

**AN ANALYSIS OF FACTORS THAT AFFECT THE
GROWTH OF SMMES IN THE MAFIKENG AREA IN THE
NORTH WEST PROVINCE OF SOUTH AFRICA**

THATAYAONE MESHACK DIUTLWILENG

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BY

T.M. DIUTLWILENG



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SUPERVISOR : DR. R.J. MONOBE

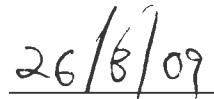
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DECLARATION

I Meshack Thatayaone Diutlwileng declare that this dissertation for Masters degree in Business Administration at the North West University hereby submitted, has not been previously submitted by me for a degree at this University or any other University, that is my own work in design and execution and that all material contained herein has been duly acknowledged.



Signature



Date

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- Above all, My God who provides for me.

DEDICATION

This research is dedicated to my children Lesedi and Kealeboga. I hope that you will one day comprehend and come to understand why I went through all the hardships to get to this point in life for your sake.

To my dearest love, Mmabatho your support and courage is deeply appreciated. To all my friends who were there when I needed them most, your assistance will never be forgotten.

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You remain a big part of my life.

ABSTRACT

The study was undertaken to investigate why there is a low success rate of SMMEs or collapse within three years of their establishment in and around Mafikeng. Thus the main question is “Why is there a low success rate or SMMEs collapse within three years of their establishment in and around Mafikeng”.

A survey research design was used for this study and stratified random sampling was employed to ensure proportional representation of the population. A sample of 150 respondents were selected from 1000 SMMEs operating within the Mafikeng area. A questionnaire was used to collect data. The data was presented in frequency tables.

The main findings of the study revealed that there is a low success rate of SMMEs in Mafikeng and the study also revealed that SMMEs are not able to access support needed in order to grow their businesses. The study recommended that steps should be taken to bring about greater synergy between policy-making processes at the national, provincial and local levels.

As a general strategy, it is important to promote the establishment of dedicated retail institutions providing a variety of products – loans, equity and management training and support. It also seems necessary to encourage many different players and a broad spectrum of service providers. This is necessary particularly to meet the needs of micro and survivalist enterprises.

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CHAPTER ONE

BACKGROUND AND STATEMENT OF THE PROBLEM

1.1 INTRODUCTION AND BACKGROUND OF THE STUDY

The creation of employment opportunities is one of the major macro-economic objectives of the government. Support to Small Micro and Medium Enterprises (SMMEs) therefore, translate in job creation and economic growth. Throughout the world, SMMEs are the ones that play a major role in absorbing labour, penetrating new markets and generally expanding economies in creative and innovative ways (Niemand, 2001:12).

In South Africa, government and the public at large have a belief that small business holds the key to job creation, economic growth and empowerment. This is the reason, the sector has drawn much attention from policymakers in both the developed and developing countries. All these efforts have been aimed at developing this sector, primarily with a view to enhancing its potential to create jobs and thus increase welfare (White, 2001:9).



In the late 1960s it became clear that wealth creation does not lie in mineral extraction and import substitution only, but also in manufacturing and services related enterprises, but more particularly in the development and effective application of the education and skills of the human resources of the nation. Unfortunately, by that stage, South Africa was destined to spend the next 20 years isolated from the world, and fighting its peculiar set of battles brought by the apartheid policies which resulted in the following constraints (Abedian & Standish, 1999:33):

- The land Act of 1913 and the Group Areas Act of 1960 effectively prohibited blacks from owning immovable property anywhere in South Africa. The ownership of immovable property is, undeniably, the primary mechanism for

the accumulation of capital, and blacks in South Africa did not have that opportunity until the 1980s (Hirsh, 2005:18).

- The Group Areas Act of 1960 also prohibited blacks from rising to the level of supervisor or above anywhere in the so-called white areas until the mid 1980s. Black people had very little limited opportunities to develop their management skills. The Bantu Urban Areas Act of 1961 and regulations prohibited any black person from trading anywhere other than from a limited number of trading sites (and subject stringent conditions) in the black townships. This meant very limited opportunities for the development of entrepreneurship skills (Hirsh, 2005:22 & Niemand, 2001:24).

1.2 THE IMPERATIVE FOR A NEW SOCIO-ECONOMIC MODEL

Consequently, when the new democratic government took power in 1994, it also took over an economy that had brought 40% unemployment and continuous deterioration in Gross Domestic Product (GDP) per capita over the previous 10 years. The economy was not remotely equipped –

- To underpin the initiatives of the government to stimulate economic growth and bring about a more equal distribution of incomes which are necessary to satisfy expectations; or
- To redress the imbalances of the past (Drodskie, 2002:67).

The real fact is that the formal sector continues to shed jobs in significant numbers rather than creating them. The challenge therefore, was not whether the economy needs to be re-structured. It was a matter of how and how fast. Hence, the general consensus that, in the future it will be the nimble small and medium sized businesses producing goods and services for the domestic and export markets which create new jobs. It will not be the old, large, bureaucratic, primary producers (Blignaut & Koekemoer, 2000:12).

Failure to create opportunities for the previously disadvantaged to fulfil their potential, and to some degree their expectations, is likely to result in anger and frustration. That would make it almost impossible to establish the peace and prosperous environment necessary to build a new South Africa (Foley, 2005:19).

The National Strategy for the development and promotion of the small businesses sector was adopted in 1995. The strategy was the result of the contributions of several actors and falls within the philosophical ambit of the Reconstruction and Development Programme (RDP) which earmarked the small business sector as a critical area deserving specific attention (DTI, 1999:17).

In order to develop the small business sector in the country, the strategy articulated the institutional arrangements required to carry out this mandate, and also set broad timetable for implementation. On the whole, the merits of the strategy remain unchallenged. However, the implementation of the strategy has posed certain challenges that require further refinement and strengthening on the policy and delivery mechanisms (White Paper on the National Strategy for the Development and Promotion of Small Business in South Africa, 1995:4).

1.3 THE RATIONALE OF THE STUDY

The debates surrounding the development of entrepreneurship and Small businesses in South Africa are important. However, the success of any effort to promote entrepreneurship and small businesses hinges on the understanding of proper intervention mechanisms and channelling of resources intended to develop enterprises (International Labour Organisation report [ILO] 2002:3).

In South Africa, current debates and efforts to develop and promote entrepreneurship and small businesses are to some considerable degree focused on entrepreneurs and their immediate support agencies, with very little consideration being given to coordination of such mechanisms, the impact thereof and sustainability of all these efforts (White Paper on the National Strategy for the Development and Promotion of Small Business in South Africa, 1995:14). It is

undoubtedly this element that dictates the success or failure of entrepreneurs and small businesses by either shaping or skewing the playing field for entrepreneurial development. It is for this reason therefore, that any effort, which seeks to promote entrepreneurship and small business but ignores the impact of support mechanisms, is likely to fail. This study also achieved this.

1.4 STATEMENT OF THE PROBLEM

The research was undertaken to investigate why there is a low success rate or collapse of SMMEs within three years of their establishment in and around Mafikeng (Blignaut & Koekemoer, 2001:72), together with the factors indicating the failure of SMMEs.

Thus the main research question is “Why is there a low success rate of SMMEs in and around Mafikeng Area”. This main research question is subdivided into the following research questions:

- What are the factors that influence start up of SMMEs in Mafikeng?
- What contributes to the collapse of SMMEs within three years?
- What are the strategies of sustaining SMMEs?

1.5 THE AIM OF THE STUDY

The main aim of this study was to broadly investigate and highlight the factors that contribute or causes the collapse of SMMEs in the Mafikeng area of the North West Province (South Africa).

In order to achieve this, the following objectives were pursued:

- Factors that influence start up of SMMEs in the Mafikeng area.
- Factors that contribute to collapse of SMMEs.
- To investigate the strategies of sustaining SMMEs.

1.6 DEFINITION OF CONCEPTS

The following concepts occurred frequently in the study and as a result are defined in order to create a better understanding of the study.

1.6.1 Survivalist enterprise

Survivalist enterprises are defined as enterprises that engage in activities carried out by people who are unable to find a paid job or get into an economic sector of their choice. These activities generate income that falls far short of even minimum standards. Little capital is invested and there is virtually no skills training available in the particular field. Only limited opportunities are available for growth into a viable business (White Paper on the National Strategy for Development and Promotion of Small, Micro and Medium Business in South Africa, 1995:53).

In this study, survivalist enterprise means enterprises which are mainly directed at providing minimal means to keep the unemployed and their families alive. This group might be considered pre-entrepreneurial, hawking, vending, household industry.



1.6.2 Micro enterprise

Micro enterprise refers to a very small business, often involving only the owner, some family member(s) and at the most one or two paid employees. These enterprises usually lack “formality” in terms of business licences, value-added tax (VAT) registration, formal business premises, operating permits and accounting procedures. Most of these enterprises have limited capital base. The operators of micro-enterprises only have rudimentary technical or business skills. However, many micro-enterprises advance into viable small businesses (Burn & Dewhurst, 1996:36).

The major criterion is that the turnover is less than the Value Added Tax (VAT) registration limit. Micro enterprises usually lack formality in terms of registration for tax-purposes, labour legislation, business premises and accounting procedures.

It involves enterprises with formal characteristics, example spaza-shops, mini-taxis and household industry (Ogawa, 1996:55).

In this study, Micro enterprises mean enterprises that usually lack formality in many respects. They do not usually qualify for VAT registration. Typically, their compliance with labour legislation is weak. The major criterion for belonging to the category is to have an annual turnover of less than R150 000 which is the minimum amount of turnover required to qualify for VAT registration Bureau for Economic Policy and Analysis (BEPA), 2001:12).

1.6.3 Small enterprise

According to Ntsika Enterprise Promotion Agency (1999), small enterprise means an enterprise which is engaged in any activity including production of craft works, other than an activity relating to the information and communication technology or financial services, for gain or profit. It employs less than 10 persons and has an annual turnover not exceeding 10 million rand. In addition, it does not include an enterprise which is controlled, directly or indirectly, through ownership by an enterprise other than a small enterprise.

In this study, a small enterprise means a category of enterprises employing less than 50 people. The enterprises in this category are in general in more established as compared with very small enterprises, and the business practices of these enterprises are more complex. Most often it has outgrown direct supervision by the entrepreneur himself, and has developed a secondary coordinating mechanism, which distinguishes it from very small enterprise (White Paper on the National Strategy for the Development and Promotion of Small Business in South Africa, 1995:54).

1.6.4 Medium Enterprise

Resnik (1998) defines a medium enterprise as enterprises employing not more 100 number of employees, except for the mining, electricity, manufacturing and construction sectors, where it is 200 employees. Although still owner/manager controlled, the ownership and management structure is more complex. Often decentralization of power to an additional management layer and division of labour is the difference between small and medium enterprise.

In this study, medium enterprises mean businesses employing fewer than 250 employees. Their annual turnover should not exceed R40 million or their annual balance-sheet total should be less than R27 million.

1.6.5 Small Business Act

The small business act is Act NO. 102 of 1996 governing Small, Micro and Medium enterprises in South Africa. The act provide for the establishment of the National Small Business Council and the Small Enterprise Development Agency; and to provide guidelines for organs of state in order to promote small business in the Republic; and to provide for matters incidental thereto. In this study small business act means the legislation regulating small businesses in South Africa.

1.6.6 Small Business Organisation

Small business organization" means any entity, whether or not incorporated or registered under any law, which consists mainly of persons carrying on small business concerns in any economic sector, or which has been established for the purpose of promoting the interests of or representing small business concerns, and includes any federation consisting wholly or partly of such association, and also any branch of such organization (White Paper on the National Strategy for the Development and Promotion of Small Business in South Africa, 1995:53).

In this study, small business organisation means any entity, whether or not incorporated or registered under any law, [which consists] consisting mainly of persons carrying on small [business] enterprise concerns in any economic sector[, or which has been] and established for the purpose of promoting the interests of or representing small [business] enterprise concerns, and includes any federation consisting wholly or partly of such association, and [also] any branch of such organization (Ntsika Enterprise Promotion Agency, 1999:6).

1.6.7 National Small Business Strategy

National Small Business Support Strategy means the national policy in respect of small business support as published by the Minister in the Gazette, and includes the policy as stated in the White Paper on National Strategy for the Development and Promotion of Small Business in South Africa (Notice No. 213 of 1995, published in Gazette No. 16317 of 28 March 1995:5). In this study National Small business strategy means a policy guide used to inform all SMME development initiatives.

Different authors define small business differently based on where they are and the requirements of that country. For example, the definition of a small business in the United States is not necessarily the same as in South Africa, especially in terms of size.

1.6.8 Hawker

A hawker is someone operating informally without legal recognition and is neither registered and enumerated nor officially taxed (Hall, 1995:45). In this study a hawker means someone involved in the unregulated, unrecognised generation of income.

1.7 PLAN OF THE STUDY

Chapter one presented the background, rationale of the study, statement of the problem, aim and objectives of the study, research design, definition of concepts and the organization of the report.

Chapter two presents the literature review regarding the factors that affect the growth of SMMEs. Chapter three presents the Research Design. Chapter four focuses on the presentation and analysis of data. This chapter analyses the responses from the questionnaires and the interview schedules. The findings were drawn from this chapter. Chapter five presents an overview of the study, conclusions and recommendations.

CHAPTER 2

LITERATURE REVIEW

2.1 INTRODUCTION

A society with a vibrant entrepreneurial spirit is an economically healthy society. Such a spirit is usually visible through the role and importance of the micro, small and medium- sized enterprises (SMMEs) in that country. That is why amongst other things, SMMEs are important and increasingly so for the South African economy. They play an increasingly significant role in terms of providing access to the job market for many who had not had the opportunity to work and participate in the economy before (Blignaut & Koekemoer, 2000:21).

SMMEs are essential actors in the development process. Together with larger enterprises, they play an important role in mobilizing resources and allocating them amongst productive activities. They are a driving force behind the related flows of trade, investment and technology, on which the strength and dynamism of the economy depends. It is therefore, important that governments are clear about the role that SMMEs can play in development (Blignaut & Koekemoer, 2000:22).

2.2 A BRIEF HISTORY OF SMME POLICIES IN AFRICA

The idea about the promotion of local small industries were first imported (in the 60s) from India with some added ingredients from the US, the UK and Japan. The whole system was in fact 'top down', starting with a plan from the government (with a possible selection of Small Manufacturing Industry activities), going through the State financial institution and culminating with the creation of Industrial Promotion Centres, paid by the Government (DEDT SMME summit report, 2005:31).

Such ideas were more or less adapted to local circumstances by the United Nations Development Programme (UNDP) financed projects and some bilateral programmes, Small industry projects were mostly executed by UNIDO while the

International Labour Organisation (ILO) organized small service enterprises and the training of entrepreneurs. One of the main tasks of the United Nations Industrial Development Organisations (UNIDO) was to set up industrial Development Centres in majority of African States and to link them with industrial estates (a few in each country). The centres had the responsibility of promoting the first SMEs and organize a corps of industrial extension officers (DEDT SMME summit report, 2005:32).

It has to be agreed that the system set up for SMMEs in the 70, 80s, was too bureaucratic, led to sonic corruption and inefficiencies (with only a few SMMEs in each country). The cost of non-repayment of loans was also unacceptable for national and regional community. However, such efforts should be credited for having started a first generation of modern local enterprises. When trying to save the African economies in the 80s, the World Bank and the IMF installed Structural Adjustment Programmes (SAPs) that led to the suppression of many services, including most of the Industrial Promotion Centres. The latter were supposed to be privatized and SMME advisors were to be paid by the direct beneficiaries, the small entrepreneurs (Lowe & Talbot, 2001:31).

This radical solution was rather ideological and not realistic since, even in Europe, the US and Japan, the promotion of SMMEs is still being subsidized and the direct beneficiaries are not paying the full cost of the system. The result of such recommendations that the fragmentation and the dispersion of the services needed to start, to finance, and to run a small enterprise (Lowe & Talbot, 2005:31). In most countries this fragmentation of the support system has obviously retarded the growth of the private sector and the small enterprises in particular. The same ideological attitude can be seen in relation with the micro-credit schemes where the important thing seems to be to obtain a high percentage of repayments and to prohibit any subsidization of the interest rates rather than to accept investment risks for the sake of development (Hanley, 2004:32).

In the actual stage of development, SMMEs are seen by all countries to be the basis for real development. Some efficient support institutions were again set up and more technological advice was obtained from university research centres. A few banks agreed to finance the necessary advisors or SMME investments. Chamber of Commerce and associations of entrepreneurs are making increased efforts but their own means are generally too small and they cover only a marginal part of the needs of the SMMEs (and then only for their members). Specific aid to the informal sector is still few and far between (Hanley, 2004:32).

2.3 IMPORTANCE OF SMME DEVELOPMENT

To accelerate growth and reduce poverty, the World Bank Group and other international agencies provide target assistance to SMMEs in developing economies. For example, the World Bank Group approved more than \$ 10 billion in SMME support programmes over the period 1998 – 2002 and 4 1,3 billion in 2003 (Abedian & Standish, 1999:1).



This pro-SMME policy is based on three core arguments:

- SMMEs advocates argue that SMMEs enhance competition and Entrepreneurship and hence have external benefits on economy-wide efficiency, innovation and aggregate productivity. From this perspective, direct government support of SMMEs will help countries exploit the social benefits from greater competition and entrepreneurship (DEDT Summit report, 2005:32).
- SMME proponents frequently claim that SMMEs are more productive than larger firms but financial markets and other institutional failures impede SMME development. Thus, pending financial and institutional improvements, direct government financial support to SMMEs can boost economic growth and development (DEDT Summit report, 2005:32).
- Finally, some argue that expansion boosts employment more than larger firms' growth because SMMEs are more labour intensive. From this

perspective, subsidizing SMMEs may represent a poverty alleviation tool (DEDT Summit report, 2005:33).

In the late 1960s it became clear that wealth creation does not lie in mineral extraction and import substitution only, but an outwardly oriented manufactures and services, and more particularly in the development and effective application of the education and skills of the human resources of the nation. Unfortunately, by that stage, South Africa was destined to spend the next 20 years isolated from the world, and fighting its peculiar set of battles brought about by the wrong apartheid policies which resulted in the following constraints:

- The land Act of 1913 and the Group Areas Act of 1960 effectively prohibited blacks from owning immovable property anywhere in South Africa. The ownership of immovable property is, undeniably, the primary mechanism for the accumulation of capital, and blacks in South Africa did not have that opportunity until the 1980s (Mandela, 1994:11). The economic structure of the sector in South Africa resembles that of many industrialized or developed countries. It is evident that SMMEs are important, more so in some sectors than others, within the context of the formal South African economy. Should one add the informal sectors, the relative importance will increase since it is unlikely that there are large firms operating informally. This indicates that SMMEs are viable and that the development and proportion of SMMEs are of the utmost importance.
- The group Areas Act of 1960 also prohibited blacks from rising to the level of supervisor or above anywhere in the so-called white areas until the mid 1980s. So blacks had very little limited opportunities to develop their management skills. The National Strategy for the development and promotion of the small businesses sector was adopted in 1995. The strategy was the result of the contributions of several actors and falls within the philosophical ambit of the Reconstruction and Development Programme (RDP) which earmarked the small business sector as a critical area deserving specific attention (DTI, 2000:42).

It has been reliably established that the small business sector absorbs nearly half the people formally employed in the private sector, and it contributes about 32,7% to the country's gross domestic product. However, millions of our people are still trapped in survivalist activities with incomes below the poverty level. The majority of enterprises in this category are constituted by black entrepreneurs, who are confined to low value-added activities with little prospect of graduating to higher levels of production (Ntsika Enterprise Promotion Agency, 1999:33).

This was made even worse by the following:

- The Bantu Urban Areas Act of 1961 and regulations prohibited any black person from trading anywhere other than from a limited number of trading sites (and subject stringent conditions) in the black townships. This meant very limited opportunities for the development of entrepreneurship skills. Consequently, when the new democratic government took power in 1994, it also took over an economy that had brought 40% unemployment and continuous deterioration in GDP per capita over the previous 10 years. The economy was not remotely equipped –
 - To underpin the initiatives of the government to stimulate economic growth and bring about a more equal distribution of incomes which will be necessary to satisfy expectations; or
 - To redress the imbalances of the past. The real fact is that the formal sector continues to shed jobs in significant numbers rather than creating them. The challenge therefore, was not whether the economy needs to be re-structured. It was a matter of how and how fast. Hence, the general consensus that, in the future it will be the nimble small and medium sized businesses producing goods and services for the domestic and export markets which create new jobs. It will not be the old, large, bureaucratic, primary producers (Ntsika Enterprise Promotion Agency, 1999:48).

2.3.1 Government objectives for SMME development

The objectives of government support to the development of SMMEs are to achieve the following:

- **Job Creation**

In South Africa, there is a general believe that, small and medium enterprises are better positioned to create jobs. Even so, the scale at which these jobs would be created depends on a multiple of factors, i.e. stages of development in business cycle, industry and sector. Studies have revealed that small and medium enterprises create jobs as opposed to micro enterprises, which sustains jobs. Therefore, carefully designed interventions should be packaged to address the issue of job creation (White Paper on the National Strategy for the Development and Promotion of Small Business in South Africa, 1995:31).

- **Improving Competitiveness**

A competitive business environment promotes entrepreneurship and innovation, which leads to economic growth. Small enterprises because of their nature have lower establishment costs and therefore tend to drive and stimulate the establishment of an innovative and competitive environment. Globalization of markets poses an even greater challenge for small and medium enterprises' competitiveness. The readiness of SMMEs to sustainably operate within this environment is not certain. This is why, to a great extent, strategies for fostering the competitive advantage of SMMEs should be infused along with broader industrial development strategies (Jones & Tilley, 2003:19).

- **Contribution to the Gross Domestic Product (GDP)**

In order to measure the contribution of SMMEs into the GDP; there will be a need to collate very sophisticated sets of data on macro level trends of the small business environment. Such statistics are normally not available for the small business sector. However, in order to justify government expenditure in this sector it is important to take steps to collate this information. Factors that contribute to the

GDP include, exports, savings, investments and, production capacity amongst others (SARB, 2000: 32).

- **Broad Based Black Economic Empowerment**

Redressing the legacy of apartheid is one of the strategic objectives to be achieved through small enterprise development. The target clients for empowerment can be disaggregated into black males and females, white females, rural/peri-urban communities, youth, and differently abled individuals. Some bold radical steps need to be taken to strengthen and facilitate the process for empowerment in terms of the broad based black economic strategy (DTI, 2004:10).

- **Wealth Creation and Redistribution**

Innovation, value adding activities, and savings among others are some of the factors that contribute to wealth creation. The ability of small and medium enterprises to make such contributions needs to be stimulated through appropriately focused strategies and programmes (Lazani & van Vuuren, 2002:46).

- **Poverty Alleviation**

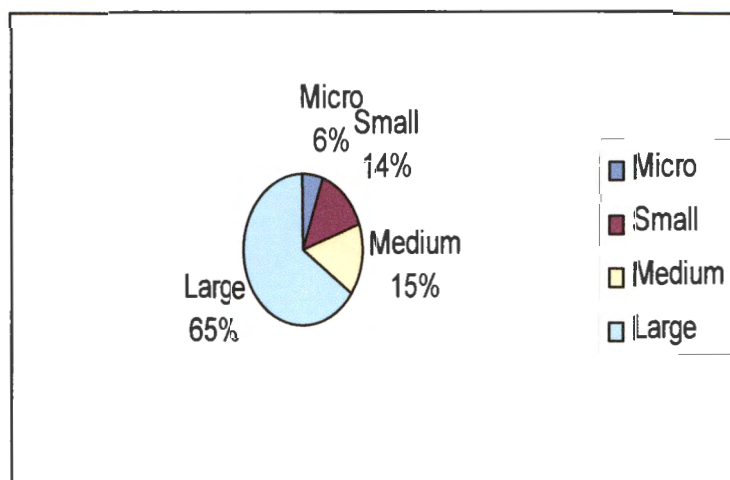
Poverty alleviation should be seen as a spin off of enterprise development activities. The experience of the past few years have shown that, poverty alleviation and enterprise development cannot necessarily be addressed through uniform or generic means. It is in fact quite a challenge for institutions to try and address these objectives simultaneously (David, 1998:42).

2.3.2 Contribution of SMMEs to the gross domestic product (GDP)

The economic structure of the sector in South Africa resembles that of many industrialized or developed countries. This can easily be seen by comparing the relative importance of each of the nine main sectors to each other in terms of their contribution to GDP. Figure 2.1 below displays the contribution of each sector to GDP as it was after the third quarter in 2004. South Africa's tertiary sector contributes 69,9% to GDP of which the largest single contributors are business and

other services, medium businesses contribute about 15%, small businesses contribute 14% and micro or survivalist businesses 6% to the economy's GDP (SARB, 2000:18).

Figure 2.1 Contribution of SMMEs to the GDP in South Africa



South African Reserve Bank: (December 2000)

2.3.3 Contribution to employment

According to the Bureau for Economic Policy and Analysis (2000), irrespective of the importance of SMMEs in terms of their contribution to GDP, arguably their biggest single contribution to the South African economy is in terms of employment. This becomes even truer given the alarming fact that employment on a national level is constantly declining, as could be seen from macroeconomic overview study. The role of SMMEs being an agency for employment in the country cannot be overemphasized, especially within the context of a developing nation. Within South Africa this developing context coincides with incredible socio-economic challenges, predominantly as a result of the racially biased policies followed under apartheid.

2.3.4 Constraints facing the small-business sector

There can be no doubt that, compared to big business in South Africa and in other countries, small businesses in Mafikeng face a wider range of constraints and problems and are less able to address the problems on their own, even in effectively functioning market economies.

The constraints relate, among others, to the legal and regulatory environment confronting SMMEs, the access to markets, finance and business premises (at affordable rentals), the acquisition of skills and managerial expertise, access to appropriate technology, the quality of the business infrastructure in poverty areas and, in some cases, the tax burden. In the North West context the constraints have been particularly hard on entrepreneurs in rural areas and on women. In addition to sector-specific differences of constraints, the legacy of apartheid constitutes an important factor in the inability of black owned or controlled small enterprises to face business development constraints (North West Strategy on the Promotion and Development of Small, Micro and Medium Enterprise, 1998:10).

2.3.5 Business activity in and around Mafikeng

The small business sector in Mafikeng is very narrow-based as the above point suggests that the majority of all small business in and around are shops and restaurants. This implies that efforts to continue support for small business are in a fragmented and adhoc manner. Efforts of seeing small business support as a disguised form of welfare, are likely to be counter-productive in increasing the number of business units in an already crowded sector, and reducing the average earnings of all small business in trade (Mafikeng IDP, 2006:23).

It is necessary that the diversification of small business in the town be encouraged. Especially important is that small businesses enter the light manufacturing sector. Most businesses are concentrated within the CBD. This is explained by the narrow range of activities in which businesses are concentrated as well as an indication of the fact that a lack of demand of their goods, coupled with high transaction costs

implied by sparsely populated areas, are serious constraints to small business in the town. Within the town itself, the predominant small business is selling goods on the streets apart from your normal furniture, restaurant and formal businesses (Mafikeng Local Municipality LED Strategy, 2005:19). This reflects to some extent, the lack of integration of local markets – local government structures ought to be playing a leading role in establishing a more conducive – and less transaction cost intensive – environment for trade in the economy of the town (Mafikeng Local Municipality LED Strategy, 2005:20).

2.3.6 The role the of municipality in SMME development

With the dawn of democracy, the villages surrounding municipalities have been incorporated within the municipalities. These villages do not have a revenue base for initial investment in infrastructure. This may necessitate cross subsidisation of these villages and township by the town. According to the President of the World Bank, Lewis T. Preston, the developed world must help the poor countries to help themselves by increasing the flow of concessional resources for poverty reduction and environmental protection (Foley, 2005:68).

According to the Specialist at the DBSA for 1998 (and who is very conversant with the role that municipalities should play in development), there is hardly any capacity in the municipality, due to the fact that there was a loss/outflow of experience from the municipalities, just after the 1994 democratic elections. The reason for this brain drain was pure uncertainty on the part of experienced personnel. He strongly attributes the lack of sufficient capacity to this brain drain. Some more experienced personnel felt very unsafe and pessimistic about the new government and prematurely decided to resign. Lack of co-ordination among the role-players in local government which led to a lack of common vision was also singled out as being a definite threat to the existing capacity (Lowe & Talbot, 2001:28). Against this background, the question arises as to how capacity can be built in terms of the generic administrative processes, that is through; Policy-



making; Planning; Organisational ability; Staffing; Control function; Co-ordination; Reporting; and Budgeting. These factors are as follows:

- **Spheres of capacity building**

Using Policy-making, Planning, Organisational ability, staffing and control processes as yardsticks for purposes of measurement, should not however, be interpreted to mean that such an approach is indicative of a particular disciplinary vantage point. It is merely a practical method of improving capacity. As far as capacity building in terms of the referred to generic administrative processes are concerned, it is necessary to look at each sphere separately with one objective in mind, which is: How can each process be improved to enable the municipality to improve service delivery to the people in its extended area of jurisdiction? (Niemand, 2001:44).

- **Policy-making**

In view of the fact that the Demarcation Board recommended that the Mafikeng municipality incorporate the neighbouring villages and remote villages, the effect of integration of the adjacent townships and villages on both the financial and human capacities of the municipality to effectively deliver services to the communities of these localities should be assessed (Hanley, 2004:24).

- **Planning capability**

Planning is defined as clarifying one's objectives and then determining what action shall be taken, by whom, when, by what methods, and at what costs in order to achieve the desired goals. Thus, planning means looking ahead, anticipating and making arrangements for dealing with future problems by projecting trends. Planning cannot be separated from practical administration, because plans must be put into effect, or they may remain in the realm of intention (Foley, 2005:65).

Planning relates to the implementation of policy, describing a plan as “a predetermined course of action”, a “blueprint for action”, adding that planning

requires information, sound decisions and group effort, although complete information is rarely obtained. Local authorities can adjust to changing needs, problems, opportunities and to changing knowledge. This must include the by-law intended to stimulate SMME development and economic growth as opposed to the mere administration of services (BEPA, 2000:52).

○ **Organisational capabilities**

An organisation is seen as a system of continued activity pursuing a goal of a specified kind (Lowe & Talbot, 2001:154). However, there is consensus that this capacity is not unlimited and thus needs to be augmented with capacity-building programmes, and equally as important, vigorous and well co-coordinated Masakhane campaigns to maximise the income streams of the municipality through the broadening of the revenue base. The strategic role of municipalities includes:

- To render operational the local social-economic environment in order to stimulate and facilitate the creation and the development of local economic activities.
- To plug the leaks in the local economy (retaining income in the local economy).
- Development of social capacity (encouraging and developing the presence and capacity of all relevant collective stakeholders in the local economy for example Chamber of commerce, NGOs, and CBOs among others).
- Economic development within communities (Cooperatives and municipal community private partnerships).
- SMME development (Business infrastructure and access to finance).
- Identification of business clusters and opportunities for participation in the economy (www.dplg.gov.za).

2.4 FACTORS THAT AFFECT THE SUCCESS OF SMMEs

2.4.1 Poor planning

According to Bekker and Staude (1996), one needs to begin with a clear understanding of a manager's tasks and responsibilities if professional competence is to be developed. These managerial tasks are planning, organising, leading and control. Managers fail to plan because of their ignorance and lack of vision (i.e. not knowing what to plan for and believing that careful thought about the business's future will reveal new problems to be faced); lack of specific objectives and ideas; lack of information on which to make assumptions about the future as well as lack of self-discipline and inability to stay close to the goals they have set. Burn and Dewhurst (1996) state that most small businesses fail because their plans are sales-oriented and they need a transition in outlook in order to meet customer needs. Since small business owners do not have managerial training, they end up planning poorly or having no plans at all.

Siropolis (1990) states that small businesses fail because they are not prepared to handle increased managerial demand. Small businesses with ten employees generally have virtual control over everyone and everything under them. But small businesses must rely on more sophisticated ways to plan and control their business once they grow. Murphy (1996) believes service organisations often find themselves locked in a problematic dialogue with their environment. Sometimes this centres around the issues of the outcomes, sometimes on the question of resourcing and funding.

2.4.2 Lack of business planning

There are a whole host of reasons to justify the preparation of a business plan, not just simply for business start-up enterprises, but as a model of good practice for established organisations; and any one of these reasons in its own right, should make the planning process a worth-while exercise, if it is done properly. However, the important thing to remember is that just producing a good business plan alone will not result in a sound, profitable, or prosperous business. The business plan is

just a plan like any other plan, the only way to see if it really works is to monitor its progress at regular intervals, so that you can respond to any potential problem which may arise, and change or modify your business strategy as necessary.

According to Bekker and Staude (1999) the process of producing a business plan has the following benefits to the business:

- A business plan acts as a very efficient method of focusing the ideas of potential entrepreneurs, in terms of defining their objectives, assessing their own abilities to organise and run the business. It also acts as a means of testing the viability of the business proposals before actually committing its proposers to any substantial expenditure or investment.

- The planning process establishes parameters and specific targets which provide a yardstick against which the progress and profitability of the business can be measured, that is, the process of converting the proposers' objectives into quantifiable financial forecasts and targets against which progress and achievement can be measured. Again, this planning activity is a prerequisite to starting or acquiring a business, but beyond that, it is also an essential part of the on-going process of running a business, and should be continued on an on-going basis long after the initial start-up period.

- There are relatively few aspiring entrepreneurs who have the resources to be totally self-financing. Most are faced at some time with the need to raise external finance, if not at the start-up stage, then later when they wish to expand and grow the established business. So it is most important to prepare a plan thoroughly, and to present it in a professional and competent manner.

2.4.3 Business goals

Ogawa (1996) define a goal as “*what an individual is trying to accomplish; it is the object or aim of an action.*” Therefore, goal setting has four motivational mechanisms: Goals direct attention, Goals regulates effort, Goals increase persistence and Goals foster strategies and action plans. Goals are critical to your success. A “wish” is a goal that hasn’t been written down. If you haven’t written your goals, you’re still just wishing for success. When creating your goals use the SMART formula. Ensure that your goals are:

- Sensible,
- Measurable,
- Achievable,
- Realistic, and
- Time specific.

Business goals should include financial elements such as annual sales revenue, gross profit, and sales per sales person among others. However, they should among others also include non-financial elements such as units sold, contracts signed, clients acquired, and articles published. Once a business has set goals, implement processes to internalize them with all team members such as reviewing them in sales meetings, displaying thermometer posters, and awarding achievement prizes is important. The goals and objectives go hand in hand with a feasibility study that will help you assess the potential direction and growth of your new business. The business plan will not guarantee a smooth journey, but will leave you well prepared to deal with any situations that may arise. Part of the business plan will include the monitoring and evaluating of what you have achieved so far and what the continued success of the business may be (Resnik, 1998: 117).

2.5 FACTORS RELATED TO BUSINESS MANAGEMENT

2.5.1 Lack of management skills

Much has been written about the lack of small business management skills. As pointed out by Pickle and Abrahams (1999), most small business owners are not informed about the legal aspects concerning business and failure to abide by these can result in financial losses or even the failure of business. Keasey and Watson (1999:126) provide evidence that one of the major characteristics of small business is that the owners have a large stake in the business and relatively undiversified wealth portfolio. As a result, any business risks are likely to be translated into personal risks for the owner. Siropolis (1990) states that small businesses fail because they are not prepared to handle increased managerial demands. Small businesses with ten employees generally have virtual control over everyone and everything under them. But small businesses must rely on more sophisticated ways to plan and control their business once they grow.

Murphy (1996) believes that the reason could be mismanagement of human resources, weak pressure of or no trade unions in small business management, which might deprive disputants of the opportunity for reconciliation and the airing of grievances outside the courts. Other primary issues faced by small business would be the attitude of many managers that the business is rooted in their own personality and is therefore personality driven, i.e. "I am the business; the business is me syndrome". In this case, small business owners are displaying limited ability to manage financial resources, and have too much informal, fragmented and subjective managerial control. In addition, they tend to be too task-product and sales oriented, to the detriment of their staff, customers and business in general.

Longenecker, Moore, and Pretty (2003) found that between extremes of very unskilled and highly professional business owners there was a continuum. At the less professional end of this continuum are business owners and other managers who rely largely on past experiences, rules of thumbs and personal whims in giving direction to their business. Other business owners and managers display too much

more professionalism. They emphasize getting the facts and working out logical solutions, which is a more scientific approach. Therefore the challenge for small businesses is to develop as much professionalism as possible.

2.5.2 Organisational structure

A key issue in accomplishing the goals identified in the planning process is structuring the work of the organization. Organizations are groups of people, with ideas and resources, working toward common goals. The purpose of the organizing function is to make the best use of the organization's resources to achieve organizational goals. Organizational structure is the formal decision-making framework by which job tasks are divided, grouped, and coordinated. Formalization is an important aspect of structure. It is the extent to which the units of the organization are explicitly defined and its policies, procedures, and goals are clearly stated (Resnik, 1998:66).

An organization chart is a useful tool to illustrate and understand the organizational structure of a business. Such a chart typically lists the title of each person's position and, by means of connecting lines, who is accountable to whom and who is in charge of what area. The organization chart shows the chain of command between the top of the organization and the lowest positions in the chart. The chain of command represents the formal path a directive should take in travelling from the president to employees at the bottom of the organization chart or from employees at the bottom to the top of the organization chart (Murphy, 1996:80).



2.5.3 Lines of responsibilities

According to Hubbard and Hailes (1998), a common structure used in small entrepreneurial businesses is a structure that identifies two groups, management and workers. Decision making is usually highly centralized, with the owner-manager making all the important, and being involved in every detail and phase of the business. Workers usually have little decision-making authority, and the owner-manager supervises the activities of every employee. Managers and workers tend to

be generalists and jacks-of-all trades. This organizational structure provides the business flexibility and dynamism. Decisions can be made quickly. When the owner-manager decides that a change is needed, he or she can communicate this decision directly to the workers.

2.5.4 Coaching and mentoring

Mentoring is different from training in that a mentor, or mentoring organisation, attends to the more specific needs of contractors, suppliers and service providers as they go about their day to day business activities. It is extremely unlikely that the needs of one contractor / service provider / supplier will be the same as the next. Therefore, whereas the trainer can be trained to impart skills and competencies in line with given materials, the mentor will be required to possess the actual experience and knowledge of the line of business (Equinox magazine, 2005: 78).

Mentorship programmes need to be developed to ensure that SMMEs have a solid base from which to operate (Equinox magazine, 2005:79). This could include the following:

- Provision of generic procurement counsellors at local government LED units level,
- Tender advice centres and business information centres; and
- Linking with present initiatives such as mentoring programmes of other government support programmes like SEDA (Equinox magazine, 2005: 78).

Coaching and mentorship will ensure that the appropriate skills are developed for SMME supplier. However, building suppliers' capacity will not go far enough in terms of ensuring that SMMEs deliver the right product with quality of required standards. This is where access to technology and product development becomes critical (Reynolds & Sammis, 1997:79).

2.5.5 Bank account

According to Dickey (1994) using a bank account, a business develop a banking 'track record'. The bank can see how you manage your money, how much comes in and how much goes out. This can be very useful if you want to borrow from the bank (a loan or an overdraft), or if you want to get credit from another financial institution. The following has to be ensured though:

- Always make sure you have money in your account, or stay within your overdraft limit.
- Always keep enough money in your account to pay any cheques you write, bills or accounts you pay, or money you spend.
- Always pay your instalment purchases on time every month.
- Always talk to your bank if you have a problem - they will help you.

2.5.6 Tax registration

If you register you can claim back VAT; you don't have to exceed the turnover limit, but remember that your competitors might not be charging VAT or your customers might not be able to reclaim it, which would put you at a competitive disadvantage. If you're not registered, you can claim income tax relief for costs including VAT (Dickey, 1994:87).

2.5.7 Stock control

The larger the size of the stock, the larger the storage facilities that must be accommodate the stock. Without the stock control mechanisms, the stock may disappear due to theft and also some stock is perishable, and larger stock of perishable items usually results in some losses due to spoilage. Pickle and Abrahams (1999) believe that an organisation will significantly increase its costs if it does carry out good stock control.

Murphy (1996) says that the size of a business stock affect the cash flow, which in turn can have an effect upon a chain of related functions and processes. This means that cash that is tied up in stock cannot be recovered if the stock is spoiled.

According to Longenecker et al. (2003), carrying costs include storage costs, insurance premiums, the cost of money tied up in stock, and loss due to spoilage or obsolescence. However, maintaining stock at a minimum level – the level that minimises stockouts and eliminates excess stock – saves money and contributes to operating profits.

2.6 FACTORS RELATED TO FINANCE

2.6.1 Access to finance

According to the article by The Small Business Advisor (1999), a business can have the following disadvantages:

- Costly trial and error,
- Lack of proven record regarding other businesses,
- Recruitment of employees, and {present in sentence}
- Time-consuming and frustrating.

According to Jones and Tilley (2003), new businesses encounter a number of barriers to success throughout the start-up period and during their first year of operation. Firstly, there might be lack of motivation, government controls as well as a lack of skilled labour. Secondly, poor financial management can be a serious obstacle when starting a business. Finally, a poor understanding of tax implication, national insurance and bookkeeping, as well as difficulties in obtaining capital and the absence of guaranteed income also present a serious problem in start-up businesses.

Keasey and Watson (1999) say, that in terms of small business financing, a number of issues need to be considered if progress is to be made in understanding how financing issues affect the success/failure of these businesses. First, there is a need to understand how finance is provided and used in situations of low information concerning future business value. The problem is that a typical small business operates in a low information and highly uncertain environment. More especially, there is need to understand how banks or financial institutions offer finance and

how investors decide to invest in new ventures when the information they have is highly imperfect and incomplete. The nature of government support has been the subject of much small business discourse. The accusation, which the government has been anxious to address, is that support has been piecemeal and has lacked coherence. It has also been argued that there has been limited financial support, a lack of coherence regarding policies and procedures and that multi-agency provision have done little to help small businesses. One of the major challenges facing SMMEs and emerging companies is their ability to attract sufficient funds and equity to fund the growth requirements of the enterprise. As enterprises become successful in obtaining larger contracts their ability to internally finance themselves diminishes (David, 1998:13).

Many of these firms, while still growing, have not reached the creditworthy stage usually required by traditional financing sources. Others having utilized their existing credit lines, find that their banks are unwilling to extend further loans, even for performance on contract (David, 1998:13). This therefore becomes a major hindrance for the growth of SMMEs.

2.6.2 Bookkeeping services

Bookkeeping is one task that many small business owners neglect, or make half-hearted efforts at doing. Both options are a mistake. Bookkeeping is the process of recording your company's financial transactions and is the first basic step of the accounting process. In the accounting process you are classifying, reporting and analyzing financial data - none of that can happen without accurate, organized data. Bookkeepers will organize all of your financial transaction records - receipts, cancelled checks, sales, purchases, and cash disbursements among others. The bookkeeper makes sure that your books remain organized and balanced and can then turn over records so that your accountant can generate monthly financial statements (Resnik, 1998:87).

According to Lazani & Van Vuuren (2002), keeping balanced books will not only ensure that you know where your money is going, but is important for these reasons, investors and lenders will want to see accurate and complete financial data before granting you financing. If you are seeking or planning to seek outside capital, your books must be in order. You need accurate information to manage the financial health of your company. You must know if there are customers in arrears, or if you have outstanding balances on your lines of credit. Without accurate records you cannot manage the cash flow of your business. In order to know how much to pay the SARS, you must have an accurate accounting of your income. You will also need back up documentation for any deductions and tax credits. Bad record keeping could result in you paying fines and penalties if you are ever audited. Knowing and respecting the importance of bookkeeping will make your job easier.

2.6.3 Financial systems

Keasey and Watson (1999) argue that small business face problems in terms using discounted cash-flow approach to capital budgeting. Based on this, there is little doubts that small businesses have access to limited sources of capital. Dickey (1994) points out that the challenges facing a start-up business are in terms of expanding the customer base according to which they can make financial projections. However, in some cases this forces them to go and conduct some research by going to libraries, doing informal research, and looking at how other competitors run their businesses.

2.6.4 Credit sales

Van Aardt, Van Aardt, and Bezuidenhoud (2002) argue that making and receiving payments is at the heart of any business, so it is essential to be able to account for any cash outflow and manage information accurately. There are various reasons why businesses experience cash-flow problems. The above authors mention four factors that affect small businesses: slow moving-moving or excess stock (which gives rise to poor stock management); too generous credit terms; cash wasted on

unprofitable products and services; and unnecessary expenditure (money spent on building, houses, machines, luxury cars and salaries). According to Longenecker et al. (2003), credit sales problems are a frequently expressed concern of small business owners. Small business owners realize this when they are already experiencing cash-flow problems. McGregor (2004) discovered that many owners of businesses cannot genuinely tell where their hard earned cash has gone, let alone predicting where it will be going in the future. Managing cash outflow needs a good recording mechanism to be able to trace money coming in and out of the business.

2.6.5 Financial records

Running a successful business entails keeping accurate and timely financial information. A clear financial picture allows you to monitor the success or failure of your business. A good record keeping system also provides you with the information you need to evaluate the financial consequences of your financial decisions. As a small business owner, you probably rely on an outside accountant to do your taxes and prepare financial statements. However, it is best that you or someone in your organization take on the responsibility of keeping an accurate set of financial records. Doing the routing bookkeeping chores yourself, however unpleasant it may seem will minimize your costs of paying an accountant and allow you more control of your financial information and operations (Dickey, 1994:38).

For starters, make sure that you file paid bills, cancelled checks and other business documents in an orderly fashion and keep them in a safe place. You may use manila folders, filing boxes, or an accordion file divided into “car,” “utilities,” “entertainment” and so on. At a minimum, put receipts in the proper categories throughout the year so it would be easier to total them up at tax time. Staple the adding machine tape to each folder or stack of receipts. You are not required to keep records in a formal “set of books;” however, you need to find the best record keeping system that works for you (Dickey, 1994:38).

2.7 OTHER FACTORS THAT CONTRIBUTE TO SMME COLLAPSE

2.7.1 Environment

The environment in which small enterprise operate is shaped by many elements.

These include:

- The policy, legal and regulatory framework;
- Market opportunities (i.e. those that shape where an entrepreneur can buy from and sell to);
- The prevailing culture, which may for example, be traditional or entrepreneurial;
- The availability of resources, such as access to credit, skills, advice or information;
- Public investment, affecting infrastructure, telecommunications and the provision of business development service, for example; and
- The skills, attitudes, and experience of businessperson (DTI, 1999:63).

The degree to which the environment enables or constrains small enterprise activity is not a function of one of these elements alone. It is necessary to identify the elements that exist and understand how they combine to influence the potential of small enterprise. While the policy, legal and regulatory framework is only one element of influence on small enterprises, as mentioned above, it can have an effect on all the others (David, 1998:68).

2.7.2 Policy and regulatory culture

Clarity in this regard provides a basis upon which policy, legislation and regulation can be designed and assessed. Rather than simply failing to see the benefits of a strong and vibrant small business sector, governments often believe it is better to focus on large-scale industry. In these cases policies, laws and regulations supporting large-scale enterprises take priority over those that assist small enterprises. Large firms are (often, wrongly) perceived to employ more people (Manuel, 2005:22). In the past, conventional economic development wisdom has supported this view. However, new trends in employment growth and research into the dynamics of large-scale firms suggest that policy-makers must understand the

true value of small enterprise more fully so that a balance of priorities is attained (Manuel, 2005:23).

There can be no doubt that, compared to big business in South Africa and in other countries, small businesses face a wider range of constraints and problems and are less able to address the problems on their own, even in effectively functioning market economies. The constraints relate, among others, to the legal and regulatory environment confronting SMMEs, the access to markets, finance and business premises (at affordable rentals), the acquisition of skills and managerial expertise, access to appropriate technology, the quality of the business infrastructure in poverty areas and, in some cases, the tax burden. In the South African context the constraints have been particularly hard on entrepreneurs in rural areas and on women (White Paper on the National Strategy for the Development and Promotion of Small Business in South Africa, 1995:9).

Much has been written about these issues over the past few years and debated at public forums internationally as well as in South Africa. This White Paper is based on an understanding of these problems and their legitimacy, without restating the facts here. At the same time it has to be recognised that problems and constraints differ widely between the various segments of SMMEs and also the sectors as well as owner categories. Generally speaking, the micro- and survivalist enterprises are far less able to face constraints linked to finance, market access and the acquisition of skills (Drodskie, 2002:28).



On the other hand, some sectors like agriculture, construction and manufacturing confront small enterprises with a particularly wide range of problems, thus preventing easy access to these sectors by new enterprises or increasing the risk of those already in the sectors. Even among medium-sized enterprises, problems like international competition, technology transfer and skills training can constitute major growth obstacles (Drodskie, 2002:29).

According to the White Paper on National Strategy for the Development and Promotion of Small Business in South Africa (1995), these differences are of critical importance for the national support strategy. They not only stress the need for some degree of public sector involvement, but also emphasise the need for explicit differentiation in the support framework. In addition to sector-specific differences of constraints, the legacy of apartheid constitutes an important factor in the inability of black owned or controlled small enterprises to face business development constraints. For decades, if not centuries, the majority of South Africans were deprived of viable business opportunities in the following ways:

- Bantu education restricted opportunities for the acquisition of technical and professional skills by black people;
- There was total absence of entrepreneurial education or sensitising for young people in a way that could encourage them to enter business and acquire a culture of entrepreneurship;
- Apartheid confined the majority of African people to homeland areas which were not only poorest in terms of living standards and business opportunities, but also lacked a dynamic environment;
- Even outside the homelands the system of apartheid made it impossible for black would-be-entrepreneurs to participate in business apprenticeships and partnerships with more established (non-black-owned/controlled) enterprises;
- Racially segregated residential areas, enforced through the Group Areas Act, not only uprooted millions from the places of residence and business, but also led to large capital losses and virtually destroyed the fabric of black small enterprises;
- Segregation increased the distance between black residential and working areas, thereby increasing the cost and risk of conducting business;
- The drastic curtailment of property ownership rights of blacks made it impossible for them to acquire assets that could serve as collateral for loan financing; it also excluded blacks from the long-run process of capital accrual and growth through rising property values and share prices; and

- Apartheid left no real space for the business involvement of black women; marriage laws reduced women to unions with no contractual capacity at all. Even though marriage laws have changed, customary law remains intact and there are cultural, behavioural and attitudinal constraints which affect women's participation in business, particularly in rural areas. There are also restrictions in terms of access to land (White Paper on the National Strategy for the Development and Promotion of Small Business in South Africa, (1995:10). Although most of the restrictions have been corrected, they have left a very big gap between the haves and the have-nots, with a number of blacks failing to access land, and other essential properties for the survival of SMMEs.

2.7.3 Training

The development of skills is the key to achieve successful outcomes in any SMME programme. Training for the development of technical, managerial, commercial and administrative skills and competencies are required. These requirements need to be linked with other government training programmes, and tied in with an appropriate qualifications system (Chapman, 1994:16).

It is imperative that training be planned, resourced and budgeted for. A structured training plan needs to be developed for each sector engaged in public sector procurement. Such a plan needs to consider the training required transferring the necessary and appropriate skills to participants and the levels of existing capacity associated with various SMME development programmes (Chapman, 1994:17). This also means that owners of SMMEs need to be made aware of the need to be trained in the running of small businesses.

2.7.4 Lack of infrastructure

Pickle and Abrahams (1999) argue that it is not unusual for a small business owner to select a location based primarily on convenience or cost. A location may be chosen because of the availability of a vacant building, proximity to the owner's

residence or low rent. One of the reasons why small businesses fail is because they select a site for their business without first making a thorough analysis of the overall location's potential for the business's survival and growth.

2.8 SUMMARY

SMMEs are defined and characterized by numerous factors, including enterprise size. However, the features of the SMME sector depend on the structure of the economy of a particular country. For instance, in certain countries SMMEs are characterized by their tremendous contribution to national output, whereas for others they are weak in terms of their contribution to national income (Mafikeng Local Municipality LED Strategy, 2005:21). A number of characteristics tend to be common to SMMEs. For example most SMMEs:

- Tend to be small in size compared to large business;
- Experience many problems such as lack of finance;
- Generally focus on domestic markets;
- Are run by small business entrepreneurs who often have low levels of education;
- Are managed without any growth strategy, and
- Tend to be less concerned with the need to adhere to standard administrative procedures (Mafikeng Local Municipality LED Strategy, 2005:21).

It is difficult to make generalizations concerning the nature of SMMEs. However, there is a good degree of consensus regarding the problems they face. For instance, many SMMEs have great difficulty coping with high inflation, high interest rates, weak demand, and competition from the better-established, usually larger, businesses. Furthermore, most lack the requisite skills, access to finance, and access to information (Mafikeng Local Municipality IDP, 2006:24).

A central function of the government, including local government, is to promote the economic and social well being of its citizens. The government seeks to fulfil this function through policies aimed at economic stability, improved training and

education and high standards of health, safety and environmental quality. It is critical that government and municipalities commit themselves to improve the regulation making culture through a transparent process. Such a process would weigh the benefits of alternative to regulations against their costs, and focus resources where they can do the most good (White Paper on Local Economic Development in South Africa, 1996:34).

CHAPTER 3

RESEARCH DESIGN

3.1 INTRODUCTION

This chapter outlines the methods that were used to gather information from respondents. This study is both qualitative and quantitative in nature because a questionnaire used had both closed and open questions. The research design consists of discussion on the research approach, population and sampling, research methods, research instruments, pilot study, validity and reliability and data analysis.

3.2 RESEARCH PARADIGM



The term paradigm refers to the progress of scientific practice based on people's philosophies and assumptions about the world and the nature of knowledge; in this context, research paradigm states how research should be conducted. Paradigms are universally recognised scientific achievement that for a time period model problems and solutions to a community of practitioners. They offer a framework comprising of accepted set of theories, methods and ways of defining data. There are two main research paradigms, these are positivist and phenomenological. The positivistic paradigm is alternatively termed as quantitative, objectivist, scientific, experimentalist and traditionalist whereas the phenomenological paradigm is alternatively termed as qualitative, subjectivist, humanistic and interpretive approach (Hussey & Hussey, 1997:47).

The research that was used in this study by the researcher on the factors that contribute to the collapse of SMMEs in Mafikeng was both positivist and phenomenological approaches, because the questionnaire administered to participants had open-ended and close ended questions.

3.3 RESEARCH APPROACH

3.3.1 Quantitative approach

Mouton and Marais (1998) define “Quantitative approach” as the approach used by researchers in the social sciences that is more formalized in nature as well as explicitly controlled, with a more carefully defined scope, and that is relatively close to the approach used by researchers in the natural sciences. Quantitative research technique is the part of primary research whereby data are collected specifically for the study at hand (Hopkins, 2000:3). The data collected in this study was also quantitative in nature as it used close-ended questions in the questionnaire.

3.3.2 Qualitative approach

In qualitative research, information is often collected by interviews, and these need to be planned and conducted in a way that encourages research subjects to feel that they can speak freely. In some cases qualitative researchers collect data by observing the research subjects (Mouton & Marais, 1998:157). In this study the questionnaire has open-ended questions which allowed the researcher to gather information qualitatively.

3.4 POPULATION AND SAMPLE

3.4.1 Population

According to Welman and Kruger (2002:46), a “*population is the study object, which may be individual, groups, organisations, human products and vents, or the conditions which they are exposed*”.

It was very important to select a sample that would provide results similar to those that would have been obtained if the entire population had been surveyed. In other words, the sample was representative of the population (Ary, Jacobs & Razavieh, 2002: 166). In this study the population was 1000 SMMEs registered with the South African Revenue Services office of Mafikeng. These are comprised of Spaza shops, Restaurant, Informal traders, and Street vendors registered (SARS Mafikeng, 2007).

3.4.2 Sample

A non probability accidental sampling method was used in selecting 150 SMMEs from a population of 1000 SMMEs registered with the South African Revenue in Mafikeng. An accidental sample is the most convenient collection of members of the population that are near and readily available for research purposes (Welman & Kruger, 2002:62).

3.5 RESEARCH METHODS

Research methods are the techniques that are used to generate data and collection thereof (Mouton & Marias, 1998:56). In this study both literature review and survey methods were used to collect data.

3.5.1 Literature review

The review of literature involves locating, reading and evaluation reports of research as well as reports of casual observation and opinion that are related to the individual's planned research project. The review differs in a number of ways from the reading program often used to locate a tentative research project. First, such a review is much more extensive and thorough because it is aimed at obtaining a detailed knowledge of the topic being studied (May, 1997:126). In this chapter topical issues have been discussed which include, brief history of SMME policy in Africa, the importance of SMME development, factors that affect the success of SMMEs, factors relating to business management and factors relating SMME finance and other factors that can play a role in the development or the lack of it on SMMEs.

3.5.2 Survey Methods

In survey research methods, the investigator selects a sample of respondents and administers a questionnaire or conducts interviews to collect information on variables of interest. The data gathered, are used to describe characteristics of certain population. Surveys are used to learn about people's attitude, beliefs, values,

demographics, behaviour, habits, desires, ideas and other types of information (McMillan & Schumacher, 2001:304).

Survey methods are used frequently in business, politics, government, sociology, public health, psychology, and education because accurate information can be obtained for larger numbers of people with a small sample. Most surveys describe the incidence, frequency, and distribution of the characteristics of an identified population. In addition to being descriptive, surveys can also be used to explore relationship between variables, or in an explanatory way (McMillan & Schumacher, 2001:304). The questionnaire was the chosen research instrument in collecting data from SMMEs within Mafikeng. Respondents who could not read and write were assisted to record the questionnaire.

3.6 RESEARCH INSTRUMENTS

3.6.1 Questionnaire

According to White (2002), a questionnaire consists of questions for which respondents are asked to answer. This instrument is commonly used. Effectiveness of a questionnaire requires planning beforehand to ensure that the data can be objectively analysed afterwards. In this study a questionnaire was distributed randomly amongst the SMMEs of the identified population. After numerous follow ups, the answered questionnaire was then collected and the data was analysed. A total of 150 questionnaires were distributed and about 144 collected back from the respondents.

3.6.2 Construction of the questionnaire

According to Ary, Jacobs & Razavieh (2002), the construction of a good questionnaire is difficult and it is also a time consuming task. A well constructed questionnaire is more likely to elicit a good response than a poorly constructed one.

The researcher structured the questionnaire with the aim of collecting specific data on a variety of factors. The researcher considered the following guidelines for

writing effective questions or statements as suggested by McMillan and Schumacher (2001: 258):

- Items were made clear: An item achieved clarity when all respondents interpreted it in the same way. There were no assumptions that the respondents would read something into the item.
- Double barrel questions were avoided: Each question was limited to a single idea or concept. The researcher avoided double barrel questions in the study as they contain two or more ideas that are undesirable because the respondents could answer each part of the question differently.
- The respondents were competent to answer: the respondents were able to provide reliable information that the researcher wanted pertaining to their status of protection.

The questionnaire consisted of four parts. Part One (Questions 1 – 8). The purpose of these questions was to elicit biographical data of the respondents that was involved in this study.



Part Two (Questions 9 – 11). The purpose of these questions was to gather information relating to factors that affect the success of SMMEs.

Part Three (questions 12 – 21). The purpose of these questions was to gather information on factors relating to business management.

Part Four: (questions 22 – 24). The purpose of these questions was to gather information on factors relating to financial management. Questions 25 – 26 were open-ended questions.

3.7 ETHICAL CONSIDERATION

“Ethics” represents certain standards according to which a particular community or particular group (Christian, soccer players, or social workers) agrees to regulate its behaviour. For example, most countries (as collective communities) have a legal

constitution which is a supreme law designed to protect its citizens. In the case of South Africa, for example, the country's constitution makes provision for freedom of religion, belief, opinion, expression and association as well as racial and gender equality (South African Schools Act 108 of 1996).

In research therefore, ethics is that which is morally justifiable. According to Neuman (1994), the methods, purpose, personal motives and consequences of research ought to be regulated by the following six behavioural norms: Universalism, Communality, Disinterestedness, Organised Skepticism, Honesty and Respect. In this study, the researcher observed the following:

- Research was designed, reviewed and undertaken to ensure integrity and quality.
- Research subjects were informed fully about the purpose, methods and intended possible uses of the research, what their participation in the research entails and what risks, if any, are involved. Some variation was allowed in very specific and exceptional research contexts for which detailed guidance is provided in the policy Guidelines:
 - The confidentiality of information supplied by research subjects and the anonymity of respondents were respected by ensuring that the information provided is used for the purpose of this research only.
 - Permission to conduct this research was requested from the Department of Economic Development and Tourism – SMME Support Directorate.
 - Research participants participated in a voluntary way, free from any coercion. The researcher explained that the research was conducted for academic purpose and therefore, their contribution will be highly appreciated.
 - Harm to research participants was avoided by making it clear that the information they provide will not be used against them in any way.
 - The independence of research was clear, and any conflicts of interest or partiality were made explicit by explaining to the participants that the researcher is in no way engaged in SMME activity, therefore disclosure

of any information was used to either disadvantage the participants directly or indirectly.

3.8 RELIABILITY AND VALIDITY

Millville and Goddard (1996:37) define reliability as “*consistency of measurement whereas validity as an instrument that measures what they are supposed to measure which is correct*”. Hussey and Hussey (1997:57) regard reliability as “*the instrument which measures the repetition of the research findings*”, and validity as the extent to which research findings accurately represent what is really happening in the situation.

For the purpose of the reliability and validity of the data, the following measures were undertaken:

- The SMMEs owners and managers were each given a cover letter explaining the nature of the research project.
- Follow up visit were conducted to assess progress and data collection.
- Participants were assured of the privacy and confidentiality of the information they provided as well as guaranteeing their anonymity.

3.9 PILOT STUDY

A pilot study is a small-scale preliminary investigation designed to acquaint the researcher with the flaws and problems that need attention before the major study. It offers the researcher an opportunity to pre-test the instrument of research and detect the problems that must be solved before the major study (Ary, et al., 2002: 111).

A pilot test is conducted to detect the weakness in design and instrumentation and provide proxy data for selection of a probability sample. It should, therefore, draw subjects from the target population and stimulate the procedures and protocols that have been designated for data collection (Cooper & Schindler, 2003: 86).

The pilot study was conducted to check on the feasibility and the worth of the questionnaire. The pilot study was conducted by hand-delivered copies of the questionnaire to the Department of Economic Development and Tourism – SMME Directorate. The following advice was given:

- SMMEs who could not read must be explained to in their language on the contents of the questionnaire and be assisted to fill it.
- Hawkers are also part of the definition of SMME in terms of the act.

3.10 DATA COLLECTION

Data collection is the process of collecting information to be used during the study (De Vos, 1998:65). Data in this study was collected by a questionnaire which comprised of close-ended and open-ended questions. The questionnaire was used mainly because it was cost effective and easy to analyse (De Vos, 1998:65).

3.11 DATA ANALYSIS

3.11.1 Quantitative analysis

Quantitative analysis provides a simple summary about the sample and the measure. Together with simple analysis, they form the basis of virtually every quantitative analysis of data (Trochim, 2005:2). A computer-aided statistical analysis, namely the Statistical Package for the Social Science (SPSS) with the help of a statistician was used. The questions which were analysed quantitatively are questions 1 to 24.

3.11.2 Qualitative analysis

Qualitative data analysis describes and summarises the mass of words generated by interviews or observational data. It allows researchers to seek relationships between various themes that have been identified or relate behaviour or ideas to biographical characteristics of respondents. In other words, when using qualitative analysis as a means to explain or make sense of the inquiry, we do not use as evidence the frequencies or the quantities with which something occurs, but rather elicit meaning from the data, in a systematic, comprehensive and rigorous manner (Strauss &

Corbin, 1998:18). The questions which were analysed qualitatively are questions 25 and 26.

3.12 CONCLUSION

In this chapter the research paradigm, research approach, population and sample, research methods and instruments, ethical consideration, validity and reliability, pilot study, data collection analysis were discussed. The problem encountered in data gathering were the non-readiness by respondents to submit the completed questionnaire and numerous follow ups had to be made to ensure completion of the questionnaire. There was resistance by some SMMEs even though it was explained that the information provided would remain confidential and anonymous.

CHAPTER 4

DATA ANALYSIS AND INTERPRETATION

4.1 INTRODUCTION

The purpose of this study was to investigate why there is a low success rate of SMMEs or collapse within three years of their establishment in and around Mafikeng. Data from the questionnaires are presented in frequency tables. The analysis consists of descriptive statistical analysis which describes the basic features of the data.

4.2 RESPONSE RATE

The total number of copies of the questionnaires distributed to the respondents was 150 and they were administered within the Mafikeng CBD and surrounding villages. Out of the total number of questionnaires distributed, 144 were completed and returned. Only 6 questionnaires were not returned. The response rate was $(144/150 \times 100) = 96\%$ which is an excellent acceptable return rate.

4.3 DATA PRESENTATION



4.3.1 Biographical data

This section contains questions 1 – 9 of the questionnaire which dealt with “the personal data of the respondents”, i.e. gender, age, type of business, reasons of starting the business and their experience.

4.3.2 Gender

The majority of respondents who responded to the questionnaire were males, (60.4%) and only (39.6%) were females. This indicates that the majority of people who were involved in SMMEs are males and women are still not largely involved in SMMEs. This is clearly indicated in Table 4.1. It means that the business environment was still male dominated and therefore, developmental efforts must also ensure that women are mainstreamed into the economy.

Table 4.1 Gender

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	87	60.4	60.4	60.4
	Female	57	39.6	39.6	100.0
	Total	144	100.0	100.0	

4.3.3 Age

The majority of people who were engaged in SMME activities were in the age group of 30 – 39 years. This is shown in table 4.2. White (2001:31) says that in South Africa there is a general belief that, small and medium enterprises are better positioned to create jobs. This therefore means that the majority of people are duty bound to work at about this age group.

Table 4.2 Age

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Under 20	9	6.3	6.3	6.3
	20-29	19	13.2	13.2	19.4
	30-39	55	38.2	38.2	57.6
	40-49	29	20.1	20.1	77.8
	Above 50	32	22.2	22.2	100.0
	Total	144	100.0	100.0	

4.3.4 Type of business

More than half (59%) of the respondents have registered a close corporation as their choice of legal entity. The next higher type of registration is Sole Proprietor constituted by about 25% of respondents, followed by other forms which may well be informal SMMEs and 4% are partnerships. This assertion was made by Blignaut & Koekemoer (2000:17) who said that the largest number of new registered companies were Close Corporations between 1990 and 2000, which in the trade and

business services sector. The two sectors were identified as particularly suitably to SMME conditions.

Table 4.3 Type of business

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Sole Prop	36	25.0	25.0	25.0
Partnership	8	5.6	5.6	30.6
Close Cop	85	59.0	59.0	89.6
Others	15	10.4	10.4	100.0
Total	144	100.0	100.0	

4.3.5 Period of running the business

The majority of respondents were the ones who have been between 1 and 2 years in the small business and trading world, made up of about 48. They were followed by respondents who have been between 2 and 3 years who are 16.7% and respondents with more than 4 years is only 6.9%. This is indicative of the fact the majority (48 0%) of the people relied on the small business sector for a living and survival.

Table 4.4 Period of running the business

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Under 1 yr	22	15.3	15.3	15.3
1 – 2 yrs	69	48.0	48.0	63.3
2 – 3 yrs	24	16.7	16.7	80.0
3 – 4 yrs	19	13.2	13.2	93.2
More than 4 yrs	10	6.8	6.8	100.0
Total	144	100.0	100.0	

4.3.6 Business Ownership

The majority (77.1%) of respondents were business owners or directly involved in the SMME sector whereas 22.9% of the managers were not owners. This therefore indicates that as soon as the owner loses interest, dies and experience financial problems as an individual, the SMME also suffered or ceased to exist.

Table 4.5 Business ownership

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Y	111	77.1	77.1	77.1
	N	33	22.9	22.9	100.0
	Total	144	100.0	100.0	

4.4 FACTORS THAT INFLUENCE START-UP OF SMMES

This section sought to find answers from questions related to factors that affect the existence of SMME's activities.

4.4.1 Business started due to unemployment

The majority (81.9%) of respondents started small businesses because they were unemployed. The missing system was only 1. It is therefore, strengthening the argument that in South Africa, government and the public at large believe that small business hold the key to job creation, economic growth and empowerment. Consequently, the sector has drawn much attention from policymakers in both the developed and developing countries. All these efforts have been aimed at developing this sector, primarily with a view to enhancing its potential to create jobs and thus increase welfare (White, 2001:14).

Table 4.6 Businesses started due to unemployment

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Y	25	17.4	17.5	17.5
	N	118	81.9	82.5	100.0
	Total	143	99.3	100.0	
Missing	System	1	.7		
Total		144	100.0		

4.4.2 Business started due to retrenchment

About 41% of the respondents started small businesses because they had been retrenched. The important factor to note in this case is that after being retrenched the possibility of being employed again were non-existent that is why people had to resort to establishing small enterprises.

Table 4.7 Businesses started due to retrenchment

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Y	59	41.0	41.0	41.0
	N	85	59.0	59.0	100.0
	Total	144	100.0	100.0	

4.4.3 Educational Background

The majority (66.7%) of respondents did not have a formal education concerning the running of their business. Education forms an important foundation in the management of any business because that can be a determining factor to its success or failure. Many people who could not find employment in the formal sector have turned to working in unregistered enterprises. Statistics South Africa estimate that survivalist contribute approximately 7% to the Gross Domestic Product (State of Small Business in South Africa, 1997:16).

Table 4.8 Educational background

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Y	48	33.3	33.3	33.3
N	96	66.7	66.7	100.0
Total	144	100.0	100.0	

4.5 FACTORS THAT CONTRIBUTE TO THE COLLAPSE OF SMMEs

4.5.1 Planning to start a business

Table 4.9 indicates that about half (53.5%) of the respondents did not plan to start businesses. This shows that half of the respondents were forced by circumstances beyond their control. For a business to succeed there must be proper planning at its inception, according to Siropolis (1990).



Table 4.9 Planning to start a business

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Y	67	46.5	46.5	46.5
N	77	53.5	53.5	100.0
Total	144	100.0	100.0	

4.5.2 Business Manager

According to Table 4.10, about 63.9% of the respondents indicated that their businesses do not have managers. This is because in most cases owners themselves run their own businesses, whereas 36.1% do have managers. This means that the business is at risk of being mismanaged because there is no one to be held accountable for the business operations.

In the open-ended Question 25, about 62.5% of the respondents said they did not have prior knowledge of business management. As pointed out by Pickle and Abrahams (1999), most small business owners are not informed about the legal

aspects concerning business and failure to abide by these can result in financial losses or even the failure of business. Siropolis (1990) states that small businesses fail because they are not prepared to handle increased managerial demands. Small businesses with ten employees generally have virtual control over everyone and everything under them. But small businesses must rely on more sophisticated ways to plan and control their business once they grow.

Table 4.10 Business Manager

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Y	52	36.1	36.1	36.1
N	92	63.9	63.9	100.0
Total	144	100.0	100.0	

4.5.3 Business Goals

In table 4.11, it is shown that 66% of the respondents said that they did not have specific goals to be achieved when they established their businesses. This can be attributed to the lack of skills and experience shortage of financial resources, social barriers and lack of access to markets. The minority of the respondents, about 34% say they have specific goals to be achieved in the running of their businesses. This means they know exactly what they want to achieve when they established businesses.

Table 4.11 Business Goals

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Y	49	34.0	34.0	34.0
N	95	66.0	66.0	100.0
Total	144	100.0	100.0	

4.5.4 Finance

4.5.4.1 Access to finance

Table 4.12 indicates that 84% of the respondents had a problem when it comes to access to finance provided by banks. This therefore, limits their expansion and they ultimately run out of business. In the open-ended question 25, 75% of respondents cannot access finance. Even those that survive often end up hanging onto the lowest rung of the cash-based economy rather than developing into businesses that can compete successfully in a globalised economy.

According to Jones and Tilley (2003), SMMEs that have good credit histories and collateral can tap into bank credit. But there's a whole tier of businesses under SMMEs who struggle to access bank funding for a multitude of reasons. Many SMMEs in South Africa struggle to access funding since they often lack collateral and credit records. SMMEs that are unable to attract bank credit also struggle to find equity investors. Since these businesses are small in scale, equity investors see little upside to investments in SMMEs. Most financial institutions don't focus on SMMEs as clients or investments because the costs of identifying and processing them are high compared to the value of the investment.

Table 4.12 Access to finance

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Y	23	16.0	16.0	16.0
N	121	84.0	84.0	100.0
Total	144	100.0	100.0	

4.5.4.2 Business Account

As indicated in Table 4.13, the majority (63.9%) of the respondents did not have a separate bank account from the owner's individual account. It means that all transactions are made from one account for both personal and business purposes. This is a recipe for cash flow mismanagement and improper financial practice.

Table 4.13 Business account

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Y	52	36.1	36.1	36.1
	N	92	63.9	63.9	100.0
	Total	144	100.0	100.0	

4.5.4.3 Bookkeeper

In Table 4.14, the majority (84.7%) of managers who responded said that they did not have a full-time bookkeeper; therefore no records of cash flow transactions are kept. This could be as a result of lack of funds or lack of knowledge of the importance of bookkeeping. It means that in some cases they are unable to file for their tax returns during the assessment period and this is contravening the country's tax laws.

Table 4.14 Bookkeeper

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Y	22	15.3	15.3	15.3
	N	122	84.7	84.7	100.0
	Total	144	100.0	100.0	

4.5.4.4 Financial Systems and statements

Table 4.15 shows that the majority of SMMEs who participated in this study did not have proper financial recording systems in place. This means that there were no proper recording of cash flow in the business. It was therefore, be difficult to assess whether the business was profitable or not.

4.15 Financial systems

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Y	21	14.6	14.6	14.6
N	123	85.4	85.4	100.0
Total	144	100.0	100.0	

In Table 4.16, 70.1% of the respondents did not produce their business financial statements. This could have been due to lack of capacity to do so or that SMMEs were only interested in surviving. Findings of many international studies on problems experienced by SMMEs suggest that lack of access to finance is a major constraint to the growth of small firms (Levin, 1997:23; Rogerson, 1997:64; Nunes, 1998:44; and DTI, 1999:24). It means that SMMEs will not be able to generate income statements, balance sheets or cash flow statements to be able to assess the profitability of the business.

Table 4.16 Financial statements

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Y	43	29.9	29.9	29.9
N	101	70.1	70.1	100.0
Total	144	100.0	100.0	

4.5.5 Coaching and Mentoring

Table 4.17 indicates that 64.6% of respondents said that neither their businesses did not have a mentorship programme nor managers employed to run those businesses had no mentors appointed for them. The majority of businesses were not coached and mentored on recent techniques of running a business.

In the open-ended question 25, majority of the respondents totalling 75%, neither had coaching and mentoring nor business counselling. This can indeed be attributed to one of the reasons contributing to SMME downfall. Coaching and mentorship will ensure that the appropriate skills are developed for SMME supplier. However, building suppliers' capacity will not go far enough in terms of ensuring that SMMEs deliver the right product with quality of required standards. This is where access to technology and product development becomes critical (Reynolds & Sammis, 1997:79).

Table 4.17 Coaching and Mentoring

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Y	51	35.4	35.4	35.4
	N	93	64.6	64.6	100.0
	Total	144	100.0	100.0	



4.5.6 Operational Plan

In Table 4.18 it is indicated that the majority (65.3%) of the respondents were running businesses without clear operational plans. It is because they were mainly survivalist enterprises directed at providing minimum means to keep the unemployed and their families alive. This group might be considered pre-entrepreneurial, and includes hawking, vending and household industry, (BEPA, 2000:42).

Table 4.18 Operational plan

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Y	50	34.7	34.7	34.7
	N	94	65.3	65.3	100.0
	Total	144	100.0	100.0	

4.5.7 Organisational Structure

Table 4.19 shows that about 73.6% of the respondents indicated that they did not have operational structure and where they existed they were very complex. According to BEPA (2000), categories of these types of businesses have the simplest structure of direct supervision by the entrepreneur himself.

Table 4.19 Organisational Structure

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Y	38	26.4	26.4	26.4
	N	106	73.6	73.6	100.0
	Total	144	100.0	100.0	

4.5.8 Worker's Awareness

The majority (71.5%) of the respondents were not aware of organisational structure. This is in line with the information in Table 4.20 where about 72% of the respondents said that they do not have organisational structure in their business. This means that there are no proper channels of communication because most of these businesses are run informally.

Table 4.20 Worker's Awareness

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Y	41	28.5	28.5	28.5
N	103	71.5	71.5	100.0
Total	144	100.0	100.0	

4.5.9 Lines of responsibilities

Table 4.21 indicates that 61.8% of the respondents said that there were no clear lines of responsibilities. In most cases these are self-employed persons and enterprises are run according to how they feel they should be run. The implication of this is that it will not be easy to trace and resolve problems if there are no clear lines of responsibilities.

Table 4.21 Lines of responsibilities

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Y	55	38.2	38.2	38.2
N	89	61.8	61.8	100.0
Total	144	100.0	100.0	

4.5.10 Tax registration

In Table 4.22, about 68.8% of the respondents indicated that they had not registered for tax purposes. From the small business point of view, the cost of complying with their tax obligations (including record-keeping, calculation, withholding of VAT and employees tax, completing and submitting tax returns) are tantamount to an additional tax which is, moreover, regressive in that it falls more heavily on small businesses which, unlike larger businesses, tend not to have in-house personnel with the requisite accounting, record-keeping and tax skills (Ntsika, 1999:12). This means that SMMEs loose out on some tax deductibles which may be a relief for them.

Table 4.22 Tax registration

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Y	45	31.3	31.3	31.3
	N	99	68.7	68.7	100.0
	Total	144	100.0	100.0	

4.5.11 Stock Control

In Table 4.23 about 57% of respondents did not conduct routine stock control. This is as a result of the owner being involved in the management and operational activities of the business. They therefore feel that is not necessary to check themselves and for the fact that stock is money sitting on the shelves, it means stock turnover that is money being made is not properly attended to.

Table 4.23 Stock control

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Y	64	44.4	44.4	44.4
	N	80	55.6	55.6	100.0
	Total	144	100.0	100.0	

4.5.12 Credit Sales

Table 4.24 shows that 59.7% of the respondents sold on credit to their customers. Even though they did not have financial systems in place to monitor their finance as well as aspects relating to debt recovery, the financial needs of different types of SMMEs vary widely, with access problems particularly severe in rural areas, among start-up micro-enterprises and among those owned or controlled by women as well as other formerly disempowered groups, and in certain higher-risk business categories. This implied that cash may be flowing out of the business due to poor debt collection.

Table 4.24 Credit sales

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Y	86	59.7	59.7	59.7
N	58	40.3	40.3	100.0
Total	144	100.0	100.0	

4.6 STRATEGIES FOR SUSTAINING SMMEs

- Government needs to intervene more seriously and establish centres which will be dedicated to the development of small businesses at municipality level.
- Small industries should be developed to serve as incubators for start-up businesses and exit opportunities be identified. This will ensure that SMMEs are not going to emerge forever without growing.
- Government must ensure that there is fair awarding of tenders to SMMEs in order to grow them so that they can contribute to job creation and poverty alleviation.

- **Government Support**

A total of 57% of the respondents in the open-ended question 25, say there is a lack of government support towards SMME development. According Drodskie, (2002) clarity in this regard provides a basis upon which policy, legislation and regulation can be designed and assessed. Rather than simply failing to see the benefits of a strong and vibrant small business sector, governments often believe it is better to focus on large-scale industry. In these cases policies, laws and regulations supporting large-scale enterprises take priority over those that assist small enterprises.

This means that factors that contribute to SMMEs downfall are not only internal factors but also factors outside their control. An enabling environment plays a critical role in the development of SMMEs and therefore, the government has to ensure that the creation of such an environment exists to encourage entrepreneurial activity.

- **Access to business premises**

About 84.4% of the respondents did not have access to premises. Pickle and Abrahams (1999) argue that a location may be chosen because of the availability of a vacant building, proximity to the owner's residence or low rent. One of the reasons why small businesses fail is because they select a site for their business without first making a thorough analysis of the overall location's potential for the business's survival and growth.

- **Trading permits and By-laws**

In the open-ended question 25, about 64.1% says by-laws within municipalities are not friendly to SMME trading. Lack of co-ordination among the role-players in local government which led to a lack of common vision was also singled out as being a definite threat to the existing capacity (Lowe & Talbot, 2001:28). Local authorities can adjust to changing needs, problems, and opportunities and to changing knowledge. This must include the by-law intended to stimulate SMME development and economic growth as opposed to the mere administration of services (BEPA, 2000:34)

4.7 CONCLUSION



It can be concluded from the results outlined in this chapter that the factors that contribute to the collapse of SMMEs in the Mafikeng area relate to business management and access to support of both financial and non-financial support. Furthermore, there appears to be lack of planning and managerial skills required by small business operators to successfully run their business profitably. All of these points affect small businesses to such an extent that they are not able to sustain themselves beyond three years of their establishment.

CHAPTER FIVE

OVERVIEW, MAIN FINDINGS AND RECOMMENDATIONS

5.1 INTRODUCTION

A brief overview of the research is presented in this chapter. The findings of the study and research questions stated in Chapter one are provided and recommendations are made. The aim was to investigate why there is a low success rate of SMMEs in and around Mafikeng (Blignaut & Koekemoer, 2001:72).

5.2 OVERVIEW

Chapter one gave a background of the study and how the study was going to be conducted. The research method (cf.1.5.2), the significance of the study (cf.1.2) as well as the scope to the study was outlined.

Chapter two gave insight on the analysis of factors that affect the growth of SMMEs. The literature covered the importance of SMME development (cf. 2.3), the elements of enterprise development ranging from policy to skills development, the objectives of government (cf. 2.3.1) and strategy to develop SMMEs and, a look at the foremost SMME support programmes established in South Africa, and the strategic role of local municipalities with regard to economic and sustainable development (cf. 2.3.7)

Chapter three presented a description of the research design, method of data collection (cf.3.5) as well as research instruments used (cf.3.6). Chapter four outlined the findings of the study conducted to investigate the factors that affect the growth of SMMEs.

5.3 MAIN FINDINGS

The following are the main findings pertaining to this study:

5.3.1 Findings related to research objective No 1 (Factors that influence start up of SMMEs).

The following are the main findings related to research objective no 1.

- Seventeen percent of the respondents started businesses because they were unemployed (paragraph 4.4.1 page 51).
- Forty seven percent of the respondents started small businesses because they were retrenched (paragraph 4.4.2 page 52).

It has been reliably established that the small business sector absorbs nearly half the people formally employed in the private sector, and it contributes about 32,7% to the country's gross domestic product. However, millions of our people are trapped in survivalist activities with incomes below the poverty level. The majority of enterprises in this category are constituted by black entrepreneurs, who are confined to low value-added activities with little prospect of graduating to higher levels of production (Hanley, 2004:33).

5.3.2 Findings related to the research objective No 2 (Factors that contribute to the collapse of SMMEs).

The following are the main findings related to research objective no 2.

- Poor planning when starting businesses was identified as one the contributing factors and about fifty four percent of the respondents did not have business plans (paragraph 4.5.1 page 53).
- About sixty six percent of SMMEs running businesses did not have business goals to be achieved (paragraph 4.5.3 page 54).
- One of the other factors contributing to SMME collapse is access to finance. SMMEs still find it difficult to access finance from financial institution. About

- eighty four percent of the respondents have a problem when it comes to access to finance provided by the banks (paragraph 4.5.4.1 page 55).
- The majority of SMMEs conducting business in this study do not have financial systems in place. About eighty five percent of the respondents who participated in this study do not have proper financial recording systems in place (paragraph 4.5.4.4 page 57).
 - Most businesses ran their operations on credit sales and without regular stock control measures in place (paragraph 4.5.11 & 4.5.12 page 61).

In the literature it was established that factors contributing to the collapse of SMMEs relate, among others, to the legal and regulatory environment confronting SMMEs, the access to markets, finance and business premises (at affordable rentals), the acquisition of skills and managerial expertise, access to appropriate technology, the quality of the business infrastructure in poverty areas and, in some cases, the tax burden. In the North West context the constraints have been particularly hard on entrepreneurs in rural areas and on women. In addition to sector-specific differences of constraints, the legacy of apartheid constitutes an important factor in the inability of black owned or controlled small enterprises to face business development constraints (North West Strategy on the Promotion and Development of Small, Micro and Medium Enterprise, 1998:10).

5.3.3 Findings related to research objective No 3 (Strategies of sustaining SMMEs).

The following were the main findings related to objective No 3

- There is no concerted effort from the part of government to intervene on matters related to SMME development, especially at municipality level.
- There are industries to support the development of small and micro businesses to serve as incubators for start-up businesses and exit opportunities be identified. This will ensure that SMMEs are not going to emerge forever without growing.

- Government must ensure that there is fair awarding of tenders to SMMEs in order to grow them so that they can contribute to job creation and poverty alleviation (paragraph 3 page 61).

5.4 RECOMMENDATIONS

5.4.1 RECOMMENDATIONS STEMMING FROM THE STUDY

The following are some of the recommendations related to the main findings:

5.4.1.1 Recommendations pertaining to research objective number 5.3.1

A successful economic policy should consist of a balanced mix of traditional instruments and modern activities. This will ensure that there is mainstreaming of survivalist, micro and medium enterprises which have positive effects on small business climate and curb problems at an early stage to avoid SMME collapse.

Motivation

Clarity in this regard provides a basis upon which policy, legislation and regulation can be designed and assessed. Rather than simply failing to see the benefits of a strong and vibrant small business sector. Policies and regulations supporting SMMEs should be given priority the same way as those supporting larger-scale enterprises (Manuel, 2005:26).

5.4.1.2 Recommendations pertaining to research objective 5.3.2

Entrepreneurship training as a policy in South Africa should not be fragmented and handled by too many role players, because it negatively affects the objective of SMME development. Steps should be taken to bring about greater synergy between policy-making processes at the national, provincial and local levels.

Motivation

Training and development of skills is the key to achieve successful outcomes in any SMME programme. Training for the development of technical, managerial,

commercial and administrative skills and competencies is required. These requirements need to be linked with other government training programmes, and tied in with an appropriate qualifications system (Chapman, 1994:20).

5.4.1.3 Recommendations pertaining to research objective number 5.3.3

The idea of one stop shop for all registration and licensing information and requirement must be set up. The establishment of such an institution must provide a variety of products and services (Loans, Business plans, Business profiling, Coaching and mentoring etc.) should be formulated.

Motivation

As a general strategy, it is important to promote the establishment of dedicated retail institutions providing a variety of products – loans, equity and management training and support. It also seems necessary to encourage many different players and a broad spectrum of service providers. This is necessary particularly to meet the needs of micro and survivalist enterprises (Jones and Tilley, 2003:4). This one stop facility will provide all the information on business support and incubation from start-up until sustainable growth.

Motivation

The reason for lack of access to finance are widely ranging but include the lack of appropriate retail capacity, difficulty in determining risk, lack of information, problems in determining the willingness and ability to repay, issues relating to collaterals, attitudes of lenders and discriminatory practices.

5.5 RECOMMENDATIONS FOR FURTHER STUDIES

The following were identified as some of the areas that need further investigation:

- The impact of the income tax system on cash flow in SMMEs.
- Rural access to tender information.
- Lack of consistent policy and regulatory environment on procurement.

5.6 CONCLUSION

It is hoped that this study will contribute to the debates around issues related to SMME development and share some light on strategies and programmes intended to develop the sector. The findings undertaken within the Mafikeng SMMEs cannot be generalized to all SMMEs. The topic can be researched further, especially comparing with other SMMEs in the various towns of the five districts of the North West Province.

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QUESTIONNAIRE

PART ONE: BIBLIOGRAPHICAL DATA

Kindly provide the following information about yourself and the business you own or manage.

1. What is your gender?

Male	Female
------	--------

2. Indicate your age?

Under 20	20 - 29	30 - 39	40 - 49	Above 50
----------	---------	---------	---------	----------

3. Type of business?

Sole Prop	Partnership	Close Cop	Others
-----------	-------------	-----------	--------

4. For how long have you been running this business?

0	1	2	3	More than 4
---	---	---	---	-------------

5. Are you the owner of the business?

Y	N
---	---

6. Do you have educational background concerning the running of your specific business?

Y	N
---	---

7. You started your business because you were unemployed?

Y	N
---	---

PART TWO: FACTORS THAT AFFECT THE SUCCESS OF SMMEs

8. Did you plan to have a business?

Y	N
---	---

9. Does your business have an operational plan?

Y	N
---	---

10. Does the business have specific goals to be achieved?

Y	N
---	---

If it does have specific goals please name them.....
.....

PART THREE: FACTORS RELATING TO BUSINESS MANAGEMENT

11. Does the business have a business manager?

Y	N
---	---

12. Does the business have an organisational structure?

Y	N
---	---

If so, outline the structure.

13. Are the workers aware of the organisational structure?

Y	N
---	---

14. Are there clear lines of responsibilities to employees?

Y	N
---	---

Please indicate these lines of responsibilities.....
.....

15. Does your business provide coaching and mentoring to staff?

Y	N
---	---

16. Does the business have a separate bank account from the owner's individual account?

Y	N
---	---

17. Is your business registered for tax purposes?

Y	N
---	---

18. Is it easy to access finance from the bank?

Y	N
---	---

19. Does your business have a full-time book-keeper

Y	N
---	---

20. Are there proper financial recording systems in place?

Y	N
---	---

If so, which books do you

keep.....

.....

PART FOUR: FACTORS RELATED TO FINANCIAL MANAGEMENT

21. Do you conduct regular routine stock control?

Y	N
---	---

22. Does your business sell on credit?

Y	N
---	---

If so, when do your customers settle or repay their account

.....

23. Do you produce financial statements regularly?

Y	N
---	---

If so, how often do you produce financial

statements.....

.....

OPEN-ENDED QUESTIONS

24. Provide other factors that affect SMMEs

.....
.....

25. What do you think can improve the lifespan of SMMEs

.....
.....

Thank you for your cooperation

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14 September 2007

TO WHOM IT MAY CONCERN


Permission to conduct research - Mr.M.T.Diutlwileng

This letter serves to confirm that Mr.M.T.Diutlwileng is a registered student in the MBA programme at the Graduate School in the North West University. He is conducting a research project on, "An analysis of the factors that affect the growth of SMME s in the Mafikeng area in the North West Province of South Africa.", towards a partial requirement or the fulfillment of his Masters Degree in Business Administration.

In this regard, your department is requested to afford his full co-operation to conduct his research in order to complete his study and contribute toward research in this area. In particular, Mr.Diutlwileng requires permission to access information, data or even to distribute questionnaires to various branches.

Please forward your response directly to Mr.Diutlwileng, in order to aid her logistical planning.

Your cooperation is highly appreciated.



Dan Setsetse
Programme Director



*North West Province
Pretense ya Bokone Bophirima
Die Provinsie van die Noord- Wes*

DEPARTMENT OF ECONOMIC DEVELOPMENT AND TOURISM

**The Programme Director
Graduate School of Business Government and Leadership
North West University
Mafikeng Campus**

Attention: Mr T.M. Diutlwileng

**PERMISSION TO CONDUCT RESEARCH – MR. T.M. DIUTLWILENG, STUDENT
NO.**

Your letter dated 14 September 2007 and delivered to this department on 15 September 2007 refers.

The department wishes to thank you for showing interest in engaging it in conducting your research.

You are therefore, notified that the Director of this department has granted you permission to conduct your research as requested.

Yours faithfully

Mr. Zac Dipudi

Manager: SMME Support Services

15 September 2007



NWDC Building Cnr. University Drive & Provident St
Private Bag x15, Mmabatho 2735
Tel: (018) 387 7700 • Fax: (018) 384 9440