Export propensity of SMMEs in South Africa

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It all starts here ™

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ABSTRACT

South Africa is faced with economic challenges of a high rate of unemployment and low economic growth, and the South African government have identified that exports are essential to ensure the growth of small, medium and micro-sized enterprises (SMMEs) and the growth of the overall economy. In order to better support SMMEs, policymakers requires an in-depth knowledge and understanding of the factors that affects SMMEs ability or inability to export their products and services (export propensity).

The main objective of this study was to investigate the factors that may affect whether the SMMEs are able/unable to export their products and services to the foreign countries. An empirical research was done by means of quantitative research in order to answer the research questions. The researcher looked at various factors that have an effect on SMMEs export propensity in the Johannesburg Metropolitan area.

The study showed that management experience, management commitment, marketing capabilities, information capabilities, the willingness of the SMMEs leaders and government support are valid factors that affect export propensity, and the Spearman's rho coefficient show that these factors are all correlated. The regression analysis showed that marketing capabilities, management commitment, government support and government funding have a positive influence on the business turnover for small, medium and micro-sized enterprises in South Africa.

Keywords: Export propensity, Factor analysis, Government, Internationalisation, Small, medium and micro-sized enterprises (SMMEs), South Africa, management interventions, turnover

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1. CHAPTER 1: NATURE AND SCOPE OF STUDY

1.1 TITLE OF RESEARCH

Export propensity of small, medium and micro-sized enterprises in South Africa

1.2 INTRODUCTION

The South African government has recognised that small, medium and micro-sized enterprises (SMMEs) have the potential to play an active role to improve job creation opportunities, reduce poverty and create a more equitable distribution of wealth (Small Enterprise Finance Agency (SEFA), 2016:2). This can be achieved by creating an enabling environment that will allow SMMEs to grow and expand their businesses so that they are able to export their products and services to foreign markets (Herrington *et al.*, 2014:43).

According to the World Bank indicators, exported goods and services in South Africa measured at 31.90% of gross domestic product (GDP) in 2015 (World Bank, 2016:1), highlighting the need to focus on this sector of the economy. Trade deficits and other economic problems in recent years (e.g. low economic growth, high rate of unemployment, rising inflation, etc.) have forced many developing countries to refocus their attention to search for strategies, designs of policies and assistance programmes aimed at the promotion, development and enhancement of the export capabilities of SMMEs (Parish & Freeman, 2011:2).

Zhang *et al.* (2014:668) argue that while the internationalisation of SMMEs may provide SMMEs with greater cost efficiencies and more learning opportunities (both of which help promote the business performance), it may also bring about risks and liabilities, such as market uncertainty and political hazards, all of which may negatively affect business performance. In some cases, especially at SMME level, companies cannot predict the risks that will be faced during the process of internationalisation, and they do not have suitable tools to manage the knowledge acquired from previous internationalisation experiences (Rodriguez *et al.,* 2010:202).

It is also important to note that governments in most countries have tried to help their SMMEs to internationalise wherever possible (usually through finance, training or other support by state and parastatal agencies), but the results have generally been very poor (Falkena *et al.,* 2015:23). According to Sraha (2015:56), the South African government has attempted to incentivise SMMEs'

export capabilities through export promotion programmes and the performance of these programmes must be monitored on an ongoing basis.

Therefore, it is essential to investigate how some of these factors affect the export success/failure of SMMEs in South Africa.

1.3 LITERATURE REVIEW

Export propensity is defined as factors that influence whether an organisation/firm will succeed or not to export its goods and services to the foreign market (Parish & Freeman, 2011:3). A significant amount of research to date has been dedicated to the export performance of firms (Al-Aali *et al.*, 2013:2 & Shahram *et al*., 2013:935), as well as to identify barriers that impede the growth of SMMEs in South Africa (Mthimkhulu & Aziakpono, 2015:23); however, less attention has been paid to the pre-export stage or the export propensity stage, particularly for SMMEs in developing countries such as South Africa.

Parish and Freeman (2011:3) argue that the steps taken by the firm towards internationalisation vary enormously, and it depends on the firm's internal factors, industry and country factors. While some firms still follow the traditional processes and usually slow stage process of international development, many firms now internationalise rapidly or are international at founding, or very shortly after, and they are referred to as 'born global' (Sui & Baun, 2014:822).

There are numerous factors that affect export propensity. Internal factors, such as management commitment, management experience, firm age and firm size (Love *et al*., 2015:5), as well as information capabilities play an important role toward the internationalisation of SMMEs (April & Reddy, 2015:570). Factors within the external environment of SMMEs, including networks and supply chain links, social ties, immigrant links, improved global trade infrastructure and access to funding from private organisations and government-initiated programmes may stimulate SMMEs' internationalisation (Lloyd-Reason *et al.*, 2009:5).

According to Mthimkhulu and Aziakpono (2015:27), some of the challenges that impede the growth of SMMEs (the ability to expand and export their products and services) include the high rate of crime in communities where they operate, the rising costs of electricity and fuel, corruption, high transportation costs, lack of access to finance, high labour costs, etc. Other challenges facing SMMEs, include regulations and government policies, a lack of research and development, and a

lack of physical infrastructure, all of which may affect export propensity (Small Enterprise Development Agency (SEDA), 2012:43).

1.4 PROBLEM STATEMENT

While global trends show that small and medium enterprises (SMEs) constitute the largest employer in either developed or developing economies, smaller firms in South Africa are showing stagnation in both turnover and employment growth (Business Environment Specialist (SBP), 2015:1).

In a country where, according to the latest findings from Statistics SA, less than half of all adult South Africans actually work and the rest (an astonishing 8.7 million) are unemployed, the sustainability and growth of SMMEs should be an obsession if South Africa is ever to attain the socio-economic goals of the National Development Plan (NDP) (SBP, 2015:2).

The National Planning Commission (2013:103) sets an ambitious aim on the NPD, which is to treble the size of South Africa's economy by 2030. In order to achieve these objectives, it will require sustaining a robust rate of economic growth – at a minimum of 5.4% a year over the next 15 years (SBP, 2014:3). Exports are essential to ensure the growth of SMMEs and the growth of the overall economy of the country (Herrington *et al.*, 2014:23).

In order to better support SMMEs, policymakers require an in-depth knowledge and understanding of the factors that affects SMMEs' export propensity.

Therefore, this study explored the factors that influence SMMEs' ability or inability to export their products and services to the foreign countries, and thereby contribute to the economic growth of the country. The study will further assess whether government initiatives have succeeded to strengthen SMMEs' export propensity. The study will make recommendations based on the findings and/or analysis of the results from the questionnaire completed by owners of small- and medium-sized enterprises. The recommendations aim to assist SMMEs' business leaders to take corrective actions that will enable them to export their products and services to the foreign market. Secondly, the recommendations will advise government institutions to support SMMEs better to become exporters and contribute to the growth of the economy.

1.5 RESEARCH QUESTION

The following is a list of research questions that have been formulated for the purpose of this research:

- How is export propensity conceptualised according to the literature?
- What are the barriers that affect SMMEs to internationalise their products and services in South Africa?
- What are the opportunities and challenges affecting SMMEs to penetrate the export market?
- Which are the dominant factors on export propensity of SMMEs in South Africa?
- How effective are government interventions in assisting SMMEs to export their products and services?
- What recommendations can be made for future studies and practice?

1.6 RESEARCH OBJECTIVES

The research objectives were divided into primary and secondary objectives.

1.6.1 Primary objective

The primary objective of this study is to investigate the factors that influence the export propensity of small, medium and micro-sized enterprises (SMMEs) in South Africa.

1.6.2 Secondary objectives

In order to achieve the primary objective, the following secondary objectives were formulated:

- To define and understand export propensity
- To gain insight into small, medium and micro-sized enterprises through conducting a literature review
- To obtain insight into small businesses and their contribution to the South African economy.
- To obtain insight on the risks and challenges faced by SMMEs.
- To study the factors that affect export propensity.

- To validate the reliability of the questionnaire measuring export propensity and perceived success by means of a statistical analysis.
- To investigate the relationship between the factors that affect export propensity.
- To draw conclusions from the empirical study and make practical recommendations to SMMEs' business leaders.

1.7 SCOPE OF THE STUDY

1.7.1 Field of study

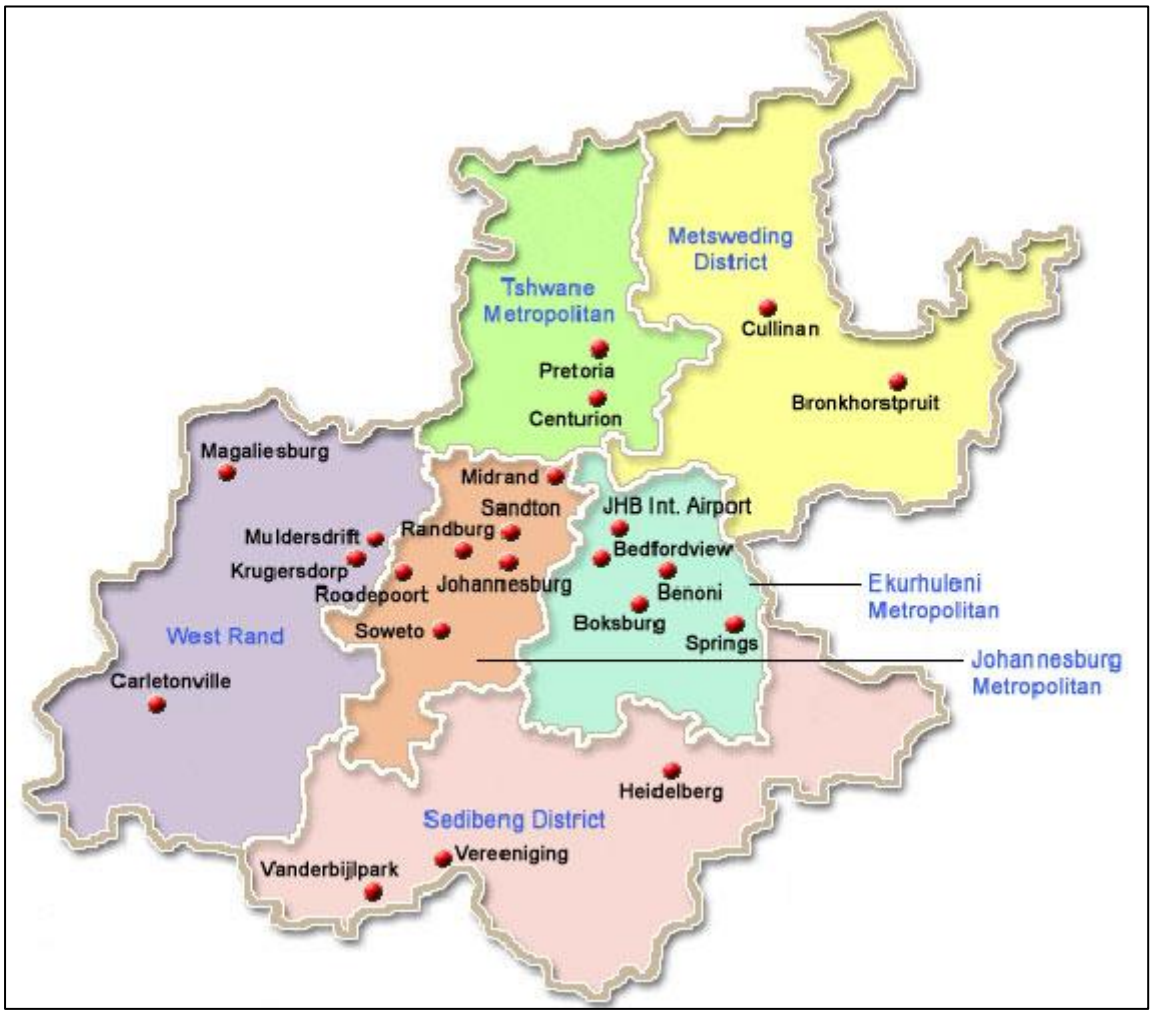
This study falls within the learning area of entrepreneurship with specific references to export-oriented entrepreneurship. The study will be conducted in the Gauteng Province of South Africa, Johannesburg Metropolitan.

1.7.2 Geographical demarcation

According to the Companies and Intellectual Property Registration Office (CIPRO), there was a total number of 576 340 SMMEs in South Africa by July 2016. Gauteng is the leading province in terms of the number of SMMEs in both the formal and informal sectors. Gauteng is the smallest of South Africa's nine provinces and it accommodates 48% of formal SMMEs nationally. The Western Cape is the second largest province 19% of the number of formal SMMEs. Provinces with large rural populations, such as KwaZulu-Natal (19%), Limpopo (14%) and the Eastern Cape (13%), accommodate higher proportions of informal businesses.

According to Brand South Africa, Johannesburg, the capital city of Gauteng, is the largest in the country and on the continent. The country's capital city, Pretoria, is also in the Gauteng Province. Gauteng is made up of three metropolitan municipalities, which include Johannesburg, Tshwane and Ekurhuleni. Despite being the smallest of the nine provinces, Gauteng dominates the South African economy in every major sector, except for agriculture, mining and quarrying. Gauteng is dominated by tertiary industries such as finance, real estate, business services, retail and motor trade.

Figure 1.1: Map of Gauteng illustrating the major towns and metropolitans



Source: http://www.sleeping-out.co.za/Gauteng-Map.asp

According to the Johannesburg Chamber of Commerce and Industry Business Bulletin, SMMEs in the formal sector are concentrated largely in the financial service providers, real estate and business services sector (44%). The next largest sector is the one that is broadly labelled as wholesale and retail trade; repair of motor vehicles, personal and household goods; accommodation and restaurants (28%), mining and agriculture (18%) and manufacturing (6%).

Therefore, based on the fact that Gauteng, and particularly Johannesburg, is the economic hub of the country (Rogerson, 2011:316), this study will target the SMMEs in the Johannesburg Metropolitan area of Gauteng in South Africa.

1.8 RESEARCH METHODOLOGY

This study will be performed in two phases. The first phase will entail a literature review on export propensity for small, medium and micro-enterprises in South Africa, and the second phase will deal with an empirical study on this topic.

1.8.1 Literature study

The literature study was compiled to gain a body of knowledge regarding export propensity. The literature study will focus on defining export propensity, the role of SMMEs in South Africa, export processes in South Africa, challenges affecting SMMEs pertaining to internalisation, and factors that affect export propensity. In order to achieve this, a wide range of sources were consulted.

The following sources were used in the compilation of the literature study: Subject-specific journals such as the In*ternational Small Business Journal, South African Journal of Business Management*, Annual reports from various institutions (e.g. South African Department of Trade and Industry (DTI), Chamber of Mines and Commerce (CMC), companies and intellectual property commission (CIPRO), textbooks on the subject, the Internet and previous dissertations on the subject were also consulted.

These articles and journals were obtained from different databases, which include the North-West University Library, EBSCOhost, SA ePublications, Emerald, Nexus, ProQuest and SACat. Electronic search engines such as Google and Google Scholar were used to familiarise the researcher with current informal trends.

1.8.2 Empirical research

The empirical study was conducted by means of a self-administered questionnaire. The questionnaires were distributed to the SMMEs in all the various sectors in Gauteng. The results of the questionnaire were statistically analysed and a conclusion was made on factors that influence whether small, medium and micro-sized enterprises in South Africa can export their products and services. The results were used to establish whether government's initiatives are sufficient to assist SMMEs to be able to export their products and services to foreign markets.

1.8.3 Research design

The research design that was used for this exploratory study is a quantitative descriptive research design to investigate the relationship between factors that are affecting export propensity. The research was cross-sectional in order to allow correlations between the variables to be assessed and the prevalence of the factors to be determined and also to make predictions from the findings.

1.8.4 Research population

The population was made up of business owners operating in Gauteng with the founder of the business being the decision-maker in the business. According to Statistics South Africa, there are approximately 270 000 SMMEs in the formal market in Gauteng. A convenience sample of the SMMEs in the Johannesburg Metropolitan was selected across all economic sectors (e.g. agricultural, mining, manufacturing, etc.). The study targeted approximately 300 SMMEs in the Johannesburg Metropolitan area. The selected SMMEs have been operating for at least two years, but no longer than 10 years. A total of 300 SMME leaders were conveniently selected to complete the questionnaires and a total number of 240 responses were received, yielding a response rate of 80%.

1.8.5 Data collection

The questionnaire was sent to the identified SMMEs' leaders via email using the contact details obtained from CIPRO and the Johannesburg Chamber of Commerce and Industry (JCCI). The link to complete the questionnaire online was sent by JCCI to various SMMEs on their database. Each questionnaire was accompanied by a cover letter that guaranteed the confidentiality of their responses. The questionnaires were collected by submitting the responses online using Google Forms. Once all the responses were submitted online, the researcher, in consultation with the Statistical Consultation Services of the North-West University, used the SPSS statistical software package version 22.0 to capture, clean, edit and analyse the data obtained from the questionnaires.

1.8.6 Research instrument

A self-administered, structured, validated questionnaire was used as a research instrument because the questionnaire method was an inexpensive way to gather data from a potentially large number of respondents. The questionnaire used a Likert scale of 1 to 5, where 'strongly disagree' is equal to 1 and 'strongly agree' is equal to 5**.**

1.8.7 Self-administrate questionnaire

The questionnaire was designed to ensure the gathering of information in seven sections.

- The first section dealt with demographic information. Questions in this section included the owner's age, gender, business sector and location. This section also provided information regarding the business in terms of number of employees and the annual turnover.
- The second section assessed whether the SMME is willing to export its products and services to the foreign market.
- The third section assessed whether management's experience affects SMMEs' export propensity.
- The fourth section assessed management's commitment to export-related duties.
- The fifth section evaluated how the SMMEs' marketing capabilities influence the ability of the firm to export goods and services.
- The sixth section assessed the information capabilities of the SMMEs with regard to export opportunities.
- The seventh section assessed whether government's support may influence SMMEs' leaders to export their products and services.

1.8.8 Data analyses

The Statistical Consultation Services at the North-West University was consulted to conduct the analysis of the data. The main focus of the statistical analysis was based on the consistency between the different variables of the questionnaire. Data from the questionnaires were coded and converted into useful outputs, such as frequency tables, factor analyses and regression analyses. The results were checked for validity and reliability.

1.9 ETHICAL CONSIDERATIONS

According to Saunders *et al*. (2009:183), ethical behaviour is very important in any research to ensure that the research is methodically sound and morally defensible to all those who are involved. Ethical considerations are applicable when the participants were recruited during the measurement procedure to which the participants are subjected to and in the release of the results obtained (Welman *et al*., 2011:181).

The following ethical considerations were taken into account to ensure that the research project was fair and ethical:

- The researcher was fair and honest in all manners towards the participants of this study.
- The participants were informed of the nature and purpose of the research and the procedures (Annexure A).
- The researcher assured the participants of the confidentiality and anonymity of their responses.
- The researcher received informed consent from all the participants.
- The research was guided by a thorough review of literature to ensure as far as possible that this research had not already been conducted elsewhere.
- The researcher avoided plagiarism and ensured that all the work is authentic.
- The research was not subjecting the participants to embarrassment, harm or any other material disadvantages.
- The research acknowledged the sources that were used in the research and the sources were cited accordingly.

1.10 LIMITATIONS OF THE STUDY

The study aimed to make a contribution towards the knowledge of export potential for SMMEs in South Africa. Because a convenience sampling method was used, a limitation is the geographical area that the study focused on, because it was restricted to the Johannesburg Metropolitan, and therefore the sample cannot be considered representative of all SMMEs in South Africa. Another limitation was that the study focused on all the economic sectors, which is a limitation since some factors can be more prevalent in one sector than in others.

Export literature covers a vast field of studies. For the purpose of this study, only certain aspects/factors that influence whether SMMEs can export their products and services formed part of this study. The interpretation of the results and outcomes of this study were dealt with within the context of the factors that were studied.

1.11 OVERVIEW

The study is divided into five chapters as follows:

Chapter 1: Nature and scope of the study

This chapter provided an overview of the research study to be done. It included a short background, literature review and the statement of the problem to be researched. The primary and secondary objectives of the study were also stated. It also included the research design and provided details regarding the empirical research, including the research population. The chapter also included research tools that were developed and used and how the information was gathered and interpreted. This chapter also highlighted the limitations of the study.

Chapter 2: Comprehensive literature review

This chapter dealt with the writing of a literature review. The main purpose of this chapter was to set the study within a wider context, and then filtering it down to the level of the study. This chapter also outlined the definition of export propensity, the role of SMMEs in the South African economy, challenges and risks facing SMMEs that are willing to internationalise, a discussion on some of the factors that affect export propensity in South Africa, and government initiatives to promote SMMEs' export propensity.

Chapter 3: Research methodology

This chapter contained the empirical study and discussed the method the researcher used to collect data and how this data would be analysed. It also incorporated a discussion of what statistical tools were most suited to analyse the data, and a discussion of how the validity and reliability of the results will be measured was also included.

Chapter 4: Analysis of results and discussion

This chapter presented the results of the empirical study. The results of the questionnaires were analysed, interpreted and discussed. Tables and graphs were included to present the analysed data in a systematic manner.

Chapter 5: Conclusion, limitations and recommendations

This chapter presented the conclusions of the research study based on the results of the empirical research and based on the literature survey. The achievement of the objectives and suggestions for future research were also discussed. Recommendations were made to SMMEs to address the factors that affect export propensity so that they may be able to export their products and services. Further recommendations were made to assist government institutions to revise their strategies to assist SMMEs' leaders to be able to export their products and services to foreign markets.

2. CHAPTER 2: LITERATURE REVIEW: AN OVERVIEW OF SMALL, MEDIUM AND MICRO-SIZED ENTERPRISES AND EXPORT PROPENSITY

2.1 INTRODUCTION

According to the National Credit Regulator (NCR) (2011:12), the value of the small, medium and micro-sized enterprises is recognised in economies world-wide, irrespective of the economy's developmental stage. In South Africa, the government has recognised that small, medium and micro-sized enterprises (SMMEs) have an active role in improving job creation opportunities, reducing poverty and creating a more equitable distribution of wealth (Fatoki, 2014:270).

Internationalisation is a viable opportunity for all kinds of firms (including SMMEs) to access foreign markets as simple and quickly as possible (Monteir, 2013:85). Competition in the international business environment has placed a greater emphasis on building relationships and foreign networks for export start-ups, with an added advantage of decreasing firms' costs for collecting new data on new markets (Parish & Freeman, 2011:5).

Export propensity is defined as factors that influence whether an organisation/firm will succeed or not to export its goods and services to the foreign market (Parish & Freeman, 2011:3). According to the resource-based view (RBV) theory, resources and capabilities affect the growth of small firms and play a crucial role on export propensity (Kiran *et al.*, 2013:4). However, SMMEs are faced with numerous challenges in South Africa, which include a lack of finance, management skills, access to bank credit, appropriate technology, access to markets, low production capacity, recognition by big companies, a lack of interest and long bureaucracy processes affecting the role that small businesses can play in economic development activities (Kongolo, 2010:2288).

There are numerous factors that affect export propensity, which include the size of the firm, management experience, management commitment, information capabilities, etc. (Love *et al.*, 2015:5), some of which will be studied in this chapter.

Strong social ties and networking are essential for the success of SMMEs in most developing countries (Lloyd-Reason *et al.*, 2009:5). Other factors such as innovation as well as research and development (R&D) are important for success in exporting, but the roles of these factors differ between industries and will therefore not be evaluated in this study.

The South African government has recognised that SMMEs have the potential to grow and contribute toward the socio-economic transformation in the country, and have put in place regulatory measures and programmes to assist SMMEs that are willing to export their products and services to the foreign market.

In this chapter, a literature review, which covers the overview of SMMEs in South Africa, the relevance of SMMEs in South Africa, challenges facing SMMEs seeking to internationalise, risks facing SMMEs in the international markets, factors affecting export propensity and government support on SMMEs on exports will be conducted.

2.2 OVERVIEW OF SMALL, MEDIUM AND MICRO-SIZED ENTERPRISES

In order to explore the study on export propensity of SMMEs, it is important to attempt to define what is meant by SMMEs and to analyse SMMEs in South Africa. According to the Edinburgh Group (2013:8), SMMEs dominate the world business stage, considering both the formal and informal economic sectors, and therefore it is important to establish the distribution of SMMEs especially within the South African context for the purpose of this study.

2.2.1 Defining small, medium and micro-sized enterprises in South Africa

The definition of what constitutes a small, medium and micro-sized enterprise is a major concern, because different organisations and countries have set their own guidelines for defining SMMEs (Abor & Quartey, 2010:220). However, the International Finance Corporation (2010:1) has established that a common definition of SMMEs includes registered businesses with fewer than 200 employees. In practice, small and medium-sized enterprises (SMEs) are defined with reference to the number of employees, turnover bands or a combination of both, as outlined in the National Small Business Act of 1996, which also allows for variations according to industrial sector. The definition of SMMEs by size is necessary, but it is not sufficient for an understanding of a sector where the realities are complex and dynamic.

In South Africa, a small business is officially defined in section 1 of the National Small Business Act of 1996 as amended by the National Small Business Amendment Acts of 2003 and 2004 (NSB Act) as:

"… *a separate and distinct business entity, including co-operative enterprises and non-governmental organisations, managed by one owner or more which, including its branches or*

subsidiaries, if any, is predominantly carried on in any sector or sub sector of the economy mentioned in Column I of the Schedule14... "

The NSB Act 102 of 1996 further categorises small businesses in SA into distinct groups, namely survivalist, micro-, very small, small and medium, and consequently the use of the term SMME for small, medium and micro-enterprises. However, the terms '**SMME' and 'SME'** are used interchangeably in SA according to the National Credit Regulator (NCR) (2011:24).

The SMME definition uses the number of employees (the most common mode of definition) per enterprise size category combined with the annual turnover categories and the gross assets excluding fixed property as shown in Table 2.1 below:

Table 2.1: Broad definitions of SMMEs in the National Small Business Act.

Enterprise	Number of Employees	Annual Turnover (SA. Rands)	Gross Assets, Excluding Fixed Property
Medium	Fewer than 100 to 200, depending on industry	Less than R4 million to R50 m depending upon industry	Less than R2m to R18 m depending on industry
Small	Fewer than 50	Less than R2 million to R25 m depending upon industry	Less than R2m to R4.5 m depending on industry
Very Small	Fewer than 10 to 20, depending on industry	Less than R200 000 to R500 000 depending upon industry	Less than R150 000 to R500 000 depending on industry
Micro	Fewer than 5	Less than R150 000	Less than R100 000

Source: (NCR, 2011:25)

Micro-enterprise: These enterprises usually lack formality in terms of registration, and their turnover is less than the value added tax (VAT) registration limit (R100 000 per year). Typical examples of micro-enterprises includes spaza shops, minibus taxis and household industries. They employ no more than five people.

Very small enterprise: These enterprises operate in the formal market and have limited access to technology, and their turnover is between R150 000 and R500 000. These are enterprises employing fewer than 10 employees, except for the mining, electricity, manufacturing and construction sectors, in which the figure is 20 employees.

Small enterprise: Small enterprises are generally more established than very small enterprises and they have more complex business practices. Their turnover is between R2 million and R4.5 million, and they have up to 50 employees.

Medium enterprise: These enterprises are often characterised by the decentralisation of power to an additional management layer. The maximum number of employees is 100 or 200 for the mining, electricity, manufacturing and construction sectors.

The National Credit Regulator (NCR) (2011:26) emphasised that despite the categorisations having been stipulated in the National Small Business Amendment Acts 102 of 1996, these categories are not used consistently by state agencies or by private sector databases, thereby making research studies and comparisons difficult in most instances.

Another enterprise category that falls within the SMMEs and not included in Table 2.1 above includes the survivalist enterprise, and this can be defined as follows:

Survivalist enterprise: This category is considered pre-entrepreneurial, and includes hawkers, vendors, subsistence farmers and other persons who are self-employed from the poorest layers of the population (Bureau of Economic Research (BER), 2016:5). The income generated is less than the minimum income standard or the poverty line. In practice, survivalist enterprises are often categorised as part of the micro-enterprise sector and predominantly operate in the informal sector (NCR, 2011:25).

It is therefore important to ensure that there is common understanding of the term SMMEs, the classification and categorisation of business enterprises in the South Africa. South Africa's thresholds are low when compared to developed-country standards i.e. many businesses that are regarded as SMEs in Europe and/or USA would be regarded as large enterprises in South Africa (Neskakis, 2012:9).

The NSB Act has distinguished between enterprises in the different economic sectors and further used different thresholds for the different sectors is an acknowledgement that what is considered "small" in the different economic sectors will vary depending on the nature of the activity undertaken.

2.2.2 The profile of small, medium and micro-sized enterprises in South Africa

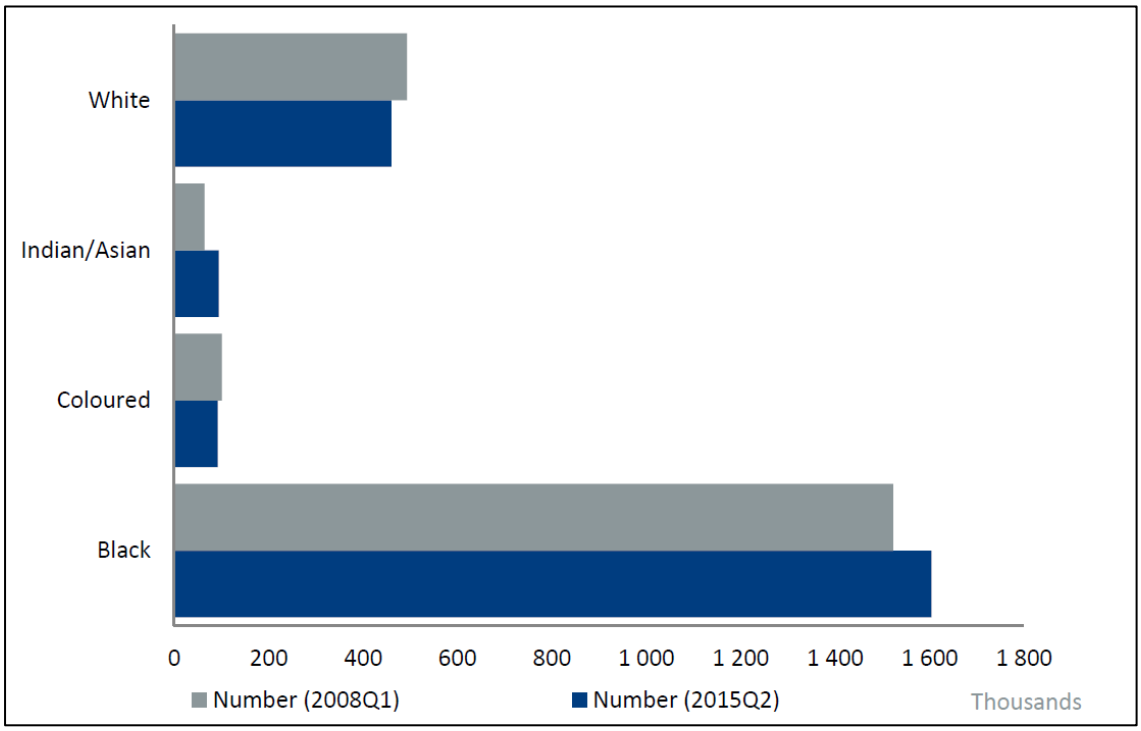
The profile of SMMEs in South Africa was studied to establish the distribution of the biographic information of the SMMEs in the country with respect to the total number of SMMEs, the participation of different racial, gender and age groups in small businesses, the education level of SMME leaders, and the participation on SMMEs in different economic sectors.

- **The number of SMMEs**: According to the World Bank (2015:1), there are between 365 and 445 million micro-, small and medium enterprises (MSMEs) in emerging markets: 25 to 30 million are formal SMEs; 55 to 70 million are formal micro-enterprises; and 285 to 345 million are informal enterprises. In South Africa, the number of SMMEs has increased by only 3%, from 2.18 million to 2.25 million, over the last seven years (StatsSA, 2015:1); however, this growth is less than the 14% expansion in GDP over the same period.

  The Northern Cape Province of South Africa has the lowest number of SMMEs at 20 611, followed by the Free State (96 846) and North West (112 856), while Gauteng has the highest number of SMMEs at 785 321 (StatsSA, 2015:1). This is because Gauteng has the highest population (12.9 million residents) (StatsSA, 2014:2), and the metropolitan area of Johannesburg has been recognised as the economic hub of the country (Rogerson, 2011:316). Other provinces such as the Northern Cape are rural provinces and have by far the smallest population (1.2 million residents) of any of the provinces and the economic activities are less than that of other provinces (StatsSA, 2015:1).

- **Race:** Figure 2.1 below shows that by 2015, white people owned and operated 460 160 (51%) of formal SMMEs in South Africa, down from 493 889 (57%) in 2008 and black people improved their share from by 4% from 1.45 million to 1.60 million over the same period because of government programmes aimed at assisting previously disadvantaged persons to participate in economic activities (StatsSA, 2015:1). Figure 2.1 also shows that the share of coloured people declined along with that of white people, while Indian business ownership improved over the same period.

Figure 2.1: Showing SMME owners by race between 2008 and 2015

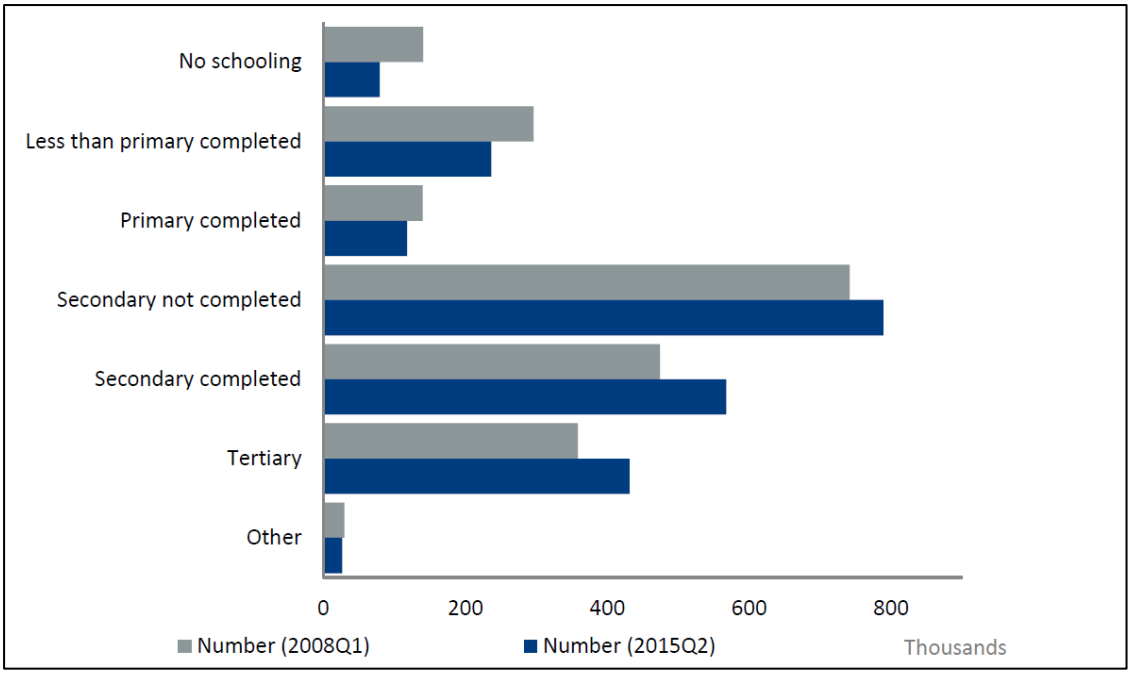


Source: StatsSA, December 2016

- **Age groups:** The prevalence of early-stage entrepreneurial activity is relatively low in the 18 to 24 years cohort, peaks among 25 to 34 year olds, and then declines as age increases with the sharpest decrease after the age of 54 (Herrington *et al.*, 2014:29). Although access to finance is a constant problem for all small businesses, the youth are particularly vulnerable to this limitation because they have no credit history or assets to serve as collateral in order to secure loans from financial institutions (Mazanai & Fatoki, 2012:63). Young people are also less likely to have accumulated sufficient capital to be able to use their own savings to finance a business enterprise.
- **Gender:** According Herrington and Kew (2013:10), South Africa's gender gap has not changed since 2002, where 59% of early-stage entrepreneurs were males and 41% females, as compared to 58% and 42%, respectively, in 2013, despite preferential procurement treatment for women (woman empowerment) in the public sector. According to Fakoti (2016:3), there are no significant gender differences in the entrepreneurial motives for males and females; however, male entrepreneurs are more motivated by economic factors, while women entrepreneurs are more motivated by social factors.
- **Education level:** Education level is important because it may relate to skills required to manage the business, since the majority of SMME owners in the formal sector are operating at the senior official and/or management level.

Figure 2.2 below shows that by 2015, the majority of SMME owners (568 226) in South Africa have some secondary education, and a substantial number have a tertiary education (431 784) due to the improvement in schooling systems and only 4% (79 986) have no schooling. The number of tertiary education has increased from 2008 to 2015 by 20% (from 358 771 to 431 784) (BER, 2016:24) and a good quality education system can have a positive influence on individuals' self-efficacy and self-confidence, increasing the chances of such individuals not only starting a business but also being able to successfully traverse competitive and changing business environments (Herrington *et al.*, 2014:30)

Figure 2.2: The number of SMME owners by education level



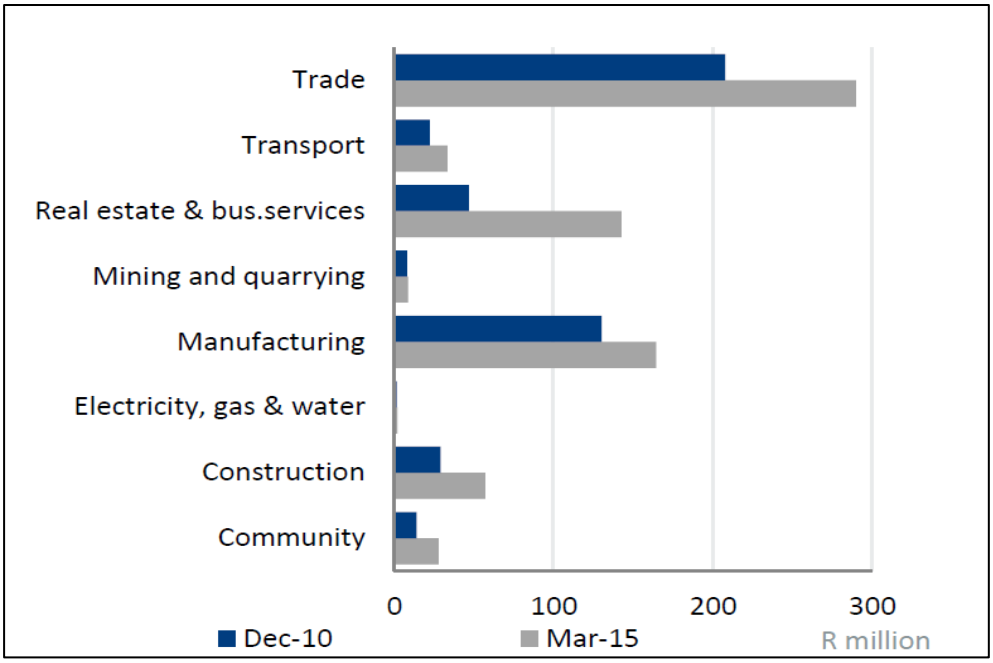
Source: StatsSA, December 2016

- **Economic sectors:** Most SMMEs in the informal sector operate in the trade and accommodation industry (Bureau of Economic Research (BER), 2016:9). This number declined from 2008 to 2015, while there was a significant increase for the community services, financial and business services and construction industries, and few SMMEs operate in the electricity, gas and water as well as the mining industry (BER, 2016:21). The financial and business services and the electricity, gas and water industries have more formal SMMEs than informal ones. Mining has more informal SMMEs attributed to illegal mining activities in South Africa (StatsSA, 2016:1). Industries such as mining in the formal

sector still require a large capital investment and therefore remain the territory of large enterprises (Marin *et al*., 2016:533).

- **Turnover:** The Quarterly Financial Survey (QFS) of Statistics South Africa on the financial positions of SMMEs (see Figure 2.3 below) shows that the majority of SMMEs that generate high turnover are in the trade sector (290 140), because that is where the majority of SMMEs in the informal sector operate, followed by manufacturing (164 685) (BER, 2016:27). The only significant increases were in the real estate and businesses, community and construction sectors due to inflation. Trade also increased well.

Figure 2.3: SMME turnover per economic sector



Source: StatsSA, December 2016

2.3 THE ROLE OF SMALL, MEDIUM AND MICRO-SIZED ENTERPRISES IN SOUTH AFRICA

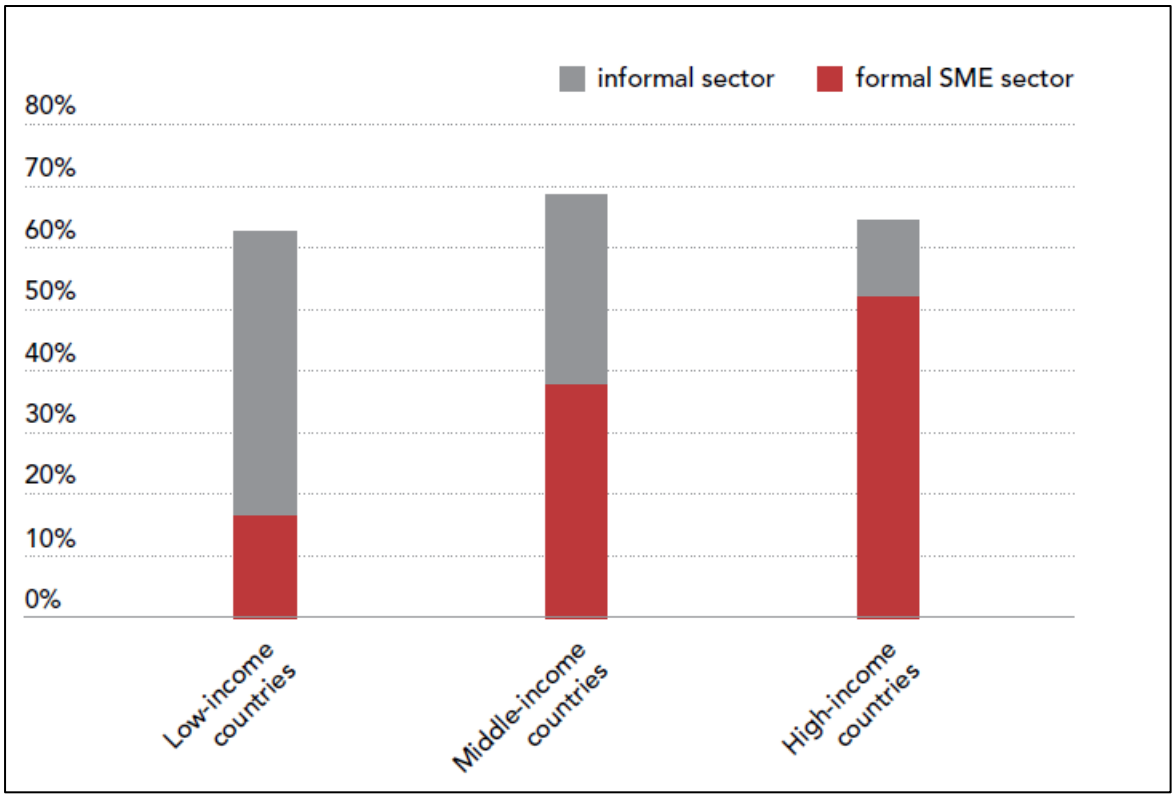
Out of the previous discussions, it has come to the clear that SMMEs are contributing on various aspects such as economic growth, GDP, socio-economic transformation etc. in South Africa. The Ministry of Small Business Development, under the direction of Lindiwe Zulu, has acknowledged the importance of SMME development in South Africa (Herrington *et al.*, 2014:19).

The following is a list of some of the contributions of SMMEs in South Africa:

2.3.1 SMMEs' contributions to GDP

The contribution of SMMEs to GDP varies substantially across countries: from 16% of GDP in low-income countries (where the sector is typically large but informal) to 51% of GDP in high-income countries. Figure 2.4 below illustrates the contribution of the SMME sector to GDP estimated in both the formal sector and the informal sector, and the GDP contribution is disproportionately large in low-income countries in the informal sector.

Figure 2.4: SMMEs' contribution by country and sector (median values)



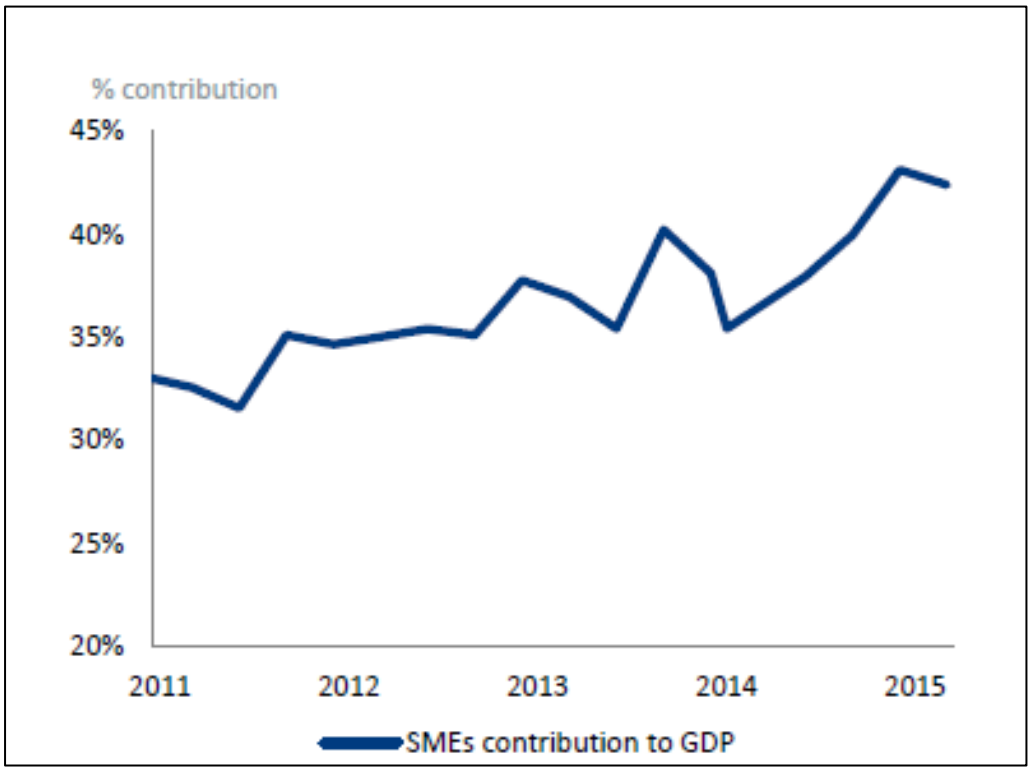
Source: EG (2013:8)

In developing countries, such as Australia, SMMEs contributed approximately 60% of Australia's industrial value added between 2009 and 2010 (EG, 2013:8). In Ghana, SMEs are more prominent in the local economy, representing approximately 92% of Ghanaian businesses and contributing approximately 70% to Ghana's GDP (Ahiawodzi & Adade, 2010:34).

In developed countries (such as the USA, Canada and England), more than 95% of firms are SMEs, accounting for some 55% of the GDP (the World Business Council for Sustainable Development (WBCSD), 2013:2). In developing countries, by contrast, over 90% of all firms outside the agricultural sector are SMEs or micro-enterprises. These firms produce a considerable part of GDP. In Morocco, for example, 93% of the companies are SMEs, accounting for 38% of the production, 33% of investment and 30% of exports (EG, 2013:8).

According to Abor and Quartey (2010:223), in South Africa it is estimated that 91% of the formal business entities are SMMEs, and that they contributed between 33% and 42% to GDP over the past five years (see Figure 2.5 below) because the number of SMMEs has increased by 32% over the same period (BER, 2015:31).

Figure 2.5: SMMEs' contribution to the GDP between 2011 and 2015.



Source: StatsSA, December 2015

SMMEs contribute economically toward the improvement of the GDP in the following manners:

- Small businesses have greater flexibility in their operations (Bartz & Winkler, 2016:210), and consequently they are much better positioned in catering for individual tastes and changing fashions, which may increase GDP;
- The majority of small businesses often make use of local resources, which otherwise may go to waste (Berger *et al*., 2014:264);
- Export products such as artistic handicrafts earn valuable foreign exchange for the country, increasing the much needed foreign exchange earnings through exports (Bhushan & Ud Din, 2014:105);
- SMMEs play an important role in situations where there is a need to avoid inflation which raise the living expenses by providing competitive prices to the masses (Groepe, 2015:3);
- SMMEs contribute to local economies by bringing growth and innovation to the community in which their businesses are established (Lee *et al*., 2010:298); and
- Many large corporations depend on small businesses for the completion of various business functions through outsourcing (Jayaram *et al.*, 2014:472).

Therefore, based on the information presented above and supported by recent research (EG, 2013:5), SMMEs can become the engines for sustainable growth for long-term development and could contribute toward increasing the GDP of the country.

2.3.2 Small, medium and micro-sized enterprises' contributions to employment

A World Bank survey of 47 745 businesses across 99 countries show that firms with between five and 250 employees accounted for 67% of total permanent or full-time employment (Ayyagari *et al.*, 2011:25).

South Africa is struggling with an alarmingly high national unemployment rate of 25% (Statistics South Africa, 2015:1), which is partly exacerbated by a shortage of the skilled labour required by the economy. Recent studies by Kerr *et al*. (2014:5) indicate that large firms contribute more to the nett employment growth than small firms do; however, the limitation in their study is that it did not consider the informal sector. In South Africa (as in many developing countries), these informal and small firms are key to the livelihood and survival of millions of people (NCR, 2011:21).

According to Abor and Quartey (2010:223), SMMEs in South Africa contributed 61% to employment in 2015. Contrary to global trends where small and medium enterprises (SMEs) constitute the largest employer in either developed or developing economies, smaller firms in South Africa are showing stagnation in employment growth (SBP, 2015:1). The number of regulations that SMMEs have to comply with has increased over the years, making it very difficult for SMMEs to grow (Amra & Hlatshwayo, 2013:4).

SMMEs contribute to employment in the following manner:

- Small businesses are generally labour-intensive, and suitable for a country such as South Africa where there is an high supply of labour and provides a substantial contribution to employment (Edinburg Group (EG), 2013:5);
- Small businesses help stimulate economic growth by providing employment opportunities to people who may not be employable by larger corporations (Mutti *et al.*, 2012:212).

Business Environmental Specialist (SBP, 2015:4) recommends that every government policy and regulatory initiative(s) needs to be looked and assessed on its effect on job creation, business and especially SMEs, and market-driven economic growth will be positive.

2.4 CHALLENGES FACING SMALL, MEDIUM AND MICRO-SIZED ENTERPRISES SEEKING TO INTERNATIONALISE

Despite the significant importance and contribution of SMMEs in South Africa, the challenges and risks facing SMMEs should be elaborated upon according to literature, because they may inhibit their growth and affect their propensity to export their products and services. Below is a list of some of the many challenges facing SMMEs seeking to internationalise.

- **Lack of management skills**: The National Development Plan (NDP) notes that small business in the services sector is negatively affected by a shortage of skills (Bureau of Economic Research (BER), 2016:8). Commercial and managerial education/skills are required to help SMME managers and firm decision-makers to engage in and actively pursue and/or commit to export activities (Hutchinson *et al.*, 2009:5). There is still a skills gap in the SMMEs sector as a whole in South Africa, because entrepreneurs cannot afford

the high cost of training and advisory services, while others do not see the need to upgrade their skills due to complacency (Abor & Quartey, 2010:224),

- **Access to finance**: According to Mthimkhulu and Aziakpono (2015:25) and the Edinburgh Group (2013: 6), lack of access to finance is one of the main reasons SMMEs cannot expand and internationalise their businesses. Typical hindrances towards small businesses obtaining finance include: inadequate collateral on the part of the entrepreneur, the absence of credit history, the inability to produce an acceptable business plan according to the standards of the financial institutions, poor market research, the absence of a viable business idea, and lack of access to vibrant markets (Herrington *et al.*, 2014:47). Lack of finance also hinders SMMEs from sourcing good employees at home or overseas, making it very difficult to operate (Islam *et al.*, 2011:289). In South Africa, only formal SMMEs (by virtue of being formally registered and having a bank account) have access to banks, capital markets or other suppliers of finances; however, informal SMMEs are excluded completely from the formal financial market (NCR, 2011:9).

- **Poor infrastructure:** The lack of access to physical infrastructure at home and to some extent in foreign countries is a key impediment to business growth and adds significantly to the cost of doing business (EG, 2013:25). Ease of access to communication infrastructure, utilities and transport, land or space at affordable prices can be of huge benefit to SMMEs in their home and foreign countries (Masuku & Mtshali, 2012:159). In South Africa, physical resources such as transportation, land, communication, utilities, and electricity are expensive and discriminate against new, small or growing SMMEs (Herrington *et al.*, 2014:28).

- **Setting-up prices:** Setting appropriate prices is crucial to a firm's economic performance in export markets if products and services are priced incorrectly (Claude, 2013:1). Some of the factors that influence pricing decisions include demand (product demand), competitors, and cost of production, political, environmental, legal and image-related issues (Obigbemi, 2010:229). In order for SMMEs in South Africa to price their products and services correctly, they may need to use the services of pricing experts, which may not come cheap (Wei & Zhao, 2011:11210).

- **Low levels of research and development (R&D):** According to Rahman and Ramos (2013:433), low levels of R&D are influenced by the absence of the willingness to invest in upskilling and human resource development, a lack of strategic thinking, absence of management capability, etc. The degree of R&D depends on four environmental factors, namely the industry type (manufacturing industry, or service industry), the company size (large company, or SMEs), the technology intensity (high-tech industry, or low-tech industry), and the market type (foreign markets, or domestic markets). According to Booysens (2011:67), initiatives to build R&D capacities for SMMEs to implement are typically expensive in South Africa.

- **Red tape**: According to Business Environment Specialist (SBP) (2014:2), red tape aspects that are found to be costly and frustrating include mandatory regulations at home and in the foreign countries; labour laws and regulations at home and in foreign countries; tax administration and tax rates at home and in foreign countries. The SME Growth Index shows that SMMEs in South Africa are spending approximately 4% of their turnovers on compliance costs (EG, 2013:30).

- **Limited information to locate/analyse markets:** Limited knowledge of overseas markets remains a critical challenge to SMEs, even in the current era of extensive information availability (Organization for Economic Co-operation and Development (OECD), 2015:10). According to Ourabah (2016:44), markets can be very volatile and require SMMEs to equip themselves with the skills and knowledge to analyse the market conditions and make an informed decision.

- **Access to markets and developing relationships with customers:** Access to markets is one of the fundamental requirements (by credit providers) to accessing funding and mentorship at early stages and most SMMEs battle to access these (Kiveu & Ofafa, 2013:30). According to Kamunge *et al*. (2014:7), SMMEs in developing countries such as South Africa face challenges of misinterpretation of messages and differences in cultural norms that may interfere with communication and lead to a failure to form strong buyer relationships.

- **Crime**: Dealing with corrupt foreign officials in foreign countries is one of the major challenges that SMMEs would have to deal with (EG, 2013:25). The OECD (2015:4) found that high crime was forcing SMMEs to increase security spending. According to Herrington *et al.* (2014:5), the high level of crime is a pervasive problem in South Africa and increased spending on security has a ripple effect on the overall cost of doing business for SMMEs.

- **Government bureaucracy:** According to James (2016:1), the delays in the time required to obtain export permits and licenses are some of the aspects that hinder investment and efficiency. Schwab and Sala-i-Martín (2014:46) indicates that government bureaucracy is one of the major obstacles to entrepreneurial and business activity in South Africa.

- **Appropriate technology and low production capacity:** The majority of the SMMEs battle to cope with the rapid changes in technology (BER, 2016:17), which are desired to improve the capacity to meet market demands. According to Herrington and Kew (2013:63), internet access in the rest of South Africa is extremely low, with 71% of households without access to technology, and this is a limiting factor to business productivity and efficiency.

These challenges may inhibit the growth of SMMEs and affect their propensity to export their products and services if they are not addressed. With all the challenges SMMEs are facing, some risks are involved with internationalising. The following is a discussion of some of the risks that SMMEs may face.

2.5 RISKS FACED BY SMMEs WILLING TO INTERNATIONALISE

Risks facing SMMEs willing to internationalise refer to forces, whether internal or external to the small business sector that threaten their existence as a going concern. According to BER (2015:10), the survival rate for start-ups is low and opportunities for entrepreneurial activity appear to be the lowest in developing countries such as South Africa. While internationalisation provides SMMEs with an opportunity for growth, on the other hand it exposes SMMEs to heightened risks, which may negatively influence the performance and well-being of the firm (Bekaert *et al*., 2014:472).

SMMEs are not immune to risks associated with large multinationals who are exporting their goods and services to the foreign countries. Some of the common risks associated with doing businesses in the international markets are discussed:

- **Political risks:** Political violence, whether in the form of international war, internal conflict, post-conflict situations, political uprisings, social unrest, violent state actions or terrorism, and other political instability may expose business firms to the risk that might affect the firm's ability to continue its operations or influence its profitability (Du Toit, 2013:5). African countries, for example, have progressed over the last few decades in terms of multi-party systems and more or less competitive elections, but governments are not necessarily stable and efficient, and therefore continue to face challenges in creating effective and efficient political and economic institutions (Alemu, 2014:80), and this can discourage potential investors and affect the propensity of doing business in those countries. The current political situation in South Africa (e.g. 'state capture', the behaviour of the National Prosecuting Authority (NPA) toward the minister of finance, etc.) have lowered business confidence (Reuters, 2016:1), which will in turn affect the propensity for SMMEs to export their products and services
- **Economic risks:** Economic risks stem from the instability of a country's monetary system, economic and regulatory policies, lack of property right protections, and risks due to exchange rate fluctuation. Domestically, a low interest rate environment is ideal for SMMEs (BER, 2016:11), but the recent global economic meltdown has pushed interest rates to higher levels, posing a risk to small businesses accessing finance with ease, and therefore there is a risk of loss due to inflation (International Monetary Fund (IMF), 2013:22). Economic risks also include the risk of relative price changes between the conclusion of the purchase contract and its fulfilment (Galbraith, 2013:352).

  Ratings agencies Moody's and Standard & Poor of South Africa's sovereign debt rating downgraded the country shortly after the "Marikana" incident (Neethling, 2014:35) and the risk for a further downgrade to junk status is still probable, which may lower business confidence and negatively affect the propensity of SMMEs to export their products and services to international markets.

- **Technological risks:** Technological risks stem from the intended or unintended consequences of technological advances such as artificial intelligence, cyber-attacks and

incidents of data fraud/theft (WEF, 2015:22). Technological advances have been beneficial in many respects, but have also opened the door to a growing wave of cyber-attacks – including economic espionage, cybercrime, and even state-sponsored exploits – that are increasingly perpetrated against businesses (World Economic Forum (WEF), 2016:77). In South Africa, the risk of these attacks is growing due to a lack of technical talent and inadequate security capabilities.

- **Environmental risks:** Environmental risks include extreme weather events (floods, storms, etc.), climate change and any other risk of natural disasters (WEF, 2015:34). According to Backhaus and Faust (2012:2564), environmental risk also includes the risk of deterioration and/or damage to the product during transportation, either by rail, sea or plane. Man-made environmental catastrophes (e.g. oil spills, radioactive contaminants, etc.) have the potential to harm the lives, human infrastructure, property, and economic activities, and SMMEs are not immune to these risks (WEF, 2016:11). In South Africa, the risk of natural disasters such as earthquakes, tsunamis, etc. is low (Lukamba, 2010:486); however, there is still a risk due to man-made incidents that SMMEs must manage to minimise the probability of their occurrence.

- **Market risks:** Market risks include risk of loss of key foreign customers, risk of loss of key foreign suppliers, risk of substitutes for the company's products, risk of changes in preferences of foreign customers, and risk of default of the supplier (Henisz & Zelner, 2010:1). Due to immense competition and the volatile global economic conditions, the risk of the market shifting toward an unfavourable position exists, and most SMMEs (including the ones in South Africa) do not have the tools to forecast and/or predict the direction of the market(s), and this is a risk since they may not be able to adapt rapidly to changing market conditions.

SMMEs must be aware of all these risks and accept that risk-taking is fundamental to the processes of internationalisation (Liesch *et al.*, 2011:864). Acceptable levels of 'risk and uncertainty' were viewed as necessary but not sufficient conditions for ongoing international commitments (Walker & Lloyd-Walker, 2016:4).

It is recommended that SMMEs should invest in risk management tools to permit the company to identify potential risks in internationalisation projects, to assess the probability of those risks

appearing and its impact on the project, to prioritise the risks and to establish preventive actions and/or contingency plans (Rodriguez *et al*., 2010:205).

According to recent studies by Eduardsen and Marinova (2016:2), managers' perception of risk in internationalisation has been found to influence the internationalisation behaviour of SMEs, acting as a barrier hindering SMMEs to initiate, develop or sustain exporting or direct investment operations in foreign markets (export propensity).

With the challenges and risks as background, the following is a list of factors that may affect export propensity for SMMEs, especially in developing countries such as South Africa.

2.6 FACTORS AFFECTING EXPORT PROPENSITY

There are numerous factors affecting export propensity, and only the key factors relevant to this study will be discussed. The following is an outlay of the relevant factors.

2.6.1 Firm size

Firm size is a key component in the internationalisation process (Li *et al*., 2012:537) because it relates to resource acquisition and may limit the ability of SMMEs to operate efficiently and compete in international markets. The typical argument in the resource-based view is that greater size implies greater availability of financial and managerial resources, which makes it easier for large firms to absorb the risks associated with exporting (Olmos, 2011:387).

Smaller firms can also succeed internationally if they develop comprehensive relationships with their trade partners, and take strategies such as developing new products for the markets (Monteir, 2013:11). Small firms may also be able to realise economies of scale when they specialise in exports and develop export relationships of significant sizes. Larger firms can also take advantage because they can make provisions for R&D in their expenditure and they have risk-taking abilities to compete in international markets (Monteiro, 2013:11). Therefore, firm size is related to the resource capabilities of the firm, and can affect the propensity of SMMEs to participate in export-related activities.

2.6.2 Management experience

Organisational learning provides one route through which SMMEs may acquire the knowledge on which to base internationalisation decisions and strategies (Bruneel *et al.*, 2010:175). Suitable knowledge may also be acquired through the prior experience of management (Fletcher & Harris, 2012:639). Ganotaklis and Love (2012:695) provide evidence that different types of managerial skills are needed for entering and succeeding in the international markets, and therefore management experience is fundamental to the firm's export propensity.

2.6.3 Management commitment

Management commitment is made up of two components, i.e. attitudinal and behavioural components, whereby the attitudinal component refers to the manager's perceptions of the benefits and risks associated with exporting, and the behavioural component refers to the extent of resource allocation associated with export-related activities (Parish & Freeman, 2011:4). Management's effort (management time is used to indicate effort) to exports and the allocation of financial resources are used to measure export commitment (April & Reddy, 2015:574). Management effort is important for expanding SMMEs into the international market (Todd *et al.*, 2014:298). The resources allocated also involve human resource (HR) initiatives to develop employees in export skills, because firms with a higher level of human capital are more likely to internationalise (Olmos, 2011:386), and therefore management commitment can be a factor that may affect the propensity for SMMEs to internationalise.

2.6.4 Marketing capabilities

Marketing capability involves the integrative process in which a firm uses its tangible and intangible resources to understand complex consumer specific needs, achieve product differentiation relative to competition, and achieve superior brand equity (Al-Aali *et al*., 2013:60). According to Parish and Freeman (2011:5), marketing capabilities in functional areas can lead to positive export performance. Marketing capabilities have also been influenced by building international relationships or networks, both at personal and organisational level (Ripollés, 2012:9), and are therefore a key factor that can affect the export propensity of SMMEs.

2.6.5 Information capabilities

Information capability is defined as a firm's capacity to acquire and disseminate information about customers, competitors and opportunities in the export market environment (Parish & Freeman, 2011:5). The accumulation of specific market information for exporting was found by Theodosiou and Katsikea (2013:59) to be rare, valuable and difficult to substitute and to have the ability to increase a firm's international competitive advantage. The firm's ability to acquire information relevant to the export market was found to have a positive influence on the firm's export propensity (Parish & Freeman, 2011:12).

2.6.6 Government support

The South African government understood the importance of providing fertile ground for all types of SMMEs to spawn and grow by providing various funding and non-funding assistance, such as preferential procurement and BEE codes, tax incentives for entrepreneurs and networking programmes where emerging entrepreneurs can interact with big business (Herrington *et al.*, 2014:38). Peters and Naicker (2013:22) found that government initiatives have assisted SMMEs to grow and ultimately led to sustainable job creation and increased turnover for the SMMEs, and therefore government support can improve the propensity of SMMEs to participate in export-related activities. Some of the government initiatives to support SMMEs in SA will be discussed below.

2.7 GOVERNMENT INITIATIVES TO SUPPORT SMALL, MEDIUM AND MICRO-SIZED ENTERPRISES

It is widely accepted that the purpose on the part of the South African government was to provide an environment that is conducive to starting and sustaining new business, through reforms and regulations that increase the ease of doing business and lessen unnecessary bureaucratic burdens (Herrington *et al.*, 2014:43). The government must also foster a culture of entrepreneurship, particularly among the youth that would create SMMEs, the success of which could be measured by improved competitiveness in terms of turnover growth and employment creation (Peters & Naicker, 2014:1).

The Department of Trade and Industry (DTI) programmes and other programmes administered by its apex institutions such as Khula (credit) and Ntsika now Small Enterprise Development Agency (SEDA) are expected to provide training to build the technical and financial capacity of SMMEs. Furthermore, a number of specific programmes have been introduced by the Industrial Developed Corporation (IDC) and the DTI (Peters & Naicker, 2013:14).

The importance of government policies in enhancing entrepreneurial activities is recognised throughout the world (EG, 2013:7). The following is a list of current South African government initiatives to support SMMEs financially and non-financially.

- **Small Enterprise Development Agency (SEDA):** This agency was established in December 2004 under the Department of Trade and Industry (DTI) (Herrington *et al.*, 2014:38). It was formed by merging three organisations, namely the Ntsika Enterprise Promotion Agency, the National Advisory Centre (NAMAC) and the community Public Private Partnership programme (CPPP). The GODISA Trust and National Technology Transfer Centre were integrated into SEDA in April 2006 to form the SEDA Technology Programme (STP) (SEDA, 2016:1).

  SEDA provides business development and support services for small enterprises through a national network and partnership with other role-players who support small business enterprises (Chiloane & Mayhew, 2010:2593).

- **Small Enterprise Finance Agency (SEFA):** SEFA was founded in 2012 by the IDC and the government of South Africa, and it was merged with the South Africa Micro-Finance Apex Fund (SAMAF) and Khula Enterprise Finance Limited, at the beginning of 2014 (Herrington *et al.*, 2014:38). SEFA's mandate is to foster the establishment, survival and growth of SMMEs in order contribute towards poverty alleviation and create employment (SEFA, 2016:1)

  SEFA caters for small businesses requiring funding, up to R5 million, in the form of bridging finance, revolving loans, asset finance, working capital and term loans, and any SMME with a viable business plan can apply for finance (Thulo, 2015:1).

- **National Youth Development Agency (NYDA):** The NYDA was launched in 2009 by Old Mutual and SANLAM with the mandate to coordinate and promote the development of

youth in South Africa, by assisting them to start businesses and to finance existing businesses (Herrington *et al.*, 2014:38). The NYDA has theoretically eight key performance areas as part of its strategy, namely: Economic participation, Education and skills development, Effective and efficient operations, Technology and Innovation Agency (TIA) targeting young South Africans between 14 and 35 years of age, Policy and Research and Governance and Administration**.**

Through the National Youth Development Agency (NYDA) Grant Programme, young SMME entrepreneurs have the opportunity to start and grow sustainable businesses (NYDA, 2016:1).

- **National Empowerment Fund (NEF):** The NEF was established by the National Empowerment Fund Act, 1998 (Act No. 105 of 1998) and is the driver and thought leader in promoting and facilitating black economic participation by providing financial and non-financial support to black empowered businesses and promoting the culture of savings and investment among black people (Herrington *et al.*, 2014:38). The NEF provides business loans from R250 000 to R75 million across all industry sectors for SMMEs, for start-ups, expansion and equity acquisition purposes (NEF, 2016:1)
- **The Export Credit Finance Guarantee Scheme**: This is the self-sustained state-owned public entity registered as a Schedule 3 (b) business entity in terms of the Public Finance Management Act (PFMA) and was established in 2001 in terms of the Export Credit & Foreign Investments Insurance Act of 1998 as the only official Export Credit Agency of the South African Government (Thirion, 2014:2).

  The mandate of the Export Credit Scheme is to facilitate and encourage South African export trade and participation in economic development projects abroad (Export Credit Insurance Corporation (ECIC), 2016:1). In an attempt to encourage to financial institutions to make loans to SMMEs, the South African government has intervened by setting up a credit guarantee scheme to provide export credit and foreign investment insurance cover to Commercial Banks and Development Finance Institutions (Van der Veer, 2015:602).

- **The Export Marketing and Investment Assistance (EMIA):** EMIA is an incentive scheme introduced and administered by the DTI in order to partially compensate exporters for costs incurred in respect of activities aimed at developing export markets for South African products and services and to recruit new foreign direct investment (FDI) into South

Africa (DTI, 2016:1). The Scheme covers both individual and group participation incentive programmes, where the individual participation incentive programmes administered by The Enterprise Organisation (TEO) comprise individual exhibition and in-store promotions, primary market research and foreign direct investment, etc. The EMIA's group participation incentive programmes comprise group buying and investment mission assistance; national buildings and group selling and investment mission assistance.

SMMEs can benefit from the scheme because it offers exporters financial assistance for costs involved in developing export markets, including market research, trade missions and international exhibitions (Lombard, 2011:73), all which affect the SMME's propensity to export.

- **The Industrial Development Corporation (IDC):** The IDC was established in 1940 by an Act of Parliament (Industrial Development Corporation Act, No. 22 of 1940) and is fully owned by the South African Government (IDC, 2016:1). The IDC was mandated to develop domestic industrial capacity, with a specific emphasis on manufactured goods, to enhance the industrial capability of South Africa, and the rest of the continent, thereby boosting economic growth and industrial development (IDC, 2014:4). The IDC has been mandated to provide credit financing for exporters of capital goods, particularly SMMEs, at reduced rates (IDC: 2014:3).

2.8 CONCLUSION

Internationalisation seems a viable opportunity for SMMEs to spawn despite all the challenges and risks facing SMMEs to promote their products and services to the foreign markets.

SMMEs need to address major challenges such as a lack of management skills, access to finance, access to markets, appropriate technology, low production capacity, recognition by big companies and long bureaucracy processes, among others, in order to actively participate in economic developments at home and in foreign countries (Kongolo, 2010:2288).

Literature shows that the size of the firm, management experience, management commitment, information capabilities and government support may have an impact on the export propensity of SMMEs in South Africa. With the literature as background, the methodology and the discussion of the results provide a bigger picture of export propensity in South Africa.

3. CHAPTER 3: RESEARCH METHODOLOGY

3.1 INTRODUCTION

In Chapter 2, the researcher focused on the literature review on export propensity of small, medium and micro-sized enterprises (SMMEs) in South Africa. Chapter 3 presents the research methodology and processes used to investigate the primary and secondary research objectives as stated in Chapter 1 (see par. 1.6.1 and 1.6.2). According to Tashakkori and Teddlie (2010:5), the term methodology refers to the overall approaches and perspectives to the research process as a whole. It is important to ensure that this research follows an organised, systematic and recognised approach in order to provide reliable results and conclusions with minimal errors, especially when dealing with large volumes of data.

This chapter will focus on the empirical research design, the population size and the research instrument that were used in the study. It also covers the data gathering processes and statistical methods used to analyse the data.

3.2 EMPIRICAL RESEARCH

Empirical research is defined as research based on experimentation or observation to collect data (Gill & Johnson, 2010:71). It is therefore crucial to plan the research because it facilitates the smooth sailing of the various research operations, thereby making research as efficient as possible, yielding maximal information with minimal expenditure of effort, time and money.

3.2.1 Research design

A quantitative, descriptive research exploratory design was used in this study in order to explore the factors that affect the export propensity of SMME in South Africa. Quantitative research is defined as the numerical representation and manipulation of data to establish the relationship between two or more variables (using statistical methods to test the strength and significance of the relationships of observations) for the purpose of describing and explaining the phenomena that those observations reflect (Fraser Health Authority, 2011:6). A descriptive research design is rigid and it makes provision for protecting against bias and maximises the reliability of data because it uses structured research instruments to collect data (Burns & Bush, 2014:103).

3.2.2 Research population and sample

The target population for this study was SMMEs in the formal market in Gauteng. A convenience sample of the SMMEs in the Johannesburg Metropolitan was selected across all economic sectors (e.g. agricultural, mining, manufacturing, etc.). According to Tabachnick and Fidell's (2007:613) rule of thumb, it is comforting to have at least 300 respondents for a factor analysis. The study targeted approximately 300 SMMEs in the Johannesburg Metropolitan area that have been in operation for at least two years, but no longer than 10 years. A total of 300 SMME leaders were conveniently selected to complete the questionnaires and a total number of 240 responses were received, yielding a response rate of 80%.

3.2.3 Research instrument

There are various research instruments that can be used to collect data, and these include tests, questionnaires, interviews (face-to-face interviews), observations, etc. Zoharbi (2013:254) argues that the use of different types of research instruments in a single research study for collecting data and obtaining that information can augment the validity and reliability of the data and its interpretation. According to Harris and Brown (2010:1), quantitative data is obtained through closed-ended questionnaires and qualitative data through open-ended questionnaires, interviews and classroom observations. In this qualitative research study, a questionnaire was used to collect data,

3.2.3.1 Self-administered questionnaire

A self-administered, structured questionnaire was used as a research instrument because the questionnaire method is an inexpensive and time efficient way to gather data from a potentially large number of respondents (Zohrabi, 2013:255). The questionnaire used a five-point Likert scale, where 5 is 'Strongly Agree' and 1 is 'Strongly Disagree'.

3.2.3.2 Layout of the questionnaire

The questionnaire was made up of a biographic information (Section A) section, which dealt with the owner's age, gender, level of education, business sector, company size by staff numbers and business turnover followed by six other sections (Section B) representing various factors affecting the export propensity of SMMEs in South Africa such as:

- The first section will assess the willingness of the SMME leader to export its products and services to the foreign market.

- The second section will assess whether management experience affects SMMEs' export propensity.
- The third section will assess whether management commitment affects export-related duties.
- The fourth section will assess whether marketing capabilities affect SMMEs' ability to export goods and services.
- The fifth section will assess whether information capabilities affect SMMEs' propensity to identify and/or seize export opportunities.
- The last section will assess the effect of governments support on SMMEs' propensity to export their products and services.

3.2.4 Pilot study

The questionnaire was sent to three small business leaders who were not form part of the sample for the final study and two MBA colleagues in an attempt to identify any errors in the questionnaire and to ascertain whether the questions are not ambiguous and/or cannot be misinterpreted to avoid time being wasted on an inadequately designed questionnaire. The questionnaire was also sent to the Statistical Consultation Services (SCS) of the North-West University, Potchefstroom Campus (NWU) to verify whether the questionnaire is suitable for use. After completion, the questionnaire was discussed with the respondents to clarify any misinterpretations, ambiguities and uncertainties that may be experienced by the research participants. After this exercise, minor mistakes that were identified were corrected, and the questionnaire was finalised before distribution.

3.2.5 Data collection

The questionnaire was sent to the identified SMME leaders by emails using the contact details obtained from CIPRO and by the Johannesburg Chamber of Commerce and Industries (JCCI). A web link to the questionnaire was sent to all the participants in order to save time in completing and sending the responses. Within the agreed timeframe, the responses from the questionnaire were submitted online and collected using Google Forms. If there were questions with regard to the questionnaires, the respondents contacted the researcher for clarification either telephonically or by mail without changing the research questions. The questionnaire was accompanied by a covering letter that guaranteed the confidentiality of their responses. Out of an estimated 8 423 registered SMMEs in the JCCI database (and the number is growing), 240 responses were received and this was considered to be sufficient by the SCS. Once all the completed responses were submitted, the data was then captured on the spreadsheet for statistical analysis by SCS.

3.3 DATA ANALYSIS AND REPORTING

The Statistical Consultation Services at the North-West University were consulted to conduct the analysis by using SPSS statistics software version 22 to capture, edit and analyse the data obtained from the questionnaires. Data from questionnaires were coded and converted into useful outputs such as frequency tables, factor analyses, etc.

An exploratory factor analysis (EFA) was used as data reduction technique to determine the factors underlying the construct. Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy and the Bartlett test of sphericity were the two tests conducted in order to ensure the appropriateness of the factor analysis. The Bartlett test of sphericity is an indicator of the strength of the relationship between the variables and an indicator of the suitability of the data towards a multivariate statistical technique such as factor analysis (UCLA, 2010:5). According to Moolla and Bisschoff (2012:105) supported by Field (2013:870), the Bartlett test of sphericity examines whether the variance-covariance matrix is proportional to an identity matrix. In other words, the population correlation matrix is an identity matrix; each variable correlates perfectly with itself (r = 1), but has no correlation with the other variables (r = 0). A value below 0.005 signifies that the data is suitable for multivariate statistical analysis such as exploratory factor analysis.

The Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy was used to ensure that the samples used were adequate. According to Beavers *et al.* (2013:4) supported by earlier work by Field (2009:788), the KMO provides an index (between 0 and 1) and a value close to 1 indicates that patterns of correlations are relatively compact and therefore factor analysis should yield reliable factors (values between 0.5 and 0.7 are average and values between 0.7 and 0.8 are good, values between 0.8 and 0.9 are very good and values above 0.9 are excellent) as shown in Table 3.1 below.

Table 3.1: The relationship between the KMO values the correlations

KMO -values	Correlation between variables
0-0.5	Less correlations
0.5 -0.7	Average Correlation
0.7 -0.8	Good Correlation
0.8-0.9	Great Correlation
0.9-1.0	Superb correlation

Source: Beavers (2013:4)

According to Cokluk and Kocak (2016:540) the Oblimin rotation (which is a change of coordinates used in principal component analysis) can be used to produce greater clarity and consequently better results, because it minimises the complexity of factors, but maximises the variance of factor loadings by making high loadings higher and low ones lower for each factor. According to Serra *et al.* (2012:216), the latent root criterion was the method chosen to determine how many factors to be retained. This technique was used to examine the factors that affect export propensity and to describe a linear combination of the factors.

Spearman's correlations were used to determine the strength of the relationship between the factors that affect export propensity (Chok, 2010:1).

Stepwise regression is an automated tool used in the exploratory stages of model building to identify a useful subset of predictors (independent variables) that can express the dependent variable (Levine *et al.*, 2012:43). Stepwise regression analysis was used to establish which of the factors (that were identified by the factor analysis) affect the performance of the SMMEs in terms of business turnover.

3.4 PSYCHOMETRIC PROPERTIES OF THE QUESTIONNAIRE

The psychometric properties of the measuring instrument can be determined by measuring the validity and reliability of the instrument to ensure that measurement error is kept to a minimum. Field (2013:12) defines validity as evidence that a test measures what it set out to measure conceptually, and reliability measures whether a person would get the similar score (results) on a questionnaire if they complete it at two different points in time. The validity was examined by addressing content and construct validity, while reliability was investigated by computing Cronbach's alpha coefficients (Delport & Roestenburg, 2011:174).

3.4.1 Validity

According to Punch (2013:287), validity is the central measure of quality of the measuring instruments in research, and it determines the degree to which a questionnaire was able to measure what it was intended to measure. To determine whether a test in fact measures what it purports to measure, various methods or approaches have been developed and employed and these include content validity and construct validity and the two concepts are defined below as follows:

3.4.1.1 Content validity

For the purpose of this study, content validity was determined by considering the degree to which the items in the questionnaire really measured the factors or concepts under contemplation.

According to Gibson (2010:14), content validity is a subjective but systematic evaluation of how well the content of a scale represents the measurement task at hand. Content validity should focus on the extent to which the elements within a measurement are relevant and representative of the construct (Punch, 2013:239). All the test items that seemed to measure the construct appeared as the heading of each factor. Furthermore, the total set of behaviours in this section was appropriate for measuring the characteristic behaviour of the specific respondents in this study, which is another requirement for content validity. Consequently, the instrument was deemed to be content valid.

3.4.1.2 Construct validity

The construct validity of the questionnaire was assessed to evaluate whether the questionnaire in fact measured what it was supposed to measure. Construct validity is defined as the ability of the instrument to measure an abstract concept and it is viewed as a unifying form of validity for psychological measurements (Strauss & Smith, 2009:7). The evaluation of construct validity requires examining the relationship of the measure being evaluated with variables known to be related or theoretically related to the construct measured by the instrument (Colliver *et al.*, 2012:366). According to Iacobucci and Churchill (2010:255), the following three different types of construct validity are often assessed:

- convergent validity (the measure correlates positively with other measures);
- discriminant validity (the measure does not correlate with other construct from which it is supposed to differ); and
- nomological validity (the degree to which the measure correlates in theoretically predicted ways with measures of different but related constructs).

This study focused on discriminant validity to use questionnaires that discriminated sufficiently between the different constructs measured in this study. The assessment of the questionnaire's discriminant validity was done by using exploratory factor analysis (EFA) and six factors were identified, namely: Management commitment, management experience, marketing capabilities, the willingness of the SMME leaders, information capabilities and government support.

The proportion of the total variance explained for all the factors identified in the EFA will be discussed in Chapter 4. Communalities on individual items varied between 0.19 and 0.91; in this study, the communality on each statement mostly comprised more than half of the total variance for most of the statements. The construct validity of this instrument was consequently found satisfactory.

3.4.2 Reliability

Reliability of the scale is required to ensure that the questionnaire reflects the construct it is measuring (Maiyaki, 2011:193). Cronbach's alpha determines the internal consistency or average correlation of items in a survey instrument to gauge its reliability (Field, 2013:709). Internal reliability was assessed using Cronbach's alpha technique. According to Luo *et al.* (2010:531), a Cronbach's alpha coefficient of 0.7 is an acceptable minimum coefficient; however, a lower reliability coefficients of 0.5 may be sufficient when ratio scales are used (such as the Likert scale) (Moolla & Bisschoff, 2012:106).

Only two factors, management experience (0.703) and the willingness of the SMME business leader (0.726), had a Cronbach alpha coefficient above than 0.7, indicating high reliability of these sections of the questionnaire. The other factors had reliability between 0.7 and 0.6, and were included in this study because the range was not far from 0.7, and they were above 0.58 and therefore the questionnaire is reliable for analytical scrutiny (Moolla & Bisschoff, 2012:106).

Reliability was also enhanced by distributing as many questionnaires as possible and retesting where necessary. Researcher bias and error can be reduced by being objective. Participant error and bias can be reduced by giving the participants enough time to fill their questionnaires.

3.5 CONFIDENTIALITY

The consent letter was presented to SMME business leaders assuring them that the study was approved by the School of Business and Governance at the North-West University: Potchefstroom Campus. Further assurance of confidentiality was given by indicating that the participants will remain anonymous and the individual responses will be fully confidential and not shared with any other party. The consent letters also indicated that participation was voluntarily and that the participants may refuse to take part or withdraw from the study at any time without any risk to their businesses and without affecting the relationship with the investigators or North-West University.

The participants were also given the right not to answer any single question on the questionnaire if they wish not to do so.

3.6 ADMINISTRATION OF THE RESEARCH INSTRUMENT

There are different ways of administering questionnaires that each has its own advantages and disadvantages. For instance, whenever the respondents are not within the reach of the evaluator, they might be sent by post. However, the return rate of this procedure is rather low (Johnson, 2016:5). They can also be sent over internet. In this procedure, the return rate is a little higher than by post, because it is easier for the respondents to return them. Moreover, they might be administered through the telephone. In this procedure, the respondent is rather obliged to answer the questions. Finally, they can be administered face-to-face, where the respondents are relatively compelled to answer the questions, so that the return rate is high and any ambiguous questions can be clarified on the spot by the researcher

Data was collected through a questionnaire survey forwarded by emails. In cases where the respondents could not be reached by emails, telephone surveys and face-to-face interviews were arranged with business leaders in order to complete the questionnaire. The permission and contact details of the respondents were requested from the Johannesburg Chamber of Commerce and Industries.

3.7 CONCLUSION

In this chapter, a thorough study and discussions on all the relevant aspects concerning an empirical research were conducted. This was done to ensure that the research follows an organised, systematic and recognised approach in order to provide reliable results and conclusions with minimal errors, especially when dealing with large volumes of data.

A questionnaire was used as a research instrument because a questionnaire method is an inexpensive and time efficient way to gather data from a potentially large number of respondents (Zohrabi, 2013:255). The questionnaire's validity and reliability were tested to ensure that the instrument was measuring what it was intending to measure (Zohrabi, 2013:255). The Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy and the Bartlett test of sphericity were conducted to ensure the appropriateness of factor analysis. Spearman's correlations were conducted

to determine the strength of the relationship between the factors that affect export propensity and stepwise regression was used to automatically extract the factors that affect business turnover.

Permission was requested from the Johannesburg Chamber of Commerce to obtain the contact details of the SMME leaders/decision-makers in order to distribute the questionnaires. This was in line with the requirements of the NWU Ethics Committee. These conditions were satisfied in order to obtain ethical clearance to continue with the study. With the content of this chapter as background, the data will be analysed and results presented in Chapter 4.

4. CHAPTER 4: RESULTS AND DISCUSSION

4.1 INTRODUCTION

The purpose of this chapter is to present, discuss and interpret the results obtained from the empirical study. The study attempts to study the factors that affect export propensity of small, medium and micro-sized enterprises (SMMEs) in South Africa.

The empirical study was conducted by means of a self-completion questionnaire distributed to various SMMEs in the Johannesburg Metropolitan area. The data was captured by the Statistical Consultation Services (SCS) of the North-West University, Potchefstroom Campus and an example of the questionnaire is presented in Annexure B.

Statistical analysis of the data was conducted by the SCS whereby the descriptive analysis, validity and reliability, exploratory factor analysis and regression analysis were used to analyse the data.

4.2 BIOGRAPHIC INFORMATION OF THE RESPONDENTS

Respondents were requested to enter their personal details, such as age group, race, gender and level of education. This information was used to assist the researcher in drawing comparisons between factors influencing export propensity, in order to try and determine in what way their biographic information influences their frame of mind.

Section A of the questionnaire (refer to Annexure B) captured the biographic information of the business owners, where participants had to specify their age group, gender, race classification and their level of education. The frequency and distribution of the results was discussed in this section.

4.2.1 Age group profile of the respondents

The purpose of this question in the questionnaire was to determine the age group of the participants in order to establish the participation of various age groups in small business ownership.

Table 4.1: Age profile of the respondents

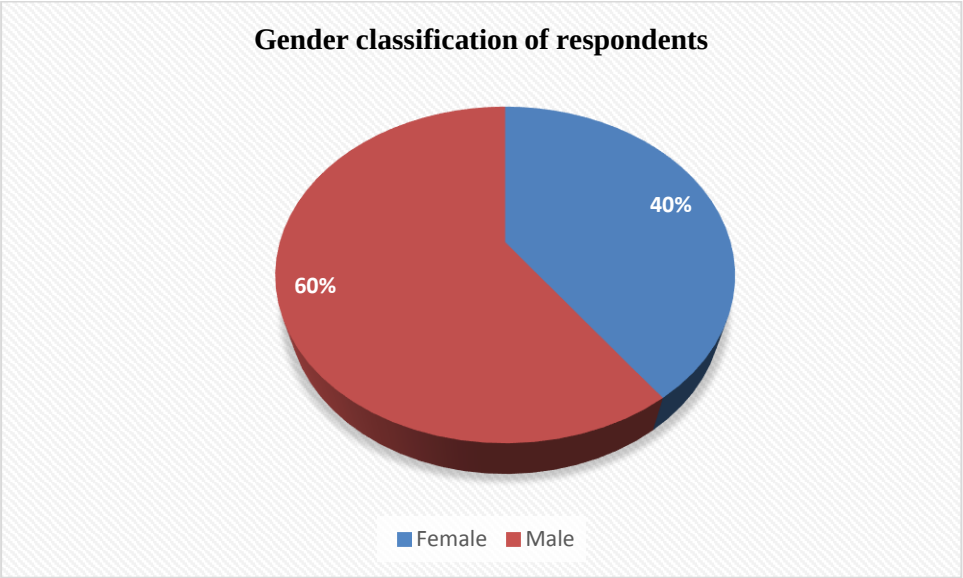
Age groups	Frequency	Percentage	Cumulative percentage
≤ 24 years	24	10.00	10.00
25 to ≤ 34 years	66	27.50	37.50
35 to ≤ 44 years	71	29.58	67.08
45 to ≤ 54 years	49	20.42	87.50
55 to ≤ 64 years	24	10.00	97.50
≥ 65 years	6	2.50	100.00
TOTAL	240	100%	

According to Table 4.1, the majority of respondents are in the age group 35 to 44 years (29.58%). This is followed by persons between 25 and 34 years, representing 27.5% of the responses. The smallest age group is persons older than 65 years, which represents only 2.5% of the total responses.

4.2.2 Gender profile of the respondents

The purpose of this question in the questionnaire was to determine the ratio between women and men as small business owners in the Johannesburg Metropolitan area.

Figure 4.1: Age classification of the respondents



An analysis of the gender profile of the respondents (see Figure 4.1) indicates a clear dominance of male respondents. The majority of respondents were male (60%) and the females constitute 40% of the respondents in the survey. This indicates that the men are much more likely to participate as entrepreneurs in small businesses than women.

4.2.3 Racial profile of respondents

The purpose of this question in the questionnaire was to determine the participation of different racial groups in small businesses in South Africa.

Figure 4.2: Racial profile of the respondents

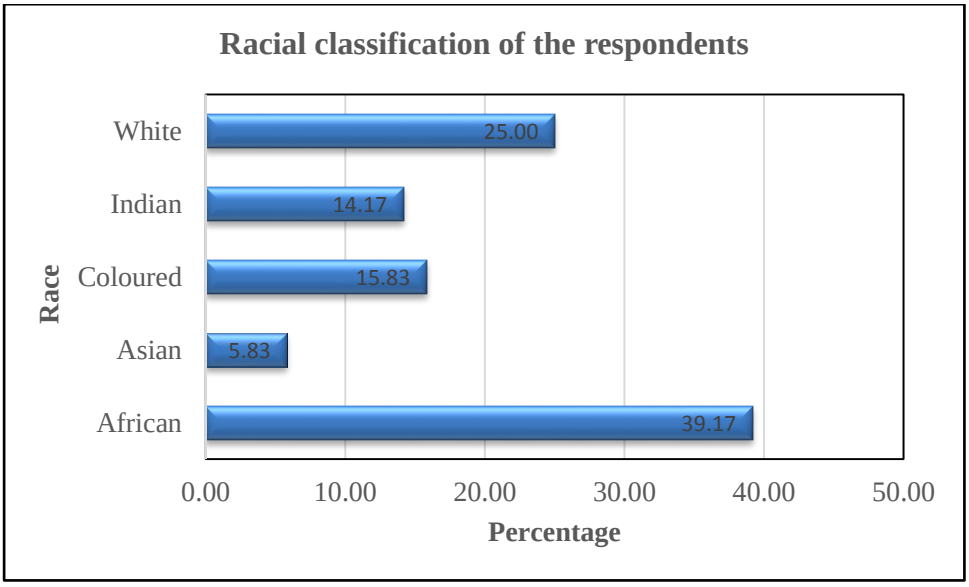
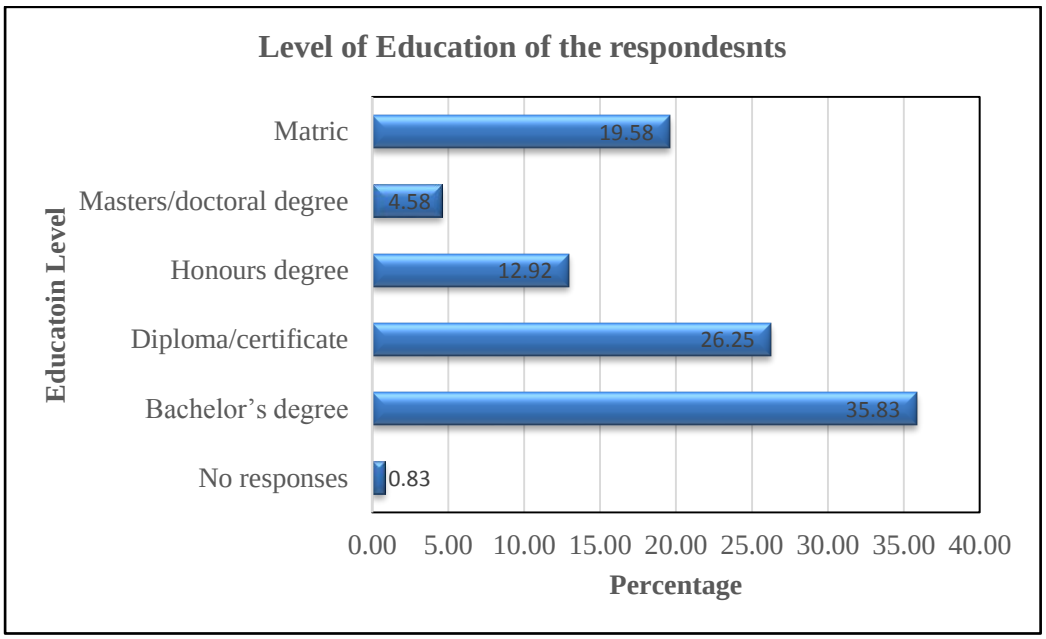


Figure 4.2 shows that the majority of respondents (39.17%) are Africans and the smallest racial group are Asians, at 5.83%. The distribution of racial group reflects the demographics of the country, where most people are Africans, followed by white people, coloured people and Indians.

4.2.4 Education level of the respondents

The purpose of this question in the questionnaire was to attempt to determine the education level of small businesses owners in South Africa.

Figure 4.3: Education level of the respondents



The results in Figure 4.3 show that the majority of the respondents have a bachelor's degree (35.83%), and secondly, diplomas or certificates (26.25%). This was followed by respondents who had only matric at 19.58%. Few respondents have master's/doctorate degrees at 4.58% of the respondents.

The second part of Section A focused on the business (the company) where the participants had to specify the business sector, company size by staff numbers and the business' annual turnover range.

4.2.5 Business sector of respondents

The purpose of this question in the questionnaire was to determine the nature of business the respondents were involved with.

Table 4.2: Business sector of the respondents

	Frequency	Percent	Cumulative percentage
Manufacturing	40	16.67	16.67
Agriculture	45	18.75	35.42
Media	21	8.75	44.17
Electricity, gas & water	28	11.67	55.83
Mining	15	6.25	62.08
Services sector	41	17.08	79.17
Trade & accommodation	30	12.50	91.67
Construction	7	2.92	94.58
Consulting	1	0.42	95.00
Engineering	4	1.67	96.67
IT	8	3.33	100.00
Total	**240**	**100**	

Table 4.2 reveals that the majority of the respondents operate in agriculture (18.75%), followed by the services sector (17.08%) and manufacturing sector (16.67%). The construction and engineering sectors were ranked the lowest at 2.92% and 1.67% respectively.

4.2.6 Business Size

The purpose of this question in the questionnaire was to determine the size of the business based on staff numbers that the respondents operate.

Table 4.3: Business size as presented by the number of empolyees

	Frequency	Percent	Cumulative percentage
Less than 2	20	8.33	8.33
2 to 25	121	50.42	58.75
26 to 50	49	20.42	79.17
51 to 100	34	14.17	93.33
101 to 150	8	3.33	96.67
151 to 200	6	2.50	99.17
More than 200	1	0.42	99.58
Did not respond	1	0.42	100.00
Total	240	100.00	

The results as shown in Table 4.3 demonstrate that the majority of the respondents employ two to 25 people (50.42%), followed by 26 to 50 employees (20.42%). Only few small business owners employ between 101 and 150 personnel (3.33%) and even less between 151 and 200 (2.50%).

4.2.7 Business turnover

The purpose of this question in the questionnaire was to establish the performance of the business owned by the respondents by company turnover.

Table 4.4: SMME business turnover of the respondents

Turnover	Frequency	Percent	Cumulative percentage
Less than R250 000	14	5.83	5.83
R250 001 to R500 000	22	9.17	15.00
R500 0001 to R750 000	22	9.17	24.17
R750 001 to R1 000 000	56	23.33	47.50
R1 000 001 to R5 000 000	103	42.92	90.42
More than R5 000 000	23	9.58	100.00
Total	240	100	

The results in Table 4.4 display that 47.50% of the respondents have a total annual turnover below R1 000 000. Few respondents reported turnover above R5 000 000 (9.58%). The majority of the respondents had a turnover between R1 million and R5 million (42.92%).

4.3 PSYCHOMETRIC PROPERTIES OF THE MEASURING INSTRUMENT

The psychometric properties of the measuring instrument were investigated by assessing content and construct validity and reliability.

4.3.1 Reliability

Cronbach's alpha values were computed to test the level of reliability of each factor. According to Luo *et al.* (2010: 531), a Cronbach's alpha coefficient of 0.7 is an acceptable minimum coefficient; however, a lower reliability coefficients of 0.58 may be sufficient for analytical scrutiny when ratio scales, such as the Likert scale, are used (Moolla & Bisschoff, 2012:106).

Table 4.5: Cronbach's alpha values

	Cronbach's alpha	No. of items
Section B: SMME willingness to participate in export	0.726	4
Section C: Management experience	0.703	4
Section D: Marketing commitment	0.657	4
Section E: Marketing capability	0.621	4
Section F: Information capability	0.612	4
Section G: Government support	0.668	4

The Cronbach's alpha values were all above 0.6 and therefore the questionnaire is deemed reliable.

4.3.2 Validity and factor analysis

Construct validity was assessed by means of an exploratory factor analyses (EFA), principal component analysis with the Oblimin rotation, and the Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy. The Bartlett test of sphericity was conducted to ensure the appropriateness of the factor analysis. The following factors have been identified and are discussed below:

4.3.2.1 SMME willingness to export

The questions (variables) in section B (from B1 to B4) were analysed using principal component analysis (PCA) with Oblimin rotation (oblique rotation) to explore the underlying factors. According to Table 4.6, Section B yields a total of 55.38% variance explained. The KMO was 0.64, which is well above the acceptable limit of 0.5 (Field, 2013:682) and the Bartlett's test for this factor analysis was 0.00, which is below 0.05 and it indicates that the correlation was sufficiently large (Field, 2013:696) and that a factor analysis can be computed. The reliability for these questions was high with a Cronbach alpha value of 0.73.

Table 4.6: Reliability and validity for Section B

KMO	Bartlett's Test (p-value)	% Variance explained	Cronbach's alpha
0.64	0.00	55.38	0.73

The component matrix above shows that all of the questions had a factor loading above 0.3 (Field, 2013:682), and therefore one valid factor was obtained from these questions, namely the **SMME's willingness** to participate in export-related activities.

Table 4.7: Component matrix on Section B

	Component
	1
The company is aware of the challenges associated with internationalising its business (B1)	.783
The company is aware of the risks associated with doing business in the international market (B2)	.776
The company is aware of export-related opportunities (B3)	.768
The company is willing to take part in export markets (B4)	.640

4.3.2.2 Management experience

The variables in section C (from C1 to C4) were also analysed using PCA with Oblimin rotation, to explore the underlying factors. According to Table 4.8, Section C yields a total of 53.10% variance explained. The KMO test for this factor analysis was 0.72, which is well above the acceptable limit of 0.5 (Field, 2013:682) and the Bartlett's test was 0.00, which is below 0.05 and it indicates that the correlation was sufficiently large (Field, 2013:696) and that a factor analysis can be used in the study. The reliability according to Cronbach's alpha for these questions was also high at 0.70.

Table 4.8: Reliability and validity for Section C

KMO	Bartlett's Test (p-value)	% Variance explained	Cronbach's alpha
0.72	0.00	53.10	0.70

The component matrix (see Table 4.9) shows that all of the questions have a factor loading above 0.3 (Field, 2013:682) and one factor was formed using these questions, namely **management experience**.

Table 4.9: Component matrix for Section C

	Component
	1
Commercial and managerial education/skills are critical to help SMME managers and firm decision-makers to engage in and actively pursue and/or commit to export activities (C1)	.754
Suitable knowledge may be acquired through prior export experience (C2)	.754
It is challenging to attract and retain new senior managers with export knowledge (C3)	.745
The importance of years of industry experience of managerial staff to engage in export-related activities (C4)	.656

4.3.2.3 Management commitment

The questions on section D (from D1 to D4) were analysed using PCA with Oblimin rotation to explore the underlying factors. According to Table 4.10, Section D yields a total of 71.94% variance explained. The KMO was 0.63, which is well above the acceptable limit of 0.5 (Field, 2013:685) and the Bartlett's test for this EFA was 0.00, which is below 0.05 and this indicates that the correlation was sufficiently large (Field, 2013:696) and that a factor analysis can be computed. The reliability for these questions was 0.66.

Table 4.10: Reliability and validity for Section D

KMO	Bartlett's test (p-value)	% Variance explained	Cronbach's alpha
0.63	0.00	71.94	0.66

The pattern matrix (see Figure 4.10 below) shows that two factors were obtained from these questions; Question D4 formed its owned factor (namely **the export-oriented company culture**); and Questions D1 to D3 formed another factor (**management commitment**).

Table 4.11: Pattern matrix for Section D

	Component	
	1	2
Management is committed to export-related activities (D1)	.817	
Management makes time to participate in export expos and other export-related activities (D2)	.772	
Management budgets for human resource development in export-related skills and training (D3)	.735	-.352
Management is willing to change the company culture to be export orientated (D4)		.954

4.3.2.4 Marketing capability

The questions in section E (from E1 to E4) were analysed using PCA with Oblimin rotation, to explore the underlying factors. According to Table 4.12, Section E yields a total of 48.40% variance explained. The KMO for this section was 0.69, which is well above the acceptable limit of 0.5 (Field, 2013:685) and the Bartlett's test was 0.00 (smaller than 0.05), and indicates that the correlation was sufficiently large (Field, 2013:696) and that a factor analysis can be computed. The reliability according to Cronbach's alpha for these questions was 0.62.

Table 4.12: Validity and reliability for Section E

KMO	Bartlett's test (p-value)	% Variance explained	Cronbach's alpha
0.69	0.00	48.40	0.62

The component matrix (see Table 4.13) shows that all of the questions obtained a factor loading above 0.3 (Field, 2013:682), and therefore one factor that affects export propensity was formed, namely **marketing capability.**

4.3.2.5 Marketing capability.

Table 4.13: Component matrix for Section E

	Component
	1
Management has allocated sufficient capital resources to market the product and services in the international environment (E1)	.794
The business collects sufficient information about the needs of the customers to take advantage and internationalise their products and services (E2)	.791
The company has established international relationships with suppliers and/or customers (E3)	.744
The company has achieved product differentiation relative to their competitors (E4)	.336

4.3.2.6 Information capability

The questions on section F (from F1 to F4) were also analysed using PCA with Oblimin rotation, to explore the underlying factors. According to Table 4.14, Section F yields a total of 47.40% variance explained. The KMO for this section was 0.66, which is well above the acceptable limit of 0.5 (Field, 2013:682) and the Bartlett's test was 0.00, which is below 0.05 and indicates that the

correlation was sufficiently large (Field, 2013:696) and that a factor analysis can be employed. The reliability for these questions according to Cronbach's alpha was 0.61.

Table 4.14: Validity and reliability for Section F

KMO	Bartlett's test (p-value)	% Variance explained	Cronbach's alpha
0.66	0.00	47.40	0.61

The component matrix (see Table 4.15) shows that all of the questions had a factor loading above 0.3, which is considered to be reasonable (Field, 2013:682), and that one factor that affects export propensity was formed, **information capability**.

Table 4.15: Component matrix for Section F

	Component
	1
Export-related information is used effectively by the managerial staff (F1)	.790
The business is proactive to search for information on opportunities in the export market environment (F2)	.742
The business acquires and disseminates information about customers and competitors (F3)	.730
Information capability is important to the firm's export propensity (F4)	.434

4.3.2.7 Government support

The questions in section G (from G1 to G4) were analysed using PCA with Oblimin rotation, to explore the underlying factors. According to Table 4.16, Section G yields a total of 75.71% variance explained. The KMO for this factor analysis was 0.59, which is above the acceptable limit of 0.5 (Field, 2013:685) and the Bartlett's test was 0.00, which is below 0.05 and indicates that the correlation was sufficiently large (Field, 2013:696) and that a factor analysis can be used. The

reliability for the questions in government non-financial support was also high with a Cronbach alpha value of 0.67.

Table 4.16: Validity and reliability for Section G

KMO	Bartlett's test (p-value)	% Variance explained	Cronbach's alpha
0.59	0.00	75.71	0.67

The pattern matrix (see Table 4.17) shows that shows that all of the questions have a factor loading above 0.3, which is considered to be reasonable (Field, 2013:682), and that two factor were obtained from these questions. The one factor was formed from question G2, namely **government funding** and the other factor was formed from the other questions, namely **government non-financial support** as two separate factors that affect export propensity for SMMEs.

Table 4.17: Pattern matrix for Section G

	Component	
	1	2
The company is aware of government initiatives to promote SMMEs' access to international markets (G1)	.851	
The business is aware of government roles to develop emerging SMMEs to take part in export-related opportunities (G2)	.841	
The company received government funding to support expansion and export initiatives (G3)		.867
The company is aware of government initiatives to train and develop SMMEs on exports such as preferential procurement, BEE codes, tax incentives and networking programmes for SMMEs (G4)	.605	-.620

Therefore, the study revealed that the following are valid factors that affect export propensity for SMMEs:

- Section B: SMME's willingness to participate in export-related activities
- Section C: Management experience
- Section D: Management commitment
- Section D4: Company culture
- Section E: Marketing capabilities
- Section F: Information capabilities
- Section G: Government support
- Section G2: Government funding

4.4 RESULTS AND DISCUSSION

Descriptive statistics were used to compute the mean ($\bar{x}$) and the standard deviation (SD) to interpret the different constructs classified by the factor analysis. Descriptive statistics for different constructs were conducted for all the questions. The mean score and standard deviation for sections B to G were computed and reported below. The questions were answered on a five-point Likert scale where the following indications were used: 1 = Strongly Disagree; 2 = Disagree; 3 = Neutral; 4 = Agree and 5 = Strongly Agree .Table 4.18 below shows the descriptive analysis of the all the factors that affect export propensity.

Table 4.18: Descriptive statistics of the factors that affect export propensity

Factor	**n**	$\bar{x}$	**SD**
Section B: SMME willingness to participate in export	240	3.72	0.67
Section C: Management experience	240	3.63	0.64
Section D: Management commitment	240	2.95	0.78
Section D 4: Export-oriented company culture	240	3.74	0.99
Section E: Marketing capability	240	3.15	0.67
Section F: Information capability	239	3.27	0.64
Section G: Government support	240	3.28	0.64
Section G 2: Government funding	240	3.18	0.67

Table 4.18 shows that the mean score for SMMEs' willingness to participate in export is scored the highest ($\bar{x}$ = 3.72; SD = 0.67). The mean scores for management experience ($\bar{x}$ = 3.63; SD = 0.64), government support ($\bar{x}$ = 3.28; SD = 0.64) and marketing capability ($\bar{x}$ = 3.15; SD = 0.67) are also high, which shows that most respondents tended to agree that these factors affects export propensity for SMMEs. Data reveals a relatively neutral view among small business leaders whether management commitment ($\bar{X}$ = 2.95, SD = 0.78) would affect export propensity for SMMEs in South Africa. Most SMME business leaders and/or decision-makers confirmed that the willingness ($\bar{X}$ = 3.72, SD = 0.67) on the part of the entrepreneur to actively participate in export activities and government financial assistance ($\bar{X}$ = 3.18, SD = 0.67) does in fact affect export propensity of SMMEs in South Africa.

4.1.1 Spearman's rho correlations

The Spearman's rho correlation matrix was computed to show the correlation coefficients between the factors, and to establish whether there is any correlation between the identified factors that affect export propensity, and whether there was any correlation with some of the biographic information of the respondents, and this is presented in Table 4.19 below.

Table 4.19: Correlation matrix

	Willingness to participate in export	Management experience	Management commitment	Marketing capability	Information capability	Government support	Government funding	Willingness to change the company culture to be export orientated	Company size by staff numbers	Business annual turnover
Willingness to participate in export	1.000	.272**	.510**	.481**	.389**	.160*	.251**	.133*	.180**	.449**
Management experience	.272**	1.000	.099	.075	.266**	.451**	-.107	.500**	.042	.165*
Management commitment	.510**	.099	1.000	.508**	.478**	.185**	.388**	-.008	.069	.356**
Marketing capability	.481**	.075	.508**	1.000	.604**	.204**	.292**	.048	.192**	.426**
Information capability	.389**	.266**	.478**	.604**	1.000	.375**	.316**	.237**	.157*	.380**
Government support	.160*	.451**	.185**	.204**	.375**	1.000	.033	.383**	.092	.274**
Government funding	.251**	-.107	.388**	.292**	.316**	.033	1.000	-.217**	.110	.291**
Willingness to change the company culture to be export orientated	.133*	.500**	-.008	.048	.237**	.383**	-.217**	1.000	.118	.164*
Company size by staff numbers	.180**	.042	.069	.192**	.157*	.092	.110	.118	1.000	.468**
Business annual turnover	.449**	.165*	.356**	.426**	.380**	.274**	.291**	.164*	.468**	1.000

The highlighted to be explained below because they show strong to moderate correlations

The sections marked with stars on Table 4.19 indicate that there are correlations between the factors and that this data is statistically and practically significant, while the sections without stars mean that there are no statistically nor any practically significant correlations. However, one star means a small correlation, while two stars mean a medium to large correlation. A value of 0.1 also indicates that there is a small correlation and 0.3 represents a medium correlation, while 0.5 represents a large correlation (LAERD Statistics, 2016:1)

There was a high correlation of 0.51 between management commitment and the willingness of the business leader to participate in export-related activities, meaning that if the SMMEs are willing to participate in export-related actives, they must make time and provide the necessary budget to participate in export exhibitions and other export-related activities.

Furthermore, there was a high correlation between management experience and the willingness to change the company culture to be export orientated at 0.50, indicating that experienced managers are aware of export-related opportunities and are more willing to change and pursue export activities/opportunities. Management experience has a moderate (medium) correlation of 0.27 with the willingness of the SMMEs to participate in export-related activities. This indicates that management experience can be of valuable advantage for SMMEs, but the SMME can engage in export-related activities without any prior export experience; however, they must be aware of the risks and challenges of doing business in international markets.

There was also a high correlation of 0.39 between willingness to participate in export activities and information capabilities, meaning that the willing SMME leader must be proactive to search for information on export opportunities in order to succeed.

The study further displays a relatively high correlation of 0.45 between government support and management experience, indicating that experienced SMME business leaders have adequate knowledge of government initiatives to promote SMMEs' access to international markets. A medium correlation exists between information capability and management experience at 0.27, meaning that management experience does not guarantee that the business leaders can be able to acquire and disseminate information about customers and competitors.

The study also revealed a high correlation of 0.51 between marketing capabilities and management commitment, indicating that when management is highly committed to export-related activities, they are much more likely to allocate sufficient capital resources to market their products and services to the international market. The correlation between marketing and

information capability was also high at 0.60, and this indicates that adequate information about customers and competitors is required before the business can market its products and services in the international market(s), and this is also supported by the high correlation of 0.43 between marketing capabilities and business turnover.

There is also a high correlation of 0.45 between the management experience and government support, meaning that more experienced small business managers are more aware of government initiatives to promote SMMEs' access to international markets and expand their business. The study also found that there is a moderate correlation of 0.29 between government funding and annual business turnover, indicating that while government funding is important for SMMEs, government funding alone cannot guarantee the success of the business; instead, government funding coupled with management commitment and information capabilities may lead to desired results because there is also a high correlation of 0.39 and moderate correlation 0.32, respectively, with government funding.

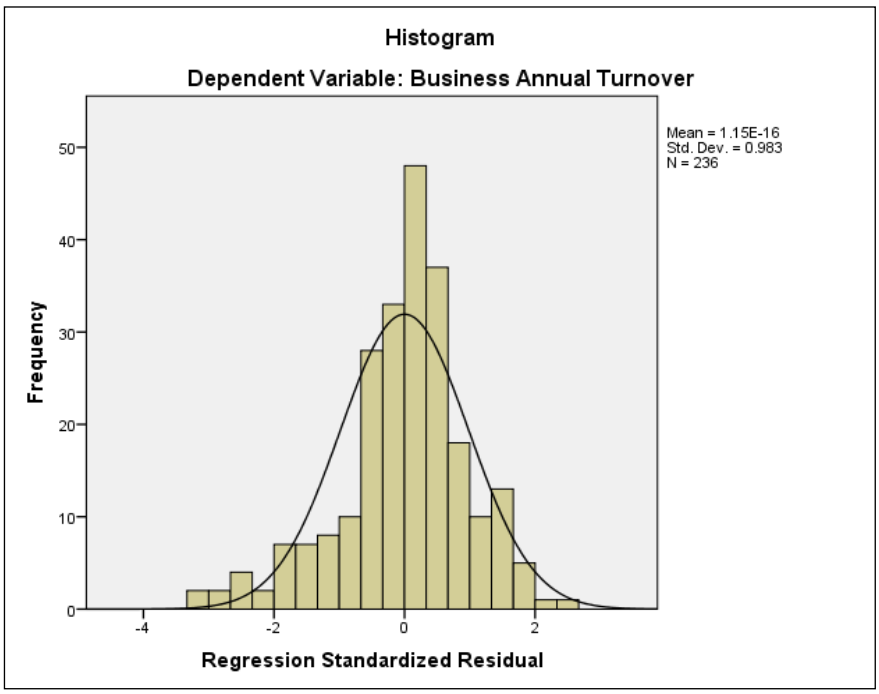
The correlation between company size and annual business turnover was high at 0.47, indicating that relatively larger SMMEs (by staff numbers) tend to achieve good business turnover because they may have adequate human and capital resources.

4.1.2 Regression analysis

Regression analysis was conducted to attempt to establish which of the studied factors affect the financial performance (business turnover) of SMMEs.

Before conducting normal distribution, the dependent variable (business turnover) was tested for normality and the results in Figure 4.4 below show that the residuals of business turnover are normally distributed.

Figure 4.4: Business turnover is normally distributed



Stepwise regression was conducted and it automatically shows you which variables influence the dependent variable.

Table 4.20: Presenting the fitness of the regression model

Model	Sum of squares	df	Mean square	F	Sig.
Regression	136.35	8	17.04	13.65	.00
Residual	283.53	227	1.25		
Total	419.88	235			

According to Table 4.20, the Sig. value (also called the p-value) was 0.00, which is smaller than 0.05 and shows how good the model fits. The results of the regression model are presented in Table 4.21 below:

Table 4.21: Presenting regression coefficient

Model	**Unstandardised coefficients**		**Standardised coefficients**		
	B	Std. Error	Beta	**T**	**Sig.**
(Constant)	-.768	.534		-1.439	.151
Marketing capability	.466	.137	.231	3.407	.001
Management experience	.434	.130	.218	3.332	.001
Government support	.363	.114	.180	3.189	.002
Government funding	.188	.060	.183	3.142	.002

Note: Regression table to be kept at three decimals for accuracy of the model

From the table above, the relationship business turnover and identified factors were presented as follows:

$$B_T = -0.768 + 0.466\beta_1 + 0.434\beta_2 + 0.363\beta_3 + 0.188\beta_4$$

Where B_T is business turnover

β_1 is marketing capabilities

β_2 is management commitment

β_3 is government support

β_4 is government funding

The goodness of model fit (R square) was calculated in Table 4.22 below and it shows that 32.5% of the variance in business turnover is explained by marketing capability, management commitment, government support and government funding, taking into account the number of independent variables. While this figure is small, it does indicate the importance of these factors to business performance. Therefore, government's financial and non-financial support has a positive influence on the financial performance of the business. The other factors such as the

willingness of the entrepreneur to participate in export activities and information capabilities did not affect the business turnover.

Table 4.22: Regression model summary

Model	R	R square	Adjusted R square	Std. error of the estimate	Change statistics				
					R square change	F change	df1	df2	Sig. F change
1	.57	.325	.301	1.118	.325	13.646	8	227	.000

4.4 CONCLUSION

This chapter reported the results obtained from the statistical analysis done on the data from the empirical research. The study population of this study were the SMMEs in the Johannesburg Metropolitan region in South Africa. The evaluation of the questionnaire revealed the factors that affect export propensity.

The majority of the respondents confirm that management experience, marketing capability, management commitment and information capability affect the propensity of SMMEs to export their products and services, and thereby contribute to the economic growth of the country. The study also confirms that government's financial and non-financial support has a significant impact to strengthen SMMEs' export propensity

Based on the previous chapters, final conclusions and recommendations will be discussed in Chapter 5.

5. CHAPTER 5: CONCLUSIONS AND RECOMMENDATIONS

5.1 INTRODUCTION

The purpose of this final chapter is to revisit the objectives of this study to determine whether they have been achieved. The primary objective of this study, as discussed in Chapter 1, was to investigate the factors that influence the export propensity of small, micro- and medium-sized enterprises (SMME) in South Africa. The secondary objectives were:

- To define and understand export propensity
- To gain insight into small, medium and micro-sized enterprises by conducting a literature review
- To obtain insight into small businesses and their contribution to the South African economy.
- To obtain insight into the risks and challenges faced by SMMEs.
- To study the factors that affect export propensity.
- To validate the reliability of the questionnaire measuring export propensity and perceived success by means of a statistical analysis.
- To investigate the relationship between the factors that affect export propensity.
- To draw conclusions from the empirical study and make practical recommendations to SMME business leaders

The researcher examined various SMME leaders from various sectors in the Johannesburg Metropolitan area. The researcher collected sufficient data by means of a questionnaire from the SMME business leaders in relation to this study. This chapter will also assess whether the literature review and the data that was collected during the study contributed to the research topic.

In determining that, the researcher would like to discuss the objective of the study by following the sequence below:

- Summary of the study;
- Findings from the literature review;
- Findings from the empirical research;
- Findings in relation to the objectives of the study;
- Recommendations;
- Conclusion.

5.2 SUMMARY OF THE STUDY

In order to understand the current study, the researcher provides a brief summary of each chapter with an emphasis on the objectives of the study

5.2.1 Chapter 1

Chapter 1 provided the nature and scope of the study. In this chapter, the researcher identified a problem in South Africa: Due to the high level of unemployment in South Africa, a robust rate of economic growth at a minimum of 5.4% a year over the next 15 year is required if South Africa is ever to attain the socio-economic goals of the National Development Plan (SBP, 2015: 2). In order to achieve this goal, SMMEs can play a pivotal role in the economy. Exports are essential to ensure the growth of SMMEs and the growth of the overall economy of the country (Herrington *et al.*, 2014: 23). It was therefore important to study the factors that will assist SMMEs to export their products and services so that they can contribute to the socio-economic challenges in the country.

5.2.2 Chapter 2

Chapter 2 presented a literature review on all relevant concepts of the study, looking at the context from a wider context filtering it down to the level of the study. This chapter started by giving an overview of SMMEs by outlining the definition of SMMEs within the South African context as well as giving a brief profile of SMMEs in South Africa. The chapter further outlined the importance of SMMEs in the economy and in society by looking at SMMEs' contribution to GDP and unemployment. The challenges and risks facing SMMEs that are willing to internationalise were also discussed and how they may affect export propensity. The factors that affect export propensity were furthermore discussed as well as how they affect the propensity of SMMEs to export their products and services. Government programmes were lastly discussed as well as their mandate regarding assisting SMMEs' capacity to grow and participate in export-related activities.

5.2.3 Chapter 3

Chapter 3 provided an overview of how the research was designed and carried out. This included the research design the researcher used to collect, analyse and interpret data as well as the statistical tools that were most suited to collect, analyse and interpret the data. The researcher

used a quantitative approach and gathered a sufficient amount of data. The psychometric properties of the research instrument were also discussed. The data was collected through the distribution of self-administered questionnaires to SMME business leaders in the Johannesburg Metropolitan area of Gauteng in South Africa. Permission was granted by the Johannesburg Chamber of Commerce and Industries (JCCI). This chapter also discussed the statistical concepts that were used in the study to analyse the data.

5.2.4 Chapter 4

Chapter 4 presented the findings of the data analysed by the North-West University's Statistical Consultation Services (SCS) at the Potchefstroom Campus. Approximately 240 questionnaires were received and these were sufficient to do a factor analysis, and to explore the factors that affect the SMMEs' export propensity and to establish the correlation between the identified factors as well as with the biographic information. Regression analysis was conducted to establish the relationship between the factors that affect export propensity on performance (turnover) of SMMEs.

5.3 FINDINGS FROM THE LITERATURE REVIEW

The findings of previous studies discussed in Chapter 2 are summarised below:

5.3.1 Export Propensity

Export propensity is defined as factors that influence whether an organisation/firm will succeed or not to export its goods and services to the foreign market (Parish & Freeman, 2011:3). Internationalisation is a viable opportunity for all kinds of firms (including SMMEs) to access foreign markets as simple and quickly as possible (Monteiro, 2013:85).

5.3.2 Overview of small, medium and micro-sized enterprises

The National Small Business Act clearly distinguishes between enterprises in the different economic sectors and has further used different thresholds for the different sectors to define what are considered "small" or "medium", and also depending on the nature of the activity undertaken, fixed assets and business turnover. Over the last seven years, the number of SMMEs in South Africa has increased, but the numbers are still low for a country such as South Africa with all the socio-economic challenges (e.g. unemployment). Gauteng has the highest number of

SMMEs, which has increased the GDP per SMME ratio by 8% in the last five years in Gauteng. Most SMMEs in the informal sector operate in the trade and accommodation industry (Bureau of Economic Research (BER), 2016:9).

5.3.3 The role of SMMEs

SMMEs continue to increase the GDP in developing countries, including South Africa, and have become engines for sustainable growth for long-term development (Edinburgh Group, 2013:5). SMMEs have contributed positively to job employment creation in the country.

5.3.4 The challenges and risks facing SMMEs

SMMEs are facing challenges such as a lack of management skills, access to finance, low levels of research and development (R&D), limited information to locate/analyse markets, crime, government bureaucracy, etc., all of which may hinder SMMEs' propensity to participate actively in the export-related market(s). The risks facing SMMEs' willingness to internationalise can be a combination of political risks, economic risks, technological risks, environmental risks and market risks. However, the SMMEs must be aware of the all these risks and accept that risk-taking is fundamental to the processes of internationalisation (Liesch, 2011: 864).

5.3.5 Factors affecting export propensity

There are numerous factors that affect export propensity. Internal factors such as management commitment, management experience, firm age and firm size (Love, 2015: 5), as well as information capabilities, marketing capabilities, etc. play an important role toward the internationalisation of SMMEs (April & Reddy, 2015: 570). Other factors such as access to funding from private organisations and government-initiated programmes can stimulate their internationalisation (Lloyd-Reason, 2009: 5).

5.3.6 Government support

The importance of government policies in enhancing entrepreneurial activities is recognised throughout the world (EG, 2013: 7). The South African government has put together programmes such as the Small Enterprise Development Agency (SEDA), Small Enterprise Finance Agency (SEFA), National Youth Development Agency (NYDA), National Empowerment Fund (NEF), the Export Credit Finance Guarantee Scheme, the Export Marketing and Investment Assistance (EMIA) and the Industrial Development Corporation (IDC) in order

to promote and support SMMEs that are willing to grow and/or participate in export-related activities.

5.4 FINDINGS FROM THE EMPIRICAL RESEARCH

5.4.1 Demographic information

Age: The majority of respondents are between the ages of 35 and 44 years (29.58 %). There is a low participation (10%) of young people below the age of 25 years (i.e. ≤ 24 years), which may indicate that the participation of young people in the economy (as SMME business leaders) is low. Only 2.50% of respondents were older than the age of 65 years.

Gender: The majority of respondents are male at 60% and the females constitute 40% of the respondents in the survey. This indicates that the men are much more likely to participate as entrepreneurs in small businesses than women.

Race: The largest race group of respondents is Africans (39.17%), followed by white people (25.00%), while the coloured, Indian and Asian groups have a representation of 15.83%, 14.17% and 5.83%, respectively. The distribution of racial group reflects the participation of different racial groups in small businesses in South Africa (StatsSA, 2016: 1).

Level of education: The majority of respondents are in possession of a bachelor's degree and diplomas/certificates at 35.83% and 26.25% of the respondents, respectively. This was followed by respondents who had only matric at 19.58%. Few respondents are in possession of a master's/doctorate degree at 4.58% of the respondents.

Business sector: The majority of the respondents operate in the agricultural, services and manufacturing sectors, at 18.75%, 17.08% and 16.67%, respectively and only a small number of respondents operate in the construction and engineering sectors, at 2.92% and 1.670%, respectively.

5.4.2 Reliability of the questionnaire used

Cronbach alpha coefficients were measured to determine the reliability of the measuring instrument. Only two factors, management experience (0.70) and the willingness of the SMME business leader (0.73) had a Cronbach alpha coefficient above than 0.7, indicating high

reliability of these sections of the questionnaire. The other factors had reliability between 0.7 and 0.6, and were included in this study because the range was not far from 0.7, and they were above 0.58 and therefore the questionnaire is reliable for analytical scrutiny (Moolla & Bisschoff, 2012: 106).

In Section D, question D4 was removed to improve the reliability of the results, and as a result question D4 formed a factor on its own. Another modification was made in Section G, where question G2 was removed to improve the reliability of the results, and as a result question G2 formed a factor on its own.

5.4.3 Factor analysis

Exploratory factor analysis using PCA was conducted, and the following valid factors were found to affect export propensity for SMMEs:

- Section B: **SMME's willingness** to participate in export-related activities
- Section C: **Management experience**
- Section D: **Management commitment**
- Section D4: **Company export-oriented culture**
- Section E: **Marketing capabilities**
- Section F: **Information capabilities**
- Section G: **Government support** (e.g. government initiatives as discussed in Chapter 2 section 2.7)
- Section G2: **Government funding**

5.4.4 Conclusion on SMMEs' willingness

The purpose of this study was to assess whether the willingness of the entrepreneur to participate in export-related activities is a factor that affects export propensity. Using a five-point Likert scale, where a rating of 1 on the scale indicated that the respondent strongly disagrees with the statement and 5 indicated that the respondent strongly agrees. Descriptive analysis on this factor revealed an average score of 3.72 (SD = 0.67), indicating that most small business owners tended to agree that this factor has a significant effect on export propensity for SMMEs.

Spearman's rho correlation shows a high correlation of 0.51 between the willingness of the business leader to participate in export-related activities and management commitment, meaning

that if the SMMEs are willing to participate in export-related actives, they must commit, make time and provide the necessary budget in order to participate in export exhibitions and other export-related activities, indicating that SMMEs' willingness is inter-related with other factors that affect export propensity.

5.4.5 Conclusion on management experience

Another purpose of this study was to assess whether the management experience is a factor that affects export propensity. The survey shows through descriptive analysis that the majority of small business owners tended to agree with an average score of = 3.63 (SD = 0.64) that management experience has a significant effect on export propensity of SMMEs.

Management experience is inter-related with the other factors that affect the export propensity of SMMEs, because a high correlation between management experience and the willingness to change the company culture (a Spearman's rho correlation coefficient of 0.50), indicating that experienced managers are more aware of export-related opportunities and more willing to change and pursue export activities/opportunities than less experienced managers. Management experience has a moderate (medium) Spearman's rho correlation coefficient of 0.27 with the willingness of the SMMEs to participate in export-related activities, highlighting the fact that management experience can be a valuable advantage for SMMEs, because it can assist willing SMME business leaders to participate in export-related activities and be able to minimise the effect of the risks and challenges associated with doing business in the international market.

5.4.6 Conclusion on management commitment

The study further assessed whether management commitment affects export propensity of small businesses. Statistical analysis showed that the respondents strongly agree with this factor, revealing an average score of 2.95 (SD0.78), indicating that most small business owners tended to agree that this factor has a significant effect on export propensity for SMMEs.

Management experience is related to the other factors that affect the export propensity of SMMEs in South Africa, because there was a high correlation between management commitment and the willingness to change the company culture with a Spearman's rho correlation coefficient of 0.50, indicating that experienced managers are well aware of export-related opportunities and more willing to change and pursue export activities/opportunities. The

study also found that management experience has a moderate (medium) correlation of 0.27 with the willingness of the SMMEs to participate in export-related activities.

Regression analysis showed that the business turnover of SMMEs is influenced by management commitment.

5.4.7 Conclusion on company culture

Factor analysis revealed that export-oriented company culture was a valid factor that affects the export propensity of SMMEs. This factor revealed an average score of 3.74 (SD = 0.99), indicating that most small business owners tended to agree that this factor has a significant effect on the export propensity of SMMEs.

Management experience is related to the other factors that affect the export propensity of SMMEs, as is evident by the high correlation (Spearman's rho correlation coefficient of 0.50) between management experience and the willingness to change the company culture, which indicates that experienced managers are aware of export-related opportunities and are more willing to change the company culture to be export orientated and pursue export activities/opportunities.

5.4.8 Conclusion on marketing capabilities

The effects of marketing capability on the export propensity of SMMEs based on descriptive analysis of this factor revealed an average score of 3.15 (SD=0.67), indicating that most small business owners tended to agree that this factor has a significant effect on the export propensity of SMMEs. A high correlation between marketing capabilities and management commitment was found and another high correlation was achieved for marketing capabilities and management commitment, which indicates that this factor is inter-related with the other factors. Regression analysis also shows that marketing capabilities have a positive influence on the business turnover of SMMEs.

5.4.9 Conclusion on information capabilities

The purpose of this study was to assess whether information capability is a factor that affects export propensity. A five-point Likert scale was used to measure the replies of the participants –

a rating of 1 on the scale indicated that the respondent strongly disagrees with the statement and 5 indicated that the respondent strongly agrees with the statement. A factor analysis established that information capability was a valid factor that affects the export propensity of SMMEs. Descriptive analysis on this factor revealed an average score of 3.27 (SD=0.64), indicating that most small business owners agree that this factor has a significant effect on the export propensity of SMMEs.

Information capabilities are related to the other factors that affect export propensity of SMMEs, because a higher Spearman's rho correlation of 0.60 between information capabilities and marketing capability has been obtained. A higher Spearman's rho correlation of 0.48 was achieved between information capabilities and management commitment.

5.4.10 Conclusion on government support

The effect of government support was also investigated to determine whether it affects the export propensity of SMMEs. Descriptive analysis shows that most small business owners agree that this factor has a significant effect on the export propensity of SMMEs, with an average score of 3.2.8 (SD=0.64). Government support is related to the other factors that affect export propensity of SMMEs, with a higher Spearman's rho correlation of 0.451 between management experience and government support. There is also a high Spearman's rho correlation of 0.38 between government support and information capabilities. Regression analysis shows that government support positively influences the turnover of SMMEs.

5.4.11 Conclusion on government funding

Factor analysis revealed that government funding is a separate factor that affects the propensity of SMMEs to export their products and services. Descriptive analysis on this factor revealed an average score of 3.18 (SD=0.67), indicating that most small business owners agree that this factor has a significant effect on the export propensity of SMMEs. Government funding is related to the other factors that affect the export propensity of SMMEs, because a higher Spearman's rho correlation of 0.39 between government funding and management commitment was achieved. There is also a moderate Spearman's rho correlation of 0.32 between government funding and information capabilities. Regression analysis also shows that government funding can influence the financial performance of the business.

5.5 RECOMMENDATIONS

Other constructs such as innovation and research and development (R&D) that may improve the probability of SMMEs exporting exist (Harris & Moffat, 2011: 30); therefore, future research must include these constructs to further explore the export propensity of SMMEs. The recommendations from the empirical study on the eight factors that affect export propensity are as follows:

- **SMMEs' willingness**

It is recommended that SMMEs invest in risk management tools that will permit the company/firm to identify potential risks in internationalisation projects, to assess the probability of the risks appearing and its impact on the project, to prioritise the risks based on its impact on the project and to establish preventive actions and/or contingency plans (Rodriguez *et al*., 2010: 205).

- **Management experience**

SMME leaders need to consider hiring and/or working with people who have been exposed to doing business in the international market, because different types of managerial skills are needed for entering and succeeding when doing business in the international market(s) (Ganotaklis & Love, 2012: 695). SMME business leaders can also equip themselves by registering and/or attending courses on imports and exports available at various chamber of commerce and industries.

- **Management commitment**

SMME leaders and/or decision-makers must make time to participate in export expos and other export-related activities. SMME business leaders must also provide the necessary finances to develop human resources in export-related skills and training.

- **Marketing capability**

SMME leaders and/or decision-makers must attempt to build international relationships with suppliers and/or customers in order to succeed to export their products and services to the

international environment. SMME business leaders should be innovative and achieve product differentiation relative to their competitors in international market(s).

- **Information capability**

SMME leaders and/or decision-makers must be proactive to search for information on opportunities in the export market environment, and use/acquire and disseminate information about customers and competitors in order to achieve a competitive advantage.

- **Government support**

SMME leaders and/or decision-makers must explore and take advantage of all the government initiatives aimed at promoting SMMEs' access to international markets. The government revised its strategies to ensure that most SMMEs are aware of government initiatives/programmes so that they can be better assisted.

5.6 CRITICAL EVALUATION OF THE STUDY

This section evaluates the success of the study against the research objectives formulated in Section 1.6.

5.6.1 Primary objective re-visited

The primary objective of this study was to investigate the factors that influence the export propensity of small, medium and micro-sized enterprises (SMME) in South Africa. The primary objective was achieved by forming the secondary objectives of the study.

5.6.2 Secondary objectives re-visited

In order to achieve the primary objective, the following secondary objectives were formulated:

- To define and understand export propensity.
- To gain insight into small, medium and micro-sized enterprises by conducting a literature review.

- To obtain insight into small businesses and their contribution to the South African economy.
- To obtain insight into the risks and challenges faced by SMMEs.
- To study the factors that affect export propensity.
- To validate the reliability of the questionnaire measuring export propensity and perceived success by means of a statistical analysis.
- To investigate the relationship between the factors that affect export propensity.
- To draw conclusions from the empirical study and make practical recommendations to SMME business leaders.

The first five objectives were reached by means of a literature review as presented in Chapter 1, section 1.3, where export **propensity** was defined and Chapter 2. Section 2.3 covered an **overview of small, medium and micro-sized enterprises**.

The third and fourth secondary objectives, namely to **obtain insight into small businesses and their contribution to the South African economy** and **to obtain insight into the risks and challenges faced by SMMEs** were achieved in section 2.3 and section 2.4, respectively.

Chapter 2 also covered the fifth objective, namely **to study the factors that affect export propensity** in section 2.6.

The sixth objective was to **validate the reliability of the questionnaire**. This objective was achieved through the testing of Cronbach alpha coefficients of the variables measuring export propensity in section 4.4.2

The seventh objective, **the relationship between the factors that affect export propensity,** was achieved through the completion of a questionnaire, which captured the biographic information of the respondents and their opinions regarding the statements pertaining to the export propensity of SMMEs and the results were presented in sections 4.4.1, 4.4.5 and 4.4.6.

The last objective, **to draw conclusions from the empirical study and make practical recommendations on how to develop export propensity for SMMEs,** was achieved through the empirical research, which was discussed in Chapter 4 and concluded in Chapter 5.

5.7 SUGGESTIONS FOR FURTHER RESEARCH

The scope of the study was limited to small and medium-sized businesses in the Johannesburg Metropolitan area in Gauteng, South Africa, which is not a true reflection of the whole province or the country. There was a low response rate of 240 participants; a larger sample of above 300 may improve the findings. The findings cannot be generalised to other SMMEs, and therefore extra care should be taken when interpreting the results and consideration of conclusions and recommendations. Future research should include innovation and product R&D as constructs to measure export propensity. The other factors such as government funding and export-oriented company culture must be explored using more variables. The views of more SMMEs should be obtained and added to this study. Future research should also look at how effective each and every government initiatives/programmes and/or institutions are in assisting SMMEs to grow and internationalise their businesses.

5.8 CONCLUSION

The chapter presented the conclusion from the empirical studies on the factors that affect the export propensity of SMMEs in South Africa. The primary and secondary objectives of the study were achieved. The conclusion led to the formulation of recommendations for possible future research on this topic.

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7. Annexure A: Consent statement

Dear SMME Business Leader,

I am hereby invite you to participate in a research project to study the Export Propensity of SMME's in South Africa. The School of Business and Governance at the North-West University Potchefstroom Campus has approved this study. Accompanying this letter a questionnaire that asks a variety of questions about export potential of SMME's. I am asking you to look at the questionnaire and, if you

choose to do so, please complete the online or by hand and email the responses to lebsmath@gmail.com. The questionnaire should take you at most 10 minutes to complete.

Participation to this survey holds no risk for you. I hereby guaranteeing that your responses will not be identified with you personally and will thus be 100% confidential. If you choose to participate, please do not put your name on the completed questionnaire. Your participation is voluntary and there is no penalty if you do not participate. Regardless of whether you choose to participate, please let me know if you would like a summary of my findings. To receive a summary, please request the summary by e-mailing me at lebsmath@gmail.com.

If you have any questions or concerns about completing the questionnaire or about participating in this study, you may contact me at 083 661 8407. If you have any concerns about your rights as a participant in this study, you may also contact the Programme Manager Prof LA Rotriet at Ronnie.Lotriet@nwu.ac.za or by telephone (018) 299 1415.

Yours sincerely

Lebogang Mathunyane

8. Annexure B: The questionnaire

Section A: Biographical Information

Business Leader:

a) Gender			Male		Female

b) Age group			≤ 24 years		45 to ≤ 54 years
			25 to ≤ 34 years		55 to ≤ 64 years
			35 to ≤ 44 years		≥ 65 years

c) Race			African		Indians
			Whites		Asians
			Coloured		Other

e) Leader Education Level			Matric		Honours degree
			Diploma/certificate		Masters/doctoral degree
			Bachelor's degree		

The Company:

d) Business Sector			Manufacturing		Mining
			Agriculture		Service Sector
			Media		Trade & Accommodation
			Electricity, Gas & Water		Other

d) Company Size by			≤ 2		100 to ≤ 150

Staff numbers					
			2 ≤ 25		150 to ≤ 200
			25 to ≤ 50		
			50 to ≤ 100		

f) Business Annual Turnover			≤ R250 000		>R750k ≤ R1 million
			>R250k ≤ R500k		> R1 million ≤ R5 million
			>R500k ≤ R750 000		≥ R5 million

***Please answer the following questions the scale 1-5, where 'Strongly Agree' is equal to 5 and 'Strongly Disagree' is equal to 1*.**

Section B: SMME's willingness to Engage in Export Activities

	5	4	3	2	1
The company willing to take part in export markets					
The company is aware of export related opportunities					
The company is aware of the challenges associated with internationalising its business					
The company is aware of the risks associated with doing business in the international market					

Section C: Management Experience

	5	4	3	2	1
It is challenging to attract and retaining new senior managers with export knowledge					
The importance of years of industry experience of managerial staff to engage in export related activities					
Commercial and managerial education/skills is critical to help SMME's managers and firm decision-makers to engage in and actively pursue and/or commit to export activities					
Suitable knowledge may be acquired through prior export experience					

D: Management Commitment

	5	4	3	2	1
Management budgets for human resource development in exports related skills and training					
Management is commitment to export related activities					
Management makes time to participate in export expos and other export related activities					
Management is willing to change the company culture to be export orientated.					

Section E: Marketing Capabilities

	5	4	3	2	1
The company has established international relationships with suppliers and/or customers					
The company has achieved product differentiation relative to their competitors					
Management has allocated sufficient capital resources to market the product and services in the international environment					
The business collects sufficient information about the needs of the customers to take advantage and internationalise their products and services					

Section F: Information Capabilities

	5	4	3	2	1
Information capability is important to the firm’s export propensity					
The business is proactive to search for information on opportunities in the export market environment					
The business acquire and disseminate information about customers and competitors					
Export related information is used effectively by the managerial staff					

Section G: Government Support

	5	4	3	2	1
The company is aware of government initiatives to train and develop SMME's on exports such as preferential procurement, BEE codes, tax incentives and networking programs for SMME's					
The company received government funding to support expansion and export initiatives					
The company is aware of government initiatives to promote SMME's access to international markets.					
The business is aware government roles to develop emerging SMME's to take part in export related opportunities					

9. Annexure C: Section B-G descriptive analysis

	N	Minimum	Maximum	Mean	Std. Deviation
The company is willing to take part in export markets	240	1.0	5.0	4.275	.8959
The company is aware of export related opportunities	240	1.0	5.0	3.804	1.0100
The company is aware of the challenges associated with internationalising its business	239	1.0	5.0	3.431	.8467
The company is aware of the risks associated with doing business in the international market	240	1.0	5.0	3.371	.8483
It is challenging to attract and retaining new senior managers with export knowledge	239	1.0	5.0	3.845	.9058
The importance of years of industry experience of managerial staff to engage in export related activities	240	1.0	5.0	3.675	.8499
Commercial and managerial education/skills is critical to help SMME's managers and firm decision-makers to engage in and actively pursue and/or commit to export activities	240	1.0	5.0	3.392	.8212
Suitable knowledge may be acquired through prior export experience	240	1.0	5.0	3.629	.9462
Management budgets for human resource development in exports related skills and training export experience	240	1.0	5.0	2.850	1.1140
Management is commitment to export related activities	239	1.0	5.0	3.084	.8895

Management makes time to participate in export expos and other export related activities	239	1.0	5.0	2.904	1.0265
Management is willing to change the company culture to be export orientated	240	1.0	5.0	3.738	.9862
The company has established international relationships with suppliers and/or customers	240	1.0	5.0	3.479	.9765
The company has achieved product differentiation relative to their competitors	240	1.0	5.0	3.146	.8772
Management has allocated sufficient capital resources to market the product and services in the international environment	239	1.0	5.0	2.845	.9858
The business collects sufficient information about the needs of the customers to take advantage and internationalise their products and services	240	1.0	5.0	3.142	1.0414
Information capability is important to the firm's export propensity	238	1.0	5.0	3.849	.9107
The business is proactive to search for information on opportunities in the export market environment	239	1.0	5.0	3.310	1.0148
The business acquire and disseminate information about customers and competitors	239	1.0	5.0	2.979	.8119
Export related information is used effectively by the managerial staff	238	1.0	5.0	2.979	1.0040

The company is aware of government initiatives to train and develop SMME's on exports such as preferential procurement, BEE codes, tax incentives and networking programs for SMME's	239	1.0	5.0	3.473	.9339
The company received government funding to support expansion and export initiatives	237	1.0	5.0	3.177	1.3093
The company is aware of government initiatives to promote SMME's access to international markets.	238	1.0	5.0	3.441	.8336
The business is aware government roles to develop emerging SMME's to take part in export related opportunities	239	1.0	5.0	3.439	.8170
Valid N (listwise)	225				

10. Annexure D: Language editor letter

Cecile van Zyl
Language editing and translation
Cell: 072 389 3450
Email: Cecile.vanZyl@nwu.ac.za

17 November 2016

To whom it may concern

Dear Mr / Ms

Re: Language editing of MBA mini-dissertation: (Export propensity of small, medium and micro-sized enterprises in South Africa)

I hereby declare that I language- and technically edited the above-mentioned mini-dissertation by Mr Lebogang Mathunyane (student number: **25818945**).

Please feel free to contact me should you have any enquiries.

Kind regards



Cecile van Zyl

Language practitioner

BA (PU for CHE); BA honours (NWU); MA (NWU)
SATI number: 1002391