

Government and manufacturing SMME partnerships to create jobs in South Africa

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ABSTRACT

South Africa has one of the highest unemployment rates, currently at 29 percent. This is the highest it has been since 2003 and it is nowhere close to reaching the National Development Plan (NDP) goal of reducing unemployment to 14 percent by 2020. Literature suggests that the development of the Small Medium and Micro Enterprise (SMME) sector leads to economic development and in turn sustainable job creation, particularly in developing economies. Consequently, the South African Government has sought to develop policies and establish institutions as well as a ministry to support SMME development. This is to ensure that job creation is prioritised to achieve their NDP goals of eradicating poverty and reducing inequality.

Literature shows that the primary source of employment comes from SMMEs as they contribute 60 percent of the jobs in the economy. Delving deeper, literature also suggests that the manufacturing sector stands out as one of the largest job creators amongst other sectors, and with the appropriate support it could help absorb a large portion of the unemployed labour force. The development of SMMEs in South Africa is slower than in other developing countries, while our failure rate of SMMEs is very high. Research has mostly endeavoured to find reasons for SMME failure by looking at the challenges that SMMEs face. However, more recent research shows that the problem may also lie within the interventions that the Government has set up to support SMMEs.

The purpose of this study is to investigate the shortcomings of the current Government interventions in place to support SMMEs in the manufacturing sector, and the challenges that SMMEs face which might cause their failure. This study finds that the main challenge faced by the Government is lacking a streamlined solution to help SMMEs p their obstacles. The main challenges for SMMEs are not having access to financial aid, poor infrastructure, an inadequately educated workforce, inefficient government bureaucracy and limited access to the market. This study concludes that it is appropriate for the Government to seek viable partnerships to assist SMMEs, particularly in the manufacturing sector, to create sustainable jobs successfully.

Keywords: job creation, unemployment, manufacturing sector, Government intervention, Small, Medium and Micro Enterprises (SMMEs)

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CHAPTER 1

NATURE AND SCOPE OF THE STUDY

1.1 INTRODUCTION

“Small businesses are the heartbeat of our economy and engine for economic growth and job creation”

Minister Lindiwe Zulu (2017), Minister of the Department of Small Business Development (DSBD).

The current pattern of slow to negative economic growth is a significant concern for the South African economy. In recent years, there has been a decline in Gross Domestic Product (GDP) growth - from 2.5 per cent in 2014 to 0.7 percent in 2016 (Stats SA, 2017). While the growth of the GDP declined, unemployment showed an increase, from 25.2 per cent in 2014 to 26.8 per cent in 2016. The latest statistics reflect a staggering 27.7 per cent in 2017 (Stats SA, 2017).

Unemployment remains the topical issue in society, as South Africa has one of the highest unemployment rates globally. According to the latest Quarterly Labour Force Survey, 9.3 million people are seeking work and not finding any (Stats SA, 2017). According to Business Tech (2017), this is the highest it (unemployment) has been since 2003, and far from the goal of the National Development Plan (NDP) (2013) of reducing unemployment to 14 per cent or less by 2020; let alone reducing unemployment to 6 per cent by 2030.

In an economy that is contracting as unemployment increases, the Government has a duty to ensure that job creation is prioritised to achieve the goals they have set out for the country. These include strong economic growth, reduced inequality and poverty eradication (Dladla & Khobai, 2018:12). According to an article written by the Banking Association of South Africa (2017), the primary source of job creation comes from Small, Medium and Micro Enterprises (SMME's). About 60 per cent of the labour force in South Africa is employed by SMMEs. Of the labour force currently in the SMME space, 84.4 per cent are working for someone and 15.1 per cent are the owners of businesses (SEDA, 2018:11).

The understanding among policymakers, economists, and business experts is that there is a causal link between SMME development and economic growth as well as innovation and job creation, especially in developing economies (Vanderberg, 2006; Okpara and Kabongo, 2009; Beck and Demirguc-Kunt, 2006; Saleh and Ndubisi, 2006; Rogerson, 2001). Recognising this, the South African Government formed a new Ministry of Small Business Development early 2014. The aim of the ministry is to facilitate the promotion and development of small businesses. Through this ministry, the Government intends to put policies, strategies, and programmes in place, with the primary purpose to create an enabling environment for small businesses, to not only start but to thrive (English and Hay 2015:149).

The definition for SMMEs encompasses a very broad base of companies, from formally registered organisations to informal and non-VAT registered entities (The DTI, 2008). English and Hay (2015:151) further define small businesses as those that are from medium-sized enterprises, such as established traditional family businesses that provide employment to 100 people or more, to informal micro-enterprises. The latter includes survivalist freelance persons from the poorest components of the population. The upper end is comparable to the small and medium-sized enterprise (SME) segments found in developed countries (Berry, Von Blottnitz, Cassim, Kesper, Rajaratnam & Van Seventer, 2002:1).

Berry *et al.* (2002:1) states that many SMMEs in South Africa are found to be survivalist businesses. These include backyard manufacturing and services, and occasional home-based evening jobs. The informal sector comprises almost exclusively of SMMEs. Businesses classified as survivalist entities have very little growth potential and are less likely to hire staff (The DTI, 2008).

The Minister of the Department of Small Business Development, Lindiwe Zulu (2017) mentioned that SMMEs are the backbone of any economy and potentially could be the main driver of economic growth. The SMME sector currently contributes to more than 45 per cent of the country's gross domestic product (GDP) (Dhanah, 2016:23) SMMEs have the potential to create and expand employment opportunities, develop entrepreneurial skills and enhance market opportunities (Mutoko & Kapunda, 2015:1). It is important to focus on creating sustainable SMMEs, as in turn, sustainable businesses will ensure that sustainable jobs are created.

Furthermore, a focus on SMME development, in the context of South Africa's high inequality, unemployment, and poverty levels, will assist in addressing historical imbalances and promoting Broad-Based Black Economic Empowerment (BBB-EE) (Olawale & Garwe, 2010:371).

The state of entrepreneurial activity in the South African economy is lower than the global average and entrepreneurship does not seem to come naturally as part of daily economic activity (Wiese, 2014:13). The total early-stage entrepreneurial activity (TEA rate) measures the percentage of the adult population (18 to 64 years) in the process of starting or having just started a business (Herrington, Kew & Kew, 2017:43). The TEA rate for South Africa is 6.9 per cent, which is alarmingly lower than the average of 17.6 per cent of all African countries combined, and 14 per cent of all efficiency-driven economies (Herrington et al., 2017:44). It is evident that the development of SMMEs in South Africa is slower than other developing countries and that the failure rate of SMMEs is very high; between 70 and 80 per cent in the first 5 years (Van Eeden, Viviers & Venter, 2003:13).

Research has mostly strived to find reasons for SMME failure by looking at the challenges that SMMEs face. However, more recent research shows that the problem may also lie within the interventions that the Government has set up to support SMMEs. This dissertation seeks to investigate the shortcomings of the current Government's interventions that are in place to support SMMEs in the manufacturing sector, as well as the challenges that SMMEs face, which cause their failure.

Furthermore, this dissertation seeks to highlight the importance of the manufacturing industry as a key sector for focusing on sustainable job creation in South Africa. Manufacturing is a key driver for stimulating the growth of businesses such as services, and achieving specific results, such as job creation and economic development (Mthabela, 2015:22).

1.2 PROBLEM STATEMENT

The purpose of this dissertation is to assess the partnership between Government and SMMEs in the manufacturing sector, as a tool to create jobs, by creating opportunities for SMMEs to grow sustainably. This study investigates the challenges the Government is facing in SMME development, and what the SMMEs' challenges in the manufacturing sector are. The study also makes recommendations on how these challenges can be addressed.

The unemployment level in South Africa continues to be high and is steadily increasing over time. Unemployment remains the biggest reason for the poverty levels in South Africa, as well as the slow growth of the economy. Some studies also highlight that unemployment can be linked to a high crime rate (Luiz, 2002:55). From 2007 to 2016, many industries, such as mining, have been shedding jobs due to mine shafts closing. The manufacturing industry has also contracted somewhat, as it is assumed to be cheaper to import finished goods from China. The service sector has seen a decline as well, as robots are being introduced in the market, and the functionality of machinery is growing. The biggest concern though is the mining and manufacturing sectors' impact; due to the high volumes of people these sectors employ, the numbers they retrench are staggering.

Entrepreneurship has become a major priority for South Africa's Government. Minister Lindiwe Zulu, says that her ministry prioritises "creating an environment where it is easy to start and sustain businesses" (DSBD, 2017). This is ideal for South Africa, because it will grow the economy and create jobs that the country sorely needs. The DSBD ministry plays a vital role in reaching the country's goal of 11 million jobs by 2030, but as Clem Sunter, Chairman of the Anglo American Chairman's Fund said:

"We should be setting the target to create one-million new businesses by 2020, rather than trying to create the five million jobs."

Clem Sunter (2012), Chairman of the Anglo-American Chairman's Fund.

There are a number of South African Government initiatives that assist SMMEs to establish and run small businesses, namely Small Enterprise Finance Agency (SEFA), Small Enterprise Development Agency (SEDA), National Empowerment Fund (NEF), Industrial Development Corporation (IDC), Business Partners, the Department of Trade and Industry

(DTI), The Innovation Hub (TIH) and numerous Provincial entrepreneurial propellers, such as the Gauteng Enterprise Propeller (GEP).

The above institutions indicate that the Government is truly driving SMME development, but according to Friedrich (2016: 261) of the University of Western Cape, about 70 to 80 per cent of SMMEs fails within the first 5 years, with over 63 per cent of failures taking place in the first 2 years. These devastating findings create a number of questions for the state, given the financial commitment it has made to SMME development: How much is the country losing from unfruitful investments in these businesses? How many potential jobs could have been created, had these SMMEs been sustainable? For example, if 1000 start-ups has an average of R2 million capital invested in them, and fail in year one, it adds up to R2 billion wasted by the state. At an average of 3 employees per SMME, it could have generated 3000 jobs that could have been sustained in the first year, with the potential of increasing the number of employees as the company grows (Friedrich, 2016:262).

Friedrich (2016:269) argues that the primary problem is that in-depth research is necessary to establish what creates successful SMMEs in South Africa and how much the Government has been speculatively spending on SMME development in a trial and error manner. This creates an opportunity for this study to add to the limited body of existing literature, on how to drive successful SMME development in South Africa, by looking at what SMMEs are struggling with. This also opens an opportunity to study the performance of these Government initiatives and assess the shortcomings that may contribute to SMME failure.

1.3 OBJECTIVES OF THE STUDY

The research objectives are divided into primary and secondary objectives.

1.3.1 Primary objective

The primary objective of the study is to assess the level of partnership necessary between Government and SMMEs to create sustainable jobs that are really needed in the economy to burst growth and minimise poverty in South Africa.

1.3.2 Secondary objectives

The purpose of this dissertation is to assess the partnership between Government and SMMEs in the manufacturing sector as a tool to generate jobs, by creating opportunities for SMMEs to grow sustainably. The study investigates the challenges Government is facing regarding SMME development and what the SMME challenges in the manufacturing sector are. This study also makes recommendations on how these challenges can be addressed to create jobs.

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

- Determine the challenges Government institutions are facing in providing SMME development.
- Investigate the causes of SMME failures and challenges in the South African context.
- Investigate to what extent the manufacturing sector is a key driver in job creation.
- Identify the ways in which the Government encourage sustainable SMME development in the manufacturing industry.

1.4 SCOPE OF THE STUDY

1.4.1 Field and sector of the study

The field of this study falls within the subject discipline of the Entrepreneurship discipline, with reference to SMMEs operating in the manufacturing sector.

1.4.2 Geographical demarcation of the study

The study was conducted in South Africa, focusing on Gauteng. A large number of SMMEs are located in Gauteng, specifically those operating in the manufacturing sector (refer to Figure 1.1).

Figure 1.1: Map of Gauteng



Source: South African Gauteng Map

1.4.3 Motivation of study

According to research done by the South African Institute of Chartered Accountants (SAICA), the number of people employed grows quickly with turnover and with the length of time that an SMME survives. It is therefore imperative that the focus of SMME development must not only be on helping SMMEs start up, but also assisting them to scale up and survive longer, in order to create more jobs (SAICA, 2015).

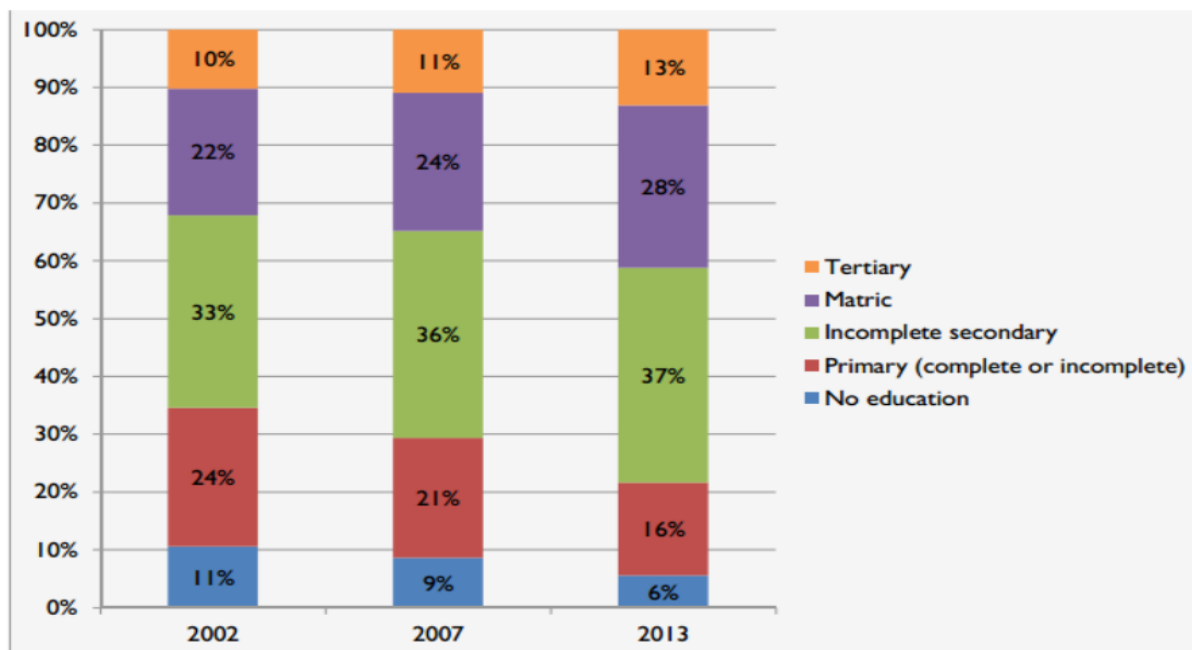
This dissertation intends to add to the existing body of work on SMMEs in South Africa, by analysing the SMME landscape and fleshing out what the primary drivers behind their successes and failures are. The study looks at what the South African Government has done to support SMME development, as well as how the Government can get further involved to create sustainability in the sector. The Government has already put numerous programmes in place to support SMME development, thus this study takes a look at those interventions' short comings, as a means to explain the failures of SMMEs in the country and possibly chart a way forward on how to rectify them.

Some of the inhibiting factors of SMME growth and sustainability in South Africa stem from labour market failures (Berry *et al.*, 2002:93). The labour market in South Africa is known for having ridged labour laws, which limit the flexibility of hiring and firing and therefore raise the cost of employment. The rigidity of the labour market makes it difficult for businesses to respond appropriately to the economic environment. In the event of an economic downturn, for instance, where businesses might need to lay off labour to lower costs and remain sustainable, they are instead forced to shut down (Berry *et al.*, 2002:95).

The South African labour market is also plagued with a large, unskilled labour force. The shortage of the right skills in the country is a significant contributor to the high unemployment rate in general (SEDA, 2016:13). South Africa's current education system is one of the reasons the country has a high level of uneducated/unskilled labour. Figure 1.2 below, shows the distribution of education levels in the South African population 20 years old and older.

Figure 1.2: Quarterly Report 2014

South African population of 20 and older by level of education



Source: StatsSA Quarterly Report 2014

Although there has been a slight increase over the years of people achieving higher qualifications, there still has not been enough of a change to indicate that the education system has improved. According to Business Tech (2017) the 11-year differential of people with an education level of matric or higher is 9 per cent, but a key insight that cannot be ignored is that from 2002 to 2013 the matric average pass mark dropped from 40 to 30 per cent. This means that the quality of the matric pass rate has significantly eroded and even though matric pass rates may look to have increased through the years, the numbers are not comparable. This is a major challenge, because SMMEs cannot experience growth, let alone survive, if they are headed by or have to employ unskilled workers (Maluleke, 2012).

Other challenges that most SMMEs in South Africa face, that inhibits them from achieving growth and creating jobs, include but are not limited to: a lack of access to financial aid, poor infrastructure, low levels of research and development, onerous labour laws, Government “red tape”, high levels of crime, limited access to the market (BER, 2016), a lack of business linkages, inappropriate location and networks (Olawale & Garwe, 2010:731), an astringent regulative environment, insufficient demand and corruption (Luiz, 2002).

Additionally, small enterprises are not spared from factors such as declining global growth rates, the slow-down of the South African economy, unstable and low commodity prices, and the effects of a credit rating downgrade for South Africa (SEDA, 2012). Each of these challenges will be unpacked in the literature review chapter. They are the main motivators of this study as it is mainly concerned with solving these challenges in order to create jobs.

A motivating factor of pursuing this study is due to the racial prejudice of entrepreneurial activity in South Africa, attributed to historical imbalances. A study by StatsSA (2016) found that black South Africans are lagging far behind their white and Indian counterparts. The ratios of entrepreneurs to their population groups are as follows: 1.7 for white people and 0.9 for black people. The study further states that start-up firms by black people are less likely to mature or to become a new firm, with the start-up firm ratio for black people being 2.6:1, while for white people it is 1.6:1 (Herrington, *et al.*, 2008). The study also shows that the lowest entrepreneurial activity is amongst black women in rural areas, who are, as Dr Nkosazana Dlamini-Zuma put it, “currently the face of poverty in South Africa”.

The above-mentioned issues make it clear that the South African Government needs to re-evaluate the SMME development interventions currently in place and chart a new and improved strategy for SMME development; a strategy able to pursue and achieve the NDP goals of economic growth, job creation, poverty eradication and finally close the inequality gap.

The study focuses particularly on SMMEs in Gauteng, in the manufacturing sector, as this sector has grown in recent years and displayed its resilience and potential to compete in the global economy (Mthabela, 2015:18). According to StatsSA (2018), the Gauteng Province makes up 34% of the country’s GDP. As a province with the largest contribution to the country’s GDP, it is necessary to establish the impact that its manufacturing sector has, as it contributes 22.8% of the country’s GDP (StatsSA, 2017).

1.5 RESEARCH METHODOLOGY

The research conducted in this study, consists of two phases, namely a literature review and an empirical study.

1.5.1 Literature Review

The literature review unpacks the different Government departments and entities that are tasked by Government to assist in promoting and supporting SMMEs, together with the SMME Sector in South Africa, focusing on the manufacturing sector. This is done by using website articles, journals articles, other dissertations, Government publications and text books to get an understanding of the subject of Government and SMME partnerships as a tool for creating jobs in South Africa.

The aim of the review was to gain a better understanding of the following areas:

- Legislative and institutional frameworks that governs SMMEs in South Africa.
- SMMEs as an opportunity to create jobs in South Africa.
- The South African context of the manufacturing sector.
- The Gauteng Province's context of the manufacturing sector.

1.5.2 Empirical study

The goal of this portion is to supply an elaborated description of the methodology that was used to conduct the research. The robustness of the knowledge generated by a research study relies comprehensively on the methodology used to collect the data (Leedy & Ormrod, 2005:93).

The empirical study focuses on the following aspects:

- Investigating how the manufacturing sector is a key driver for job creation.
- Identifying ways in which the Government can encourage successful SMMEs.
- Understanding the failures and challenges in the manufacturing sector.

1.5.2.1 Research approach

The purpose of this dissertation is to assess the partnership between the Government and SMMEs in the manufacturing sector, as a tool to create jobs, by creating opportunities for SMMEs to grow sustainably. The methodology chosen to lead the examination is the subjective research strategy. The decision to utilise a subjective research contemplate was educated by various thoughts, including a hypothetical point of view on how research ought to be conducted, attributes of the research, the reason for the examination, and direction from different investigations of a comparable sort.

A population of 40 individuals was selected. The population included Government employees in intervening institutions, Government employees in the DSBD, entrepreneurs in the manufacturing sector and entrepreneurs in other sectors.

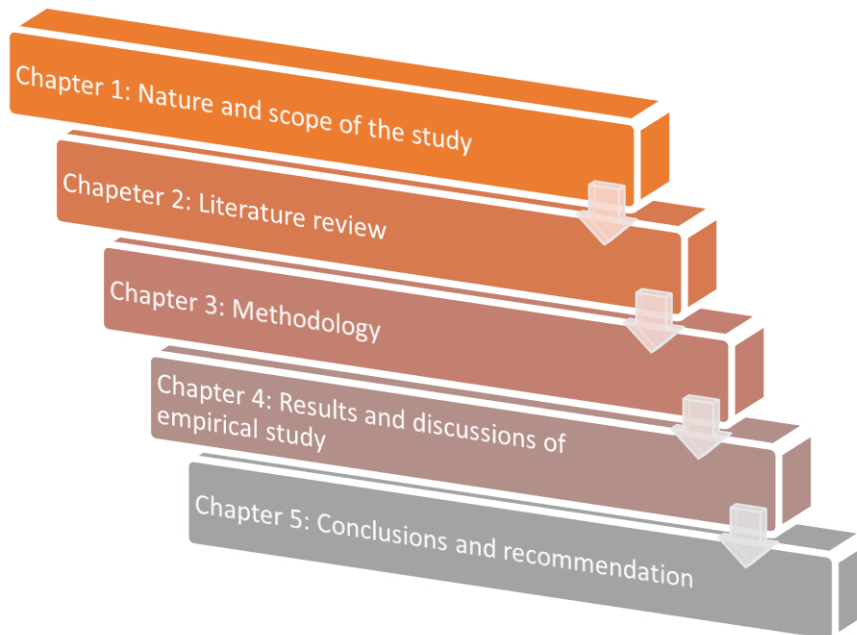
The following instruments were utilised for measuring and collecting data and statistical analysis was performed on the results:

- Questionnaires; and
- Interviews.

1.6 THE LAYOUT OF THE STUDY

This dissertation is divided into five chapters, represented in the following figure.

Figure 1.2: Graphical layout of the study



Chapter 1: Nature and scope of the study

This chapter provides information of the nature and scope of the study. The problem statement is highlighted as well as the primary and secondary objectives, the scope of study and the research methodology. The limitations and layouts of the study are also discussed.

Chapter 2: Literature review

This Chapter covers the literature and theoretical review. It focuses on Government institutions that were created to help SMMEs, SMMEs in South Africa and their challenges, levels of partnership between SMMEs and Government and the manufacturing sector in South Africa.

Chapter 3: Research methodology

This chapter deals with the detailed information on the research methodology used in the study, the selection of sample as well as the analyses approach used.

Chapter 4: Results and discussions

This chapter discusses the findings and analyses of the empirical component of the study. It unpacks the results of the 4 key areas of the study: Government intervention, SMMEs' role in job creation, the role of the manufacturing sector, and Government's partnerships with SMMEs to create jobs in South Africa. In this chapter the data received and the findings from the conducted interviews are analysed.

Chapter 5: Conclusions and recommendations

Conclusions are drawn in chapter 5, in terms of the level of partnership between Government and SMMEs, where there are opportunities to improve and if this partnership could be a vessel to the much-needed job creation in South Africa. In this chapter recommendations on a way forward are made, to ensure a successful partnership that will surely create the necessary sustainable jobs in South Africa.

1.7 CONCLUSION

The aim of this chapter was to provide a brief background and context from which the problem statement and research objective were determined. Due to the high unemployment rate and low economic growth in South Africa, it has become imperative for the Government to focus its attention disproportionately on job creation. Literature shows that the bulk of jobs are created by SMMEs in the economy. The manufacturing sector contributes significantly to job creation because the nature of the industry is labour intensive.

The following chapter presents a literature review on the partnerships of Government and SMMEs, with a focus on the manufacturing sector. This chapter aims to explore the challenges faced by Government institutions and SMMEs, with the aim of creating lessons for ways to improve the partnership, in order to create jobs.

CHAPTER 2

LITERATURE REVIEW

2.1 INTRODUCTION

This literature review chapter investigates the diverse studies and discourses related to the success of a great partnership between SMMEs and Government, as a strategy to promote job opportunities in South Africa, through the manufacturing sector. Various publications on SMMEs and the manufacturing sector in South Africa and abroad are studied in this literature review. This includes various textbooks, journals, websites, and academically researched articles. Some scholars such as Cohen, Manion & Morrison (2017:22), Friedrich (2016:272) and Fatoki (2014:922) have researched the determining factors of the success and failures of SMMEs and Government intervention. Their work has contributed significantly to the body of work on this topic. It is from this body of work that this literature review draws its discussions.

At the end of the literature review, the framework used to examine the literature review, highlights studies done on themes linked to SMMEs and Government partnerships to create job opportunities and grow the economy. This dissertation uses this framework to answer each of the research questions outlined in Chapter one. It provides insight and a sense of direction on what the burning issues that this study needs to address are.

The second section deals with the policy framework that guides SMMEs in South Africa. This is followed by literature on the SMME landscape, highlighting the challenges faced by the SMME in South Africa. Section four addresses the manufacturing industry in general while section five expands on the literature on job creation and provides recommendations on possible strategies that could work in the Gauteng region and even the rest of South Africa. The last section concludes this chapter.

In early 2014 the South African Government formed a new Ministry, the Department of Small Business Development (DSBD). The aim of the ministry is to facilitate the promotion and development of small businesses. Through this ministry the Government is intending to put policies, strategies and programmes in place with the primary purpose of creating an enabling environment for small businesses, to not only start up, but to thrive.

Small businesses are vital and need strategic focus from Government policy and institutions. The DSBD could play a crucial role in mentoring SMMEs and serving as an interface between small companies and the public sector (Bryce, 2017:15). The following section will discuss the SMME landscape in South Africa and highlight the challenges that they face as well as the factors that lead to their success.

2.2 GOVERNMENT POLICY FRAMEWORK

It is not only the individual who decides to start his/her own business that determines whether the business will be a success or not. The country in which the individual must work as well as its policies also play a very important role (Storey, 2008:14). Storey (2008:15) further contends that policy makers would benefit the country more, should the adopted policies be tailor-made to the country and its characteristics. This will also spur interest in entrepreneurship. Dhanah (2016:60) states that at the dawn of democracy in 1994, the South African Government implemented the Reconstruction and Development Programme (RDP). The programme advocated support for SMMEs for employment creation, income redistribution and economic growth (Wiese, 2014:23).

- **White Paper on National Strategy for the Development and Promotion of Small Business in South Africa, 1995**

In May 1995 the Government presented its first policy framework in a White paper entitled: “A National strategy for the Development of Small Business in South Africa”. The primary aim of this policy was to create an enabling environment in the South African economy for SMMEs to grow and develop (Bryce, 2017:27). Beyond supporting SMMEs the policy also aimed to achieve the following: greater income and wealth redistribution, increased access to economic opportunities, long-term work creation, economic growth, a more grounded union between SMMEs through systems administration and interaction among large and small enterprises in the economy (Maluleke, 2011:31).

- **National Small Business Act, 1996 (201 of 1996)**

The National Small Business Act was passed in 1996 by the South African Parliament. It was passed to replace the Act of 1981 on Small Business (Moos, 2014:17). This Act promotes small business through the organs of state by providing guidance on related matters. The Act is responsible for the development of SEDA as well as the National Small Business Advisory Council (NSBAC). Dhanah (2016:72) also discusses the NSBAC and states that the NSBAC is responsible to promote the interests of small businesses in South Africa. Whilst SEDA is responsible for advancing policies to support sustainability, enhance competition, support the design and implement projects that enhance job creation, entrepreneurship and economic growth.

The essential point of the Act was to give institutional structure to advancing Small Businesses in South Africa. The Act was later investigated, and the results of the survey resulted in an overhauled technique entitled: “Integrated Strategy on the Promotion of Entrepreneurship and Small Enterprises”. The key difference between this white paper and the Act was a stress on the integration of a wider range of institutions to support SMME development and an emphasis on the cooperation of all partners, both Governmental and non—Governmental (DTI, 2005).

- **Preferential Procurement Policy Framework Act, 2000 (5 of 2000)**

In 2000 the Government passed the Preferential Procurement Policy Framework Act (5 of 2000). Dhanah (2016:73) indicates that in 2004 the Government made amendments to the National Small Business Act (102 of 1996) integrating the Ntsika Enterprise Development Agency and the Manufacturing Advisory Centre, to form the Small Enterprise Development Agency (SEDA).

- **Companies Act, 2008 (71 of 2008)**

This Act provides companies with a legislative framework for registration, incorporation and management. In the current legislation, all businesses are companies. The Act established the Companies and Intellectual Property Commission (CIPC) and the Companies Tribunal.

- **Industrial Development Corporation Act, 1940 (22 of 1940)**

The Industrial Development Corporation (IDC) legislation promotes the establishment of new industries as well as supporting existing industries. Through this Act the Small Enterprise Finance Agency (SEFA) was established to advance the objective of SMMEs and cooperatives. SEFA provides financial support using both wholesale and direct lending as channels.

- **Cooperatives Act, 2005 (Act 14 of 2005)**

The Cooperatives Act allowed for the establishment of:

- A Primary Cooperative that is geared toward providing employment and services to boost community development.
- A Secondary Cooperative which is created by 2 or additional primary cooperatives to supply sectoral services
- A Tertiary Cooperative, created by multi-sectoral cooperatives whose members are secondary cooperatives; geared toward policy support with both the Government and the non-public sector

Worker Cooperatives comprises of primary cooperatives, in pursuit of the collective objectives of labour, in relation to self-managed enterprises (Dhanah, 2016:74). The Cooperatives amendment Act (6 of 2013), demanded the institution of one National Apex Cooperative to lobby Government and also the private sector on policy recommendations that will improve and grow cooperatives within the economy (Moos, 2014:33).

- **Financial Advisory and Intermediary Services Act, 2002 (37 of 2002)**

This Act is legislation that impacts on the financial services industry and aims to regulate the giving of advice and rendering of intermediary services to clients, as well as certain other issues. It additionally regulates the conduct of a Financial Service Provider (FSP) and provides a framework to customers in their daily dealings with the product supplier.

2.3 GOVERNMENT INSTITUTIONAL FRAMEWORK

Before 2014 the Department of Trade and Industry (DTI) was responsible for the implementation of SMME development policies, but that responsibility has been in the hands of the DSBD since 2014. In addition, the following institutions, in order of function, have been set up by Government over the years to support SMME development:

2.3.1 Business Development

- **Small Enterprise Development Agency (SEDA)**

The Small Enterprise Development Agency (SEDA) is an agency of the Department of Small Business Development, established through the National Small Business Amendment Act (29 of 2004). Its mandate is on small business strategy, to design and implement standards as well as a national delivery network for enterprise development. It is also responsible for the integration of the Government-funded small enterprise support agencies across all tiers of Government (SEDA, 2017).

The main target market for the agency is micro and small enterprises and cooperatives from all sectors in South Africa, in all nine provinces. The agency also assists medium-sized enterprises and emerging entrepreneurs. SEDA's business support areas include the following:

- ✓ Business registrations,
- ✓ Business planning,
- ✓ Access to markets,
- ✓ Access to finance,
- ✓ Cooperatives support,
- ✓ Small enterprise training, mentoring and access to technology.

- **Gauteng Enterprise Propeller (GEP)**

GEP was started in 2005, initiated by the province's Development and Advancement Procedure (GDS) which recognised SMME improvement as one of the key levers to address the triple challenges of unemployment, destitution and imbalance. The GEP is

ordered to advance, cultivate and create little ventures in Gauteng, in this way executing the mandate of the Gauteng Common Government for small business advancement.

2.3.2 Youth Enterprise Development

- **National Youth Development Agency (NYDA)**

The NYDA was created to assist the youth, in South Africa, aged from 14 to 35 years, to begin businesses. NYDA also backs businesses in operation. It was formally set up in 2009, after a merger between the Umsobomvu Youth Finance (UYF) and the National Youth Commission (NYC) through an Act of parliament, Act 54 of 2008. The institution was set up to be a single, unitary structure for addressing youth advancement issues at national, common and government levels. Later on, reacting to societal needs, the agency moved its centre focus from Venture Capitalist back towards Instruction and Abilities Advancement (NYDA, 2017).

2.3.3 Access to finance

- **Small Enterprise Finance Agency (SEFA)**

The SEFA was set up in 2012 through the merger of the South African Micro-Finance Summit Support (SAMAF), the Khula Undertaking Fund Restricted and the little commerce exercises of the Mechanical Improvement Organization (IDC). The organisation works as an improvement back institution (DFI), catering for little businesses requiring financing up to a restrain of R3 million. It reports to the Department of Small Business Development (DSBD).

SEFA offers bridging back, spinning advances, term credits, resource back and reserves working capital needs. SEFA's mandate is to cultivate the foundation, survival and development of SMMEs and cooperatives, and subsequently contributing towards destitution lightening and work creation. In line with its mandate, SEFA supplies budgetary items and administrations to qualifying SMMEs and cooperatives as characterised within the National Little Commerce Act of 1996; corrected in 2004.

- **National Empowerment Fund (NEF)**

The National Strengthening Support (NEF) was set up by the National Strengthening Support Act (105 of 1998) with the deliberate goal of advertising budgetary and non-financial back to dark engaged businesses, as well as to advance a culture of investment funds and speculation among dark individuals. The operations of the NEF are administered by the Open Back Administration Act(1 of 1991) (PFMA), counting the National Treasury Controls, the Lord III Report on Administration for South Africa and the Convention on Corporate Administration within the Open Segment, 2002.

- **Industrial Development Corporation (IDC)**

The Industrial Development Corporation (IDC) was established in 1940 by Parliament (Industrial Development Corporation Act, 22 of 1940) as a national advancement back institution, set up to advance financial development and industrial improvement. The IDC was mandated to develop capacity in the domestic industrial sector, particularly in the manufacturing of goods. It must also moderate the disturbance of exchange between Europe and South Africa, amid the Moment World War. In the 1990s, the IDC's mandate was extended to incorporate venture within the rest of Africa.

- **Development Bank of South Africa (DBSA)**

The DBSA was set up in 1983 to perform expansive financial improvement work inside the country's protected allotment that won at the time. Since 1994, the DBSA has situated itself as a development finance institution (DFI) that champions, and regularly leads framework integration and improvement. The DBSA is mandated to play an integral part in conveying a formative framework in South Africa and the rest of the African landmass as administered by the Development Bank of Southern Africa Act, 13 of 1997 (DBSA Act) and encourage as directed by the Open Fund Administration Act, 1 of 1999 (PFMA), the standards of the Ruler Code of Administration Standards for South Africa 2016 (Ruler IV) and the Convention on Corporate Administration within the Open Segment.

2.3.4 Access to the market

- **Department of Trade and Industry (DTI)**

The DTI is a ministry that is accountable to promote industrialisation in a dynamic way, competitiveness of the South African economy, inclusiveness in developing and growth, and decent levels of employment and equity, in an optimal way (DTI, 2017). To this end the mandate of the DTI is outlined in the following strategic targets that the DTI intend to achieve:

- i. Ensure that financial system is transformed to promote industrial development.
- ii. Building reciprocally helpful regional and world relations to develop South Africa's trade, industrial coverage and monetary improvement objectives.
- iii. Facilitating broad-based monetary participation through targeted interventions to accumulate larger comprehensive growth.
- iv. Making honest regulative surroundings that allows investment alternatives and an improvement in an equitable and socially responsible manner.
- v. Promoting a knowledgeable, ethical, dynamic, aggressive and customer-focused operating atmosphere that ensures positive and economical supplier delivery.

According to the latest annual report, the DTI reports to have performed well against the abovementioned strategic objectives. Additionally, the DTI has managed to approve more than 1400 applications for financial support, amounting to about R7 billion towards leveraging a private sector investor investment of R30 billion and creating over 7000 jobs overall.

2.3.5 Skills development

- **Various Sector Education and Training Authorities (SETAs)**

SETAs were established in 2005. Their purpose is to strategically develop skills needed in every industry and occupation. The 23 SETAs provide studentships, internships, learning programme type matrixes and unit based skills programmes targeted at school leavers, unemployed graduates, SMME owners, people with disabilities and those whose current skills provide them with barely enough money to survive. The skills development

programmes from the various SETAs benefit each of these stakeholders greatly and thus the South African economy as well.

2.4 THE SMME LANDSCAPE IN SOUTH AFRICA

SMMEs are characterised by the South African National Small Business Act No. 102 of 1996 as small, separate and distinct business entities, alongside its branches and/or auxiliaries which are possessed and/or overseen by one or more owners, which conduct their individual commerce in any division and/or sub-sector of the economy of South Africa (South Africa, 1996). To get a clearer picture, the definition by Berry *et al.* (2002:5) of SMMEs in South Africa is as follows:

- Survivalist enterprises – these are establishments which are operated in order to secure some sort of an income with little capital and skills. These enterprises tend to have a limited chance of significant growth.
- Micro enterprises – these are enterprises with growth potential, and they tend to involve the owners and their family members or at most four employees. The turnover for these enterprises is below the threshold for VAT registration.
- Formal Small and Medium enterprises – these are enterprises that have 5–100 and 100–200 employees respectively. They are still owner managed and fulfil all the trappings associated with formality.

Although it is not Government's duty to create new businesses and supply employment, it is their responsibility to create surroundings that are conducive to starting and sustaining a new business, through reforms and regulations that amplify the ease of doing business and lessen unnecessary bureaucratic burden on SMMEs (Kelley, Singer & Herrington, 2016:23). This section highlights the SMME landscape in Gauteng and discusses the challenges that SMMEs face, as well as the causes of SMME's success, so as to establish a framework for the dissertation on how to reduce the high SMME failure rate.

2.4.1 Elements required for SMMEs to be successful

Many studies have been done on the causes of SMME failures, but it is also key to focus on the causes of success for SMMEs, so as to create a framework for where SMMEs and Government should focus to reduce SMME failure rate.

Chimucheka (2013: 789) and Brewer (2014:18) identify that in order to succeed as an SMME, it is important to take on a sound entrepreneurial mind-set. The importance of the entrepreneurial mind-set is that it influences the personality of the business owners, their passion and even their behaviour when it comes to handling their business' funds and resources. Literature defines the entrepreneurial mind-set as something that relates to an innovative, willing and energetic pursuit towards any given opportunity by means of rapid sensing, acting and mobilised responses, to achieve a possible gain (Brewer, 2014:26). Literature by Allen and Economy (2008:10) further articulates the characteristics of an entrepreneurial mind-set to include, but not be limited to, being comfortable with ambiguity and uncertainty, self-discipline, accountability and focus on opportunity.

Siwangaza, Smit & Bruwer (2014:165) claim that, even with the entrepreneurial traits or mind-set, there are constraints that are faced by South African SMMEs that can affect business. These constraints can be characterised as either macro and/or micro economic factors (Siwangaza *et al.*, 2014:165).

The macro-economic factors, this are factors that take place externally but still impact you, such as exchange rates. These factors are, more often than not, influenced by events that are beyond the control of the business leader and may include the political and social climate, policy changes and legislation changes.

Micro-economic elements encompass all enterprise-particular factors that are internally influenced by a business leader's actions, inclusive of the availability of resources, workable skills and abilities, and the positive application of both financial and non-financial sources (Siwangaza *et al.*, 2014:166).

If an entrepreneur lacks managerial abilities over the external and, most notably, internal environments, this is sure to result in business failure. This rings true due to the fact that the internal environment is more controllable by the entrepreneur than the external environment.

Mmbengwa, Ramukumba, Groenewald, van Schalkwyk, Gundidza & Maiwashe, (2011: 1501) indicate that other factors that cause business success are strong managerial skills and business knowledge, as they determine how well an entrepreneur can execute

essential tasks. The Government can get involved in inculcating these through the various training and mentorship programmes they have within the institutions they have set up. It is important for this to be at the forefront of the programme designer's mind.

Taking into account the significance of possessing business knowledge, the entrepreneur should also possess business experience or even managerial experience, as this will grant an added advantage when starting up and running a business.

Hayward, Foster, Sarasvathy & Fredrickson (2009:572) highlight that prior ventures can supply precious assets for entrepreneurs' future use and that experience helps entrepreneurs improve new capabilities and generate a wealth of social capital that can be used in their new business ventures. In their literature they also mention that certain venture capitalists have a preference for entrepreneurs that have failed at least once before, as they tend to be more self-aware and have a higher perceived chance of success.

2.4.2 Challenges faced by SMMEs

The Minister of Small Business Development, Lindiwe Zulu, mentioned that, it remains a concern that small businesses have an exceedingly high failure rate, and most of the casualties are black and women-owned. Literature shows that small businesses have only a 37 per cent chance of surviving for four years and a 9 per cent chance of surviving beyond 10 years. Between 70 and 80 per cent of small businesses fail in their first year, and only about half of those who survive remain in business for the next five years (Friedrich, 2016). This is a worrying factor, considering the potential benefit that SMMEs should bring to the economy.

These failures are associated with the challenges faced by SMMEs, which include but are not limited to: access to financial aid, poor infrastructure, an inadequately educated workforce, inefficient Government "red tape", a lack of access to markets (BER, 2017) and onerous labour laws (Berry *et al.*, 2002).

- **Poor Infrastructure**

The failure of gaining entry to physical infrastructure is a key obstacle to business growth and adds extensively to the price of doing business. The GEM South Africa report (2014) alludes to the reality that infrastructure is one of the key enablers for SMME development.

- **An inadequately educated workforce**

The unemployment rate in SA remains the biggest challenge, as the majority of the employable population is unemployed. This can be attributed to the low skill levels of the population. The NDP (2013) indicates that small enterprises in the service industries are negatively affected through a scarcity of skills. The Department of Trade and Industry (2008) acknowledges that a scarcity of competencies and the restricted entrepreneurship potential act as a limitation to job creation.

Berry *et al.* (2002) argue that some of the inhibiting factors of SMME growth and sustainability in South Africa come from labour market failures (Berry *et al.*, 2002). The labour market in South Africa is known for having ridged labour laws, which limit the flexibility of hiring and firing, and raise the cost of employment. The rigidity of the labour market makes it difficult for businesses to respond appropriately to the economic environment. In the event of an economic downturn, where a business might need to lay off labour in order to lower costs and remain sustainable; instead, in those instances, businesses are forced to shut down (Berry, Von Blottnitz, Cassim, Kesper, Rajaratnam & Van Seventer, 2002: 95).

- **Inefficient Government bureaucracy**

Policies are instrumental in promoting activities for entrepreneurs. They provide a platform where new companies/businesses can easily be established or started. Bureaucracy is one of the major boundaries that prevent entrepreneurs and enterprises from developing in South Africa GEM (2016). Data from the World Bank's Doing Business reports suggests that reform in the region of Government bureaucracy is long overdue. Overall, in 2017 Mauritius was once ranked forty ninth out of a hundred ninety countries for ease of starting a business, whilst South Africa was once ranked 74th. Both Rwanda (56th) and Morocco (68th) are ranked above South Africa in terms of ease of doing business. In 2015, South

Africa was once ranked 43rd out of 189 countries, highlighting the huge decline in ease of doing business in this country.

Delays in relation to time to obtain permits and licenses, was one of the elements referred to in the WEF report. The report additionally highlighted the red tape related with starting up and managing a business.

SMMEs already realise that it is challenging to continue to exist under tough economic conditions, and any regulations have a tendency to be heavier than for larger businesses that have the funds and resources to deal with regulations. Jones & Penaluna (2013:889) states that one of the issues most entrepreneurs regularly raised as a problem is the burden of compliance with regulations, which diverts attention away from a business' core activity. Businesses using fewer than 21 people have been spending about 5% of turnover dealing with red tape (Jones & Penaluna, 2013:889).

- **Lack of access to markets**

The inability for SMMEs to gain entry to markets has been mentioned as one of the predominant elements threatening their survival. Access to markets is one of the essential requirements by credit providers, in order to gain access to funding and mentorship during early stages. However, small organisations located in rural areas are at a disadvantage compared to their city counterparts (Watson & Netswera, 2009).

The challenges that South African SMMEs face are not unique to South Africa but are faced by many developing economies. Yet SMMEs can create a significant amount of jobs and contribute largely to the growth of the economy; better than well-established organisations.

Consequently, Wickham (2001:2006) suggests that reasons for failure need to be investigated and to be understood in order to better the situation. As mentioned before, in South Africa SMMEs have only a 37 per cent chance of surviving for four years and a 9 per cent chance of surviving beyond ten years. Table 2.1 below highlights the key comparative statistics on SMME failures in France, the Netherlands, the United Kingdom and Finland. The data highlight how widespread the phenomenon of the high number of small business failures is.

Table 2.1: Business failure across counties

Period	France		Netherlands		United Kingdom		Finland	
	Survival %	Failure %	Survival %	Failure %	Survival %	Failure %	Survival %	Failure %
>1	75	25	82	18	88	12	79	21
>3	65	35	62	38	62	38	69	31
>5	51	49	48	52	48	52	51	49
Source : Adapted from Chandra et al (2001:18)								

Further research conducted by SAICA (2015) shows that South African SMMEs consider the following as major challenges to growth - Government-generated red tape, B-BBEE codes, labour laws, raising growth finance, and Tax laws. This echoes the abovementioned sentiments of the BER research and Berry *et al.* (2002) as discussed above.

2.5 MANUFACTURING SECTOR IN GAUTENG

The industrial centre for South Africa is in the Gauteng Province. On the continent of Africa, Gauteng is rated as one of the strongest economies. Its diversity includes, agro-processing, manufacturing, mining and a service sector. Gauteng Province contributes about 35% of SA's GDP. The province employs 49.6% of the working force in SA (GGDA, 2017).

The province has world class infrastructure combined with financial systems. It can be positioned as an investment and trading centre of the country. This makes the province an indispensable entry-point for entrepreneurs who seek to access the market and for start-ups. The Government's role is important to create a link for small businesses and start-ups, to compete and explore new business opportunities.

The manufacturing sector remains a critical component of the province's strategy to foster economic recovery and decisively address the triple threat of unemployment, poverty and inequality. The continuous decline of this sector should propel the Government to consider a variety of deliberate efforts to invest in this important sector (GGDA, 2017).

Even though it is still recovering from a series of recent contractions, the manufacturing sector still stands out as the largest job creator amongst other sectors, as it managed to add 62 000 jobs to the South African economy in the second quarter of 2017 and overall 145 000 jobs, year on year (Stats SA, 2017). With the appropriate support the manufacturing industry could help absorb a large portion of the unemployed labour force. It is then appropriate for Government to seek viable partnerships to assist SMMEs,

particularly in the manufacturing sector, to succeed as they create jobs and lead to the realisation of one of Governments primary goals of economic growth, poverty eradication and the reduction of inequality. The following section unpacks the manufacturing sector, how it can be stimulated to create sustainable jobs, and contribute to the growth of the economy.

2.5.1 SMMEs in the manufacturing sector

The purpose of this dissertation is to assess the partnership between the Government and SMMEs in the manufacturing sector as a tool to create jobs, by creating opportunities for SMMEs to grow sustainably. It is encouraging to see increased participation in the manufacturing sector in South Africa, with a higher TEA rate in manufacturing. Unfortunately it is significantly lower than the average of the African region, as shown in Table 2.2 below (GEM, 2016). This indicates that, indeed there is a lot more work to be done to promote this sector.

Table 2.2: Distribution of TEA by sector in South Africa 2015 - 2016

	2015	2016	Africa region 2016 (average)
Agriculture	7.2	2.9	12.9
Mining	6.3	6.6	4.2
Manufacturing	3.6	5.8	12.0
Transportation	5.1	9.7	4.3
Wholesale/ retail	50.4	50.6	50.9
Information/ communication technology	1.0	1.6	1.0
Finance	2.5	4.2	1.3
Professional services	3.1	2.7	1.6
Administrative services	2.5	6.1	2.4
Health, education, government and social services	16.8	8.5	8.4
Personal/ consumer services	1.6	1.4	1.0

Source: GEM report, 2016

Rodrik (2008:367) argues that the lack of dynamism of the manufacturing sector has been considered as a key issue, explaining the gradual increase and excessive unemployment

rate in South Africa since the ending of apartheid (Rodrik, 2008: 367; DTI, 2010). The fears that had been voiced related to the “deindustrialization” of the economic system, mirrored in the falling shares of manufacturing, in GDP and employment (Maia, 2011). Although these tendencies have characterised the country since 1994, over the past decade they have coincided with the rapid increase of imports from China.

There are factors that have contributed to the state of the manufacturing sector in South Africa and the same applies for the Gauteng region in general and across the rest of Africa. Three types of factors are considered to affect manufacturing in the African context:

- **Structural factors that influence transaction cost:**

These include infrastructure level, landlocked status, the quality of institutions and the size of the domestic market; all of which are crucial for explaining the development of the manufacturing sector in Africa (Carey, Gupta & Jacoby, 2007). Their expected effects are positive, except within the case of being inland. Special Economic Zones created in African countries by the Chinese Government to develop manufacturing activities are also expected to possess a positive impact.

- **Foreign competitor**

These include:

- (i) Competitors in domestic markets, whose extent can be measured by the volume of manufactured goods imported by African countries from China and from the rest of the world.
- (ii) Competitors in foreign markets, whose extent can be measured by the volume of exports of manufactured goods by China and the rest of the world to the world market. Their expected effects are negative. The greater in volume and the more diversified the manufactured goods exported by foreigners to domestic African and foreign markets, the more significant the negative effects on the manufacturing of African countries are likely to be.

2.6 GOVERNMENT INTERVENTIONS: HOW GOVERNMENT SUPPORTS SMMEs

Studies state that the development of SMMEs may be a major driver for work creation, more than the development of bigger endeavours (Wiese, 2014:9). This highlights the significance of SMMEs in building the economy of South Africa and accomplishing Government goals. The South African Government has put numerous mediations in place to create SMMEs, but the disappointment rate is still between 70 and 80 per cent, in spite of its endeavours (Fredrich, 2016:257). Professor Fredrich (2016:257-258) argues that the essential issue is that there are not sufficient inquiries done on SMMEs' victories as well as the disappointment within the South African setting. Thus the Government has been investing speculatively in SMME advancement in a trial and blunder way, to feed development within the division.

There is prove of solid political will behind SMME advancement in South Africa as indicated by all the endeavours that Government has implemented over a period of time., This can be viewed through the development of small to medium portfolios, the SEDA, Cipro, IDC, and many other institutions created by the Government to try and stimulate the SMME sector (Henama, 2018:3). Government has reorganised the NDP into an implementable programme. The Medium-Term Vital System sets out Government's objectives and needs over a period of time within the "9 - Point Plan" (SALGA, 2011). The 9-Point Plan arranges centres on vitality, infrastructure development, farming and agro-processing, mineral beneficiation, a better effect Mechanical Approach Activity Arrange, little commerce advancement and empowering private division speculation, among others (More, 2017).

A motivating factor for Government to throw its weight behind SMME development is the racial skewedness of entrepreneurial activity in South Africa, because of historical imbalances. A study by Herrington *et al.* (2008:60) found that black South Africans are lagging far behind their white and Indian counterparts. The ratios of entrepreneurs to their population groups are as follows: 1.7 for white people and 0.9 for black people. The study went on further to state that start-up firms by black people were less likely to mature to become a new firm with the start up to firm ratio for black people being 2.6:1 while for white people it was at 1.6:1 (Herrington *et al.*, 2008:61). The study also shows that the lowest

entrepreneurial activity is amongst black women in rural areas; who are currently the face of poverty in South Africa (Maluleke, 2011:3).

The priority needs to be the deracialising of the economy, to benefit the majority of the population. Between 1994 and 2017 the country experienced a real annual economic growth of about 2.85 per cent per annum but it was not realised across the board, as it was not sufficiently inclusive, nor labour-intensive (Stats SA, 2017). Staggering unemployment; 36.6 per cent under the broad definition, and 55.90 per cent youth unemployment, of mainly black people, has been witnessed (Stats SA, 2017). It means that a substantial part of society is unable to meaningfully participate in both the supply and demand sides of the economy.

Other factors inhibiting the country's economic growth include inadequate energy and water supply and road, rail, transport and Information Technology (IT) infrastructure, which is unreliable and very expensive, and impeding businesses of all sectors and sizes from being more competitive (Mthabela: 2015:26). According to Olawale and Gware (2015:728), there is also a significant mismatch between the skills generated by the South African education system and the current and emerging skills demands required for a growing economy. Moreover, the South African Government has failed its people through its maladministration in the public office, corruption and a bribery culture instituted by the leaders (Olawale & Gware, 2015:731).

To effect growth in SMME development and create sustainable jobs in South Africa, the Government will need to address the current limitations for SMMEs in their policies and politics of business. South Africa may have many world-class laws, but they tend to fail in creating the necessary certainty and conditions for competitiveness, economic inclusion and growth. SMMEs tend to struggle disproportionately with the regulatory burden.

Beyond Government working alone on developing SMMEs, bold intervention by business and organised labour is also required to radically alter the course of the country's economic fortunes. If nothing is done, sustained poverty, inequality and unemployment will continue to unravel the economic and social fabric of a country that holds so much potential for growth and development (Cohen *et al.*, 2017:27).

2.7 INTERNATIONAL PERSPECTIVE OF THE SMME INDUSTRY: CHINA

The Government can derive some knowledge from nations that have managed to stimulate their economies of scales, through a clear defined strategy. The country that was chosen is China. This country was selected because it is part of the Brazil, Russia, India, China and South Africa (BRICS) countries and has an economy going for it.

Factors that have contributed significantly in rapid growth of China's economics of scale are as follows:

- **Labour supply**

There is an ample supply of labourers in China with an unfaltering stream of rural-urban transients in search of work, usually due to the motorisation of horticulture which drives unemployment and under-employment in provincial ranges and concurrent development in mechanical work in urban regions (Friedrich, 2016:271).

- **Wages and unemployment**

The unemployment rate has fallen in the region as more jobs opened up. They also had the right skills and workers were compensated accordingly (Mthabela: 2015:30).

- **Strong leadership**

Chinese politicians are said to feel a more prominent duty to their country than to themselves (Tende, 2014:12). Solid administration from the head of state has been a major calculate contributing to financial victory.

- **Free advertisement on financial matters**

China started moving from a centrally arranged economy towards a market-oriented framework in 1978. Deng Xiaoping was Mao's successor and he strived to bring a conclusion to China's relative financial confinement (Cui & Wu, 2017:63).

- **Export-led development**

This is the system which China sought after first. The methodology is starting to be staged out in support of Purport Substitution Industrialisation, by which shopper items imported for China's developing middle-class are progressively being made in China, such as cars, household white merchandise and house- and office-furniture.

Given the information on the factors that made China successful, one start to realise that the Government has played a very significant role in mobilising and insuring that the interest and success of China is priority, by being selfless, creating policies for free trade, ruling out minimum wage, promoting and building a good education system, and promoting proudly Chinese products by Chinese manufacturers (Tende, 2014:29).

2.8 CONCLUSION

There is evidence of strong political will behind SMME development in South Africa as evidenced by all the efforts that the Government has made over the years, since democracy. The Government is responsible to create an environment where businesses can be started and develop, in which manner it will provide the opportunity for job creation and economic growth. To this end, the South African Government has put many interventions in place to develop SMMEs, but the failure rate is still between 70 and 80 per cent despite its efforts. The primary concern is that there is not enough research done on SMMEs' successes and failures in the South African context. Consequently the Government has been investing speculatively in SMME development in a trial and error manner, to stoke growth in the sector.

Literature states that a survey conducted by SEDA shows that SMMEs performed better when support institutions provided a variety of interlinked services, rather than a single service (Mazwai, 2009). Xhariep, critiqued SEDA and alternative support establishments for lack of coordination efforts with alternative organisations, significantly with the private sector and alternative non-Government organisations (SEDA, 2009:45).

The failures SMMEs experience are associated with the challenges faced by the SMMEs, which include, but are not limited to: access to finance, poor infrastructure, an inadequately

educated workforce, inefficient Government “red tape”, a lack of access to markets (BER, 2017) and onerous labour laws (Berry *et al.*, 2002).

The challenges that South African SMMEs face are not unique to South Africa but are faced by many developing economies. Given that the SMMEs can create a significant amount of jobs and contribute extensively to the growth of the economy; even better than well-established organisations, it is imperative that reasons for failure be investigated to be understood in order to better the situation. This will help answer the research question: 'How can Government improve SMME development interventions to create jobs through SMMEs in the manufacturing sector? In the following Chapter, the methodology used to derive data from the respondents is discussed and the chapter thereafter answers that fundamental question.

CHAPTER 3

RESEARCH METHODOLOGY

3.1 INTRODUCTION

The purpose of this chapter is to highlight the methodology that was used to research this dissertation. The validity of the information generated by using research depends comprehensively on the methodology used to acquire the information (Leedy & Ormrod, 2005:93). Research Methodology is described as the concept and evaluation of how research will ensue, and it justifies the methods that a researcher utilises in a study (Carter & Little, 2007:1317).

This methodology chapter is laid out as follows: the area following this introduction highlights the research approach, which provides a discussion of and a justification for the methodology used in this research study. The third section discusses how the information was gathered and analysed, together with the foundation for data selection; the fourth section presents detail about the measures undertaken to make sure that the study is legitimate and reliable; part five outlines the limitations of the study, while section six highlights the magnitude of this study. The final section of this chapter is the conclusion.

3.2 RESEARCH APPROACH

The purpose of this dissertation is to assess the partnership between the Government and SMMEs in the manufacturing sector, as a tool to create jobs, by creating opportunities for SMMEs to grow sustainably. The approach used in this study is the qualitative method. The choice to use a qualitative research study was informed by several deliberations, including a theoretical perspective on how research should be conducted, characteristics of the research, the purpose of the study, as well as guidance from other studies of a similar nature. Each of these factors is discussed further below.

3.2.1 Interpretivism Paradigm

Epistemology is the study of information – what knowledge is and the way it is non-heritable (Bernard, 2000:8). With regards to research methods, epistemology will be considered a calculated manner of choosing a quest methodology that a researcher can use once conducting fieldwork. The methodology that is possible to be accustomed to conduct a quest study that is directed by the researcher's epistemological position.

The figure below shows how cogent the epistemology is on a research methodology as an example. The aim of the researcher is to highlight the objective following prescribed techniques (Guba & Lincoln, 1994:110). These techniques consist of an empirical and an experimental approach. Positivism employs quantitative lookup methods, whilst the positivists, interpretivist researchers request to understand the deeper insights of principles and consequently the context they are being studied in.

This study promotes the interaction of the researcher with the contributors to obtain an upscale and elaborate understanding, related to the actual concepts, collectively with non-observable meanings, intentions, values, beliefs and the self-understanding that people maintain (Babbie & Mutton, 1998:33). This, on occasion, entails conducting interviews, and creating direct observation, amongst distinctive methods. Hence, interpretivism generally makes use of qualitative research methods.

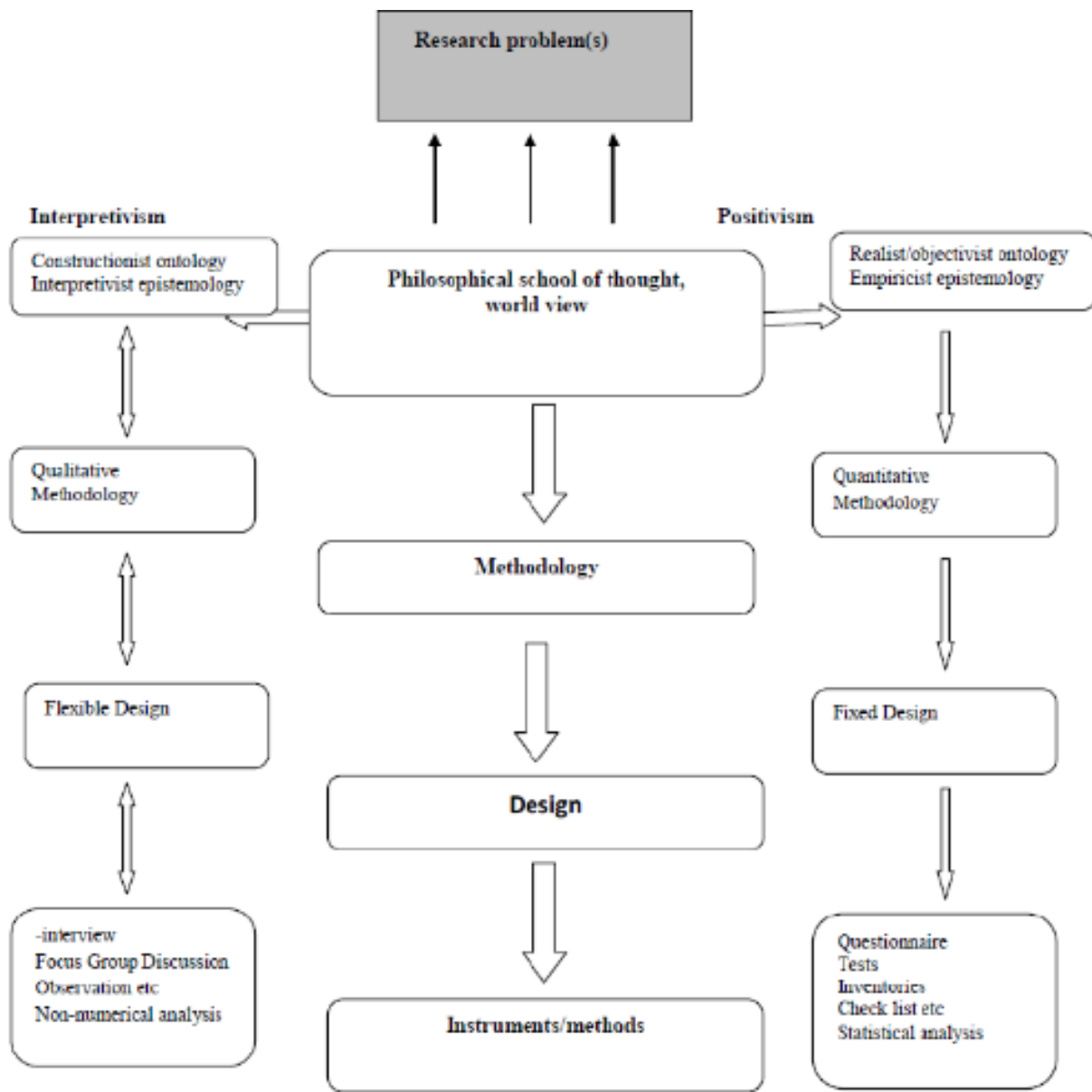
Using the literature on epistemology, as a guide to build a theoretical framework, that will guide this dissertation's research methodology, the analysis study had to be linked to the positivist or interpretivist paradigms. Cohen *et al.* (2007: 27) and Maxwell (2008) argue that each researcher ought to work from a specific paradigm in social research, as a result of every researcher holding varied individual views concerning the character of information and reality. This helps to elucidate the suitable theoretical framework and justifying the research style.

Denzin and Lincoln (1994) are also of the view that the method of creating a method strategy ought to be supported by a theoretical foundation.

Through a review of the purpose of the study, as well as the research, queries show that the philosophical orientation of the study is towards the interpretivism paradigm, thus the

decision to use the qualitative analysis technique, epistemologically known as interpretivism.

Figure 3.1: Foundation of the research



Source: Tuli (2010)

3.2.2 Qualitative vs Quantitative

The research style provides the scholar with a clear study framework while guiding the ways in which decisions are made, and sets the base for analysis (Vosloo, 2014:316). Vosloo (2014:299) declares that the research style is applied so that applicable study

strategies can be used to make sure of the accomplishment of the goals and objectives stated for the study. The research style and methodology set the array for the study and helps the scholar to anticipate the suitable research style that produces legitimate ultimate outcomes (Vosloo, 2014:299). The research style is achieved either through quantitative, qualitative or mixed strategies. Quantitative research primarily focuses on analysing numerical information to quantify and verify the prevalence of a retardant, emphasising an outsized sample (Schmierbach, 2005:275). Qualitative research is more outlined as a research method that seeks to answer questions on the advanced nature of a development, to explain and perceive the development of the participant's purpose (Leedy & Ormrod, 2005:94).

The study is concerned with gaining an in-depth understanding of the nature of the challenges faced by Government institutions in partnership with SMMEs, to create jobs rather than making an analytical assessment of the impact of Government intervention on job creation, which can be quantitative. The type of information gathered for this research could not be analysed properly through quantitative research methods. Instead, qualitative research is a better method for studying the variations and complexities of the data, because it is interactive and flexible. Therefore, it was more appropriate to use the qualitative approach for this study.

3.2.3 Purpose of the study – Exploratory

The purpose of the research is exploratory the problem of the challenges facing the Government interventions that will influence the survival of SMMEs and also the creation of jobs, has terribly restricted data concerning the subject. An exploratory research quest allows one to achieve a deeper understanding of the subject, thus areas of concern can be known and explanations may be provided. In line with Bryman (1984:84), exploratory research primarily uses a versatile and unstructured research method, which needs qualitative information assortment and analysis. The investigator therefore aims to explore the research queries and does not supply final and conclusive solutions to existing issues. The approach to gather the information through the qualitative technique intends to administer insights that will otherwise not be given during a quantitative research technique.

3.3 DATA COLLECTION METHODS

According to Creswell (2003:15), data collection is a series of interconnected activities aimed at gathering information to answer research questions. The table below summarises the differences between primary and secondary data, as it will be used in this research.

Table 3.1: Primary data versus Secondary data

PRIMARY DATA	SECONDARY DATA
Present day data	Existing data
Addresses the research problem at hand	Meant for other purposes but gives good insight to the research problem at hand
The process of collecting the data is very elaborate	The process of collecting data is rapid and easy
Sources of data: surveys, observations, experiments, questionnaire, personal interviews	Sources of data: government publications, websites, books, journal articles, internal records
Costly in time, cost and workforce	Inexpensive and quickly available
always specific to the researcher's needs and the controls the quality of research	is neither specific to the researcher's need, nor he has control over the data quality
available in the raw form	the refined form
More reliable	Less reliable

Source: Sutton and Austin (2015:231-232)

The target population for this study is entrepreneurs of SMMEs, particularly in the manufacturing sector. This includes start-ups and small to medium businesses, as well as employees of Government institutions that deal with providing finance, mentorship and advice, and are mandated to assist and promote entrepreneurship in South Africa.

Entrepreneurs were identified as individuals running a manufacturing company, with operations in Gauteng, both formally and informally. This includes companies that may not be registered with CIPC and producing on a small scale, selling directly to customers or larger established SMMEs that have more significant distribution channels.

3.3.1 Interviews

Interviews are the most widely used tools in a qualitative research study. Interviews yield a huge amount of useful information and are adaptable (Bell, 2005:157). The purpose of this dissertation is to gain a deeper understanding of the partnership between the Government and SMMEs in the manufacturing sector, as a tool to create jobs. Interviews are an excellent form of data collection; hence they were the primary tool for collecting data.

The interviews were conducted in a semi-structured manner. An interview guide was developed in the form of a list of predefined questions, which specifically needed to be discussed with the respondents. An interview guide is important as it provides a structure with a relatively high level of flexibility when conducting an interview (Patton, 2001).

The structure enables the researcher to organise and analyse interview data easier than in an unstructured interview, while the flexibility allows the collection of in-depth information (Bowen, 2003:53). The questions for the interview guide were developed according to four themes, namely Government interventions, SMME roles, the roles of the manufacturing sector, and Government and SMME partnerships. These are also the themes that were used to present the results of the data collection in the findings chapter.

The questionnaire is specifically focused on measuring the perception of the entrepreneurs in the SMMEs and the employees of Government institutions on the partnership of the two stakeholders to create jobs in South Africa (Oosthuizen, 2006). The questionnaire consists of two parts; the demographic section outlining the gender, age, race, years of experience and education level of the respondents and a list of 20 yes/no questions affecting the themes of Government interventions, SMME roles, the roles of the manufacturing sector, and Government and SMME partnerships.

The interview process proceeded slower than expected. This is because the various respondents were in different areas in the Gauteng region and some appointments had to be postponed or cancelled depending on the availability of the respondents. It took about four months to complete the interview process. It also turned out to be a challenge to find SMMEs in the manufacturing industry, thus other SMME owners were also invited to participate in the interview process as a contingency plan.

The interviews were conducted for four months, from July 2017 to October 2017. The appointments for the interviews were secured through email or telephonically. Most of the interviews were conducted on a one-on-one basis and face-to-face; solely 5 interviews, all from Government workers, were telecom. The interviews with the Government workers were conducted at their varied offices. Interviews with SMMEs were conducted in their place of business, while interviews with smaller SMMEs were conducted in numerous public places. The interviews varied in length, however, on average they lasted between twenty minutes and half-an-hour. All the interview notes were scribed throughout the interview. This enabled the analysis to be quicker and easier as the notes helped the researcher to establish and highlight rising key problems that might need additional attention.

3.3.2 Document analysis

In order to supplement the primary data that is obtained from the interview, secondary data is also documented through document analysis. Document analysis was more challenging than anticipated. This is because the documents that were easily available had very little information on the performance of the different Government interventions. Document analysis included the latest annual reports from each of the Government institutions listed above in the literature review, from 2015/16 to 2016/17, research publications from 2015/16 to 2016/17 and various news publications, amongst others. All the Government documents were downloaded from various websites. Some of the Government institutions were not prepared to provide internal documents like performance reports, and minutes of meetings from the board/committee. These documents were critical for the study, because they would have provided information that was not manipulated and skewed.

The literature review conducted in Chapter 2 was also considered part of the document analysis since it contains additional data related to the research. Reviewed newspaper articles were intentionally obtained from different print houses, as well as Business Day, Times live and Sunday Times.

3.3.3 Sampling

Sampling is defined by Creswell (2013:3) as “the process of selecting a representative group from the population under study.” A population is defined by Du Plooy-Cilliers *et al.* (2014:132) as “the total group of people or entities from whom information is required”. A sample may be a cluster of individuals; a section of the population. The United Nations agency also featured in part of the study. It was easier to contact a smaller part of the population for knowledge assortment. All sampling was done at intervals on a restricted time, effort and monetary budget.

In this research study, a purposive sampling approach was used to choose a sample. In keeping with Patton (2001), purposive sampling involves choosing information-rich units or cases for an in-depth study, supported by the particular purpose of the research, instead of randomly.

A sample of 40 individuals were selected and divided in the following manner:

- Government employees
- Owners/managers in the SMME manufacturing sector

The selected research sample includes employees from Government institutions responsible for financing, training and developing SMMEs, located all across Gauteng, as well as SMMEs that are in the manufacturing sector. All these subjects were selected because they are directly involved in the Government and SMME partnerships to create jobs. Their perceptions and views are critical for the researcher’s understanding of the issues investigated, and for answering the research questions.

The sample size is relatively small, because the research is based on the Gauteng region alone, as opposed to the whole of South Africa. The initial plan was to interview a total of 40 people; 10 Government employees and 30 entrepreneurs. However, some respondents were unavailable for interviews due to other commitments. Of the 40 respondents that were requested to interview, 30 agreed to be interviewed. No response was received from the other 10 and 1 retracted the acceptance. Thus, 29 people were interviewed as indicated in the table below:

Table 3.2: Interview Respondents

Category of respondent	Number of respondents (Planned)	Number of respondents (Actual)	Response rate
Government employees	10	7	24%
Entrepreneurs in the manufacturing sector	30	22	76%
Total	40	29	100%

Overall, the research had a 73% response rate with SMMEs from sectors other than manufacturing and Government employees in intervening institutions such as SEDA, SEFA and IDC showing the greatest response rate of 90 per cent.

3.3.4 Data analysis

There are several authors who provide suggestions on how to approach data analysis. The approach presented by Taylor-Powell and Renner (2003) is the one this dissertation followed.

The analysis method includes 5 steps:

- (1) Reaching to recognise your information,
- (2) Focus analysis,
- (3) Reason data,
- (4) Determine patterns and connections at intervals and between classes, and
- (5) Interpretation.

Applying Taylor and Renner's approach, firstly the notes taken were thoroughly read through. The first impression during this review was that Government employees' responses seemed to be hesitant. This inferred that there may be questions that may not have been answered truthfully. This information was noted before continuing to stage two. This info was helpful throughout the interpretation stage. To some extent it helped the interviewer to perceive the inconsistencies within the responses, as exposed within the analysis chapter.

In the second stage, the researcher chooses the way to focus the analysis. The focus of this analysis was primarily on the key themes and questions that needed to be addressed. These themes were organised according to the questions within the interview guide. The information was also organised according to the questions in order to examine how every respondent and/or cluster responded to the questions; to check the information and to identify similarities or variations.

Stage 3 of the analysis method concerns categorising info according to knowledge, sometimes called committal to writing. In most cases, the themes emerge as a researcher analyses the information. However, for this thesis, the researcher had already identified themes from the literature review that needed to be pursued. The identified themes are: Government interventions, SMMEs' role, and also the role of the manufacturing sector and Government and SMME partnerships.

Stages four and five are conducted concurrently; while characteristic patterns within the information are identified. These patterns are conjointly used to make a case for the findings. The patterns within the knowledge are identified through the constant analysis and comparison of the categorised knowledge. Visual displays, with graphs, charts and tables are used to communicate the findings. For interpretation functions, patterns as well as literature, together with document analysis and other information, are used to make a case for the findings.

3.4 VALIDITY AND RELIABILITY

Merriam (1998) suggests many ways that may be adopted to push validity and dependability of mensuration instruments, as well as triangulation, audit trails, most variation, and critique, amongst others.

To ensure the validity and dependability of this analysis, the triangulation strategy was used. Triangulation refers to the multiple uses of sources, information or data assortment as ways to corroborate findings. As already indicated, below the information assortment section, interviews were used because of the primary supply of knowledge (Thomas, 2006:90).

Document analysis was used to verify the data. Multiple sources from within the document analysis enabled the researcher to validate the accuracy of the knowledge. The first information collection technique concerned interviews that were substantiated by document analysis (De Vos, Strydom, Schulze & Patel 2011:172).

3.5 LIMITATIONS OF THE STUDY

The limitation of this study is principally attributed to the research style. The sample size is simply too tiny and will not be a real illustration of the population, thus findings and conclusions cannot be generalised. However, the findings from this study can be used as a basis for more and larger-scale research on Government and SMME partnerships to create jobs. Another limitation is that the study is conducted only on SMMEs in the manufacturing sector in the Gauteng Province. Gauteng happens to be the economic hub of South Africa and therefore the insights drawn from the study may not be directly transferable to the rest of the country. This does not, however, take away the fact that the insights can be used as a guide in the other provinces.

The final limitation of the study lies therein that the study concentrates on the theoretical understating of the ways in which the Government and SMME partnerships can create jobs but fails to contribute to the future forecasts of roughly how many jobs can be created and with what percentage will it impact the economic growth rate, due to its qualitative nature. This suggests that a quantitative research study on the same topic should also be done to provide more helpful statistics on how to create jobs through the manufacturing sector.

3.6 SIGNIFICANCE OF THE STUDY

The study contributes to the literature on SMMEs in South Africa, in particular to the limited literature on the performance of Government support institutions. The research adds to the existing body of work on SMMEs in South Africa by analysing the SMME landscape and fleshing out what the primary drivers behind their successes and failures are. The study looks into what the South African Government has done to support SMME development, as well as how the Government can get further involved to create sustainability in the sector. Findings from this study can highlight critical areas of weakness in the provision of SMME support and development, prompting further large-scale research into these areas

to improve enterprise development programmes in general. The Government has already put numerous programmes in place to support SMME development. This study takes a look at those interventions' short comings to explain the failures of SMMEs to possibly chart a way forward on how to rectify them. The research can also serve as feedback to Government institutions on the effectiveness of their interventions and supply recommendations for improvement.

3.7 CONCLUSIONS

In conclusion, this chapter has defined the research methodology that was used for this study, and the reason behind the use of a qualitative research method. The decision to use a qualitative research approach was primarily influenced by the epistemological view of the researcher, which is seated in the Interpretivism theory. Interpretivist research emphasises a deeper grasp of problems under investigation, subsequently they use qualitative research methods. The research method and layout was also created through the literature assessment of the methodological strategies that have been adopted in different comparable studies. These studies were used as a guide in creating a methodological framework for this study.

CHAPTER 4

RESULTS AND DISCUSSIONS

4.1 INTRODUCTION

The purpose of this chapter is to present a summary of the results obtained from the data collection process and provide an analysis of the findings thereof. The findings are summarised and presented visually using tables and graphs, which are then explained narratively. The analysis and discussion of these key findings follow to derive meaning and draw conclusions in response to the dissertation's primary and secondary research questions. The findings are discussed under the main topics as per the interview guide, while certain sections are presented by category of respondents, namely Government representatives and SMMEs.

This chapter is laid out as follows; the section following the introduction of this chapter highlights the demographic data from the interviews conducted. The next section unpacks the key findings of this research study in relation to the respondents' take on (1) the partnership of the Government and SMMEs for job creation purposes; (2) SMME role in job creation; (3) the role of the manufacturing sector; and (4) Government's intervention. Section four delves into the analysis of the key findings of the research and the last section of the chapter is a conclusion.

4.2 DEMOGRAPHIC DATA

Section one of the interview questions was based on demographics, so as to get a picture of whom, in general, the respondents were overall. The results of the demographic makeup of the respondents interviewed for the purposes of the research study are shown in the tables below. The questions asked were in relation to gender, marital status, age, race, work experience, educational background, industry of employment, and the sector of operation.

Table 4.1: Gender

Gender	Respondent Count	Percentage
Male	21	72%
Female	8	28%
Total	29	

Table 4.1 indicates that the majority of respondents were male. Only 28 per cent of the respondents were female. This is in line with the SEDA report (SMME 2018 Quarter 1 report), which indicates that 38% of SMMEs are female owned (SEDA, 2017:12).

Table 4.2: Marital status

Marital Status	Respondent Count	Percentage
Single	11	38%
Married	12	41%
Divorced	5	17%
Other	1	3%
Total	29	

Table 4.2 shows that there was almost an equal split between married and single people. A total of 17 per cent of the respondents were divorced whilst one respondent chose not to disclose his/her marital status.

Table 4.3: Race

Race	Respondent Count	Percentage
Black	20	69%
Coloured	9	31%
Indian	0	0%
White	0	0%
Other	0	0%
Total	29	

Table 4.3 displays that the race distribution of the respondents was predominantly black, as just under three quarters identified as black, whilst the rest of the respondents were coloured. There was no representation of any other races in the interviews conducted. The

white respondents who were identified declined to do the interviews, as stated in Chapter 3.

Table 4.4: Age

Age	Respondent Count	Percentage
0 – 17	0	0%
18 – 25	3	10%
26 – 30	7	24%
31 – 35	9	31%
36 – 40	5	17%
41 – 50	4	14%
51 – 60	1	3%
61+	0	0%
Total	29	

Table 4.4 illustrates that about 72% of the respondents were between the ages of 26 and 40. The majority of the 72% still falls within the scope of youth, according to NYDA's definition.

Table 4.5: Industry of employment by sector

Industry of employment by sector	Total count	Total percentage
Government	7	24%
SMME (manufacturing)	22	76%
Total	29	

Table 4.5 shows the industry of employment of the respondents according to the sectors that they work in. A total of 24% were Government officials, while the rest of the population were affiliated to SMMEs in the manufacturing sector.

Table 4.6: Industry of employment by years of experience

	Government	SMME
0 - 3years	1	5
3 - 5years	2	11
5 - 10years	4	4
10+years	0	2
Total percentage	24%	76%

Table 4.6 shows the number of years' experience of the respondents in their respective fields. Most of the respondents have between three to five years of experience in their various industries. The respondents with 10+ years of experience are affiliated to SMMEs.

Table 4.7: Industry of employment by Education level

Industry of employment by Education level	Government	SMME	Total Count
No Matric	0	2	2
Matric	2	6	8
Diploma	2	7	9
Degree	0	2	2
Honours	0	1	1
Post-grad	2	3	5
Masters	1	1	2
PHD	0	0	0
Total Count	7	22	29

Table 4.7 highlights the industry in terms of education level. There are varying levels of education although notably, none of the respondents had a PhD. Most of the respondents either had matric, a certificate or a diploma.

4.3 FINDINGS ANALYSIS

The following section highlights the key findings from the research conducted. The key findings are separated into four themes. Each one of the questions has a yes and a no component; elaboration was mandatory for each answer to provide a better understanding of the answers. The graphs show the overall responses of the respondents, without distinguishing between Government and SMME owners, whilst the tables that follow divide the answers into whether the respondent is a Government employee or an SMME owner.

4.3.1 The role of SMMEs

Figure 4.1: The role of SMMEs

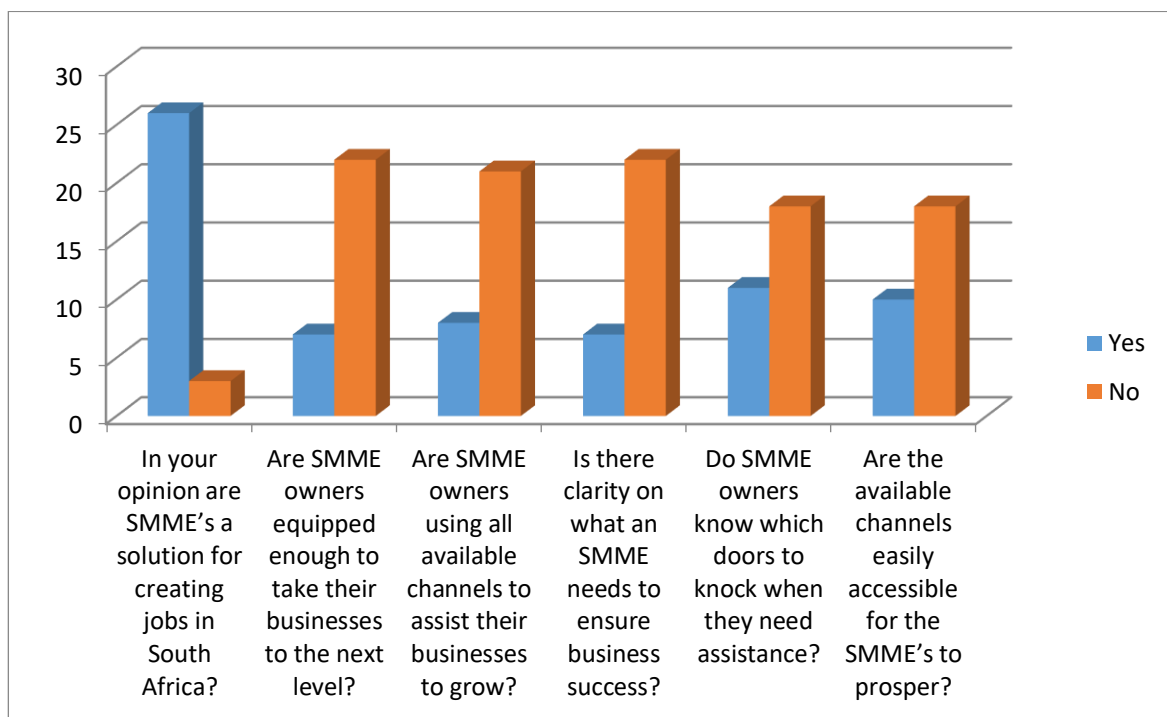


Figure 4.1 highlights the role of SMMEs, based on the opinions of the respondents. The first question shows an overwhelming consensus amongst respondents, namely that SMMEs are a solution for creating jobs in South Africa. The second question also shows that most of the respondents felt that SMME owners are not equipped well enough to take their businesses to the next level. In question three, respondents indicated that SMME owners were not using all the available channels at their disposal to grow their businesses. Question four highlights that most respondents felt that there is no clarity on what skills SMME owners need to ensure business success.

Questions five and six address the concerns raised in question four and highlight that most of the respondents felt that SMME owners do not know which door to knock at when they need assistance and which channels are available to them.

Table 4.8: The role of SMMEs

SMMEs' role		
	Yes	No
In your opinion are SMMEs a solution for creating jobs in South Africa?	28	1
Are SMME owners equipped enough to take their businesses to the next level?	8	21
Are SMME owners using all available channels to assist their businesses to grow?	4	25
Is there clarity on what an SMME needs to ensure business success?	9	20
Do SMME owners know which doors to knock on when they need assistance?	13	16
Are the available channels easily accessible for the SMMEs to prosper?	9	20

Table 4.8 shows that, in general, Government employees and SMME owners are in agreement on what the role of SMME businesses is in ensuring success and creating jobs. It is interesting to note though that Government employees are split almost 50-50 on the issue of whether SMME owners know which doors to knock on when they need assistance, whereas SMME owners are very clear that they do not know which doors to knock on when they need assistance.

The second part of the questionnaire is in relation to the role of SMMEs in an economy to create job. The general sentiment from most of the respondents is that indeed SMMEs can be looked at to create jobs for the country. One person responded that if all the sectors can be covered and the skills levels of all the citizens could be improved, indeed SMME businesses will create jobs. The current challenge is that SMMEs may not be equipped enough to take their businesses to the next level, the respondents expressed this concern

and stated that there should to be training for business owners on how to operate an effective SMME. Many owners are not investing enough time to understand the basic business management skills in order to build sustainable enterprises though. The Government is the biggest consumer of goods and services and they have a responsibility to assist SMMEs by supporting them through procurement of goods and services from SMMEs. The concerns are though that SMME owners are not using all the channels that are available to grow their businesses and that the Government's intentions to promote agendas for ensuring more successful SMMEs are not effective. Other issues that were raised are that SMME owners are not clear on what their needs are, and that SMME owners who are survivalist entrepreneurs tend to be concerned with just feeding their families and are not concerned about having enough knowledge or a vision to build and sustain their businesses.

The concern that SMME owners do not know where to go when they need assistance is one of the major problems, as highlighted in the literature. One of the respondents mentioned that those who have access to technology are in a better situation; it is easier for them to find the resources that they need, while those who live in rural areas need to travel miles to get the necessary assistance. The channels that have been created for SMME development may not be easily accessible and the fact that communication between the Government and the SMMEs is not clear exacerbates the problem.

One respondent also mentioned that the lack of adequate access to funding for small businesses is the leading cause of why there is such a high failure rate, low growth and the inability to employ more people hence Government needs to intervene to turn the situation round.

4.3.2 The role of the manufacturing sector

Figure 4.2: The role of the manufacturing industry

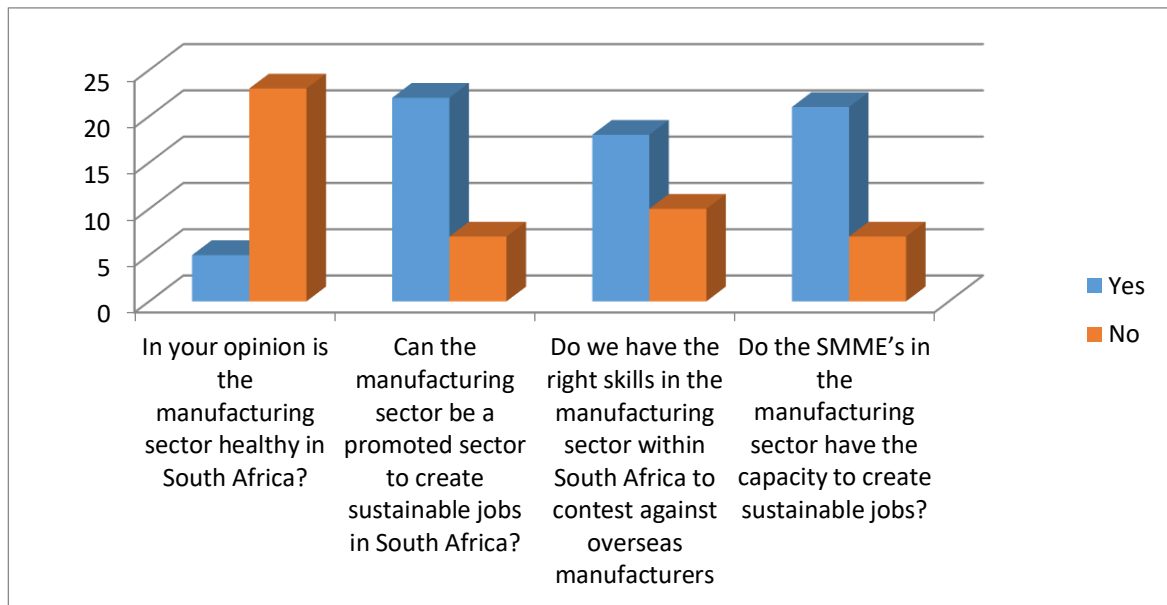


Figure 4.2 focuses on the theme of the role of the manufacturing industry in job creation. The answers to the first question indicate a strong consensus that the manufacturing sector in South Africa is not healthy. Question two instils hope since the majority of respondents feel that the manufacturing sector can be improved to create sustainable jobs in South Africa. Question three shows that the respondents were slightly optimistic about South Africa having the right skills within the manufacturing sector to contest against overseas manufacturers; this will be looked at in more detail in the next table. The last question shows that; indeed, most respondents feel that SMMEs in the manufacturing sector do have the capacity to create sustainable jobs.

Table 4.9: The role of the manufacturing industry

Manufacturing industry		
	Yes	No
In your opinion, is the manufacturing sector healthy in South Africa?	5	23
Can the manufacturing sector be a promoted sector to create sustainable jobs in South Africa?	22	7
Do we have the right skills in the manufacturing sector within South Africa to contest against overseas manufacturers	18	10
Do the SMMEs in the manufacturing sector have the capacity to create sustainable jobs?	21	7

Table 4.9 indicates that there is general consensus about the role of the manufacturing industry in job creation in South Africa. Only five out of the 29 respondents felt that the manufacturing sector is healthy, and four of those five respondents were SMME owners. The table shows that SMME owners tend to be more optimistic than the Government employees, for example 7 out of the 29 respondents felt that the manufacturing sector cannot be promoted to create sustainable jobs and five of those seven respondents were Government employees.

Part three of the interview is concerned with the role of the manufacturing sector, as a lever to create jobs in the South African economy. There was general agreement that the manufacturing sector is indeed a good source for job creation, however, there are challenges that need to be dealt with. The primary problem is that the manufacturing sector has been declining over recent years, due to non-investment and labour challenges, amongst others. Numerous respondents indicated that the imports from China are shrinking the manufacturing sector and thus the sector has been shedding jobs over the past couple of years.

The manufacturing sector can be improved to create sustainable jobs in South Africa, and as one respondent mentioned, investment in the entrepreneurial education and financial support for the manufacturing sector can create the much-needed jobs. Literature also backs this up as indicated in Chapter 2.

Another issue that was raised in the manufacturing sector is the lack of skills in some areas. One respondent mentioned that part of the reason for this is the fact that those who have the skills refuse to pass them down. On the same issue, another respondent mentioned that with enough support from the Government to export more products and services, the country's GDP will improve and the manufacturing sector will grow.

4.3.3 Government and SMME partnerships

Figure 4.3: Government and SMME partnerships

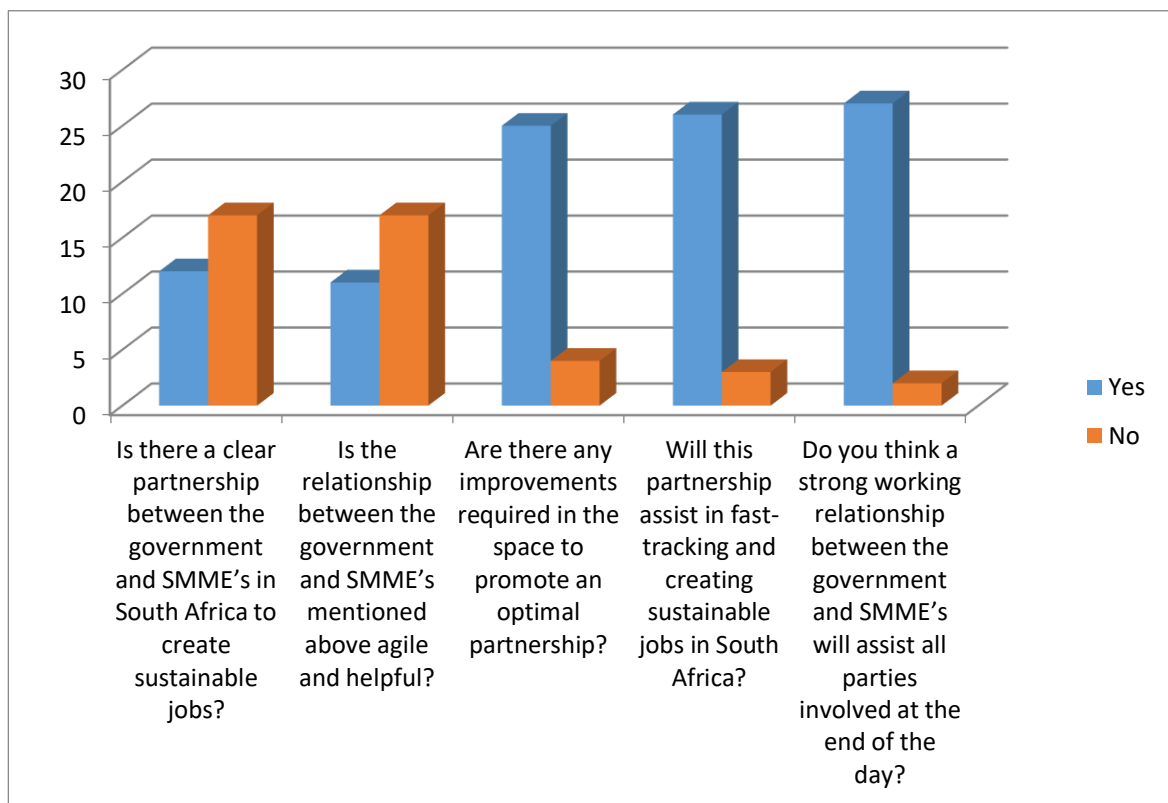


Figure 4.3 highlights the theme of Government and SMME partnerships, clarifying the current relationship and ascertaining the prospect of a future relationship between the two entities. The response to the first question indicate that most of the respondents feel that there is no clear partnership between the Government and SMMEs in South Africa for creating sustainable jobs. In the same breath, the respondents also mentioned that the relationship that does exist between SMMEs and Government at that moment is not agile and helpful at all.

An overwhelming majority of respondents felt that there is certainly room for improvement within the SMME and Government partnership to promote and optimal partnership. Similarly, questions four and five indicate that most of the respondents believe that the partnership will assist in fresh endeavours for creating sustainable jobs in South Africa, whilst a strong working relationship between the Government and SMMEs will assist all the parties involved, at the end of the day, to achieve their respective goals.

Table 4.10: Government and SMME partnerships

Government and SMME Partnership		
	Yes	No
Is there a clear partnership between the Government and SMMEs in South Africa to create sustainable jobs?	12	17
Is the relationship between the Government and SMMEs mentioned above agile and helpful?	11	17
Are there any improvements required in the space to promote an optimal partnership?	25	4
Will this partnership assist in fast-tracking and creating sustainable jobs in South Africa?	26	3
Do you think a strong working relationship between the Government and SMME's will assist all parties involved at the end of the day?	27	2

Table 4.10 shows the consensus between Government employees and SMME owners, with the exception of the second question, where there was a clear conflict. Government employees do not believe that the relationship between Government and SMMEs is agile and helpful, whilst the majority of SMME owners believe that this relationship is helpful. This is an interesting finding as the pessimism of Government employees might be an indicator of why the performance of the various institutions tends to be lacklustre.

“As much as there is a Ministry of small business development that was created what it has achieved is yet to be seen”, this is the sentiment from one of the SMME owners, and a respondent in this research. Research shows that this young department indeed has worked to merge and support SMMEs, but how much of an impact this department has had on small businesses in South Africa is yet to be clearly measured. The relationship between

Government and small businesses is not thought to be agile and helpful; this is due to the huge amount of bureaucracy that the Government has in place. In order to have an optimal partnership, Government needs to work on educating people on where to go and what to do and outline the benefits the different Government institutions offer. SMME business owners need to know what Government institutions have put into place to assist small businesses to start and grow sustainably.

4.3.4 Government intervention

Figure 4.4: Government intervention

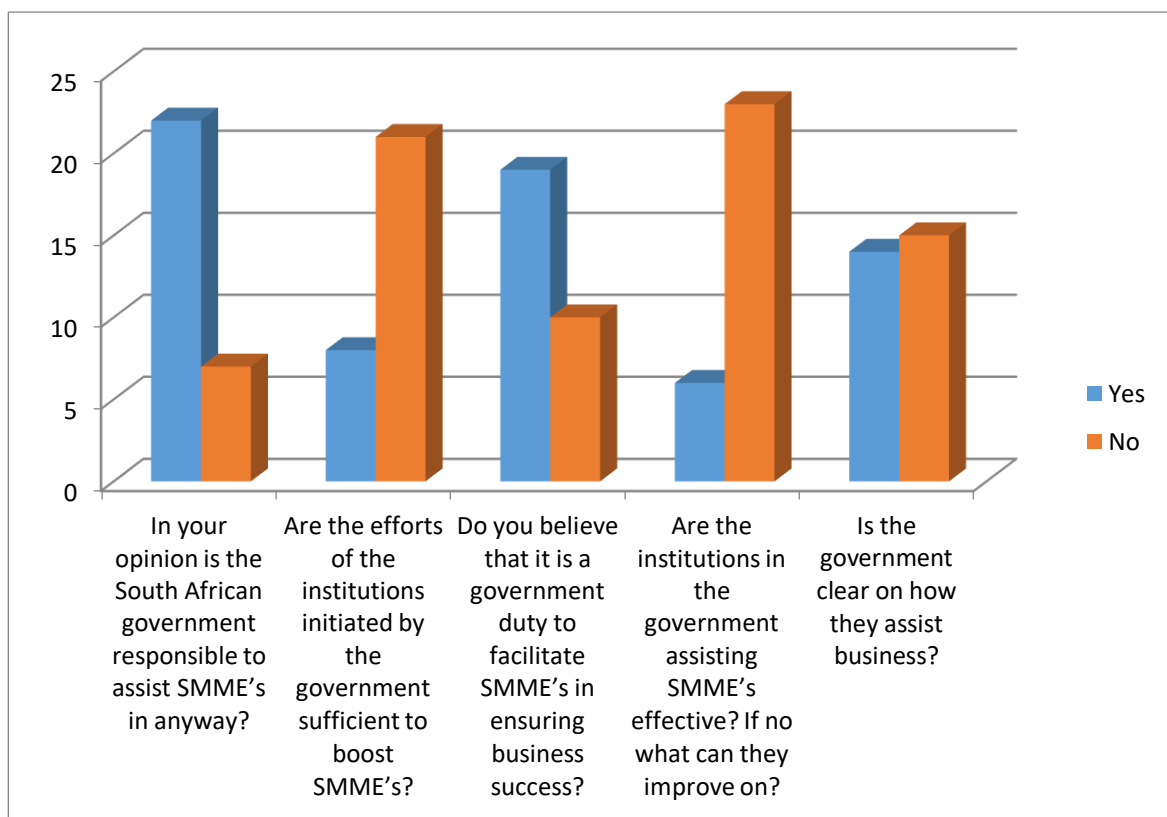


Figure 4.4 indicates the overall opinions of each of the respondents in terms of Government intervention. The first question asked was whether the respondents feel that Government is responsible to assist SMMEs; the response was overwhelmingly positive. Question two focuses on the sentiment that Government institutions that have been created for this purpose, are not doing enough to boost SMME development. Question three confirm the first, indicating once again, that the majority of the respondents feel that it is Government's duty to ensure business success for SMMEs. There was an almost 50-50 division between whether the respondents felt that the Government is clear on how they assist businesses.

This will be broken down according to industry, so as to ascertain what each of the groups of respondents believes.

Table 4.11: Government intervention

Government intervention		
	Yes	No
In your opinion, is the South African Government responsible to assist SMMEs in anyway?	22	7
Are the efforts of the institutions initiated by the Government sufficient to boost SMMEs?	8	21
Do you believe that it is a Government's duty to facilitate SMMEs in ensuring business success?	19	10
Are the institutions in the Government assisting SMMEs, effective? If not what can they improve on?	6	23
Is the Government clear on how they assist businesses?	14	15

Table 4.11 highlights the responses of the Government employees versus the SMME respondents. The purpose of this table is to establish whether there is conflict between the opinions of the Government employees versus the SMME owners. Under this particular theme of Government intervention, the table shows that there is consensus amongst Government employees and SMME owners in general. The last question seems to have the respondents divided 50-50 again. Government employees were leaning towards the notion that Government is not clear on how to assist businesses, whilst SMMEs felt that the Government was clear on how they assist businesses.

One of the respondents mentioned that, considering the high levels of unemployment, formal SMMEs could put this to the test. Another respondent agreed by saying that it is in the Government's interest to ensure that it is in the E1 area, where jobs can be created. The efforts that are initiated by the Government are not sufficient, according to the research study, as there is no clarity on who the institutions are and how to get the relevant information for building your business.

The general sentiment from the respondents is that there is no drive from the Government to lead and direct SMME development, and in order to improve on this they could simplify the registration process as well as speed up the payment of services rendered to the Government.

One respondent suggested that the Government could invest in implementing an entrepreneurship programme for learners in primary school. Another respondent agreed that entrepreneurship needs to be taught from a very young age. In general, Government intervention is there but it is not enough to boost SMMEs and assist them in a manner that will create jobs in South Africa. As a solution, this study has come up with recommendations that can be implemented in order to bring this end to pass.

4.4 SUMMARY OF MAJOR FINDINGS

The analysis of the research findings shows that there are similar views between the SMME owners and Government employees, regarding the challenges between SMMEs and Government's support institutions. The variety of shortcomings in providing SMMEs with development tools is clear. These are severe problems that clearly have far reaching implications for service delivery. For example, if SMMEs do not realise that there are support services available to them, they will not use these services. Already, literature has shown that a large number of SMMEs do not seem to be utilising these services. Only if SMMEs apply for these services will they be able to gauge whether, and in what way it contributes to the success of their businesses, It is necessary to mention that poor execution of these services has contributed to the slow progress of SMME development and a lack of job creation in African nations.

Literature also shows that in South Africa, the SMME failure rate is disturbingly high at about 70 to 80 per cent. In recent times the South African Government has focused its efforts on SMME development and even established a ministry of Small Business Development in 2014, to oversee all the other initiatives that have been established to assist SMMEs in starting and growing sustainably. Despite these efforts, the Government and SMME partnerships are not yet yielding the fruit that was intended. It is now crucial to understand the causes of the failures of Government and SMME partnerships, in order to begin to chart a way forward for Government to create jobs and grow the economy, as per the goals they have outlined in the NDP.

CHAPTER 5

CONCLUSION AND RECOMMENDATIONS

5.1 INTRODUCTION

Chapter 5 seeks to conclude the research and also give recommendations. The main question of the study is, how can Government improve SMME development interventions to create jobs through SMMES in the manufacturing sector? Based on the findings, the answer is found in the recommendations below. However, the question that remains is, to what extents do the challenges that affect Government interventions affect SMME development in South Africa?

5.2 CONCLUSIONS TO THE RESEARCH

The conclusions in this chapter are aligned with the outcome of the empirical findings from Chapter 4. The literature covered the aspects of the partnership as well as the success and challenges faced by SMMES. It also looked at factors that cause SMMES to fail. In the study it is evident that there is no one solution for all.

The findings show that there is a need for a strong partnership between Government and SMMES. Although Government has mobilised agencies to try and address the issue and assist SMMES, a lot of work still needs to be done, and the approach will need to change as some SMMES felt that they were not assisted by the Government agencies. The Government agencies are not providing a workable platform to succeed.

A case by case evaluation can help to eliminate the dissatisfaction, as well as decrease the failure rate of SMMES and strengthen the partnership between the Government and SMMES. This will surely create the much-needed sustainable jobs in South Africa.

5.3 RECOMMENDATIONS

The recommendation section has been split into three and outlines recommendations for Government, SMMES and for future research. These recommendations have been derived from the respondents' suggestions during the interviews. These recommendations seek

to strengthen Government and SMME partnerships in order to create more jobs in South Africa.

A large number of small businesses are not able to utilise any of the Government's support systems. One of the main reasons why small businesses fail is because they do not have the skills required to start and run a new business. SMME owners are not always aware of the training and mentoring that is available, even though these Government institutions are critical for the success and survival of these SMMEs. This study and other similar studies have also confirmed that small businesses themselves agree that they need support from the Government in order to grow and create jobs. Drawing from the analysis, the main challenges faced by SMMEs are:

- Getting enough customers to sustain the business;
- Maintaining profitability;
- Uncertainty over economic conditions;
- Obtaining finance; and
- Accessibility.

5.3.1 Recommendations to Government

The following are the recommendations to Government that will have a significant impact on job creation particularly.

- **Integration – the business desk**

The South African Government has put a lot of effort and resources into SMME development, but the fruits of their investments seem to be too little. The different Government institutions that have been set up to support SMME development have performed at varying levels. Recent developments have shown that a lot of work has been put into cutting out corruption and minimising reckless spending of Government funds. One solution that has been alluded to by the Government is the merging of certain functions, as there seems to be a need to have an integrated body that looks after SMME development. Literature states that a survey conducted by SEDA also shows that SMMEs perform better when support institutions provided a variety of interlinked services, rather than a single service (Mazwai, 2009). There has been criticism against SEDA and other support

institutions for their lack of coordination efforts with other organisations, particularly with the private sector and other non-Government organisations (SEDA, 2012:15-17).

The DSBD is a leader as a policy maker in the space, but an institution integrating the rest of the institutions would be the key to help SMMEs. Something like a one stop shop for all their solutions, to increase the success rate of their businesses (DSBD, 2012). This body would function as the glue that holds all the different institutions that Government has set up to fulfil the needs of SMMEs for growth, job creation and sustainability together. As it stands, the findings of this research study have shown that SMME owners do not know where to access the Government institutions that have been put into place to help mitigate their challenges. The existence of such a body will also be helpful for SMME businesses, as it will encourage a streamlined manner of collecting information on these businesses. This will also be the location for a central database of all the documentation that is needed by businesses. For example, if an entrepreneur needs help from SEDA and SEFA they would not need to submit two sets of documents anymore, as all the information will be in one central data base, which is controlled from the umbrella institution.

- **Education and training**

The South African public-school system should include business management as an integral component of the primary and high school curricula. Teaching pupil's business skills at an early age ensures that the basic knowledge is instilled for a later time, if they intend to become entrepreneurs. Business management skills are not only helpful for people who want to start their own businesses but even for those who are employees of Government and private sector companies. It is clear from the research done by other authors, that one of the biggest challenges in business is the lack of business acumen and know-how. A person might have expertise in a particular industry or subject, but still fail in business, due to a lack of financial, strategic, operational and marketing management skills and training. Thus, it is recommended in this study that Business Management be a compulsory subject.

- **Marketing awareness**

It is imperative that the Government embark on an awareness campaign to help facilitate accessibility of the programmes, especially in previously disadvantaged communities.

Many entrepreneurs that could benefit from the services offered by the Government will then know where to go and which needs are met by each institution. The Government can start by improving the websites of all the institutions and making them more user-friendly. The Government will also need to increase its marketing efforts and make use of creative marketing strategies, including social media, to get the attention of SMME owners.

- **Monitoring & Evaluation of programmes**

The institutions that provide training and mentoring within the Government, struggle with monitoring and evaluation of the programmes that have been put into place, hence the progress and performance of these programmes go unmeasured or are measured improperly. The Government needs to invest in better performance measuring so as to ensure that when they invest in SMME development, the investments are likely to yield a higher return.

At a high level the Government should engage in the following to improve its partnership with SMMEs, to create jobs in South Africa:

- Introduce tax incentives for growth and employment for SMMEs;
- Relaxation of labour laws for this sector for greater flexibility;
- A reduction of red tape;
- Facilitate easier access to risk finance; and
- Government institutions need to speed up payment in order to reduce cash flow pressure for SMMEs and allow working capital to finance growth.

5.3.2 Recommendations to SMMEs

This section looks at recommendations for manufacturing SMMEs. The common misconception of SMMEs is the perception that they need funding. Not to say that funding is not a fundamental need for starting up and running a successful business, but as the study has shown there are other non-financial forms of support that businesses need to be able to get to a point where they are funding-ready.

- **Finding the real need (not always finance)**

SMMEs have struggled to access funding merely because there are other factors that were not in place, such as compliance issues and marketing and sales challenges that could have been addressed through non-financial means of support. The Government does provide such non-financial support but the perception of SMMEs needs to be changed for them to understand the real need of their businesses at any particular time and not default to funding as though it is the sole need of SMMEs.

- **Accessing funding**

Access to funding is the biggest challenge identified by the SMMEs. The recommendation to the SMMEs is that they should target funders that are in their field. If a business owner needs funding for a manufacturing business, they should approach funders that are funding that kind of business as opposed to generic funders.

Attending seminars and workshops that host funders will also help businesses to learn about the requirements and the kind of funding that is available in the market. There are many events hosted in cities that relate to funding. Another aspect to consider when looking for funding is to be open-minded about having other people in the business as equity partners. Especially for first time businesses that have highly innovative ideas; venture capitalists are a great way to get funding, although a stake of the company will be given away.

For more generic businesses, funders are keen to fund businesses that are up and running and those that can show cash flow. Having a good financial track record will always be an advantage when looking for funding.

5.3.3 Recommendations for future research

The following are the recommendations for future research studies that can be conducted, expanding on the issues raised in this particular study:

- A similar study to this one could be conducted but using a quantitative approach with a larger sample size to predict the impact that improved Government intervention services could have on job creation.
- Another potential study that could spin off from this one is to have an in-depth look at the Chinese approach in SMME development in the manufacturing sector and devise a way to implement the lessons in a South African context.

5.4 ACHIEVEMENT OF THE OBJECTIVES

The objective of the research is to understand the relationship between Government and SMMEs as a tool to create much-needed jobs in South Africa. This was unpacked through the understanding of the Government's role and the needs for SMMEs to succeed. During the research, the reasons for failing SMMEs were highlighted as well.

Through the responses from the interviewed individuals it was learned that the level of Government intervention/involvement in SMMEs is not enough to be able to fast-track the sector to a state where it can start creating jobs and boost the economy.

5.5 LIMITATIONS OF THE STUDY

The first limitation of this study can be fundamentally attributed to the research plan. The sample size is constrained and may not be a genuine portrayal of the populace. In this way, findings and conclusions cannot be generalised. Be that as it may, the findings from this study could be utilised as a reason for further and extensive research on Government and SMME partnerships to create jobs. Another limitation is that the study was conducted on SMMEs in the manufacturing sector in the Gauteng Province. Gauteng happens to be the economic hub of South Africa and therefore the insights drawn from this study may not be directly transferable to the rest of the country. This does not however take away from the fact that the insights can be used as a guide in the other provinces.

The final limitation of the study lies in that the study concentrates on the theoretical understating of the ways in which the Government and SMME partnerships can create jobs but fail to contribute to the future forecasts of roughly how many jobs can be created and

what percentage it will impact the economic growth rate, due to its qualitative nature. This suggests that a quantitative research study on the same topic can also be done to provide more helpful statistics on how to create jobs through the manufacturing sector.

5.6 SUGGESTIONS FOR FUTURE STUDY

Another study needs to be done to unpack an implementable plan to promote the partnership between the Government and SMMEs; the study should include but not be limited to SMME owners' training to drive key skills development, Government integration specialists in SMME's to help in formalising and/or implement strategic improvement.

5.7 SUMMARY

A strong partnership between the Government and SMMEs can be a solution to grow the South African economy by creating much-needed jobs in the country. This study highlighted the initiative taken by the Government to assist, the short-comings of the initiative, the challenges and successes of SMMEs.

Given the lack of skills and high unemployment rate, the manufacturing sector is a great sector that could provide sustainable jobs to the unemployed population. The manufacturing sector is one that can have a huge intake of non-skilled and semi-skilled employees.

The current processes and channels put in place by the Government to assist SMMEs need to be re-evaluated in order to provide for the required needs of SMMEs within an acceptable turn-around time.

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APPENDIX: INTERVIEW QUESTIONS FOR DISSERTATION

Section A:

Demographics

Gender (A)	
Male	
Female	
Industry of Employment (F)	
Government Institution	
SMME Manager/Owner	

Sector (H)	
Manufacturing	
Others	

Marital Status (B)	
Single	
Married	
Divorced	
Other	

Years of Experience(G)	
0 - 2'	
3 - 5'	
6-10'	
10+	

Race (C)	
Black	
Coloured	
Indian	
White	
Other	

Highest Qualification (E)	
No Matric	
Matric	
Diploma	
Degree	
Honours Degree	
Post Grad	
Masters Degree	
PHD	

Age (D)	
0 - 17	
18 – 25	
25 – 30	
31 – 35	
36 – 40	
41 – 50	
51 – 60	
60+	

Section B

Thank you for participating in this study!

There are 20 Yes/No questions to complete. Please may you answer the questions as truthfully as you can and if there is any information you can add to justify your answer, please do it. The space below the question is for exactly that.

- 1) In your opinion is the South African government responsible to assist SMME's in anyway?

- 2) Are the efforts of the institutions initiated by the government sufficient to boost SMME's?

- 3) Do you believe that it is a government duty to facilitate SMME's in ensuring business success?

- 4) Are the institutions in the government assisting SMME's effective? If no, what can they improve on?

5) Is the government clear on how they assist business?

6) In your opinion are SMME's a solution for creating jobs in South Africa?

7) Are SMME owners equipped enough to take their businesses to the next level?

8) Are SMME owners using all available channels to assist their businesses to grow?

9) Is there clarity on what an SMME needs to ensure business success?

10) Do SMME owners know which doors to knock on when they need assistance?

11) Are the available channels easily accessible for the SMME's to prosper?

12) In your opinion, is the manufacturing sector healthy in South Africa?

13) Can the manufacturing sector be a promoted sector to create sustainable jobs in South Africa?

14)Do we have the right skills in the manufacturing sector within South Africa to contest against overseas manufacturers?

15)Do the SMME's in the manufacturing sector have the capacity to create sustainable jobs?

16)Is there a clear partnership between the government and SMME's in South Africa to create sustainable jobs?

17)Is the relationship between the government and SMME's mentioned above agile and helpful?

18)Are there any improvements required in the space to promote an optimal partnership?

19)Will this partnership assist in fast-tracking and creating sustainable jobs in South Africa?

20)Do you think a strong working relationship between the government and SMME's will assist all parties involved at the end of the day?