to enter the market in the future which can again enable the business entity to make significant premium and offer another long-term source of profit. This means that mergers are beneficial to both parties because it leads to increased profitability since it gives the new business entity great market power to dominate smaller enterprises, charge higher prices and make more profits.



Most often, entrepreneurs or management team of SMEs are willing to acquire an underperforming business, to remove those managers that have not succeeded to make use of the opportunities to create synergies to improve on their resources (Weston *et al.*, 2004). They add that aggressive takeovers of small or unsuccessful businesses should be detected amongst poorly performing SMEs and amongst firms whose internal corporate governance mechanisms have not been able to discipline their management team. It follows that the essence of merger is to enable underperforming businesses to be able to compete with bigger ones in the market so that they can succeed and be sustainable. Weitzel and McCarthy (2011) assert that SME mergers and acquisitions face a greater possibility of effective amalgamations than big and well-established firms do. However, when it comes to performance, size matters because SMEs and big business entities are inversely related. Therefore, SMEs will desire for better acquirers because the mergers and acquisitions they pursue will be more likely to create value, which is an important strategy for growth and sustainability of their businesses.

Entrepreneurs and managers of SMEs are fully aware of the importance of growth strategy by merger/acquisition and that is why these small business entities make up a greater proportion of the yearly mergers and acquisitions population as a strategy for their survival and sustainability (Baker *et al.*, 2009). This demonstrate that the value created in merger and acquisition will enable the new business to out-perform its competitor and grow to be sustainable. More so, the value gain in mergers and acquisitions is divided between the shareholders of the two business entities according to their respective bargaining power, which give them an urge to succeed and be sustainable. Motis (2007) says the theory of mergers and acquisitions portrays that fundamental reason for amalgamation of business entities is to increase the value of the firm for the survival and sustainability of SMEs.

The theory of mergers and acquisitions is important to SMEs especially to those within the municipalities of the North-West province because the theory generally advocates for merger or acquisition, which can enable small businesses to form a larger business entity that can survive the commercial hurdle associated with small enterprises. According to Cefis et al. (2009) by forming mergers and acquisitions, in striving to overcome commercial hurdles associated with small business ventures, SMEs can improve organizational autonomy and legitimacy, which will enable them to grow and be sustainable. The theory of mergers and acquisitions is also important to the sustainability of SMEs because it portrays the benefits of amalgamation or integration of small business entities to become one larger business entity. Motis (2007) contend that the benefits of merger and acquisition are enormous such as

acquiring and increasing market value, economies of scale, saving of cost, escaping from immediate capital gains taxation, ability to borrow capital for investment and tying strategies to raise entry barriers for potential investors in the same line of business. Therefore, it can be concluded that the theory of mergers and acquisitions is one of the reasons why business entities such as most SMEs in the municipalities of the North-West province can become more commercialised and sustainable in recent times.

#### **2.3.4 Investment Theory**

Investment is engine of economic activity and the principal impetus from the time of Karl Marx and Adam Smith. Pistorius (2014) asserts that contemporary investment theory is established on Harry Markowitz's 1952 and 1959 portfolio theory. He submits that the portfolio theory is constitutive for investment and risk management in the global financial sector. Therefore, investment theory gives the foundations of making investment decisions, starting with portfolio theory and the trade-off between risk and return. Goetzmann (2017) professes that investment theory portrays how the definition of entrepreneurs or an investor risk depends critically on diversification. He adds that investment theory also explains contemporary asset pricing models in determining the expected rate of return on investments and gives proof about the information that can be used for strategic investment advantage. Investment theory mainly portrays the risk and returns expected by entrepreneurs and investors when they invest in a business such as an SME. Goetzmann (2017) asserts that the classic problem of financing investment is whereby an entrepreneur or an investor identifies a great investment opportunity but lacks the cash to take advantage of it. Hence, in such a situation, the only option for the investor or entrepreneur is to borrow money either privately from a bank, or from the public by issuing securities with promises of future payment.

Many theories have tried to explain firm or SME investment in the business context and the most important of these theories are the neoclassical theory, the free cash flow theory and the agency theory. According to the Neoclassical Theory, capital investments are explained by SME's firms' exogenous variables that sales are for the most part very important in this context (Nunes *et al.*, 2012). This entails that increased sales enable a business entity to increase its capital investment by ploughing back its profit into the business but on the other hand, a decrease in sales results in a reduction in capital investment. According to information asymmetry in relationships established between entrepreneurs or SME owners/managers and creditors, the studies by Fazzari *et al.* (1988) and Fazzari and Petersen (1993) originated Free Cash Flow Theory. Pistorius (2014) argues that unlike the views of the Neoclassical Theory,

the Free Cash Flow Theory proposes that investment depends on an SME's or a firm's endogenous factors, whereby cash flow is the principal factor that influences an SME's or firm's capital investment. Therefore, the high sensitivity of investment to variations in cash flow indicates that there are serious constraints felt by SMEs in financing their investment.

Neoclassical theory of investment is the optimization issue of an SME because increase profits over time, will result to yielding an optimal capital stock (Eklund, 2013). This entails that the Neoclassical theory of investment demonstrates the benefit of investment since it leads to generation of profits. Nunes *et al.* (2012) contends that Neoclassical Theory stipulates that the amount of sales explain the level of an SME's investment, which implies that an increase in sales will result to an increase investment and vice versa. Regarding the importance of sales as a principal factor in explaining investment, sales also have perfect statistical predominance over any other variable in explaining the investment capability of an SME or a firm. Serrasqueiro *et al.* (2008), assert that there is a positive relationship between sales and investment of any business entity and that the level of SMEs' investment depends on cash flow and getting a positive relationship in the level of an enterprise's cash flow and its capital investment.

The evidence of a good relationship between cash flow and an enterprise's investment is the importance of cash flow in determining SMEs' investment decisions according to the information asymmetry in the relationships between entrepreneurs or owners and their creditors (Junlu *et al.*, 2009). Hence, this explain why SMEs are facing greater restrictions in accessing external finance for investment and as a result, they depend more on internal funds as the only means to finance their investments. This is because according to Sun and Yamori (2009), cash flow is an important variable to explain investment in SMEs, given their possibility to obtain credit due to their lesser capability of providing collateral security and a greater possibility of them becoming bankrupt.

In SMEs, the relevance of sales is anticipated to be less than the importance of sales in the large business entities or established firms. In many situations, sales recorded by SMEs are more important for coping with occasional hitches in cash management than for making investment decisions (Serrasqueiro *et al.*, 2008). This is because sales have a limited impact on investment when SMEs have low levels of investment, a situation which ought to be inverted for SMEs with high levels of investment. Consequently, for SMEs that have less investment, the sales variable ought to have little expression in the market and so, an effect of apprehension and

incapacity in relation to investment must result, as SMEs with little investment jeopardize their survival and sustainability in the market. Nunes *et al.* (2012) claim that SMEs with high levels of investment have a positive evolution of sales and they are most likely to survive in the market and be sustainable. Serrasqueiro *et al.* (2008) further note that SMEs with little investments continue to give the market a sign of lack of confidence, making creditors increase the cost of capital to minimise the information asymmetry regarding the profitability and risk of projects. This prevents these businesses from investing in low-profitability and high-risk projects.

Investment theory is important to SMEs especially to those within the municipalities of the North-West province because it advocates debt investment by investors and entrepreneurs. The good thing about debt investment is that if the business goes bankrupt, the debt will have priority over the stockholders or equity investors and highest level of debt is a first mortgage secured bond that has a lien on an exact piece of valuable asset such as a brand name (Kennon, 2017). Also, according to Kennon (2017) investment theory is important to SMEs because it provides investment options or strategies by entrepreneurs or investors which in this case, is equity and debt investments. This provide information asymmetry regarding the profitability and risk of projects, preventing small businesses from investing in low-profitability and high-risk projects. Therefore, it is important for SMEs to implement the tenets of investment theory if they desire to succeed and be sustainable.

### **2.3.5 Trickle-Down Theory**

The trickle-down theory was conceived by Will Rogers, an American comedian and commentator who used the theory to sarcastically describe President Herbert Hoover's stimulus efforts during the Great Depression which struck the US stock market in 1929. The Great Depression ended only after World War II in 1946, which economists have described as the most critical event of the 20<sup>th</sup> century. Bhalotia and Tech (2017) stipulate that trickle-down theory provide that a policy of tax cuts or tax reduction and other financial gains to big businesses and rich individuals will indirectly benefit the broader and poor population. Therefore, trickle-down economics theory advocates that the benefits of wealthy individuals should trickle down to everyone else in the society, especially the poor population. According to Bhalotia and Tech (2017), the benefits of big companies and wealthy individuals are usually tax cuts or reduction on big businesses, on high-income earners, on capital gains, and on dividends because investors, business owners and savers are the real drivers of economic growth in every nation. Bartlett (2017) argues that big businesses and rich individuals are the drivers of economic growth because they use any extra cash from tax cuts to expand business

growth and investors also use any extra cash from tax cuts to buy more stocks and invest in new businesses thereby diversifying their original businesses.

The elementary belief of trickle-down theory is that if high income earners have more money, they would invest their money in SMEs or any other businesses that produce goods at lower prices and employ more individuals in the society. Bhalotia and Tech (2017) affirm that the major principle of this theory is that economic growth streams from the top to the bottom. It follows that the fundamental policies embedded in the trick down theory is the reduction of the top individual tax brackets, reduction of corporate net income taxes and reductions or possibly elimination of capital gains taxes. This implies that the purpose of such tax reduction is to generate more income and output that could result in increased tax revenues. Sowell (2013) states that prevailing tax rates in South Africa are so high such that the government may possibly collect more tax revenues if it reduces those tax rates. This is because the changed incentives could lead to more economic activities that could result in more tax revenues out of increasing incomes, although the tax rates are reduce. This is a testable hypothesis that individuals may argue for or against, on either empirical or analytical grounds.

Bhalotia and Tech (2017) contend that the creation of jobs for the middle class as a result of reduction of corporate tax rate would result in setting up of SMEs in the service sector. Consequently, the reduction of corporate tax rate will be beneficial to the whole ecosystem of support services for the workers because they have to spend money to acquire their necessities. Furthermore, wealth creation would not be restricted only to capital gains, which is a good indication of a healthy economy, but it would as well benefit local SMEs since their sales will increase. It follows that increased sales entail more revenue and more profit for SMEs, which in turn will enable the sustainability of these small businesses. Sowell (2013) argues that what is required is a greater flow of capital from the top (Big companies and/or high-income earners), to the bottom (SMEs and/or low-income earners). He adds that this can be achieved by ensuring equitable growth and implementation of democratic policies that strive for the improvement of all and sundry because true growth and development manifests when all individuals and all sectors of the economy benefit from the nation's wealth.

The trickle-down theory is important to SMEs, especially within the municipalities of the North West province of South Africa because it advocates for the reduction of corporate tax rate. The reduction of corporate tax rate leads to the sustainability of SMEs because it will attract more investors to invest in small businesses, which would boost growth and sustainability of this

sector. This is why according to Bhalotia and Tech (2017), in 2017 the US president - Donald Trump intended to put an end to taxes on capital gains and dividends for everyone making less than \$50,000 annually. Donald Trump intended to reduce corporate tax rate in order to attract more corporations, which will boost economic growth enough to make up for America's debt increase. Hence, the fundamental idea behind the trickle-down theory is that the redistribution or transfer of wealth from big companies to the SMEs would eventually result in a situation where those at the bottom of the ladder of success would benefit from the wealth flowing into their businesses. Sowell (2013) claims that the philosophy behind the trickle down is that if a billion dollars is to be invested in a big company X, it would result in setting up of other small businesses in the service sector. This in turn would create jobs for the locals and give them the opportunity to save and invest in more other businesses such as SMEs. Sowell (2013) further adds that though it is assumed that the jobs would increase the opportunities for the local people, there would also be trickle down effects because the new rise in incomes of the workforce would boost their purchasing power. Consequently, boosting the purchasing power of the local people enables them to buy more goods and services especially from SMEs, which in turn would boost the SME sector and lead to the growth and sustainability of small businesses.

## **2.4 Chapter Summary**

This chapter presented an overview and theoretical perspectives on small and medium size enterprises. The overview provides a comprehensive definition of SMEs and their meaning in the South African context to distinguish this definition from those of other countries, especially in terms of number of employees. The characteristics of SMEs has also been examined and their importance in the global economy established. The chapter further delineated the contribution of SMEs to economic development of South Africa in terms of employment creation and the generation of income to improve the GDP of the country. The chapter closes with the theoretical perspectives on SMEs sustainability where the major theories underpinning the study such as the financial gap theory, the resource dependence theory, the theory of mergers and acquisitions, investment theory and trickle-down theory are elaborated. From this general overview and the theoretical perspectives on SMEs, the next chapter (three) interrogates recent and relevant literature where the sustainability of SMEs is discussed in detail.

## **CHAPTER THREE**

### **THE SUSTAINABILITY OF SMEs**

#### **3.1 Introduction**

Buys (2012:6) asserts that sustainability is defined in various ways and prominent among these definitions in this context is that “sustainability is the continuous development of a business entity without any constraint of any negative economic outlook, by conflicts or the earth’s natural resources.” Most SMEs that are newly established and start-up businesses need to adjust to changes at all stages of their existence to be sustainable. A newly established SME requires to reach breakeven point in the medium and long run and this process typically takes a few years, which requires capital to finance its business operations (Datar *et al.*, 2013). A proper business strategy gives SMEs competitive advantage over others by overcoming obstacles and adapting to products and market changes (Buys, 2012). Presently, the study recognises that a good strategic business plan, sufficient finance, effective management, innovation, business research as well as education and training are critical factors (which are the independent variables) to SMEs success and sustainability (which is the dependent). Hence, these factors constitute the conceptual framework of this study.

#### **3.2 Strategic Business Plan**

A business that is well planned and well managed will have the controls in place to detect the plans that regularly compel the management to be up-to-date on improvement in the direction of its objectives. Kalane (2015) submits that preparing a strategic business plan is an essential phase for an SME to develop a long-standing vision of where the enterprise is going and the strategies used to get to where it is going. This entails that when a SMEs wants to raise funding, it becomes imperative to have a strategic plan as key marketing aspect of their businesses. Lorette (2017) states that a strategic business plan is a step-by-step written guide of a business indicating how its business goals and objectives are going to be achieved. However, according to Berry (2017), Strategic Business Plan determines where a business is going to focus its energy and resources and sets goals for the employees and other stakeholders. Therefore, strategic business planning is an approach that SMEs could use to make decisions now about the future. It enables them to make choices that are more informed and decisions, set future directions, establish priorities, allocate limited resources, improve operations and monitor results.

Wright *et al* (2017) argue that strategic business planning helps a business to understand its present situation, examine how current and future trends may affect it and decide how best to manage anticipated challenges. In this regard, a precise set of concepts, procedures and tools would help SMEs interpret emerging trends and issues. Lorette (2017) contends that during each planning cycle, insights gained could equip SMEs to effectively respond to rapid, complex change as it deliberately focuses on its desired destination. Strategic business planning therefore potentially improves SMEs management in many ways, especially as the process trains staff to think and act strategically. The skills of thinking and acting strategically permit the business to handle changing circumstances creatively. In this light, literature is reviewed on the five principal elements of strategic business plan which are organisational vision, mission statement, core values, critical success factors as well as strategies, goals, objectives and action plan.

### **3.2.1 Organisational vision**

The development of organisational vision for an SME is a part of the strategic management process because it projects a picture of the future for such a business entity. According to Papulova (2014), a vision in an organisation originates from creative imagination, which is the act of perceiving imaginative foresightedness. Organisational vision is a picture of the future that is based on concepts that outrun present time, motivating generations of entrepreneurs and managers of SMEs. Darbi (2012) argues that organisational vision is acknowledged as an essential component of the strategic management process for organizations of all types especially for small and medium size enterprises. Therefore, it can be alleged that vision statements have an influence on organisational strategy and most aspects of their overall performance and that is why organisational vision is essential for SMEs' success and sustainability.

In working with organizations such as SMEs, it there is sometimes considerable ambiguity about what represents the fundamental planning elements or “foundations” for an organization to succeed, grow and be sustainable. Harshman (2006) states that the terms “Vision” and “Mission” are often used interchangeably in different organizations and by different authors but clarity and consistency are helpful in aligning how organizations use these terms in planning. This is because, determining both the vision and the mission of a business provides SMEs a focus that allows them to plan activities, assign priorities and apply resources to move



them from where they are now in the present to where they want to be in the future. Harshman (2006) goes further to note that if a mission describes the reason for an organisation to be established, then the vision describes what the organisation wants to become or how it wants to be. Therefore, a vision is the “dream” toward which an SME is moving, just like what star football players talk about as children seeing themselves on the football pitches in the World Series or football players envisioning playing quarterback in their childhood days. Darbi (2012) avers that organisational vision provides a strategic direction, which serves as a springboard for the mission of SMEs and their other related goals. This implies that a vision of a small business is meant to recall powerful mental images of the anticipated future state of the founder’s or owner’s entity.

Without a vision small business owners would not know where they are going, how they can develop a plan to get to their anticipated destination and how they would know when they have arrived (Grusenmeyer, 2017). Without a vision of where small business owners would like their businesses to be, they will continue rambling through life, climbing mountains after mountains, only to realize each time that they have not arrived where they actually wanted their business to be. This is because no business has ever been created without a vision since a vision serves as a guide, gives purpose and direction as well as serve as a motivator for the employees, the managers and stakeholders or owners of the business entity. Grusenmeyer (2017) adds that for a vision to truly motivate and guide SMEs to success and be sustainability:

1. Such a vision must be in line with the core values of both the business (the overall organisational vision) and individuals who are members of the business such as the managers and owners of the business entity.
2. Such a vision must be effectively communicated to and accepted by everyone (employees, managers and founders or owners) involved in the business.

The more precise and detailed an individual gets in writing a description of his vision and aspiration of the future, the easier it becomes to communicate it to his partners and employees and gain their commitment and support, and the more it will be possible to achieve it (Darbi, 2012). Hence, being able to articulate a clear vision of the future is very important if small business owners expect their employees and business consultants to help them get there. The success and sustainability of SMEs can only come if the founders bring on board individuals such as employees or consultants and partners with core values that fit well with the business, and who understand and accept the business vision as matching closely with their own

(Papulova, 2014). It follows that developing a vision for an SME that is truly shared requires a lot of effort, commitment, time and energy. Therefore, a small business owner should not expect that just because he develops a vision statement, reads it at a staff meeting and even hands it out in printed form that everybody will instantly accept and work toward accomplishing it. Grusenmeyer (2017) argues that an owner of a business enterprise himself needs to walk, talk and be totally committed to the vision first, and then discuss it with his consultants and employees not less than ten times before they believe he is actually serious and begin to internalize the vision.

The principal role of a vision statement is to communicate the strategic direction of a business entity to owners and other stakeholders to guide strategic planning. The second most important objective of a vision statement is to inspire and motivate employees because it is deemed essential to deliver encouragement to employees and other stakeholders of a business enterprise (Forbes and Seena, 2006). This proves that the objectives of SMEs are derived from the vision of the owner and linked to the measurement of corporate progress and cascading down to individual performance. Darbi, 2012) professes that organisational vision could encourage desirable behaviours among employees and stakeholders of SMEs if such a vision is clearly communicated and reinforced through a reward system. This implies that in an attempt to establish a relationship between vision statement and the performance terms of financial outcomes, it lays the foundations for survival, growth and sustainability of any business entity, especially SMEs.

The process of strategic management is often described as a model that involves four basic elements which are: environmental scanning, strategy formulation, strategy implementation and evaluation and control. The development of vision and mission is a part of strategy formulation (Papulova, 2014). He adds that this step does not only include the vision and mission development but also includes specification of strategic objectives and strategy development. Therefore, organisational vision should be developed based on ideas about future dominant factors and the impact that would create an environment different. This implies that the vision of an SME is particularly important to reveal new factors and new connections in the business environment of the entity.

From the above discussion, it is evident that a vision is an essential ingredient for the success and sustainability of SMEs because it shapes the future of the business. A vision provides the

driving force that can get any business enterprise through the growing pains it will inevitably encounter. It equally expresses optimism, and hope about possibilities regarding the desired future (Papulova, 2014). This implies that for SMEs to be successful and sustainable, they need to pursue their vision every day to ensure that their organisational vision becomes a reality someday. This is because according to Darbi (2012) the vision of an SME is the dream of that entity and the vision statement is the type of statement that answers the questions such as “what can business entity achieve” and “where is the business entity going”? This indicates that a vision is a concise word picture of what the SMEs should strive to be and should always be the roadmap that motivates, inspires and drives the management and other individuals affiliated with the business entity.

### **3.2.2 Mission statement**

A mission of an organisation is a statement of the reason for its existence, the overall purpose the business serves in the society, the limits within which the business is operating, guides the daily activities and decisions of the business and serves as a template against which the business's programs and plans should be evaluated (Harshman, 2006). Hence, a mission statement is one of the four main building blocks of a business plan, while the other three are strategy, vision and goals. A mission gives a sense of direction and defines the limits, which are important for the effectiveness, success and sustainability of an organisation such as a small business enterprise. Darbi (2012) argues that just like vision statement, a mission statement is acknowledged as an essential part of the strategic business planning and management process for all types of organizations. A mission statement has an influence on strategy and most aspects of a business performance and that is why SMEs must have mission statements in order for them to succeed and be sustainable. Therefore, it is the responsibility of the board of SMEs to adopt a written mission statement that articulates the goals of the enterprise and sets priorities among competing demands for scarce resources.

An SME cannot have beliefs, values or mission outside of the persons who make up that business. It is important that each member in the business should first write down their own individual mission statement, then come together as a group and incorporate their ideas to develop a final mission statement for the business (Grusenmeyer, 2017). This is important because a business's mission statement should reflect the beliefs and core values of the people who run the business. Should there be a great difference between business values and individual core values, there is bound to be disharmony and friction between the two which might

negatively affect the performance of a member or employee within the business. According to Johnson *et al.* (2008), whether a member is an employee, a consultant or an owner, the best way to help assure fulfilment at work is to ensure that individual values and the mission are aligned to those of the business. This is because most employees have been reported to become physically ill from the stress because of working in a business enterprise where their core values were at odds with the ethics, principles and values of the business. However, before writing a mission statement, entrepreneurs, managers or leaders and SMEs owners must have an idea of what is in store for the future and thus the vision is the foundation for the mission statement.

Darbi (2012) notes that mission statement is a useful ingredient for business integration which gets everyone focused on objectives and working together to pull in the same direction for the success and sustainability of the enterprise. Mission statements are important for SMEs because they focused on customer values which can lead to the creation of customer service culture. The latter increases the level of customer satisfaction and it could also positively affect employee behaviour which has a direct effect on the business financial performance. From the above discussion therefore, for SMEs to be successful and sustainable, they ought to adopt mission statements that align with individual and business value and contain elements that distinguish them from other businesses.

### **3.2.3 Core Values**

Values are principles and ethics that bind the employees, stakeholders and the customers of an organization together. Values are generally established to frame an ethical context and standards that form the foundation for decision making within of an organization (Kenny, 2014). Values are therefore essential because those who share the same value systems, or core values, tend to succeed within an organization. Meanwhile, those who do not have the same set of values generally fail. Darbi (2012) asserts that the core values of a business enterprise are lasting principles that the founders hold in high esteem that are referred to as organizational vision. The enduring nature of core values provides the toast for a vision. Mintzberg and Quinn in 1996 argue that a vision statement must include core values that distinguish one business enterprise from the other. Hence, as employees in organisations are confronted with the issue of day-to-day decision-making, the core values serve as the guidelines because if employees' values are not the same with or conflict with that of the organization, the results could be decreased productivity, dissatisfaction and high employee turnover.

Business enterprises often use a value statement to remind their employees about their priorities and goals and to also identify and connect with their targeted consumers for them to succeed in business and be sustainable (Kenny, G. 2014). Hence, SMEs need values statement that will inform the staff and customers about the business's top priorities and what its core beliefs are. Barrett (2010) stipulates that core values are essential for SMEs because they influence the reputation of the business, the relationship between the business and the stakeholders and influence everything that is done within the enterprise to ensure success and sustainability. Therefore, core values are key elements that guide the development and delivery of program services and activities especially when allocating scarce resources of the business. Gorenak and Kosir (2012) argue that business enterprises use organizational values to inspire their costumers and even their employees as well. Thus, core values of business enterprises are a powerful tool for marketing, since clear business values encourage and influence potential customers to buy or use a firm's product.

Musek Lešnik (2006) asserts that business enterprises are just like human beings; they make decisions, do what they think is correct, have legal limitations on what they can do, have moral limitations on what they can do, cerates and implements their own rules and beliefs and they grow based on the decisions they make. Therefore, core values of a business are important to business enterprises because there are integrated into the personality of the enterprise thereby playing a similar role as values do in the lives of people; directing their behavioural patterns, influencing how enterprises perceive their customers and suppliers as well as influencing relationships within the organization.

Berkhout and Rowlands (2007) argue that business enterprises that focus their selection procedure on ensuring that individual values are in line with organizational core values, tend to be significantly more successful in business because their employees have a higher level of job satisfaction. Consequently, the employees will work to the best of their ability to ensure the success of the business. Kaye and Jordan-Evans (2009) stipulate that some people perceive the importance of a good match between personal values and organizational core values as more important than the income they earn. This is evidence that individuals are beginning to value more how they feel and how much satisfaction they get in the organization than how much they get paid for the job they do. This implies that core values are key elements of a business' strategic planning process. Therefore, for SMEs to succeed in business and be sustainable, they need to develop their core values that will guide the delivery of program services and activities especially when allocating scarce resources.

### 3.2.4 Critical Success Factors (CSF)

Due to continuous pressure and market competition in business, there is a need to adopt innovative techniques and tools to minimise waste and concentrate on value adding activities to ensure success and sustainability in the business (Alaskari *et al.*, 2013). Critical success factors are elements which are essential for a successful strategic planning that could affect the overall performance of a business. Cöster *et al.* (2014) contend that critical success factors (CSF) were introduced by Rockart in 1978 who highlighted the importance for business enterprises to have control over their own CSFs in order to be successful in business. Raravi *et al.* (2013) define critical success factors as the things that must be done if a business is to succeed which are those factors within a business enterprise that help it to be favourable in a competitive market. This means that all business enterprises in each market are expected to possess CSF for their survival if they are to achieve and maintain significant growth and sustainability of businesses. Alaskari *et al.*, (2013) argues that businesses with higher ratings on critical success factors will outperform their competitors on the market competition because they possess strengths in the given areas of the business. Therefore, when a business enterprise aims for superiority over the others in the same market or industry, the manager should concentrate on few critical success factors rather than concentrating on a greater number.

Over the past two decades, studies of information systems have demonstrated that the critical success factors method has been extensively accepted and used in various disciplines to determine the most critical factors that influence the success of a business enterprise (Alaskari *et al.*, 2013). This justifies the fact that critical success factors are one of the few things that ensure the success for an enterprise, which explains why the concept is important for the overall objectives, mission and strategies of a business to survival and be sustainable. According to Amberg *et al.* (2005), SMEs' managers stand to enjoy enormous benefits when they implement the critical success factor approach in their business such as the following:

- The critical success factor approach help the managers to determine the factors on which they should focus and ensure that those important factors are given careful attention and continuous management scrutiny.
- The process obliges managers of SMEs to develop good measures for those important factors and to find reports on each of the measures.
- The identification of critical success factor permits a distinctive definition of the amount of information that should be collected by an enterprise and limits the costly collection of unnecessary data.

Soheili (2015) also asserts that prosperous planning is important to the comprehension of the possible strategic influence of information systems. It follows that the primary policy for information systems planning is that the planning process should be consonant with administrative strategies. Sanyang and Huang (2010) claim that many business managers are beginning to acknowledge that information systems are important strategic administrative sources that provide strategic benefit and increase the efficiency of SMEs. This implies that a business enterprise with better strategic planning for information systems will encounter few or no difficulties in the operation of the business. Sanyang and Huang (2010) further profess that a full adoption of critical success factors is important for achieving business success in the short and the long-term perspectives of any enterprise. Therefore, for SMEs to survive and be sustainable, they need to adopt a comprehensive critical success factors for their businesses.

### **3.2.5 Strategies, goals, objectives and action plan**

(a) **Strategies:** Strategies are contingent plans of actions or sets of committed choices made by management of an organisation designed to accomplish a specific goal and the resulting activity system that is created is a replication of the business' strategy (Casadesus-Masanell and Ricart, 2010). It follows that just like soldiers may take the high ground before attacking their enemies, so do business enterprises take the position of low-cost provider. Nickols (2016) avers that strategies are positions, plans, perspectives, and patterns that connect policy or high-order goals on the one hand and tactics or actual actions on the other. This means that strategies and tactics together straddle the gap between ends and means. According to Nagy and Fawcett (2009), strategies explain how an organisation will attain its objectives and some of these "strategies" or tactics that can be used by business enterprises to accomplish their goals include networking, coalition building, education, community development, advocacy and policy or legislative change.

Strategy formulation results in the strategies, plans, tactics or solutions adopted and applied within an organisation. Such a procedure describes the steps to follow in formulating the ultimate solution or strategy. Nagy and Fawcett (2009) assert that an effective strategy formulation process would enable a business enterprise to create strategies and tactics that will strengthen its strategic position in a competitive market or industry. Conclusively, strategies help SMEs in the development of their contingent plans as to what business model they should adopt in their businesses. Casadesus-Masanell and Ricart (2010) affirm that choosing a

particular business model means choosing a particular technique to compete with a particular logic of the business, a particular way to operate and to create value for the enterprise's stakeholders. Therefore, for SMEs to grow and be sustainable, they must choose the source of sustainable competitive advantage around which to build or formulate their business strategies that will enable them to achieve their objectives.

(b) **Goals:** Generally, goals are desired results of the future that a person or a business enterprise envision, plan and commit to achieve within a given time by setting deadlines. However, Cothran and Wysocki (2012) contend that goals are statements of a desired future that an organization will wish to accomplish. Therefore, goals presumably describe what a business enterprise is trying to accomplish, and they serve as an internal source of commitment and motivation and give a guide to action as well as a means of measuring performance. Huczynski *et al.* (2013) argue that defining business goals helps to conceptualize and articulate the imminent way of the enterprise thereby permitting those responsible for setting the direction to develop a general understanding of where the organization is heading to and assuring that they will get to where they want to go. This entails that a business goal is one of the major factors that guide small business enterprises to succeed and be sustainable. Cothran and Wysocki (2012) also affirm that goals are the vehicle that successful business enterprises use to attain their destination since their setting, provide motivation, direction and purpose. They add that a useful way of making goals more powerful is to use the SMART mnemonic. This implies that goals must be specific, measurable, attainable or achievable, relevant and time-bound.

Goals with a proximal against a distal time limit are more likely to be accomplish, meanwhile goals with specific, instead of vague standards lead to better performances (Oettingen and Gollwitzer, 2010). This implies that if SMEs want to achieve their goals, they need to set goals that are design in a way that maximizes their achievement. According to Curristine *et al.* (2007), designing business goals in terms of promoting positive results against avoiding negative outcomes facilitates the accomplishment of the goal. Hence, it is advantageous to set goals to which individuals within a business enterprise can strongly commit to because such goals have better chances of being accomplish. Webb and Sheeran (2006) contend that strong goal commitments are grounded on the certainty that a given goal is both highly necessary, feasible and encompasses the concise principles about the satisfaction of anticipated short-term and long-term consequences of goal achievement. It is often said that failing to plan is planning



to fail, therefore for SMEs to succeed in business and be sustainable, they need to establish goals and set time lines of accomplishing them. This is because according to Curristine *et al.* (2007), goals will be the long-term vision that will increase SMEs short-term motivation and make a difference between where they are now and where they want to be in future. In this regard, it is evident that the goals of SMEs help them to increase their possibility to succeed because goals offer a sense of direction, provide a focus for their future and increase their motivation to make change happen for them to survive and be sustainable.

(c) **Objectives:** Business objectives are what a business enterprise desires to achieve within a specific period and these may include making profit for its growth and development, providing quality goods or services to its customers as well as protecting the environment (Root, 2016). This means that a business has only one major objective that is to maximise profit. Root (2016) avers that profitability in business is ensuring that total revenue is always more than costs of running the business and requires that more focus should be on controlling costs in both operations and production, while upholding the profit margin on goods sold. According to Sadiq *et al.* (2007), profitability is not the only objective of business because while trying to make profit, business owners do keep their interest in view and however, any business enterprise cannot ignore the interests of their customers, employees as well as the interests of the community. For instance, no business can survive in the long run unless customer satisfaction is given due attention, unless fair remuneration is paid to the employees and only if it enjoys the support and goodwill of the public. Sadiq *et al.* (2007) further affirm that business objectives equally suppose be meant at contributing to national goals and aspirations and towards international well-being of the global economy.

Business objectives are in different categories such as economic objectives, human objectives, social objectives, national objectives, global objectives. But for the purpose this study, focus is on economic objectives of business which is profitability – making profit and auxiliary objectives that are necessary to be pursued to achieve the profit objective, which include, consistent innovations, creation of customers, and best possible use of scarce resources. However, Bora *et al.* (2017) argues that business objectives must be aligned to the overall goals and mission of the enterprise because objectives that are not in line with the mission and goals of an enterprise will only result in misdirection, confusion, and waste of valuable and scarce resources. Therefore, for SMEs to survive and be sustainable, they must have objectives, especially economic objectives that are in line with the goals and mission of their enterprises.

(d) **Action plan:** An action plan is a list of steps that must be taken to accomplish a goal. The purpose of a business enterprise having an action plan is to clearly state the kind of resources that are required to achieve goals, make a timeline that indicates when each task need to be completed and determine the resources which are needing to achieve the goals (Rouse, 2013). Therefore, the action plan of a business enterprise specifies in detail who is responsible of doing what, at what time and to effect what changes in the business. An action plan may also note the potential barriers or resistance, the resources required, and collaborators or communication lines that need to be active. Nagy and Fawcett (2009) assert that an action plan guides a business entity to it dream through the right steps to follow and the daily actions that should be taken to achieve its goals. This implies that each action plan should begin with a declaration of set goals, splitting large goals into smaller ones within a given time, and overcoming setbacks and obstacles which may send an organisation back to square one.

A goal is the principal objective of an action plan. That is why setting goals give the possibility of an organisational visions and prospects being brought to life. Action plan creates motivation and provides an enterprise with certainty that the ultimate result will be worthwhile, avoiding any wasted effort and time (Scheid, 2013). Using an action plan effectively can be achieved by being fully committed to the process and using the structured guide to accomplish predetermined goals. Even though hard work may be produced, if an enterprise does not have successful end goals, the expected result will not be achieved. Rouse (2013) states that action plans make employees in an organisation to work more intentionally because it is difficult to hold one another accountable for the business goals except there is a written plan of work to be achieved. This means that producing an action plan is advantageous not only for individual but it is also helpful for the business enterprises. Horton (2010) contend that action plan permits SME managers or any member of an enterprise to monitor their progress and take each task step-by-step, thereby permitting them to handle the business activities efficiently. Thus, the advantage of producing an action plan is that it allows the enterprise to execute a structured plan for the end goal it intend to achieve. Furthermore, an action plan provides the team with appropriate foundations, prioritising the amount of time workers spend on each task. Therefore, for SMEs to be sustainable, they need to establish action plans that will enable them to accomplish their goals.

### **3.3 Sources of Finance for SMEs**

All small businesses require sufficient capital in the form of financial resources for them to go operational in trading to grow and be sustainable. Kalane (2015) asserts that lack of funding or lack of access to finance an SME could hamper the growth and sustainability of the business. It follows from this assertion that SME finance is the funding of small and medium size enterprises in which capital for different types of firms is obtained. Beck and Cull (2014) contend that capital for SMEs is supplied through the business finance market in the form of bank loans and overdrafts, hire-purchase arrangements, equity bond issues and venture capital. They further add in this regard that the Enterprise Surveys of the World Bank Group tolerate a detailed exploration of variation in the use of financial services across businesses with different characteristics. Therefore, the absence of access to funding is one of the main causes of business failure and discontinuity in South Africa. Unfortunately, for small business ventures, BER (2016) stipulates that banks and other investors in South African only consider SMEs that are in their advanced stage of development than those still struggling to survive in the sector.

Bell (2015) thinks that improving SMEs' access to finance and finding solutions to unlock sources of capital is crucial in enabling this potentially dynamic sector to grow. This explains why a key area of the World Bank Group's work is to improve SMEs' access to finance and identify innovative solutions to unlock sources of capital. Therefore, Credit Reporting Systems are important as better credit information could lead to increased credit for SMEs. Labuschagne (2015) affirms that the South African governments seeks to provide a supportive environment for growing SMEs because the challenges faced by this sector require that the government implore new strategies and tools to help promote the growth and sustainability of these businesses in the economy. Therefore, the challenge for the South African government is supporting SMEs adjust to a varying environment with regards changes in labour and technology, fluctuation of currencies and to stimulate sustainable economic improvement.

The South African government implemented policies such as the Reconstruction and Development Programme since 1994 to enable the development of the SME sector to create more wealth in the economy and more jobs for the citizens (OECD, 2010). It follows that in 1996 the Small Business Act number 102 of 1996 (SA, 1996) was also applied, followed by the Small Business Amendment Act in 2003 which gave guiding principles to the South African government to support the development the SME sector in the country. Consequently,

the Small Enterprise Development Agency was created in 2004 to help in providing funding and technical support to SMEs for them to grow and be sustainable. Labuschagne (2015) argues that haven acknowledged the role of the private sector in economic development of the country, the South African government is initiating means of developing the sector which include among others, financial assistance to enhance the growth of SMEs. Therefore, this government initiative strives to help solve the problem of joblessness, empower the young population and communities, to ensure small business growth, prevent closure of small enterprises so that South African economy can be transformed.

BER (2016) contend that to develop the SME sector in South Africa, the government ensures that funds are distributed to the SMEs through various departments and agencies but disappointingly, most SME owners and entrepreneurs do not have the necessary information on how to obtain funding from the government to sustain their businesses. Consequently, most of these SMEs that do not have the necessary information on how to obtain funding from the government fail and eventually collapse. According to Van der Westhuizen (2002) and BER (2016), the South African government offers financial and technical support to SMES through some departments and agencies. The agencies and departments include such as The Department of Trade and Industry (DTI), Department of Small Business Development (DSBD), the Presidency, Small Enterprise Development Agency (SEDA), National Empowerment Fund (NEF), Small Enterprise Finance Agency (SEFA), Commercial Banks and South African Micro Finance Apex Fund (SAMAF).

### **3.3.1 The Department of Trade and Industry (DTI)**

The Department of Trade and Industry (DTI) is responsible for formulating and reviewing industrial and commercial policies. The department and its auxiliary agencies promote economic development, Black Economic Empowerment, implementing commercial laws such as intellectual property law and company law as well as regulating and promoting customer protection and international trade (DTI 2008). Therefore, the DTI is responsible for the development and review of policies related to SMEs in order to create a conducive environment for the formation and growth of small business enterprises to accelerate the expansion of the sector. According to Falkena *et al* (2002), the development of SME sector in South Africa is an essential objective for the DTI and that is why its most urgent tasks in terms of SME development include: reviewing of the Hire Purchase Act, the Credit Agreements Act and the

Usury Act, and replacing them with predominant credit legislation. Consequently, the Department of Trade and Industry assist to foster the development of the SME sector by improving credit exposure and status of pledges for SMEs, creating a simple uniform system for the registration and enforcement of commercially secured loans on SME repayment profiles.

Berry *et al.* (2002) stipulate that in an effort to fulfil their responsibility to promote the growth, survival and sustainability of the SME sector in South Africa, the Department of Trade and Industry has created quite many programmes for the encouragement of SMEs which include the following:

- **Small and Medium Manufacturing Development Programme (SMMDP):** This is a programme created by the Department of Trade and Industry to support or encourage the establishment of new industries and the expansion of existing industries by offering them cash incentives (Berry *et al.*, 2002). Therefore, the programme targets various sectors of the South African economy including especially the SME sector.
- **Small Medium Enterprise Development Programme (SMEDP):** This is also a programme of the Department of Trade and Industry that seeks to foster grant and the skills support programme (SSP) for business enterprises (Berry *et al.*, 2002). **Economic Empowerment Schemes (EES):** This is a conventional programme and strategy by the Department of Trade and Industry for the establishment and expansion of small businesses from the previously disadvantaged individuals (DTI, 2008).
- **Venture Capital Scheme:** This is a project by the Department of Trade and Industry to support small businesses in South Africa, particularly those funded by historically disadvantaged businesspersons with risk capital (Berry *et al.*, 2002).
- **Import Finance Scheme:** This programme of the DTI is meant to provide credit and assurance facilities for bringing in capital goods and services in South Africa (DTI, 2008).
- **Normal Finance Scheme:** This is a programme of the Department of Trade and Industry, which provides low interest finance for business enterprise. It is managed by the Industrial Development Corporation (IDC) during expansion of a business (Berry *et al.*, 2002).
- **Short-term export finance guarantee facility:** This is another plan or programme of the Department of Trade and Industry to make available pre- and post-shipment export finance guarantee for business enterprises (DTI, 2008).
- **Export Marketing and Investment Assistance Scheme (EMIA):** This is also an alternative programme of the DTI to give grants to business enterprises to assist them take part

in exhibitions, for their principal market investigation and inward buying and outward selling trade missions (Berry *et al.*, 2002).

Many written materials that can be retrieved on the DTI website give information on the numerous government support programmes available for SMEs. Some of these publications that give facts and evidence on the government funding schemes for SMEs include the guide to the DTI support programmes (2011), the DTI intermediate term strategic programme 2011-2014, the DTI national directory of small business incentive plans and the DTI annual reports (DTI, 2015). Therefore, the publications on the government funding schemes are useful for SME owners and managers to guide them on how and where to obtain financial support for their businesses. According to the National Credit Regulator (NCR) (2011), the National Directory is perhaps the greatest comprehensive of all the publications because the directory includes all private and public SME incentive schemes in existence. Hence, the government need to initiate a variety of SMEs maintenance programmes that target owners of small business enterprises in the areas of business and marketing assistance, international trade, research and development, manufacturing industries and co-operatives. According to NCR (2011), information concerning the support programmes for SMEs can be accessed from various sources, the most comprehensive of which is perhaps the DTI website and compiled in the DTI's national directory of small business support programmes. Table 3.1 below provides a summary of the description of selected enterprise organisations for SME government schemes in South Africa through the DTI.

**Table 3.1: Selected SME Government Schemes**

The Enterprise Organisation	Description	
The Black Business Supplier Development Programme (BBSDP)	A cost-sharing grant offered to black-owned small enterprises to assist them in improving their competitiveness and sustainability. Grants of up to R1 million are given out for enterprises with an annual turnover of up to R35 million.	BBSDP: Since its inception in 2002 till March 31 2010, 9 657 enterprises with total disbursements of R187.5 million have benefited.
The Export Market and Investment Assistance (Emia):	This scheme assists businesses to attend trade fairs or to conduct trade visits by refunding a significant portion of their air fare, accommodation, transport of samples and marketing material.	Emia: In 2008/09 a total of 1 276 businesses benefited from R110.9 million in funding through the scheme. This is down from the 1 332 assisted in the 2008/2009 year, when R106.4 million was disbursed in funding. Emia supported 779 projects in 2009/10.
The Co-operative Incentive Scheme:	Provides start-up funding from R10 000 to R300 000 to co-operatives, with the Government covering 90% of the funding in the form of a grant.	Co-operative Incentive Scheme: From 2006 to September 7 2010, 357 co-operatives had been assisted to the tune of R71.2m
The Enterprise Development Programme:	Matching grants are provided to small manufacturing firms and businesses in the tourism sector.	The Enterprise Development Programme: 164 tourism projects (to the value of R417 million) and 290 manufacturing projects (R1 billion) had been approved up to the end of February 2010
Support for Industrial Innovation (Spii)	Spii funds research and development (R&D) for new innovations in manufacturing, through a grant of 50% to 75% of up to R3m and has been in operation since 1993.	Spii had funded 1 025 projects to the tune of R933 million up until March 31, 2010. In 2007 the programme was chosen by the OECD and World Bank as the best incentives programme within the South African Government
Technology and Human Resources for Industry Programme (Thrip).	Thrip supports scientific research and aims to foster a collaboration between academic institutions and industry through a cost-sharing grant offered by the department. The programme is managed by the National Research Foundation (NRF).	Thrip: Between 2006/07 and 2009/10, 866 SMMes were funded to the tune of R240.3m.
Workplace Challenge Programme	Cluster-based initiative run by the Department of Trade and Industry and managed by Productivity SA, an agency of the Department of Labour. The programme aims to increase the productivity of businesses big and small, by getting them to work together in a cluster and share learnings.	In all 19 clusters consisting of 187 enterprises in all were up and running in the 2010 financial year

**Source:** (NCR, 2011)

Since one of the major causes of failure of SMEs in South Africa is the lack of finance, with the knowledge of the financial and technical support offered by the Department of Trade and Industry, entrepreneurs could lobby for these incentive schemes (Table 3.1) to get funding for the survival and sustainability of their business enterprises.

### 3.3.2 Department of Small Business Development (DSBD)

The Department of Small Business Development was created in 2014, marking a turning point in history of SMEs and co-operatives growth in South Africa, indicating government's commitment to place SMEs and co-operatives at the forefront of job creation and economic growth. According to DSBD (2017), the Department of Small Business Development focuses on growing the number of small enterprises that it supports by reviewing the strategy for SME development, developing the markets for small enterprises, developing and supporting cooperatives, supporting incubators for small enterprises, and strengthening departmental operational capacity. Therefore, this department is responsible for the elimination of redundant regulatory problems, through its red tape reduction programme for the operations of SMEs and cooperatives in local municipalities. In this regard, Fuzile (2016) maintains that the Department of Small Business Development imposes appropriate sanctions on municipalities that do not comply with paying small enterprises within the stipulated period of 30 days. The Department equally has the task of addressing spatial imbalances in economic opportunities and increasing access to economic opportunities for historically underprivileged and vulnerable groups to enable them to establish their own business enterprises. DSBD (2016) affirms that the Department of Small Business Development has a mandate, a vision and a mission that are aimed to support the development of SME sector to ensure the growth, survival and sustainability of small business enterprises in the South African economy.

- ✓ **The mandate of DSBD:** The Department of Small Business Development has the mandate to support the radical transformation of the economy by promoting the development of sustainable and competitive small businesses enterprises and co-operatives as well as competitive entrepreneurs that would contribute enormously to create employment and foster economic growth in the country (DSBD, 2016).
- ✓ **The vision of DSBD:** The vision of the Department of Small Business Development is to form a vibrant culture of entrepreneurship and enterprise growth, where small business enterprises and co-operatives act as drivers of creating employment opportunities and wide-ranging economic benefit to SMEs (DSBD, 2016).
- ✓ **The mission of DSBD:** The mission of the Department of Small Business Development is to work together with other stakeholders in the economy to develop, enable and accelerate entrepreneurship and the growth of sustainable and competitive small business enterprises and co-operatives in South Africa (DSBD, 2016).



The Department of Small Business Development makes the business environment conducive for the development and growth of small business enterprises and cooperatives by providing improved monetary and non-monetary support services and leveraging on community and private enterprises (DSBD, 2016). Consequently, this helps in developing entrepreneurship in South Africa which is essential in fostering the accomplishment of the department's goals of economic empowerment, specifically among previously disadvantaged and the economically vulnerable individuals and groups in South Africa. According to Fuzile (2016), before the creation of DSBD in 2014, many South African small business-focused think tanks and advocacy organisations complain about the problem of over-bearing red tape or administrative bottlenecks that registered small business enterprises go through in order to be established which has been the main hindrance to the growth of the sector in South Africa. This means that with the creation of this department, there is hope that these administrative bottlenecks and regulatory burden would be the fundamental priority of the agency to deal with.

Fuzile (2016) asserts that increasing the number of SMEs that the DSBD assists to grow and survive by providing financial support and non-financial interventions will be the department's biggest spending focus in the medium term, reflected in subsidies of R3.7 billion and comprising 84.7% of its total budget. He further notes that DSBD has a mandate to help over 2 870 SMEs and cooperatives in townships and rural areas financially over the medium term. Consequently, this programme will help to develop and grow informal and small business enterprises and cooperatives by giving them financial and non-financial support services, facilitating their access to new and existing markets, promoting entrepreneurship, advancing localisation and leveraging public and private procurement as well as improving their competitiveness. DSBD (2016) has widely acknowledged many South African small business-focused think-tanks and advocacy organisations the problem of administrative bottlenecks and lack of financial and technical assistance that registered small business enterprises encounter in order to establish, is the main hindrance to the growth of the SME sector in South Africa. Therefore, SMEs can take advantage of the administrative, technical, and financial assistance offered by the Department of Small Business Development to grow their business and be sustainable.

### 3.3.3 The South African Presidency

Since 1994, the presidency of South Africa has prioritised the development SMEs in its policy agenda. The initial step taken by the South African presidency to foster the development small business enterprises in the country was the implementation of the White Paper on a nationwide strategy for the encouragement and development of SME sector in South Africa in March 1995 (Hadebe, 2010). The White Paper was the greatest comprehensive policy and scheme to foster the expansion of small business enterprises since it established many essential objectives for the development of SME sector. Chalera (2007) stipulates that the 1995 President's Conference on Small Businesses resulted in the formation of programmes and institutions that are geared to help the SMEs' access to vital resources such as training and counselling, markets and technology, finance, infrastructure and information. Therefore, it follows that the strategy of the White Paper adopted by the South African presidency also focused on the development of the regulatory and legislative environment for the SME sector and on the strengthening of small business chambers and associations in the country.

The South African presidency implemented the Reconstruction and Development Programme (RDP) in 1994 as its primary social and economic guiding principle framework. Chandra *et al.* (2001) state that the main mandate of the RDP is to address socio-economic related issues of development and it is in this initiative that the SME sector was regarded as a vehicle for accomplishing many potential socio-economic results such as resolving issues of inadequate development, income generation and a source of job creation. Therefore, the essence of the RDP is to ensure the advancement of economic efficiency or economic growth policy objectives as well as achieve other normative goals such as rapid and equitable increases in employment potential, equal distribution of income where major inequities exist.

Hadebe (2010) states that the initial attempt to establish an effective guiding framework for small business enterprises was the endorsement of the National Small Business Act 102 of 1996 by the government. This marks the first initiative by the South African government to encourage the growth of the SME sector in the country. Berry *et al.* (2002) claim that the National Small Business Act 102 of 1996 resulted in the establishment of many development finance institutions that uninterruptedly adjust their product offerings to suit the dynamism of the country's economy. They further add that some of these development finance institutions include National Empowerment Fund (NEF), the Khula Enterprise Finance Ltd (KHULA), the Umsobomvu Youth Fund (UYF) and Ntsika Enterprise Promotion Agency (NEPA). One of

the most important mandates of these initiatives (development finance institutions) is to support previously disadvantaged individuals, especially the young population in the case of the Umsobomvu Youth Fund (UYF) in their endeavour to establish small businesses to compete in the mainstream economy of their local communities.

The development finance institutions such as Ntsika Enterprise Promotion Agency (NEPA) help to support the non-financial needs of the previously disadvantaged individuals and Khula Enterprise Finance Ltd (KHULA) also offer financial services to SMEs to enable them to participate in the mainstream economy in their local communities (Hudson, 2006). This demonstrates that the presidency initiated this programme as an affirmative procurement plan intended to help SMEs owned by formerly underprivileged individuals to survive, grow and be sustainable. Hadebe (2010) asserts that the Department of Finance, with the support of the South African presidency, continues to decrease the corporate tax rate on SMEs, for instance 1% reduction from 29% to 28% in 2009, to encourage the development of small business sector. He further adds that in an endeavour to encourage the development of small business sector, the South African Revenue Services (SARS) is unceasingly granting tax breaks to SMEs to accomplish a similar objective as the Department of Finance. However, Hudson (2006) claims that notwithstanding all these efforts by the presidency of South Africa to promote the growth of SMEs, many small business owners are still in doubt whether a conducive business environment has been created to assist them to achieve some of their objectives such as the development of the sector, poverty alleviation, economic growth and job creation. Therefore, SME owners need to be educated and take advantage of these initiatives by the South African presidency to support the growth of the sector to ensure the survival and sustainability of their small business enterprises.

### **3.3.4 Small Enterprise Development Agency (SEDA)**

Labuschagne (2015) asserts that the Small Enterprise Development Agency (SEDA) was formed in December 2004, through the National Small Business Amendment Act 29 of 2004 and was later placed as an organization of the Department of Small Business Development after its creation in 2014. He further notes that the National Small Business Amendment Act 29 of 2004 mandated SEDA to implement government's small business strategy, integrate government-funded SME support for agencies within the government as well as design and apply a standard distribution network for SME expansion. This entails that SEDA was created

as an agency to provide SME support and development services by its nationwide network and to put in place programmes aimed at supporting SME development in regions recognized by the government. Wiese (2014) affirms that the Small Enterprise Development Agency is tasked with the responsibility of ensuring that the South Africa's national guidelines are in line with strategic outline of sustaining the SME expansion in the country. Therefore, SEDA focuses on creating certain programmes, funding and services for SMEs in various industries of the economy such as manufacturing, agriculture, tourism and information and communication technology.

SEDA is responsible for creating an enabling regulatory environment for SMEs, localising small business assistance through a grid of SEDA-managed information and advice access points, increasing market opportunities especially for new small business enterprises. More so, SEDA is responsible for initiating a national entrepreneurship drive, strengthening assistance for SMEs' access to finance, increasing education and training for small businesses as well as funding small business infrastructure amenities in indigenous communities across the country (SEDA 2008). The implementation of these directives (responsibilities) is enforced by the network of SEDA regional offices across the country with the emphasis on small business enterprises. IFC (2006) also notes that the Local Economic Development (LED) programme and an Integrated Development Plan (IDP) have equally been established at all metropolitan councils to ensure the infrastructural development for SMEs and to link the strategies of this developing the sector to high prospective sectors in the economy. This explains why SEDA is creating partnerships with other agencies so that together, they can contribute to develop the SME sector. Hadebe (2010) affirms that SEDA has created solid partnerships with other agencies and financial institutions such as the National Empowerment Fund (NEF), Development Finance Institutions (DFI), South African Micro Finance Apex Fund (SAMAF), Sector Education and Training Authorities (SETAs). He adds that SEDA has also created partnerships with government agencies such as the National Metrology Laboratory of the Council of Scientific and Industrial Research (CSIR), Umsobomvu Youth Fund, Companies and Intellectual Property Registration Office of South Africa (CIPRO) and South African National Parks in order to foster the development of the SME sector.

SEDA offers business assistance to SMEs through developing of marketing material, developing of small business plans and through training, mentoring and coaching these businesses to ensure their growth. SEDA has its own materials such as free books, templates

and software to help SMEs develop their business plans (Motsetse, 2015). SEDA supports both existing and newly started small business enterprises even though it gives extra attention to the formation of new ones while helping them to develop their own business. SEDA (2008) states that the agency organises seminars and workshops to identify challenges experienced by SMEs and endeavour to resolve them and equally helps in exhibiting the products of small enterprises both in national and international markets. Hence, this programme helps to empower SME owners and managers to overcome challenges associated with running small business ventures. Motsetse (2015) declares that SEDA's distinctive programmes is the SEDA Technology Programme (STP) which helps to enable SMEs to access finance for technology and technical services. SEDA therefore is one of the government's nationwide schemes of enforcing small business enterprises support throughout different government agencies and departments such as Technology Advisory Centre (TAC), National Technology Transfer Centre (NTTC), Department of Trade and Industry (DTI) and the Department of Science and Technology to achieve their objectives.

SEDA provides a five-day lesson to empower SME owners in South Africa with the required skills to develop their business enterprises to better heights. During the five-day training, businesspersons learn how to effectively market their businesses, the importance of building a reputable business profile as a marketing tool and how to develop their business plans and maintain financial records (SEDA, 2015). Therefore, for SEDA to succeed in its mission to support, promote and foster the development of SMEs across the state, ensure their survival and sustainability, it should interact with other partners including international role-players, who make international practices accessible to indigenous business people. It follows that SEDA's five-day training courses include customer care, financial management, business writing skills and it should also assist businesspersons to identify areas to upgrade in their businesses. Hadebe (2010) stipulates that SEDA is the Cooperatives and Community Public Private Partnership programme focusing on promoting the creation of business enterprises and ensuring their growth and sustainability. The scheme helps to identify markets technical assistance, resources, and capacity-building prospects that can improve competitiveness of small enterprises which is simplified by encouraging the utilization of industry models and tools to improve effectiveness, planning, monitoring and assessment of employees and projects of SMEs. Therefore, this initiative of SEDA to support and promote the development of the SME sector is a platform and an opportunity for SME owners and managers to benefit from

and take advantage of the largess of the agency to grow their business to higher heights and be sustainable.

### **3.3.5 National Empowerment Fund (NEF)**

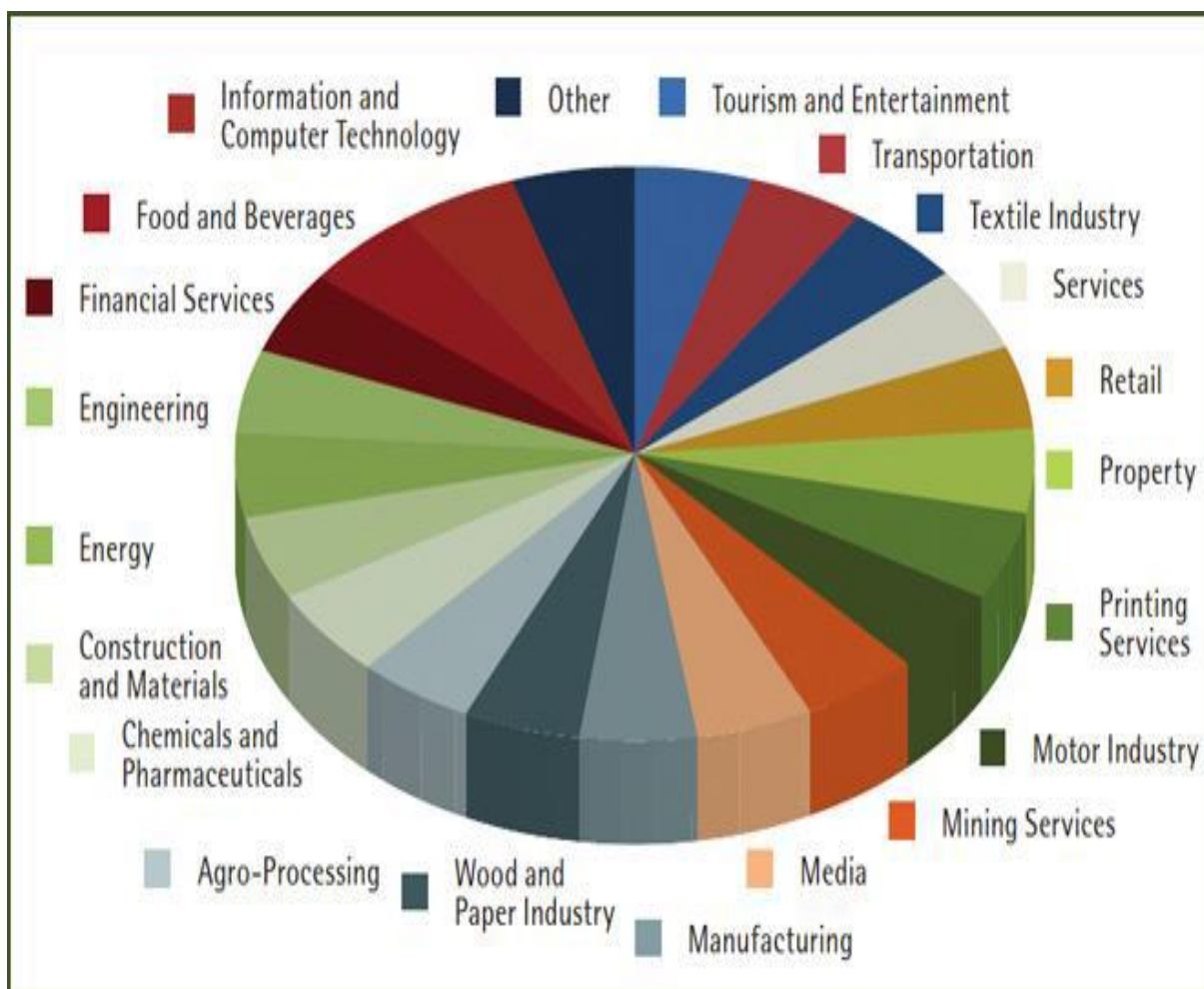
The National Empowerment Fund (NEF) was created by the National Empowerment Fund Act, 1998 (Act No. 105 of 1998) mandated to promote and facilitate black economic participation by giving non-financial and financial assistance to black business enterprises and promote a culture of savings and investment among black people (Garach, 2017). This entails that the creation of the National Empowerment Fund is one of South Africa's government initiative to empower the blacks and facilitate their participation in the economic development of the country. NEF (2015) affirms that this agency offers business loans from R250 000 to R75 million for setting up of new businesses (start-ups), the growth of the existing ones and equity acquisition across all the sectors of the South African economy. Thus, it follows that the National Empowerment Fund (NEF) focus more on promoting business enterprises owned and managed by historically underprivileged individuals to drive broad-based black economic empowerment and to encourage their full economic participation in the economy. Motsetse (2015) affirms that the agency helps with the procurement of stocks in private and public companies and gives financial support of not less than R250 000 to most enterprises owned and managed by historically disadvantaged individuals. This is proves that empowering and assisting the development of small businesses owned by historically underprivileged individuals is a priority of the National Empowerment Fund. According to NEF (2015), there are different forms of financial support offered by National Empowerment Fund which are entrepreneurship finance, procurement finance, new venture finance and strategic projects fund.

- ✓ **Entrepreneurship finance:** The aim of this finance scheme is to fund and support newly set-up business ventures owned by formerly underprivileged individuals, right at their early stage of operation.
- ✓ **Procurement finance:** This scheme aimed at assisting black-owned business ventures that have been awarded tenders by private and public-sector entities to ensure that succeeding SMEs have the capability to take contracts and execute them appropriately.
- ✓ **New venture finance:** This scheme gives capital of R5 million to R25 million per project for Black Economic Empowerment (BEE) partners wishing to take part in medium-

sized green fields schemes with overall financial support requirements of between R10 million and R200 million.

✓ **Strategic projects fund:** The mandate of this scheme is to increase the number of blacks who take part in primary phase projects, which is in line with the government policy to increase competitive opportunities for the South African economy and the incorporation of black participation in economic opportunities at the inception of projects.

In clearer terms, NEF (2015) gives a summary of different categories of industries or sectors funded by the National Empowerment Fund as presented in figure 3.1 below.



**Figure 3.1: Categories for NEF funding**

**Source:** NEF (2015)

Crampton (2016) states that part of the South African government's economic development directive is to encourage black participation in business and entrepreneurship. Therefore, this

explain why the National Empowerment Fund is design to assist black entrepreneurs to get capital for their business ventures. Crampton (2016) further adds that there are four main channels of funding black-owned business ventures, which include: iMbewu fund, uMnotho fund, rural and community development fund and strategic projects.

- **iMbewu Fund** with subdivisions of franchise finance, procurement finance and entrepreneurship finance is intended to support black entrepreneurs who want to start a new businesses or expand existing ones. It takes the form of offering debt, equity finance products and quasi-equity ranging from R250 000 to at most R10 million.
- **uMnotho Fund** with subdivisions of new venture finance, acquisition finance, capital markets, expansion capital, and liquidity and warehousing, which are available to black-owned and managed businesses, new ventures, expanding existing businesses and black entrepreneurs wanting to buy equity shares in established black and white owned businesses. The uMnotho Funding ranges from R2 million to R75 million.
- **Rural and Community Development Fund** with subdivisions in start-up/green fields, acquisition, expansion capital and new venture capital is to promote sustainable change in socio-economic relations and to assist in the development of rural economy through financing sustainable enterprises and co-operatives ranging from R1 million to R50 million.
- **Strategic Projects Fund** with a subdivision of empowerment objectives to increase black participation in early-stage projects evaluated on their economic abilities and merits to deliver on the government's development mandate (Crampton, 2016).

Motsetse (2015) professes that the NEF offers significant input into the development of strategy to maximise transformation in targeted industries or sectors in the economy, to provide a Black Economic Empowerment advisory service, to finance black-owned business ventures and other groups who are willing and ready to add value to economic transactions by maximising economic transformation. Therefore, these initiatives by the National Empowerment Fund can greatly benefit SMEs in South Africa including those of the North-West province to survive in business and be sustainable.

### **3.3.6 Small Enterprise Finance Agency (SEFA)**

Municipal Focus (2012) notes that Small Enterprise Finance Agency (SEFA) was established by the South African government on 1 April 2012 to address funding constraints to SMEs. Therefore, this initiative came about because of the acknowledgement by government that the lack of finance is one of the biggest challenges stifling the growth of small business ventures.



According to Municipal Focus (2012), SEFA services small business concerns that need funding up to R3 million, with its lending instruments which include credit guarantees for businesses requiring bank finance, wholesale loans to financial intermediaries and direct lending to small business enterprises. Consequently, this initiative helps to solve the problem of access to finance for SME. Motsetse (2015) states that SEFA provides services to small businesses such as the provision of equity or capital and gearing for start-up businesses, offering credit guarantee scheme, and private sector funding for small business concerns in certain sectors. He adds that the agency assists in financing SMEs through partnering with financial intermediaries, granting loans ranging from R50 000 to R5 million. According to SEFA's annual Report of 2015, the agency has already approved over 87 applications to the value of more than R142 379 000 by 2014 financial year in the construction industry alone within two years of its creation.

Beck and Demircuc-Kunt (2006) argues that it has been widely identified that SMEs' access to finance is the biggest challenge to their development and some studies show that small business ventures are more constrained than big enterprises and are less likely to access finance for their growth and sustainability. This demonstrates that SEFA is a remedy to SMEs' problem of access to finance since they can get funding from and through this agency to grow their businesses. Hussain (2006) affirms that SEFA is a special agency created with the mandate to help alleviate the challenges of accessing funding and responding mainly to SME financing. Therefore, SEFA has the tasks to instigate and encourage commercial banks to implement best practices to foster the growth of SMEs, to create a conducive environment for banks to increase credit flow to SMEs in all sectors and to encourage tactical emphasis on SMEs on the part of banks. Nxaba (2014) asserts that a study on the challenges faced by SMEs found that banks are not the only providers of debt finance to small business ventures. Therefore, the capability of banks to influence the quality and quantity of small business finance could be done through their refinancing capacities and by providing a back-up system to non-bank financial intermediaries such as SEFA.

SEFA chief executive - Thakhani Makhuvha, speaking to Small Business Connect indicated that the agency intends to disburse at least R200 million in funding annually for the development of small business sector in South Africa. The Chief Executive Officer (CEO) of SEFA also stated that the agency is not yet completely satisfied with the amount of funding that it has disbursed so far, and that the agency would like to see and welcome enterprising youths applying for funding to set up new business ventures (Chauke, 2014). Consequently,

the loan facilities that SEFA offers to small business enterprises in all sectors are enabling them to grow to higher levels. Nxaba (2014) notes that youth-owned business ventures stand to benefit the tune of R200 million a year in funding from the Small Enterprise Finance Agency. So far, more than 10 000 youth-owned business enterprises have benefited from loan funding from SEFA worth R157 million within two years – from 2012 to 2014. This implies that unlike commercial banks, the agency is a developmental institution that does not require the same amount of collateral security to grant applicants finance to grow their businesses. According to Chauke (2014), funds disbursed by SEFA to SMEs are part of the government's Youth Fund, created in partnership with the Industrial Development Corporation (IDC) the National Youth Development Agency (NYDA) in October 2013. Therefore, with the amount of R200 million a year in funding from the SEFA, SME owners, especially youth-owned small business enterprises stand a greater chance to benefit from this finance scheme to grow their businesses and became sustainable.

### **3.3.7 Commercial Banks**

It is difficult for SMEs to obtain funding from banks because South African banks and other money related establishments are less willing to lend money to them but consider only establishments in their later phase of advancement than those still striving to develop. However, there is great news now for those small business ventures that are thriving because contact for funding and investment are no more an issue (National Credit Regulator, 2011). Therefore, with the intervention of some agencies such as SEDA, NEF and SEFA, investment and financial opportunities are accorded to the SMEs in South Africa by commercial banks. For example, according to Kalane (2015), unlike before, in 2014, about 16% of small enterprises that applies for bank overdrafts credit facilities and a total of 18% of those that applied for bank loans were successful. In that same year – 2014, about two thirds of overdraft and credit applications submitted by small enterprises to commercial banks were granted. He further adds that less than 100,000 and constituting to about 27.3% of all the formal SMEs apply and obtain loans from the formal financial sector.

Hussain (2006) contend that the South African government has mandated some departments such as the Department of Small Business Development and some agencies such as Small Enterprise Development Agency and National Empowerment Fund to support banks to adopt best practices that lead to the growth of SMEs. According to him, this is government initiative to create a conducive environment for banks to increase the flow of credit and loans to SMEs and to promote tactical emphasis on SMEs on the part of banks. Consequently, this government

initiative actually helping SMEs to gain access to finance to grow their businesses. Falkena *et al.* (2002) argue that banks are not the only providers of debt finance to SMEs and that banks capability to influence the quality and quantity of small business finance could only be done by giving a back-up system to non-bank financial intermediaries and through their refinancing capacities.

Government programmes supporting the SME sector include financing programmes using guarantees, some of which are given by Khula. The Khula Credit Indemnity Scheme was created to provide access to funding for individuals who desire to expand or start up SMEs but do not have adequate collateral security required by commercial banks to obtain loan (NCR, 2011). Therefore, the Khula scheme partners with financial institutions or banks to submit and evaluate the business plan and simplify the application process in terms of their lending conditions to SMEs. DTI (2010) states that the Khula scheme covers facilities from R10,000 to R3 million and businesspersons looking for credit indemnity can seek help from Khula Credit Indemnity partner financial institutions which are Standard Bank, First National Bank, ABSA and Nedbank or a Khula Regional Office for assistance or advice with business plan development. As soon as the application is accepted, the bank or financial institution concerned contacts Khula for insurance cover and a mentor is identified to assist setting up the operational systems, the implementation of the business plan, and general business management. Therefore, banks manage the facilities and collect payments for the duration of the loan facilities.

There is a need to improve the study on the exact number of banks regarding their lending practices following the supposition that banks are getting more involved in their finance lending to small business enterprises but are not reporting it properly. Nxaba (2014) asserts that the costs involved in the procedures of giving assistance to small business ventures and the management costs of loans are some of the big challenges faced by these businesses. Therefore, it is recommended that a lot of professional and advanced mentorship systems be put in place to address these challenges. According to Berry *et al.*, (2002), business angel finance is a better substitute to business finance loaning rather than by banks. This type of funding is about giving out finance by big business enterprises to small business ventures even when they are not their affiliates. Consequently, SMEs that benefit from such funding can inject it in their businesses and grow them to become large enterprises. GEM (2001) assert that contemporary studies show that although South African big business enterprises have at least invested into small business ventures that were not their affiliates or subsidiaries, indicating

that there is an emerging will-power about business angel sponsorship. Therefore, since South African commercial banks are now according investment and financial opportunities to SMEs unlike before due to the intervention of some agencies such as SEDA, NEF and SEFA. This implies that small business owners need to take this opportunity to apply for more bank loans to finance and grow their businesses to be sustainable.

### **3.3.8 South African Micro Finance Apex Fund (SAMAF)**

The South African Micro-Finance Apex Fund (SAMAF) was created to give reasonable financial services such as institutional and client capacity building, assist social capital mobilisation through co-operatives and other establishments such as burial societies and stokvels and most importantly, granting micro-loans to SMEs (SAMAF, 2008). Consequently, the micro-loans to SMEs are meant boost the sector and to lessen the degree of family poverty of the underprivileged population. The South African Micro-Finance Apex Fund has a mandate to offer accessible and affordable financial services through facilitating training and capacity building for financial intermediaries and micro-entrepreneurs and guaranteeing effective financial intermediation between SME owners and financial institutions (IFC, 2006). Therefore, this initiative is helping the enterprising poor individuals to gain access to finance to grow and expand their businesses to be sustainable.

The Micro-Finance Apex Fund gives micro finance credit loans to small business enterprises at an interest rates of only five to eight percent. In 2007, four micro-finance institutions and thirty-four financial services had either been offered operative backing or approved by the Apex Fund to the total sum of R69.6 million (Sabinet, 2007). A summary of financial services given by the Apex Fund with the range of products and brief description of the products are listed in table 3.2 below

**Table 3.2: Range of financing products provided by the Apex Fund**

<b>Product</b>	<b>Brief description of product</b>
Micro Credit Loan Fund	This programme gives loans of up to R10 000 to families and small business owners who depend on their small enterprises for their livelihood. This financial support consists of micro credit meant for small enterprise development and poverty alleviation.
Capacity Building Fund	This scheme is meant to equip member organisations and small financial institutions to fund building infrastructure to ensure that they are functional, effective and sustainable
Saving Mobilisation Fund	This programme offers funding to ensure savings mobilisation. The maximum fund of R200 000 is be made available to capacitate present savings schemes

**Source:** Hadebe (2010)

From Table 3.1 above, the South African Micro Finance Apex Fund has three main products that are Micro-Credit Fund that provides loans to entrepreneurs, the Capacity Building Fund that provides funds for equipping the institutions with equipment systems as well as skills and the Savings Mobilisation Fund meant to encourage savings. Schmitz (2012) notes that South African Micro Finance Apex Fund offers financial services to small scale entrepreneurs in rural and outer urban areas. However, SAMAF does not give out loans directly to the public but rather uses existing institutions within communities to handle the funds and lend to local micro entrepreneurs whom they certify to qualify for the loan.

South African Micro-Finance Apex Fund, as a wholesale funding institution, also offers financial services to micro, small and survivalist business ventures in South Africa. In this regard, it offers wholesale microfinance services to the rural poor micro entrepreneurs to enhance their own income and asset base (SAMAF, 2017). This demonstrates that the South African Micro-Finance Apex Fund prioritises support for the rural poor micro entrepreneurs to succeed in their businesses. Sabinet (2007) states that South African Micro-Finance Apex Fund offers microfinance to its funded financial intermediaries, such as microfinance institutions (MFIs) and financial services cooperatives (FSCs) who on-lend to their clients and members. More so, it provides capacity building incentives such as working capital and training funds to build their institutional capacity as well as micro-enterprise loans to the financial intermediaries who on-lend to the poor individuals, especially in rural communities to establish and grow their own micro survivalist business ventures (SAMAF, 2017). Therefore, since Micro-Finance

Apex Fund gives micro finance credit loans even to poor individuals to establish and grow their own small business ventures, small business owners and potential poor entrepreneurs can access these loans to finance and grow their businesses and be sustainable.

### **3.4 Effective Management**

Management skills are knowledge sets, conducts and behaviours that contribute immensely to an individual's effectiveness in running the daily affairs of an organisation or a business (Kalane, 2015). For the purpose of this study, it is imperative to clarify the fundamentals of management. It is also critical to understand why it is important for the sustainability of SMEs in the economy. Generally, management is a process, a systematic manner of doing things to ensure that the desired objectives are met. Meanwhile, Smith *et al.* (2007) consider management as the procedure of planning, organising, leading and controlling the material and human resources of an organisation to achieve its mission and goals as productively as possible.

Most entrepreneurs start up their small businesses with a passion for success and growth to be sustainable in business, yet a lot of them lack the knowledge, skill or expertise and the necessary background to manage the businesses effectively (Kalane, 2015). Therefore, SME owners/managers need to acquire the necessary management skills and techniques to be able to operate their businesses for them to succeed and be sustainable. Pryor *et al.* (2010) suggest a strategic management model whereby small business owners/managers can comprehend the aspects of management and apply them in their business operations. The aspects of the strategic management model with an outline of the various strategic elements and their definitions are presented in Table 3.3.

**Table 3.3: Elements of the strategic management model**

Strategic element	Definition
SWOT analysis	Analysis of internal strengths & weaknesses and external threats and opportunities
Mission	The main reason a business exists
Vision	Where a business wants to be in the future
Core values	Principles that employers and employees care about and believe in
Strategy formulation	The plan of how and when to achieve the business goals and objectives
Strategy development	The execution of strategic plans
Measurement and feedback	The monitoring and feedback element
CSF's	What a business has to do right to succeed
Distinctive competencies	Unique capabilities that give a business an advantage over its competitors

**Source:** Pryor *et al.* (2010)

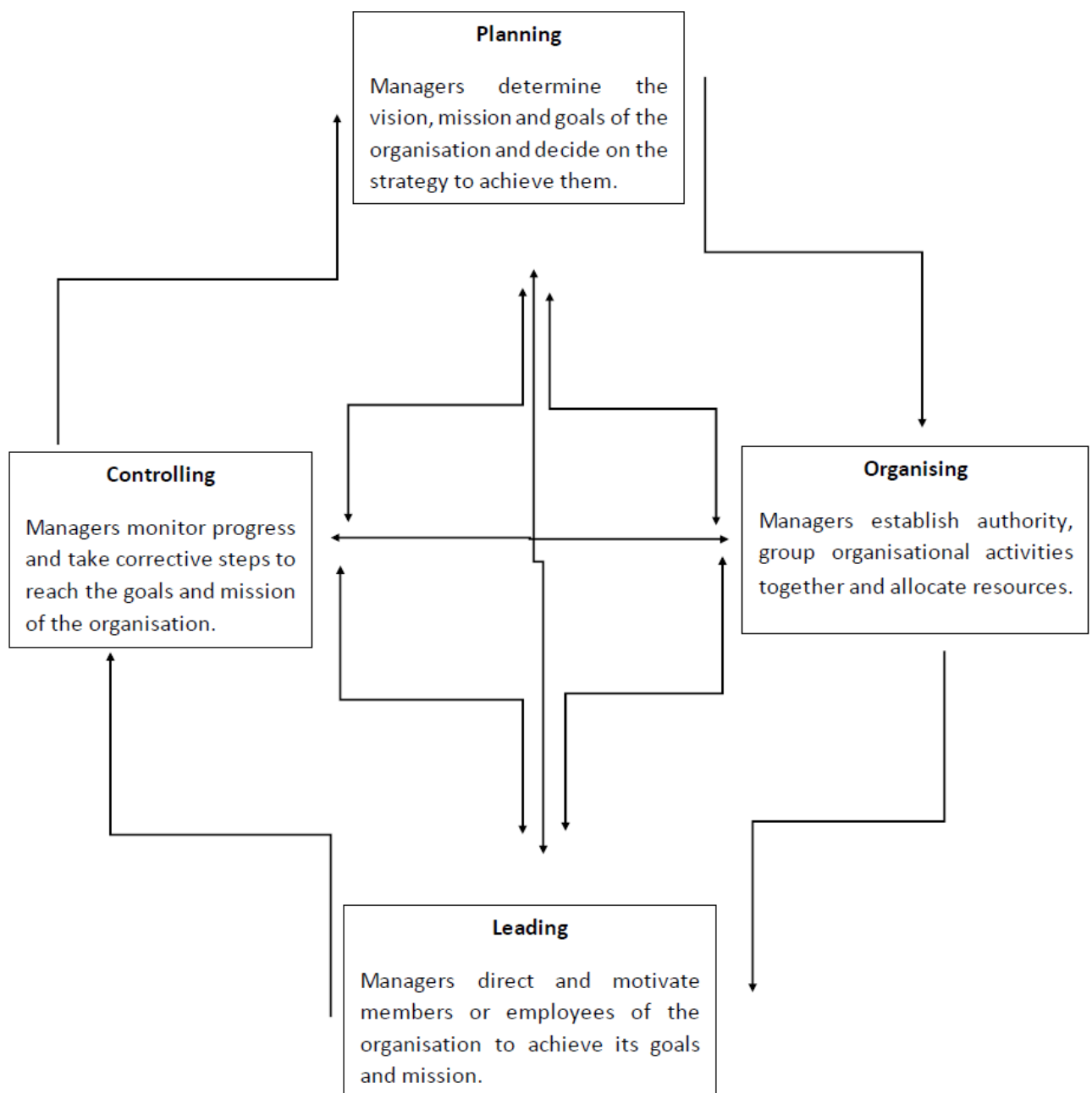
Critical Success Factors (CSFs) entail capacity to pinpoint and concentrate on the market, to improve and sustain capabilities, implementing the correct strategy, working with an effective managing team, make contacts, leadership, good product or service features. More so, CSF is about Human Resources (HR) management practice, respectable customer and client relationship, accessibility of budgetary and technological assets, responsive organisation system and government support (Wiese, 2014). However, Wiese (2014) adds that although growth is the fundamental hypothesis of management theories, most business entities prefer to remain small and focus on thriving instead of accomplishing the development potential of big and established business entities.

Regarding the importance of effective management for the sustainability of SMEs, it is imperative to shed light on the elements of management such as management functions (planning, organising, leading and controlling), financial management, human resource management, operations management, management accounting and marketing management.

### **3.4.1 Management Functions**

To ensure growth and sustainability in a business enterprise, business managers need to fine-tune existing products and make bold leaps of inventiveness to create new markets outlets (Buys, 2012). Therefore, management should not be scared to make decisions that are the safest for them by constantly choosing the answer with the least risk to themselves. This is because managing hundreds or thousands of employees and active customers is very challenging and time-consuming, and the process is even more costly and labour intensive which can lead to unsatisfactory service delivery (Fingersh, 2012). Hence, for SMEs to succeed and be sustainable, their owners/managers need to be steadfast in making decisions that are less risky for their businesses. Robbins and Judge (2013) assert that in the early 20th century, a French management scholar named Henri Fayol held the view that managers were charged with six major functions: planning, organising, commanding, coordinating, leading and controlling. However, these functions have been condensed to only four, which are planning, organising, leading and controlling as presented in Figure 3.2 below.





**Figure 3.2: The nature of the management process**

**Source:** Smith *et al.* (2007)

**Planning:** Planning is a fundamental function of a business manager, which involves scouting for resources needed to do specific tasks (Hill, 2016). Thus, business management planning also entails identifying means of accomplishing the mission and objectives of an enterprise. Robbins and Judge (2013) claim that planning in business management requires a specific, logical and scientific process that should be followed because the performance of the enterprise activities cannot be done in a random manner. Therefore, if business managers can plan well,

then their enterprises will be able to grow to a higher level and be sustainable. Hill (2016) argues that there are many benefits of effective planning in the management of a business venture. According to him, if planning is properly done in a business enterprise, managers will be able to chart a course for the achievement of business goals and objectives. This is because the process of planning begins with reviewing the existing operations and identifying what needs to be upgraded in the business in future. It is presumable that the resources of business enterprises are always limited, so it is only effective planning that leads to efficient use of these scarce resources. Smith *et al.* (2007) affirm that an effective planning procedure gives suitable information to business managers to make decisions on how to allocate the scarce resources of the enterprise in a way that will enable the achievement of business objectives. Consequently, the effective allocation of scarce resources will lead to greater business management performance and high productivity.

**Organising:** Robbins and Judge (2013) note that the organising function of management gives managers the duty to strategize the structure of a business enterprise to accomplish its goals. This implies that in designing the structure of the business enterprise, managers have to define tasks that are to be achieved, who is to complete such tasks, the grouping of the tasks, who is answerable to whom and the place where decisions are to be made. According to Caolo (2014), if the management function of organising is properly done at the workplace (such as a business enterprise), there will be less stress. Therefore, organising as a management function is presumably about allocating time for every activity and ensuring that every activity is done at the right time as well as providing a place for everything and ensuring that everything is in its place. In this way, business activities are made easier and stress is reduced because when employees need something, they know exactly where to get it and know exactly when they are supposed to perform assigned tasks. Robbins and Judge (2013) affirm that when organising as a management is done properly at a business enterprise, the level of stress reduces, leading to improved health of members and staff. This proves that organising is a management function that leads to superior performance, thus ensuring greater productivity of employees.

**Leading:** Leading, as a management function requires managers to motivate and direct employees of their business enterprises towards achieving better performance, choosing the best communication channels and solving problems that arise among employees (Mintzberg, 1960 cited in Robbins and Judge, 2013). This entails that for any business enterprise to be successful, it has to offer services that meet the needs of its customers and ensure that

employees are committed and loyal to their managers. Blencoe (2014) contend that to gain the commitment and loyalty of employees, business managers need to always consider the social and psychological needs of such employees instead of just offering them good wages. Therefore, if the function of leading and motivating employees is done properly at an enterprise, it will lead to maximum productivity, greater innovation and creativity, high employee retention, reduce cost of recruitment, superior staff performance and a better reputation for the managers and the enterprise. Robbins and Judge (2013) affirm that leading as a management function enables business managers to have more credibility with their employees as they will be acting as instructed and have greater respect for hierarchy and their supervisors. Consequently, business managers will have less unproductive behaviour to deal with which will lead to high productivity, increase profit as well as growth and sustainability of their business enterprises.

**Controlling:** The reason for the controlling function in business management is to monitor very closely the activities and performances of employees to ensure that they are constantly in conformity with the strategies of accomplishing the mission, objectives and goals of the enterprise (Robbins and Judge, 2013). Presumably, the management function of controlling enables managers to identify and correct any deviations from the original plans and consider factors that might warrant them to revise their mission and objectives. Akrani (2011) argues that effective controlling function of management in an organisation (such as a business enterprise) will lead to the improvement of the quality of services offered by the employees and cost control will reduce the cost of services provided. This demonstrates that the controlling function of management can enable business enterprises to offer good quality services at less cost and boost their goodwill. Noe *et al.* (2017) affirm that effective controlling sets standards for business managers to ensure that all work done, or services provided by employees, match these standards. Hence, effective control in management is like a traffic signal that guides all operations in an enterprise toward the right direction. Akrani (2011) claims that through effective controlling, employees' in business enterprises are evaluated on a regular basis and those with good performance are rewarded with cash prizes and even promotions. Consequently, this gesture motivates the employees to work harder than before and minimise the deviation from planned performance and actual performance in the institution. Therefore, the management function of controlling leads to better employees' performance, which culminates in higher productivity, increase profitability as well as growth and sustainability of a business enterprise.

### **3.4.2 Financial management**

Generally, finance refers to the provision of funding when needed and as required. However, Brigham and Houston (2012) state that the term “financial management” as an aspect of management has a distinct meaning. They continue that financial management as an aspect of management deals with the procurement of funds and its judicious and effective utilization according to the expectations of the financier or provider of the funds and according to the overall objectives of the beneficiary of the funds. This leads one to believe that the primary objectives of financial management are to maximize the value of the organisation and to maximize the shareholders’ wealth, represented by the market value of equity shares, especially. Houston (2012) stipulates that the market prices of equity shares are the barometer for measuring the real values of those shares. Hence, this explain why the main purpose of financial management is to maximize the share value of equity shareholders or owners of an organisation because the objective of any business enterprise is to create value for its stakeholders.

Paramasivan and Subramanian (2009) contend that financial management is concerned with three major activities which are:

- To anticipate financial needs, which is to estimate the requirements of the short-run and long-run in terms of investment in current and fixed assets or in terms of short-run or long-run needs.
- To acquire financial resources from diverse sources to attain the financial needs of an organisation.
- To allocate funds to maximize shareholders’ wealth in an organisation or a business enterprise.

Brigham and Ehrhardt (2013) contend that these three are important for financial management:

1. Financial management is essential for the smooth running of an organization or a business enterprise
2. Financial management facilitates the evaluation of the profitability of operational activities of an organization or a business enterprise.
3. In terms of profitability and decision-making, financial management is geared at all functional levels of an organization or a business enterprise.

For goods and services to sell in the market with modern innovative methods, the marketing department of such a business enterprise needs finance to meet their requirements. Paramasivan and Subramanian (2009) stipulates that the financial managers of organisations or business enterprises are responsible to apportion adequate funds to the marketing departments to enable

them make use of modern innovative methods (which often require more finance) to market their goods and services. This implies that financial and marketing management are interrelated and they intersect with one another for proper functioning. Brigham and Houston (2012) state that effective procurement of finance leads to proper use of the finance by the business enterprise, which is an important duty of all financial managers. Hence, financial managers are obliged to determine the primary objectives of the financial management, which is to maximise profit. This is because the principal aim of any type of business enterprise or economic activity is to make as much profit as possible since profit is the best barometer for measuring and understanding the efficiency of a business enterprise.

Concisely, effective financial management is essential for SMEs to ensure enough capital and retained earnings to continue with their business operations and for making credit arrangements for the enterprises. Effective financial management is essential for the aggressive implementation of financial strategies such as tighter financial controls and low-cost provider strategies, which produce a temporary recovery to stop a downward trend when financial performance in the business venture declines (Buys, 2012). Therefore, SMEs need to apply the principles of effective financial management to plan and operate effectively with enough available capital and retained earnings to continue with their business operations. Orman (2011) professes that effective financial management is essential for credit arrangements for SMEs owners to get their business ventures out of excess debt burden by recording expenditures, monitoring credit, keeping credit card balances in check and managing monthly bill schedules of the businesses. Therefore, it is better for SMEs to keep a little debt as soon as they start generating money and to save some of this as capital for unseen circumstances. Effective financial management is essential for the growth and sustainability of SMEs especially as it helps to procure funds for the businesses and ensures the judicious utilization of the funds to the expectations of the financier and according to the overall objectives of the business enterprises.

### **3.4.3 Human Resource Management**

Human Resource Management (HRM) is the process of managing individuals in organizations in a systematic and organized way. This initial definition of human resource management ascribes the management of individuals within organizations from a macro perspective, which implies the supervision of individuals in the form of a joint relationship between employees and management (Ganesan, 2014). Therefore, this approach of human resource management

focuses on the objectives and outcomes of the functions of managing individuals in organizations.

According to Itika (2011), the human resource management function in contemporary organizations is concerned with individuals' growth and a focus on making the "employment relationship" satisfactory for both the employees and management of organisation. Mathis and Jackson (2011) note that human resource management occurs everywhere there is more than one individual. They further add that the practice of human resource management starts at the level of households where family members are assigned different responsibilities and roles for the achievement of family objectives. This implies that the head of the household harnesses all available domestic resources including individuals to find the best means to accomplish whatever the family may desires and needs.

Arthur (2007) argues that the objectives of human resource management emanate from the philosophies that bound the emergence and development of human resource management together, both as a profession and as a discipline, which are:

- (I) The first and main objective of human resource management is to accomplish the vision, mission, objectives and goals of an organisation, using individuals (employees) as valuable resources.
- (II) The second objective of human resource management is the use of employees' capacity. Arthur (2007) argues that successful business enterprises fully utilise the potential of their employees in different ways in recruitment, job placement and design, redesigning jobs that are performed by a single individual, part time work arrangements, sub-contracting of employees and recruitment of multi-skilled employees.
- (III) The third objective of human resource management is ensuring that employees are committed to their departments, teams, jobs, and the whole organisation. According to Arthur (2007), full employee commitment in a business enterprise minimises unnecessary conflicts between management and the employees that could lead to low morale among the employees. Low morale consequently leads to low productivity and high employee turnover.
- (IV) The fourth objective of human resource management is to ensure that organisational activities, processes and systems are synergised and integrated through a strong organisational culture, enfolding practices, myths, values, norms and attitudes.
- (V) The fifth objective of human resource management ensures the maximum utilisation of available resources in an organisation since resources (finance, employees, energy, machinery and equipment) are always scarce. Arthur (2007) affirms that for organisations to be successful, their scarce resources must not be underutilised or over utilised. This is because for each of

these scenarios, there is a waste of scarce resources since some are used unwisely, some are unnecessarily left idle and some get easily depleted.

(VI) The last objectives of human resource management relate to innovation, creativity, and teamwork and high-quality management as key drivers for an organisation's excellence. Arthur (2007) affirms that to change customer's expectations and needs, it requires a conducive environment for innovation, creativity, team working and an obsession with quality.

Mathis and Jackson (2011) assert that the importance of human resource management to SMEs is that it can help small business ventures to accomplish their goals in the following ways:

- ✓ By creating right attitude among the employees in an organisation through effective motivation and satisfaction, which minimises unnecessary conflicts between management and the employees that could lead to high morale among the employees. Consequently, this leads to low employee turnover, high productivity and increase profitability for the enterprise.
- ✓ By utilizing the available goals of the enterprise effectively and fulfilling the social and other psychological needs of belongingness, affection, recognition, love, self-esteem and self-actualization. Therefore, growth and dynamic - oriented business enterprises require effective management of employees in a fast - changing environment.

Agarwala (2009) argues that organizations such as small business enterprises flourish well only through the efforts of their human resource managers and competencies of the human resources or employees themselves. Thus, employee capabilities in small business enterprises must continuously be sharpen, acquire, and use. Noe *et al* (2017) claim that human resource is the backbone of every organisation and therefore the success or failure of any small business enterprise depend on these resources. This implies that people are considered as the “unmovable movers or the unshakable shakers” because they cause and direct every other action or activity in an organisation. Burton (2012) stipulates that the overall performance of employees depends on their motivation by management: if they have the right motivation from their managers, they will perform to their maximum ability to ensure the accomplishment of organisational goals and vice versa. Therefore, for SMEs to survive and be sustainable, they need to have effective human resource management systems in place, which will help to motivate employees. This minimises unnecessary conflicts between management and the employees and could lead to job satisfaction, high morale among the employees, which can consequently lead to low employee turnover, high productivity, increase profitability and growth for their business enterprises.

### 3.4.4 Operations Management

Operations management is the management of systems that provide services and/or create goods. Operations management includes assuring quality, motivating employees, forecasting, and capacity planning, scheduling, deciding where to locate facilities and managing inventories (Stevenson, 2002). Operations management has to do with making decisions that relate to the production process so that goods and services meet the quantity and quality specifications requested by customers at a minimum cost. Pradeesh (2011) claims that productivity is a composite of operations variables and employees, hence business managers should look for means of integrating individuals into the general operations systems of their strategies to reach desired performance targets. He further adds that operations management encompasses supervision of the whole process in charge of transforming inputs into outputs which have the following objectives:

**To provide customer service:** One of the major objectives of any operating management systems is to use resources judiciously to the satisfaction of customers' wants and needs (Pradeesh, 2011). The entire focus of operations management is to provide the right products at the right time and at a right price. Therefore, this objective influences the operations managers' decisions of achieving the required customer service.

**Effective utilisation of resources:** Resources of business enterprises must be carefully utilised because inefficient use of resources and poor customer service leads to commercial failure of a business enterprise (Pradeesh, 2011). Hence, the purpose of operations management is essentially to ensure the effective utilisation of enterprises' resources to obtain maximum output from the available resources with minimum cost.

**To improve product quality:** The other important objective of operations management is to assure maintenance and to control the quality of enterprises' goods and services. Pradeesh (2011) maintains that quality control consists of every activity that is designed to define, control and maintain specific quality of products within judicious limits, to secure satisfactory quality at a reasonable cost. Therefore, it is necessary for business enterprises (such as SMEs) to ensure that their established standards are practiced and maintained.

Operations management function is essential to business enterprises just like marketing and finance. This is because for small business ventures to effectively compete in the global market, they must have an effective operations strategy to support the mission of the businesses and their overall corporate strategies (Stevenson, 2012). This implies that the effectiveness and



efficiency of any business enterprise revolves around operations management that focuses on making processes work right. Pradeesh (2011) claims that managing operations entails a high degree of integration of resources to get their products in the correct places and in the right manner, while taking in to consideration time and cost. Therefore, the secret to succeed in business is to create a robust competitive advantage which can only be achieved if the operations are managed to engender difference and create the concept of differentiation on the shop floor. This means the continuous improvement of quality, innovation and strategies right from the inception of the business and emphasising on the operations management as well as quality and strategy control systems (Pradeesh, 2011).

Business enterprises maximise profit when they focus on decreasing the operations cost rather than reducing finance cost or increasing sales. This is because operations is the most costly part of the business enterprise and it affects the enterprise's competitiveness in an industry or market by improving the organisation's productivity and profitability (Little and Marandi, 2007). Therefore, the operations function in any business enterprise is to maintain portions of its assets as well as the techniques and tools of operations management that are greatly use in managing other functions in the organisation. Stevenson (2012) argues that for SMEs to be successful and sustainable, their owners and managers have to manage the systems that provide services effectively. SMEs' owners and managers equally need to look for means to integrate individuals successfully (other stakeholders and employees) into the whole operations systems of their business strategies of achieving effective performance. Consequently, this will result to high productivity and increase profitability that will in turn lead to success and sustainability of the business enterprises.

### **3.4.5 Management accounting**

Generally, management accounting includes all activities by which the accounting division helps the senior management and other units of a business enterprise in appreciating effectiveness, formulating policy and controlling the execution of tasks (Malik and Turan, 2010). This means that accounting management focuses on planning, controlling and execution of the operating activities of an enterprise. However, ICAI, (2012) notes that management accounting is an accounting system that assists the management body of an organisation to improve their effectiveness and efficiency. Therefore, management accountants are strategic business partners who understand the operational and the financial sides of a business because they do not only analyse and report financial dealings, but also analyse and report nonfinancial dealings of corporate social performance and process performance. Noreen *et al.* (2011) note

that the key function of management accounting is to formulate plans and determine policy to accomplish the predetermined objectives of management of an enterprise. Consequently, the function of management accounting is in helping management of enterprises in analysing, controlling and planning the performance of the businesses to follow the path of constant improvement. ICAI (2012) affirms that management accounting uses the practices and principle of cost accounting and financial accounting in addition to some other contemporary managing techniques for effective operation of a business enterprise. ICAI (2012) stipulates the role played by management accounting in a business enterprise and its benefits to the business which are as follows:

**Implementing Strategy:** Managers of business enterprises implement strategies by putting them into actions thereby creating value for customers, which is an important part of implementation, and planning of business strategies (ICAI, 2012). Therefore, the ultimate target of management accounting task of implementing strategy is to lessen costs in each category and to improve efficiency.

**Supply Chain Analysis:** Business enterprises create value, cut costs and implement strategy to enhance their supply chain. Supply chain is the flow of services, goods and information from the primary sources of materials and services to the delivery of products to customers irrespective of whether these activities transpire in the same business enterprise or in other one (Noreen *et al.*, 2011). This implies that customers should always expect better performance from business enterprises through their supply chain. This is because it is expected of business enterprises to perform all these activities in an efficient way to lessen costs of production while maintaining the quality of their products and ensuring that the products are readily available for their customers.

**Decision Making:** Decision-making and management accounting function helps in this critical area by providing management with relevant information that facilitates the decision-making process (ICAI, 2012). It follows that the management accounting technique of marginal costing helps to generate rational and objective information, which is essential in making decisions regarding working of additional shifts, shut down or continue operations, capital expenditure, adding or dropping a product line and make or buy decisions.

**Performance Measurement:** Management accounting helps enormously for measuring of organisational performance. The key aspect of performance measurement is comparing the targets with the actual performance of the business enterprise (ICAI, 2012). Therefore the

various management accounting techniques and tools such as standard costing, marginal costing and budgetary and budgets control can be used to measure the target performance compared to the actual performance in order to facilitate corrective action to be taken and introspection for further improving the performance.

Oluwagbemiga *et al.* (2014) affirm that SMEs' owners and managers need to implement management accounting strategy to lessen costs and to improve efficiency as well as facilitate corrective action and introspection for improving organisation performance. Consequently, the reduction of cost of production and the improvement of efficiency of performance will lead to increase productivity which in turn will lead to increase sales and profitability and hence success and sustainability of the business enterprises.

### **3.4.6 Marketing Management**

The success of any business enterprise lies in its marketing because most aspects of a business depend on it. Lorette (2017) professes that marketing is the procedure of planning and execution of the distribution of goods and ideas as well as promotion, pricing and conception to create exchanges that satisfy personal and organizational goals. Marketing involves acquiring information required for product design, the production of goods or services that meet customers' expectations, analysing consumers' needs, and making and maintaining cordial relationships with suppliers and customers. According to Lorette (2017), marketing is a process by which goods or services are made known and promoted to potential customers. He adds that marketing functions encompass public relations, promotions, advertising and sales. Therefore, without marketing, a business enterprise may offer the best services or products in an industry, but none of its potential customers would know about it and consequently its sales may crash and the business might wane and even close down. However, Kotler (2002) claims that marketers hardly satisfy everyone in a market because customers have different needs so they do market segmentation by identifying and profiling distinct groups of buyers who might require or prefer varying products and marketing mixes.

Marketing managers identify market segments by examining the psychographic, behavioural and demographic differences that exist among potential buyers (Kotler, 2002). Therefore by so doing, the business enterprise can decide which market has the greatest opportunity, which are the segments whose needs the enterprise can meet in a superior fashion. Fejza and Asllani (2013) assert that business enterprises require marketing management if they want to grow profitably, which means growing through inventing and developing new products,

endeavouring to increase sales in existing or completely new markets and by improving existing products to meet customers' satisfaction. Marketing management is important to individual business owners and organizations because their financial successes or failures depend on their marketing abilities. Sreevidya *et al.* (2011) note that finance, operations, and other business roles will not be important if the demand for goods and services is not sufficient for the business enterprises to make their required profit. Therefore, sound marketing management is important to the success of business enterprises because it helps, in planning and decision-making, in the distribution of goods and services, in exchanging information and in adapting to changing competitive business environment.

Lorette (2017) asserts that for business enterprises to succeed, their goods or services must be known to potential customers or buyers. Hence, business enterprises are expected to use marketing strategies to create product or service awareness in the communities where they operate through communication with their potential customers and readily available buyers. Sreevidya *et al.* (2011) affirm that without effective marketing, an enterprise's potential customers may never be aware of what the business offers, the business may not have the opportunity to succeed and grow. Through using marketing to promote goods and services, an enterprise provides its business with an opportunity of being known by its potential customers. Fejza and Asllani (2013) confirm that once the goods and services of an enterprise get on the radar screen of the prospects, it increases the chances that potential consumers or buyers will make a purchase. Therefore, by so doing, the enterprise sales will steadily increase, but without employing marketing strategies, these sales may never increase and without sales, a business enterprise cannot succeed, let alone be sustainable.

The success of any business enterprise often depends on its solid reputation and effective marketing for reputation and brand name. Sreevidya *et al.* (2011) affirm that when an enterprise reaches the high public expectations, its reputation increases and stands on firm ground. When an enterprise's reputation grows, sales increase and the business grows and expands. Sreevidya *et al.* (2011) further profess that the reputation of an enterprise is built through effective communication, delivery of quality products or services that are created or supported by marketing efforts and by active participation in community programs. This implies that marketing effort gets the word out on pricing of products and services, which reaches the targeted consumers and other enterprises competing for the same consumers in the business. Lorette (2017) argues that unlike business enterprises that have a monopoly on products and

services that can charge any price, effective marketing helps to keep pricing competitive for businesses to win over consumers before competitors take the lead. Therefore, without competition, well-known business enterprises will continue to sell more while lesser known enterprises ventures stand little chance of ever becoming well-known, successful and large. Marketing management therefore facilitates a healthy competition that allows small businesses and new businesses to successfully enter and grow in the marketplace.

### **3.5 Innovation**

Innovation is a broad term that encompasses the creation of products to meet new market demand, introducing new processes to improve productivity, developing new marketing techniques to expand sales opportunities, and incorporate new forms of management systems and techniques to improve operational efficiency (Sultan, 2007). Therefore, innovation enables SMEs to refine and modify their products to satisfy the needs of their customers and ensures that new and existing products or services meet the demand of their customers on a continuous basis. O'Donnell et al. (2002) asserts that the role innovation plays in SMEs success and growth is very vivid and evidenced and generally regarded as having a positive impact in small business enterprises. Innovation strategy guides SME owners/managers towards maintaining their market structures as well as redefining their products or services to content their customers' demands. Nogare (2006) avers that innovation is a prerequisite for SMEs success and sustainability because it is a core product/service/concept underpinning small business enterprises. Thus, innovation is inherent in organisational learning since it is a necessary attribute that leads to the growth and sustainability of SMEs.

Nogare (2006) notes that innovation stems from scientific discovery and it is competitive. He further adds that innovation is a vehicle for market entry and paves the way for product differentiation. The cost of innovation is a matter for consideration, especially valid for SMEs with limited sources of funding. Innovation provides impetus to the growth and sustainability of SMEs. O'Donnell *et al.* (2002) contend that SMEs use innovation to avoid price competition and to secure market advantages in high technology settings, based upon data collated within market environment. Therefore, it would be worthwhile to consider a future theory on SMEs' growth and sustainability concerning the role of innovation in providing potential opportunities of survival. Such an approach should reflect the functional aspects of small business enterprises in a continual fashion.

Averagely, SMEs do not conduct research as much as bigger businesses but most of them are more likely to be innovative in other ways such as through re-engineering and creating new products or services to meet new customers, and market demands thereby introducing new organisational methods of enhancing productivity or developing new techniques to increase sales. Therefore, government need to formulate policies about business operation that constrain competition, creativity, adequate returns to investment and risk-taking in order to encourage innovative behaviour by small business enterprises. Nogare (2006) asserts that SMEs are in the top 5%-10% of all growing firms and their job creation rates in most countries, exceed those of larger and established business entities. To be more innovative, most SMEs tend to be technology-based and conducting a lot of business research and development. This explains why SMEs are mostly created in knowledge-intensive sectors, in areas characterised by concentrated economic activity and clustering which enable them to grow fast to be integrated into informal and formal networks of business enterprises.

Innovation is achieve through more effective technologies, processes, products and services that are readily available to markets. However, OECD (2015) notes that an innovation can be new to the market when a firm is the first to introduce the innovation on its market and it is new to the world when the firm is the first to introduce the innovation for all markets and industries. This implies that the minimum requirement for an innovation is that the product, process, marketing method or organizational method must be new (or significantly improved) to the firm. Neely and Hii, (1998) assert that the diffusion of innovation is favourable given that it helps disseminate new techniques, products and services to the wider economy thus allowing the full benefit to be gained. This also entails that when innovations are diffused, they contribute to higher productivity and higher standards of living in an economy.

Regarding the impact of innovation on SMEs, it is important to highlight some types of innovation that contribute immensely to the survival, success, growth and sustainability of small businesses such as product innovations, process innovation, market innovation and organisational innovation.

### **3.5.1 Product innovation**

Generally, product innovation entails creating and subsequently introducing goods or services that are new or significantly improved versions of the previous ones that positively affects product sales. OECD (2005) defines product innovation as the introduction of goods or services

that are new or significantly upgraded in accordance to their characteristics or intended uses. Product innovation entails developing a new product, changing the current design of the product or using new means and techniques in the current production methods. In other words, product innovation focuses on current markets for prevailing products, differentiating them through functions and characteristics that current ones do not have. Reguia (2014) affirms that product innovation depend on technologies, resources, capacities and knowledges used in the enterprise. There is a specific focus on the consumers' expectations and needs. Therefore, product innovation is greatly require by small business enterprises to cope with the changing consumers' preferences and tastes, the pressures of competition, technological improvement or contrarily technological obsolescence, specific customers' requirements (customization), short product life cycles and changing customers' demand patterns.

Product innovation leads to a changing process in enterprises and their market offerings. It is also a key weapon that marketing strategists deploy to win markets and customers by developing sustainable competitive advantage (Kanagal, 2015). This entails that high product competition on the market might compel small business owners/managers to adopt new technologies of product design. This innovation averts loss of control rights because of going bankrupt. Hence, product innovation is adapted amongst business enterprises for the ones that are ready to survive the pressure of competition. Ajimati (2012) stipulates that product innovation improves quality, design and customisation of new products especially in low products such as cars and electronics with short life cycle. Therefore, product innovation is required by both SMEs and even big companies such as car manufacturers to constantly improve their quality and designs to satisfy the changing tastes and fashions of their customers.

Markets worldwide are so diversified today that consumers have developed more interest in new things, because their tastes and needs are continuously changing (Nemati et al. 2010). Consequently, these changes in customers' patterns of consumption call for business enterprises to pursue product innovation, as significant and possible means to satisfy their customers. Ibidunni *et al.* (2014) assert that product innovation is an instrument of growth strategies for a product or an enterprise to increase its current market share, enter new markets, and to provide the enterprise with a competitive advantage. Therefore, it is important for small business owners/managers to know the position and capabilities of their products and the position and capabilities of their competitors before introducing new products onto the market.

Ibidunni *et al.* (2014) argue that product innovation is advantageous for business enterprises, especially for small business ventures and for newly established firms because it leads to expansion and competitive edge over other firms in the same line of business. Product innovation is one of the best strategies to enhance the survival and growth of SMEs. Gwin (2009) holds that business enterprises that can differentiate their products from those of others in the same market or industry to a great extent. This drives them to make more profits than their counterparts. This implies that new and smaller business ventures can use product innovation to better differentiate their product from those of existing and larger enterprises in the same market or industry. Nemati *et al.* (2010) define product differentiation as a marketing process that highlights the differences between existing products in the market. According to them, differentiation makes products more attractive by contrasting their unique or exceptional qualities with other competing products in the same market or industry. Hence, successful product differentiation will give a competitive edge for the sellers, as customers will see such products as superior to the others in the market.

Chris (2017) submits that effective product innovation enables small business ventures to expand and grow into bigger business enterprises, while acquiring a competitive edge over their remaining competitors. Thus, product innovation is one of the primary factors that influence SME growth and expansion. Ibidunni *et al.*, (2014). New branding and packaging lure customers into brand switching whereby new businesses and SMEs can successfully utilize product innovation to entice customers from competing brands. Therefore, a typical example of successful product innovation that resulted in brand switching that new businesses and SMEs can emulate is the introduction of the iPhone to the mobile phone industry. This innovation has caused mobile phone users to switch from Samsung, Motorola, Sony Ericsson, Hwawei, Nokia and others to the Apple iPhone. Chris (2017) affirms that product innovation creates new version of significantly improved goods and services that positively affects product sales of enterprises especially new and small business ventures. This implies that for SMEs to be successful and sustainable, their owners/managers must be product innovative in order to make their products superior to others, thereby giving them a competitive advantage over their competitors in the same line of business and in the same industry.



### 3.5.2 Process innovation

Process innovation introduces new methods of production that have never been used previously. This could be a new manner of treating a commodity commercially to enable efficiency in production (Kenfac *et al.*, 2013). This implies that it is highly associated with structural education and the capacity of an enterprise to accept, generate, and implement new products or services, ideas and processes in its business. Khorakian, (2011) asserts that process innovation is the introduction of new elements such as equipment, task specifications, input material, work and information flow, into the enterprise's production process or service operations, which are more effective, and efficient that are used to create products or services. Therefore, this leads one to think that product innovation is about how products or services are created/fashioned and delivered.

Kenfac *et al.* (2013) argue that human resources ensure a successful implementation of process innovation in an enterprise. The degree to which employees in an organisation are motivated and how they are organized to perform their tasks is important to the success of process design. Fuglsang (2008) states that a close link between process vision and business strategy can make process innovation initiatives a principal vehicle for strategy implementation which is becoming an important source of competitive differentiation. Hence, enterprises that are successful at process innovation are more likely to be successful in the market. Mañez (2013) argue that SMEs may well implement process innovations quicker and at lower switching costs than big enterprises or large firms because of their small-scale production and limited resources which make it easier to adopt an innovation strategy aimed at getting direct rewards in terms of productivity, not investing huge sums in the development of sophisticated processes. Therefore, for this reason, the introduction of process innovations in SMEs may well be given due consideration as an essential tool of strategic management of their businesses.

The success of ground-breaking business enterprises with process innovation initiatives give them new hope because early results are undeniably attention-grabbing. For instance, International Business Machine (IBM) credit reduced the period to prepare a quote for leasing or buying a computer from seven days to one day but increases the number of quotes prepared ten times and more than half of its quotes currently delivered by computer (Davenport, 2011). Therefore, process innovation is a new but necessary method to transform business enterprises and improve their performances and this involves the pressure of everyday business of creating a vision, understanding the existing process and designing new processes for the organisation.

Khorakian (2011) claims that information is an influential tool to implement and enable process innovation and that is the reason why real-time and accurate information on process performance is a prerequisite for effective performance. Hence, the creation of information is the principal objective of SMEs to implement process innovation in their businesses.

Mañez (2013) suggests that process innovation is beneficial to enterprises because it helps to lessen production costs by increasing the productivity of capital and labour. Successful outputs of business enterprises through research and development activities involve process innovation. Process innovation is expected to result in an increase in the productivity growth of an enterprise. Kenfac *et al.* (2013) argue that the adoption of process innovation is also beneficial to SMEs because it can help the enterprise to achieve most important reductions in service levels, improvements in quality, process cost and other business objectives. Therefore, introduction of process innovations in SMEs may well constitute an essential source of competitive edge for such enterprises, as compared to larger firms.

A successful process innovation leads to reduced price and cost of products or services. Such a move generates higher profit levels, leading to increased attractiveness of product innovation (Fuglsang, 2008). This means that process innovation undoubtedly encourages extra productivity growth at all points of the process and leading to increase in the enterprise's price-cost margin by lowering production cost. According to Camisón & Villar-López (2012), as far as the relationship between performance and innovation of an enterprise is concern, process innovation is an immediate source of competitive advantage that can lead to improvement in business performance. This is a justification that process innovation is advantageous to enterprises because those that perform well may well have easier access to capital to finance further investments and innovations in their businesses. Therefore, for SMEs to be successful and sustainable, their owners/managers should implement process innovation because it will enable efficiency in production or the production of improved or new products which will also help to lessen production costs by increasing the productivity of capital and labour.

### **3.5.3 Marketing innovation**

OECD (2005) note that marketing innovation is the application of a new marketing technique relating to important changes in product promotion, product design, product pricing, product packaging and product placement. Consequently, market innovation expands a market for a product, entering new markets and introducing new ways of rendering services to customers. Cascio (2011) contend that marketing innovation is the application of a new marketing strategy,

which is significantly different from the former marketing technique applied by the enterprise, which has not been utilised previously by the enterprise. He adds that marketing innovation requires substantial changes in the product promotion, product design, product pricing, product packaging and product placement. Hence, one is tempted to say that marketing innovation is aimed at positioning a new enterprise's product on the market, penetrating or opening up new markets and addressing customer needs in a better way with the purpose of increasing the enterprise's sales.

Marketing innovation activities help business enterprises to expand and penetrate new markets, having a better understanding of customer needs and the ability to have the products and services to satisfy such demands (Schubert, 2010). This means that market innovation enables SMEs to expand their market to satisfy the ever-increasing needs of their customers. Ferrell and Hartline (2011) contend that marketing innovation is founded on the promotion of the four inter-related instruments which are focus on satisfying consumers' needs by gaining a sustainable competitive advantage. Hence, it follows that marketing innovation compels utilisation of entirely new marketing concepts and new marketing techniques in the enterprise. Ilić *et al*, (2014) profess that the principal purpose of marketing innovation is to improve the profitable satisfaction and the identification process of customers' needs. They add that by applying new marketing activities and techniques, enterprises strive to bring their customers into a situation where they become promoters of their businesses, thereby creating a cordial relationship with them. Hence, marketing innovation creates a condition in which consumers will be loyal to the enterprises' brands and recommend them to their friends and reference groups.

There are enormous benefits for excellently executing activities of marketing innovation in the market-relationship space. According to Kotler and Keller (2006), the benefits of marketing innovation are important to enterprises as they give them the ability to contribute directly to their financial performance without the effects of either process or product innovation. In a similar light, Strauss and Frost (2009) assert that social media developments in marketing innovation could raise the number of customers that value the enterprises' products or services. Therefore, one might expect that when social media is used to innovatively showcase or portray the benefits, uses and features of enterprises' products or services in new markets and to new customer segments, it will positively impact the entities' sales and performance.

Marketing innovation is highly expected to result to quicker commercialization of new products or services ideas, reduced time to sales take-off – quick turnover, greater hit rates of new products or services introductions, and higher profitability from effective segmentation innovators (Cascio, 2011). This leads one to conclude that marketing innovation is important to SMEs as it enables them to expand their existing markets and penetrate new markets thereby improving the awareness and visibility level of their products in the market to achieve large scale and increase sales frequency. Varis and Littunen (2010) assert that marketing innovation gives enterprises opportunities to increase their cash flow and revenue from the reduction in customer service costs through improved technology, value through procurement input, outsourcing or streamlined operating processes, different sales channels and improved component quality. Consequently, this affords SMEs a competitive advantage over their counterparts in the same line of business and in the same market, leading to increase profitability and hence success and sustainability of the business enterprises. Strauss and Frost (2009) state that business enterprises with high levels of marketing innovations experience a substantial increase in their customers' loyalty and retention, superior service or customized solutions, added value from risk-reducing branding and heighten perceived switching costs for consumers. Therefore, in a nutshell, for SMEs to be successful and sustainable, their owners/managers must implement marketing innovation because it will enable them to adopt new techniques of promoting, designing, pricing, packaging and placement of their products in the market to satisfy the ever-changing taste or needs of their customers.

#### **3.5.4 Organizational innovation**

It follows that organizational innovation involves administrative mechanisms and activities for applying and generating new technological or non-technological practices and ideas across their value chain (Godin, 2015). This shows that organizational innovation is the act of creating a behaviour which is new to an enterprise. Evans (2013) stipulates that organizational innovation is an instance of change in an organization, which result from a shift in fundamental organizational expectations, providing new pathways for the creation of public value, and is discontinuous from previous practice. However, it follows that the size of an enterprise is one of the most influential predictors of organisational innovation, even though practical evidence indicates that bigger enterprises are more innovative than smaller ones. SMEs endeavour to be open to new ideas from various sources, looking for innovative ways of doing business and their inherent flexibility go along with learning-by-doing, improvisation and application (Salavou *et al* 2004).

Organisational innovation is intended to increase performance outcomes, productivity, quality of services rendered as well as a means of an enterprise improvement or change how to stay in business and succeed (Damanpour, 2017). Therefore, these enterprises introduce innovation to accomplish their strategic objectives of improving and maintaining performance and to adjust and cope with environmental changes (Evans, 2013). Consequently, organisational innovation helps SMEs overcome global competition because those enterprises that constantly challenge what they do, challenge themselves to create new and different ways of doing things, and also continuously improving the things that they already do so that they can survive in the new globally competitive market environment. Balasubramanian (2013) affirms that to succeed in today's fast changing globally competitive environment, business enterprises have to be organisationally innovative. This implies that SMEs that implement organisational innovations improve their processes and provides the lead ahead of their competitors in terms of profitability, growth, market share and net income. Mihić *et al.* (2015) assert that business enterprises innovate to increase profitability and market share, to create economic capital for their owners and to improve their productivity and efficiency.

Therefore, for SMEs to be successful and sustainable, they need to implement organisational innovation. This broadens market share, net income, growth and profitability, hence success and sustainability of the business enterprises.

### **3.6 Business Research**

Generally, research is a systematic way of uncovering or determining new facts and substantiating old ones with their order of interrelationship. Rajasekar *et al.* (2013) contend that research is a systematic and logical search for useful and new information on a topic. This leads one to believe that research is simply the procedure of looking for solutions to a problem after a detailed study and analysis of the situational factors. Meanwhile, Kimberlee (2017) defines business research as a field of practical study whereby an enterprise gets data and analyses it to manage the business in improved ways. In this sense, business research comprises of applied business research and basic business research as well as consumer feedback, product research, financial data, and competitive analysis. Bodla (2006) stipulates that managers of business enterprises always engage themselves in studying and analysing problems that are somehow involved in some form of research activity as they make major decisions at the workplace concerning the operation of their business.

Research can be done in an enterprise when a business needs answers to specific questions, when the business is faced with problems, when there is a need for change and when business is not performing well. Farooq (2009) argues that the first stage in research is to identify where the problem lies and the nature of the solution. Therefore, once the problem has been clearly identify, relevant information is gathered to resolve it. Bodla (2006) asserts that the purpose of business research is to fulfil the need for knowledge of the enterprise, the market, the economy and other areas of uncertainties. Hence, this entails that the task of business research is to collect accurate information, which will help in decision-making and shift decision makers from intuitive information collection to objective and systematic investigation.

To highlight how business research can contribute to enhance the sustainability of SMEs, more literature will be review on the major types of research in business which are applied business research, basic business research, consumer feedback research, product research, financial data and competitive analysis.

### **3.6.1 Applied Business Research**

Applied research directs strategic solutions to a specific actual problem. This encompasses studies that provide answers to questions about policy and course of action and making decisions about specific issues of importance to an organisation (Bodla, 2006). Applied business research comes out from work-related problems that require timely solutions. For instance, a company's product may not be selling well in the market and the business owner might want to identify the reasons why this is happening. The business operator takes action to resolve the problem or reverse the situation. Farooq (2009) states that applied business research is conducted when there is a high degree of absenteeism among employees in the enterprise or when a business enterprise encounters problems in retaining employees. These are illustrations of problems that require business owners/managers to find immediate and appropriate solutions, otherwise the business would crumble or dwindle and finally wind up. Therefore, business research is driven by the purpose of implementing the findings to resolve specific problems affecting the smooth functioning of a business.

As the name suggest, applied business research is also conducted for developing new ideas, products or services that can help in the expansion of a business enterprise and the growth of the economy at large (Bodla, 2006). This implies that applied business research is conducted to study a pertinent situation that has an impact on a business, resolve a problem or create a

new idea that can foster business growth. Bartlett (2015) indicates that applied research is conducted in business enterprise to create new ideas about products or services and test the efficiency of the existing ones. Therefore, applied research is conducted in business organisations in marketing, observations and surveys on a day-to-day basis to benefit the business, unlike in universities and colleges where applied research is conducted to search and examine facts that are already present but hidden. Hence, for SMEs to be successful and sustainable, they need to conduct applied research frequently because implementing the results of its findings will enable them to resolve specific problems that are affecting the smooth functioning of a business. According to Farooq (2009), new ideas created from applied business research will help to foster business growth and profitability, thereby leading to success and sustainability of the business enterprises.

### **3.6.2 Basic Business Research**

Basic research, also known as pure research, attempts to expand the limits of knowledge. It explains more concepts and substantiates the authenticity of a given theory, but it does not provide solutions directly to pragmatic problems (Bodla, 2006). Basic business research is conducted to generate a body of knowledge and offer an understanding of how certain problems that occur in business enterprises could be resolved. Bartlett (2015) declares that business enterprises might transfer the learning from the research to the workplace for problem resolution. For instance, a research about the motivation of employees during recession conducted at a university facility could be useful and applicable to a practical business setting when an enterprise's business faces a downturn. Hence, basic research enhances understanding on problems that commonly occur in business organizations.

Basic research is comprehensive, and it offers an informed understanding of a phenomenon, a theory, a field of study and helps in developing new theories in science (Shapiro, 2013). Organizations invest in basic research even though it is very costly. Bartlett (2015) declares that Shapiro (2013) explains that many business enterprises have shifted their interest from basic research to development because economic theory suggests that enterprises should focus more on basic research since it affects most of the markets. Consequently, by shifting their interest from basic research to development, this enables business enterprises to correct their failure. According to Bodla (2006), basic business research develops new theories, brings about innovations and new ideas that create entirely new possibilities for business enterprises to

thrive and expand. Therefore, for SMEs to thrive and be sustainable, they need to conduct basic research to understand certain problems that commonly occur in business organizations and seek innovations and new ideas, creating entirely new possibilities for growth, success and sustainability.

### **3.6.3 Consumer Feedback Research**

Customer feedback is a marketing parlance or term often use to describe the process of getting customers' opinion about a company's products, service or business in general (Beard, 2014). This is because merely understanding what the customers and the public think or say about an enterprise's products or services, is essential to help management in decision-making while ensuring that such decisions is satisfy the needs of its consumers. Thus, this leads one to believe that customer feedback research should include customer surveys, focus groups, case studies and questionnaires. According to Beard (2014), customer feedback research is important to enterprises because it provides business owners and the marketing department with valuable information that they can use to improve their products or services, the entire business or overall customer experience in the following ways:

**Customer feedback can help improve a product or service:** Attending to customers is the only way to guarantee the creation of products or services that they need to purchase. Customer feedback is mostly done throughout the product development process to ensure that the final product is something that satisfies or fulfils customer's needs (Beard, 2014). Therefore, in the current competitive business world, business enterprises that can intertwine product development and customer feedback are the ones that earn raving customer advocates, have sticky customer loyalty and reap strong competitive advantages over their counterparts in the same market or industry.

**Customer feedback offers the best way to measure customer satisfaction:** Measuring customer satisfaction through customer feedback survey helps a business enterprise to determine whether its products or services meets or exceeds customers' expectations (Kimberlee, 2017). Therefore, since customer feedback can be conducted through survey, the research can be done through email, by phone, inside a website or mobile app or even in person. More, so, rating-based questions can be used by an enterprise when it wishes to measure customer satisfaction which will help management and especially the marketing department to track and monitor how satisfied or unsatisfied its customers are over time.



**Customer feedback can help improve customer retention:** Customer feedback provides a direct communication line with customer so that an enterprise can determine if the consumers are not satisfied with the products or services they deliver before they lose their business because a satisfied consumer is a retained customer (Beard, 2014). Therefore, if the research results prove that customers are frustrated or perceives a better competitive offer, they will begin to explore their options and may stop doing business with their former enterprise or cancel their contract with them. According to Kimberlee (2017), by attending to unsatisfied customers, a business enterprise can use the feedback to ensure all its customers have a better experience and would wish to continue doing business with them.

**Customer feedback delivers concrete data that can be used to make better business decisions:** The best business decisions are made based on information or data collected from customer feedback and not hunches because most business owners and marketers often make the mistake of making serious business decisions or big calls based on inaccurate data or hunches (Beard, 2014). This implies that customer feedback is the best means to get accurate or tangible information that will help in making proper business decisions. Therefore, customer feedback can help to guide decision marketing in a business enterprise because if a large percentage their customers want an additional customer service channel or suggest a product feature and they are attended to, they will remain loyal to the company's brand.

It is evident that customer feedback is one of the most essential element of any successful business because it gives an enterprise valuable information or data of what customers think about a company's products or services (Beard, 2014). It follows that customer feedback can help in creating a product that customers want to buy and creating an experience that satisfy the expectations of customers. Therefore, for SMEs to succeed and be sustainable, they need to conduct customer feedback more frequently because it will help management in making decision to ensure that they meet the needs of their consumers, which will create new possibilities for growth, success and sustainability of the business enterprises.

### **3.6.4 Product Research**

Product research may include access to the product through a variety of distribution channels, improved customer service, or technological advancements to improve the quality of a product (Kimberlee, 2017). This implies that the main purpose of embarking on product research is to modify and customise the quality of a product to meet new tastes and fashions of customers. Balle (2017) states that the research process of product research includes assessing the selling

potential and examination of similar offerings already in existence. The proposed new product must enter the market after a thorough background check for the new product idea. Hence, when developing a new product, there is a need to tap many sources and subsequently make informed choices. Kimberlee (2017) claims that throughout all the stages of the product development process, product research is conducted. Consequently, this research identifies key issues to avoid costly mistakes. However, if the products or services already are already produced at reasonable costs, product research determines whether the available options on the market are meeting the needs and expectations of existing consumers.

Balle (2017) stipulates that product research can be conducted to identify and screen a new idea which help to avoid product development costs in the discarded ideas thereby reducing costs. In the later phases of product development, product research can help an enterprise to identify which features are essential and later retain them and which features of a product can be discarded. Consequently, product research affords a business enterprise a chance provide services that are not relevant to the consumers. This minimises the total cost of production. According to Kimberlee (2017), product research is important for enterprises to undertake because of the following reasons:

**Competitive Advantage:** Business enterprises that conduct product research regularly have higher chances of succeeding in the competitive market than their competitors who do not (Kimberlee, 2017). Therefore, investment in product research can leads to investments in similar areas such as the development of a new process of business and even market research development for a business enterprise.

**Availing of Tax Credits:** By conducting a genuine product research, an enterprise can settle its costs related to the project through tax credits entitled for research and development (Kimberlee, 2017). Hence, such tax credits enable business enterprises to get a significant reduction in the tax bill.

**Manifold increase in sales:** There is an undefined link between efforts made by an enterprise for product research and the improved overall performance of the business (Kimberlee, 2017). Therefore, business enterprises that undertake product research, act as the main drivers of economic growth thereby giving better results for investors.

**Innovation:** Product research leads to innovation that facilitates the development of new designs and new technologies that are high in value as well as new strategies for the enterprise that could be the beginning for the sustenance of prospective value (Kimberlee, 2017). Consequently, innovation from research helps a business enterprise to get a competitive advantage over its counterparts in the same industry and that is why highly successful businesses tend to innovate.

Balle (2017) argues that product research boosts the goals and vision of any business enterprise. He adds that although it may be difficult to undertake product research in the early stage of the business, by looking for assistance from experts, an enterprise can make a lot from a small business idea. Therefore, SMEs need to conduct product research more often because the results lead to the creation of new product design and packaging, improvement of customer service and technological advancements. Consequently, this will lead to the satisfaction of customers' needs, leading to brand loyalty and customer retention, which will also fosters business growth and profitability, thereby leading to success and sustainability of the business enterprises.

### **3.6.5 Financial Data**

Generally, financial data comprises sets of information or pieces connected to the financial strength of a business. Management uses the financial data for analysing business performance and determining whether strategies and tactics should be maintained or changed (Halabi *et al.*, 2010). Thus this leads one to believe that by reviewing the financial data, management of business enterprise can determine the departments, staff and products that are most efficient and also determine areas of unnecessary costs. Financial data involves quantitative information such as cost, revenues and sales reports to see what areas generates income and what areas costs money (Kimberlee, 2017). This implies that financial data is a metric or standard for evaluating a business enterprise's performance. Kono and Barnes (2010) profess that the role of financial data in a business enterprise is to monitor and establish measurable and specific financial strategic goals on an integrated or coordinated basis, thereby enabling a business enterprise to operate effectively and efficiently. So, financial metrics and goals are bench markers of the best in the industry.

Organizations and individuals outside a business use financial data of their businesses to determine whether the business is conforming to government rules, to decide whether to invest

in a business or not and to judge their credit worthiness (Cassar, 2009). This implies that an enterprise's financial statements offer other financial data or information that creditors and investors may use to assess the enterprise's financial performance. Way (2017) stipulates that financial statements are essential to managers of business enterprises because by publishing their financial statements, management can communicate with outside partners who are interested in their business about their achievement in operating the enterprise. However therefore, different financial statements concentrate and emphasise on different areas of financial performances. The purpose of most financial statements is to steer the minds of senior managers to use their business acumen to find the best means of driving their enterprises towards profitability (Suh, 2017). Therefore, for SMEs need to always collect financial data because information such as cost, revenues and sales reports from this data affords business small owners and managers an opportunity to evaluate their business performance and determine the strategies and tactics that can be implemented to ensure high performance and profitability. , thereby leading to success and sustainability of the business enterprises.

### **3.6.6 Competitive Analysis**

Generally, competitive analysis is a statement of business strategy and how it is related to competition. Competitive analysis is when an organisation compares its products and services to those of another enterprise with the purpose of creating a niche, determining a more attractive price point and to improve the product or to lure and win customers (Kimberlee, 2017). Therefore, competitive analysis includes taking stock of the nature and number of competitors that are indirectly or directly presenting a threat to a business. Ingram (2017) contend that competitive analysis can help management of business enterprises to refine their strategic directions and offer aspiring entrepreneurs with a better comprehension of the market conditions in a sector they are considering breaking into. This means that the principal purpose of competitive analysis is to help business enterprises determine the barricades that prevent competition in their market as well as the weaknesses and strengths of their competitors within the market or industry.

A competitive analysis can be used to help enterprises in creating an actionable media strategy. Understanding how and where to compete in the market ultimately reduces an enterprise's wasteful expenditure, time lost and risk of uncertainty (Van Wyk, 2012). Using competitive analysis data helps business enterprises to determine whether their resources will make any advertiser remain competitive in the market and to determine where their competitors will go next, based on where they have been, while endeavouring to gauge their strengths and

objectives. According to Fiore (2016) knowing about business trends and what is happening in an industry by doing competitive analysis, will help business enterprises to avoid redundancy and foster innovation in their businesses. Therefore, competitive analysis is a business strategy that gives an enterprise a distinct advantage, and to determine any other weaknesses of competitors exploitable within the product development cycle.

Van Wyk (2012) notes that the importance and benefits of competitive analysis for business enterprises include the following:

**Competitive analysis helps to identify present and potential competitors:** Even though the answer to the question appears to be straightforward, the range of current and potential competitors is mostly far broader than it seems to be at first sight (Van Wyk, 2012). Hence, business enterprises should realise that competitors do not always provide similar or the same products or services.

**Competitive analysis helps to reveal potential competitors' present and future strategies:** Business enterprises need to always review the previous and current strategies of their main competitors. The previous strategies of competitors give an insight into failures and reveal how enterprises engineered changes (Van Wyk, 2012). Thus, reviewing competitors' strategies should include the evaluation of their target market and their differential advantages.

**Competitive analysis helps to disclose potential competitors' strengths and weaknesses:** A good understanding of an enterprise's competitors, especially their weaknesses and strengths, is a prerequisite for the development of strategies to compete against them (Van Wyk, 2012). Therefore, the success or failure of competitors to implement their strategies to accomplish their objectives depends on their capabilities and resources. If possible, business enterprises can use their own strengths to take advantage of their competitors' weaknesses.

Fiore (2016) affirms that competitive analysis is essential in business research and the planning stage of enterprises that wish to improve their businesses because it allows them to understand and evaluate their competitors' strengths and weaknesses in direct comparison to theirs. This is because, the data from competitive analysis helps in the development of marketing and business strategies that can be used against competitors' offerings. Therefore, for SMEs to be successful and sustainable, they need to always do competitive analysis because it will give them a competitive advantage over their competitors and will also help them to determine attractive price points and to improve their product to lure and win customers. Ingram (2017) maintains that for a business enterprise to have more customers for its products, it will help to

increase its sales which will in turn leads to increase profitability. Hence increase profitability of a business enterprise will consequently lead to success and sustainability of the business.

### **3.7 Education and Training**

Education is differently understood and given diverse interpretations and meanings by different individuals. However, Sinclair (2014) states that education is the acquisition of attitudes, skills and knowledge meanwhile other intellectuals say that education is nothing, but training of individuals' mind in a certain direction to bring about desired changes. Dewey (2004) notes that education often takes place under the guidance of an educator, but students may also educate themselves. Hence, the views of these two authors on education leads one to believe that there is no comprehensive agreement as to what the main aim of education is or should be. This is because some scholars emphasize the value of education to the individual, stressing its potential for establishing an occupation or career, forming a cultural identity, promoting autonomy and positively influencing learners' individual development.

Generally, training is an organized activity that is aimed at assisting people who are known as trainees to attain a required level of skill or knowledge or imparting instructions and information to improve their performance. However, Kulkarni (2013) notes that training is a systematic development of attitudes, skills and knowledge needed by a person to perform a given job or task adequately. Mortaki (2012) states that the purpose of education and training is to equip individuals with competences, skills, know-how and knowledge required on the labour market, occupations for the development of professional skills and knowledge needed for the practice of a profession. Therefore, individuals within many occupations and professions may refer to training as professional development. Kulkarni (2013) further asserts that for elementary training required for an occupation, trade or profession, observers of the labour-market identify the need to continue training beyond initial qualifications to update, upgrade and maintain skills throughout working life. Hence, this explain why training forms provides the backbone of content and the core of apprenticeships at most institutes of technology.

In a broader sense, Surbhi (2015) points out that education and training are different sides of a learning process. Although it may not be easy to distinguish them especially in the school system, there is still a difference between education and training. Education and training are so closely interrelated that the difference between them is increasingly blurred. Nonetheless, the

two terms are different in their nature and orientation. Kulkarni (2013) contends that employees who undertake training, in an organization, are said to have previously had some education. Consequently, there is no training without education. Surbhi (2015) further adds that education and training are provided to all employees of an enterprise equally, irrespective of their level in the corporate ladder. Thus, it is assumed that every worker who is going to undertake training, has previously gotten some formal education because it is true that there is no training scheme that is conducted without education. Sinclair (2014) professes that education is more relevant for the employees working on a higher level as compared to those at the lower level, even though education is common for all the levels of workers, regardless of their grades. Consequently, business enterprises should consider both education and training at the time of planning their training program because in some instances or occasions the employees will need to take decisions by themselves regarding their work, where education is as important as training. Therefore, education and training can help to equip small business owners and entrepreneurs with required skills, knowledge, know-how and competences to run their businesses effectively.

To determine how education and training can contribute to enhance the sustainability of SMEs, more literature will be review on business education and business training.

### **3.7.1 Business education**

Business education encompasses the teaching and learning processes, theories and the fundamentals of business therefore, successful people in the business environment often have a mixture of experience and education relating to business principles and concepts (Scott, 2014). So, this explains why business students these days improve their skills through practical experience, which is a part of business education nowadays. Vitez (2016) declares that many people spend more time on earning a business education early in their profession instead of sharpening their skills through practical experience. This means that it is important for small business owners/managers to achieve qualifications related to the operation and management of their businesses which allow them to accomplish their business goals. Sajwani (2014) argues that small business owners/managers must acquire reasonable level of business education because they are in control of a fleet of material and human resources within their organisation. Logically, they could be outsourcing parts of their business maintenance to others or working autonomously with the specific range of qualifications they hold and require for running the business.

The business education scheme is important especially to small business ventures because the program builds a strong foundation for people who wish to own their businesses or who wish to undertake a career in business management. Scott (2014) asserts that business education program also offers practical skills for individuals who wish to move directly into the workplace of a business enterprise. More so, business education programs offer huge opportunities for real and relevant world learning experiences because these programs provide a pathway to specific workplace and apprenticeship destinations along with valuable information and connections that help business owners and managers to explore potential business and work opportunities. Vitez (2016) note that highly educated employees create competitive advantages for business enterprises in an industry, market or the business environment. He adds that educated people bring in more innovative and creative ideas in a business, thereby improving operations and finding new ways to increase productivity of goods and services to meet customers' needs. This implies that people with business education obviously have business acumen. This is helpful for business enterprises in managerial aspects because with an educated workforce, the enterprises do not have extensive recruitment searches and this saves them a lot of time and money.

Highly educated people have innovative ideas to connect with the audience (Mack, 2017). This means that highly educated employees can communicate and spread a business enterprise's message out in a far better way than employees who are less educated. This is because business education also teaches the essential qualities required for the proper management of a business. In that way, education enables people to manage production, finance and marketing in a more organized business way. Scott (2014) contend that business education stimulates a sustainable development of an enterprise in a planned way and this is the reason why business ventures recruit workers who have the fundamental knowledge of production and marketing, who have knowledge of finance and economy and people who have the skills of resolving problems within their workplace. This implies that business education is important for SME owners/managers and employees because it helps to develop the capacities of managers and marketers to tailor business related messages to different kinds of audiences. For instance, courses in marketing will help managers and marketers to create effective campaigns that target specific consumers, while courses in corporate communications teach them how to lead group meetings, how to write internal documents for employee guidance and how to design effective business presentations. Sajwani (2014) affirms that business education especially in financial management will teach business owners/managers



and even employees how to handle their enterprises' accounting needs, how to comply with government regulations and find ways to make their organization as cost-effective as possible.

Business failure often happens around the time an enterprise needs to grow, or adjust its market offering for a different set of customers and the reason for this failure is the lack of understanding of the market environment and the problems associated with managing a business (Jacobs, 2015). This leads one to believe that the problems associated with managing a business always stem from the employment, housing and taxation considerations to the business processing and technological issues that arise from growth. Scott (2014) argues that management often make poor business decisions in terms of employee recruitment, infrastructure investment, financial planning, funding and market risk profiling. It is these such poor decisions that create a gaping hole in the loss and profit projections that may previously have sustained a reasonable small enterprise. This implies that highly educated business owners/managers will be more successful in business than those who are less educated. They are bound to make quality changes with their business knowledge. Therefore, for SMEs to be successful and sustainable, their owners/managers need to undertake a reasonable level of business education which will enable them to be knowledgeable about the fundamental principle, and processes of business for them to be effective in the management of their businesses.

### **3.7.2 Business Training**

Training in simply terms is the formal and ongoing efforts that are made within an enterprise to improve the performance of employees. It follows that training is a process of education that involves the gaining more knowledge, changing of attitudes and the sharpening of skills to enhance the performance of employees (Qureshi, 2016). However, business training differs in what is provided and how it is provided across different places and business enterprises. Therefore, the differences in content are essential to encourage more heterogeneity in the treatment of business training than in many other enterprises interventions such as access to finance through grants or credit. McKenzie and Woodruff (2013) asserts that the impact of training is most likely to be different depending on who gets the training, when compare with the same training content in different places, differences in the features of the people getting the training may result in different measured impacts.

The loss of a single employee has a significant impact on a business enterprise especially SMEs which are generally not well equipped to deal with high employee turnover like bigger enterprises. Gementi (2017) argues that proper training enables employees to grow in their profession and they mostly become happier and satisfied with their jobs as well as becoming more productive because of this, very few or even none of them would want to quit their jobs. This implies that proper training of employees leads to job satisfaction that helps in improving employee retention in an organisation. Mazour (2016) stipulates that most employees appreciate being capable of improving their job performance, building new skills, and potentially evolving towards more challenging roles. Ongoing education and training is most valued by employees as key to remaining relevant in the job market. Therefore, encouraging and offering ongoing training opportunities demonstrates an enterprise's commitment and concern to the growth of its employee. When treated in this way, employees feel their value to their organisation.

Qureshi (2016) contend that when a business enterprise invests in improving the skills and knowledge of its employees, enhanced employee performance and productivity become the actual investment returns. Therefore, business training is essential for the success and development of an enterprise which is indeed fruitful to both business owners who are the employers and also to the employees. According to Qureshi (2016), some other important benefits of business training and development for business enterprises include the following:

**Increased productivity:** Business training directly improves the effectiveness, efficiency and productive capacity of employees in an organisation (Qureshi, 2016). Thus, this leads one to believe that on-going training keeps the employees always updated with new technology and therefore enable them to properly use existing ones in a better way to avoid wastage of resources and time.

**Less supervision:** According to Qureshi (2016), business training improves essential skills of employees and empowers them to execute their tasks individually. This imply that well trained employees are well acquainted with their jobs so much so that they need less or even no supervision, thereby minimising the enterprise's cost of hiring supervisors.

**Reduction of errors and accidents:** Most errors committed by employees at the workplace happen because many of them lack the precise skills and required knowledge to perform a task

which most often result to accidents (Qureshi, 2016). Therefore, constant training will enable employees to acquire the right knowledge and skills to execute their assigned tasks such that their chances of committing errors at the workplace that often result to numerous accidents will be minimal.

**Uncover employee potential:** Training serves as a platform for employees to share their ideas with business owners/managers. Some employees might be aspiring for leadership positions within the business enterprise but because the absence of leadership development programs in the organisation, such people are deprived of the chance to prove their abilities and the opportunity to further develop their hidden skills (Qureshi, 2016). Therefore, according such employees the opportunities to attend or participate in training programs will helps management to identify potential leaders within their work force who will run the organisation in the future.

**Job satisfaction:** Training makes employees feel satisfied with the role they are playing in their organization which is driven by the capability they gain to accomplish their responsibilities (Mazour, 2016). Hence, training makes employees feel that they belong to the enterprise that they work for and the only way to reward it is to offer the best services that they can.

**Reduction of turnover and absenteeism:** According to Gementi (2017), training generates a feeling of confidence in the minds of employees that gives them security at the workplace. Therefore, having a measure of job security makes employees to love and maintain their jobs thereby reducing labour turnover and absenteeism rates, lessening costs, time and money of always hiring new employees.

**Skills Development:** Constant training and development programs give employees knowledge and experience. Access to regular training and development helps in increasing the job knowledge and skills of employees at each level (Qureshi, 2016). Consequently, increase in the knowledge and skill of employees' job will help to expand the horizons of their human intellect and their overall personality.

Pazvakavambwa (2017) points out that another advantage and strategic purpose of training and development is achieving and maintaining a competitive advantage. Investment in continuous

training and development programs will help attract better candidates for employment and enable the enterprise to achieve its strategic goals. Therefore, by using training as a strategic human resource management tactics to accomplish business objectives, an enterprise can enhance the overall improvement of its performance and productivity. Penfold (2016) affirms that a learning climate can be increased in an enterprise where training and development is a strategic priority whereby in this instance learning requires people who will be guided by business goals that can equally enhance individual performance. Business training equips employees with a solid foundation of the skills they require for their job performance and gives them the practical abilities and the knowledge that they need to climb the corporate ladder. Pazvakavambwa (2017) further notes that training leads to improved profitability and more positive attitudes towards profit orientation which helps in organizational development and it also demonstrates the commitment of keeping employees on the cutting edge of practice and knowledge. Therefore, for SMEs to be successful and sustainable, their owners/managers and the their employees need to undertake business training which will enable them to be more effective in their performance and in that way, it will lead to success and sustainability of the business enterprises.

### **3.8 Chapter Summary**

This chapter reviewed literature relevant to this study. The literature highlighted the means that SMEs are required to employ in their businesses to succeed, grow and become sustainable. This linked the systematic breakdown and explanation of the conceptual framework of the study, which constitute the independent variables that influence the sustainability of SMEs. The factors that determine the sustainability of SMEs are strategic business plan, availability of finance, effective management, innovation, business research and education and training. The chapter further discussed the elements associated with those factors that influence the sustainability of small business enterprises in South Africa.

The five principal elements of a strategic business plan include organisational vision, mission statement, core values, critical success factors as well as strategies, goals, objectives and action plan.

The available sources of funding and technical support for SMES obtainable from some government departments and agencies such as DTI, DSBD, the Presidency, SEDA, NEF, SEFA, SAMAF and Commercial Banks.

The elements of effective management entail management functions, financial management, human resource management, operations management, management accounting and marketing management.

The types of innovation that contribute to the success and sustainability of small businesses are product innovations, process innovation, market innovation and organisational innovation.

The major types of research in business are applied business research, basic business research, consumer feedback research, product research, financial data and competitive analysis.

The types of education and training that contribute to the sustainability of SMEs, as reviewed in the literature, are business education and business training.

It was also emphasised in the literature that the implementation of the factors that influence the success and sustainability of SMEs will lead to increase productivity, which will in turn lead to increased profitability, thereby leading to success and sustainability of the business enterprises. The literature reviewed suggests that the factors that enhance the sustainability of SMEs. The following chapter discusses the research methodology for data collection and analysis.

## **CHAPTER FOUR**

### **RESEARCH METHODOLOGY**

#### **4.1 Introduction**

Research is a search for new and useful information on a specific subject in a logical and systematic manner (Mackey and Gass, 2015). There are different ways to acquire knowledge on a particular topic, through personal experience or by discovery. The discovery method allows for direct experience through scientific observation (Babbie, 2010). Research methodology is an orderly approach to solve problems. It is the process of describing, explaining and predicting phenomenon (Rajasekar *et al.*, 2006). This study adopts a mixed method design, making use of both the quantitative and qualitative techniques of data collection and analysis. Research methodology stipulates a structure for data collection and analysis thereby drawing reliable conclusions based on the study. The principal purpose of this chapter is to outline the research methodology used for data collection and analysis in order to answer the research questions posed in chapter one.

#### **4.2 Research Philosophy**

Saunders *et al.* (2009) note that a research philosophy is the nature and development of knowledge. A research philosophy focusses on the worldview. Therefore, research philosophy constitutes a basic set of beliefs that guide a researcher's in exploring the world and how it is understood and studied. Easterby-Smith *et al.* (2003) assert that a research philosophy determines the research methods and strategies used to collect data for the study as well as practical experiences encountered, and helps to provide a plausible research design. According to Creswell (2014), when any form of research is conducted, it provides answers to the research questions by following the appropriate research procedure.

Neuman (2006) defines a research philosophy as a way of viewing the world. He adds that research philosophy is the constituent assumptions that guide and direct the way people think and act. The philosophical paradigm for a research takes three forms of inquiry: quantitative, qualitative and mixed method inquiry. These three forms of inquiry form the research approach and influence the practice of research. Saunders *et al.* (2009) contend that a researcher carefully observes the research problem and then decides how it should be resolved. Creswell (2014) stipulates that there are four major research philosophies within business studies: pragmatism, positivism, realism and interpretivist.

### **4.2.1 Pragmatism**

The pragmatic research method views at the contemporary meaning or provisional true value of an expression that is supposed to be determined by the practical consequences of the belief (Johnson and Onwuegbuzie, 2004). This leads one to believe that pragmatist research paradigm believes in real-world or practical applications. Creswell and Clark (2011) and Saunders *et al.* (2009) all point to the fact that pragmatic research philosophy lays more emphasis on thoughts that must choose between two different positions whereby, one is realistic but the other one is unrealistic in practice. Therefore, in the process of determination, the research questions are used to make a choice between the two positions, hence, both the quantitative and the qualitative methods can be used to resolve real life problems.

### **4.2.2 Positivism**

Positivist research philosophers believe that only factual knowledge gained through experimental measurements is worthy (Creswell, 2014). He adds that positivism research approach depends on quantifiable observed measurements, thereby making use of quantitative methods of collecting data for a study. Positivism research philosophy lays emphasis only on quantitative methods of data collection and analysis. According to Levers (2013), positivism research philosophy contests the traditional conception of the total truth of knowledge and identifies that people cannot be “positive” about their claims of knowledge when studying the behaviour and actions of human beings.

### **4.2.3 Realism**

Saunders *et al.* (2012) hold the view that there are two types of realist research philosophies which are direct realism and critical realism. Direct realism is a belief that the world is unchanging and therefore focus is on only one level of research such as an individual, a group or an organisation. On the other hand, critical realism is a philosophical view that appreciates the importance of a multi-level study and it is preferred over direct realism because of its ability to capture the fuller picture when studying a phenomenon. Novikov and Novikov (2013) assert that both realism philosophies (direct realism and critical realism) make use of either the quantitative or the qualitative research approaches. Therefore, unlike pragmatism and positivism, realism advocates for either quantitative or qualitative methods of data collection and analysis.

#### **4.2.4 Interpretivism**

Interpretivist research philosophy requires that the researcher interprets elements of the study by assimilating or mixing human interest into the study (Myers, 2008). Therefore, according to the interpretivist approach, it is imperative to appreciate the differences that exist between individuals. Saunders *et al.* (2012) argue that interpretivism focuses on meanings and may employ multiple methods to reflect different aspects of the research problem. This implies that interpretivism advocates for the various research methods such as quantitative, qualitative or mixed method inasmuch as it can lead to resolve the research problem under investigation.

The research philosophy adopted for this study is pragmatism. The choice of pragmatism as the research philosophy for this study rests on Creswell (2014), who recommends a combination of both quantitative and qualitative methods to obtain answers to the research problem under investigation. Creswell (2014) further notes that the pragmatic paradigm is not committed to only one system, meaning that the researcher can get data from both quantitative and qualitative assumptions. Pragmatic paradigm is flexible because it gives liberty for the researcher to define the methods and techniques that best meets the requirement and purpose of the study.

Creswell and Clark (2011) claim that pragmatism is a research philosophy that gives empirical justification for the adoption of mixed approaches in practice and produce the anticipated outcomes. Therefore, the investigation of this study assumes that bringing together different types of data (quantitative and qualitative data) provides a better understanding of the research problem. The study makes use of close-ended questionnaires for collecting quantitative data and open-ended interview questions to collect qualitative data. The benefits of collecting both closed-ended quantitative data and open-ended qualitative data facilitate a closer understanding the research problems under investigation.

### **4.3. Research Approach**

Research approach comprises of the steps of comprehensive assumptions that stipulate the method of data collection, analysis and interpretation (Creswell and Poth, (2017). Therefore, research approach, according to Creswell (2009), embraces quantitative research, qualitative research and mixed method research.

#### **4.3.1 Quantitative Research**

Quantitative research approaches maximize generalizability, objectivity and replicability of findings, and are typically concerned with forecasting or predictions (Saunders *et al.*, 2012).



Therefore, quantitative type of research approach principally uses postpositive claims for creating knowledge. Welman *et al.* (2010) profess that quantitative research methods test objective theories by investigating the relationship among variables. In turn, these variables are measured typically on apparatuses such that numbered data can be analysed using numerical or statistical processes. This is to say that researchers of quantitative study seek predictions and explanations that will be generalize to other places and to other people. Leedy and Ormrod (2010) argue that using quantitative method in a research is to validate, establish or confirm relationships and to develop generalizations that contribute to present theories. Hence, in order to validate and establish relationships and develop generalizations that contribute to present theories, quantitative researchers make inquiries on how knowledge is disseminated in numeric values. Tewksbury (2009) affirms that most frequently, this requires use for closed-ended questions on survey, limit the possible answers to those stipulated or identified by the researchers.

#### **4.3.2. Qualitative Research**

Saunders *et al.* (2012) stipulate that qualitative research approach focuses on understanding and discovering experiences, thoughts and perceptions of those participating in a study. Qualitative research is used in a study when the researchers do not know what to expect from the subject under investigation. According to Welman *et al.* (2010), qualitative research approach is a means for understanding and exploring the meanings that groups or individuals attribute to a human or social problem under investigation. Qualitative research helps to discover the reality, meaning or purpose and is based on empirical evidence and investigation. Hence, qualitative research method is constructive in nature and involves ethnographic observation of behaviour. Johnson and Christensen (2008) assert that the procedure of qualitative research involves inductive data analysis, emerging questions, data typically collected in the participants' setting and the researcher making explanations of the meaning of the data. Qualitative data therefore consists of open-ended questions that the researcher ask to get information by interviewing participants. Open-ended questions shape the interview process, allowing the participants to respond in their own words for the researcher to better understand a complex situation.

### **4.3.3 Mixed Method Research**

The term mixed method refers to research that involves a combination, within a single project, of quantitative and qualitative methods of collecting and analysing data for a study (Saunders *et al.*, 2012). Mixed research is informed by pragmatic research philosophy which allows for the use of both quantitative and qualitative research methods. Bryman and Bell (2011) argue that mixed methods research is the “third methodological movement” because of the quantitative and qualitative oriented approaches in the data collection and analysis processes. This also implies that mixed method research involves the collection and analysis of both quantitative and qualitative data in one study sequentially or concurrently and the integration of the data. Saunders *et al.* (2012) state that the strength of mixed method research is that it combines the strong points of quantitative and qualitative research and minimizes their weaknesses through the combination in one research study.

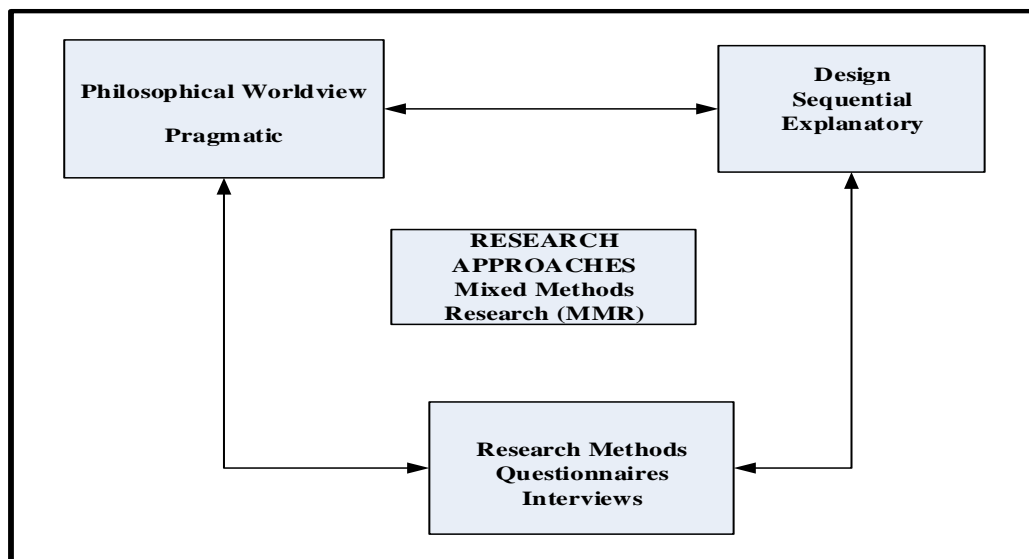
Mixed methods researchers implement both quantitative and qualitative data collection techniques and analysis processes parallel (at the same time) or sequential (one after the other) but do not combine them (Bryman & Bell, 2011). This implies that, even though mixed method research makes use of both quantitative and qualitative philosophies at the research methods stage, quantitative data are analysed quantitatively, and qualitative data are analysed qualitatively. Ponterotto *et al.* (2013) aver that mixed method research is pragmatic in nature and it involves knowledge claims about the sequential collection of both quantitative and qualitative data for a study. Therefore, the combination of both quantitative and qualitative research helps to construct indices from qualitative data to analyse quantitative data, and vice versa. More so, the combination of both quantitative and qualitative research helps to validate quantitative findings by referring to data or information collected from the qualitative stage of the study and it helps to develop a conceptual framework for a study. Creswell (2009) identifies five different kinds of mixed method: concurrent triangulation design, concurrent embedded design, sequential explanatory design, sequential exploratory design and sequential transformative design. The research design for this study is sequential explanatory research design because it gives room for multiple methods.

### **4.4 Sequential Explanatory Design**

The sequential explanatory research design is a two-stage mixed method design. This design is used for the collection and analysis of quantitative data in the first stage of research and is followed by the collection and analysis of qualitative data in the second stage which builds on

the outcomes of the preliminary quantitative output (Caruth, 2013). Therefore, with sequential explanatory research design, significant considerations are provided to quantitative data and the mixing of the data occurs when the preliminary quantitative outcomes inform the secondary qualitative data collection. According to Saunders *et al.* (2012), sequential explanatory research design is used to describe and interpret quantitative outcomes by collecting and analysing follow-up qualitative data. Consequently, the advantage of sequential explanatory research design is that it is suitable when unpredicted outcomes arise from a quantitative study. However, Saunders *et al.* (2012) argue that the major disadvantage of sequential explanatory research design is the length of time that is used to collection data for both quantitative and qualitative stages in the research process is too long, especially when the two stages are given equal priority. Hence, the explanatory sequential design is used in this study to collect and analyse quantitative data followed by the collection and analysis of qualitative data. The purpose of sequential explanatory design is to use qualitative approach to explain quantitative results. In this regard, the qualitative results help in explaining and interpreting the quantitative results.

Figure 4.1 depicts the framework of this study showing the connections of research approaches, philosophical worldviews, research design, and research methods.

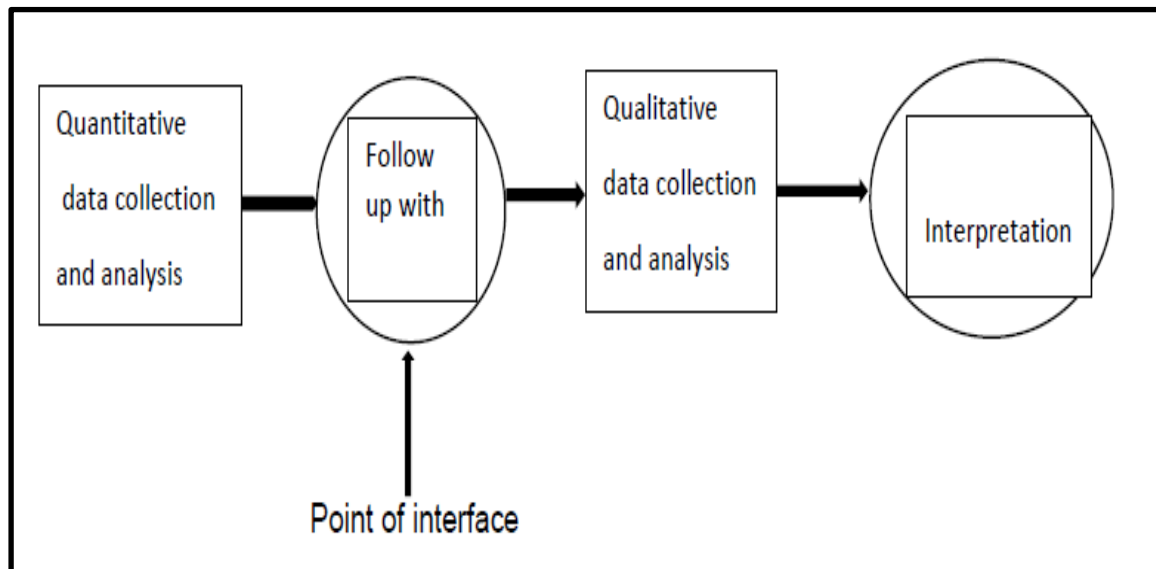


**Figure 4.1: The framework of methodology**

**Source:** Adapted from Creswell (2014)

The choice of the mixed explanatory sequential approach of conducting this study is because according Creswell (2014), it gives room for multiple methods such as quantitative and

qualitative, it embraces different worldviews other procedures of collecting data such as questionnaires and interviews and it gives room for analysis such as statistical software and coding of interview data. Therefore, the mixed explanatory sequential approach is simply the best approach for this study because it explores all possible ways of doing a research. The process of explanatory sequential research design is depicted in Figure 4.2 below.



**Figure 4.2: The process of explanatory sequential design**

**Source:** Bian, (2013)

Mixed method research approach, as depicted in Figure 4.2 above, emphasises collecting, analysing, and mixing both quantitative and qualitative data in a single study, and provides a better understanding of the research problem than either approach alone. Bian (2013), argues that one data resource may not be enough, in case where the initial results need to be further explained, a second method enhances the strength of the primary method. In order to augment the study objectives, issues arising from quantitative results are further explored in the qualitative stage. In this regard, quantitative data for this study is collected first and follow up with interviews for qualitative data to help explain the quantitative results. Nataliya and Sheldon (2007) state that in explanatory sequential design, the point of interface is at the level of follow up interview questions from quantitative results that require additional explanation. Then at the level of interpretation, the results from both quantitative and qualitative methods are combined. The purpose of sequential explanatory design is to use qualitative approach to

explain quantitative results. Bian, (2013) further notes that sequential explanatory design requires that the researcher first collect and analyse quantitative data, identify particular quantitative results that require supplementary explanation then qualitative study is subsequently designed based on what is picked up from quantitative results. Qualitative data is then collected and analysed, and the combined results of both quantitative and qualitative study are interpreted.

#### **4.5 Research Population**

Bhattacharjee (2012) use population to describe the overall quantity of cases which are the subjects of a study such as people, events and objects. Also, Kumar (2011) asserts that population (N) is a set from which the subsection known as sample (n) is obtained for various examination and conclusions. The target population of this study is drawn from the total current number of formal (duly registered) SMEs in the North-West province as indicated by the Central Supply Database of the Provincial Department of Finance for the North West (2017) as depicted in Table 4.1 below.

**Table 4.1: Current number of duly registered SMEs in municipalities of the North-West province**

District Municipalities	Local Municipalities	No. of Registered SMMEs (2017)
<b>Bojanala Platinum</b>	Kgetlengrivier	56
	Madibeng	619
	Moretele	113
	Moses Kotane	279
	Rustenburg	1082
<b>Total</b>		<b>2149</b>
<b>Dr Kenneth Kaunda</b>	City of Matlosana	879
	Maquassi Hills	78
	Tlokwe City Council	599
	Ventersdorp	78
<b>Total</b>		<b>1633</b>
<b>Dr Ruth Segomotsi Mompati</b>	Greater Taung	379
	Kagisano/Molopo	224
	Lekwa-Teemane	53
	Mamusa	94
	Naledi	264
<b>Total</b>		<b>1014</b>
<b>Ngaka Modiri Molema</b>	Ditsobotla	315
	Mafikeng	2747
	Ramotshere Moiloa	275
	Ratlou	124
	Tswaing	146
<b>Total</b>		<b>3607</b>
<b>Grand Total</b>		<b>8403</b>

**Source:** Central Supply Database of the Provincial Department of Finance for the North West province (2017)

The population of this study is 8403 registered SMEs of the four district municipalities of the North West province. The population of the district municipalities are presented in Table 4.2 below.

**Table 4.2: Population of registered SMEs of the proposed study**

<b>District Municipalities</b>	<b>Population of Registered SMEs (2017)</b>
Bojanala Platinum	2149
Dr Kenneth Kaunda	1633
Dr Ruth Segomotsi Mompati	1014
Ngaka Modiri Molema	3607
<b>Total</b>	<b>8403</b>

**Source:** Central Supply Database of the Provincial Department of Finance for the North West (2017)

From the Tables 4.1 and 4.2 above, the total current number of duly registered SMEs in municipalities of the North-West province is 8 403. It is imperative to clarify the sampling techniques used to determine the sample size of the study based on the total population cited already.

#### **4.5.1 Sampling and Sampling Techniques**

Hoy (2010) maintains that since it is difficult to test every individual and because of the shortage of resources, it is important for a researcher to limit the population of the study somehow, by using sampling techniques. This implies that the sampling techniques are employed to determine the sample size of the study. Ismaila (2011) notes that sampling is the act, process, or technique of choosing an appropriate sample, or a representative part of a research population for the purpose of determining parameters of the whole population. However, Wisker (2009) asserts that a sample is the entire selected set of items or subjects of which hypotheses are tested or of which research questions are asked, taken from the total available population. Hence, this leads one to believe that sampling is used to determine the sample size which is the representation of the entire research population. Gray (2014) affirms that sampling studies the features of the bigger group in order to save time, minimize cost and to avoid inconveniences associated with arranging appointments with the entire population. As such, sampling is the selection of a unit of individuals to measure from a bigger population. Therefore, collecting data using a subset called sample is done in a manner that the knowledge acquired will be a true reflection of the whole population.

Samples can be randomly selected or carefully chosen, and for it to be a true representation of the whole research population, all observations of the population have an identical priority

probability of being drawn into the sample (Plumper and Neumayer, 2013). Therefore, the purpose of sampling is to make a conclusion about a population from samples with a population's characteristics by directly observing only a portion of the population, which is cheaper than observing the whole population. Quinlan (2011) contend that there are two main procedures of sampling used in a research: probability or the non-probability sampling methods. With probability sampling, each member of the population has a known, non-zero probability of being chosen. This entails stratified selection, systematic selection and random selection. Saunders *et al.* (2012) argue that with non-probability sampling, each member of the population is chosen in some non-random way and this method include snowball sampling, convenience selection, quota selection and judgment sampling. Consequently, probability sampling eliminates sampling errors which are the degree to which a sample may differ from the population can be calculated. When inferring to the population, outcomes are reported plus or minus the selection error. Meanwhile Mugo (2011) professes that in non-probability sampling, the degree to which the sample differs from the population remains unknown because here, the elements do not have a known chance of being selected as subjects.

#### **4.5.2 Sampling Frame**

Statistically, a sample frame is a list or source device of all the elements from which a sample or population is drawn. The difference between a sampling frame and a population is that the sampling frame is specific, while the population is general (Quinlan, 2011). Therefore, a sample frame is made up of a list of all the known components or elements in the universe, and each element will need to be surveyed. Saunders *et al.* (2012) assert that the sample frame signifies a list of the study population from which the sample is chosen. They further argue that it is not possible to engage in probability sampling without a comprehensive sampling frame because it would not be possible to assure that every member of the population has an equally likely opportunity of being selected for the study. According to Quinlan (2011), there is no sampling frame on which to base weights and raising factors for informal or unregistered businesses. This entails that there is no sampling frame on which to base weights and raising factors for small business enterprises in South Africa and especially in most rural communities in the municipalities of the North-West province, which constitute the majority of SMEs in the province. However, the listed or duly registered SMEs (8403 from the four district municipalities of the province) were used to identify the population of the study. From the duly



registered SMEs identified in the four district municipalities of the North-West province, a simple random sample was used to select the population of the study.

#### **4.5.3 Sampling Method**

The sampling method used in this study is the non-probability sampling. A non-probability sample is when a researcher does not know the total elements to select for the study (Latham, 2007). It follows that the elements of a non-probability sample are carefully chosen because of their availability and by the purposive or personal judgment of the researcher. This means that the researcher selects the elements of the population of the study until saturation. Latham (2007) argues that in using a nonprobability sample, the researcher is able to record, uncover and analyse the deep meaning and significance of SMEs to their daily experiences, including contradictory beliefs, emotions and behaviours. Thus, the non-probability sampling used for this study is judgmental sampling which is also known as purposive sampling. Ajay and Micah (2014) declare that judgmental sampling is a sampling method whereby a researcher selects the individuals or element from the target population of the study that meet particular criteria and especially those that are available and willing to take part in the study.

With judgmental sampling, the researcher stipulates the characteristics of the population of interest and then locates elements that have those characteristics (Cooper and Schindler, 2011). Therefore, judgmental sampling method entails that the researchers use their own judgment or intuition to choose from the population members who provide the accurate or desired information required to achieve the objectives of the study. Babbie and Mouton (2010) assert that judgmental sampling can be very useful in circumstances where the researcher needs to attain a targeted sample fast and this type of sampling generates information that gives a good insight of the situation under investigation. Sample size for this study was any small business venture that is either owned and managed by the same person or that is classified as a small and medium size enterprise that satisfy the criteria found in the definition of SMEs by the National Small Enterprise Act, 1996. The sample answered the questions and interview relating to the problem under investigation. However, the study eliminated such categories of small micro businesses using the specified definitions such as: a business that has three to five employees, that has been existing for more than two years and other characteristics, are those that fit into the categories of small business enterprises for this study.

#### 4.5.4 Sample Size

The sample size of a study is an essential aspect in the research design of several studies. The sample size of a study is closely tied to statistical power, which is the capacity of a study to detect a statistically significant difference when there truly is one (Ajay and Micah, 2014). Hence, with the use of judgmental or purposive sampling, the researcher relied on his own judgment in selecting elements or members of the target population to participate in the study. According to Leedy and Ormrod (2010), researchers often use judgmental or purposive sampling to minimise cost and save time and because of the large number of SMEs involved in the study. Since the population for this study is chosen from the four district municipalities of the North-West province of South Africa, a sample size of 400 small business owners, managers and employees is used.

Ajay and Micah (2014) contend that in order to calculate the sample size based on the appropriate sample require, an approximate of 95% confidence level is preferred. For a larger population and particularly for a population that is unknown such as SMEs in municipalities of the North-West province, Ajay and Micah (2014) suggest that the following formula enables the researcher to identify the right sample size required.

$$n_r = \frac{4pq}{d^2}$$

Where

$n_r$  = required sample size

$p$  = proportion having the characteristics

$q = 1-p$  and

$d$  = the degree of precision.

Nevertheless, if the proportion of the population (total number of SMEs in the four district municipalities which is 8403) is unknown, the researcher may use  $p = 0.5$  which assumes maximum heterogeneity (i.e. a 50/50 split). The degree of precision ( $d$ ) is the margin of error that is acceptable. Setting  $d = 0.02$ , for example would give a margin of error of plus or minus 2%.

Hence, in order to determine the exact sample size, the above formula was applied:

$$n = \frac{(1.96)^2 pq}{d^2}$$

$$n = \frac{(1.96)^2 pq}{d^2} = \frac{8403 \times 0.5 \times 0.5}{0.02^2} = \frac{0.9604}{0.0025} = 400$$

Thus, the minimum sample size would be 400.

According to Hoy (2010), the sample size of a research population is estimated using a statistical calculator called Raosoft sample size calculator by following 95% confidence interval and 0.05 degree of error margin. The reason for this is to obtain the exact amount of examples drawn from each district municipality. Maree (2015) affirms that using the sample size calculator by following 95% confidence interval and 0.05 degree of error margin also helps to enhance the selection of respondents based on their number, proximity, availability and convenience to ensure that the study is successful. The sample size of the SMEs is determined by using a non-probability random sampling method by taking 5% of SMEs from the four district municipalities. This sampling allows the sub-groups in the population to obtain appropriate representation in the sample and to lessen selection bias. However, this study utilised the guideline stipulated by Rose *et al.* (2015) and Best and Kahn (2016) because it ensures that using a good estimate for any research study (a substantial or bigger number) of the population yields an appropriate representation of the entire population of SMEs in the municipalities of the North-West province of South Africa. Therefore, the total population used for this study is 400 SMEs to enable the researcher to get a representative sample.

The respondents and the participants used for this study include entrepreneurs or small business owners/managers and even owner-managers of SMEs (those who own and manage their SMEs themselves). The sampled population of the study must meet the following criteria:

- They must be actively operating small business enterprises from any industry or sector of the economy.
- They must be operating their SMEs in the geographical proximity of the four district municipalities (Bojanala Platinum, Dr Kenneth Kaunda, Dr Ruth Segomotsi Mompati and Ngaka Modiri Molema) of the North-West province of South Africa.
- Immigrant entrepreneurs or small business owners, managers of small business enterprises and owner-managers of SMEs had to have a South African business or work permit.
- South African citizens who are entrepreneurs or small business owners, managers of small business enterprises and owner-managers of SMEs had to have a South African identity document (ID).

- The SMEs must be duly registered with the appropriate authorities and must be listed on the central supply database of the provincial department of finance for the North West of South Africa.

#### **4.5.5 Treatment of Sampling Bias**

For this study to have a true representative sample, the researcher needs to give attention to any form of bias associated with sampling that may be noticed. Phrasisombath (2009) holds that sampling bias is a systematic error in the sampling process that leads to a distortion or falsification of results of the study. In this study, the sampling bias is done using Oppong (2013) views that there is need for a researcher to apply different techniques of data collection. These data collection techniques provide the researcher the chance to justify the similarity and complementarity of data collected. According to Oppong (2013), the use of both quantitative and qualitative methods make it difficult to fill replacement respondents and participants because of data saturation and for the fact that the research design is not based on one technique of data generation. Thus, this study uses purposive sampling technique because the SMEs, which constitute the population of the study, are in different locations of the North-West province of South Africa. Because of the different locations of the SMEs in the North-West province of South Africa, the researcher then implores a random sampling method to select the number of individuals or elements of the target population chosen for the distribution of questionnaire and conducting of interview.

#### **4.6 Data Collection Techniques**

Data collection techniques refers to the procedure by which data is collected from the respective respondents and participants for a study (Gray, 2014). It follows that data collection techniques permit a researcher to systematically bring together data about his objects of investigation which may either be a phenomena, objects or people and about the settings in which the information took place. Quinlan (2011) avers that data collection must be systematic because if data is collected haphazardly, it might be difficult to give an appropriate respond to the research questions in a conclusive manner. However, Chaleunvong (2009) argues that there are many ways of data collection for a research such as observation, document analysis, questionnaire and interview. Therefore, since this study makes use of mixed method research approach, the principal form is by questionnaire and interview, meanwhile, secondary data is gathered through literature study. According to Zohrabi (2013), the different forms of

collecting information can supplement each other, thereby boosting the dependability and validity of the data. This implies that questionnaire and interviews are mostly use simultaneously in mixed method research approach. Harris and Brown (2010) affirm that questionnaires can give evidence of designs between big populations, while qualitative interview data mostly collects more in-depth insight on the actions, attitudes and thoughts of the participants about a research problem under investigation. The two instruments that are used to acquire comprehensive information from the people (respondents and participants) involved in this study are close-ended questionnaires and structured interview questions.

#### **4.6.1 Questionnaire**

Questionnaire is undoubtedly one of the principal sources of data collection in any research procedure. Bastic and Matalon (2007) profess that a questionnaire is a set of questions, which are designed by the researcher, and the respondents provide the answers. Meanwhile Saunders *et al.* (2012) assert that questionnaire is a quantitative instrument and a well-established tool in social sciences research for obtaining information on respondents' present and past behaviour, their beliefs and reasons for action, their standards of behaviour or attitudes and their social characteristics with respect to the problem under investigation. Therefore, questionnaires are used as the data collection technique for the quantitative approach in this study because according to Johnson (2017), it makes use of objective mathematical and scientific tools which minimises the possibilities of errors such that authentic information can be obtained. The questionnaires save cost, they are not difficult to administer, not difficult to answer, easy to code and to analyse thereby saving time and other arrangements involved. More so, questionnaires are also a relatively cheap, quick and efficient way of collecting large amounts of data or information from a big sample population.

According to (Saunders *et al.*, 2012), questionnaires are impartial or unbiased research tools that provide generalizable results of a problem under investigation from a large sample size. This means that questionnaires are reliable quantitative instrument of data collection for a large sample size of 400 respondents for this study. Bryman (2012) argues that questionnaires are weakened by several factors such as misunderstanding by the respondents, biased design and wording, errors in coding and many more. However, data for this study is collected through self-administered questionnaires. Gray (2014) contend that a self-administered questionnaire is personally distributed to potential respondents. The researcher identifies and locates the various SMEs in the different district municipalities and distributes the questionnaires to the business owners and managers at large. Hence, in order to meet the objectives of this study,

the questionnaire is designed according to constructs to provide solutions to the research questions in the following way:

**Section 1** questions address the contribution of strategic business planning to the sustainability of SMEs

**Section 2** questions elucidate the sources of finance available in enhancing the sustainability of SMEs

**Section 3** questions seek information on how SMEs could be effectively managed to enhance their sustainability

**Section 4** questions clarify the kinds of innovations that contribute to enhance the sustainability of SMEs

**Section 5** questions deal with the elements of business research that can contribute in enhancing the sustainability of SMEs

**Section 6** questions search for information on the kind of education and training required by entrepreneurs and managers to operate SMEs to ensure their sustainability.

Zohrabi (2013) stipulates that there are two types of questionnaires in a quantitative study which are closed-ended and open-ended.

**Closed-ended:** Close-ended questions are a set of questions in a questionnaire which obliged or bound the respondents only to the set of alternatives being offered. Also referred to as structured questions, close-ended questionnaires give several alternative responses from which the respondents are instructed to choose from (Zohrabi, 2013). Thus, questionnaire can give the researcher a numerical or quantitative data which can be placed into a nominal category (Yes or No) or ordinal category of data collection (strongly agree, agree, neutral, disagree and strongly disagree).

**Open-ended:** Open-ended questions are referred to as unstructured questionnaires which allow respondents to give their opinions in their own words (Zohrabi, 2013). This implies that open-ended questions allow the respondents to respond and give as much detail as they want in their own words. According to Reja *et al.* (2003), open-ended questions or unstructured questionnaire is mostly used in an exploratory research, when a researcher needs some more detailed response and clarifications or when he wants to find out what is topmost in the respondents' minds.

For the purpose of this study and to get the required data or information, closed-ended questionnaire is used which is formulated in simple English language as a means of data collection. The questions are arranged in the form of multiple choices where respondents are permitted to select from among alternatives the correct answer to the question asked and these answers provided will then contribute to the development of clarifications questions for qualitative study.

#### **4.6.2 Designing the Question**

The questionnaire used to collect data for this study is from the researcher's own input or effort about the study meanwhile part of the questionnaire is adapted from previously used thesis and articles. A closed-ended questionnaire is adopted for this study because according to Bryman (2012), it is economical and can give large amounts of data for relatively low cost. With this type of questionnaire, a large sample size population can be reached which can be a true representative of the population from which a researcher can draw a generalize conclusion (Bryman, 2012). The kind of data used for this study is ordinal data because it allows the use of a rating scale to measure the strength of emotions or attitudes of small business owners, managers and the employees. The questions are designed using variables and constructs that had been recognized in the literature review described in chapter three of this study. The measuring questions are aimed at displaying the causal relationship between the small business owners and managers and the sustainability of small business enterprises in the district municipalities of the North-West province. All questions are checked to ensure that they are applicable or relevant to the achievement of the objectives of the study and that elements of bias are not available. The questionnaire is designed in such a manner that an ordinary or lay business owner and manager can answer the questions by selecting from predetermined answers by using the Likert scale, multiple choice responses.

**Likert Scale:** A Likert scale is made up of a series of four or more Likert-type items that are joint into one composite variable or score during the data analysis procedure. Likert scale is mostly used when measuring the attitude of respondents and when providing a range of responses to a given statement or question (Quinlan, 2011). This entails that Likert scale is an appropriate instrument to measure the attitude of respondents in a quantitative study. Saunders *et al.* (2012) profess that Likert scale fall within the class of ordinal level of measurement, which is response category in Likert scales with a rank order, but the interludes cannot be

presume equal. Therefore, the ranking order of Likert scale for this study has four categories of responses, which are: 1 strongly disagree, 2 disagree, 3 agree and 4 strongly agree. Quinlan (2011) avers that the legitimacy of assuming an intermission or interval scale for Likert kind categories is an imperative subject because the suitable descriptive and inferential statistics are different from interval and ordinal variables. This is because if the wrong numerical or statistical technique is used, the researcher rises the possibility of making a wrong conclusion about the significance of the research. Janieson (2004) notes that statistical and methodological text are clear that for ordinal data, a researcher must use the median or mode as the measures of central tendency because the numerical manipulations are needed to calculate the mean and standard deviation which are appropriate for ordinal data. He adds that ordinal data might be explain with the use of percentages of response or frequencies in each category. Therefore, the questionnaire used for this study contains the Likert scale code, which enable the respondents to answer the questions as stipulated which is depicted in table 4.3 below.

**Table 4.3: Representation of the Likert scale code**

<b>Strongly disagree</b>	<b>Disagree</b>	<b>Agree</b>	<b>Strongly agree</b>
1	2	3	4

**Source:** Janieson (2004).

The scale codes for this study are further described in Table 4.4 below. The numerical values 1 and 2 are regarded as negative, and 4 and 5 as positive (Janieson, 2004).

**Table 4.4: Scale codes and description**

<b>Scale code</b>	<b>Scale description</b>
1 Negative	<b>Strongly disagree:</b> This indicates that the respondent has no knowledge of the element that is evaluated
2 Negative	<b>Disagree:</b> This indicates that the element of the dimension does not play a role in the dimension
3 Positive	<b>Agree:</b> This indicates that the element of the dimension is important to the dimension and that it should be part of the dimension



4 Positive	<b>Strongly agree:</b> This indicates that the element of the dimension plays an active role in the dimension and that it is essential and should definitely be included in the dimension
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**Source:** Janieson (2004).

The advantages of using the scale codes above are the quick assessment of questionnaire, effective utilization of space and facilitation of comparisons between answers (Janieson, 2004).

#### 4.6.3 Interview

Interview is a systematic qualitative research process and manner of listening and talking to individuals (participants) while at the same time, recording their answers to the questions asked. Interview is also method to collect qualitative data from people through conversations (Saunders *et al.*, 2012). Interviews help a researcher to collect information on the research topic from the respondents about their ideas, thoughts or opinions about the topic investigated. Quinlan (2011) argues that interviews are an endeavour to get original data or information from a person who knows or has something related to the problem under investigation. It follows that since a researcher cannot observe the respondents' thoughts and feelings, conducting an interview facilitates investigation into the life of the individual. Cohen *et al.* (2012) assert that when a researcher is conducting an interview he/she is trying to get data or information from people he/she feels have the answer to the problem under investigation. Therefore, interviews enable participants to express their opinions about the activities happening around them with the researcher who needs the information for research purpose. In the same light, Zohrabi (2013) argues that the main aim of conducting an interview is to reveal existing knowledge presented in the form of answers that can be made accessible for interpretation for the researcher concerned.

Quinlan (2011) stipulates that there are three forms of interviews: structured, semi-structured and unstructured interview. According to him, unstructured interview is conducted in an unplanned manner. This implies that a researcher conducting an unstructured interview does not have any form of question asked during the interview section. The questions only arise as questions are asked by the interviewer and the participant respond to them, meaning that the answer to one question determine the next question that will be asked. When conducting an unstructured interview, everything on the research procedure such as the questions and the answers provided depend on the researcher. Cohen *et al.* (2012) assert that unlike unstructured interview, for a semi-structured interview, the researcher prepares the questions even though

they might change as time goes on. However, structured interview used for this study is determined by the atmosphere of the interview such that the researcher gets enough responses from the problem under investigation. According to Quinlan (2011), with structured interview, prepared questions are proffered to the respondent one after the other while at the same time the researcher records the responses provided by the interviewees. In a circumstance where the respondents do not understand the question, the researcher explained to them more clearly in a language (simple English language) or any other language they understand better if possible. The questions are asked in such a manner that the business owners and managers understand what sustainability of SMEs entails.

**Development of interview guide for the Study:** The interview was used in this study to get confirmatory information provided by small business owners and managers about their perceptions or opinions concerning the sustainability of SMEs, which is the subject of study. In this regard, the interview questions for this study were formulated from the outcome of quantitative instrument (questionnaire) used for the study. Below is the structure of the interview questions:

**Section 1:** The interview questions in this section address the contribution of strategic business planning to the sustainability of SMEs

**Section 2:** This section comprises questions that elucidate the sources of finance available in enhancing the sustainability of SMEs

**Section 3:** This section comprises questions that seek information on how SMEs can be effectively managed to enhance their sustainability

**Section 4:** The interview questions of this section seek to clarify the types of innovations that enhance the sustainability of SMEs

**Section 5:** This section interrogates the elements of business research that enhance the sustainability of SMEs

**Section 6:** The interview questions of this section seek for information on the kind of educational and training requirements by small business owners, managers and employees to operate SMEs to ensure their sustainability.

The interviews questions ratify and confirm the questionnaires instrument. The meeting and interview sessions are arranged with the small business owners and managers and consequently

face-to-face interviews are conducted. Quinlan (2011) avers that using a qualitative instrument such as interview questions, provides a researcher with more relevant information about the problem of the study under investigation. The interview starts with the researcher (interviewer) introducing himself together with the research objectives. After that, the researcher then asked the questions one after the other as structured on the interview questions guide. The respondents (interviewees) are provided with enough time to explain and elaborate answers to the questions according to the objectives of the study. While the recording is going on, the researcher is also taking notes on the relevant points and section “A” questions must be answered before the researcher moved to section “B” to ensure that all questions have been answered.

#### **4.7 Data Analysis**

This study makes use of a mixed method research that privileges strengths that offset the weaknesses of both quantitative and qualitative research. The combination of quantitative and qualitative research methods gives a better comprehension of the research problems than any of the approaches alone (Kainth, 2010). The data analysis process commences with the quantitative analysis and then followed by the qualitative analysis. The quantitative data analysis enables the researcher to draw meaningful conclusions from the so many responses provided by the respondents, and to report the summary results in statistical or numerical terms. In analysing quantitative data, many methods such as charts, statistics and graphs are used. These formats examine, describe, explore and present relationships and trends within the data. Wisdom and Creswell (2013) aver that it does not suffice to simply collect and analyse quantitative and qualitative data because after the data must have been collected, there is a need to mix the dataset such that they form a further comprehensive image of the problem than they do when standing alone. It follows that the reason for mixing the dataset is that quantitative research is weak in understanding the context in which individuals talk about. For instance, the voices of participants are muffled in quantitative data analysis process. Therefore, the different research methods used to analyse data collected for both the quantitative and qualitative design is necessary in a study such as this one.

##### **4.7.1 Quantitative Data Analysis Process**

Many quantitative tools are used for analysis and making the conclusions that include factor analysis. Yong and Pearce (2013) hold that factor analysis reduces the large data set into groups of variables. It is important to use factor analysis for studies that comprise a few hundred variables from the questionnaires. Lu and Yang (2010) argue that factor analysis can help to

reduce the variables into a smaller set to get at a fundamental concept and facilitate interpretations of results. In this same regard, Cooper and Schindler (2011) highlight that factor analysis is a powerful interdependency technique that is applied in multivariate analysis. It is easier to focus on some important key factors when using factor analysis rather than having to concentrate on many variables that may be trivial for the study. Yong and Pearce (2013) argue that there are three main factor analysis techniques that are: Confirmatory Factor Analysis (CFA), Principle Component Analysis (PCA) and Exploratory Factor Analysis (EFA).

- The Confirmatory Factor Analysis (CFA) is a statistical technique used to verify the factor structure of a set of observed variables. It enables the researcher to test the hypothesis that a relationship between observed variables and their underlying latent construct exists (Young & Pearce, 2013). Hence, the benefit of CFA is that it enables the testing of hypotheses about a specific factor structure.
- Principle Component Analysis (PCA) is a dimensional reduction technique that accounts for variance in the measured variables. The purpose of PCA is to determine the linear combinations of the measured variables as possible. The PCA is a major substitute for analyses (Young & Pearce, 2013).
- Exploratory Factor Analysis (EFA) endeavours to discover complicated patterns by exploring the dataset and testing predictions. The EFA permits the researcher to make decisions and conclusions from the number of variables identified (Young & Pearce, 2013).

To do a factor analysis, there must be univariate and multivariate normality within the data collected. An influential factor is the hypothesis that there is a linear relationship amongst the factors and the variables when computing the correlations (Yong and Pearce, 2013). Thus, for anything to be considered as a factor, it must have at least three variables. Lu and Yang (2010) argue that as an over-all guide, rotated factors that have two or less variables are only considered reliable when the variables are highly correlated with one another ( $r > .70$ ) but uncorrelated with other variables. However, Yong and Pearce (2013) also stipulate that if a dataset has many high factors loading scores ( $> .80$ ), then a lesser size ( $n > 150$ ) should be enough. A factor loading for a variable is a measure of how much the variable contributes to the factor. Hence, high factor loading scores specify that the measurement of the factors is better accounted for by the variables. There is a restriction to this technique because naming the factors can pose many of problems. Wisdom and Creswell (2013) contend that the factor names might not correctly reflect the variables within the factor, but the researcher relates the

factor to correlate with one another to produce a factor regardless of having little fundamental meaning for the factor. In addition to using the determinant of a matrix, Bartlett's Test of Sphericity and the Kaiser-Meyer-Olkin Test of Sampling Adequacy (KMO) are observed. According to Lu and Yang (2010), these tests help to give more complex measures for assessing the strength of the relationships. They also suggest factorability of the variable.

It has been established by Dalal-Clayton and Sadler (2014) that the measurement of sustainability is quite problematic because there are various metrics used. Some of the measures are still evolving such as indicators, benchmarks, audits, indexes and accounting, assessment, appraisal and other reporting systems. This implies that it is often difficult to measure sustainability because there is no unique definition and it incorporates many aspects of the economy, society, governing institutions. It also involves interaction with the natural environment. Bell and Morse (2013) assert that many methods of measuring sustainability have been developed and each of them has its own specific uses, strengths and weaknesses. This also means that there is no standard measurement for sustainability; therefore the understanding of sustainability in the context of this study is limited to the "likelihood of sustainability."

Pie charts are used to summarise the participants' responses to the demographic variables. In order to verify the reliability of each construct, this study implemented the Cronbach's Alpha which is recommended by Dasgupta *et al.*, (2017). The authors explain that Cronbach Alpha values of at least 0.6 imply that the construct is highly reliable and demonstrates good internal consistency. A confirmatory factor analysis (CFA) through Structural Equation Modelling (SEM) is performed to ensure the validity of the constructs (Brown, 2015). A p-value less than the significance level 0.05 for a certain item indicates that such an item significantly belongs to a particular construct. Any items with p-values greater than 0.05 are excluded from the construct and the validity check is done again until all the items load significantly to their respective constructs. When valid and reliable, the items of each construct are used to compute an aggregate score to represent the participants' responses to each construct (effective management, innovation, business research, availability of finance and, education and training). The study used stacked bar charts to summarise the participants' responses to each item under each construct in order to show whether the participants practice effective management, are innovative, conduct business research, access available sources of finance and, undergo education and training as endeavours to achieving sustainability.

This study also implemented the Two-Step cluster analysis by Stehlik-Barry and Babinec (2017) to segment the participants (SMEs) into those who are likely to be sustainable versus those who are not likely to be sustainable yielding a variable which is named “likelihood of sustainability”. This variable enables this study to quantify sustainability since there is no standard measure of sustainability in literature. The likelihood of sustainability is determined based on the known theoretical relationship between which is such that a business that has strategic business plan, practices effective management, is innovative, conduct business research, have access to the available sources of finance and, undergoes education and training are likely to succeed as opposed to businesses which do not practice such. In order to determine the relationship between the likelihood of sustainability and the independent variables, as well as between the likelihood of sustainability and the demographic variables, the study implemented the Classification and Regression Tree (CART) (Ma, 2018). The CART results show a diagram depicting the relationship between variables. In addition, the study fits a structural equation model in order to formulate and validate the proposed framework between the independent variables and the likelihood of sustainability. Fit indices (Comparative Fit Index (CFI), Tucker-Lewis Index (TLI) and Root Mean Square Error (RMSEA)) are used to evaluate the fit of the SEM and their interpretation is based on the benchmarks stipulated by (Lee *et al.*, 2010). The study also implemented the Cochran's Q and the Kruskal Wallis tests to determine whether the likelihood of sustainability of an SME differ significantly across the districts (Ngaka Modiri Molema, Bojanala Platinum, Dr Kenneth Kaunda, Ruth Segomotsi Mompati). P-values less than 0.05 were deemed as indicating a significant difference between the districts (Chan, 2003).

#### **4.7.2 Qualitative Data Analysis Process**

The data collection for the qualitative study is done through the conduction of interviews with participants. During the interview process, while audio-recording the interview, the researcher also did a nonverbal recording. The nonverbal communication process is used to categorize the main themes in the analysis process while the audio-recorded interview complement the transcription. The nonverbal communication makes it possible for the researcher to achieve a deeper shared meaning in that both him and the respondents or interviewees increase their awareness of the contextual nature of the voice. After doing audio recording of the interview, it is important for it to undergo post processing to remove background noise before the transcription is done. The analyses in this study required comprehensive consideration to the

recording and data coding in the content analysis. Therefore, the analysis that is performed for qualitative data is the thematic analysis.

**Thematic analysis:** Thematic analysis is a method of analysis in qualitative study that puts emphasis on pinpointing, examining, and recording patterns, otherwise known as themes within a data set. Themes are patterns across data sets which are essential to the description of a phenomenon and are connected to a particular research question (Braun and Clarke, 2006). Thematic analysis is carried out in qualitative research study so as to be able to identify, analyse, organize, describe, and report themes that are within a data set in order to produce trustworthy and insightful findings (Nowell et al., 2017). Therefore, thematic analysis can be said to be a technique which works to reflect both the reality, and to unravel or disentangle the surface of reality.

#### **4.8 Validity and Reliability**

The two principal elements in the assessment of a measurement instrument in a study are validity and reliability. The purpose of validity is that it focuses more on the extent to which an instrument measures what it is supposed to measure in a research process to determine whether a research is true and believable and whether it is assessing what it is supposed to assess (Zohrabi, 2013). This leads one to believe that validity is about dependability, utility and a matter of trustworthiness, that the assessor and the different stakeholders place into a research. Meanwhile, Tavakol and Dennick (2011) contend that reliability on the other hand is concerned with the ability of a research instrument to measure what it is supposed to measure consistently. It is important to note that the reliability of a research instrument is closely linked with its validity, meaning that an instrument for research cannot be valid except it is reliable. Kumara and Sahasranam (2009) note that reliability is the extent to which a research instrument measures what it is supposed to measure the same way each time it is being used. Zohrabi (2013) adds that reliability has to do with the replicability, dependability and constancy of the results gotten from a piece of research getting the same results in both quantitative and qualitative research process. Moreover, the reliability of this study relates to the stability and reproducibility of the data and also the description of the consistency of the analytical process used in the study. (Noble and Smith, 2016).

The reason for using reliability and validity is to disclose whether one is able to perform exactly the same experiment or test under the same circumstances and produce the same outcomes (Tavakol and Dennick, 2011). Hence the purpose of reliability and validity is to determine

whether the outcomes gotten from a research experiment meet all the requirements of a scientific research method. (Zohrabi, 2013) states that reliability tests the replicability of results while validity tests whether the techniques of measurement are correct and really measuring what they are envisioned to measure. Therefore, to ensure that there is validity and reliability in the questionnaire for this study, the researcher gave the questionnaire to his promoters to make suggestions and comments on it. Their comments and suggestions go a long way to help establish how well the impression of a theoretical construct is represented. From the experimental testing done, the promoters' comments and suggestions also help the researcher to comprehend whether the questionnaire was clear, comprehensive and readable for the respondents and to know which items need to be adjusted, added or remove.

Reliability and validity in the qualitative study relates to the authenticity or genuineness and honesty of the research data (Neuman, 2007). This implies that reliability and validity in the qualitative study ensures that the assurance place in the research's data and analysis are representing the issue under investigation accurately. Likewise, getting the identical outcomes is demanding and difficult because the data are in narrative and subjective form. The purpose of reliability in the qualitative study is not to get the same results, but rather to agree that based on the data collection procedures, the findings and outcomes of the study are dependable and consistent (Zohrabi, 2013). Here the researcher interviews the small business owner and managers in the four district municipalities of the North-West province of South Africa. To ensure validity and reliability in quantitative and qualitative research, inspection of honesty is critical and hence seen in terms of confirmability, dependability and transferability of the instrumentation and outcomes of the study. In this regards, validity and reliability must be dealt with from the perspective of the objectives out of which the study has been carried out. This means that if the researcher's purpose is to determine or addressed the factors that enhance the sustainability of SMEs different questions need to be asked about the conduct of business performances. There are several ways to estimate the validity and reliability of a test including content validity, concurrent validity, and predictive validity but however, this study laid more emphasis on construct validity.

**Construct Validity:** Construct validity constitutes the foundation for any other type of validity and from a scientific perspective, it is seen as the whole of validity. Construct validity is the extent to which a test measures what it claims, or purports, to be measuring which is the primary concern of validity research, subsuming all other sorts of validity evidence (Polit and Beck, 2012). Construct validity is performed to endorse factor analysis to confirm that the measure



implore, suits the theories for which the test is created (Dikko, 2016). This implies that Construct validity refers to the extent to which inferences can legitimately be made from the operationalisations in a study to the theoretical constructs on which the operationalisations are based. Construct validation is involved every time a test is to be interpreted as a degree of some quality or attribute which is not operationally defined. Therefore, each time a certain attribute is supposed to be measured, construct validity is involved, because it is the most appropriate form of validity to evaluate measurements. However, there are numerous ways and means or techniques of computing test reliability such as test-retest reliability, decision consistency, internal consistency, interrater reliability and parallel forms reliability but for a lot of criterion-referenced tests, decision consistency is mostly the best or appropriate choice.

#### **4.9 Ethical Considerations**

Akaranga and Makau (2016) state that ethics is a subdivision of philosophy that deals with the conduct of people and guides the norms or standards of behaviour of individuals and relationships with one another. Therefore, ethics is a social norm for conduct that distinguishes between acceptable and unacceptable behaviours. Fouka and Mantzorou (2011) argue that research ethics is important in our day-to-day life research endeavours and requires that researchers should protect the dignity of their participants and publish the information that is researched. Creswell (2014) assert that ethical consideration that has to do with values or standards should be implemented in both quantitative and qualitative study. Hence, the researcher has a professional duty to design research that maintains comprehensive ethical principles.

SMEs in the selected local municipalities were requested to participate in this research process and all participants were informed about the nature of the study before issuing questionnaires to them. Respondents had the right to take part voluntarily in this study and also withdraw voluntarily at will any time. Fouka and Mantzorou (2011) assert that if a researcher is not able to promise anonymity to his respondents, he must consider confidentiality, which is the management of private information in order to protect the participants' identity. They add that confidentiality means that people (respondents) are free to give and withhold as much information as they wish. This is to help ensure the privacy of the participants particularly in studies where the participants and the researcher may be exposed to required legal disclosure of research data. Therefore, the confidentiality of the participants' responses were guaranteed to protect them from any unforeseen circumstances or harm.

Ethical issues and the processes that ensures ethical conduct are considered throughout this study. This is because Streubert and Carpenter (2011) stipulates that ethical issues are relevant to each of the research methods and should be considered within the context of the method chosen for a specific investigation. In this regard, Creswell (2014) notes that there are stipulated research principles of ethical conduct that should be implemented in every study which include the following:

**Informed consent:** The researcher informed the respondents and participants of the purpose, the objectives and nature of the study verbally for clarification.

**Harm and risk:** The researcher equally assures the respondents and participants that there is no danger or harm for taking part in the study.

**Honesty and trust:** The researcher endeavours as much as possible to follow all the standards about being truthful and honest throughout the process of data collection and analysis and ask the respondents and participants if they would want to get the result.

**Privacy, confidentiality and anonymity:** The researcher ensures the respondents and participants of confidentiality and anonymity throughout the process of data collection and that no name was used for any other purpose other than what the study is meant for.

**Voluntary participation:** The researcher equally made known to the respondents and participants that the study is purely for academic purpose and that their contribution is optional since no one is force to participate.

During each of the phases of data collection (that is the administration of questionnaires for quantitative study and conducting of interviews for qualitative study), the following measures was taken to ensure that an ethical process is followed. These measures are:

- Questionnaires and interview question sessions plans are neutral and free from bias
- Respondents and participants are duly informed before they fill the questionnaires or respond to the interview questions and they are asked to give acknowledgement of the process and release the results for research purposes.
- Confidentiality of results or feedback is ensured as all results are filed centrally in a secure location.

The entire document that make up this piece of work is free of false claims and plagiarism as outlined in the North-West University research guidelines. Ethical clearance was obtained from the relevant authorities of North West University to be legally permitted to commence with

this study. The institution issues two letters authorizing the researcher to conduct the study; the first letter solicits the consent of respondents to participate in the research by completing the questionnaire while the other letter explains the importance and purpose of the study.

#### **4.10 Chapter Summary**

This chapter focused on the presentation and justification of the research methods used in conducting the research. Pragmatism was used to determine the research methods and strategies to collect data for the study which also provided a good research design. Pragmatism was adopted for this study because it advocates for a combination of both quantitative and qualitative research methods. The mixed method design for this study was highlighted as sequential explanatory design because it gives room for multiple methods such as quantitative approach (questionnaire) and qualitative approach (interviews) and it embraces different worldviews and other procedures of collecting data such as questionnaires and interviews. The questionnaire utilised for this study was close-ended to allow the respondents, who were small business owners/manager to choose from the available options. The chapter also defined the target population of the study who are small business owners/managers in the four district municipalities of the North West province of South Africa. Finally, this chapter highlighted the attributes and qualities of small business owners/managers who contributed data collected, analysed and interpreted to build up to the framework for enhancing the sustainability of SMEs. The next chapter (five) presents the quantitative data analysis and interpretation of results.

## **CHAPTER FIVE**

### **QUANTITATIVE DATA ANALYSIS AND INTERPRETATION OF RESULTS**

#### **5.1 Introduction**

This study adopted a mixed method approach, using both quantitative and qualitative techniques to give a better understanding of the research problem under investigation. The quantitative data analysis and interpretation enhances the attainment of the objectives of this study and the development of the proposed framework for enhancing the sustainability of SMEs in the North West province. This chapter summarises the quantitative data of study which is the first approach in the mixed method of sequential explanatory design. SPSS and Microsoft Excel application software were used to capture and analyse data. Tables present the frequency distribution and figures present proportions of the respondents' opinions and ideas regarding the enhancement of the sustainability of SMEs. The main purpose of the questionnaires was to obtain data from the business owners/managers concerning measures that could enhance the sustainability of their small businesses. Reliability and validity test conducted on the questionnaire established the authenticity of the questions and the responses per construct. Furthermore, the analysis probes responses of participants, the significance of factors that influence the sustainability of SMEs and comparison of variables.

#### **5.2 Description of Data Collection Process**

The sample size for the quantitative study was 400 small business owners/managers drawn from the four district municipalities of the North West province of South Africa. Hence, 400 questionnaires were sent out to small business owners/managers within the four district municipalities of this region and all the 400 were completed and returned. However, during the process of data collection, the researcher encountered some challenges such as unwillingness of respondents to divulge how their enterprises performed. Most small business owners/managers were very reluctant to complete the questionnaires as most of them claimed that they had to attend to their clients especially because the distribution exercise was during business hours. However, the researcher managed to convince some of them by making them see reasons why they should even forgo their appointment to complete the questionnaire.

### **5.3 Descriptive Statistics and Analysis**

Self-administered questionnaire was used to collect data. The quantitative data was analysed using factor analysis. Factor analysis reduced the questionnaire into small variables of importance. The quantitative data analysis involved checking the legibility and consistency in classification, checking any omissions, identifying potential error in data collection, discarding completed responses that had missing data and discussing their implications (Tang and Zhong, 2013). The quantitative data was captured in a spreadsheet (Microsoft excel) and SPSS statistical software was used to analyse the data. Descriptive statistical methods describe the characteristics of the small business owners/managers who responded to the questionnaires. These statistical techniques summarize large amounts of data/information in an efficient manner for easy understanding. The bar graphs, pie charts and tables presented the percentages of participants' responses that represented their opinions to the sustainability of SMEs. The questionnaire had two main sections:

#### **Section A:**

This section addressed the sustainability of SMEs and it was further divided into six sections, each of which addressed the first six objectives of the study. These sections are as follows:

**A1:** The contribution of strategic business planning to the sustainability of SMEs.

**A2:** Sources of finance available to enhance the sustainability of SMEs.

**A3:** The effective management of SMEs to enhance their sustainability.

**A4:** The contribution of innovations in enhancing the sustainability of SMEs.

**A5:** The contribution of business research in enhancing the sustainability of SMEs.

**A6:** Education and training required by small business operators to ensure the sustainability of SMEs.

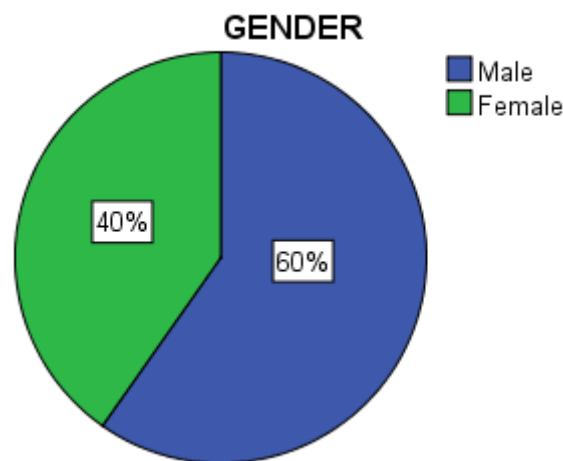
#### **Section B:**

This section addressed the biographical or demographic information of the small business owners/managers who responded to the questionnaires. The findings were grouped according to the subheadings of the sections above. The results were based on the experiences of the

SMEs owners/managers as they operate their businesses. The analysis commences with the biographical or demographic information, followed by the sustainability of SMEs.

### 5.3.1 The Demographic Responses of the Respondents

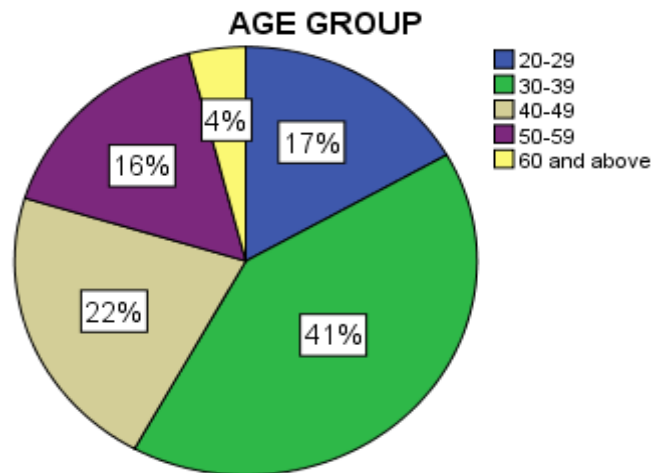
Unlike the predictor variables or potential determinant factors of sustainability of SMEs (strategic business plan, finance, management, innovation, business research and education and training), some of the demographic variables did not have much significance and therefore do not affect the sustainability of SMEs (dependent variable). The demographic responses obtained from the respondents are presented in pie charts as Figure 5.1 to Figure 5.10. The figures present data from the opinions of the respondents followed by summaries.



**Figure 5.1: Gender of Respondents**

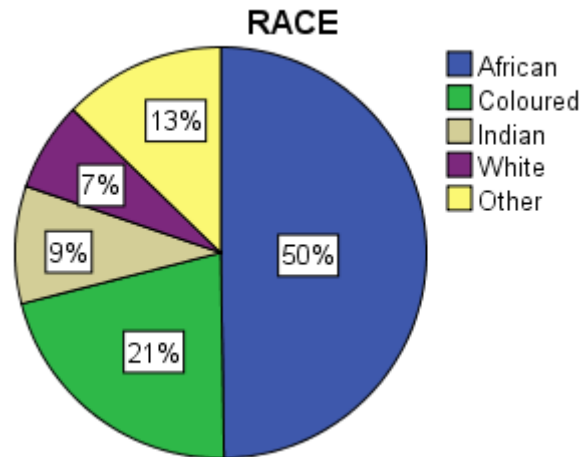
Figure 5.1 presents the gender distribution of respondents. The figure shows that 60% of the gender of small business owners/managers were males, while 40% were females. It indicates that more men own and manage small business ventures than women folk. Turton and Herrington (2012) assert that men are more involved in entrepreneurial activities such as establishing small business enterprises than females. This is attributed to the differences in customs and culture of some societies and civilizations regarding women participation in the economy. Chapelle (2012) argues that women folk are a source of reserve growth and development in some developing countries (such as South Africa) and they constitute a minority group in terms of self-employment in advanced economies, even though there are no sufficient reasons to explain why their businesses should have higher failure and unsustainability rates. This implies that, even though the rates of women involving in owning and managing SMEs are limited, it does not necessarily mean that their participation in running small business enterprises is limited and that their businesses do not survive and are not

sustainable. Therefore, it can be concluded from the data collected that more men owned and managed small business ventures in municipalities of the North West province of South Africa than women.



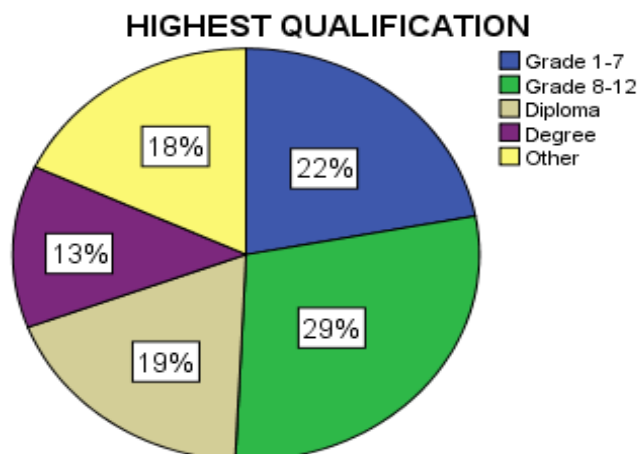
**Figure 5.2: Age Group of Respondents**

Figure 5.2 shows that 17% of the respondents were between the ages of 20-29, 41% between 30-39, 22% between 40-49, 16% between 50-59 and 4% from 60 years and above. Yazdanfar et al. (2015) assert that age is an important consideration for predicting the survival and sustainability of small business enterprises. The findings showed that majority of small business owners and managers in municipalities of the North West province of South Africa are within the age group of 30-39. According to Mzizi (2017), there are many unemployed youths who are seeking for jobs and when most of them do not find gainful employment, they resort to establishing small businesses to alleviate poverty and make a living. In this regard, Herrington and Kew (2015) state that the ages of between 25 and 44 years are the most active entrepreneurial ages, which account for between 50% and 60% of all entrepreneurial activities in most developing countries. Hence, the majority of small business owners and managers in municipalities of the North West province of South Africa are individuals who are between the ages of 30-39 years as the case may be.



**Figure 5.3: Race of Respondents**

Figure 5.3 shows that 50% of the respondents were Africans, 21% are Coloured, 9% are Indians, 7% are Whites and 13% were other races. The finding indicates that the majority of small business owners and managers in the North West province are Africans, followed by coloured who come together as a group to start a business. However, Lekhanya (2016) thinks that race is not a significant determinant factor of sustainability of SMEs. This is because the success and sustainability of SMEs does not depend on the race of the owners/managers but what matters is whether an individual meets the necessary requirements of operating a business.



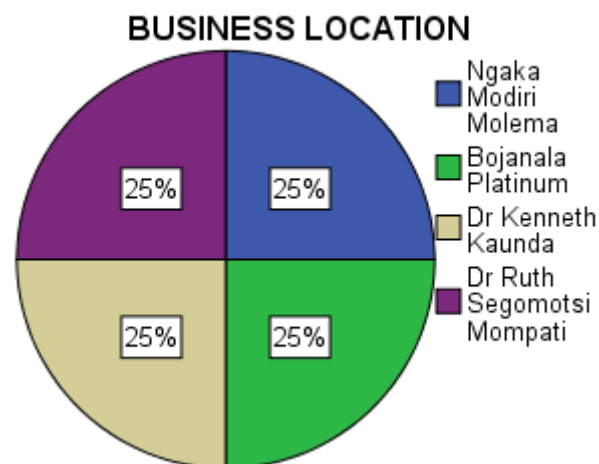
**Figure 5.4: Highest Education Qualification of Respondents**

Figure 5.4 shows that 22% of respondents attended between Grades 1-7, 29% attended between Grade 8-12, 19% have diploma, 13% have university degrees and 18% have other qualifications. This implies that majority of small business owners and managers in municipalities of the North West province have only Grade 12 certificate and less. Cooney (2012) argues that any education or training programme should educate current and potential



business owners and managers on how to obtain funding as well as how to market their businesses and run them effectively. This is a clear indication that the level of education of business owners and managers plays an important role in running a business for it to survive and be sustainable.

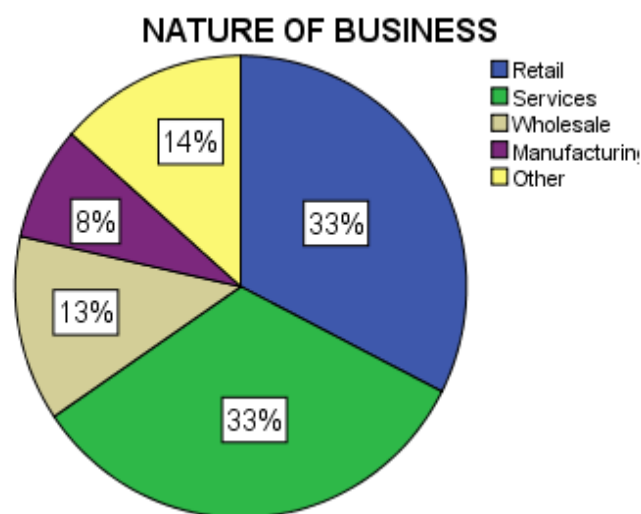
This high number of SME owners/managers accounts for the high failure rate of small business in this province. This is because Kotze and Smit (2008) assert that low level of human capital education and training prompts low levels of entrepreneurship and a high failure rate of South African SMEs. The Global Entrepreneurship Monitor (GEM) Reports (2001-2010) further contend that South African SMEs suffer from poor management skills, which results from a lack of adequate training and education of small business owners and managers. More so, it is generally assumed that the influence of education on business performance lies in the fact that knowledge gained enhances the managerial capacity to develop a specific business strategy. Hence, it is glaring that a reasonable level of education (such as diploma and a university degree) can enable existing and potential business owners and managers to operate, develop and sustain their businesses in order to adapt to the competitive business environment and be sustainable.



**Figure 5.5: Business Location of Respondents**

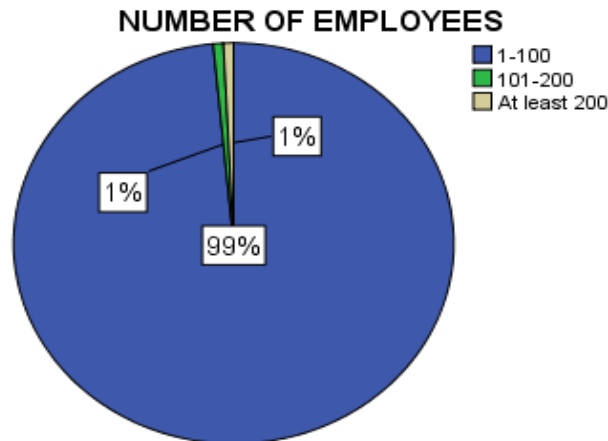
Figure 5.5 shows that the four district municipalities of the North West province had equal number of respondents with Ngaka Modiri Molema (25%), Bajanala Platinum (25%), Dr Kenneth Kaunda (25%) and Dr Ruth Segomotsi Momati (25%). This finding indicates that equal number of small business owners/managers from the four district municipalities of the North West province of South Africa responded to the questionnaire. Mbonyane (2006) states that location for a business is decided on low rent, proximity to the owner's residence or the

availability of a vacant business premise. He further notes that the choice of a business location is determined by the proximity of the business to its customers and the type of the business operation that is carried out because most customers move toward the business while some business owners move their businesses closer to their customers. However, the focus of this study on business location was not to establish whether location has an effect on the survival and sustainability of SMEs but rather, the idea here was to have an equal representation of small businesses of the entire North West province equally from the four district municipalities of the region.



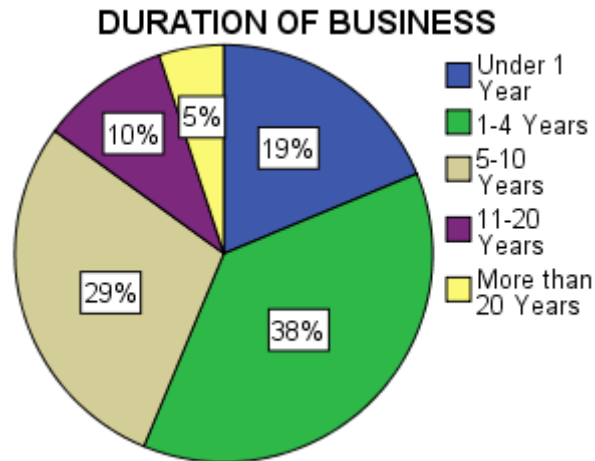
**Figure 5.6: Nature of Business of Respondents**

Figure 5.6 shows that SME owners and managers operate different clusters of businesses, indicating that 33% of businesses in the North West province are retail stores, 33% are services, 13% are wholesales, 8% are manufacturing and 14% are other types of businesses. The findings point out that majority of the SMEs activities fall under the retail and service sectors. Reynolds and Culthbertson (2014) note that retailing and servicing are the most visible entrepreneurial activities that occur in an economy in different forms such as department stores and repairs/maintenance. With the retail and service sectors having 33% each, indicates that they are viable sectors of business where individuals invest so easily. Reynolds and Curtin (2008) further show that many independent small businesses are meant to provide services to the consumers such as tailoring, consultancy and barbing. This implies that the retail and service sectors of business are proactive in the North West province than other business sectors such as wholesales, manufacturing and any other types of business operations.



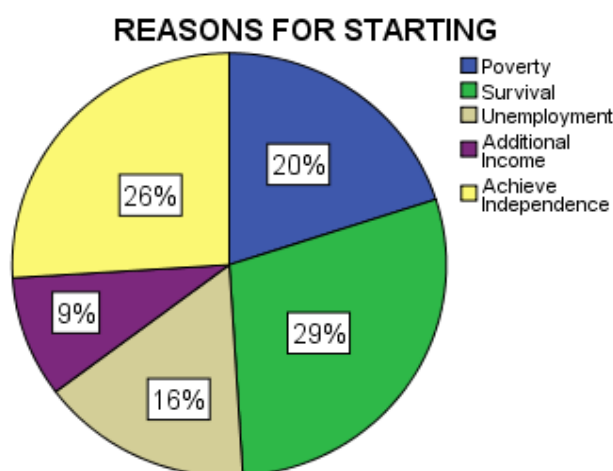
**Figure 5.7: Number of Employees of Respondents**

Figure 5.7 shows that 99% of business owners and managers in the North West province of South Africa who responded to the questionnaire have between 1-100 employees, 1% have between 101-200 and 1% have at least 200 employees and above. This indicates that 99% of business owners are strongly rooted in entrepreneurial activities employing between 1-100 employees. Fard et al. (2011) referred to this category or type of business owners as micro business operators. Mahembe (2011) states that the South African Department of Trade and Industry (DTI, 2012) describes an SME as a small business entity which is owned and run by a single individual for the sake of providing life sustenance to himself and his direct employees. He further notes that the National Small Business Act 102 of 1996 defines SMEs in the South African context as business entities with employee numbers between 1 and 200. However, the number of employees a business owner has depends on the size of his business. Hence, the success of a business does not necessarily depend on the number of employees but rather on the competency of the employees to run the business effectively for it to survive and be sustainable.



**Figure 5.8: Duration of Business of Respondents**

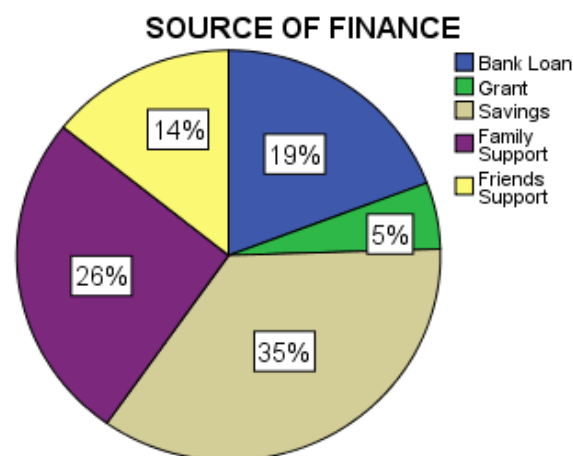
Figure 5.8 shows that 19% of respondents have been operating their businesses for less than one year, 38% between 1-4 years, 29% between 5-10 years, 10% between 11-20 years and 5% above 20 years. The finding indicates that in order for SMEs activities to be rooted, the business must have been in operation for up to 4 years. Durability (number of years) in business is an indicator of the survival and sustainability of that business enterprise. Benn *et al.* (2014) highlight that the years in business can be a determinant factor for sustainability because it goes along with experience that the owners/managers have acquired during the time of operation. This confirms the fact that there is some significant relationship between the duration of business operation and their sustainability.



**Figure 5.9: Respondents' Reasons for Starting their Business**

From the pie chart above, many factors influenced individuals to start their businesses such as poverty, survival, unemployment, additional income and to achieve independence. Figure 5.9

shows that 20% of respondents started their business because of poverty, 29% for survival, 16% because of unemployment, 9% for additional income and 26% to achieve independence. that the inference is that the majority of small business owners in the North West province of South Africa start their businesses because they want to survive, probably because they are jobless and need to make a living. Kirkwood (2009) stipulates some reasons and factors that influenced individuals to want to start a business among them is the struggle for survival that is the desire to be self employed when someone is unemployed and has to survive in life. However, to some extent, the reason for starting a business might not really be a significant determinant factor for its survival and sustainability because the success of a business does not necessarily depend on the reason for starting the business but rather on other predictor factors that influence the sustainability of SMEs.



**Figure 5.10: Respondents' Sources of Finance for their Business**

It is important to determine the various sources where small business owners obtain funding to grow their business enterprises. Figure 5.10 shows that 19% of respondents got funding for their businesses from bank loans, 5% from grants, 35% from savings, 26% from family supports and 14% from friends supports. The direct implication is that majority of small business owners in the North West province of South Africa relied on their personal savings to start up their businesses. This explains why most of these businesses do not survive since their savings are not enough to sustain their enterprises. The lack of funding is a major challenge for many business owners in the North West. In this regard, it is glaring that there is a significant relationship between source of finance of SME and the sustainability of small businesses because it is assumed that most businesses fail due to lack of funding. According to the Global Entrepreneurship Monitor (GEM) (2014), lack of access to finance is one of the main reasons for small business discontinuance in South Africa. Hence, if the government could provide a

support system (agencies) for SMEs and make business owners aware of where to go for such assistance, it would go a long way in reducing the high SME failure rate.

### **5.3.2 Summary of Demographics Responses of Respondents**

Small business owners/managers in municipalities of the North West province of South Africa are both male and female with men dominating the SMEs industry. The majority of these small business owners and managers in this province are between the ages of 30-39 as recorded in this study. In addition, the majority of small business owners and managers in this region are Africans, followed by coloured who can come together as a group to start a business and most of them have only basic education, which is the category between Grades 1-7 and 8-12 which is metric certificate. However, an equal number of these small business owners/managers from the four district municipalities of the North West province responded to the questionnaire. The majority of the SMEs activities in this province fall under the retail and service sectors and up to 99% of business owners are employing between 1-100 employees. It is also clear that majority of the business owners have been in operation for 4 years which follows from the fact that the majority of the business owners are engaged in small businesses because they want to survive. However, the lack of funds has hindered many small business activities from growing which make it difficult for SMEs in the North West province to survive and be sustainable because they cannot borrow money from financial institutions due to strict conditions applied.

### **5.4 Reliability and Validity of the Questionnaire**

Interpreting results of a study requires that the reliability and validity of the test conducted be deliberated. This is because reliability and validity of data are very important in all measurements as it shows how valid and constant the instrument for testing is use to conduct the test. Leung (2015) stipulates that reliability is the extent to which results are consistent over time and an accurate representation of the total research population. Hence, if the outcome of a study is reproduced in a similar method, and then the instrument used for the research was considered reliable. This implies that if the instrument for testing is repeatedly used and the outcome is the same, and then the instrument is reliable. However, Leung (2015) notes that validity is the extent to which what is intended to be measured, is truly measured or how valid the research results are.

Cronbach's alpha is used to determine the reliability of this study, which is the internal consistency and it is often considered as a measure of item homogeneity (Tavakol and Dennick,

2011). They add that Cronbach's alpha approximates the percentage of exact score variance which is captured in the items by likening the sum of item variances with the variance of the sum scale. More so, item analysis was conducted to evaluate the reliability of the different constructs in the questionnaire through Cronbach alpha values. According to Dasgupta et al. (2017), the recommended cut-off point for Cronbach Alpha values has traditionally been 0.6 or greater than 0.6, even though interpreting alpha in a particular context is very much complicated. Tavakol and Dennick (2011) assert that it is possible to obtain a high alpha although the item responses are multi-dimensional and the degree of alpha is equally correlated to the number of items being tested. Namdeo and Rout (2017) equally note that Cronbach's alpha reliability coefficient normally ranges between 0 and 1. The more the Cronbach's alpha coefficient is to 1.0, the greater the internal consistency of the items in the scale. According to them, the following rule of thumb is required in order to determine the reliability and validity of results: "greater than ( $>$ ) 0.9 is excellent, greater than 0.8 is very good, greater than 0.7 is good, greater than 0.6 is acceptable, greater than 0.5 is poor and less than ( $<$ ) .5 is unacceptable". However, the study will adopt the measure of 0.6 as acceptable. A reliability analysis Cronbach alpha was conducted to test all the constructs of the study in order to determine the reliability of the data collected. The Cronbach's alpha test for reliability and validity in respect of the various criteria of the data is presented in table 5.1 and 5.2 below.

**Table 5.1: Cronbach's Alpha Test for Each construct of the Questionnaire**

Constructs of the Questionnaire	Cronbach's Alpha	N of Items
<b>Section A1:</b> The contribution of strategic business planning to the sustainability of SMEs	0.677	5
<b>Section A2:</b> Sources of finance available to enhance the sustainability of SMEs	0.845	9
<b>Section A3:</b> The effective management of SMEs to enhance their sustainability	0.728	7
<b>Section A4:</b> The contribution of innovations in enhancing the sustainability of SMEs	0.761	5
<b>Section A5:</b> The contribution of business research in enhancing the sustainability of SEMs	0.661	7
<b>Section A6:</b> Education and training required by small business operators to ensure the sustainability of SMEs.	0.610	3

Table 5.1 shows that all Cronbach Alpha values for each construct are greater than the recommended cut-off point of 0.6 (Dasgupta et al., 2017), hence the results from each of these construct are reliable.

**Table 5.2: Validity Test for Each Item in the Questionnaire**

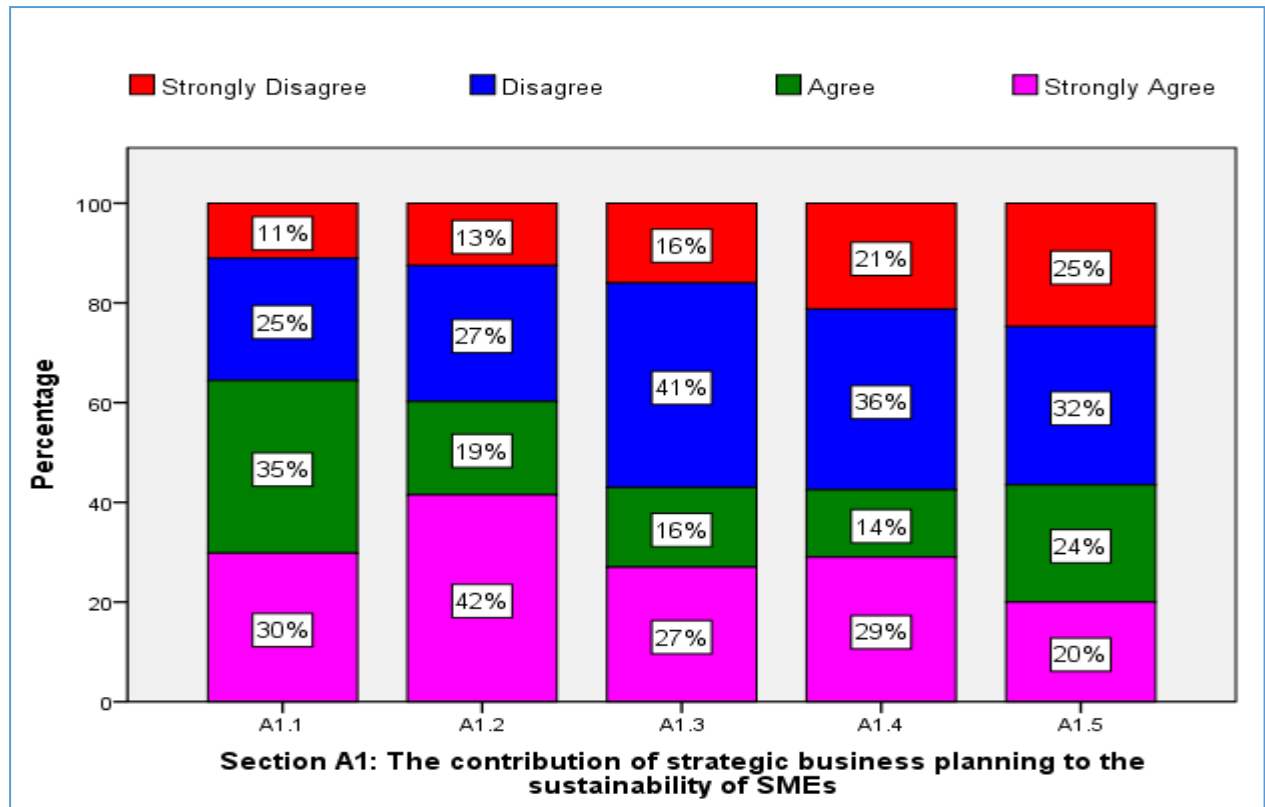
	Estimate	Std.Err	z-value	P(> z )
<b>SECTION_A1</b>				
<b>A1.1</b>	0.567	0.051	11.042	0.000
<b>A1.2</b>	0.825	0.054	15.379	0.000
<b>A1.3</b>	0.801	0.05	16.01	0.000
<b>A1.4</b>	0.469	0.063	7.411	0.000
<b>A1.5</b>	0.282	0.061	4.601	0.000
<b>SECTION_A2</b>				
<b>A2.6</b>	0.615	0.049	12.574	0.000
<b>A2.7</b>	0.503	0.038	13.13	0.000
<b>A2.8</b>	0.488	0.044	10.98	0.000
<b>A2.9</b>	0.498	0.036	14.035	0.000
<b>A2.10</b>	0.558	0.042	13.234	0.000
<b>A2.11</b>	0.47	0.04	11.855	0.000
<b>A2.12</b>	0.513	0.042	12.1	0.000
<b>A2.13</b>	0.722	0.054	13.484	0.000
<b>A2.14</b>	0.525	0.042	12.44	0.000
<b>SECTION_A3</b>				
<b>A3.15</b>	0.601	0.049	12.253	0.000
<b>A3.16</b>	0.762	0.054	14.021	0.000
<b>A3.17</b>	0.597	0.055	10.89	0.000
<b>A3.18</b>	0.41	0.055	7.517	0.000
<b>A3.19</b>	0.455	0.051	8.853	0.000
<b>A3.20</b>	0.478	0.052	9.206	0.000
<b>A3.21</b>	0.551	0.053	10.321	0.000
<b>SECTION_A4</b>				
<b>A4.22</b>	0.643	0.052	12.441	0.000
<b>A4.23</b>	0.761	0.054	14.07	0.000
<b>A4.24</b>	0.736	0.052	14.239	0.000
<b>A4.25</b>	0.595	0.052	11.502	0.000
<b>A4.26</b>	0.611	0.049	12.484	0.000
<b>SECTION_A5</b>				
<b>A5.27</b>	0.459	0.058	7.887	0.000



<b>A5.28</b>	0.563	0.06	9.319	0.000
<b>A5.29</b>	0.638	0.061	10.383	0.000
<b>A5.30</b>	0.468	0.057	8.22	0.000
<b>A5.31</b>	0.403	0.058	6.954	0.000
<b>A5.32</b>	0.512	0.056	9.071	0.000
<b>A5.33</b>	0.387	0.06	6.434	0.000
<b>SECTION_A6</b>				
<b>A6.34</b>	0.688	0.059	11.628	0.000
<b>A6.35</b>	0.635	0.058	10.849	0.000
<b>A6.36</b>	0.506	0.058	8.649	0.000

Table 5.2 shows that each item loads significantly onto its respective construct, hence the questionnaire is valid. The participants' responses for each construct are presented next.

### 5.4.1 Section A1: The Contribution of Strategic Business Planning to the Sustainability of SMEs



**Figure 5.11<sup>1</sup>: Section A1 Responses**

Figure 5.11 shows that the majority (>50%) of the respondents agreed (agree and strongly agree) that they practice A1.1 and A1.2 which are the measures of the strategic business planning. On the other hand, the majority (>50%) of the respondents disagreed (disagree and strongly disagree) that they practice the other three measures (A1.3, A1.4 and A1.5) of strategic business planning.

<sup>1</sup> **A1.1**=This enterprise has a strategic business plan that guides the achievement of business goals and objectives

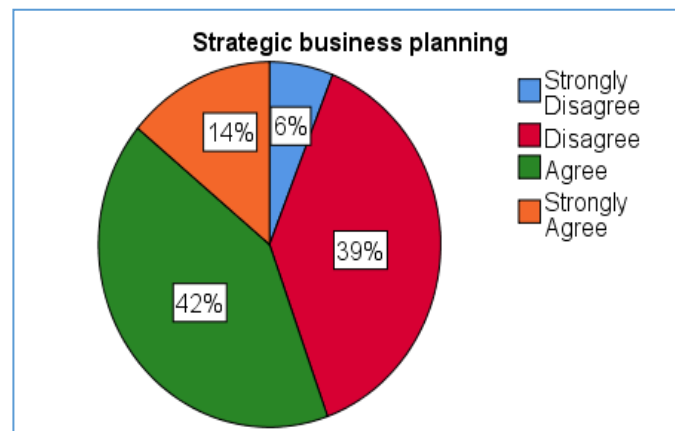
**A1.2**=There is a defined vision which is part of the strategic management process of this enterprise

**A1.3**=There is a mission statement that guides the daily activities and decisions against which the enterprise's programs and plans are evaluated

**A1.4**=There are values (principles and ethics) that bind the owner, management, employees and customers together which form the foundation of decision making in this enterprise

**A1.5**=There are Critical Success Factors (CSF) that influence the overall performance of this business enterprise

## Summary of Results of the Contribution of Strategic Business Planning to the Sustainability of SMEs



**Figure 5.12: Summary of Section A1 Responses**

Figure 5.12 shows that in general, the majority (56%) of the respondents agreed (agree (42%) and strongly agree (14%)) that they have strategic business plans for their SMEs. While 45% of the respondents were in disagreement (disagree (39%) and strongly disagree (6%)) that they have strategic business plans for their SMEs.

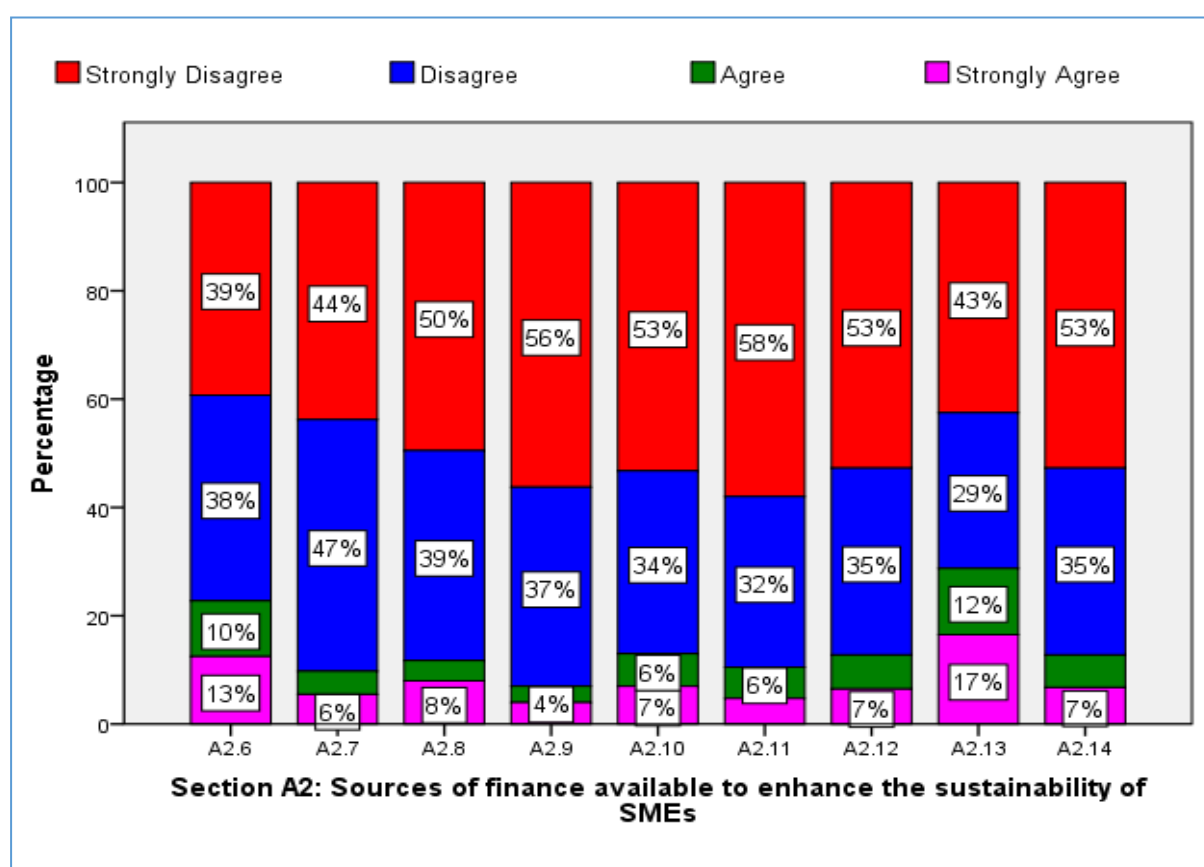
The result of the analysis conducted on the contribution of strategic business planning to the sustainability of SMEs was necessary to ensure their sustainability as portrayed in Figure 5.11 and 5.12, which is section A1 of the questionnaires. Generally, the majority (56%) of the respondents agreed (agree (42%) and strongly agree (14%)) that they practice strategic business planning in their SMEs, while 45% of the respondents disagreed (disagree (36%) and strongly disagree (6%)) that they practice strategic business planning in their SMEs. This implies that the 56% of SMEs that implement strategic business planning in the running of their businesses are most likely to survive and be sustainable while up to 45% of them that do not implement strategic business planning are most likely not to survive and be sustainable. This is because according to Kalane (2015), preparing a strategic business plan for an SME is an essential step to developing a long-standing vision of where the enterprise is going and the strategies that will be use to get to where it is going.

Wiese (2014) notes that many studies show a link between strategic planning and business success implying that conceiving and implementing a good strategic business plan gives a greater possibility for that business to succeed and be sustainable. However, most SMEs often neglect to conceptualise and implement successful strategic planning because of lack of well-developed administration and lack of resources such as, limited access to finance and limited

human capital. Theoretically, the result of this finding is in line with the theory of merger and acquisition for the 45% of SMEs that are most likely not to survive and be sustainable. These 45% of SMEs that are at the verge of failing can acquire and merge the strategic business planning of one another and use it as a strategy for them to survive and be sustainable. Roberts (2010) describes a merger or an acquisition of a business as the amalgamation of two or more businesses into one new corporation. He adds that in the 21st century business world, mergers and acquisitions are a vital strategic tool used to accomplish specific business goals and objectives. This implies that SMEs can use merger and acquisition as a strategy for them to grow in business and become sustainable.

SMEs merge to make synergies between the acquirer and the target, which increases the value of the business entity (Salama, 2015). According to the theory of mergers and acquisitions, the amalgamation of business synergies offer significant benefits because businesses with greater market power charge higher prices on their products and consequently make greater profits through consumer surplus. This means that with strategic business planning, SMEs could have greater market power to prevent new potential businesses to enter the market in the future, which can enable their business entities to make significant premium and offer another long-term source of profit. According to Cefis *et al.* (2009), the mergers and acquisitions SMEs pursue is more likely to create value, which is an important strategy for survival and sustainability of their businesses. It is concluded that the theory of mergers and acquisitions explains why business entities such as most SMEs in the municipalities of the North-West province could become more commercialised and sustainable in recent times. Therefore, strategic business planning is an approach that SMEs can use to survive and be sustainable in business.

## 5.4.2 Section A2: Source of Finance Available to Enhance the Sustainability of SMEs



**Figure 5.13<sup>2</sup>: Section A2 Responses**

Figure 5.13 shows that almost all of the respondents were in disagreement (disagree and strongly disagree) that they have benefited from the proposed sources of funds (A2.6-A2.14).

<sup>2</sup> A2.6=The source of capital (finance) that was used to set up this enterprise was a bank loan

A2.7=This enterprise has benefited a lot of financial and technical support from the Department of Trade and Industry

A2.8=The Department of Small Business Development (DSBD) has supported the growth of this enterprise in one way or the other

A2.9=This enterprise has benefited from financial and technical assistance from the South African presidency in terms of finance, training, counselling, marketing, technology, infrastructure and information

A2.10=The Small Business Development Agency (SEDA) has benefited this enterprise with funding through the integrated government-funded scheme

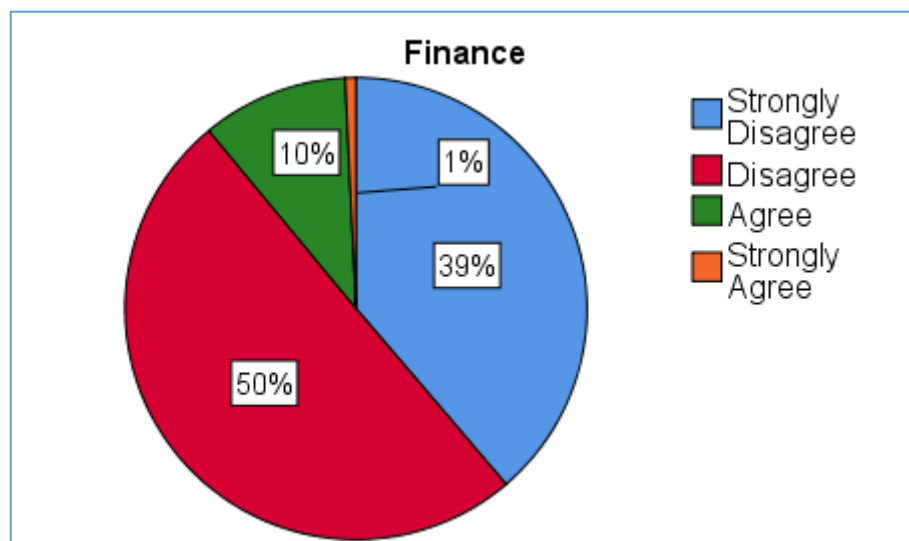
A2.11=The National Empowerment Fund (NEF) has once granted business loan from R250000 and above for the set up and growth of this enterprise

A2.12=The Small Business Finance Agency (SBDA) is providing this enterprise with services such as credit guarantee scheme for bank loans and capital to set up and to maintain this enterprise

A2.13=Commercial banks in South Africa are offering investment and financial opportunities for this enterprise through the granting of bank loans and overdraft

A2.14=The South African Micro Finance Apex Fund (SAMAF) offers affordable financial services such as granting micro-loans for this enterprise

## Summary of Results of the Source of Finance Available to Enhance the Sustainability of SMEs



**Figure 5.14: Summary of Section A2 Responses**

Figure 5.14 shows that in general, the majority (89%) of the respondents disagreed (disagree (50%) and strongly disagree (39%)) that they have benefited from the proposed sources of finance, while 11% of SMEs agreed, (agree (10%) and strongly agree (1%)) that they have benefited from these proposed sources of finance.

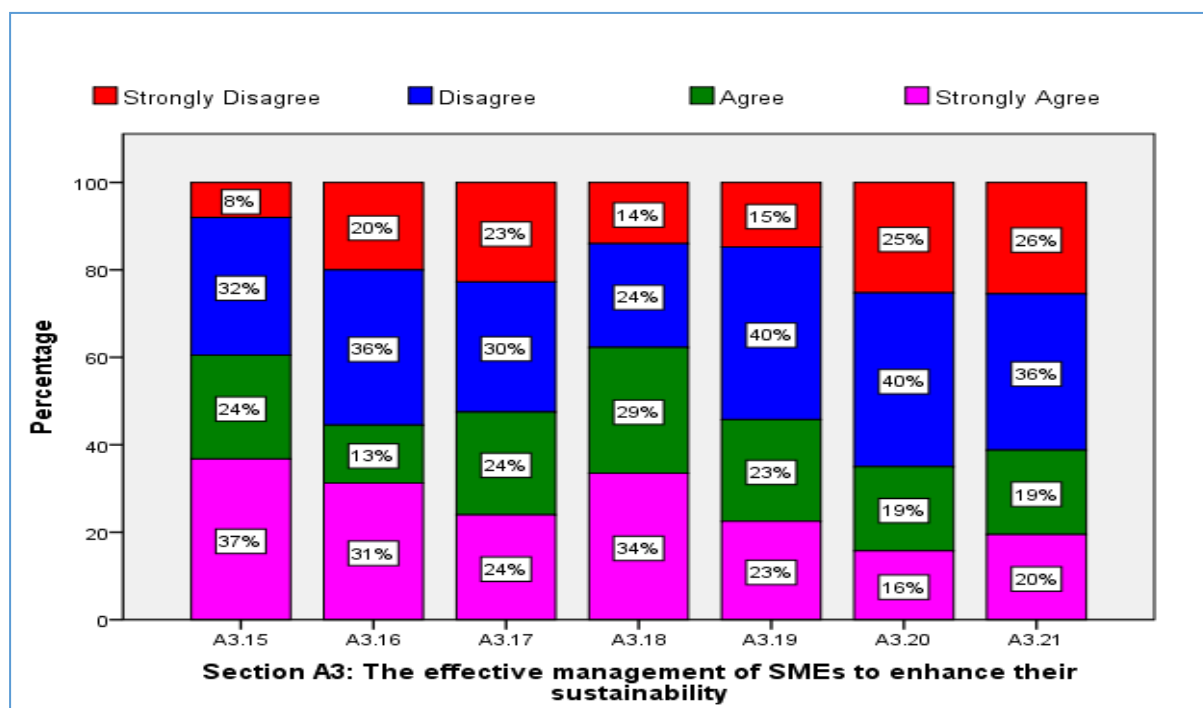
The finding on the sources of finance available to enhance the sustainability of SMEs was necessary as portrayed in Figure 5.13 and 5.14, which is section A2 of the questionnaires. Almost all the respondents disagreed that they have benefited from the proposed sources of funds. In general, the majority (89%) of the respondents were in disagreement (disagree (50%) and strongly disagree (39%)) that they have benefited from the proposed sources of finance which include bank loans, DTI, DSBD, SA presidency, SEDA, NEF, SBDA and SAMAF. Only 11% of SMEs agreed (agree (10%) and strongly agree (1%)) that they have benefited from these proposed sources of finance. Sources of finance is a serious problem for SMEs. According to the demographic results, majority of SME owners got funding from private sources such as savings 35%, family support 26%, friends support 14% and only 19% of them got funding from bank loan and 5% from grants.

Theoretically, this conforms to the financial gap theory which stipulates that there are many small business enterprises that actually require legal funding from the government, investors and financiers such as the commercial banks and can make judicious use of the funds. Unfortunately, many of these SMEs cannot acquire this funding because of the requirements from the financial institutions (Asplund and Henriksson, 2012). This is because of the inability of SMEs to understand what is required of them to gain access to external sources of finance while the investors find it difficult to mobilise the SMEs because of lack of knowledge about the structure of their business rules and regulations. Hence, many business scholars have hypothesized a financing gap for SMEs, implying that there are considerable number of these businesses that could use funds productively if they were available and therefore recommend measures to foster an improved flow of financing to SMEs for their growth and sustainability (OECD, 2006). According to Asplund and Henriksson (2012), the financial gap theory advocates for legal funding of SMEs by the government and other financiers such as commercial banks to ensure the growth, survival and sustainability of SMEs. This implies that the 11% of SMEs that have benefited and/or are benefiting from some of these sources of finance are the only ones that are most likely to survive and be sustainable while the up to 89% of them that have never benefited from these sources of finance are most likely not to survive and be sustainable. This is because all small businesses require sufficient capital in the form of financial resources for them to go operational in trading to grow and be sustainable (Kalane, 2015). Therefore, a lack of availability of funding or lack of access to finance of an SME could hampered the growth and sustainability of the business.

This conforms to the argument of BER (2016) that the absence of access to funding is directly causes business failure and discontinuity in South Africa. This is why Bell (2015) thinks that improving SMEs' access to finance and finding solutions to unlock sources of capital is crucial to enable this potentially dynamic sector to grow. A key area of the World Bank Group's work is to improve SMEs' access to finance and find innovative solutions to unlock sources of capital. Therefore, credit Reporting Systems are important as better credit information can lead to increased credit for SMEs. Having acknowledged the contribution of the private sector to the development of the economy by the government, initiatives such as financial assistance must be provided to enhance the growth and sustainability of SMEs. That is why BER (2016) contend that to develop the SME sector in South Africa, the government needs to ensure that funds are distributed to them through various departments and agencies. Disappointingly, according to Bell (2015), most SME owners/managers do not have the necessary information

on how to obtain funding from the government to sustain their businesses. Consequently, up to 89% of small business owners/managers do not benefit from the available sources of finance. Therefore, disclosing and assisting SMEs with these essential sources of finance available is an approach that can enable small businesses to survive and be sustainable.

### 5.4.3 Section A3: The Effective Management of SMEs to Enhance their Sustainability



**Figure 5.15<sup>3</sup>: Section A3 Responses**

Figure 5.15 shows that the majority (>50%) of the respondents agreed (agree and strongly agree) that they practice A3.15 and A3.18 which are the measures of effective management.

<sup>3</sup> **A3.15**=This enterprise is effectively managed to ensure that the desired objectives and goals are accomplished

**A3.16**=The management functions of planning, organising, leading and controlling are effectively implemented in this enterprise to ensure success and growth

**A3.17**=The finances of this enterprise are effectively managed such that the primary objective of maximising the value of the entity is accomplished

**A3.18**=The human resources of this enterprise are effectively managed such that employment relationship is satisfactory for both the owners/management and employees

**A3.19**=There is effective management of systems or processes that provide services or create goods according to the quantity and specifications of customers

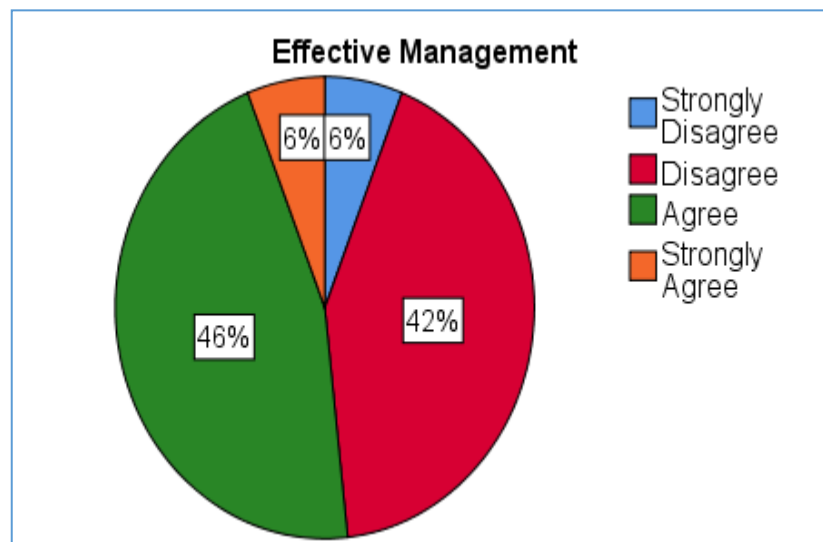
**A3.20**=The accounting system of this enterprise effectively analyse and report financial and nonfinancial dealings that assist management to improve the effectiveness of the business

**A3.21**=This enterprise has an effective marketing strategy that successfully makes the goods/services well known and promoted to potential customers



On the other hand, the majority (>50%) of the respondents were in disagreement (disagree and strongly disagree) that they practice the other measures (A3.16, A3.17, A3.19, A3.20 and A3.21) of effective management.

### Summary of Results of Effective Management of SMEs to Enhance their Sustainability



**Figure 5.16: Summary of Section A3 Responses**

Figure 5.16 shows that in general, the majority (52%) of the respondents agreed (agree (46%) and strongly agree (6%)) that they practice effective management in their businesses. While 48% of the respondents were in disagreement (disagree (42%) and strongly disagree (6%)) that they practice effective management in their businesses.

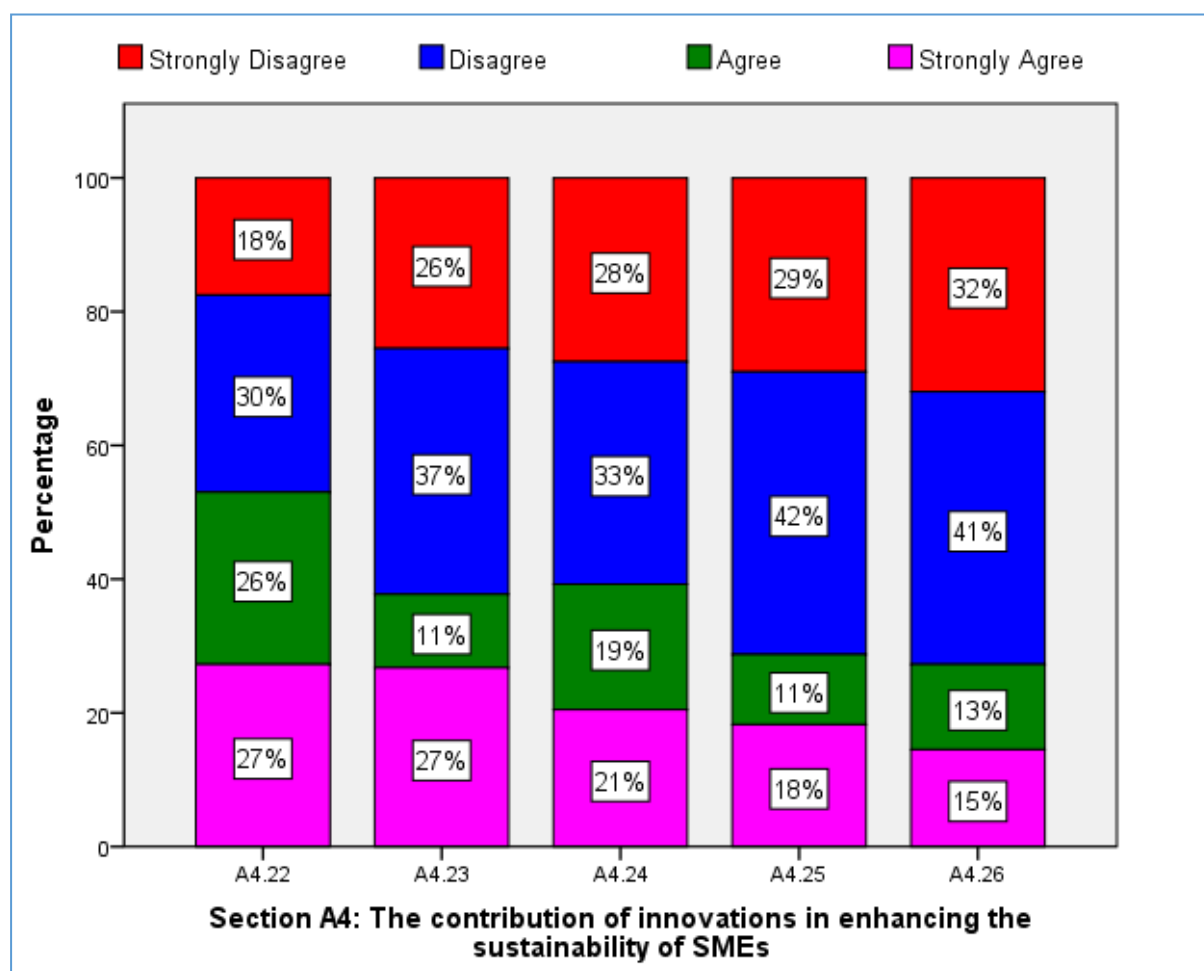
The analysis conducted on the effective management of SMEs to enhance their sustainability is portrayed in Figure 5.15 and 5.16, which is section A3 of the questionnaires. In general, 52% of the respondents agreed (agree (46%) and strongly agree (6%)) that they practice effective management in their businesses. The items that are necessary for the effective management of SMEs include the application of management functions, financial management, human resource management, operation management, accounting management and marketing management. However, 48% of the respondents were in disagreement (disagree (42%) and strongly disagree (6%)) that they practice effective management in their businesses. This imply that the 52% of SMEs that practice effective management in their businesses are most likely to

survive and be sustainable while up to 48% of them that are not practicing effective management in their businesses are most likely not to survive and be sustainable.

The up to 48% of SMEs that are not practicing effective management in their businesses may be attributed to the low level of education and lack of management skills. According to the demographic results, majority of SME owners and managers are less educated with up to 51% (grade 1-7 (22%) and grade 8-12 (29%)) of them having only grade twelve certificate or less. Theoretically, this conform to the resource dependency theory, which explains that external resources affect the behaviour of an organization and that the procurement of external resources is an important principle of the tactical and strategic management of any business enterprise (Nienhüser, 2008). This implies that SME owners/managers require a reasonable level of education and management skills that can enable them acquire external resources for their businesses which is a tactical strategy to grow an enterprise. According to Davis and Cobb (2010), resource dependency theory advocates for the implementation of adaptive strategies (such as effective management) to reduce dependence level from other stakeholders which will help to improve organizational autonomy and enable SMEs to grow and be sustainable. Therefore, resource dependence theory is one of the major reasons why organizations such as SMEs become more commercialised and consequently turn out to be sustainable in recent times.

According to Global Entrepreneurship Monitor (GEM) Reports of 2001-2010, South African SMEs suffer from poor management skills, which results in high failure rates of these businesses in the country (Mahembe, 2011). Business scholars such as Mahembe (2011) have concluded that ineffective management is a major cause of the failure and unsustainability of SMEs in South Africa. Other different reasons such as the lack of managerial planning skills, the inability to effectively managed competitive environments, and ineffective working capital management, are some of the reasons why SMEs fail to grow and are not sustainable. Naicker (2006) holds that, the absence of managerial skills and training is a reason for small business failure. From these reports, ineffective management is problematic amongst SMEs owners and managers, explaining why they experience a high failure rate the in South Africa. BankSeta (2012) emphasised that ineffective management of SMEs by entrepreneurs and small business managers decreases the potential success and survival of these businesses.

#### 5.4.4 Section A4: Contribution of Innovation in Enhancing the Sustainability of SMEs



**Figure 5.17<sup>4</sup>: Section A4 Responses**

Figure 5.17 shows that the majority (>50%) of the respondents agreed (agree and strongly agree) that they practice A4.22 which is a measure of innovation. On the other hand, the majority (>50%) of the respondents were in disagreement (disagree and strongly disagree) that they practice the other measures (A4.23, A4.24, A4.25 and A4.26) of innovation.

<sup>4</sup> **A4.22**=This enterprise always introduces new processes to improve and modify products/services to continuously satisfy the needs of the customers

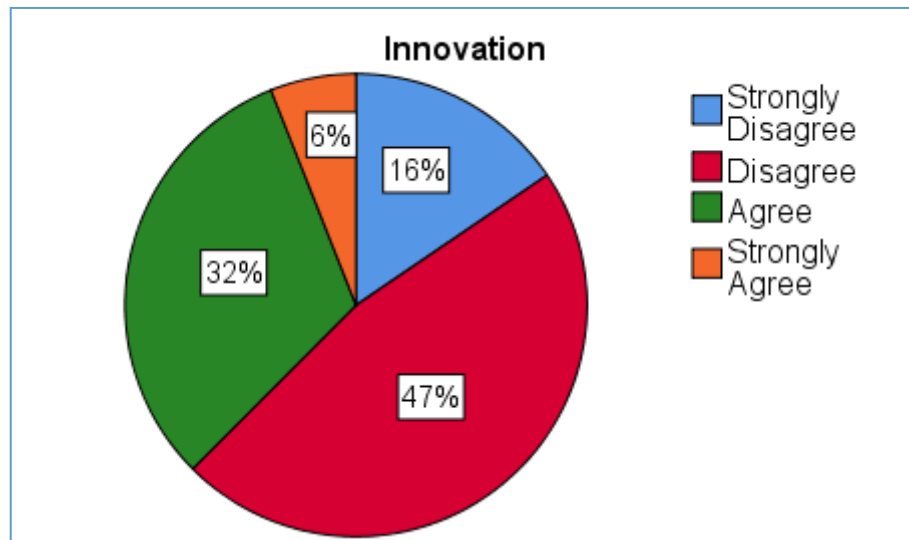
**A4.23**=This enterprise introduces new business technologies, capacities and knowledge that significantly improve the version of previous product/services in order to increase sales

**A4.24**=Process innovation is implemented in this enterprise to enable efficiency which will lessen cost and increase income

**A4.25**=The enterprise implements marketing innovation by expanding its market, entering new markets and adopting new techniques of designing and packaging of its products to satisfy customers' needs

**A4.26**=Organisational innovation is done in this enterprise to increase its market share, net income, growth and profitability

## Summary of Results of the Contribution of Innovation in Enhancing the Sustainability of SMEs



**Figure 5.18: Summary of Section A4 Responses**

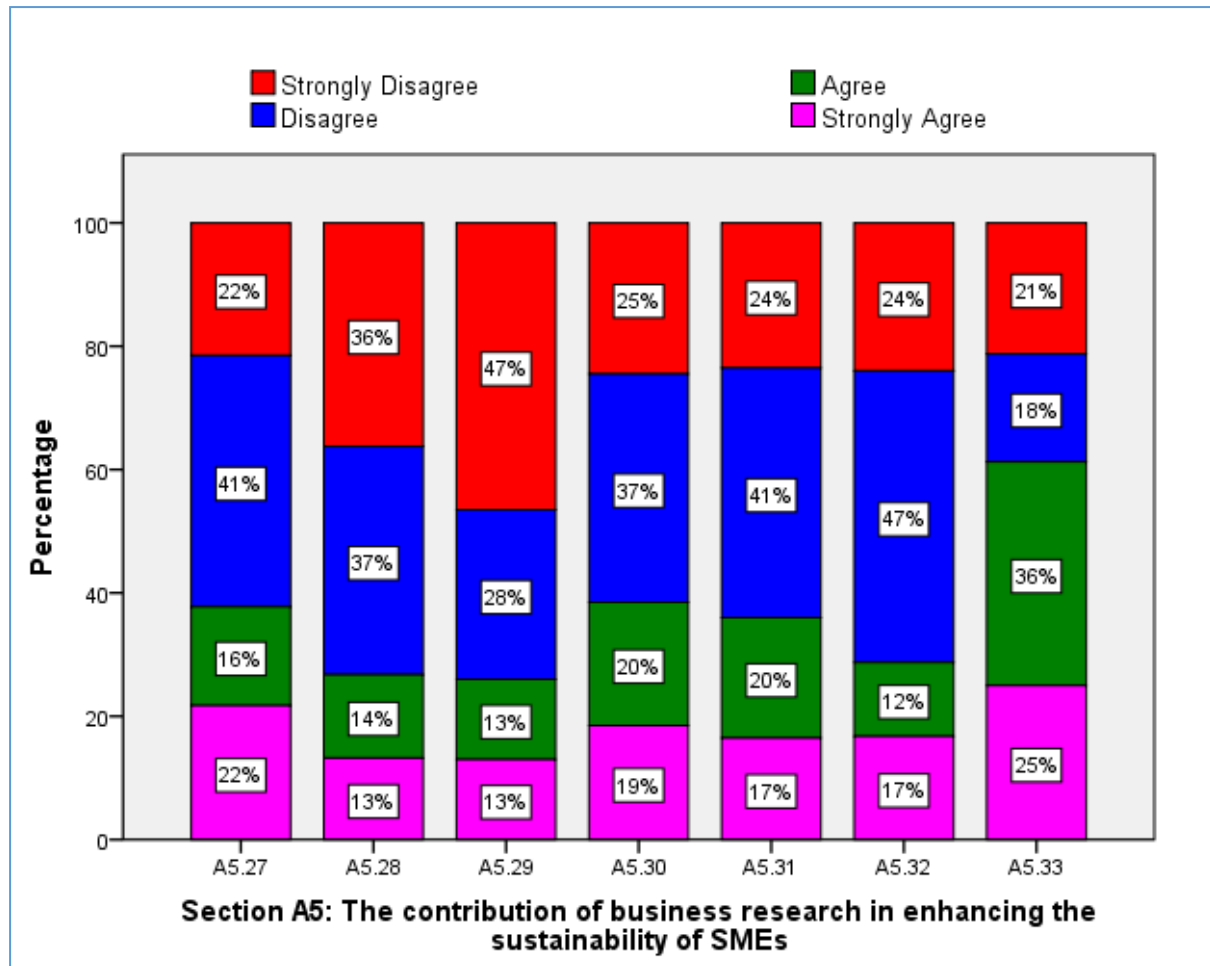
Figure 5.18 shows that in general, the majority (63%) of the respondents were in disagreement (disagree (47%) and strongly disagree (16%)) that they are innovative. While only 38% of the respondents agreed, (agree (32%) and strongly agree (6%)) that they are innovative in their businesses.

The findings on the items that are important for successful innovation within SMEs to enhance their sustainability is portrayed in Figure 5.17 and 5.18, which is section A4 of the questionnaires. In general, the majority (63%) of the respondents were in disagreement (disagree (47%) and strongly disagree (16%)) that they are innovative in their businesses. The innovative items that can enhance the sustainability of SMEs include product innovations, process innovation, market innovation and organisational innovation. However, only 38% of the respondents agreed (agree (32%) and strongly agree (6%)) that they are innovative in their businesses. This means that the up to 63% of SMEs that are not innovative in their businesses are most likely not to survive and be sustainable while only the 38% of them that are could most likely to survive and be sustainable.

Theoretically, this result conforms to Trickle-down economics theory, which suggests that the benefits of wealthy individuals should trickle down to everyone else in the society, especially the poor population just like from big businesses to SMEs. The major principle of this theory therefore is that economic growth streams from the top to the bottom (Bhalotia and Tech, 2017). This implies that just like wealth can trickle down from big companies to small ones, so in the same manner, innovation can trickle down from big businesses to SMEs. In this way, innovation would not be restricted only to big companies, which is a good indication of a healthy economy, but it would as well benefit local SMEs to survive and be sustainable. This can be achieved by ensuring equitable growth and implementation of innovation in businesses of all and sundry because true growth and development manifests when all individuals and all sectors of the economy are innovative. Therefore, trickle-down of innovation from big businesses to SMEs leads to their sustainability because it would attract more investors to invest in small businesses, which would boost growth and sustainability of this sector. Sowell (2013) asserts that the fundamental idea behind the trickle-down theory is that the redistribution of wealth (and innovation) from big companies to the SMEs would eventually result in a situation where those at the bottom of the ladder of success would benefit from the wealth (and innovation) flowing into their businesses.

SMEs are supposed to be innovative because according to Nogare (2006) innovation is a prerequisite for SMEs success and sustainability since it often forms the core product/service concept upon which small business enterprises are grounded. This leads one to believe that the role innovation plays in SMEs' success and growth is very vivid and evidenced and generally regarded as having a positive impact in small business enterprises. Zhang *et al* (2015) assert that the diffusion of innovation is favourable given that it helps disseminate new techniques, products and services to the wider economy, leading to increase sales and profitability. Therefore, innovation in SMEs will most likely contribute to the success and sustainability of the business enterprises.

#### 5.4.5 Section A5: The Contribution of Business Research in Enhancing the Sustainability of SMEs



**Figure 5.19<sup>5</sup>: Section A5 Responses**

<sup>5</sup> **A5.27**=This enterprise conducts business research by collecting consumer feedback, doing product research and collecting financial data which are analysed to help in making decisions concerning the operation of the business

**A5.28**=Applied business research is conducted in this enterprise when specific needs arise such as decrease sales so that appropriate actions can be taken to resolve the situation

**A5.29**=Basic business research is conducted in this enterprise to understand how certain problems occur such as a downturn in business so that the situation can be resolved

**A5.30**=Consumer feedback is always conducted to get customers' opinions about the product/services which help management to ensure that they are satisfying customers' needs

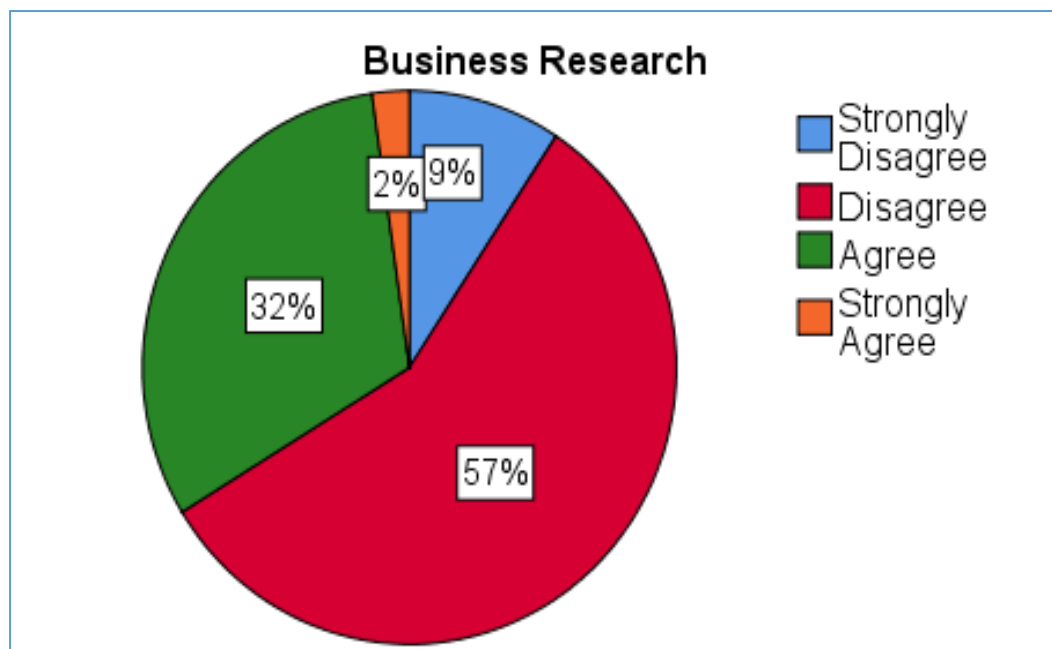
**A5.31**=This enterprise embarks on product research by acquiring new technologies to improve on the quality and taste of its product/services to satisfy customers' need

**A5.32**=Financial data is often collected which help management to analyse business performance and determine whether business strategies or tactics should be changed or maintained

**A5.33**=Competitive analysis is often done in this enterprise by comparing our products/services with others to determine a more attractive price point or improve product to win more customers

Figure 2.5 shows that the majority (>50%) of the respondents agreed (agree and strongly agree) that they practice A5.33 which is a measure of business research. On the other hand, the majority (>50%) of the respondents were in disagreement (disagree and strongly disagree) that they practice the other measures (A5.27, A5.28, A5.29, A5.30, A5.31 and A5.32) of business research.

### Summary of Results of the Contribution of Business Research in Enhancing the Sustainability of SMEs



**Figure 5.20: Summary of Section A5 Responses**

Figure 5.20 shows that in general, the majority (66%) of the respondents were in disagreement (agree (46%) and strongly agree (6%)) that they have done some business research. While only 34% of the respondents agreed, (agree (32%) and strongly agree (2%)) that they conduct some business research in their SMEs.

The finding of the analysis conducted on the items that are necessary to conduct business research effectively amid SMEs to enhance their sustainability was portrayed in Figure 5.19 and 5.20, which is section A5 of the questionnaires. In general, the majority (66%) of the respondents were in disagreement (disagree (57%) and strongly disagree (9%)) that they

conduct some business research in their SMEs. The items that are necessary to conduct business research effectively in SMEs include applied business research, basic business research, consumer feedback research, product research, financial data and competitive analysis. However, only 34% of the respondents agreed (agree (32%) and strongly agree (2%)) that they conduct some business research in their SMEs. This means that the up to 66% of SMEs that do not conduct some business research in their businesses are most likely not to survive and be sustainable while only the 34% of them that conduct some business research in their businesses are most likely to survive and be sustainable.

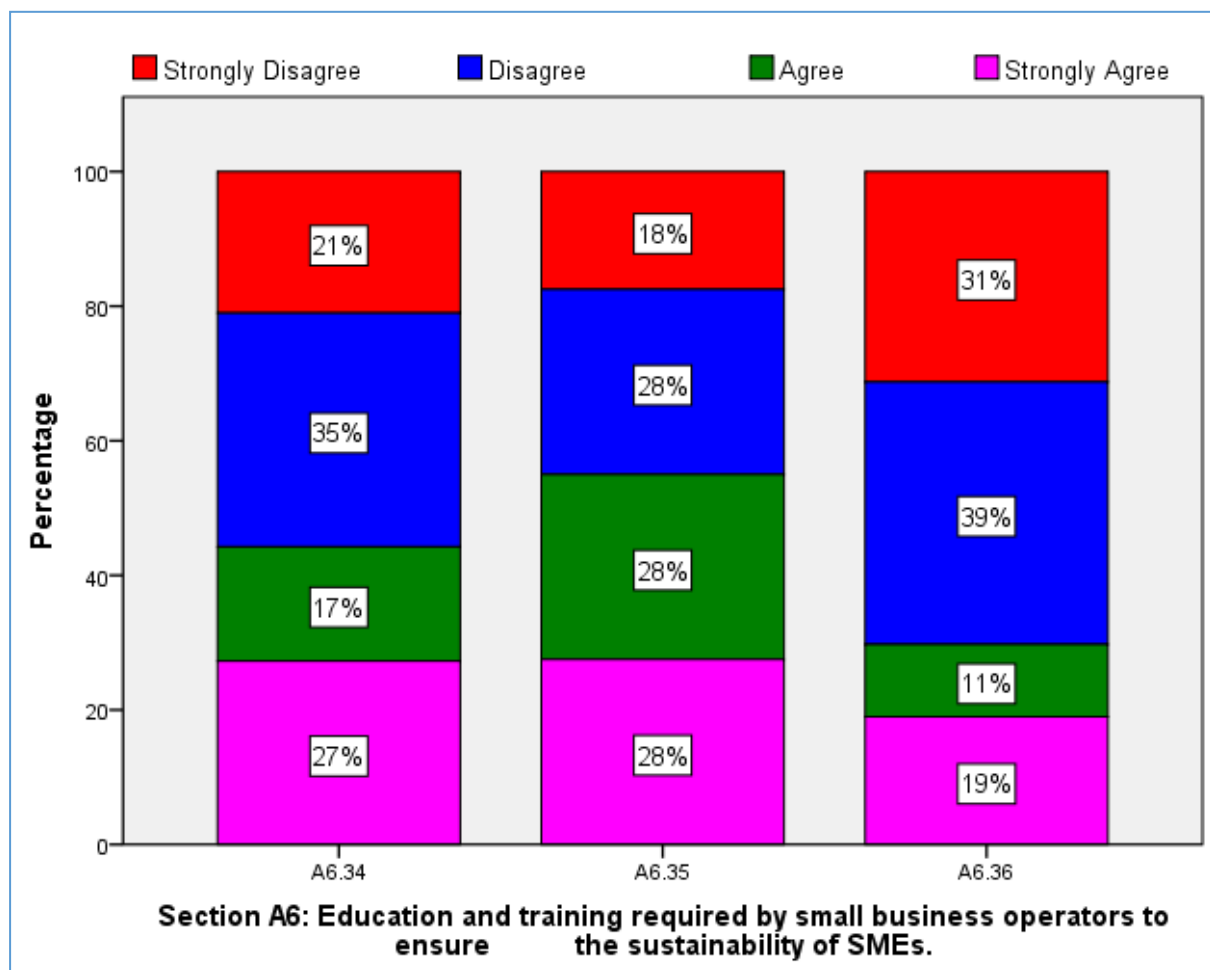
Theoretically, this result conforms to investment theory, which according to Pistorius (2014) gives the foundations of making investment decisions, starting with portfolio theory and the trade-off between risk and return. This implies that SMEs could invest in business research to improve on the quality of their goods and services as well as their abilities and knowledge of running a business to survive and be sustainable. Nunes *et al.* (2012) assert that investing in business research will enable a business entity to expand its market and increase its capital investment by ploughing back its profit into the business. The high sensitivity of investment indicates that there are serious constraints felt by SMEs in financing their investment. This leads one to believe that SMEs with little investment on business research jeopardize their survival and sustainability in the market because high levels of investment consequently enable any small business venture to be most likely to survive in the market and be sustainable. According to Kennon (2017), investment theory is important to SMEs because it provides investment options or strategies to entrepreneurs or investors, which in this case, can be equity to debt investments in business research. Hence, investing in business research will help to improve on SME owners/managers' skills of running a business as well as expand the market, which will enable the business to stand a high chance to survive and be sustainable.

According to Bodla (2006), the purpose of business research is to fulfil the need for knowledge of the enterprise, the market and other areas of uncertainties. The task of business research is to collect accurate information, which will help in decision-making and shift decision makers from intuitive information collection to objective and systematic investigation to ensure the success and sustainability of a business. Bartlett (2015) notes that business research is conducted in business enterprise to create and bring in new ideas about products or services and test the efficiency of the existing ones. Therefore, business research is conducted in marketing, observations and surveys on a daily basis to benefit the business. Hence, for SMEs



to be successful and sustainable, they need to conduct business research frequently because implementing the results of its findings will enable them to resolve specific problems that are affecting the smooth functioning of a business. More so, new ideas created from such research will also help to foster business growth and profitability, thereby leading to success and sustainability of the business enterprises.

#### 5.4.6 Section A6: Education and Training Required by Small Business Operators to Ensure the Sustainability of SMEs



**Figure 5.21<sup>6</sup>: Section A6 Responses**

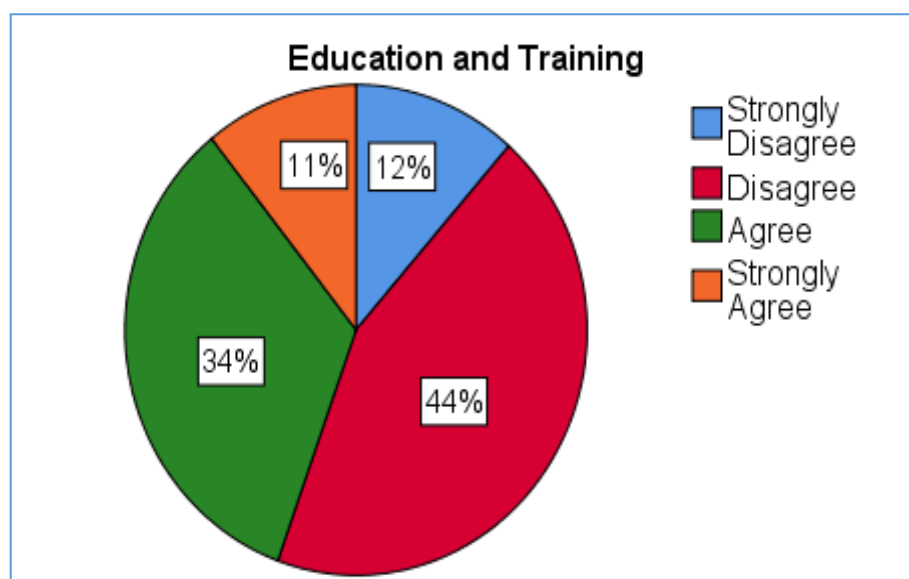
<sup>6</sup> **A6.34**=There is a greater consideration for business and training since it helps to equip both the owners/managers and employees with skills and competence to run a business effectively

**A6.35**=The members (owners/managers and employees) of this enterprise have reasonable levels of business education and are knowledgeable about the fundamental principles of business operations

**A6.36**=The members (owners/managers and employees) of this enterprise have reasonable levels of business education and are knowledgeable about the fundamental principles of business operations

Figure 5.21 shows that the majority (>50%) of the respondents agreed (agree and strongly agree) that they practice A6.34 and A6.36 which are measures of education and training required by SMEs to ensure sustainability. On the other hand, the majority (>50%) of the respondents were in disagreement (disagree and strongly disagree) that they practice A6.35 which is also a measure of education and training.

### Summary of Results of Education and Training Required by Small Business Operators to Ensure the Sustainability of SMEs



**Figure 5.22: Summary of Section A6 Responses**

Figure 5.22 shows that in general, the majority (56%) of the respondents were in disagreement (disagree (44%) and strongly disagree (12%)) that they have undergone some education and training. While only 45% of the respondents agreed (agree (34%) and strongly agree (11%)) that they have undergone some education and training of their members.

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**A6.35**=The members (owners/managers and employees) of this enterprise have reasonable levels of business education and are knowledgeable about the fundamental principles of business operations

**A6.36**=The members (owners/managers and employees) of this enterprise often attend business training programs to gain more knowledge, sharpen skills, change attitudes to enhance their performance  
Gers and employees) of this enterprise often attend business training programs to gain more knowledge, sharpen skills, change attitudes to enhance their performance

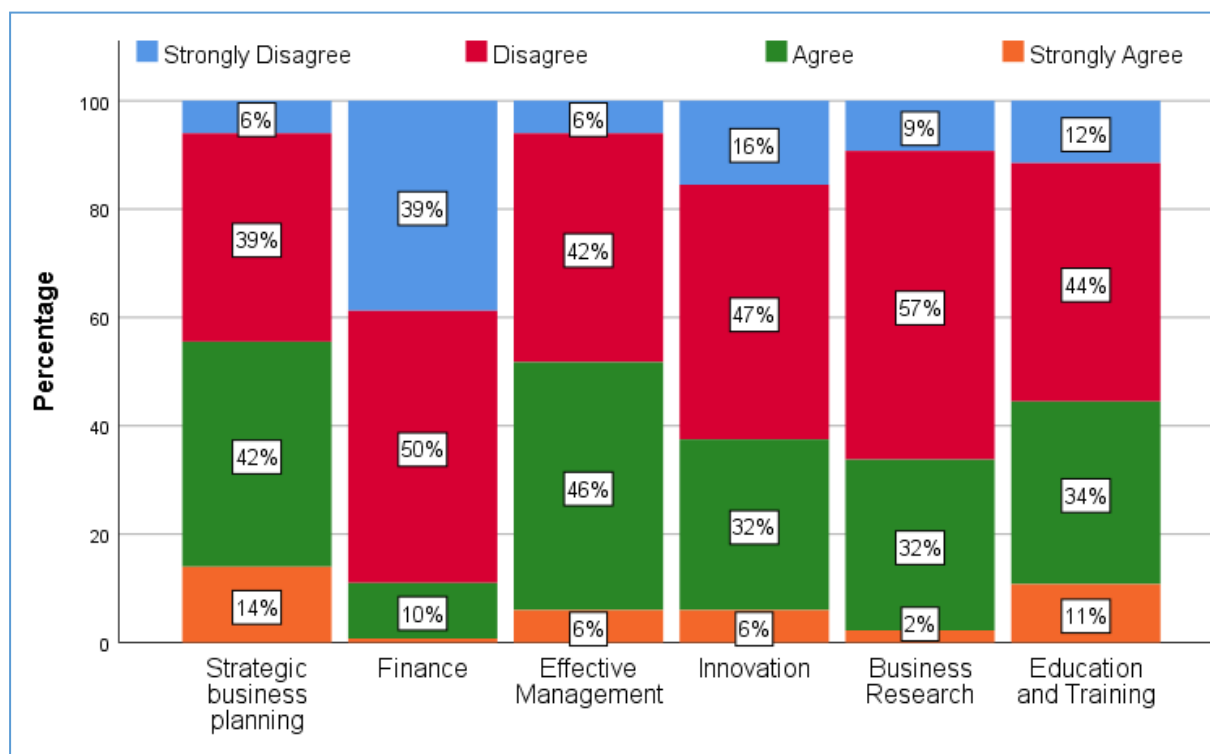
The finding of the analysis conducted on the items that are crucial to improve the level of education and training of human capital among SMEs to enhance their sustainability was portrayed in Figure 5.21 and 5.22, which is section A6 of the questionnaires. In general, the majority (56%) of the respondents were in disagreement (disagree (44%) and strongly disagree (12%)) that they undergo some education and training to equip owners/managers and employees with required skills, knowledge and competences to run their businesses effectively. The items that are crucial to improve the level of education and training of human capital among SMEs to enhance their sustainability include business education and business training lessons. Only 45% of the respondents agreed (agree (34%) and strongly agree (11%)) that they undergo some education and training to equip owners and employees with required skills, knowledge and competences to run their businesses effectively. This entails that the up to 56% of SMEs that do not undergo some education and training to equip owners and employees with required skills, to run their businesses effectively are most likely not to survive and be sustainable. Meanwhile only the 45% of them that undergo some education and training of owners and employees are most likely to survive and be sustainable.

Theoretically, this result conforms to investment theory, which according to Pistorius (2014) gives the foundations of making investment decisions, starting with portfolio theory and the trade-off between risk and return. This implies that SMEs could invest in the education and training of their human capital (members) to improve their abilities and knowledge of running a business to survive and be sustainable. Investing in the education and training of human capital will enable a business entity to increase its capital investment by ploughing back its profit into the business (Nunes *et al.*, 2012). This means that SMEs with little investment jeopardize their survival and sustainability in the market because high levels of investment consequently have a positive evolution of survivals and they are most likely to survive in the market and be sustainable. Kennon (2017) assert that investment theory is important to SMEs because it provides investment options or strategies to entrepreneurs or investors, which in this case, can be equity and debt investments on education and training of human capital. This leads one to believe that investing in the education and training of human capital of SMEs will help to improve on their skills of running a business and this will enable the business to stand a high chance to survive and be sustainable.

Surbhi (2015) states that business enterprises should consider both education and training at the time of planning their training program because in some instances, employees will need to

take decisions by themselves regarding their work. Therefore, education and training can help to equip small business owners, managers and employees with required skills, knowledge, expertise and competences to run their businesses effectively. According to Jacobs (2015), a reasonable level of education and training will enable the human capital to be effective in the operation and management of business thereby avoiding wasteful expenditures, which will lead to increase profitability, thereby leading to success and sustainability of the business enterprises.

### 5.5 Percentages of Responses per Construct (Section) of the Questionnaire

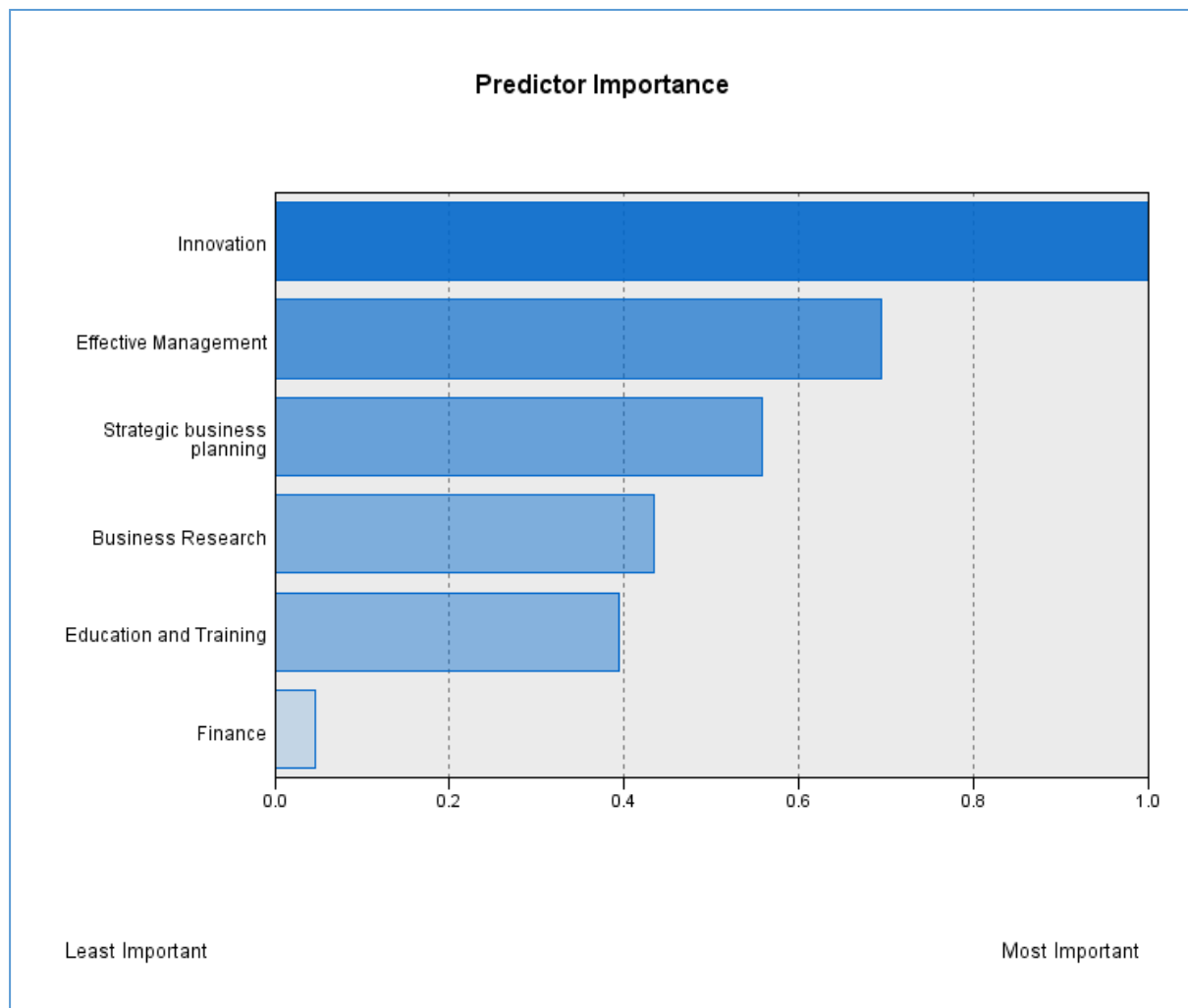


**Figure 5.23: Percentages of Responses per Construct**

Figure 5.23 shows that in general, the majority of the respondents were in disagreement (disagree and strongly disagree) that they have accessed to the proposed sources of finance, they are innovative, they conduct business research and view education and training as essential for SMEs to ensure sustainability. However, the majority of the respondents agreed (agree and strongly agree) that they practice strategic business planning and they practice effective management in their businesses. Except for sources of finance, the percentage of respondents

who strictly “agreed” with the other four potential determinants of SMEs sustainability ranged from 32% to 46%. It is worth noting that the sources of finance construct did not have much variability since almost all the respondents were in disagreement (disagree and strongly disagree) with it.

### 5.5.1 Segmentation of the SMEs based on the responses



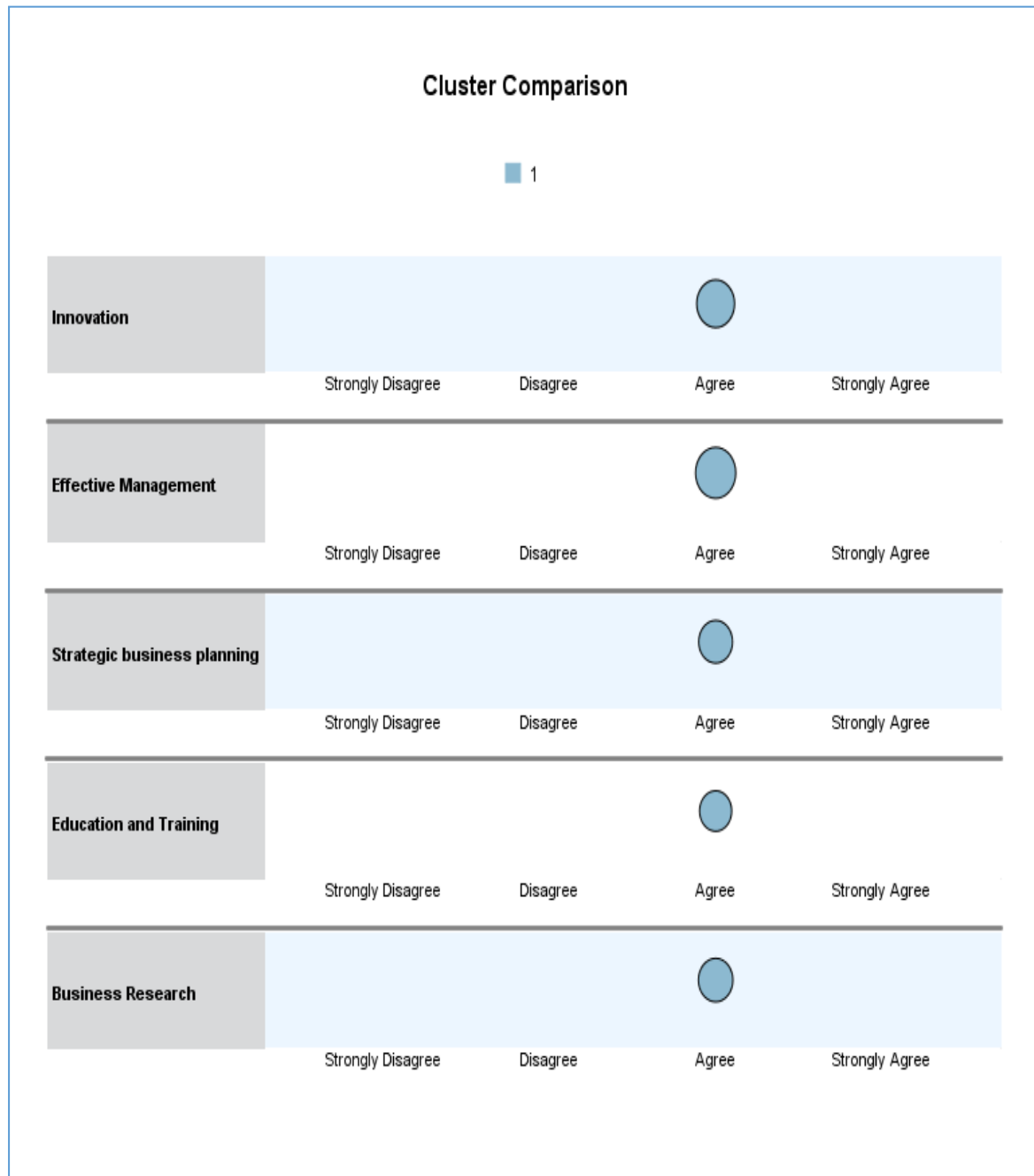
**Figure 5.24: Segmentation of the SMEs based on the responses**

Figure 5.24 shows that among the six-predictor determinant factors of sustainability, innovation is the most important and therefore contribute to the sustainability of SMEs the most than any of the other factors. The second most important determinant factors of sustainability is effective management, followed by strategic business planning, business research and then education and training of human capital. As expected (since there was no



Figure 5.25 shows the variables that are important in segmenting the SMEs based on the responses.

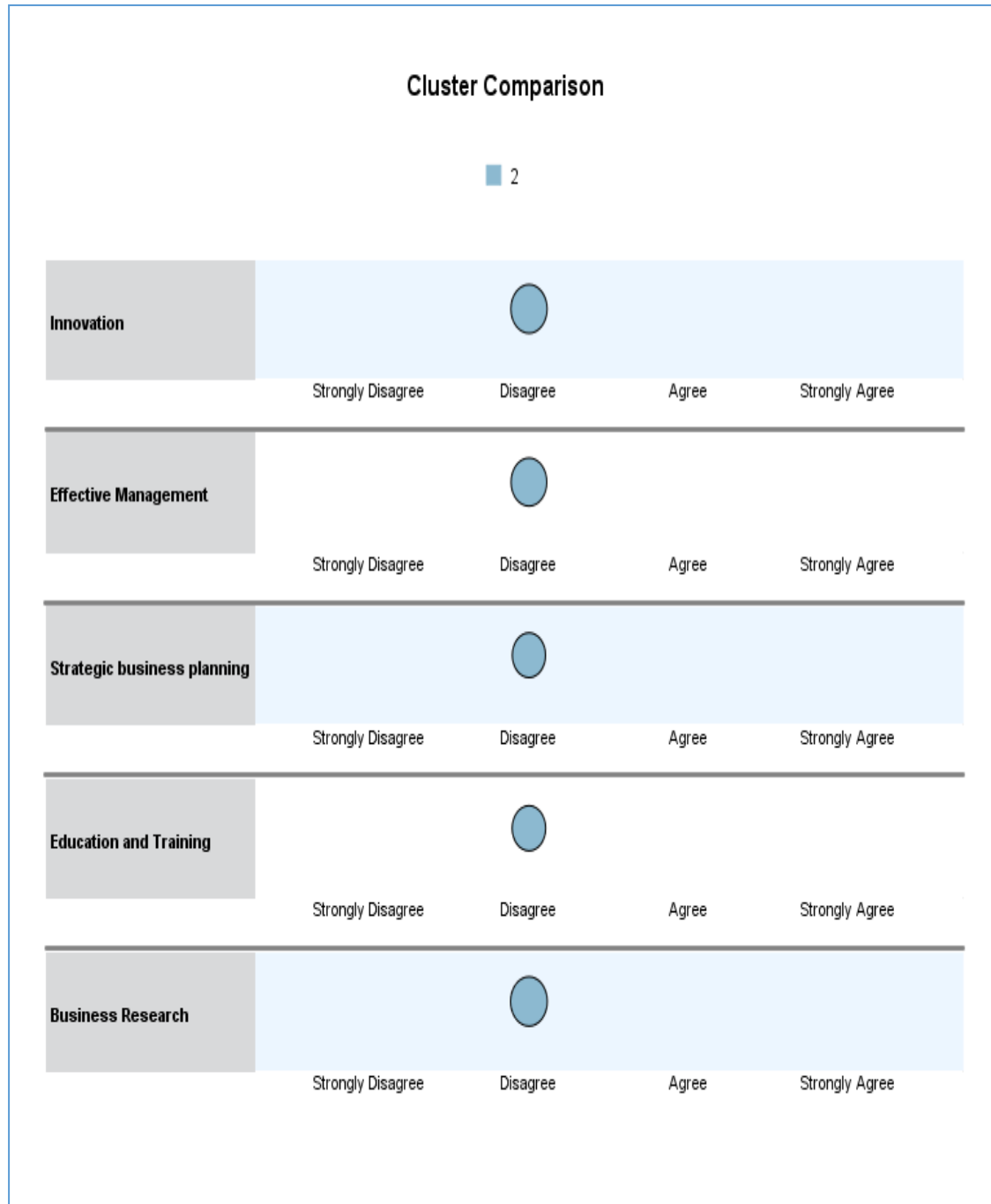
### 5.5.3 Cluster Comparison of Respondents' Responses per Construct



**Figure 5.26: Cluster 1 Comparison of Respondents' Responses per Construct**

Figure 5.26 shows that cluster one comprise SMEs, which are innovative, practice effective management, strategic business planning, perceive education and training as important and

conduct business research. Based on the theoretical relationship between the practice of these five aspects and the sustainability of SMEs, these SMEs are classify as “likely to be sustainable”.

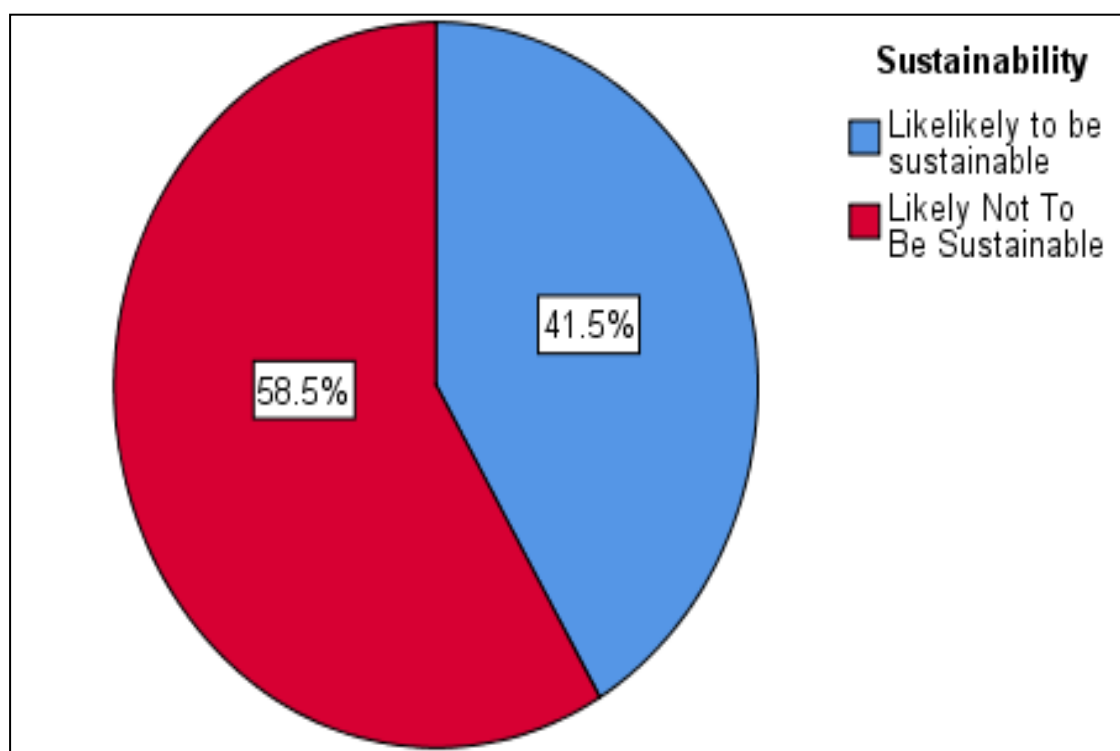


**Figure 5.27: Cluster 2 Comparison of Respondents’ Responses per Construct**



Figure 5.27 shows that cluster 2 comprise SMEs which are not innovative, do not practice effective management, do not have strategic business plans, perceive education and training as unimportant and do not conduct business research. Based on the theoretical relationship between the practice of these five aspects and the sustainability of SMEs, these SMEs are classify as “likely not to be sustainable”.

#### 5.5.4 Summary of Cluster 1 and 2 Comparison of Respondents’ Responses



**Figure 5.28: Summary of Cluster 1 and 2 Comparison of Respondents’ Responses**

Figure 5.28 shows that from the results of cluster 1 and 2 comparison, the majority of the SMEs (58.5%) are likely not to be sustainable whereas only 41.5% are likely to be sustainable.

## 5.6 The relationship between predictor variables/potential determinants (independent variables) of sustainability and sustainability of SMEs (dependent variable)

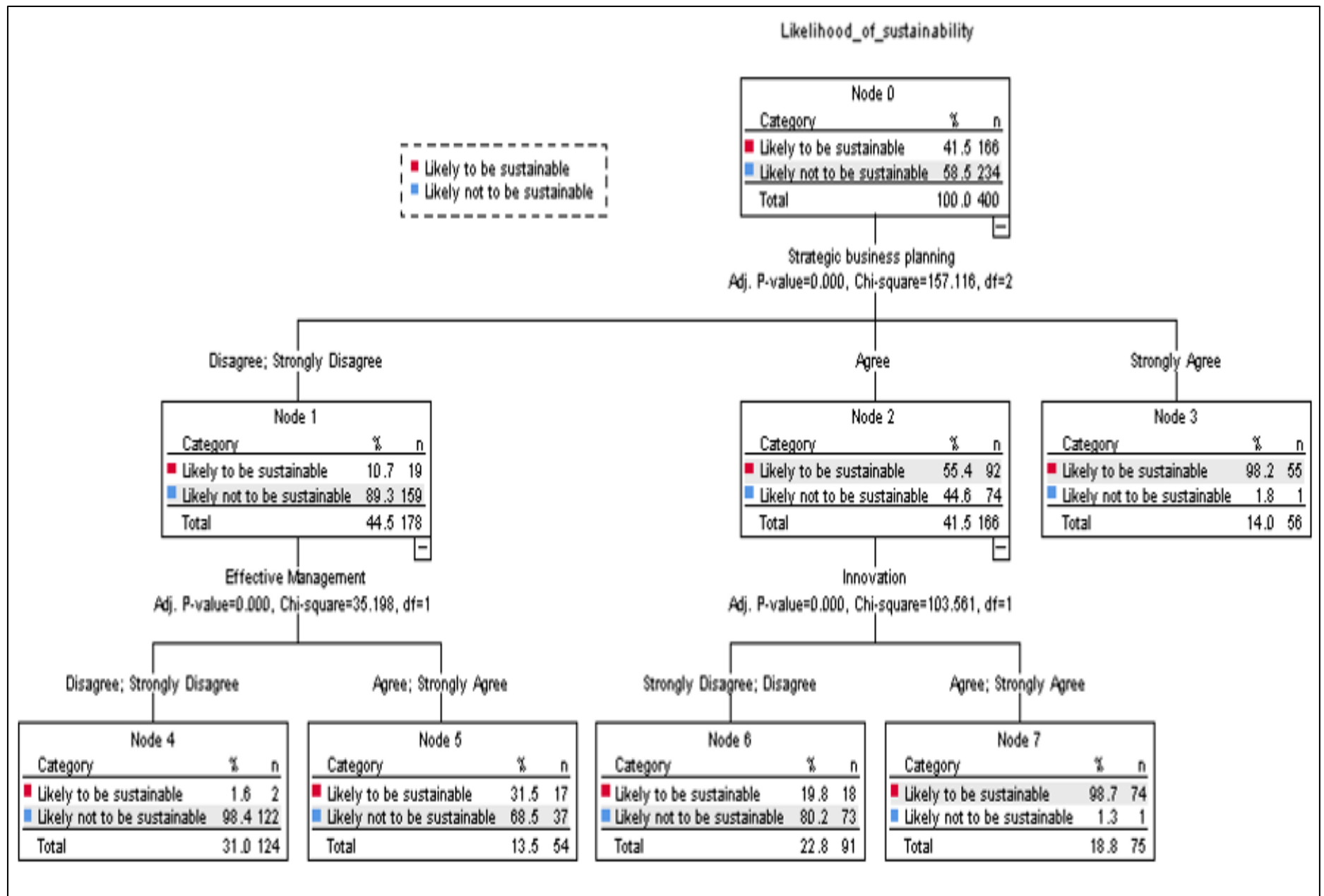


Figure 5.29: Relationship between predictor variables and the sustainability of SMEs

Figure 5.29 shows that only Strategic business planning, Innovation, and Effective Management have statistically significant associations with the sustainability of SME (p-values <0.05). The figure shows that only 10.7% of SMEs who disagreed and strongly disagreed that they practice strategic business planning stand a chance of being sustainable. However, the majority of the SMEs which agreed (55.4%) and those who strongly agreed (98.2%) that they practice strategic business planning stand a chance of being sustainable. Figure 5.29 also shows that only 1.6% of the SMEs which are not managed effectively (disagree and strongly disagree) stand a chance of being sustainable, but 31.5% of the SMEs which are managed effectively (agree and strongly agree) stand a chance of being sustainable. The figure equally confirms that only 19.8% of the SMEs which are not innovative (disagree and strongly disagree) are likely to be sustainable as opposed to 98.7% of the innovative SMEs (agree and strongly agree). Generally, innovative SMEs that are manage strategically and effectively stand a higher chance of sustainability.

**Table 5.3: Classification ability of SME sustainability**

<b>Classification</b>			
Observed	Predicted		
	Likely to be sustainable	Likely not to be sustainable	Percent Correct
Likely to be sustainable	129	37	77.7%
Likely not to be sustainable	2	232	99.1%
Overall Percentage	32.8%	67.3%	90.3%

Table 5.3 shows that the model in Figure 5.29 has an overall correct classification ability of 90.3%, which is excellent.

## 5.7 The effect/relationship of demographic variables on the CFA to the sustainability of the SMEs

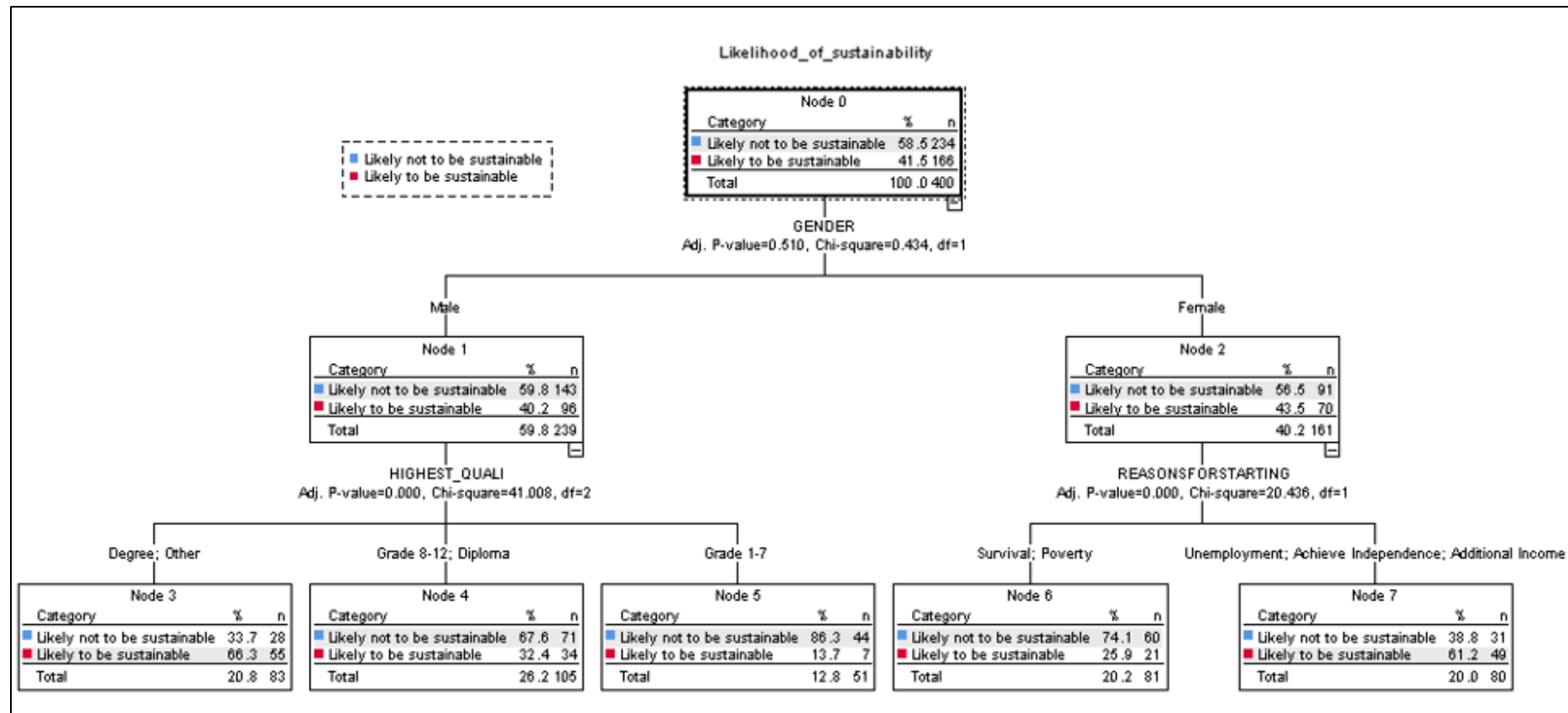


Figure 5.30: The relationship between sustainability of the SMEs and the demographic variables

Figure 5.30 shows that only the gender, highest qualification and reason for starting the SME have significant associations ( $p\text{-values} < 0.05$ ) with its sustainability. Gender has a significant association ( $p\text{-values} < 0.05$ ) with the sustainability of SMEs. This is because; there is a statistical significant relationship between the genders of small business owners/managers with the sustainability of SMEs. It indicates that a slightly higher percentage of female owned SMEs (43.5%) than male owned SMEs (40.2%) are more likely to be sustainable. This implies that gender is a determinant factor for the sustainability of SMEs. However, Davis *et al.* (2010) argues that regardless of whether a business owner/manager is a male or a female, a business must be in existence because both genders are all engaged in small and medium size enterprises for a specific purpose.

Figure 5.30 also shows that the level of education (highest education qualification) of business owners/managers has a significant association ( $p\text{-values} < 0.05$ ) with the sustainability of SMEs. There is a statistically significant relationship between the qualification of small business owners/managers and the sustainability of SMEs. Figure 5.30 indicates that a relatively very few SMEs are owned by people with Grade 1-7 (13.7%) stand the chance of being sustainable, followed by those whose owners have either Grade 8-12 or Diploma (32.4%) whereas the majority of SMEs whose owners have qualifications other than Grade 1 to Degree (66.3%) are more likely to be sustainable. Soriano and Castrogiovanni (2012) assert that the influence of education on the success of a business lies in the fact that knowledge gained enhances the managerial capacity of owners/managers to develop specific superior business strategies that can enable the enterprise to survive and be sustainable. In this regard, knowledge obviously plays a role in individual's lives in terms of understanding, managing and controlling the services that owners/managers render to their customers in the act of buying and selling of products.

Figure 5.30 equally indicate that the reasons for starting a business by owners/managers have a significant association ( $p\text{-values} < 0.05$ ) with the sustainability of SMEs. This is because there is a statistically significant relationship between the reasons for starting a business and the sustainability of SMEs. This figure indicates that a relatively few SMEs which were established due to poverty/ survival (25.9%) are likely to be sustainable compared to 61.2% of those SMEs which were established due to unemployment/to achieve independence/ to earn additional income. However, Lekhanya (2016) argues that the reason for starting a business is not really a significant determinant factor for its survival and sustainability. This is because the success

of a business does not necessarily depend on the reason for starting the business but rather on other predictor factors (dependent variables) that influence the sustainability of SMEs.

From the result of the effect/relationship of demographic variables on the CFA to the sustainability of the SMEs, other demographic variables such as age group, race, business location, nature of business, number of employees, duration of business and source of finance do not have significant associations (implying that their  $p$ -values  $> 0.05$ ) with the sustainability of SMEs.

According to Figure 5.30, age group does not have a significant association or relationship with the sustainability of SMEs probably because its  $p$ -value is greater than 0.05. This is because; there is no statistical significant relationship between the ages of small business owner/managers with the sustainability of SMEs. This implies that age is not a significant determinant factor for the sustainability of SMEs. It is assume that individuals who own and manage small business ventures do not necessarily have to be of any stipulated age before starting a business. As long as any individual has the desire and skill to operate a business, which is the prerequisite of owning and managing an SME, he or she can start up small business enterprise. However, Herrington and Kew (2015) argue that individuals who are of the ages of between 25 and 34 are more actively involved in operating businesses because they may have developed enough competence to run new businesses using their work experiences. This is because people who own or run small businesses do not necessarily have to be of a specific age group, what matters in running a business is the desire and need of the individual and whether he/she meets the necessary requirements of starting a business.

The absence of race from figure 5.30 means that it does not have a significant association or relationship with the sustainability of SMEs probably because its  $p$ -value is greater than 0.05. This is because; there is no statistical significant relationship between the races of small business owner/managers with the sustainability of SMEs in this study. Wiese (2014) argues that race is not a significant determinant factor for the sustainability of SMEs. This is because according to him, the success and sustainability of SMEs does not depend on the race of the owners/managers but what matters in running a business is whether an individual meets the necessary requirements of running a business.

Just like race, business location does not have a significant association or relationship with the sustainability of SMEs probably because its  $p$ -value is greater than 0.05. This is because; there

is no statistical significant relationship between the business locations with the sustainability of SMEs in this study. Eze *et al.* (2015) assert that the choice of business location is determined by the nearness of the business to its customers and the type of business that the owner wish to undertake. Hence, business owners/managers often carefully select the location of their businesses since site plays a huge impact towards the success and sustainability of SMEs. However, the focus of this study on business location was not to establish whether location has an effect on the sustainability of SMEs but rather, to have an equal representation of small businesses of the entire North West province from the four district municipalities of the region.

Nature of Business too does not have a significant association or relationship with the sustainability of SMEs in figure 5.30 probably because its p-value is greater than 0.05. This is because; there is no statistical significant relationship between the natures of business that the owners/managers operate with the sustainability of SMEs in this study. Islam and Muktadir-Al-Mukit (2016) note that the nature of businesses such as the retail, services, wholesale and manufacturers and others are not determinant factors for the success and sustainability of SMEs. This is because the nature of business does not really entails the increase alarming rate of why people opt for various forms of businesses or deciding on which alternative types of businesses will best suits them or rather one in which they can run and be successful.

The demographic variable of number of employees does not feature in figure 5.30 because it does not have a significant association or relationship with the sustainability of SMEs probably because its p-value is greater than 0.05. This is because, there is no statistical significant relationship between the numbers of employees that the owners/managers have and sustainability of SMEs in this study. Berisha and Shiroka (2015) contain that number of employees in a business is determined by the size of the enterprise but does not determine the success and the sustainability of the business. This is because the number of employees depends on the size of a business. Hence, the success of a business does not necessarily depend on the number of employees but rather on the competency of the employees to run the business successfully for it to be sustainable.

Duration of business does not equally have a significant association or relationship with the sustainability of SMEs in figure 5.30 probably because its p-value is greater than 0.05. This is because; there is no statistical significant relationship between the duration of business with the sustainability of SMEs in this study. This implies that the years in business in this study, is

not a determinant factor for the sustainability of SMEs. However, Wallace (2010) argues that the years of business operation is a determinant factor for the success of the business as experience acquired in business goes along with duration during the period of operation or the period the business has been in existence.

Lastly, sources of finance does not also have a significant association or relationship with the sustainability of SMEs in Figure 5.30 probably because its p-value is greater than 0.05. This is because; there is no statistical significant relationship between the sources of finance of a business with the sustainability of SMEs in this study. This implies that the source of finance for business in this study is not a determinant factor for the sustainability of SMEs. However, they ought to be some significant relationship between source of finance of SME and the sustainability of small businesses because generally, it is assumed that most businesses fail due to lack of funding. According to the Global Entrepreneurship Monitor (GEM) (2014) reports, lack of access to finance is one of the main reasons for small business discontinuance in South Africa.

### **5.8 Confirmatory Factor Analysis (CFA) for the Proposed Model**

In order to run the Confirmatory Factor Analysis (CFA) for the proposed model, it is important to indicate the benchmarks recommended by Lee et al. (2010).

**Table 5.4: Recommended benchmarks for structural equation modelling**

Comparative Fit Index (CFI)	0.997
Tucker-Lewis Index (TLI)	0.990
RMSEA	0.042

Table 5.4 shows that based on the benchmarks recommended by Lee et al. (2010) ,the fit indicates a good fit for the structural equation model since the CFI and TLI are greater than 0.90 and the RMSEA is less than 0.10.

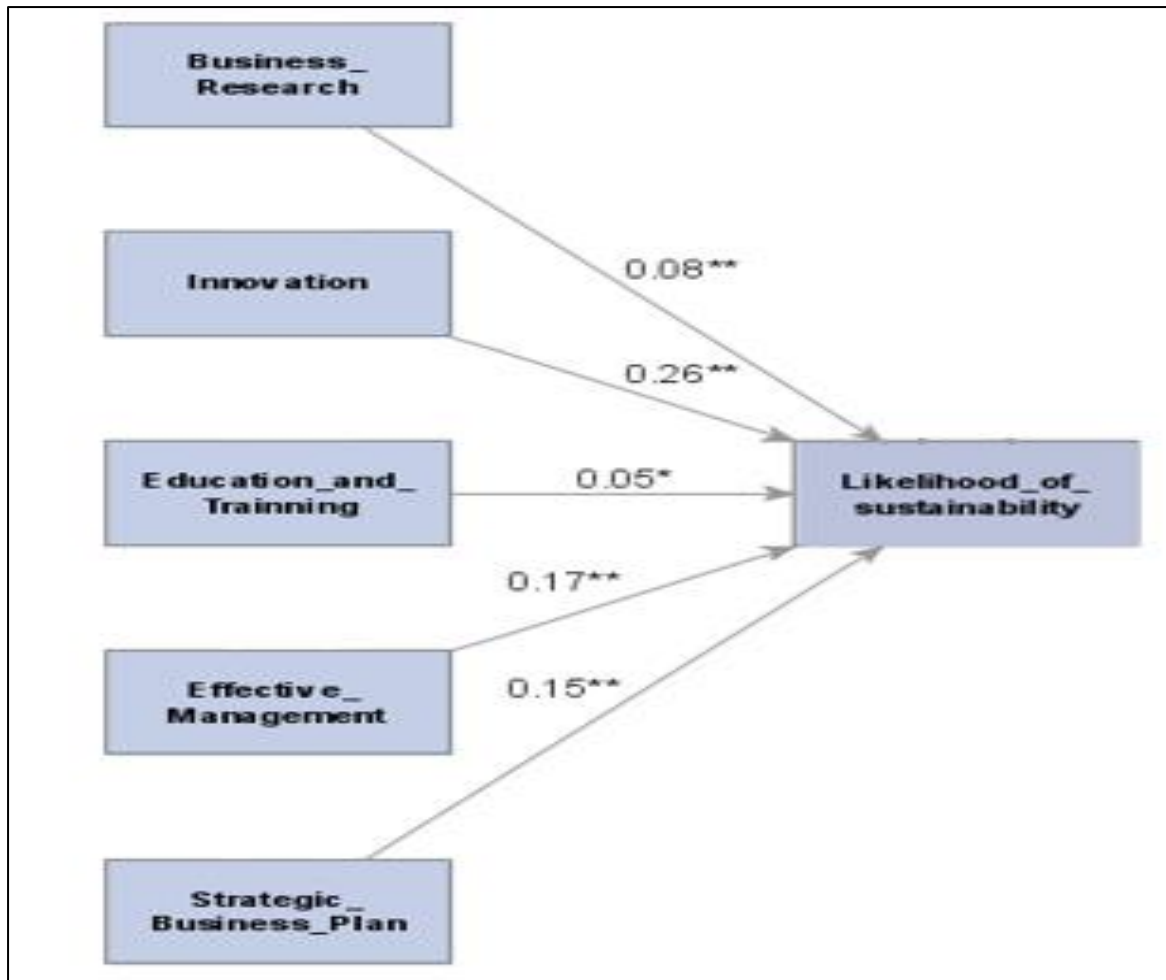


**Table 5.5: Predictor variables SMEs without availability of finance**

Path			Parameter	Estimate	Standard Error	t Value	Pr >  t
Strategic Business Plan	====>	Sustainability	_Parm1	0.149	0.018	8.169	<.0001
Effective Management	====>	Sustainability	_Parm2	0.170	0.026	6.453	<.0001
Innovation	====>	Sustainability	_Parm3	0.257	0.023	11.315	<.0001
Business Research	====>	Sustainability	_Parm4	0.076	0.024	3.175	0.0015
Education and Training	====>	Sustainability	_Parm5	0.048	0.020	2.412	0.0159

Table 5.5 shows that after excluding finance as a predictor variable since it was insignificant with p-value >0.05, all the paths remaining in the final model are significant (p-values <0.05). Hence, the model is valid.

Structural equation modelling is required in order to formulate and validate the proposed framework between the independent variables and the likelihood of sustainability. It has been established by Dalal-Clayton and Sadler (2014) that the measurement of sustainability is quite problematic because there are various metrics used for measuring it which are still evolving such as indicators, benchmarks, audits, indexes and accounting, assessment, appraisal and other reporting systems. This implies that it is often difficult to measure sustainability because there is no unique definition of it and it incorporates many aspects of the economy, society, governing institutions and it also involves interaction with the natural environment. Bell and Morse (2013) assert that many methods of measuring sustainability have been developed and each of them has its own specific uses, strengths and weaknesses. This also means that there is no standard measurement for sustainability, therefore the understanding of sustainability in the context of this study is limited to the “likelihood of sustainability”. In this regard, it can be deduced that the measurement of sustainability has some limitations which portrays the importance of scrutinizing the sufficiency of monitoring a universal method of measuring it. Therefore, the structural equation modelling portraying the correlation coefficients of SME predictor variables to the likelihood of sustainability is depicted in Figure 5.31.



**Figure 5.31: Correlation coefficients of SME predictor variables**

All the predictor variables (Business Research, Innovation, Education and Training, Effective Management, and Strategic Business Planning) have positive (as indicated by positive correlation coefficients) and statistically significant ( $p\text{-value} < 0.05$ ) to contribution towards the likelihood of SMEs sustainability. This implies that the more the SMEs implements Business Research, Innovation, Education and Training, Effective Management, and Strategic Business Planning, the more the businesses are likely to be sustainable. Innovation has the most contribution whereas education and training contributes the least. Based on the benchmarks recommended by Weinberg and Abramowitz (2016), the strength of the correlation coefficients ( $r$ ) in Figure 5.31 may be interpreted as follows:  $r = 0$  then there is no correlation,  $0 < r < 0.3$  illustrates a weak correlation,  $0.3 \leq r < 0.5$  illustrates moderate correlation and  $r \geq 0.5$  illustrates a strong correlation between the variables. Therefore, this implies that all the predictor determinants of sustainability (independent variables) have a positive correlation coefficient

and statistically significant contribution towards the likelihood of SME sustainability because all of them have a p-value that is equal to and greater than 0.05.

However, availability of financial resources was not significant in the structural model. This is because almost all the respondents were in disagreement that they have access to the available financial resources. In other words, there was no variation in the responses with regard to this variable; hence it was insignificant to measure its relationship with the dependent variable (sustainability).

**Table 5.6: The likelihood of SMEs sustainability**

<b>Test Statistics</b>	
N	100
Cochran's Q	33.417
Df	3
Asymp. Sig.	.000

Table 5.6 shows that the likelihood of sustainability of an SME differ significantly (p-value < 0.05) across the four district municipalities. The proportions of sustainability by district municipalities are presented in Table 5.7.

**Table 5.7: The proportions of sustainability by district municipalities**

	Likely Not To Be Sustainable	Likely To Be Sustainable
Ngaka Modiri Molema	46%	54%
Bojanala Platinum	83%	17%
Dr Kenneth Kaunda	50%	50%
Ruth Segomotsi Mompati	55%	45%
<b>TOTAL</b>	234%/4	166%/4
	<b>58.5%</b>	<b>41.5%</b>

**Table 5.8: Results of the Kruskal Wallis Test conducted**

<b>Test Statistics</b>						
	Strategic business planning	Finance	Effective Management	Innovation	Business Research	Education and Training
Kruskal-Wallis H	23.363	9.093	6.409	41.193	4.874	2.348
df	3	3	3	3	3	3
Asymp. Sig.	.000	.028	.093	.000	.181	.503

Table 5.8 shows that the results of the Kruskal Wallis Test conducted indicate that only Strategic Business Planning and Innovation practices are significantly different ( $p\text{-value} < 0.05$ ) across the four districts municipalities. Table 5.9 shows these differences.

**Table 5.9: Differences between strategic business planning and innovation practices**

	Strategic business planning	Innovation
Strongly Disagree	6.0%	15.5%
Disagree	38.5%	47.0%
Agree	41.5%	31.5%
Strongly Agree	14.0%	6.0%

## 5.9 Summary of the Quantitative Findings of the Study

The results of the quantitative data analysis per research objective indicated that out of the six factors (predictor variables) that enhance the sustainability of SMEs in municipalities of the North-West Province of South Africa, only two are practiced by participants. The two

determinant factors of SME sustainability that are practiced by some owners/managers are strategic business planning (with majority of 56% of the respondents) and effective management (with majority of 52% of the respondents). However, the other four factors (predictor variables) that enhance the sustainability of SMEs which include availability of finance (with 89%), innovation (with 63%), business research (with 66%) and education and training (with 56%) of respondents were in disagreement that they practice them in their businesses. Therefore, the findings of the quantitative data analysis of the study have all indicated that the majority of SMEs in municipalities of the North West province of South Africa have not been sustainable. This is because they do not have strategic business plans, insufficient finance, ineffective management, they are not innovative, they do not conduct business research and they do not ensure education/training of human capital.

Due to the high failure rate and unsustainability of SMEs, the outcome of the findings indicates that if SMEs in municipalities of the North West province can consider and implement the proposed determinant factors of SME sustainability in their businesses, they will be more likely to experience improvement in their businesses and be sustainable. Base on the overall findings of this study, it can be said that all the identified factors/predictor variables (independent variables) in the structural equation model (figure 5.31) discussed above have a relationship, thus influencing the sustainability of SMEs (dependent variable). Only three of the demographic variables (gender, highest qualification and reasons for starting business) have a significant relationship with the sustainability of SMEs (dependent variable). However, most of the demographic variables are irrelevant and therefore do not have a significant relationship with sustainability of SMEs because they do not add significant value to the study.

According to the cluster comparison in Figure 5.26 and 5.27, cluster 1 comprise of SMEs which are innovative, practice effective management, strategic business planning, perceive education and training as important and conduct business research. Based on the theoretical relationship between the practice of these five aspects and the sustainability of SMEs, these SMEs are classify as “likely to be sustainable”. Whereas cluster 2 comprise of SMEs which are not innovative, do not practice effective management, do not do strategic business planning, perceive education and training as unimportant and do not conduct business research. Based on the theoretical relationship between the practice of these five aspects and the sustainability of SMEs, these SMEs are classify as “likely not to be sustainable”. Hence, the majority of the

SMEs (58.5%) are likely not to be sustainable whereas only 41.5% are likely to be sustainable as portrayed in figure 5.28.

All the predictor variables (business research, innovation, education and training, effective management, and strategic business planning) have positive (as indicated by their positive correlation coefficients values) and statistically significant ( $p\text{-value} < 0.05$ ) to contribution towards the sustainability of an SME. This implies that the more SMEs implement business research, innovation, education and training, effective management, and strategic business planning, the more the businesses are likely to be sustainable. Innovation has the most contribution towards the sustainability of an SME with a positive correlation coefficient of up to 0.26, second by effective management with 0.17, third by strategic business planning with 0.15, follow by business research with 0.08, whereas education and training contributes least with only 0.05 positive correlation coefficient.

Base on the findings portrayed in figure 5.28 and figure 5.31, the majority of the SMEs in municipalities of the North West province (58.5%) are likely not to be sustainable whereas only 41.5% are likely to be sustainable. The majority of SMEs in this province are likely not to be sustainable because of the assertion of GEM Report (2010), Mahembe (2011), Kolver (2012), GEM (2014) and BER (2016). These business reports and scholars assert that apart from some minor causes, the major causes of failure and unsustainability of SMEs are lack of strategic business planning, lack of sufficient finance, poor management, lack of innovation, lack of business research and low level of education and training. The 41.5% of SMEs in the province that are likely to be sustainable, are those that implement the determinant factors of SMEs in their businesses.

Most entrepreneurs start up their small businesses with a passion for success and growth to be sustainable in business, yet many of them lack the knowledge, skill or expertise and lack the necessary background to manage the businesses effectively for them to be sustainable (Pryor *et al.*, 2010). Base on the afore mentioned causes of SMEs failure and unsustainability by business scholars, it is an indication that SMEs can survive and be sustainable if they understand and implement the proposed determinant factors of SME sustainability in their businesses as depicted in figure 5.31 above. However, availability of financial resources was not significant in the structural model (figure 5.31) because almost all the respondents (89%) were in disagreement that they have never had access to the available sources of finance. There

was no variation in the responses with regard to this variable, making it insignificant to measure its relationship with the dependent variable (sustainability of SMEs). Since there was no variation in the responses, the sources of finance for SMEs do not discriminate the groups well; hence, this construct was excluded from the analysis.

### **5.10 Chapter Summary**

This chapter presented the data analysis and interpretation of results of findings of the quantitative study drawn from the outcome of the questionnaire from SME owners/managers in municipalities of the North West province of South Africa on enhancing the sustainability of small businesses in this region. The survey for this study and this chapter in particular concentrated mainly on SME owners/managers and the questions focused on how they can enhance the sustainability of their businesses. The questions were developed with the intention of providing answers to the research questions posed in chapter one in order to attain the objectives of this study.

The chapter began with the analysis of the demographic responses respondents. The demographic responses were presented in pie charts and percentages were used to denote the proportions of their opinions. This was followed by analysis of questions on the likelihood of SME sustainability presented in six sections according to the various constructs of the questionnaire. SPSS and Microsoft Excel application software were used to capture and analyse data. Data analysis relied on descriptive analysis with multivariate analysis using cluster comparison on the determinant factors of SME sustainability. According to the predictor importance of factors that influence the likelihood of SME sustainability which are the independent variables, availability of finance is the most important factor, followed by innovation, effective management, strategic business planning, business research and education and training. The next chapter presents the systematic details of qualitative data analysis and discussion of findings to further support the quantitative findings also from the perspectives of selected SME owners and managers within the municipalities of the North West province of South Africa.

## **CHAPTER SIX**

### **QUALITATIVE DATA ANALYSIS AND INTERPRETATION OF RESULTS**

#### **6.1 Introduction**

The previous chapter (five) presented the quantitative data analysis and interpretation of results, which is one and the first approach of sequential explanatory mixed method design to address the problem under investigation. This chapter (six) presents the qualitative data analysis and interpretation of results, which is the second approach of sequential explanatory mixed method design. The chapter centres on the qualitative follow up phase of empirical investigation based on the sequential explanatory research design. The strategy of the research design implore in this study, enable the analytical process for interviews, thematic approach of coding, and findings according to each construct of the interview questions. Alas.ti application software was use to analyse the data collected from participants during the interview process. Alast.ti is a computer software program used to analyse qualitative data. Thematic approach was use in the Alast.ti software in order to ensure that meaningful information is drawn from the data collected for the study. Literature review is use to substantiate the empirical qualitative findings of this study where it is applicable.

#### **6.2 Results of Qualitative Data Analysis**

This section presents the results of qualitative data analysis that was done using Alast.ti application software. Atlas Ti and qualitative thematic data analysis were used in this study to establish how participants assign meaning to a specific phenomenon through analysing their perceptions, understandings and knowledge. Qualitative data analysis involved making sense of the interview schedules, which started with the process of identification of themes. Maree and Van Der Westhuizen (2008) argued that it is best to start with an inductive analysis, because according to them, research findings will emerge from the significant themes. Moreover, Atlas Ti qualitative analysis permit the emergence through its ability to code, and group into code families. Additionally the questionnaire was open-ended type of questions. The advantage of using open-ended questionnaire is that it was easy to probe the research participants to elaborate further with about the questions.



The analysis of raw data started by collating all the 20 responses of participants into one whole transcript. This helped to see the responses of all twenty participants to each research question. The next stage was to load this transcript into Atlas Ti software, where further analysis was computed. In the Atlas Ti system, free quotations were derived, codes and auto-coding were generated.

### **6.3 Description of Data Collection Process**

The interview questions for qualitative study were carefully designed to get the views of small business owners/managers in municipalities within the jurisdiction of the North West province on what they require for their businesses to survive and be sustainable. The questions were structured open-ended questions, which was intended to give the participants enough latitude answer and provide as much details as possible. The interview conducted with the participants was both verbal and non-verbal. The verbal interview whereby the questions were ask or read out to the participants or respondents who could not read. With verbal interview, track could be kept by writing down the respondents' answers to the questions and by audio recording their responses with the help of research assistants. The non-verbal indicates cases where the potential respondents complained of too many commitments and lack of time to respond to the question immediately and demanded that the interview questions be given to them to respond in writing at their convenience.

The interview questions were in seven sections addressing the seven objectives of the study as follows:

**Section 1:** The interview questions in this section comprise of the contribution of strategic business planning to the sustainability of SMEs

**Section 2:** The questions in this section address the sources of finance available to enhance the sustainability of SMEs

**Section 3:** The questions in this section relate the effective management of SMEs to enhance their sustainability

**Section 4:** This section consists of questions relating to the contribution of innovations in enhancing the sustainability of SMEs

**Section 5:** This section comprises of questions that address the contribution of business research in enhancing the sustainability of SMEs

**Section 6:** The questions in this section relate education and training required by small business operators to ensure the sustainability of SMEs

**Section 7:** The interview questions in this section comprise of a possible framework that can be use to enhance the sustainability of SMEs

In order to refine the interview questions to achieve data consistency and minimise or eliminate data error, a pilot study was first conducted with ten participants to determine the trustworthiness of the research instrument before the final interview was done. In the final interviews conducted, 20 small business owners/managers in municipalities of the North West province were interviewed before attending saturation. A judgmental sample method was use in selecting the 20 small business owners/managers who participated in the interview. However, a number of challenges were encounter during the data collection process for the qualitative study. One of such challenges encountered during the interview process was that many small business owners/managers were unwilling to share any information regarding their business for reason best known to them. Before getting into the actual results of the qualitative data analysis, it is important to begin with the description of the demographic responses of the study participants. A summary of the description of the study participants is presented in table 6.1 below.

**Table 6.1: Demographic data of participants interviewed**

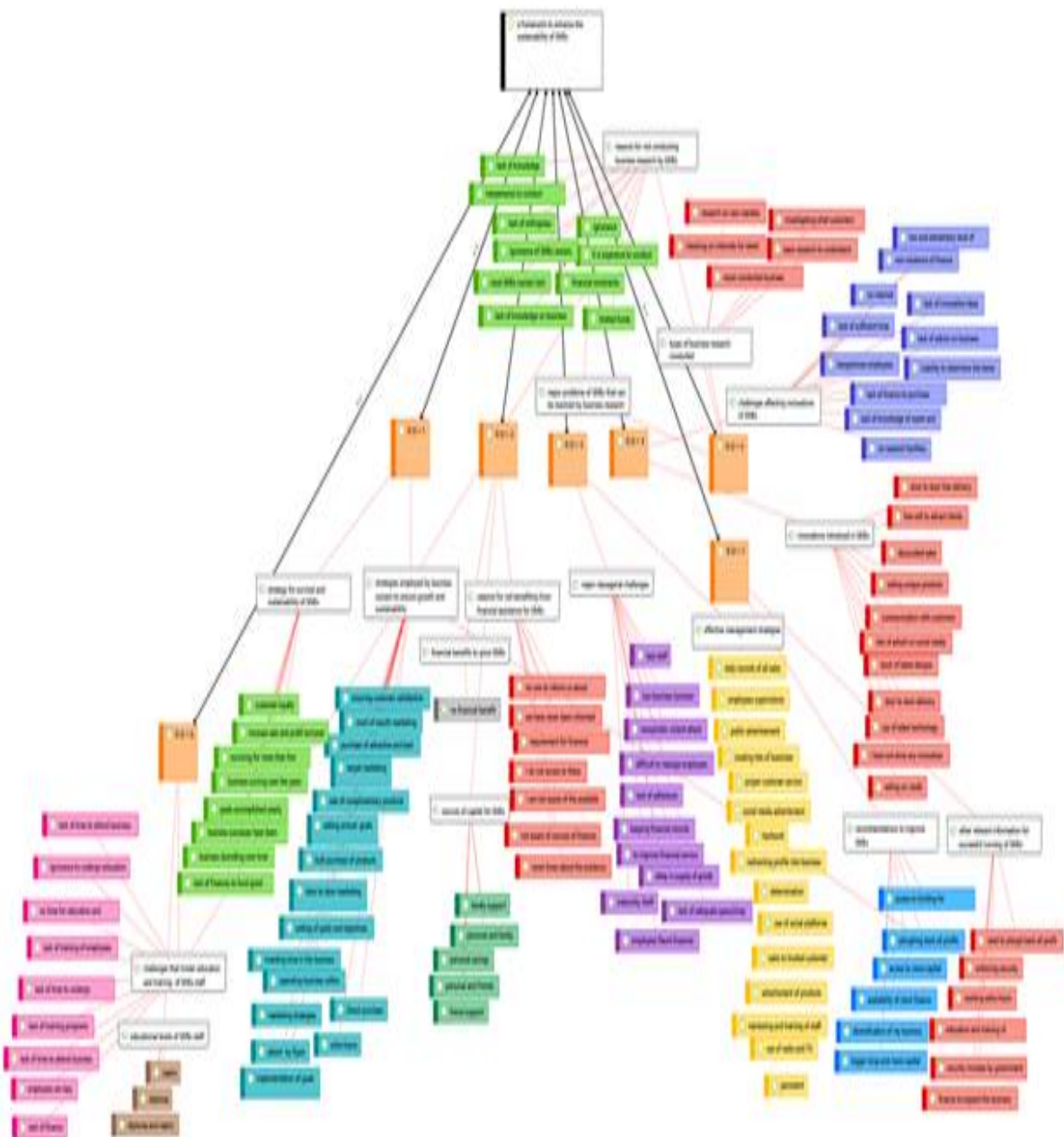
<b>Gender</b>	Male	12
	Female	8
<b>Total</b>		<b>20</b>
<b>Educational qualification</b>	Matric	13
	Diploma	4
	Tertiary	3
<b>Total</b>		<b>20</b>
<b>Duration of business</b>	Under 1 year	5
	1 – 5 years	11
	5 – 10 years	4
<b>Total</b>		<b>20</b>
<b>Nature of business</b>	Retail	8
	Service	6
	Whole sale	4
	Manufacturing	2
<b>Total</b>		<b>20</b>

Table 6.1 illustrates the profile of the SMEs business owners/managers who participated in the study. From the table, out of the twenty business owners/managers who participated in the study, 12 of them were males and eight were females. Their educational qualifications ranged from: 13 who had completed matric, 4 who had completed diploma certificate and 3 possessed tertiary degrees. As far as duration of business is concerned, 5 participants indicated that their businesses were under 1 year of operation, 11 said their businesses have been in existence from 1 – 5 years and 4 of them, from 5 – 10 years. According to the data given for nature of business, eight participants said they were running retail businesses, 6 were operating service businesses, 4 were operating wholesale businesses and 2, manufacturing businesses.

#### **6.4 Presentation, Interpretation and Discussion of Qualitative Results Base on Themes**

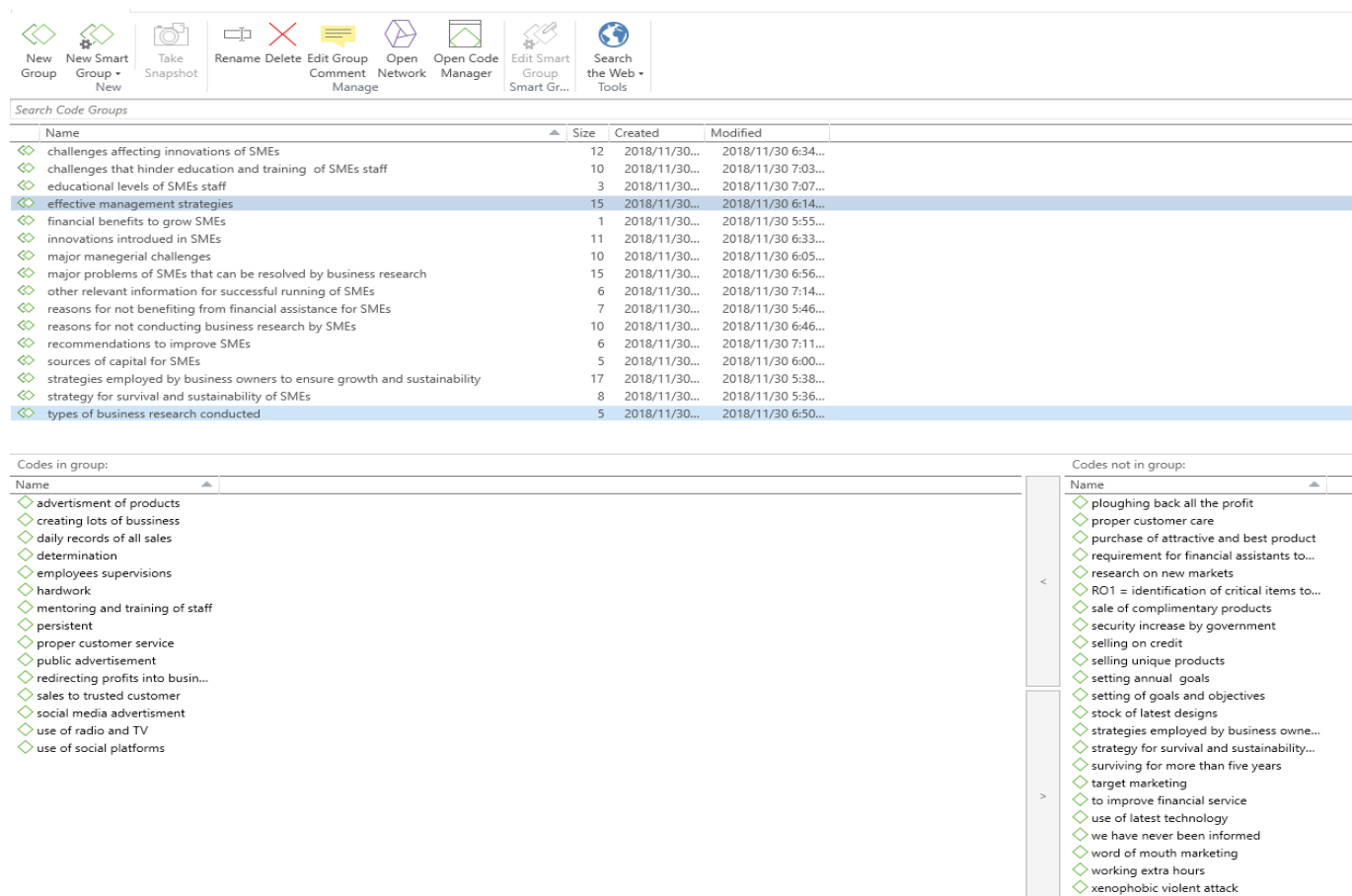
The presentation, interpretation and discussion is done per research objective and according to themes generated from the data by Alastair involving the seven sections of the interview question according to how the study seeks to provide answers to the phenomenon under investigation. The interpretation and discussion of these qualitative results include verbatim extracts from participants' responses during interviews, and analysis by correlating their comments with the relevant literature. The discussion in this section incorporates the opinions of the research participants and analysis of the information gathered and correlating it with literature and quantitative findings. In the course of this discussion, references are made to the quantitative results where there are applicable so that the qualitative data can explain the research questions in chapter one clearly, thereby complying with the research design which is explanatory sequential as indicated in chapter four of this study. The literature review of this study (chapter two and three) relates to the research objectives, which is correlated with the results of quantitative study.

Codes were formulated by creating quotations that are assigned to them. The process of coding led to the generation of a network diagram that displays the association or connection of the themes and their codes as they all stem from the sustainability of SMEs as depicted in figure 6.1 below.



**Figure 6.1: Network Diagram of Themes and their Associated Codes**

A screenshot of the themes with the codes in groups and codes not in groups generated by atlas-ti statistics programme which is the outcome of the discussion that follows is depicted in figure 6.2 below.

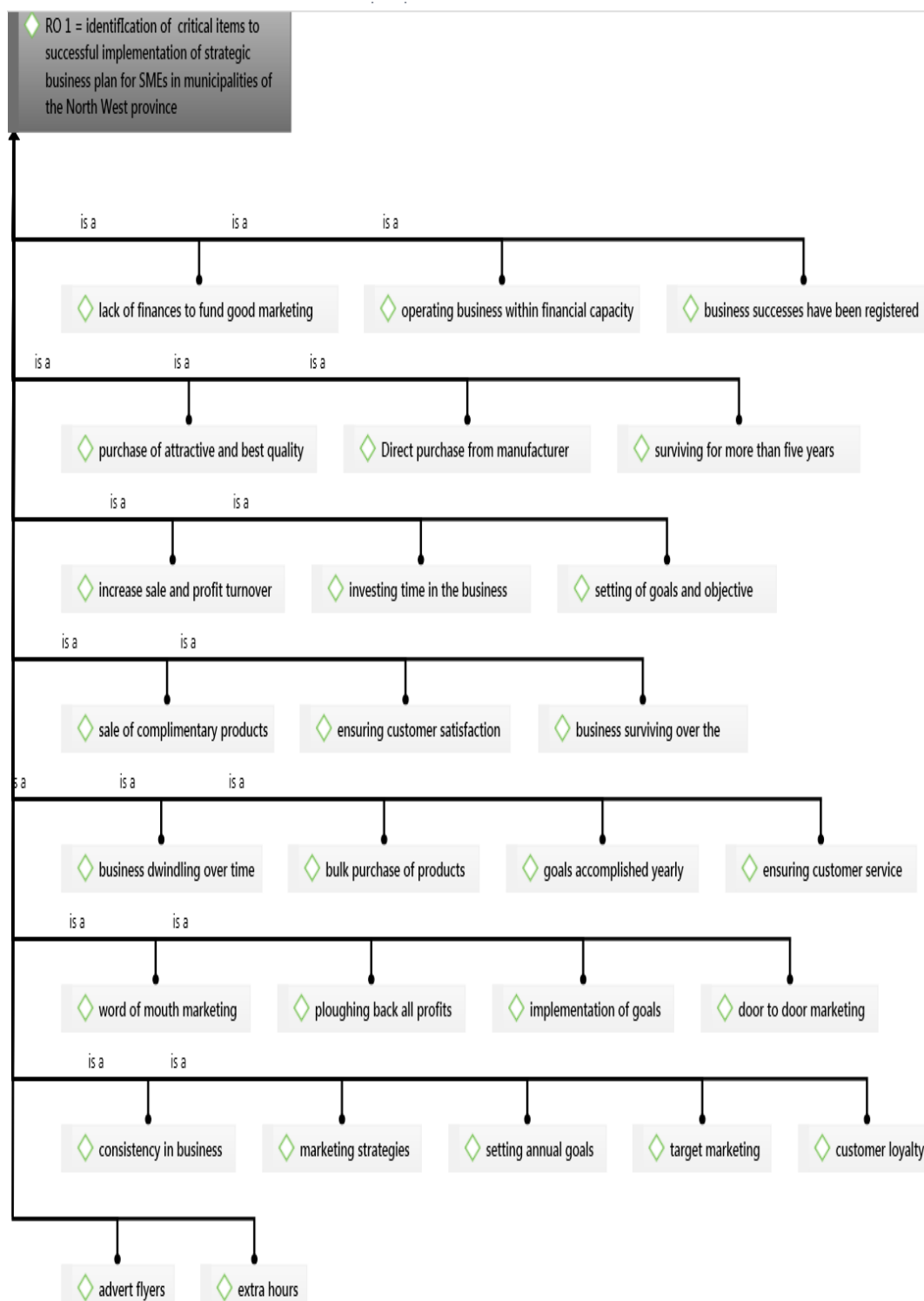


**Figure 6.2: Screenshot of Themes and codes in Atlas-Ti Statistics Programme**

The discussion of the themes per research objective as portrayed in the network diagram and the screenshot of the themes and their associate codes is presented next in an attempt to provide answers to the phenomenon under investigation.

#### 6.4.1 The Contribution of Strategic Business Planning to the Sustainability of SMEs

When analysing critical items that describe the successful implementation of strategic business plan among SMEs, Atlas Ti, auto-coding was performed on the transcript, to visualize participants understanding and ideas regarding important factors that describe successful implementation of strategic business plan among SMEs in municipalities of the North-West Province, Atlas, Ti generated the following codes as displayed in figure 6.3 below. The codes are description of participants' perceptions when discussing a particular subject matter. See figure 6.3 below.



**Figure 6.3: Critical factors of successful implementation of strategic business plan among SMEs**

In addition to the visualization analysis, thematic analysis was conducted and two major themes emerged from the data: Strategies used to ensure growth and sustainability of SMEs and how

successful is the strategy to the survival and sustainability of SMEs as depicted in figure 6.4 below



**Figure 6.4: Items for successful implementation of strategic business plan among SMEs.**

With regards to the theme: **strategies for survival and sustainability of SMEs**, with the exception of two participants, all participants reported using one strategy or the other to ensure growth of their business. In fact, four business owners reported ploughing back all profits realized. According to these participants, strategies adopted by them will ensure expansion of their business. Likewise, four other participants claimed that to ensure growth in their business,

the most appropriate strategy they adopt is advertisement, they identified different types of advertisement, namely, door to door marketing, word of mouth advert, advert with flyers, target marketing, and social media marketing. It also emerge from the study that setting of annual goals and ensuring implementation of these goals is fundamental to growth and sustainability of any SMEs. More so, managers of SMEs interviewed in the North-West Province revealed that strategies such as working extra hours, bulk purchase, quality supervision by management, stock of quality goods and product are strategies that can ensure growth of SMEs. Here are a few of their responses

*... I plough back all the profit realized into the business to ensure that it grows and be sustainable*

*...I do target marketing in my fashion business to target mostly the youths who are so much obsess with fashion*

*....I do door to door marketing of my product to prospective customers*

*... I set annual goals and ensure that they are accomplish*

*... I operate extra hours as well as on weekends and public holidays*

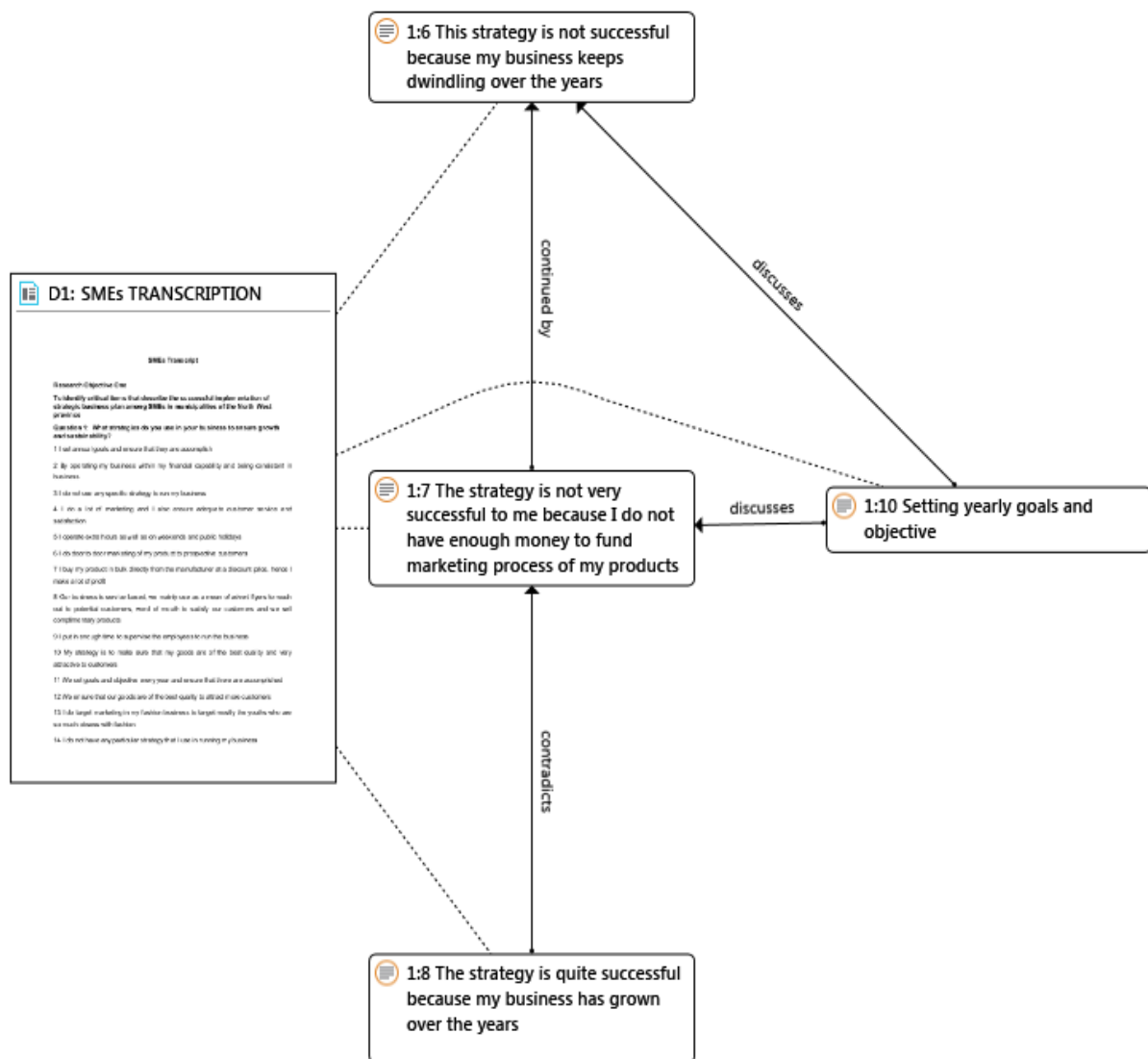
*... I buy my product in bulk directly from the manufacturer at a discount price; hence I make a lot of profit*

*... I put in enough time to supervise the employees to run the business*

The quantitative data reveals that majority (up to 56%) of small business owners/managers agreed that they practice strategic business planning in their SMEs. This prompted the qualitative study to ask semi-structured and probing questions about the various kinds of business strategies that these businesspersons apply in their businesses to ensure that they survive and be sustainable. From the above codes and direct comments of the participants on their strategies for survival and sustainability, it is evident that strategic business planning is important for a business to succeed and be sustainable since majority of business owners endeavour to adopt one kind of strategy or the other to ensure success. This perhaps explain why according to the quantitative study, some SMEs in the North West province that do not have strategic business plans are struggling to survive and some of them are even winding up. It is evident therefore that a strategic business plan is important for the success of a business because according to Lorette (2017), it helps to give small business owners/managers a step-by-step guide of how their business goals and objectives are going to be achieved for them to survive and be sustainable.



With regards to the theme: **how successful is the strategy to the survival and sustainability of SMEs**, majority of the participants interviewed reported that strategies adopted by them have been successful so far. According to the business owners interviewed, strategies such as setting yearly goals and accomplishing such goals have yielded good results, because their businesses have survived over the years. Fifteen business owners express their views that marketing strategies and setting yearly goals have been successful strategies for their businesses. According to these participants, they have recorded customer loyalty; improved sales and profit have increased over time. Contrarily, two business owners felt the strategy might not be a successful one, because according to them, they argued that the strategy was unsuccessful in their business since their business keep dwindling over the years because they lack financial power to sustain the goals set by them. While one expressed that, the setting of goal strategy was unsuccessful due to financial constraints for marketing purposes. Another business owner who felt similar view that in spite of setting goal strategy continued the argument, his business was going down. However, another business owner who stated that the strategy was very successful in his business contrasted this argument. See their exact words as generated by Atlas Ti in Figure 6.5.



**Figure 6.5: Example of arguments related to business strategies of setting yearly goal**

Below are some related responses of participants to strategies for survival of SMEs:

*The strategy has been successful because my business has survived over the years*

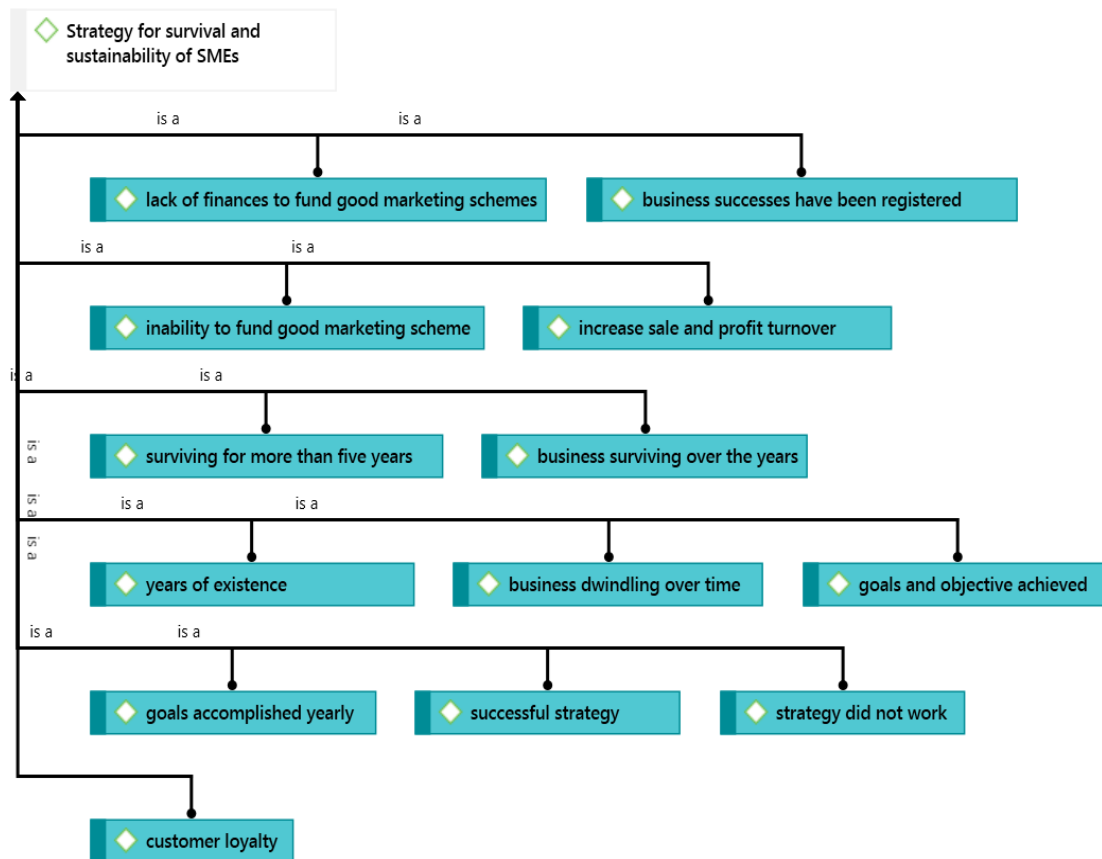
*... The strategy is not successful for me because my business keeps dwindling as time goes by*

*... The strategy is not very successful because I do not have enough money to fund a good marketing scheme to reach out to potential customers*

... The strategy is successful because I have been able to register quite some successes in my business

... The strategy is successful because it has created customer loyalty, which has led to increase sale of our products

... The strategy is successful because it has created customer loyalty, which has led to increase sale of our products



**Figure 6.6: Strategies for survival and sustainability of SMEs**

...The strategy is successful because I have been able to register quite some successes in my business

...The strategy is successful because it has created customer loyalty, which has led to increase sale of our products

*...The strategy is successful because my business is surviving*

*... The strategy is successful because my business is surviving*

*... The strategy is not very successful to me because I do not have enough money to fund marketing process of my products*

*... The strategy is quite successful because my business has grown over the years*

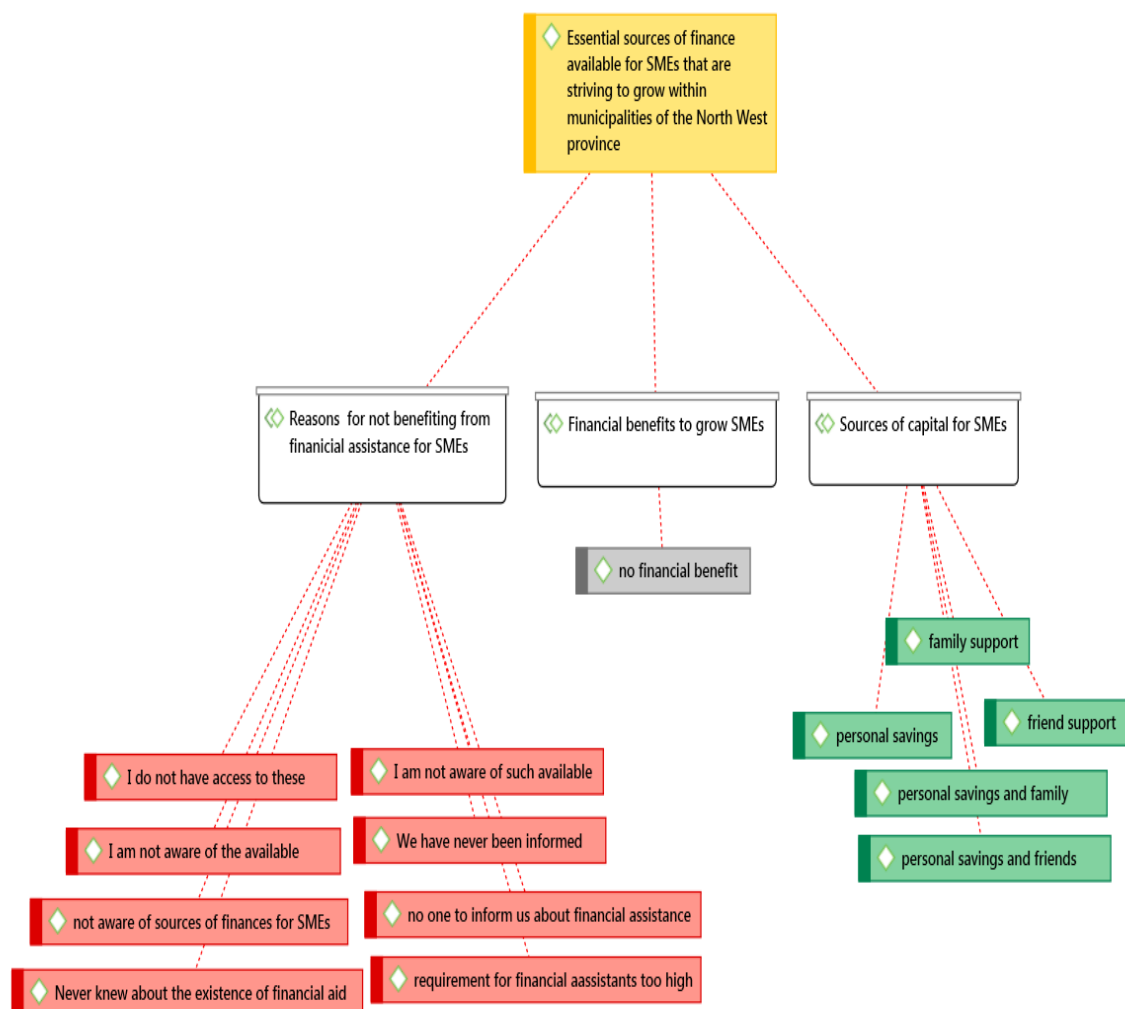
From the responses of the participants on how successful is their business strategies, it is evident that the strategies used by most business owners/managers in operating their businesses are successful because majority of them indicated that the tactics they used in running their businesses are effective. This explains why the majority of SME owners/managers in the quantitative study admitted that they have strategic business plans for their SMEs. Most businesspersons endeavour to formulate strategies for operating their businesses because they have probably come to understand that it is like a roadmap that guides them to success and sustainability. This assertion concur with Berry (2017)'s view that strategic business plan determines where a business is going to focus its energy and resources and sets goals for stakeholders to pursue for the success and sustainability of their businesses. This is an indication that majority of SMEs owners/managers with better and successful strategies will encounter few or no difficulties in the operation of the business to achieve their goal and objectives. This implies that a good business strategy is require by SME owners/managers to enhance their strategic business planning to ensure the success and sustainability of their businesses.

Conclusively, from the responses on the two themes that emerged from this construct (critical items that describe the successful implementation of strategic business plan among SMEs), there is a need for every SME owner/manager to formulate and pursue a strategic business plan for their businesses. Findings have revealed that since majority of businessmen are endeavouring to develop strategies for their businesses and most of them are successful, then strategic business planning is a principal factor in enhancing the survival and sustainability of a business. Theoretically, this conforms to the theory of merger and acquisition, which stipulates that it is the amalgamation of two or more businesses into one new corporation (Roberts, 2010). This way, big businesses with successful strategic business plans can merge with or acquire those that do not have strategic business plans and are at the verge of collapsing and use this as a strategy for them to survive and be sustainable. The findings of this construct

therefore indicate that strategic business planning is an approach and one of the means by which SMEs owners/managers in municipalities of the North West province can use to ensure the success and sustainability of their businesses.

#### 6.4.2 Source of Finance Available to Enhance the Sustainability of SMEs

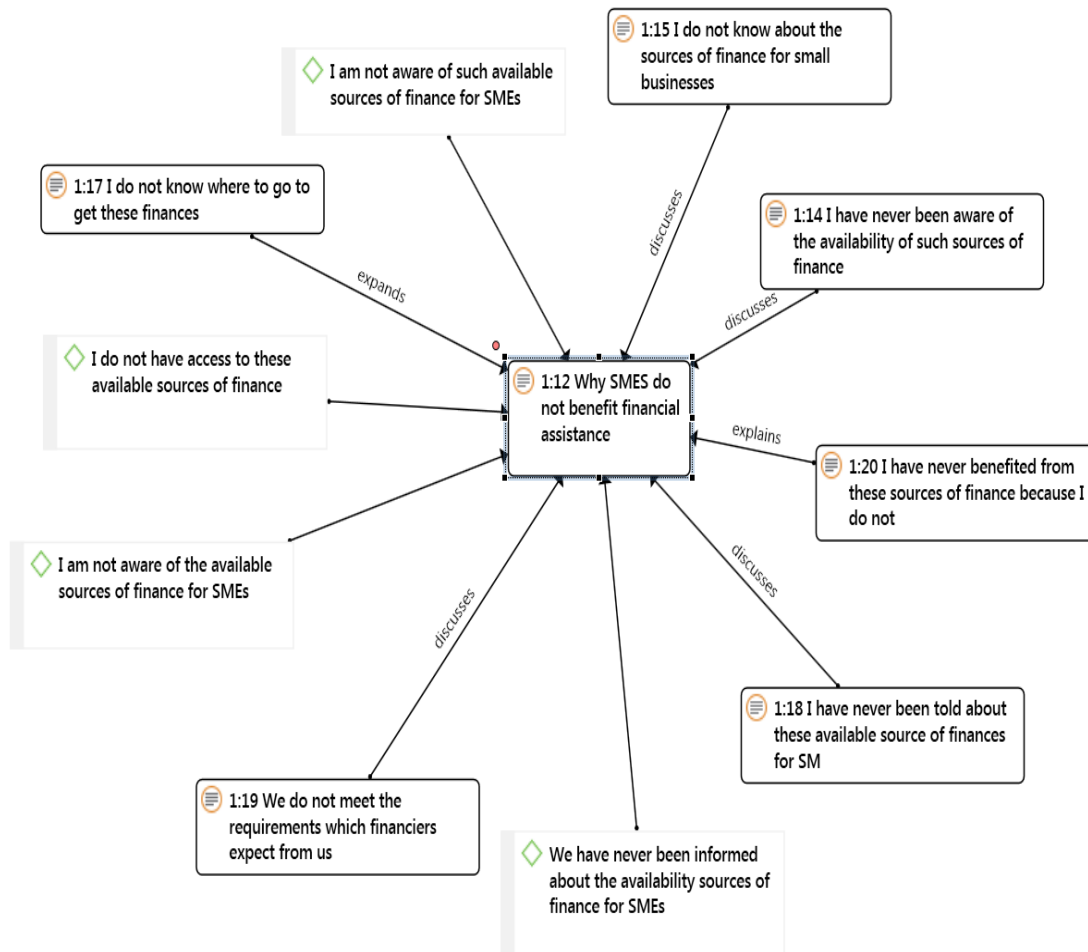
When analysing **essential sources of finance available for SMEs** on Atlas Ti, free quotations were generated on the transcript to visualize participants' expressions on finance available for SMEs and three themes emerged from the data: financial benefits to grow SMEs, reasons for lack of financial benefits, and sources of capital for SMEs as depicted in Figure 6.7 below.



**Figure 6.7: Essential sources of finances available for SMEs**

With regards to the theme: **financial benefits to grow SMEs**, all twenty study participants attest to the fact that they have never benefited from any source of finance for their business. From the responses of the participants on financial benefits to grow their businesses, it is evident that the financial and technical support meant for SMEs by relevant government departments and agencies do not get to them. This probably explain why most SMEs in the North West province are struggling to survive and some of them are winding up because of lack of finance thereby resulting to a high failure rate of businesses in this sector. Due to the important contribution in job creation and the GDP of the economy, the South African governments is seeking to provide a supportive environment for growing SMEs. This is because the challenges require that new strategies and tools be used to help promote the growth and sustainability of these businesses in the economy. Kalane (2015) avers that the lack of availability of funding or lack of access to finance an SME could hampered the growth and sustainability of the business. Therefore, the absence of access to funding is the principal cause of business failure in South Africa. These findings are congruent with the quantitative results where almost 89% of respondents disagreed that they have benefited from the proposed available sources of funds. This is equally an indication that majority of SMEs depend only on internal support mechanisms to survive, reason why most of them fail within the first five years of operation.

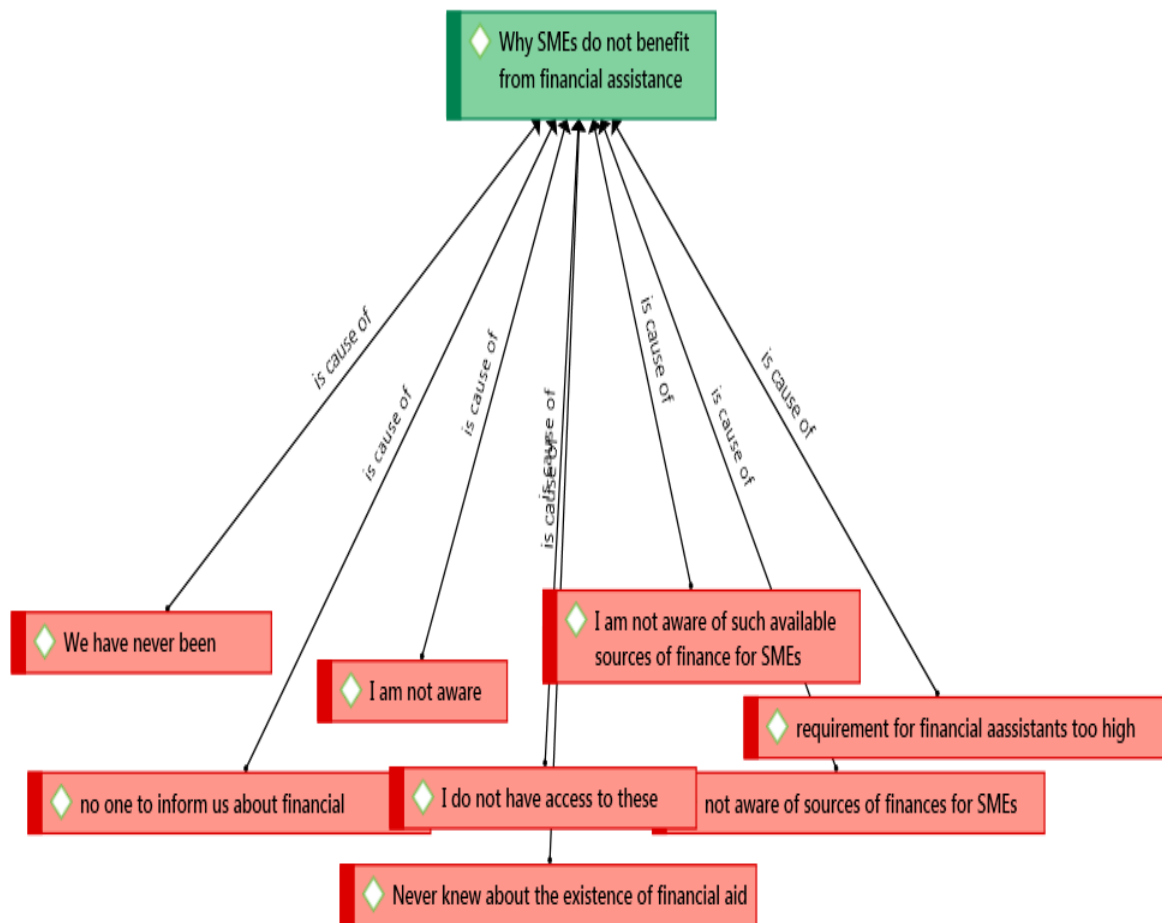
With regards to the theme: **reasons for not benefiting from financial assistance**, sixteen business owners freely express their ignorance of lack of knowledge about any existing sources of finance for SMEs and this accounted to the reason why they had never benefitted from the available sources of finance for SMEs in South Africa, particularly in the North-West Province. Participants expressed that they are not aware of the available sources of finance more so, they do not even know where to go to get the information. The exact words of participants as generated by Atlas ti free quotations are presented in Figure 6.8 below



**Figure 6.8: Participants’ exact words on why they do not get financial benefits for SMEs**

Further analysis on Atlas Ti reveal that access to finance was an issue towards getting funding for SMEs. Three business owners expressed their opinion that their inability of not getting financial assistance is due to lack of access to these available source of finance, moreover, a foreign business owner voiced out that he is automatically disqualify as a foreigner and he is not sure that he can access the available funding for SMEs. Similarly, two business owners expressed that they do not benefit because of not meeting necessary requirements as seen in figure 6.9 for reasons offered by participants. Below are some of the responses:

- ...I have never benefited from these sources of finance because I do not meet necessary requirement*
- ... I am not aware of the available sources of finance for SMEs*
- ... I do not have access to these available sources of finance*
- ... I do not know where to go to get these finances*



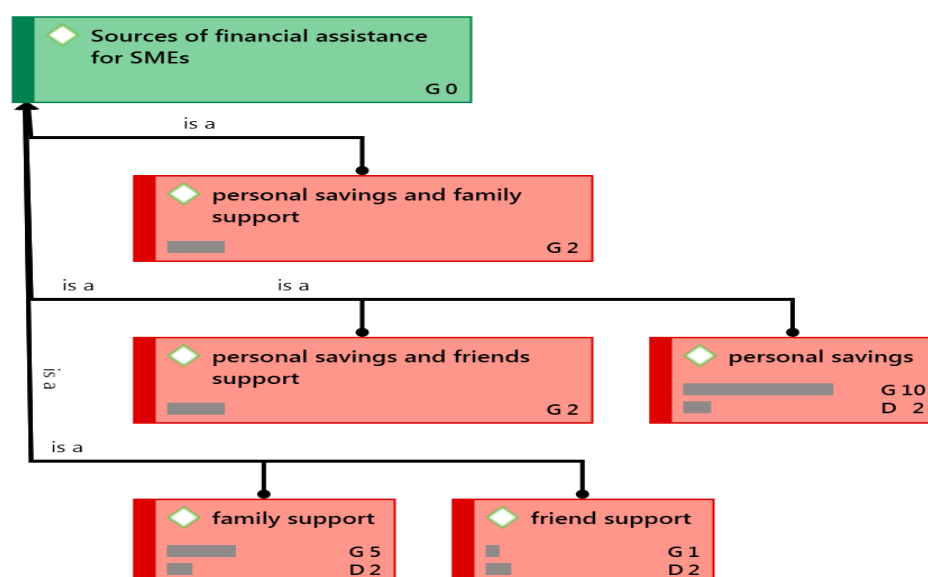
**Figure 6.9: Reasons why SMEs do not benefit from financial assistance**

From the comments of the study participants on the reasons why they do not benefit from financial assistance from relevant government departments and agencies, there is an indication that much still need to be done to reach out to SMEs with financial and even technical support. The means and mechanisms used by the relevant authorities to support SMEs need to be revisited and improved such that all intending and existing small business owners are aware of this assistance and knows where and how to access it. This assertion is in line with GEM (2014) reports that most entrepreneurs lack the necessary information and knowledge on how to gain access to finance to fund their businesses before going operational. This is very important for the survival and sustainability of SMEs as BER (2016) rightly states that the lack of access to funding causes business failure in South Africa. These findings are congruent with the quantitative results where almost all the respondents agreed that they have benefited from the proposed available sources of funds. This is an indication that majority of SMEs depend only on internal support mechanisms to survive, reason why most of them fail within the first five



years of operation because of ignorance of where and how to get financial support to fund their businesses to survive and be sustainable.

With regards the theme: **sources of capital for SMEs**, the responses of study participants indicated self-dependence in relation to finance for their businesses. Out of the twenty participants interviewed in this study, ten business owners reported that the source of capital for their businesses is personal savings; five said it was family support, while one depended on friends support, two business owners depended on personal savings and family support and only two participant reported combining personal savings and friend support. Atlas Ti assisted to visualize this finding in Figure 6.10 below



**Figure 6.10: Sources of capital for SMEs**

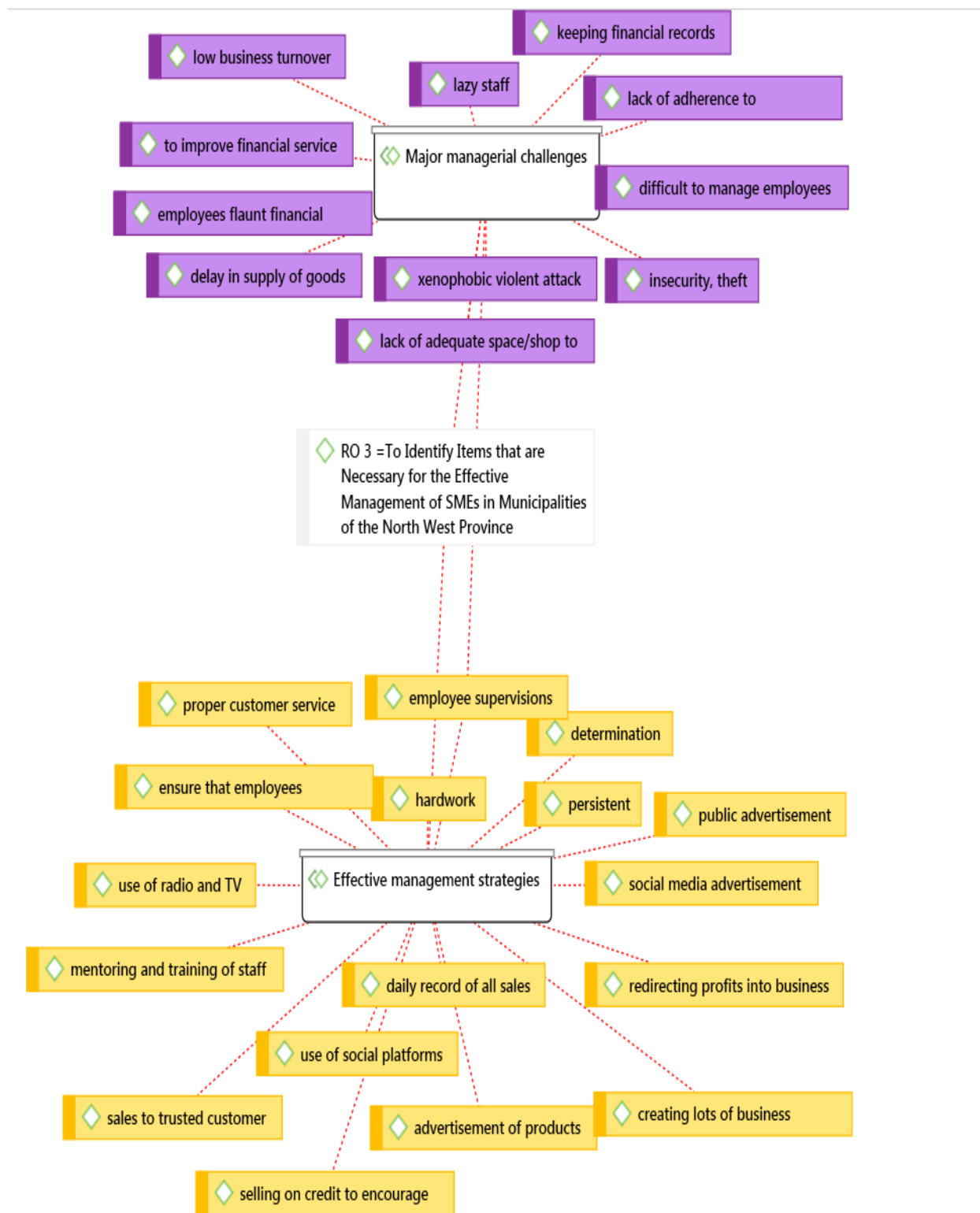
From the comments of the study participants regarding the sources of finance for their businesses, all of them depend on internal (self-dependent) means of generating capital for their businesses. This implies that most of them are deprived from external finance and support from relevant government departments and agencies either systematically or out of ignorance. This is an indication that the means and mechanisms used by the relevant authorities to support SMEs need to be revisited and improved such that all intending and existing small business owners are aware of this assistance and knows where and how to access it. This is because sources of finance is a serious problem for SMEs. According to the demographic results, of the quantitative study, majority of SME owners got funding from private sources such as savings, family support, and friends support. Unfortunately, many of these SMEs cannot acquire

financial support from external sources such as relevant government departments and agencies as well as commercial banks because requirements from the financial system such as collateral security for loans amongst others are hard to produce (Asplund and Henriksson, 2012).

In a nutshell, from the responses of the study participants from the three themes, there is a need for financial support to grow SMEs to reach to the small business owners. More so, SME owners should educate themselves on the availability of such financial assistance and external source of capital meant to augment the internal or self-dependent capital generated by entrepreneurs to fund their businesses. Due to the important contribution in job creation and the GDP of the economy, the South African governments through its relevant departments and agencies as well as commercial banks need to provide financial and technical support for this sector to thrive. Theoretically, this conform to the financial gap theory which stipulates that there are many small business enterprises that actually require legal funding from the government, and financiers such as the commercial banks and can make judicious use of the funds. Unfortunately, many of these SMEs cannot acquire such funds due to requirements such as collateral security to obtain loan from the financial system (Asplund and Henriksson, 2012). This is because of the incapability of SMEs to know the requirements needed for external sources of funding while investors find it difficult to mobilise the SMEs because they do not understand the nature of their business formalities. OECD (2006) asserts that many business scholars have hypothesized a financing gap for SMEs, implying that there are considerable number of these businesses that could use funds productively if they were available. Therefore, it measures to foster an improved flow of financing to SMEs should be put in place by the government to enhance the growth and sustainability of these businesses.

#### **6.4.3 The Effective Management of SMEs to Enhance their Sustainability**

Responses of participants on items necessary for the effective management of SMEs in municipalities of the North-West province evince two themes from the data: effective management strategies and major managerial challenges were identified as seen in figure 6.11 below.



**Figure 6.11: Items necessary for effective management of SMEs**

With regards to the theme: **effective management strategies**, all study participants attest to marketing strategy such as advertising on social media, flyers and credit sale to be very effective management strategy. In light of this, three business owners are of the opinion that

selling on credit to trusted customers is a strategy or method that will ensure customer loyalty, promote customer service and continuous patronage. Likewise, six participants expressed continuous hard work as an effective management strategy. For them, this will entail constant employee training, mentoring, supervision and daily accountability of sales and book keeping. More so, redirecting profit into the business was identified as an effective management strategy. Below are some of the participant responses:

*...We advertised our products through social media platforms such as Facebook*

*...I sell to trusted customers on credit for them to pay at the end of the month*

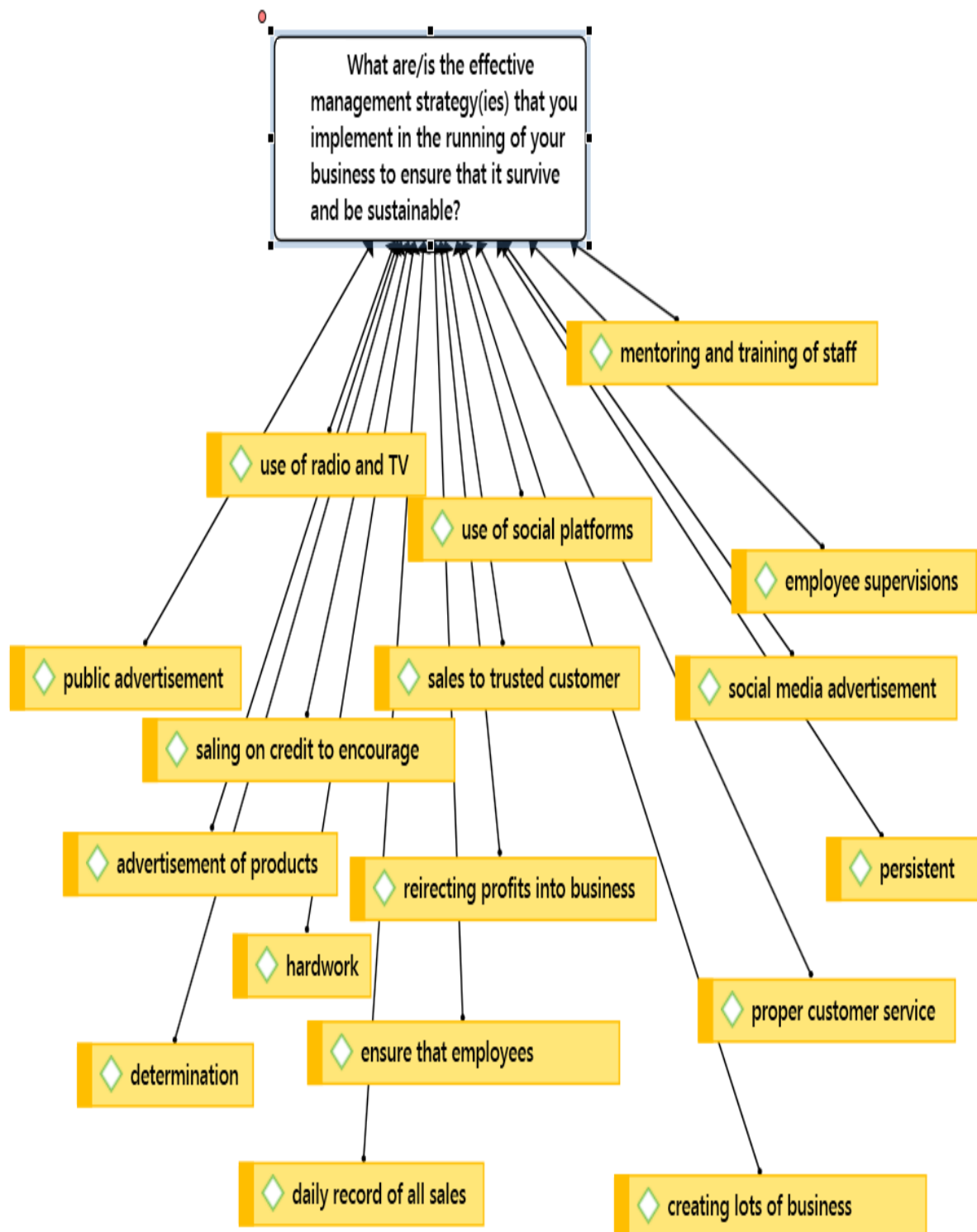
*... I ensure that employees accomplish their daily assigned tasks.*

*... I supervise my employees to ensure that they accomplish their daily assigned tasks*

*... I put in a lot of time and effort in the business to ensure that the goals and objectives are met*

*... I mentor and train my employees to be effective in running the business to the best of their ability*

In addition, Atlas Ti findings displayed these strategies in figure 6.12 bellow.

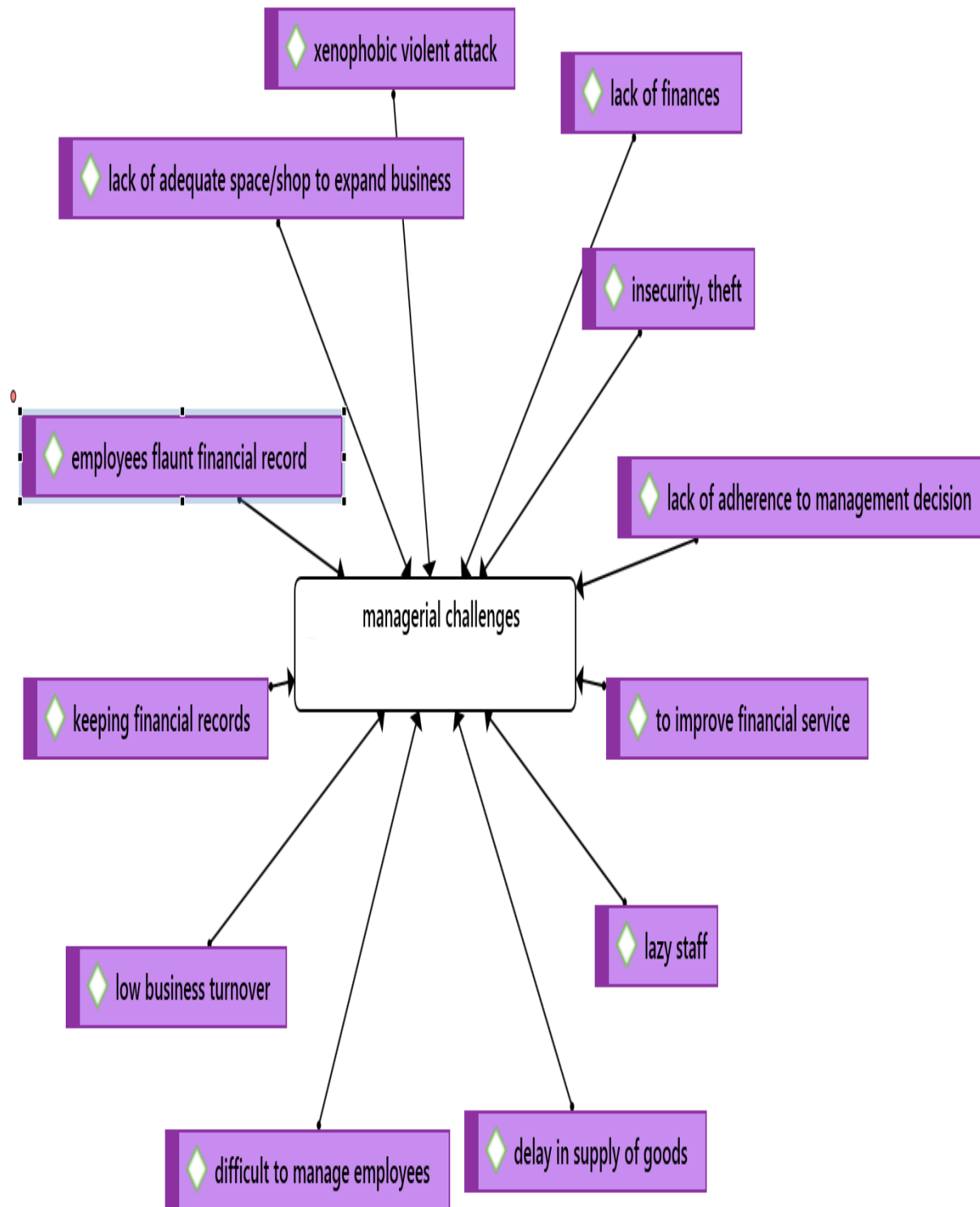


**Figure 6.12: Effective management strategies of SMEs**

From the above comments of research participants in response to the management strategies they implore in running their businesses, it is evident that most SME owners/managers try as

much as possible to have and implement a management strategy to ensure that their businesses survive and be sustainable. Arguably, SME owners/managers might differ in the management strategies they implement in running their businesses but most if not all of them endeavour to adopt a management strategy to ensure that, their businesses survive and be sustainable. The main purpose of implementing effective management in an SME is to ensure that the desired objectives of a business enterprise are met. That is why Pryor *et al.* (2010) holds that it is imperative for all small business owners/managers to be well grounded with the knowledge, skills, expertise and the necessary background to manage their businesses effectively before embarking in business operation. Hence, Pryor *et al.* (2010) suggested a strategic management model for small business owners/managers to comprehend the elements of management and apply them in their business operations. This implies that lack of effective management in a business will obviously lead to business failure or discontinuance, which is one of the cause of unsustainability of SMEs as previously reported by the literature of this study. These findings are in line with the quantitative results where majority of the respondents (up to 52%) of the respondents agreed that they practice effective management in their businesses.

With regards to the theme: **managerial challenges**, findings from Atlas Ti analysis on the raw data revealed twelve major challenges were coded and identified as depicted in Figure 6.13 below.



**Figure 6.13: Major challenges of SMEs**

Five business owners express their views that financial constraints is the major challenge they face in maintaining their business. Below are response trends common to these five participants:

*...Lack of enough funds some times to increase stock to meet increase demand from the customers*  
*... Lack of adequate finance to expand our business*

Additionally, five business managers expressed that book keeping was challenging. Below are response trends common to these five participants

*... Keeping financial record is a major managerial challenge for me*  
*...The major managerial challenge that I face is keeping financial record because I am not well grounded in accounting*

Moreover, participants expressed their fears on security issues in the North-West province, relating this to the recent political protest in 2018. Participants voiced out that the challenge they encourage is associated with insecurity as a result of theft and xenophobic attacks on shops own by foreigners, this view was supported by three study participants, below are their exact words:

*... Insecurity, theft and xenophobic attacks on shops own by foreigners such as mine*  
*... Xenophobic violent attack on shops during political protests is my fear and challenge*

Likewise, study participants' indicated issues such as increasing customer service, improving employee-employer relationship to be very challenging for SMEs, related responses are indicated below:

*... Most often, employees do not adhere to management decision*  
*... Employer-employee relationship is not very cordial because employees most often disregard management decisions*  
*... Most often, employees do not adhere to management decision*  
*...It is difficult to manage the employees and have a smooth working relationship with them because most of them are lazy and do not have the skills of running a business*



From the responses of the participants on the managerial challenges they encountered in their businesses, it is evident that managing a business effectively does not go without challenges. This probably explain why most SMEs in the North West province are struggling to survive and some of them are winding up especially when they are not able to overcome their managerial challenges, thereby resulting to a high failure rate of businesses in this sector. This implies that in order to be successful in business, both owners and the government supposed to work in synergy to overcome most of the managerial challenges encountered by entrepreneurs so that their businesses can be sustainable. Since 52% of the respondents in the quantitative study agreed that they practice effective management in their businesses, it was important to ask this question to establish the challenges in the process.

Summarily, from the responses of the study participants from the two themes, there is a need for business owners/managers to implement strategic management in their businesses and for them and the government to work in synergy to overcome managerial challenges encountered in SMEs. More so, SME owners/managers should educate themselves on strategic management in business and learn to overcome challenges encountered in the process. This education is necessary because from the demographic results of the quantitative study, a majority of SME owners and managers are less educated with up to 73% of them having only grade twelve certificate or less. This is because GEM Report (2010) and Mahembe (2011) point suggest that poor management causes business failure and discontinuity in South Africa. Theoretically, this vindicates the resource dependency theory, which explains that external resources affect the behaviour of an organization and that the procurement of external resources is an important principle of the tactical and strategic management of any business enterprise (Nienhüser, 2008). According to Davis and Cobb (2010), resource dependency theory advocates for the implementation of adaptive strategies (such as effective management) to reduce dependency level from other stakeholders, thereby improving organizational autonomy and enabling SMEs to grow and be sustainable. Therefore, resource dependence theory is one of the major reasons why organizations such as SMEs can become more commercialised and consequently become sustainable in recent times.

#### 6.4.4 The Contribution of Innovation in Enhancing the Sustainability of SMEs

Two themes emerged when analysing important innovation within the SMEs in North-West: innovation introduced in SMEs and challenges affecting innovation were identified as depicted in figure 6.14 below:



**Figure 6.14: Items for successful innovation within SMEs**

With regards the theme **innovation introduced in SMEs**, business owners/managers interviewed indicated a host of many innovations introduced to attract continuous clients as well as to sustain the business. Fifteen business owners expressed that they have introduced modern day techniques into their businesses, as the world is going digital, so also they have improved and upgraded strategies to be innovative in their respective businesses. In addition to the various innovations employed in Figure 6.15 below are some of the participant responses:

*...We have introduced on-line trade where we advertise and sell our products on-line*

*... We offer free Wi-Fi to customers to keep them entertain while waiting in the queue*

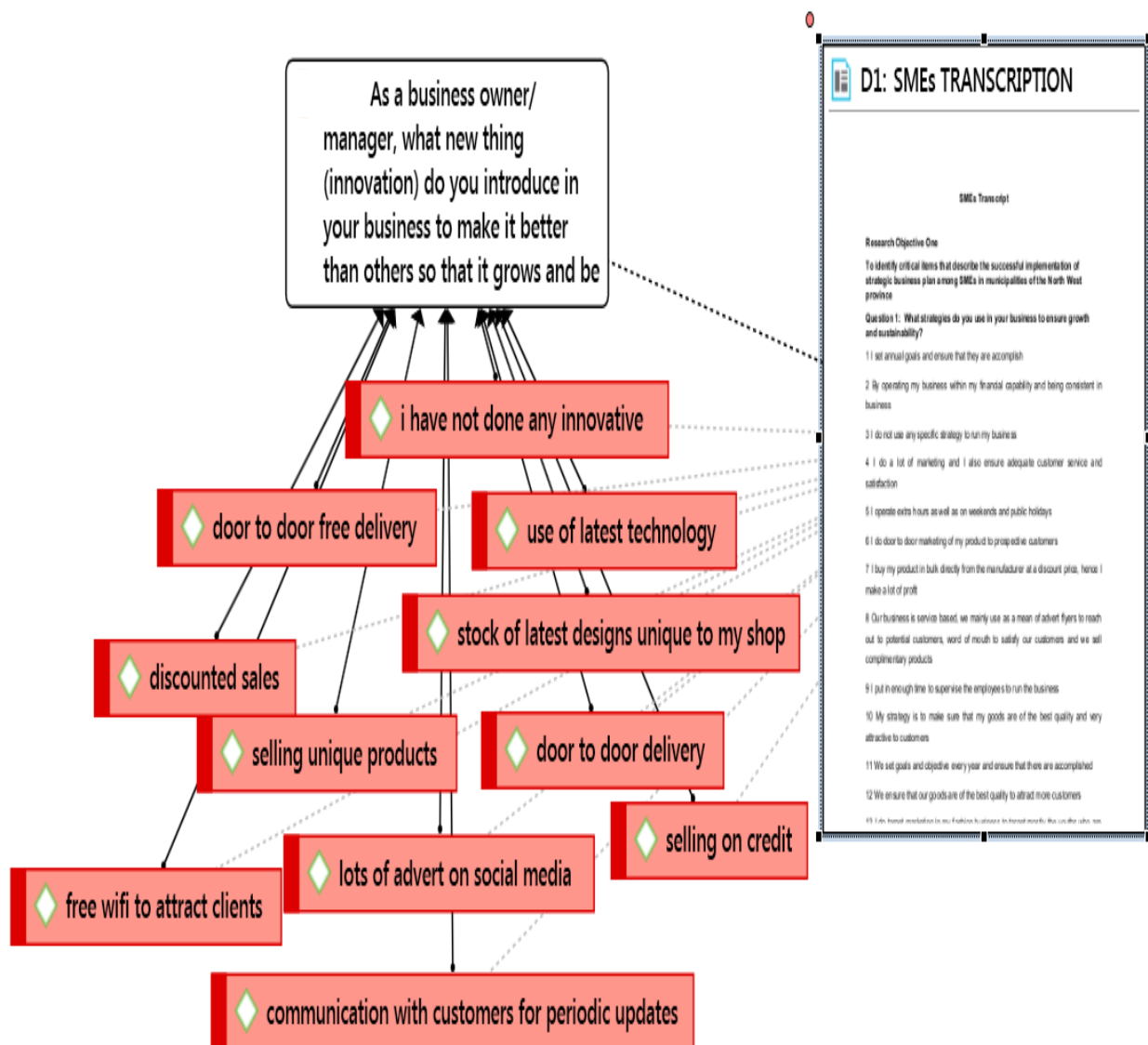
*...I sell only new version and unique designs of product, which most people in my line of business do not know and sell*

*... Free delivery of goods to customers at their residences*

*... I always get the latest version of my products from suppliers, which attract more customers to the business*

*... I have introduced new design of products that other people in the same line of business do not know about*

*... We establish a list of contacts of our customers, which we often use to send them announcement about sales and latest arrival of goods through text messages and emails*



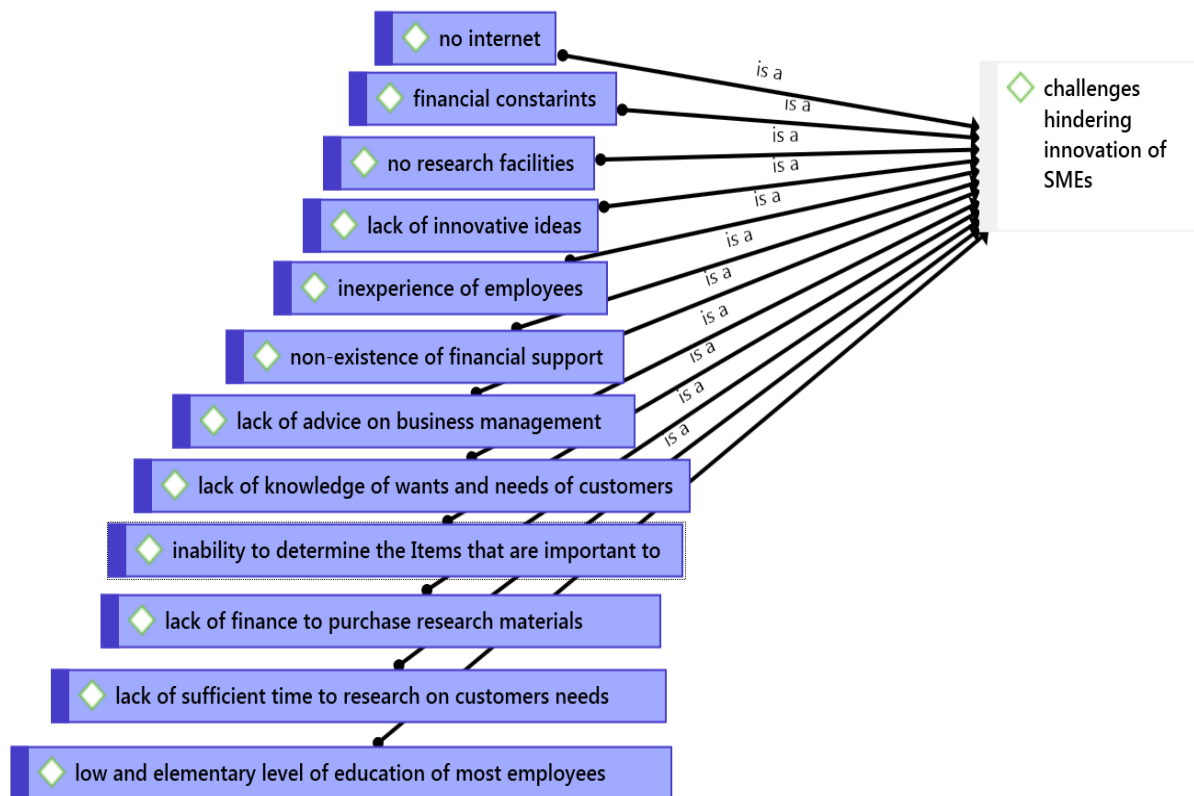
**Figure 6.15: Innovations introduced into SMEs**

Moreover, two business owners shared their views that they also update their clients as to regular latest trends in the market, below is what they said:

*... We establish a list of contacts of our customers, which we often use to send them announcement about sales and latest arrival of goods through text messages and emails*

The comments and responses of study participants regarding innovations they introduced in their businesses indicate that majority of business owners/managers endeavour to be innovative in their businesses. With the development of technology in this 21<sup>st</sup> century and increased competition in business, for a business to be successful and sustainable, it must be innovative enough to introduce something new or different from what competitors know or are doing in the market. According to Sultan (2007), SMEs can use innovation to enable them to refine and modify their products or services to satisfy the needs of their customers and ensures that new and existing products or services meet the demand of these customers. This implies that innovation is very much important to the success and sustainability of SMEs. GEM Report (2010) contends that lack of business innovation is one of the major causes of business failure and discontinuity in South Africa and in the municipalities of the North West province being an integral part of the country. The findings indicate that they endeavour to be innovative in their businesses in various ways. Although the participants are innovative in different ways as seen from their comments above, what is important is that such innovation should contribute to the success and sustainability of their businesses. However, this finding is not in line with the quantitative study where majority of the respondents (up to 63%) of them were in disagreement that they are innovative in their businesses. Hence, this is a call for those small business owners/managers who are not innovative to endeavour to do so, so that their businesses can succeed and be sustainable.

With regards the theme: **challenges affecting innovation**, findings from Atlas Ti is displayed in Figure 6.16 below.



**Figure 6.16: Challenges hindering innovation of SMEs**

Majority of study participants expressed that financial constraints is a major hindrance to achieving successful innovation within SMEs, below is a response trend common to these participants:

*... We lack of finance to purchase research materials*

Another challenging issue identified was lack of internet facilitates to promote research on innovations, below is the view of one of the participants

*...there are no research facilities such as internet and gadgets such as laptops which is most challenging to my business*

Education was a great concern for business owners, they are of the view that most of their employees are uneducated and lack the necessarily intuition required for innovation purposes, below are participants' response in this regards:

*... The low and elementary level of education of most of the employees who cannot think out of the box to propose anything new for the success of the business*

*...Inexperience employees who cannot contribute any new idea for the success of the business*

*... Lack of innovative ideas due to the low level of education of employees*

Time factor was also raised as a great concern affecting innovation within SMEs, five business owners complained of not having sufficient time to research on new designs and innovation. Here are some of their comments:

*... I lack time to research on new designs and new products from the internet and from our suppliers*

*... We lack time to do research to come up with new ideas of running a business*

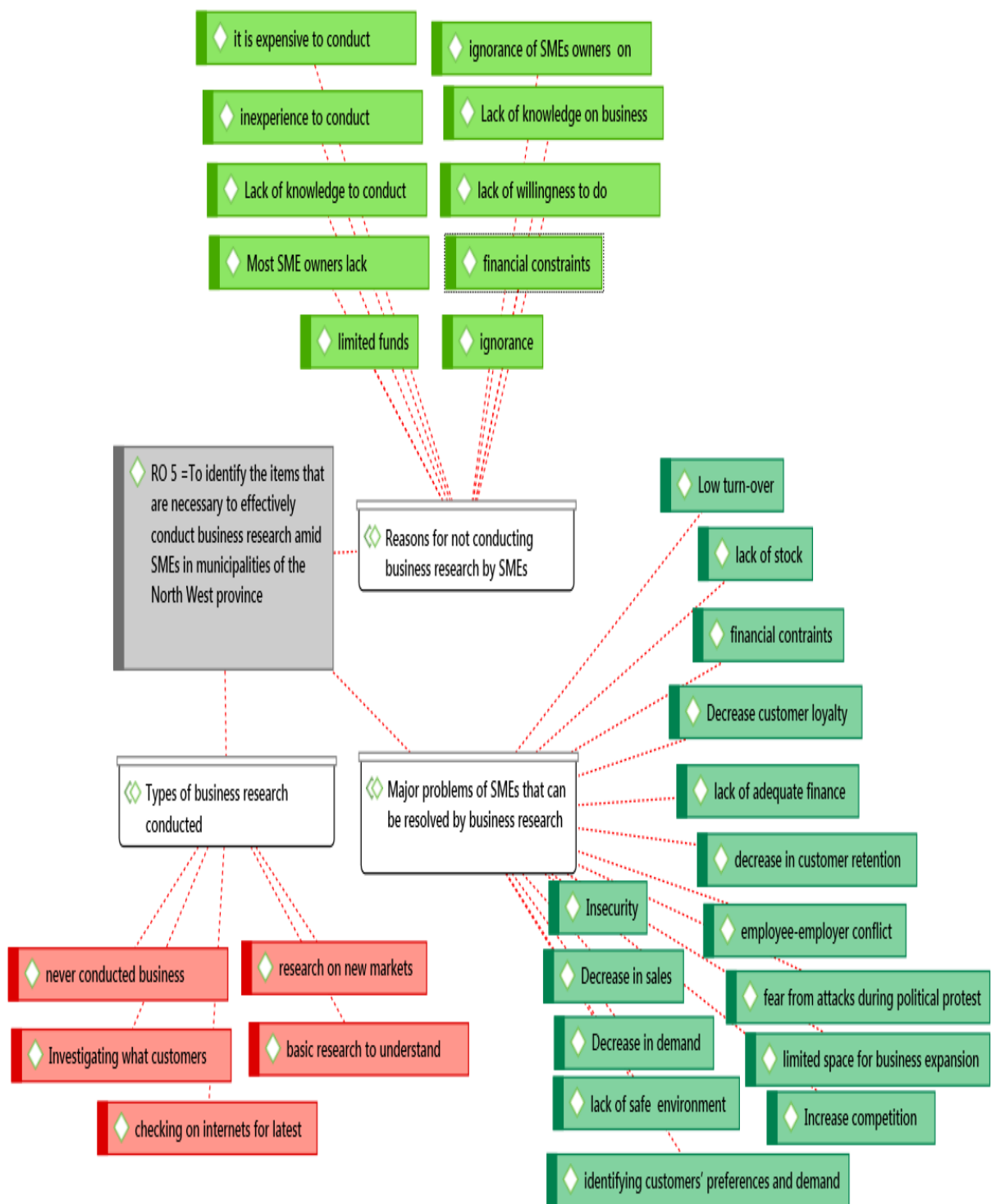
From the responses of the participants on the challenges hindering innovation of SMEs, it is evident that being innovative in business is not without challenges. This probably explain why most SMEs in the North West province are struggling to survive and some of them are winding up especially when they are not able to overcome their innovative challenges, thereby resulting to a high failure rate of businesses in this sector. This implies that in order to be successful in business, SME owners/managers should endeavour to do something new or different (innovation) in order to override or surpass their competitors in the market despite the challenges involve. Although the participants admitted to be encountering different challenges in the course of being innovative in their various businesses as seen from their comments above, the only thing they can do is to try to overcome such challenges because innovation is one of the most successful means to break-through in business and be sustainable. This is because GEM Report (2010) attests to the fact that lack of business innovation is one of the major causes of business failure and discontinuity in South Africa. However, it is regrettable that given the importance of innovation to the success of a business, the results of the quantitative study indicated that the majority of the respondents (up to 63%) of them were in disagreement that they are innovative in their businesses probably because of the challenges involve.

In a nutshell, from the responses of the study participants from the two themes, there is a need for small business owners/managers to be innovative in their businesses and endeavour as much as possible to overcome the challenges in business innovation. More so, SME owners/managers should be well grounded on business innovation strategies and how to overcome challenges encountered in the process, which is a prerequisite for them to become big businesses. This is necessary because according to the quantitative study, majority of SME owners/managers are not innovative in their businesses whereas Mahembe (2011) asserts that lack of innovation is one of the major causes of small business failure and discontinuity in South Africa. Theoretically, this assertion conforms to Trickle-down economics theory, which stipulates that growth stream from the top to the bottom (Bhalotia and Tech, 2017). In the same manner, innovation can trickle down from big businesses to SMEs. In this way, innovation would not be restricted only to big companies, which is a good indication of a healthy economy, but it would as well benefit local SMEs to survive and be sustainable. The trickle-down of innovation from big businesses to SMEs will lead to their sustainability because it will attract more investors to invest in small businesses, which would boost growth and sustainability of the sector. Sowell (2013) asserts that the fundamental idea behind the trickle-down theory is that the redistribution or transfer of wealth (and innovation) from big companies to the SMEs would eventually result in a situation where those at the bottom of the ladder of success would benefit from the wealth flowing into their businesses.

#### **6.4.5 Contribution of Business Research in Enhancing the Sustainability of SMEs**

When analysing responses of participants on items necessary to effectively conduct business research amid SMEs in municipalities of the North-West Province, three themes emerged from the data: Reasons for not conducting business research by SMEs, types of business research conducted and major problems of SMEs that business research can resolve, see Atlas Ti analysis in figure 6.17 below.

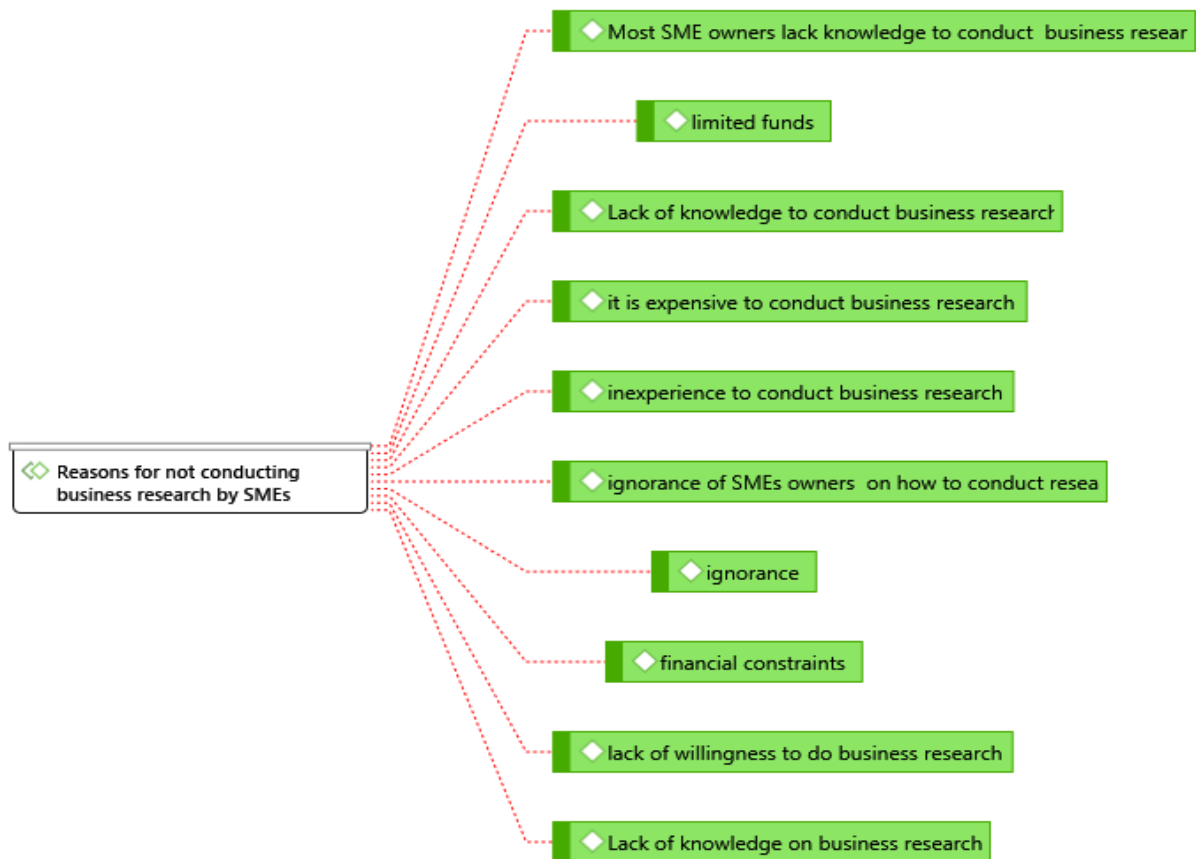




**Figure 6.17: Items for effective conduct of business research amid SMEs**

With regards to the theme: **reasons for not conducting business research by SMEs**, findings from Atlas Ti is displayed below in figure 6.18. Reasons such as financial constraints,

inexperience to conduct business research, ignorance, and lack of willingness were identified see figure 6.18. Two sub-themes emerged from the data, namely: finance, lack of knowledge



**Figure 6.18: Reasons for not conducting business research by SMEs**

With regards to the sub-theme: **lack of finance**, it was the opinion of twelve business owners that finance is a major reason why majority SMEs owners do not embark on business research. According to these participants, business research is too capital intensive and unfortunately, business owners complain that they are inexperience and not capable to fund such venture even if they want to. The extracts below are reflections of study participants in this regard:

*... We lack money to finance business research*

*... Lack of money to finance business research since it is expensive to conduct such research*

*... Inability to fund business research projects because of limited funds*

With regards of the sub-theme: **lack of knowledge**, eight business owners stated that this is a reason why SMEs business owners do not conduct business research. In fact, these business

owners express ignorance of the fact that they were not aware that it is necessary to do business research. Below are some of their claims:

- ... I am not aware of the fact there is a need to conduct business research*
- ... I lack knowledge and the willingness to do business research*
- ... I am knowledgeable about business research*

The participants' responses with regard to reasons for not conducting business research for their businesses reveal that majority of SME owners/managers do not conduct business research because of various reasons. The various reasons that hinder SME owners/managers from conducting business research is summarised into two categories which are financial constrain and lack of knowledge or ignorance which are also the two sub-themes that emerged from the data. This implies that the major challenges (reasons) that hinder SME owners/managers from conducting business research range from financial constrain to lack of knowledge or ignorance. This probably explain why most SMEs in the North West province are struggling to survive and some of them are winding up because they are hampered somehow by these reasons to conduct business research to improve on their businesses. GEM Report (2010) notes that lack of business research is one of the major causes of business discontinuity in South Africa. This means that for SMEs to succeed and be sustainable, they need to embark and invest more on business research in order to understand the dynamics of operating a business. Bodla (2006) contend that the task of business research is to collect accurate information, which will help in decision-making and shift decision makers from intuitive information collection to objective and systematic investigation to improve a business. The question base on the reasons why SME owners/mangers do not conduct business research is a follow up of the quantitative results where majority (up to 66%) of the respondents were in disagreement that they conduct some business research in their businesses.

With regard to the theme: **types of business research conducted to improve SMEs** majority (seventeen) of SMEs business owners reported that they do not conduct any business research because they are ignorant of business research to improve their SMEs. Moreover, they indicated that they lack finance to fund the process required to conduct business research. It further emerged from the study that business owners research on new markets trends and they investigate the needs of regular customers. This was argued that, it assists them to trade off their goods on time. Others types of business research is indicated in figure 6.19 below. Here are a few of their responses:

*...We have never conducted business research because of lack of knowledge to do so*

*... I do not conduct business research because of lack of finance to fund the process*

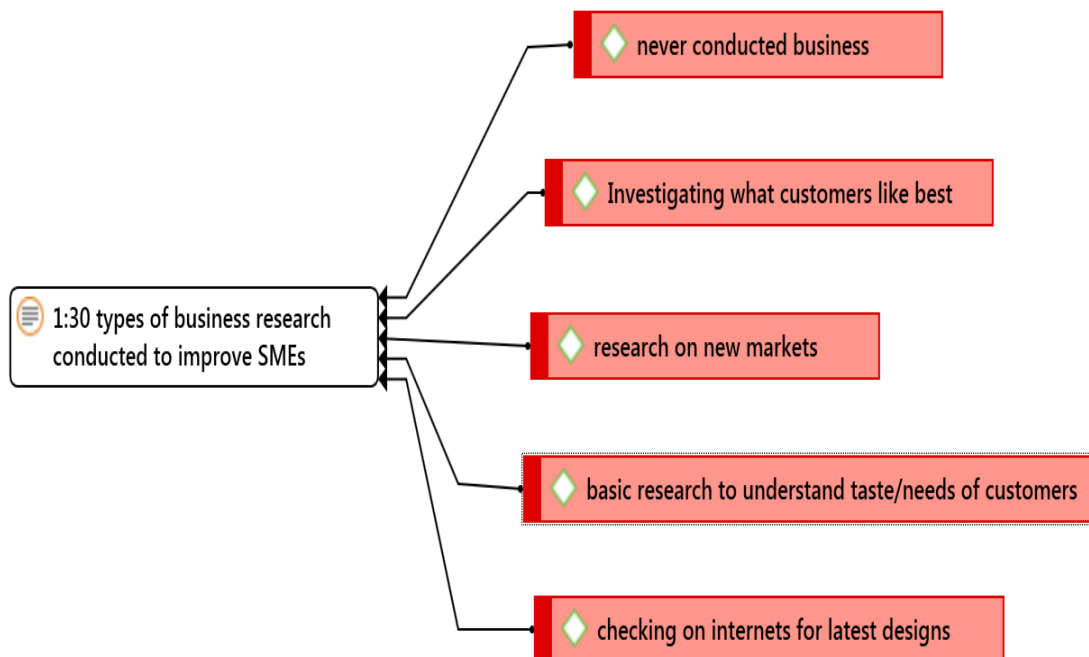
*... I do not conduct business research because of lack of knowledge and money to do so*

*...Investigating what customers like best about my product and how I can improve the quality of the product*

*...I research on new markets where I can sell my products*

*...We conduct basic research to understand the taste and needs of customers*

*... I always check for new fashion designs from the internet to stock for my customers*

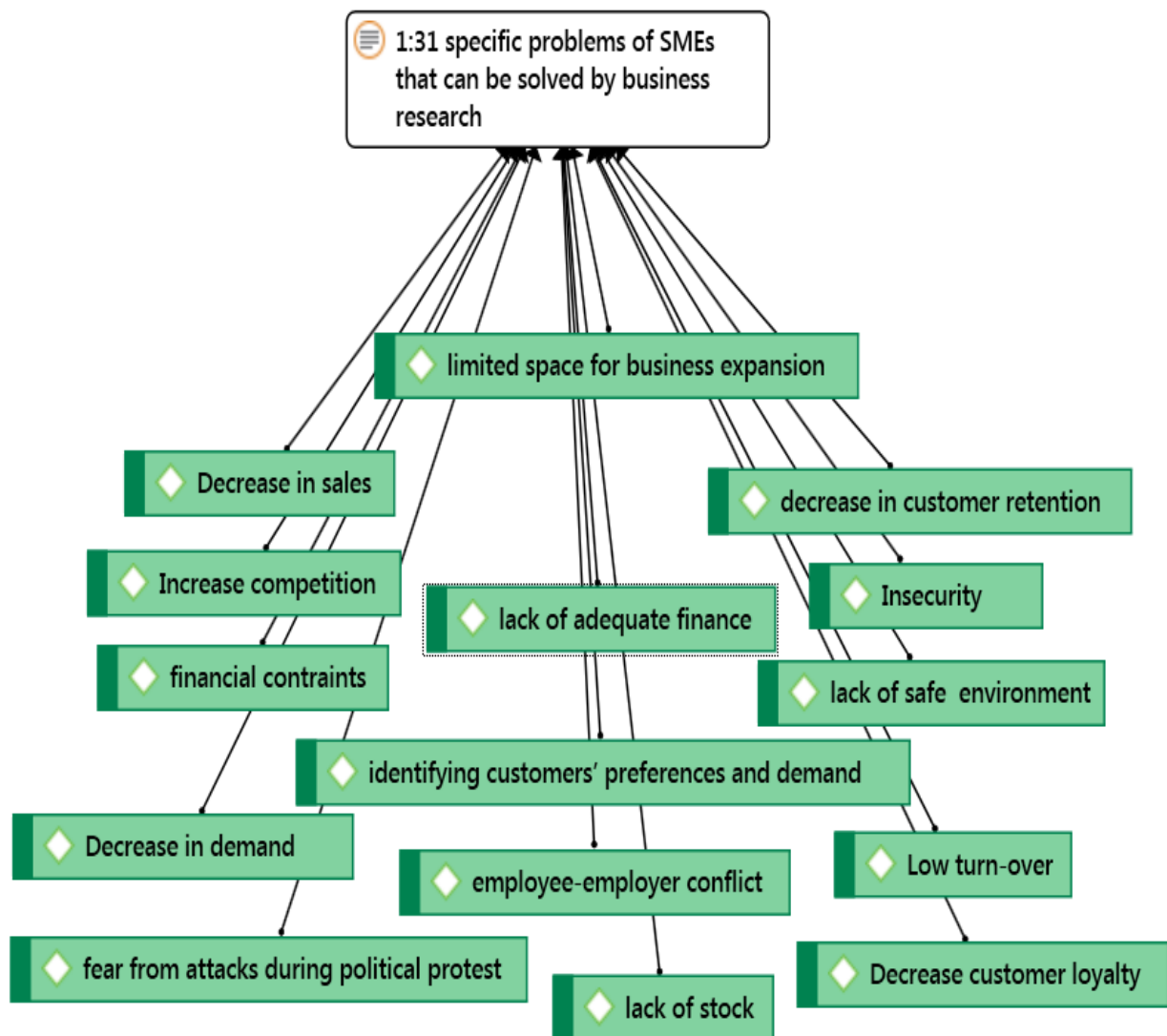


**Figure 6.19: Types of business research conducted to improve SMEs**

From the responses of the participants on the types of business research they conduct to improve their SMEs, majority of them do not conduct any type of business research because they are hampered by some challenges (reasons) ranging from financial constrain to lack of knowledge or ignorance. This finding is congruent with the quantitative results where majority of the respondents (up to 66%) were in disagreement that they conduct some business research

in their businesses. However, the responses of the participants on this theme indicate that some wise business owners/managers do conduct various types of business research to improve on their businesses. This implies that business research is important and necessary to resolve major problems that can possibly lead to business failure in order to improve on the business. This explains why the majority of SMEs that do not conduct business research are failing and are not sustainable while only a few of them that do this research are thriving, thereby resulting to the high failure rate of businesses in this sector.

With regard to the theme: **major problems of SMEs that business research can resolve**, according to the finding displayed in figure 6.20, SMEs business owners identified numerous problems that could be solved by business research. The problems that could be resolved by research include, lack of adequate finance, insecurity, low turnover, lack of regular stock, decrease in demand, employee-employer conflict, and decrease customer loyalty as portrayed in figure 6.20 below.



**Figure 6.20: Major problems of SMEs**

Business owners express their frustration as they lamented thus:

*... It is very difficult to manage the employees and have a smooth working relationship with them because most of them are lazy and do not have the skills of running a business*

*The problem of identifying customers' preferences and demand*

*... Lack of adequate finance to increase our stock and expand the business*

*...Increase competition*

*...Decrease in sales and increase competition*

*... Insecurity and limited space to expand our business*

*...Low turnover*

The participants' responses with regard to major problems faced by SMEs that business research can resolve reveal that there are numerous problems that could be resolved by business research, which ranges from lack of adequate finance, insecurity, low turnover, lack of regular stock, decrease in demand, employee-employer conflict, and decrease customer loyalty. This implies that running SMEs successfully for them to be sustainable is not without some problems that require business research to resolve as indicated in the comments of the participants above. It is evident that only few SMEs conduct business research as indicated in the previous theme and in the quantitative findings of this study. This explain why the majority of SMEs that do not conduct research to resolve such problems that are associated with business raised by the participants are failing and are not sustainable, thereby resulting to the high failure rate of businesses in this sector. This is in line with Smit and Watkins (2012) assertion that research conducted on SMEs in Africa confirmed that on average, there are more SMEs closures than expansions and their failure rate in South Africa is still one of the highest in the world.

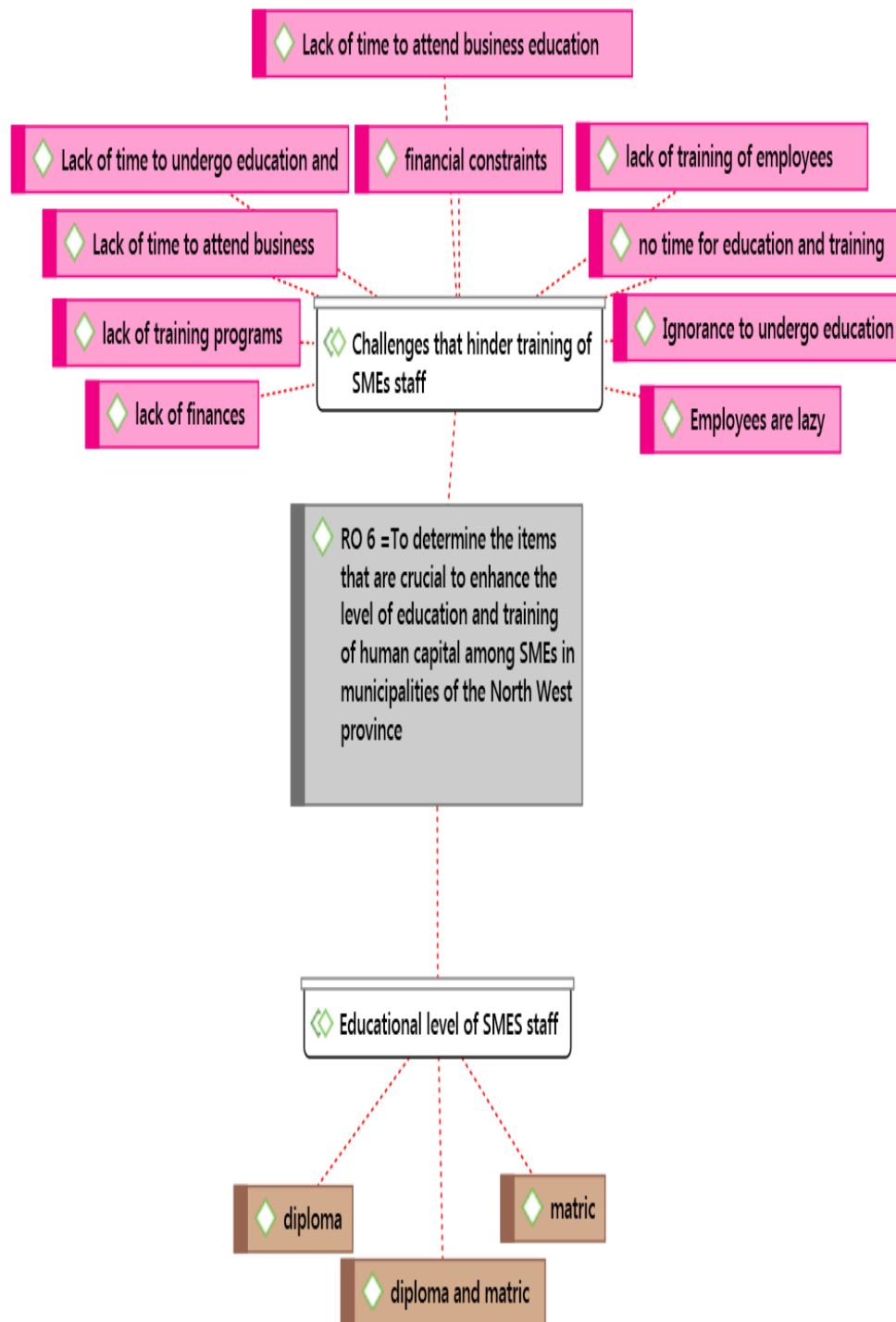
Summarily, from the responses of the study participants from the three themes emanating from analysis of participants responses on items necessary to effectively conduct business research, it is evident that there is a need for small business owners/managers to do research. It is imperative to conduct business research such as consumer feedback, product research, financial data and competitive analysis in order to understand the problems plaguing the business that such research can help to resolve. More so, SME owners/managers should be well grounded on business research strategies that will enable them to overcome the problems and challenges affecting the smooth functioning of their businesses that only such research can help to resolve which is a prerequisite for the survival and sustainability of small businesses. This is necessary because according to the quantitative study, majority of SME owners and managers do not conduct business research whereas GEM Report (2010) stipulates that lack of business research is one of the major causes of SMEs failure and discontinuity in South Africa. This explains the high failure rate and discontinuity of SMEs in municipalities in the jurisdiction of the North West province. Theoretically, this assertion conforms to the investment theory, which according to Pistorius (2014) gives the foundations of making investment decisions, starting with portfolio theory and the trade-off between risk and return. This implies that SMEs could invest in business research to improve on the quality of their goods and services as well as their abilities and knowledge of running a business to survive and be sustainable. Investing in business research will enable a business entity to expand its market and increase its capital

investment by ploughing back its profit into the business (Nunes *et al.*, 2012). Therefore, SMEs with little investment on business research jeopardize their survival and sustainability because high levels of investment consequently enable any small business venture to be most likely to survive in the market and be sustainable.

#### **6.4.6 Education and Training Required to Ensure the Sustainability of SMEs**

When analysing SMEs business owners/managers responses to crucial items that can enhance the level of education and training of human capital among SMEs, the following themes emerged from the data: challenges that hinder training of SMEs staff and educational level of SMEs staff. Figure 6.21 gives the summary of findings for example financial constraints, ignorance to undergo education and lack of training programs were identified as challenges hindering the education and training of SMEs staff within the municipalities in the North-West province. Moreover, diploma and matric were reported by SMEs business owners to be the general educational categories of most staff within the SMEs.





**Figure 6.21: Items that enhance education and training of SMEs**

With regards to the theme: **challenges that hinder education and training of SMEs staff**. The following three sub-themes emerged from the data: Financial constraints, time factor and laziness.

With regards to the sub-theme: **financial constraints**, all twenty business owners/managers of SMEs interviewed expressed their views that financial constraints is an issue, likewise they believed that lack of government support to provide training facilities was of great challenge. Here are some of their responses:

- ... We lack finance to fund the education and training of employees*
- ...We lack government support to provide education and training facilities for young entrepreneurs and business employees*
- ...I lack money to fund the education and training of employees*
- ..Financial constrain*
- ...I lack of funding to pay for the education and training of my employees and myself*
- ...I lack funding to pay for the education and training of employees*

With regard to the sub-theme: **time factor**, six participants reported that time was an issue for them (see figure 6.22 below), they explained that for training and education to take place, time is required, for them such time is a waste because they stated that their business will suffer should they take time off to go for training. They believed to invest more time in their businesses rather than to go for training and education.

Below are few of their responses about time factor

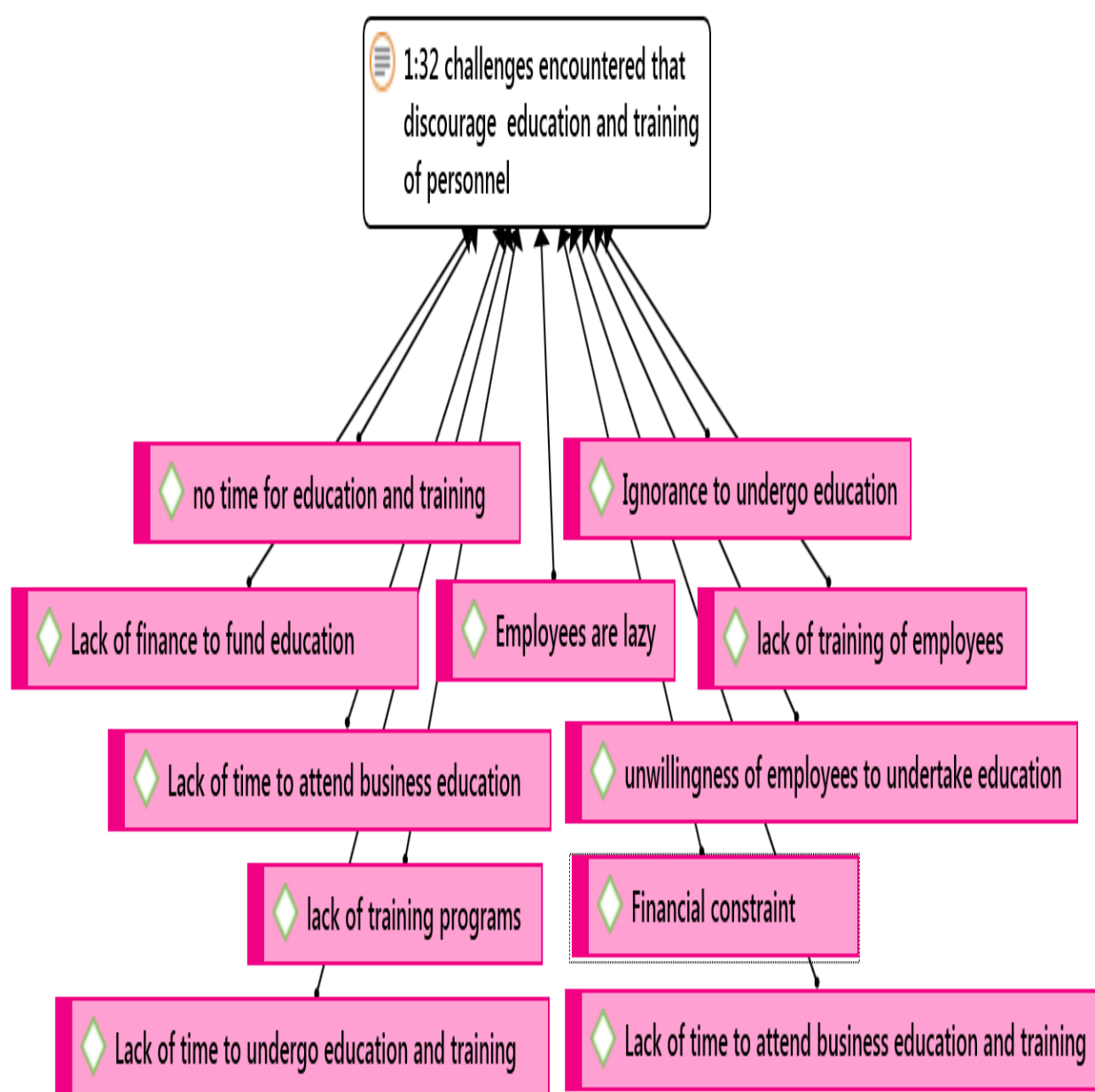
- ...I do not undergo education and training because the time I will offer for that, I will lose out in business for that period*
- ...Lack of time to undergo education and training as most of the time is invested in running the business*
- ..Lack of time to attend business education and training programs*
- ...I put in most of my time in running my business; hence I do not have time to undertake education and training programs*

With regards to the sub-theme: **laziness**, one quarter of study participants believed that a major challenge encountered in SMEs is laziness of staff. According to business owners, employees are always unwilling to go for training and they always refuse to be educated in the business out of laziness. Although, some business owners explained that employees refuse to go for training is because of lack of knowledge as to the benefits of education and training. Here are some of their comments:

*...Unwillingness of employees to undertake education and training programs and lack of finance to pay for the cost*

*...Ignorance to undergo education and training of employees to equip them with the necessary skills to run a business*

*...Employees are very lazy to undergo training*

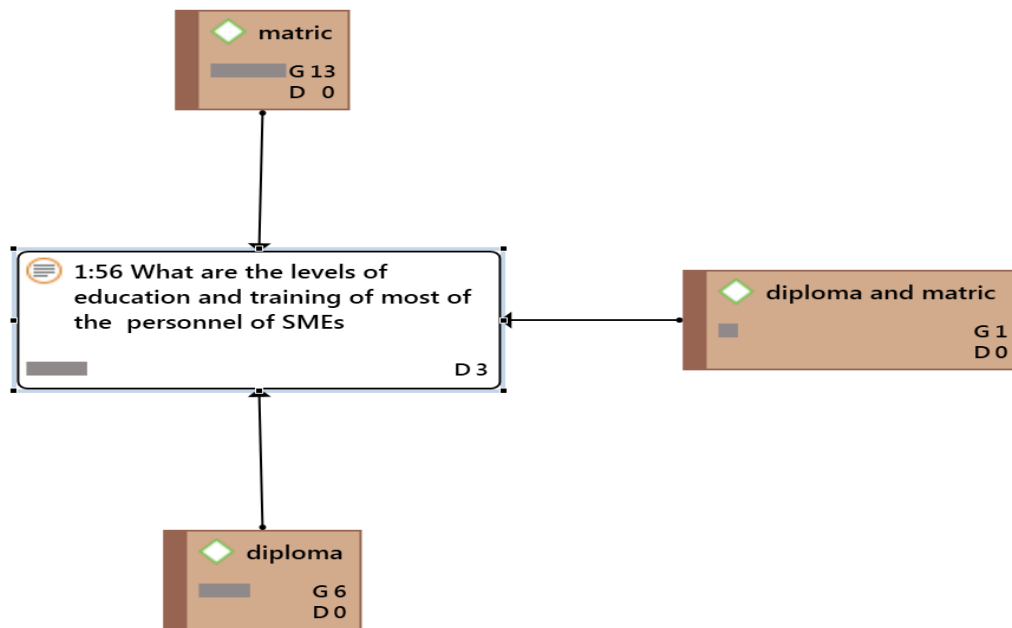


**Figure 6.22: Challenges encounter by SMEs**

The participants' responses with regard to the challenges that hinder the education and training of human capital among SMEs reveal that educating and training staff to equip them with the

necessary skills of running a business is not without some hurdles. The various challenges that hinder SME owners/managers from educating and training their human capital is summarised into three categories, which are financial constrain, lack of time and laziness, which also constitute the three sub-themes that emerged from the data. This means that inasmuch as there are challenges that hinder SMEs owners/managers from educating and training their staff and even themselves, there is still the dire need to educate and train human capital of every business enterprise. This is because a reasonable level of education and training will equip the business owners/managers and employees with the necessary skills of running a business successfully for it to survive and be sustainable. The comments of the participants indicate that majority of SMEs do not embark on educating and training of their staff probably because of the challenges involve. This finding is in accord with the quantitative result where the majority (up to 56%) of the respondents were in disagreement that they undergo some education and training to equip owners/managers and employees with required skills, knowledge and competences to run their businesses effectively. This explains why most of them in municipalities of the North West province are struggling to survive and some of them are even winding up. Some business reports and scholars such as GEM Report (2010), Kotze, and Smit (2008) assert that low level of human capital education and training is what prompts low levels of entrepreneurship and a high failure rate of South African SMEs. That is to say lack of and low level of education and training of human capital is one of the major causes of SMEs failure and discontinuity in South Africa.

With regards to the theme: **educational level of SMEs staff**, SMEs are staffed with majority of employees who have only matric certificate. According to Atlas Ti findings in figure 23, participants reported roundedness of 13 personnel having matric, 6 had employees with diploma certificate and one had an employees with diploma and matric



**Figure 6.23: Educational levels of personnel of SMEs**

From the responses of the participants on the level of education of their human capital (staff), it is evident that most SMEs staff have low level education as majority of them are holders of matric certificate and below with very few having diploma certificates. These finding is congruent with the demographic results of the quantitative study where majority (up to 70%) are matric and diploma certificate holders. Cooney (2012) argue that any education program should educate current and potential business owners and managers on how to obtain funding as well as how to market their businesses and run them effectively. This is a clear indication that the level of education of business owners and managers plays an important role in running a business for it to survive and be sustainable. This low level of education of SME owner/managers accounts for the high failure rate of small business in this province. This is because Kotze and Smit (2008) assert that low level of human capital education and training prompts low levels of entrepreneurship and a high failure rate of South African SMEs. The Global Entrepreneurship Monitor (GEM) Reports (2001-2010) affirms that South African SMEs suffer from poor management skills which results from a lack of adequate training and education of small business owners/managers and employees. More so, it is generally assume that the influence of education on business performance lies in the fact that knowledge gained enhances the managerial capacity to develop a specific business strategy. Hence, it is glaring that a reasonable level of education (such as diploma and a university degree) can enable existing and potential business owners/managers to operate, develop and sustain their

businesses in order to adapt to the competitive business environment and be sustainable. This means that there is the need for business owners/managers and employees to obtain a reasonable level of education, probably a diploma or a degree certificate. This reasonable level of education will enable them to have a sound mind to understand the technicalities involve in running a business successfully for it to survive and be sustainable.

Summarily, from the responses of the themes emanating from analysis of participants' responses on this construct, it is evident that there is a need for small business owners/managers to consider upgrading their level of education and training and even that of their employees. It is important for SME owners/managers and employees to upgrade their level of education to at least diploma and/or degree certificates in order for them to gain knowledge that can enhance their managerial capacity to develop a specific business strategy. This is necessary because according Kotze and Smit (2008), low level of human capital education and training is one of the major reasons of high failure rate of South African SMEs, which also explains the high failure rate and discontinuity of SMEs in the jurisdiction of the North West province. Theoretically, this assertion conforms to the investment theory, which according to Pistorius (2014) gives the foundations of making investment decisions, starting with portfolio theory and the trade-off between risk and return. This implies that SMEs owners/managers could invest in education and training of themselves and their employees in order for them to gain knowledge that can enhance their managerial capacity to develop a specific business strategy. Investment theory also provides investment options or strategies to entrepreneurs or investors, which in this case, can be equity and debt investments on education and training of human capital. Serrasqueiro *et al.* (2008) stipulates that SMEs with little investment on education and training of its staff are jeopardizing their chances of survival and sustainability because high levels of investment consequently enable any small business venture to be most likely to survive in the market and be sustainable. Therefore, it can be said that investing in the education and training of human capital of SMEs will help to improve on their skills of running a business and this will enable the business to stand a high chance to survive and be sustainable.

### 6.4.7 Recommendations and Relevant Information to Enhance the Sustainability of SMEs

In analysing the challenges encountered by SMEs owners/managers in the operation of their businesses, two themes emerge from the raw data: recommendations and relevant information as depicted in figure 6.24 below.



**Figure 6.24: Recommendations and relevant information for enhancing the sustainability of SMEs**

With regards to the theme: **recommendations**, over half of the participants suggested a need for training and workshopping employees at the SMEs. More so, financial assistance was recommended. According to business owners such assistance will enable them to do more marketing so as to expand their business as this will guarantee survival and sustainability of SMEs in the North-West, here are a few of their responses

*... By enforcing security in our town to secure our businesses from thieves and we also need financial support from the government*

*... There is a need for education and training of employees on proper business management*

*... Access to funding for advertisement to create awareness of our product to potential customers*

*... I need financial support to expand the business by opening more branches*

*... Diversification of my business so that loses in one will be supplement by gains from the other*

*... I need financial support to expand my business for it to grow*

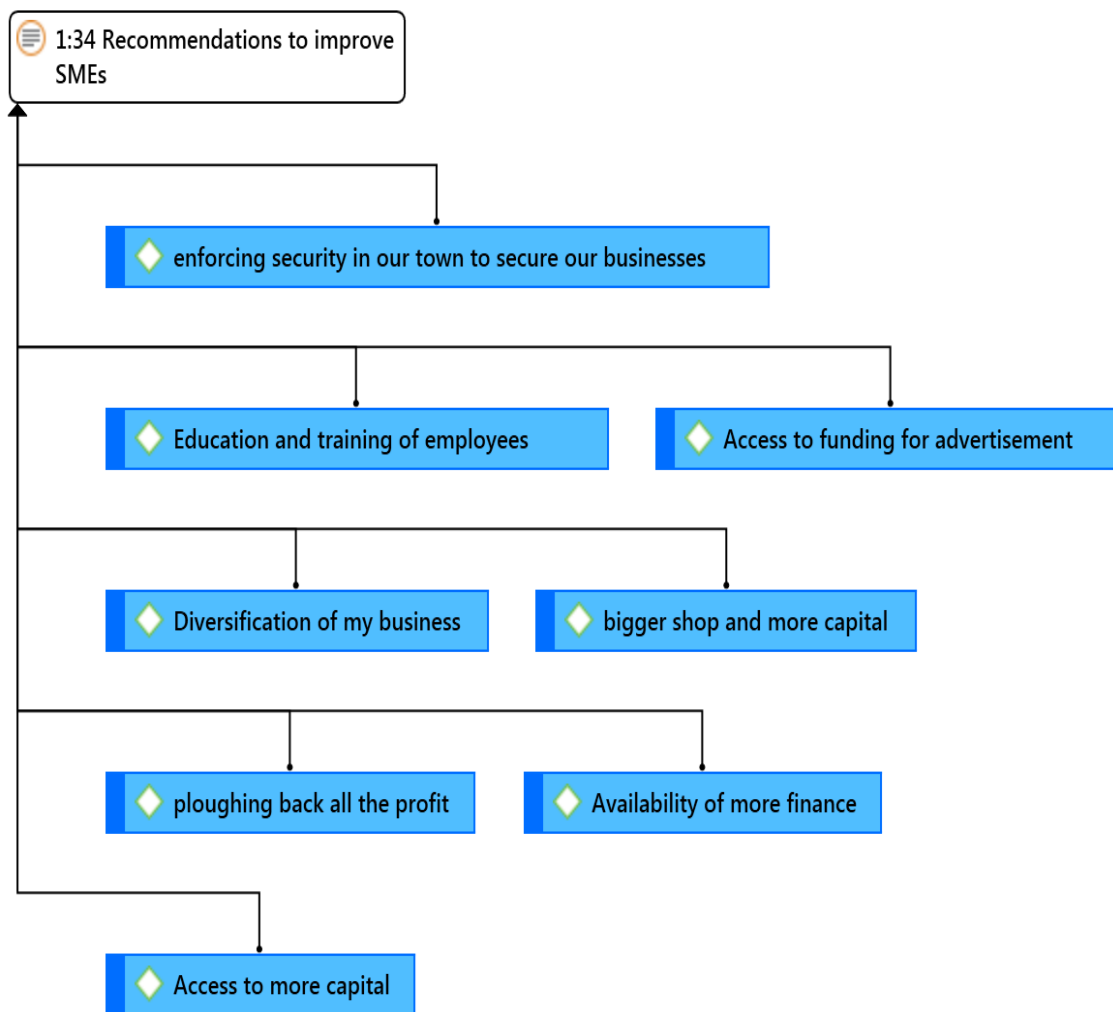
*... I need financial support to embark on marketing to crease awareness of the existence of my product to potential customers*

*... More capital is required to expand the business for it to survive and be sustainable*

*... I need more capital to increase my stock of goods and even diversifying the business*

*...With more funding, we can diversify our business to the production and selling of other products so that loses incurred in one kind of business will be augmented by gains from the other*





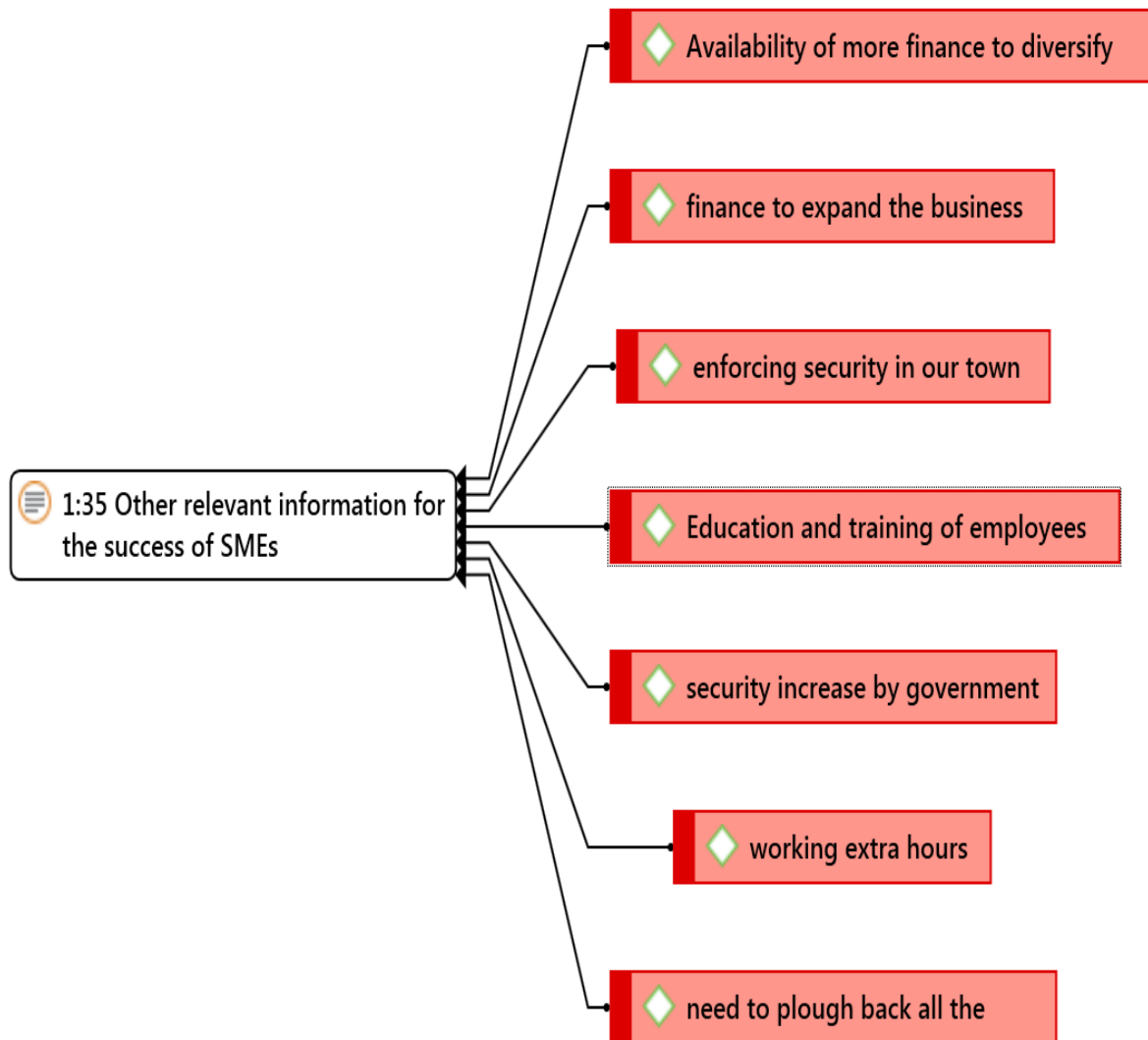
**Figure 6.25: Recommendations**

Figure 6.23 highlighted all the recommendations given by study participants in terms of improving SMEs to be successful and sustainable. It is believed that businesses will flourish more if there is access to funding, against this therefore, all of the business owners recommended that government need to give access to finance to all SMEs owners irrespective of whether they are foreigners or not. Likewise, study participants recommended a need for government to beef up security in the province, especially around the CBDs where most SMEs are located.

The participants' responses with regard to recommendations in terms of improving SMEs to be successful and sustainable reveal that a lot need to be done to improve SMEs to be successful and sustainable. Some of the things to be done for SMEs to flourish and be sustainable range from access to finance, beefing up security, education and training of staff, diversification and

ploughing back profit. This means that the non-applicability or the lack of any or some of these elements are also some of the cause of business failure and discontinuity in municipalities of the North West province. The comments of the participants indicate that majority if not all SMEs have a challenge of either the lack or the non-applicability of one or more of the elements that they recommended is require for the improvement of small businesses to flourish and be sustainable. This finding tallies with the finding of the theme “**challenges encountered by SMEs**” where majority of the participants responded that improving small businesses to flourish and be sustainable is not without some hurdles. This explains why most SMEs in municipalities of the North West province are struggling to survive and some of them are even winding up. Some business reports such as GEM Report (2010) assert that the challenges encountered by small business owners to improve their businesses to flourish and be sustainable is what prompts low levels of entrepreneurship and a high failure rate of South African SMEs. That is to say if the recommendations of the research participants are met, then SMEs in municipalities of the North West province will be more likely to survive and be sustainable then they are before.

With respect to the theme: **relevant information**, figure 6.26 showed the expressions of research participants. They requested a need for enforcing security in the province, a need for educating and training SMEs employees, investment of time in the business, up to one third of the participants made this request. Finally, business owners advised that it is important to plough back profits in the business, see figure 6.26 below:



**Figure 6.26: Relevant information**

Moreover, study participants stated that diversifying businesses is paramount to growth of SMEs. Below are a few of their comments

*...Availability of finance to acquire a bigger shop and to increase my stock of goods*

*...Adequate funding is required for me to diversify my business in a bit to expand it*

*...This business can succeed more if we have access to funding to rent a bigger shop and recruit more employees to expand the business*

*...Security can be beef up in our town to protect our business from thieves and from protesters who loot shops during political demonstration*

*...With more funding, I can expand my business by diversifying it*

*... I can expand the business by ploughing back all the profit realised into the business*

*... Access to finance to expand the size of my business*

*... Improve customer service to satisfy the needs of the clients to increase their loyalty to our product*

*...To succeed in this business, I will want to diversify from the selling of goods to rendering of services such as business consultancy*

*... For our business to succeed, we need to diversify to sell other products so that losses in one product can be compensated by gains from the other*

*...Access to funding can contribute to the success and expansion of the business*

*... Security can be beef up in our town to protect our business from thieves and from protesters who loot shops during political demonstration*

*...I can succeed in this business by working extra hours, operating the business on weekends and on public holidays unlike what most small business owners do*

*...Access to finance can enable me to expand my business for it to succeed and be sustainable*

*...For the business to be successful, I need to plough back all the profit realised into the business and make sure that I do not run out of stock*

*...If security can be beef up in our town such that shops are protected from being looted by protesters during political protests, it can help most businesses to survive because I have been a victim of looting during strike actions*

*... I need money to expand my business by acquiring a bigger shop and increasing my stock of goods*

The views of the research participants regarding other relevant information for the success and sustainability of SMEs are almost the same with those of the theme of recommendations to

improving small businesses. From the comments of the participants above, it is evident that the other relevant information and their recommendation for improving small businesses to flourish and be sustainable are the same except for working extra hours that was introduced by one of the participants. According to this participant, working extra hours and operating his business on weekends and on public holidays is his own view on what can contribute to the success and sustainability of SMEs which is not very much different from the recommendations given by the other participants. This means that the implication and recommendation for the theme -**“Other relevant information for the success of SMEs”** is the same like that of the previous theme – **“recommendation to improve SMEs”**. The implication and recommendation for the theme can be seen in the preceding analysis and discussion of the previous theme of recommendation to improve SMEs. This explains why most SMEs in municipalities of the North West province are struggling to survive and some of them are even winding up. That is to say if the recommendations of the research participants are met, then SMEs in municipalities of the North West province will be more likely to survive and be sustainable.

From the responses of the study participants from the two themes emanating from analysis of participants' responses on the framework for enhancing the sustainability of SMEs, it is evident that there are some shortcomings as far as improving small businesses to succeed and be sustainable is concerned. These shortcomings, which can be otherwise seen as challenges to business success, and sustainability are what research participants have made recommendations and other relevant information to be addressed for the growth of the sector. It is important for SME owners/managers to consider these recommendations so that they can improve their businesses to flourish and be sustainable. This is necessary because these recommendations are meant to resolve the problems hampering the success and sustainability of SMEs, which are the major reasons for the high rate of failure of these businesses in the North West province. Therefore considering and applying the recommendations by study participants will help to improve and enable their businesses to stand a high chance to survive and be sustainable.

## 6.5 Chapter Summary

This chapter presented the qualitative data analysis and interpretation of results of the study, which was a follow-up of the quantitative phase as required by the sequential explanatory mixed method design. The chapter was presented according to the various sections of the interview guide with the aim of explaining some of the results presented in the quantitative phase in order to adequately provide answers to the research questions posed in chapter one of the study. Atlas-Ti software was used to analyse the data which generated 16 themes from the seven constructs of the interview guide and 120 codes. Base on the issues encountered by small businesses as seen from the quantitative data study, there was the need to address the issues deeper in the qualitative study. When collating the information, the quotations from the data was incorporated to express the ideas made by the research participants and to illustrate that the findings were derive from the original raw data.

The qualitative findings of this study was obtain with the use of interview guide generally designed to get the views of SME owners/managers on the survival and sustainability of their businesses. In this regard, face to face interviews were conducted with research participants using semi-structured questions designed purposely to explain some of the quantitative results presented in the quantitative study in order to answer clearly the research questions under investigation that were posed in the interview guide. The data that was generated from the transcription of the interviews conducted were presented, analysed and interpreted per research objective of the study. The qualitative study provided discussion from the themes in line with existing literature, quantitative results and theories underpinning the study. Nevertheless, the alignment with the original literature, quantitative results and theories underpinning the study aimed to support the primary information obtained from the participants who are small business owners/managers in municipalities within the North West province. The qualitative study managed to obtain factors and elements that affects the small businesses and the findings speak to the needs and expectations of business owners/managers of improving their businesses to flourish and be sustainable.

The results of the quantitative data analysis per research objective indicated that SMEs in the North West province are actually plaque with some challenges, which are the major causes of high rate of their failure and discontinuity. From the thematic analysis that emerge from the qualitative data collected, some of the major problem that cause the high rate of SME failure and discontinuity was uncovered judging from the views of the research participants who are

small business owners/managers. The analysis of themes indicate that the problems that cause discontinuity and unsustainability of SMEs range from lack of effective business strategy, lack of knowledge to access finance, managerial challenges, challenges affecting innovation, challenges for conducting business research, challenges hindering education and training of SMEs staff and their low level of education. In other word, the findings of the qualitative data analysis (with the incorporation of the quantitative results) of the study have all indicated that the majority of SMEs in the North West province are discontinuing and unsustainable because of various reasons. This is because they do not have strategic business plans, insufficient finance, ineffective management, they have innovative challenges, they have challenges of conducting business research and they do not ensure reasonable level of education/training of their human capital. However, the outcome of the qualitative findings show that there is a need for small-scale businesses to be structured in a way that it will grow from small business ventures to larger business enterprises. Based on the themes generated and identified from the qualitative data, it was observed that the SME owners/managers have better ways to run their small businesses successfully for them to survive and be sustainable.

## **CHAPTER SEVEN**

### **FINDINGS, CONCLUSION AND RECOMMENDATIONS**

#### **7.1 Introduction**

This chapter discusses the summary findings of the quantitative and qualitative results of the analysis, which build up to the development of a framework for enhancing the sustainability of SMEs. The summarised findings of are presented according to each research objectives, which constituted the six constructs of the questionnaire and the first six sections of the interview guide for this study. It is in this chapter that the framework for enhancing the sustainability of SME in municipalities of the North West province is drawn to answer to the research problems identified in Chapter One of this study. The chapter describes the various constructs of the framework and their applicability to SME sustainability. A general conclusion is reached incorporating the entire study from Chapter one to chapter six, arranging them together with the framework for the sustainability of SMEs which is the main aim of this study. Finally, this chapter tentatively hints at the recommendations for future study, as well as possible directions for such studies building on this work. Ultimately, the chapter points to the limitations of this study.

#### **7.2 Summary of Quantitative and Qualitative Findings**

This section draws conclusions from the literature reviewed in chapter two and three, which constituted the theoretical and conceptual framework and from the empirical findings from chapter five and six. In view of the problem that this study investigated, which is the high rate of SMEs discontinuity (unsustainability) in municipalities of the North West province of South Africa, the findings seek to provide a solution to the challenge. The alignment of the sequential explanatory results is a synthesis of the quantitative and qualitative findings which builds up to the proposed framework for enhancing the sustainability of SMEs in the North West province. The synthesis of these findings is drawn from conclusions based on literature review and empirical findings from the six constructs (objectives) of this study in response to the initial purpose of developing a framework for enhancing the sustainability of SMEs.



### **7.2.1 Critical Factors for the Successful Implementation of Strategic Business Plan among SMEs**

Strategic business planning provides a long-standing vision of the direction of the enterprise and the strategies deployed to reach this target. According to Lorette (2017), strategic business planning enhances the success and sustainability of SMEs because it provides a systematic roadmap, indicating how business goals and objectives are to be achieved. Therefore, strategic business planning is one of the means that SMEs could use to move from where they are in the present to where they project to be in the future. This enables them to succeed and be sustainable. More so, it is deduced from literature review that SMEs which have organisational goals, mission statement, core values, critical success factors (CSF) as well as strategies, goals, objectives and action plans for their businesses are more likely to succeed and be sustainable than those without. This is because according to Wright *et al* (2017), these elements that constitute strategic business planning help SME owners and managers to understand how best to manage anticipated challenges for their businesses to succeed and be sustainable. Therefore, strategic business planning is necessary for the success and sustainability of SMEs because during each planning cycle, insights gained can equip small business owners/managers to effectively respond to rapid, complex change as it deliberately focuses on the desirable destination of thriving in the long-run.

Based on the empirical findings of the quantitative study, supported by qualitative findings, strategic business planning is an indispensable approach that SMEs could use to survive and become sustainable. The cluster comparison results of the study indicates that those SMEs that conceive and implement strategic business planning in their businesses are most likely to be sustainable while those that do not implement it are most likely to fail and discontinue. This is because, according to Lorette (2017), strategic business planning is an essential step in developing a long-standing vision of where an enterprise is going and the strategies for survival and sustainability. Hence, merger and acquisition is just one of the vital strategies that small businesses could use to accomplish specific business goals for the enterprise to grow and become sustainable.

SME owners/managers responded to the question about the strategies they employ in the running of their businesses and how successful these strategies are to the survival and sustainability of their businesses. The majority of SME owners/managers reported that they

endeavour to adopt one kind of strategy or the other in running their businesses because they think that without a business strategy, it is difficult for an enterprise to thrive and be sustainable. Most of the business strategies adopted by a majority of SME owners/managers in the North West province are successful as they experience improvement in their businesses. However, very few SME owners/managers do not have a business strategy or do not succeed with their strategies because of some challenges, which include the lack of finance to fund the implementation of their strategies. Therefore, there is a need for every SME owner/manager to formulate and pursue a strategic business plan for their businesses because the majority of businesspersons who endeavour to develop strategies for their businesses are successful. This explains why some SMEs in the North West province that do not have strategic business plans struggle to survive and some of them even wind up. This implies that strategic business planning is a principal factor in enhancing the survival and sustainability of a business.

In sum, the cluster comparison analysis of this construct indicates that SMEs that do strategic business planning and implement the other determinant factors of sustainability are most likely to be sustainable. This evidence suggests that the 45% of SMEs in municipalities of the North West Province that do not implement strategic business planning in their businesses are most likely to fold and fail. One of the reasons gathered from the qualitative follow up study why most SME owners/managers in this region do not implement strategic business planning in their businesses is because of ignorance. Their ignorance is due to their low level of education and training of less than grade 12, matric and diploma certificates as indicated in the demographic results of “highest qualification of respondents.” This means that for SMEs in this region to survive and be sustainable, their owners, managers and even employees need to upgrade their levels of formal/business education and training. Therefore, education and training can be a solution to SME sustainability because it can be used as a means to gain business knowledge that will enable business owners to develop strategic business plans for their enterprises so that they can succeed and be sustainable.

### **7.2.2 Essential Sources of Finance Available for SMEs that are Striving to Grow**

Based the literature review of this construct, it is evident that the government has mandated some relevant departments to provide technical and financial support to SMEs in order to boost the sector because of their importance to economic growth in terms of job creation and contribution to the GDP of the country. This is because all small businesses require sufficient

capital in the form of financial resources for them to go operational in trading to grow and be sustainable. According to Kalane (2015), a lack of funding or lack of access to finance and technical support of an SME could hampered the growth and sustainability of the business. This means that improving access to finance/technical support and finding solutions to unlock sources of capital (such as bank loans and overdrafts, hire-purchase arrangements and equity bond issues) is the most crucial and best means to enable SMEs to thrive and be sustainable. Therefore, there is a need for commercial banks in South Africa to revise their policies about the requirements of SMEs to obtain loans to fund their businesses. These policies need to be improved and made easier for small business owners/managers to access bank loans because there is a general supposition that their lending practices to SMEs is not encouraging new small business ventures to grow and be sustainable.

The empirical findings of this construct portray that majority of SME owners/managers in the North West province have never benefited from the available sources of funds discussed in chapter three. According to the demographic results, majority of SME owners got funding for their businesses from private sources such as personal savings, family support and friends support which is often insufficient for the growth and sustainability of their businesses. This means that the lack of sufficient capital in the form of financial resources or lack of access to finance of an SME could hampered the growth and sustainability of small business ventures. The inquiry of the qualitative study indicate that most SME owners/managers do not benefit from the available sources of finance and technical support offered by government departments and agencies because of ignorance; they do not have the necessary information on how to obtain funding from these sources to sustain their businesses. Therefore, there is a need to establish a scheme and other measures such as legal funding of SMEs by the government to foster an improved flow of financing to small business enterprises for their growth and sustainability.

SMEs require sufficient capital to survive which is the reason why because of their importance to economic growth, the government has mandated some relevant departments and agencies to provide financial support to SMEs in order to boost the sector. From the analysis of the availability of finance for SMEs, only 11% of SMEs in the North West Province benefit from financial support for their businesses which made them to be most likely to survive and be sustainable. On the other hand, the up to 89% that do not benefit from any financial support are most likely not to survive and be sustainable. The major reason why most of these SMEs do not benefit from financial support for their business according to the follow up qualitative

study is because of ignorance as majority of them said that they were not aware of such scheme. Again, their ignorance of the available sources of finance to support SMEs is due to their low level of education to research for information about the available financial and technical support for small businesses. This means that for SMEs in this region to survive and be sustainable, their owners/managers need to upgrade their levels of formal/business education and training. Therefore, education and training can be a solution to SME sustainability because it can be used as a means to gain knowledge on the availability of finance to support SMEs and how to access such finances for the growth and sustainability of their businesses.

### **7.2.3 Items that are Necessary for the Effective Management of SMEs**

Based the literature review of this construct, it is evident that the effective management of SMEs greatly contribute to the success and growth of these businesses. This is because the elements of effective management (management functions, financial management, human resource management, operations management, management accounting and marketing management) provide a systematic and efficient manner of running a business to ensure that the desired objectives are met for the enterprise to succeed and be sustainable. More so, effective management of a business enterprise will enable management to provide good quality services to members and customers at less cost. In the light of this, effective management in business enterprises will enable the business to make optimum use of available limited resources and lead to better performance, which will lead to higher productivity, increase profitability as well as growth and sustainability of a business enterprise. However, some small business owners/managers in municipalities of the North West Province lack the knowledge, skill or expertise necessary to manage their businesses effectively for them to survive and be sustainable.

According to the empirical findings of this construct, SMEs that practice effective management in their businesses are most likely to survive and be sustainable while the ones that are not practicing it are most likely not to survive and be sustainable. One of the reasons why some SME owners/managers do not practice effective management in their businesses is as a result of low level of education and lack of management skills because according to the demographic results, majority of them are less educated, having only grade twelve certificate or less. Ineffective management is problematic amongst SMEs owners/managers, thereby decreasing

the potential success and survival of these businesses, which is why they experience a high failure rate in South Africa. Therefore, there is a need for the implementation of adaptive strategies (such as effective management) by SME owners/managers to reduce dependence level from other stakeholders, which will help to improve organizational autonomy and enable small business enterprises to grow and be sustainable.

Qualitative follow-up findings of this construct reveal that SME owners/managers might differ in their management strategies but most of them try as much as possible to have and implement them in the running of their businesses to ensure that they survive and be sustainable. The main purpose of implementing effective management in an SME is to ensure that the desired objectives of a business enterprise are met so that it can succeed and be sustainable. However, managing a business effectively does not go without challenges, that is why most SMEs are struggling to survive, and some of them are winding up especially when they are not able to overcome their managerial challenges. This implies that SMEs need to overcome the challenges to educate themselves on strategic business management so as to be well grounded with the knowledge, skills, expertise and the necessary background to manage their businesses effectively before embarking in any business operation.

Summarily, SMEs need to be effectively managed for them to survive and be sustainable. According to the cluster comparison analysis, those SMEs that practice effective management in their businesses are likely to be sustainable while those that do not practice it are most likely not to survive and be sustainable. This means that the 48% of SMEs in the North West province that do not practice effective management are most likely not to survive and be sustainable. From the demographic analysis of “highest qualification of respondent” and the qualitative follow up analysis of “level of education and training of business owners, managers and employees”, low and elementary level of education and training is the reason for ineffective management of SMEs in this region. This means that for SMEs in this region to survive and be sustainable, their owners, managers and even employees need to upgrade their levels of formal/business education and training. Therefore, education and training can be a solution to SME sustainability because it can be used as a means to gain business knowledge that can enhance the managerial capacity of owners/managers to develop business strategies of running their enterprises so that they can survive and be sustainable.

#### **7.2.4 Items that are Important for Successful Innovation within SMEs**

The literature review of this construct, points to the fact that innovation in business is required for the creation of products or services to meet new market demand, to introduce new processes of improving productivity and incorporate new forms of management systems and techniques to improve operational efficiency. The major types of innovations that is required for a business to succeed and be distinguished are product innovation, process innovation, marketing innovation and organisational innovation. These forms of business innovations will give SMEs a competitive advantage over their competitors, leading to increase profitability and hence success and sustainability of the business enterprises. This means that innovation is a prerequisite for the success and sustainability of SMEs because it enables owners/managers to always refine and modify their products or services to continuously satisfy the needs of their customers and ensures that new and existing products or services meet the demand of these customers. This leads to customer loyalty, increase sales and profitability in business.

The empirical findings of this construct show that majority of SME owners/managers in municipalities of the North West province are not innovative in their businesses to ensure that they grow and be sustainable which explain their high failure rate in this region. This is because SMEs that are not innovative in their businesses are most likely not to survive while the ones that are innovative are most likely to thrive and be sustainable. Therefore, it is important for the benefit of innovation to trickle down from big companies to local SMEs by ensuring equitable growth to all and sundry for them to survive and be sustainable which is a good indication of a healthy economy.

The outcome of the qualitative follow-up study for this construct stipulate that some business owners/managers endeavour to be innovative in their businesses because they have understood that for a business to be successful and sustainable, it must be innovative enough to introduce something new or different from what their competitors know or are doing in the market. However, being innovative in business is not without challenges, which is why most SMEs in the North West province are struggling to survive, and some of them are winding up especially when they are not able to overcome their innovative challenges. In order to be successful in business, it is important for business to endeavour to overcome any of their innovative challenges. This is because lack of business innovation is one of the major causes of SME

failure and discontinuity in South Africa and in the municipalities of the North West province since it is one of the most successful means to break-through in business and be sustainable.

Summarily, it is evident from the conclusion drawn from the analysis of this construct that innovation is required for the survival and sustainability of SMEs in this highly competitive business era. This implies that SMEs that are not innovative are most likely not to survive and be sustainable in this highly competitive business era of today. Therefore, the up to 63% of SMEs in municipalities of the North West Province that are not innovative are most likely not to survive and be sustainable. Some of the reasons given by SME owners in the qualitative follow up study for not being innovative in their business is the lack of knowledge of customers' needs and the elementary level of education and training of most of them. This is an indication that for SMEs in the North West Province to survive and be sustainable, their owners, managers and even employees need to upgrade their levels of formal/business education and training. Therefore, education and training can be a panacea to SME sustainability because it can be used as a means to gain knowledge that is required to be innovative in business for their enterprises to be able to compete and survive in this highly competitive business era so that they can be sustainable.

#### **7.2.5 Items that are Necessary to Effectively Conduct Business Research Amid SMEs**

The literature review of this construct stipulates that business research is necessary for the success of SMEs because it provides means for a systematic and logical search for new information or data that can be analysed and used to better managed an enterprise for it to thrive and be sustainable. This means that there is the need to conduct applied research frequently because implementing the results of its findings will enable the owners/managers to resolve specific problems that are affecting the smooth functioning of a business. More so, new ideas created from such research will also help to foster business growth and profitability, thereby leading to success and sustainability of the business enterprises. Therefore, the principal elements of business research that are necessary to contribute to the success of SMEs are basic business research, consumer feedback, product research, financial data, and competitive analysis. These elements of business research help small business owners/managers to generate a body of knowledge to give an understanding of how certain problems that occur in business enterprises could be resolved for the business to thrive and be sustainable.

On its part, the empirical findings of this construct indicate that majority of small business owners/managers in the North West province do not conduct business research in their enterprises, which is probably one of the reason of their high failure rate in this region. The cluster analysis here stipulates that SMEs that do not conduct business research in their businesses are most likely not to survive and be sustainable while the ones that conduct business research in their businesses are most likely to survive and be sustainable. Therefore, in order for SMEs to be successful, their owners/managers are required to invest more in business research to improve on the quality of their goods and services as well as their abilities and knowledge of running a business. Investing in business research will enable a business entity to expand its market and increase its capital investment by ploughing back its profit into the business. So, SMEs with little investment on business research jeopardize their survival and sustainability in the market because high levels of investment consequently enable any small business venture to be most likely to survive in the market and be sustainable.

The qualitative follow-up findings of this section show that the principal reasons among the many reasons that hinder SME owners/managers from conducting business research range from low and elementary level of education to lack of knowledge or ignorance to do proper business research. The challenges faced by SME owners/managers in conducting business research in their enterprises are the reasons why most small businesses in the North West province are struggling to survive and some of them are winding up because they are not improving on their businesses. As a result of the challenges of conducting research, majority of SME owners/managers in this region do not conduct any type of business research in their enterprises because they are hampered by some challenges (reasons) ranging from financial constrain to lack of knowledge or ignorance about research. This means that there are numerous problems facing SMEs that could be resolved by business research. Therefore, it is imperative for SMEs to conduct business research such as consumer feedback, product research, financial data and competitive analysis in order to understand the problems plaguing small businesses that such research can help to resolve.

In a nutshell, judging from the findings of this study in this construct, it is evident that business research is very necessary for the survival and sustainability of SMEs. This is because business research provide means for a systematic search for new information to improve the enterprises. This means that SMEs that conduct business research are likely to survive and be sustainable while those that do not conduct it are mostly not be sustainable. Therefore, from the quantitative results of this construct, the up to 66% of SME in the North West Province that do not conduct



business research are most likely not to survive and be sustainable. The major reason why these SMEs do not conduct business research as gathered from the qualitative follow up study is because of lack of knowledge of business research as a result of low level of education and training. This is an indication that for SMEs in the North West Province to survive and be sustainable, their owners, managers and even employees need to upgrade their levels of formal/business education and training. This is because, education and training can be a solution to SME sustainability in that it can be used as a means for business personnel to gain knowledge of conducting effective business research that can improve their enterprises to survive and be sustainable.

#### **7.2.6 Items that are Crucial to Enhance the Level of Education and Training of Human Capital among SMEs**

Literally, a reasonable level of formal/business education and training is required for the operation of SMEs for them to succeed, grow and be sustainable. This is because education and training helps small business owners/managers to acquire knowledge, skills and attitude that develop their minds for them to be able to manage their businesses effectively. This means that every small business owner/managers and even an employee who is going to undertake business training, supposed to have previously gotten some reasonable level formal education because there is no training scheme that is conducted without education. On the other hand, continuous business education and training will help to update, upgrade and maintain skills, knowledge and attitude of SME members throughout their work life and their businesses too will always thrive and remain sustainable. Therefore, a reasonable level of formal education and training is a gateway through which small business owners/managers can acquire and/or implement other predictor factors that determine SME sustainability.

Empirically, it was found in this study that majority of SME owners/managers do not undergo some education and training to equip themselves and their employees with required skills, knowledge and competences to run their businesses effectively. Bouazza *et al.* (2015) affirm that SMEs owners/managers that do not undergo some education and training to acquire the required skills, knowledge and competences to run their businesses effectively are likely not to be sustainable while the ones that undergo education and training are most likely to survive and be sustainable. Therefore, SMEs are expected to invest in the education and training of their human capital to improve their abilities and knowledge of running a business for it to survive and be sustainable. Serrasqueiro *et al.* (2008) stipulates that SMEs with little

investment on education and training of its staff are jeopardizing their chances of survival and sustainability because high levels of investment consequently enable any small business venture to be most likely to survive in the market and be sustainable. This is because investing in the education and training of human capital will enable a business entity to increase its capital investment by ploughing back its profit into the business. This means that a reasonable level of education and training will enable the human capital to be effective in the operation and management of business thereby avoiding wasteful expenditures, which will lead to increase profitability, thereby leading to success and sustainability of the business enterprises.

The qualitative follow-up empirical findings indicate that educating and training personnel of SMEs to equip them with the necessary skills of running a business has many challenges such as laziness and financial constrain. Inasmuch as there are challenges that hinder SMEs owners/managers from educating and training themselves and even their staff, there is still a need to educate and train human capital of every business enterprise. This is because according to GEM (2014), the lack of and low level of education and training of human capital is one of the major causes of SMEs failure and discontinuity in South Africa. Most SMEs staff have low level of education as majority of them are holders of only matric certificate and below with very few having diploma certificates. As such, the low level of education of SME owner/managers and their employees accounts for the high failure rate of small businesses in the North West province. The influence of education on business performance lies in the fact that knowledge gained enhances the managerial capacity to develop a specific business strategy. Therefore, there is the need for business owners/managers and employees to consider upgrading their level of education to at least diploma and/or degree certificates in order for them to gain knowledge that can enhance their managerial capacity to develop specific business strategies that will enhance the success of their businesses.

In summary, the findings of this construct indicate that a reasonable level of formal/business education and training is required for effect management of SMEs. The confirmatory Factor Analysis also portrays in the structural equation model that education and training has a significant relationship to the sustainability of SMEs with a correlation coefficient value of 0.05. This implies that SMEs that are operated by owners/managers with reasonable levels of formal/business education and training (above matric and diploma) are likely to survive and be sustainable while those that are managed by partners with low levels of education are most likely not to survive and be sustainable. Therefore, the up to 56% of SMEs in municipalities of the North West province that do not have specific level of education and training of their staff

are most likely not to survive and be sustainable. Some of the major reasons why some SMEs in this region do not undergo a reasonable level of education and training of their staff ranges from laziness to lack of training programs. Given the importance of education and training to the sustainability of SMEs, owners/managers must endeavour to overcome the challenges that hamper them from undergoing it to ensure that they attain a reasonable level of education and training so that they can improve their businesses to survive and be sustainable.

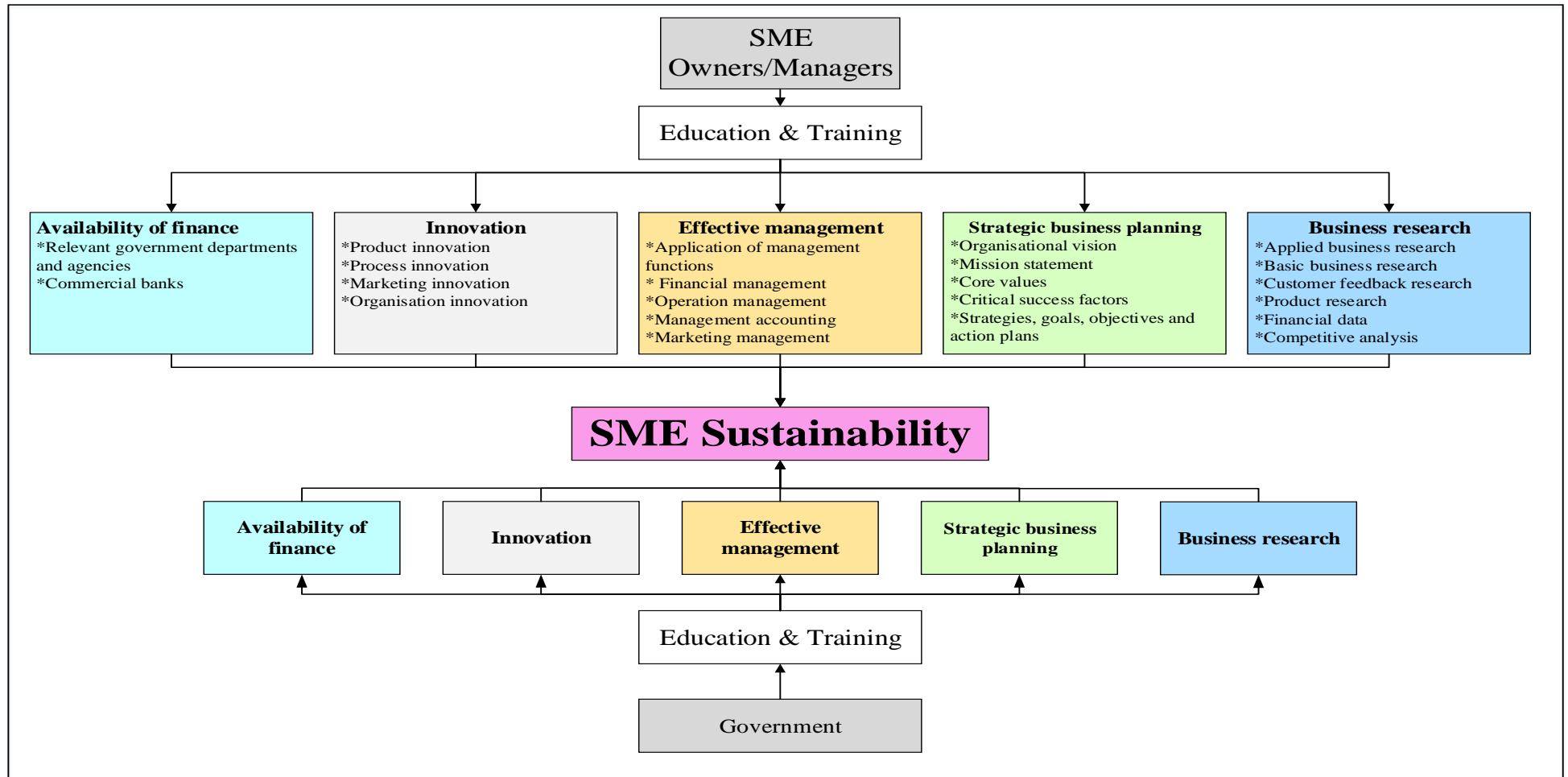
### **7.2.7 Towards a Framework for Enhancing the Sustainability of SMEs in Municipalities of the North West Province of South Africa**

From the findings of both the quantitative and qualitative data analysis, it is clear that there is a high rate of SME discontinuity and unsustainability in the North West province. This is because majority (up to 58.5%) of the SMEs in municipalities of the North West province are likely not to be sustainable because many of them do not do strategic business planning, lack sufficient finance, are poorly managed, are not innovative, do not conduct business research and have employees with low level of education and training. The non-applicability or the lack of any or some of elements such as improving access to finance, beefing up security, education and training of staff, are some of the cause of business failure and discontinuity in municipalities of the North West province. The challenges encountered by small business owners to improve their businesses to flourish and be sustainable is what prompts low levels of entrepreneurship and a high failure rate of SMEs in the North West province. Therefore, SME owners/managers in this region could consider and implement the proposed framework (figure 7.1) below in their businesses so that they will be more likely to experience improvement in their businesses and be sustainable.

In view of the problem stated in chapter one, the framework initiates a solution to the high failure rate of SMEs in the North West province. The framework is a synthesis of the quantitative and qualitative interpretation of the results. The empirical and non-empirical findings of this study indicate that many small business ventures are dwindling and some are even winding up every day in municipalities of the North West province. The high rate of SMEs failure in this province as portrayed by some business scholars and reports such as GEM Report (2010), Mahembe (2011), Kolver (2012), GEM (2014) and BER (2016) is probably as a result of non-implementation and lack of the determinant factors of SME sustainability. More so, with the increasing rate of unemployment and poverty, many job seekers who cannot find gainful employment are now resorting to operate small business enterprises as a means of survival.

The proposed framework for the sustainability of SMEs could enable both intending and existing small business owners/managers to improve their businesses successfully for them to survive and be sustainable. The proposed framework is generated from the strength of the quantitative and qualitative results and findings of the study. For small business enterprises to become successful and sustainable, there is a need for the owners/managers to have a proper guideline, a roadmap to be followed in running their businesses. This guideline will serve as not only a roadmap, but also as a checklist for the business owners/managers. The careful use of this framework is likely to encourage intending or potential business owners/managers who wants to start their business enterprises to have something that will always lead them towards a starting point to success so that their businesses can be sustainable.

Figure 7.1 below is a framework that charts the process and requirements for the sustainability of SMEs in municipalities of the North West province. SME owners/managers and the government are the players and coordinators in the sustainability process of small business enterprises as depicted in the framework. The owners/managers are expected to attain a reasonable level of formal education and training for them to gain knowledge that will enable them to implement the other predictor factors (independent variables) of SME sustainability, which is the dependent variable. The predictor factors that affect SME sustainability are availability of finance, innovation, effective management, strategic business planning, business research and education and training. The order of presentation of the predictor factors from availability of finance to business research also shows the order of their importance or contribution towards SME sustainability based on the strength of their correlation coefficients in the confirmatory factor analysis test. Meanwhile government on its part provides facilities for education and training such that SME owners/managers acquire and implement the other determinant factors of SME sustainability. Education and training, which is a means of achieving the other predictor factors of SME sustainability, is also a predictor factor in itself that influence the sustainability of small business enterprises. Base on the overall findings of this study, it can be said that all the identified factors/ predictor variables (dependent variables) in figure 1.1 and figure 7.1 (including education and training), have a positive correlation coefficient ( $p\text{-value} < 0.05$ ) and significant relationship and thus influence the sustainability of SMEs (dependent variable). The proposed framework is depicted in Figure 7.1 below.



**Figure 7.1: The Framework for enhancing the sustainability of SMEs in municipalities of the North West province of South Africa**

**Source:** Researcher's compilation

The framework above portrays the process and requirements for the sustainability of SMEs in municipalities of the North West province. Each of the items and their associate elements demonstrates their contribution to SME success and sustainability.

#### **7.2.7.1 Education and Training**

Education and training here is perceived as formal and/or business education and training because either of them will enable SME owners/managers to succeed in business for their enterprises to be sustainable. As depicted in the framework (Figure 7.1) above, education and training contributes to the sustainability of SMEs in two dimensions. Firstly, education and training is a gateway or means through which SME owners/managers can achieve the other predictor factors of SME sustainability and secondly, the government can provide education and training facilities to equip SME owners/managers with knowledge of how to implement the predictor factors of SME sustainability.

**Education and training as a means of achieving the other predictor factors of SME sustainability:** A reasonable level of education and training is a means through which business owners/managers can achieve the other predictor factors of SME sustainability. The demographic responses of the quantitative study and theme of *educational level of SME staff* of the qualitative study both suggest that most small business owners, managers and employees have very low levels of education (matric certificate and below). This is probably one of the major causes of small business discontinuity and unsustainability in municipalities of the North West province. Fatoki (2014) asserts that low level of human capital education and training causes high failure rate of SMEs in South African. This implies that SME owners, managers and even their employees actually require a reasonable level of education and training to run their businesses for them to succeed and be sustainable. Mortaki (2012) affirms that the purpose of education and training is to equip individuals with competences, skills, and knowledge required on the labour market, occupations for the development of professional skills and knowledge needed for the practice of a profession.

Jacobs (2015) asserts that highly educated business owners and managers will be successful in business than those who are less educated because they are able to make quality changes with their business knowledge. Therefore, it is important for SME owners/managers and employees to upgrade their level of education to at least diploma and/or degree certificates in order for them to enhance their managerial capacity, develop a specific business strategy and to achieve the other predictor factors of SME sustainability. In this regard, it means that a

reasonable level of education (above diploma) is required for small business owners, managers and even employees to develop a good strategic business plan, have the knowledge to access the available sources of finance, gain effective management skills, be innovative and be able to conduct business research. This implies that the higher the educational levels of SMEs owners, managers and employees, the more they are able to apply and implement the other determinant factors that enhance SME sustainability, the more their businesses are likely to succeed and be sustainable.

#### **7.2.7.2 Availability of Finance**

The demographic results of the quantitative study reveals that most SME owners depend only on internal sources of capital for their businesses such as friends support, family support and personal savings. The qualitative results of this construct also reveals that many SME owners/managers do not benefit from the available sources of finance because of ignorance and their lack of knowledge and low level of education. The conclusion is that a reasonable level of education and training enables SME owners/managers to gain the knowledge to access the available sources of finance to augment the capital for their businesses for them to grow and be sustainable. This is because majority of SME owners/managers admitted in the qualitative study that they never benefited from the available sources of finance because of lack of knowledge or ignorance.

Scott (2014) asserts that business education in financial management teaches business owners and managers how to source for funding for their enterprises, how to comply with government regulations and find ways to make their organization as cost-effective as possible. He adds that knowledge of the existing sources of finance gained through business education and training will enable SME owners/managers to access the available sources of finance for small business enterprises. These sources of finance are the relevant government departments and agencies such as the Department Trade and Industry, Department of Small Business Development, the presidency, Small Enterprise Development Agency, National Empowerment Fund, Small Enterprise Finance Fund, South Africa Micro Finance Apex Fund as well as Commercial Banks. These government departments, agencies and commercial banks are the sources of finance for SMEs in municipalities of the North West Province of South Africa. This implies that if SME owners/managers in municipalities of the North West Province of South Africa can endeavour to access these available sources (associated elements) of finance for their businesses, they will be most likely to survive and be sustainable.

### **7.2.7.3 Innovation**

A reasonable level of education and training enables small business owners/managers to be innovative in their businesses. This allows their enterprises to grow and be sustainable (Hove and Tarisai, 2013). However, the findings of this construct reveal that most SME owners/managers are not innovative because of lack of knowledge or sense of innovation as a result of their low level of education and training as depicted in the demographic results of this study. Scott (2014) states that educated entrepreneurs have innovative ideas to connect themselves with the audience and can communicate and spread a business enterprise's message in a far better way than those who are less educated. Scott (2014) also adds that educated entrepreneurs bring in more innovative and creative ideas in their businesses, thereby improving operations and finding new ways to increase productivity of goods and services to meet their customers' needs. Therefore, for SME owners/managers to be innovative in their businesses, thrive and be sustainable, they need to introduce product innovation, process innovation, marketing innovation and organisational innovation in their businesses. These various types of innovation which SME owners/managers are expected to introduce in their businesses are the associated elements of innovation for small businesses. Since innovation has a correlation coefficient value of 0.26 in the structural equation model, it means that it can influence the sustainability of SMEs positively. This implies that if SME owners/managers in municipalities of the North West province of South Africa implement these associated elements of innovation in their businesses, they would survive and be sustainable.

### **7.2.7.4 Effective Management**

A reasonable level of education and training is required to enable small business owners/managers to acquire business knowledge to run their enterprises so that they can survive and be sustainable. Surbhi (2015) points out that education and training are both different sides of a learning process. On his part, Scott (2014) affirms that highly educated entrepreneurs create competitive advantages for business enterprises in an industry, market or the business environment. This implies that education and training could solve SME sustainability because it enable entrepreneurs to gain business knowledge that enhances the managerial capacity of owners/managers to develop business strategies of running their enterprises. Therefore, for SME owners/managers to manage their businesses effectively for them to thrive and be sustainable, they need to ensure effective application of management functions, financial management, operations management, management accounting and



marketing management. These various aspects of management are basic requirements for SME owners/managers to implement as they are the components of effective management for small businesses. Since effective management has a correlation coefficient value of 0.17 in the structural equation model, it means that it can influence the sustainability of SMEs positively. This means that if SME owners/managers in municipalities of the North West Province of South Africa implement these associated elements or aspects of effective management in their businesses, they will be most likely to survive and be sustainable.

#### **7.2.7.5 Strategic Business Planning**

Strategic business planning equally requires a reasonable level of formal/business education and training of SME owners/managers to run their enterprises so that they can thrive and be sustainable. Pazvakavambwa (2017) points out that the advantage and strategic purpose of education, training and development is to help business enterprises achieve and maintain a competitive advantage. He also adds that education and learning climate are enhanced in an enterprise where training and development is a strategic priority that requires entrepreneurs who will be guided by business goals to enhance individual performance. For SME owners/managers to ensure strategic business planning in their businesses for them to thrive and be sustainable, they need to have organisational visions, mission statements, core values, critical success factors as well as strategies, goals, objectives and action plans. These various aspects of strategic business planning which SME owners/managers are expected to develop and have for their businesses are the associated elements of strategic business planning for small businesses. Since strategic business planning has a correlation coefficient value of 0.15 in the structural equation model, it means that it can influence the sustainability of SMEs positively. This means that if SME owners/managers in municipalities of the North West province of South Africa have these associated elements of strategic business planning which also serve as a road map to guide the running of their businesses, they will be most likely to survive and be sustainable.

#### **7.2.7.6 Business Research**

The findings show that most SME owners/managers do not conduct business research due to lack of experience in research and their ignorance about research in business. Their inexperience and ignorance about business research is an offshoot of low level of formal/business education and training. Sinclair (2014) states that education is the acquisition of attitude, knowledge and the training of individuals' mind in a certain direction to attain a required level of skill and information to improve their performance and bring about desired

changes. This means that a reasonable level of education would enable them to acquire skills, and information that improves their performance and brings about desired changes. Scott (2014) notes that highly educated entrepreneurs create competitive advantages for business enterprises in an industry, market or the business environment. This means that SME owners/managers need to upgrade their levels of education and training so that they are grounded in business research to succeed and be sustainable. For SME owners/managers to conduct effective business research in their businesses for them to thrive and be sustainable, they need to conduct applied business research, basic business research, customer feedback research, financial data and also do competitive analysis. These various types or aspects business research, which SME owners/managers are, expected to carry out to improve their businesses are the associated elements of business research for small businesses. Since business research has a correlation coefficient value of 0.08 in the structural equation model, it means that it can influence the sustainability of SMEs positively. If SME owners/managers in municipalities of the North West province of South Africa conduct these associated elements of business research, which can help to improve their businesses, they would most likely survive and be sustainable.

**Education and training provided by government to assist entrepreneurs to acquire and implement the other determinant factors of SME sustainability:** From the bottom of the framework (Figure 7.1) above, because of their contribution to economic growth of the country, government could boost the SME sector. The government could develop this sector by providing education and training to entrepreneurs for them to run their businesses to succeed and be sustainable. Education and training which was identified as having the least positive correlation coefficient in the confirmatory factor analysis of the quantitative study appears to be the most important predictor for sustainability of SMEs in the qualitative study. This emanates from the analysis of participants' responses on this construct, where there is a need for government to provide education and training to small business owners/managers in order to upgrade their level of education and training and even that of their employees. This will enable small business owners/managers to acquire and implement the predictor factors of SME sustainability for their businesses to survive and be sustainable.

The government can provide education and training facilities through its relevant departments and agencies to equip SME owners/managers with knowledge of how to access finance, to be innovative, manage businesses effectively, to develop strategic business plans and how to

conduct business research to improve their businesses. Kotze and Smit (2008), clarify that low level of human capital education and training is equally one of the principal causes of high failure rate of South African SMEs. Serrasqueiro *et al.* (2008) equally affirm that SMEs with low level of education and training amongst staff jeopardise their chances of survival and sustainability because high levels of education and training consequently enable any small business ventures to survive in the market and be sustainable. From the confirmatory factor analysis test conducted, business education and training equally has a positive correlation coefficient and statistically significant ( $p\text{-value} < 0.05$ ) contribution towards the sustainability of SMEs. This implies that formal/business education and training in itself is also a major predictor factor that contributes or influences the sustainability of SMEs.

### **7.3 Conclusion**

The purpose of this study was to address the challenges associated with the high failure rate of small businesses by developing a framework for enhancing the sustainability of SMEs in municipalities of the North West province of South Africa. The solution to the high failure rate of small businesses was presented in the form of a framework for enhancing the sustainability of SMEs. This framework assist small business owners/managers to overcome the challenges they are facing to improve the operation of their businesses for them to succeed and be sustainable. There is a need for small business enterprises to grow and be sustainable because of their importance to the economy in job creation and contribution to the GDP of the country.

The high rate of SMEs failure and discontinuity in the North West province is because of the non-implementation of the predictor factors of business sustainability. Consequently, there is a need for small-scale businesses to be structured in a way that they will grow from small business ventures to large business enterprises. The literature review and the findings of this study show that prospective and existing SMEs in the North West province and in South Africa in general have great potential to succeed and be sustainable. SME owners/managers only need to put their initiative in place to leverage the many positive attributes that they possess to eliminate the problem of high rate of SMEs failure in this region. The application of this framework by SME owners/managers would work successfully if they constructively abide by the identified process and requirements for the sustainability of small business enterprises. According to the framework, SME owners/managers and the government are the players and coordinators in the sustainability process. The owners/managers are expected to attain a

reasonable level of formal education and training for them to gain knowledge that will enable them to be able to implement the other predictor factors of SME sustainability.

The six factors in the framework insist that owners and managers are knowledgeable about the availability of financial and technical support for SMEs, innovative, practice effective management, have strategic business plans, conduct business research and undergo business education and training. If the initiative proposed in this framework for enhancing the sustainability of SMEs is successfully implemented, small business enterprises in this region could become success and sustainable for the sector to be a true entrepreneurial industrial district of South Africa. Having successfully developed the proposed framework for enhancing the sustainability of SMEs, the objectives (which are incorporated in the framework) of the study have been achieved.

#### **7.4 Recommendations of the study**

Entrepreneurship is an eminent process in business that affects the economic life of most individuals and the economy of a country at large. Due to the importance of entrepreneurship and the role of SMEs in job creation and contribution to the GDP, it is necessary to attend to some of the aspects that arose during the course of the study in the form of recommendations. Therefore, the following recommendations arise from the study:

##### **Recommendations to the Government**

- Given the importance of SMEs in job creation and contribution to the GDP of the state, the government through its relevant departments and agencies should endeavour to support and encourage this sector to develop. There is a need for government to provide education and training to small business owners/managers in order to upgrade their level of education and training and even that of their employees. This enables small business owners/managers to acquire and implement the predictor factors of SME sustainability for their businesses to survive and be sustainable.
- To improve the performance and development of the SMEs sector, the government should invest more in the Development Corporation, SEDA and other relevant agencies that can organise business seminars and training programs for SMEs on a regular basis. By attaining such business seminars and training programs, SME owners/managers will improve on their managerial skills in order for them to be able to analyse the market for better business opportunities and understand the different strategies of marketing their products.

- Concerning the contribution of SMEs to economic development, there is a need for the government to introduce a subject on entrepreneurship in the education curriculum of schools nationwide to develop skills and positive attitudes that influence the learners towards improving the entrepreneurial activities. Such entrepreneurship subject will enable students to learn basic skills on how to start and manage a small business even at a young age. This way, when such students leave school, they will create their own successful businesses that will be sustainable and even create employment for others who will be assisting them in running their business ventures.
- In order to encourage small business owners/managers to operate successful and sustainable SMEs, there is need for the government to assist them by providing them access to funding. To achieve this, the government can create centres in different communities where intending and existing business owners/managers would not only access sufficient funds for their businesses but also obtain advice from business experts on how to starting and running a business successfully. This is important because if these business owners/managers operate successful and sustainable businesses, they can generate more jobs for the increasing number of job seekers thereby helping to solve the problem of high unemployment rate as well as contributing to the GDP of the country.

### **Recommendations to Small Business Owners/Managers**

- In order to ensure the success and sustainability of SMEs, small business owners/managers should be innovative, ensure effective management, have strategic business plans, always conduct business research and endeavour to undergo business education and training. SME owners/managers in municipalities of the North West province should consider implementing the framework for enhancing the sustainability of SMEs proposed by this study.
- SME owner-managers should endeavour to upgrade their level of education and undergo business education and training because this is the gateway to achieving the other predictor factors of SME sustainability. This will enable them to gain knowledge that will empower them to apply and implement the other predictor factors that enhance SME sustainability.

## 7.5 Areas for Further Research

Based on the findings of this study, there is need to focus on certain areas of research that can contribute to the growth, development and sustainability of SMEs in the North West province and in South Africa at large. Further research in related areas/topics will help to resolve the problem of high failure rate of SMEs that the owners face while operating their businesses. In order to consolidate the results and findings of this study, further research is outlined in the areas below:

- The results and findings of this study is not representation of SMEs in the entire South African. The scope of this study is limited to municipalities within the jurisdiction of the North West province of South Africa. Therefore, further study in a broader perspective involving the whole country such as *“A framework of enhancing the sustainability of SMEs in South Africa”*.
- Instead of broadening the scope of this to include the whole country, the study can still be repeated and refined further focusing on other specific geographical areas of South Africa such as Gauteng, Limpopo or Free State provinces to evaluate the sustainability of SMEs.
- This study identified and presented its framework on how to access to finance, innovation, effective management, strategic business planning, business research and business education and training as determinant factors of SMEs sustainability. Further research is recommended for developing a framework on these factors showing how each independently enhances the sustainability of SMEs in South Africa or in any specific locality. An example of such area of future research can *“A management framework to enhance the sustainability of SMEs in South Africa”*
- The findings of this study show that of the major causes of SME high failure rate in South Africa is the limited access to finance for small business owners to fund their businesses. Further research should investigate the processes that SMEs owners need to follow to get access to finance from commercial banks and other relevant government departments and agencies that offer financial and technical support to small business enterprises.

## 7.6 Limitation of the Study

The objectives of this study were not met in full because many challenges were encountered. Most often, research is never without some limitations especially given the problems associated with studies of this nature. In the course of the study, the researcher identified some limitations, which posed

many challenges in attaining the objective of the study. Some of the several challenges that were experienced during the study were mitigated to ensure the success of this study. The main limitation of this study is that the measurement of sustainability was quite problematic because there are various metrics used for measuring it that are still evolving. This means that there is no standard measurement for sustainability; therefore, the understanding of sustainability in the context of this study was limited to the “likelihood of sustainability”.

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## **APPENDIX**

### **ANNEXURE A: QUESTIONNAIRE**



### **RESEARCH QUESTIONNAIRE**

#### **A Framework to Enhance the Sustainability of Small and Medium Size Enterprises in Selected Municipalities of the North-West Province of South Africa**

Dear Respondents,

My name is Paul Saah with student number 24426954. I am a doctoral student at North-West University Graduate School of Business and Governance – Potchefstroom Campus. I am conducting a research to determine the factors that enhance the sustainability of small and medium size enterprises in selected municipalities of the North-West Province of South Africa under the supervision of Professor Wedzerai Musvoto and Professor Costa Hofisi of North-West University.

The completion of this questionnaire would not take more than 25 minutes of your time and the answers you provide will remain completely anonymous. However, should you wish to receive a copy of the result please let me know.

Thank you for agreeing to respond to our survey.

Yours Sincerely,

Paul Saah

## Section A

### The Sustainability of Small and Medium Size Enterprises in South Africa

The statements in the questionnaire are a description of the factors that determine the sustainability of small and medium size enterprises. Please read each of these statements keenly and use the four-category rating scale to indicate the extent to which you agree or disagree to the statements relating to the sustainability of SMEs or your business.

Please indicate your response for each question by placing a cross (x) over the most applicable answer that describes your perception of the given statement as shown in the example below:

#### Response scale

1 = Strongly disagree    2 = Disagree                      3 = Strongly agree                      4 = Agree

	Statement	Scale			
0	I satisfy the needs of the customer by offering lower prices	1	2	3	4

### Sustainability of SMEs

The questions below are ranked on a scale from 1 to 4 as indicated in the example above. Please place a cross (x) on the response that most describes your perception of the given statement.

#### Section A1: The contribution of strategic business planning to the sustainability of SMEs

No	Statements	Scale			
		1	2	3	4
1	This enterprise has a strategic business plan that guides the achievement of business goals and objectives				
2	There is a defined vision which is part of the strategic management process of this enterprise				
3	There is a mission statement that guides the daily activities and decisions against which the enterprise's programs and plans are evaluated				
4	There are values (principles and ethics) that bind the owner, management, employees and customers together which form the foundation of decision making in this enterprise				
5	There are Critical Success Factors (CSF) that influence the overall performance of this business enterprise				

**Section A2:** Sources of finance available to enhance the sustainability of SMEs

No	Statements	Scale			
		1	2	3	4
6	The source of capital (finance) that was used to set up this enterprise was a bank loan				
7	This enterprise has benefited a lot of financial and technical support from the Department of Trade and Industry				
8	The Department of Small Business Development (DSBD) has supported the growth of this enterprise in one way or the other				
9	This enterprise has benefited from financial and technical assistance from the South African presidency in terms of finance, training, counselling, marketing, technology, infrastructure and information				
10	The Small Business Development Agency (SEDA) has benefited this enterprise with funding through the integrated government-funded scheme				
11	The National Empowerment Fund (NEF) has once granted business loan from R250000 and above for the set up and growth of this enterprise				
12	The Small Business Finance Agency (SBDA) is providing this enterprise with services such as credit guarantee scheme for bank loans and capital to set up and to maintain this enterprise				
13	Commercial banks in South Africa are offering investment and financial opportunities for this enterprise through the granting of bank loans and overdraft				
14	The South African Micro Finance Apex Fund (SAMAF) offers affordable financial services such as granting micro-loans for this enterprise				

**Section A3:** The effective management of SMEs to enhance their sustainability

No	Statements	Scale			
		1	2	3	4
15	This enterprise is effectively managed to ensure that the desired objectives and goals are accomplished				
16	The management functions of planning, organising, leading and controlling are effectively implemented in this enterprise to ensure success and growth				
17	The finances of this enterprise are effectively managed such that the primary objective of maximising the value of the entity is accomplished				
18	The human resources of this enterprise are effectively managed such that employment relationship is satisfactory for both the owners/management and employees				
19	There is effective management of systems or processes that provide services or create goods according to the quantity and specifications of customers				
20	The accounting system of this enterprise effectively analyse and report financial and nonfinancial dealings that assist management to improve the effectiveness of the business				
21	This enterprise has an effective marketing strategy that successfully makes the goods/services well known and promoted to potential customers				

**Section A4:** The contribution of innovations in enhancing the sustainability of SMEs

No	Statements	Scale			
		1	2	3	4
22	This enterprise always introduces new processes to improve and modify products/services to continuously satisfy the needs of the customers				
23	This enterprise introduces new business technologies, capacities and knowledge that significantly improve the version of previous product/services in order to increase sales				

<b>24</b>	Process innovation is implemented in this enterprise to enable efficiency which will lessen cost and increase income				
<b>25</b>	The enterprise implements marketing innovation by expanding its market, entering new markets and adopting new techniques of designing and packaging of its products to satisfy customers' needs				
<b>26</b>	Organisational innovation is done in this enterprise to increase its market share, net income, growth and profitability				

**Section A5:** The contribution of business research in enhancing the sustainability of SMEs

<b>No</b>	<b>Statements</b>	<b>Scale</b>			
		<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
<b>27</b>	This enterprise conducts business research by collecting consumer feedback, doing product research and collecting financial data which are analysed to help in making decisions concerning the operation of the business				
<b>28</b>	Applied business research is conducted in this enterprise when specific needs arise such as decrease sales so that appropriate actions can be taken to resolve the situation				
<b>29</b>	Basic business research is conducted in this enterprise to understand how certain problems occur such as a downturn in business so that the situation can be resolve				
<b>30</b>	Consumer feedback is always conducted to get customers' opinions about the product/services which help management to ensure that they are satisfying customers' needs				
<b>31</b>	This enterprise embarks on product research by acquiring new technologies to improve on the quality and taste of its product/services to satisfy customers' need				
<b>32</b>	Financial data is often collected which help management to analyse business performance and determine whether business strategies or tactics should be changed or maintained				
<b>33</b>	Competitive analysis is often done in this enterprise by comparing our products/services with others to determine a more attractive price point or improve product to win more customers				



**Section A6:** Education and training required by small business operators to ensure the sustainability of SMEs.

No	Statement	Scale			
		1	2	3	4
34	There is a greater consideration for business and training since it helps to equip both the owners/managers and employees with skills and competence to run a business effectively				
35	The members (owners/managers and employees) of this enterprise have reasonable levels of business education and are knowledgeable about the fundamental principles of business operations				
36	The members (owners/managers and employees) of this enterprise often attend business training programs to gain more knowledge, sharpen skills, change attitudes to enhance their performance				

**Section B**

**Biographical Information**

Please answer the questions in this section by marking with a cross (X) in the box that corresponds to your answer.

1 Gender

1. Male	2. Female
------------	--------------

2 Age group

20 - 29	30 - 39	40 - 49	50 - 59	60 and above
---------	---------	---------	---------	--------------

3 Race

African	Coloured	Indian	White	Others
---------	----------	--------	-------	--------

4 Highest educational qualification

Grade	Grade	Diploma	Degree	Other
-------	-------	---------	--------	-------

1 – 7	8 – 12			
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#### 4 Business location

Mahikeng Lichtenburg Zeerust	Rustenburg Moretele Madibeng	Klersdorp Potchefstroom Ventersdorp	Vryburg Taung Christiana
------------------------------------	------------------------------------	---	--------------------------------

#### 6 Nature of business

Retail	Services	Wholesale	Manufacture	Other
--------	----------	-----------	-------------	-------

#### 7 Number of employees

1 – 5	6 – 50	51 – 100	101 – 200	200+
-------	--------	----------	-----------	------

#### 8 Duration of business operation

Under 1 yr	1– 4 yrs	5–10 yrs	11-20 yrs	20+ yrs
---------------	-------------	-------------	--------------	------------

#### 9 Reasons for starting the business

Poverty	Survival	Unemploy ment	Additional Income	Achieve Independence
---------	----------	------------------	----------------------	-------------------------

#### 10 Source of finance for the business

Bank loan	Grant	Savings	Family support	Friends support
--------------	-------	---------	-------------------	--------------------

Thank you for responding to the questions.

## ANNEXURE B: INTERVIEW GUIDE FOR SME OWNERS/MANAGERS



### INTERVIEW GUIDE FOR SME OWNERS/MANAGERS

Dear Participants,

My name is Paul Saah with student number 24426954. I am a doctoral student at North-West University Graduate School of Business and Governance – Potchefstroom Campus. I am conducting a research to determine the factors that enhance the sustainability of small and medium size enterprises in selected municipalities of the North-West Province of South Africa under the supervision of Professor Wedzerai Musvoto and Professor Costa Hofisi of North-West University.

This face-to-face interview is aimed at gaining gain more insight and knowledge on how to enhance the sustainability of small and medium size enterprises in municipalities within the North West province which has been noted to be one of the highest SME failure rate in South Africa. This is to ensure that SMEs in municipalities within the North West province will be able to experience improvement in their businesses and be sustainable. This interview will only last for 20 minutes and the concise and unbiased responses of the participants will be highly appreciated. Any information provided in this exercise is considered confidential, it will not be used against the participants in any way. More so, participation is voluntary because a participant may withdraw at any point in time.

**Participants:** The participants selected to participate in this study are the SMEs owners/managers within selected municipalities of the North West province in order to gain insights on how to enhance the sustainability of small business ventures in this region. Ideally, the venue for the interview should be at the business premises of the participants that have been contacted for the interview within the municipalities of the North West province.

**Section 1: The contribution of strategic business planning to the sustainability of SMEs**

1 What strategies do you use in your business to ensure growth and sustainability?

.....  
.....

2 How successful is your strategy to the survival and sustainability of your business?

.....  
.....

**Section 2: Sources of finance available to enhance the sustainability of SMEs**

3 Have you ever benefited from any sources of finance for your business?

.....

4 If no, why have you never benefited from the available sources of finance for SMEs?

.....  
.....

5 What is the source of finance (capital) for your business?

.....  
.....

**Section 3: The effective management of SMEs to enhance their sustainability**

6 What are effective management strategies that you implement in the running of your business to ensure that it survive and be sustainable?

.....  
.....

7 What are the major managerial challenges or shortcoming that you encountered in the management of your business

.....  
.....

**Section 4: The contribution of innovations in enhancing the sustainability of SMEs**

8 What are the challenges that hinder you or your business from being innovative to ensure that it is sustainable?

.....  
.....

9 As a business owner/manager, what new thing (innovation) do you introduce in your business to make it better than others do so that it grows and be sustainable?

.....  
.....

**Section 5: The contribution of business research in enhancing the sustainability of SMEs**

10 In your opinion, what do you think is the reason(s) why most SMEs do not conduct business research to ensure the survival and sustainability of their business?

.....  
.....

11 What type of business research do you conduct in your business to improve the quality of your goods/services to customers?

.....  
.....

12 What are the specific problems that are affecting the smooth functioning of your business that business research can help to resolve?

.....  
.....

**Section 6: Education and training required by small business operators to ensure the sustainability of SMEs.**

13 What are the challenges that you encountered which often hinder or discourage you from undergoing education and training of personnel to equip them with the necessary skill to run a business?

.....

.....

14 What are the levels of education and training of most of the personnel of your business?

.....

.....

**Section 7: A framework to enhance the sustainability of SMEs**

15 As a small business owner/manager, what do you think could be done to improve your business so that it can survive and be sustainable?

.....

.....

16 What other information do you wish to share as far as the success of your business is concern?

.....

.....

**Thank you for your co-operation**

## ANNEXURE C: APPROVAL OF ETHICS APPLICATION



Private Bag X6001, Potchefstroom,  
South Africa, 2520

Tel: +27(18) 299-1111/2222

Web: <http://www.nwu.ac.za>

**Human Resource Research Ethics Committee**

Tel: 018 289 2044

Email: [Betchani.Tchereni@nwu.ac.za](mailto:Betchani.Tchereni@nwu.ac.za)

**01-Mar-2018**

22838082@nwu.ac.za

*Per e-mail*

Dear **PROF SARATIEL WEDZERA MUSVOTO**

### **APPROVAL OF ETHICS APPLICATION: NWU-HS-2018-0012**

The following application has been reviewed by the Human Resource Research Ethics Committee (HRREC) on 28-Feb-2018.

**Name of student:** P SAAH - 24426954.

**Name of supervisor/promoter:** PROF SARATIEL WEDZERA MUSVOTO.

**Title of study:** A Framework to Enhance the Sustainability of Small and Medium Size Enterprises in Selected Municipalities of the North-West Province of South Africa. **Application Risk Level:**

This letter serves to inform you that your application has been approved from **28-Feb-2018** to.

**Special conditions of the approval (if applicable):**

Yours Sincerely

Prof B. Tchereni

Chairperson: Human Resource Research Ethics Committee (HRREC)

## ANNEXURE D: LETTER OF LANGUAGE EDITING



Office: 0183892451

SCHOOL FOR LANGUAGE EDUCATION, FACULTY OF EDUCATION

Cell: 0729116600

Date: 31<sup>st</sup> May, 2019

TO WHOM IT MAY CONCERN

CERTIFICATE OF EDITING

I, **Muchativugwa Liberty Hove**, confirm and certify that I have read and edited the entire dissertation, **A framework to enhance the sustainability of small and medium size enterprises in selected municipalities of the North West province of South Africa** by **Paul Saah**, [orcid.org/0000-0003-3569-3786](https://orcid.org/0000-0003-3569-3786), submitted in accordance with the requirements of a doctoral degree in Business Administration at the School of Business and Governance of the North-West University, Potchefstroom Campus.

**Paul Saah** was supervised by **Professor Wedzerai Musvoto** and co-supervised by **Professor Costa Hofisi**.

I hold a PhD in English Language and Literature in English and am qualified to edit such a thesis for grammatical correctness, cohesion and coherence. The views expressed herein, however, remain those of the researcher/s.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Liberty Hove', is written over a light blue horizontal line.

Dr M.L.Hove (PhD, MA, PGDE, PGCE, BA Honours – English)





## ANNEXURE E: TURNITIN SIMILARITIES REPORT

### Turnitin Originality Report

- Processed on: 05-Jun-2019 21:13 SAST
- ID: 1140374527
- Word Count: 90398
- Submitted: 1

22838082:Paul\_Saah\_Thesis.docx By WEDZERAI MUSVOTO

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[http://ujdigispace.uj.ac.za/bitstream/handle/10210/11819/habede s p 2010 magister %20commerci%20in%20business%20management.pdf?isAllowed=y&sequence=1](http://ujdigispace.uj.ac.za/bitstream/handle/10210/11819/habede_s_p_2010_magister%20commerci%20in%20business%20management.pdf?isAllowed=y&sequence=1)

< 1% match (publications)

Thafe, D.R. and O. I Oladele. "Use of Job Enrichment Technique and Human Resource Management Performance, Among Extension Managers in North West Province South Africa", *Mediterranean Journal of Social Sciences*, 2014.

< 1% match (publications)

Nunes, Paulo MaÃ§Ãs, SÃlvia Mendes, and ZÃ©lia Serrasqueiro. "SMEsâ€™ investment determinants: empirical evidence using quantile approach", *Journal of Business Economics and Management*, 2012.

< 1% match (Internet from 23-Feb-2019)

<https://docplayer.net/60299268-The-impact-of-motivations-personal-values-management-skills-of-managers-on-the-performance-of.html>

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<http://scholar.ufs.ac.za:8080/xmlui/bitstream/handle/11660/4873/MotsetseMJ.pdf?s=>

< 1% match (Internet from 08-Sep-2018)

<https://www.entrepreneurmag.co.za/advice/funding/government-funding-funding/nef-funding/>

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Submitted to Leicester College on 2016-02-29

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[http://www.ncr.org.za/pdfs/Research Reports/Literature%20Review%20on%20SME%20Access%20to%20Credit%20in%20South%20Africa Final%20Report NCR Dec%202011.pdf](http://www.ncr.org.za/pdfs/Research_Reports/Literature%20Review%20on%20SME%20Access%20to%20Credit%20in%20South%20Africa_Final%20Report_NCR_Dec%202011.pdf)

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