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**A study of the factors impacting on the effectiveness of SMMEs  
in the Mafikeng area**

**By**

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requirements for the degree of**

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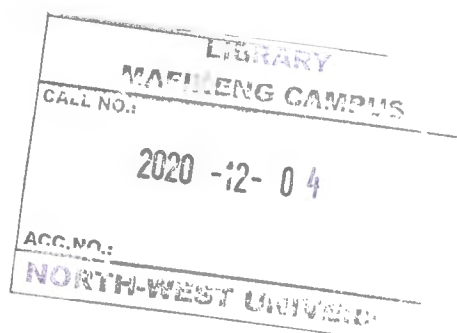
## DECLARATION

I, Obakeng Edgar Motlhanke hereby declare that this study for the Degree of Masters of Social Sciences in Development Studies at the North West University hereby submitted, has not been submitted by me or anyone else for a degree at this or any other University. It is my own work in design and execution, and that all materials and sources used or quoted and contained herein have been acknowledged by means of complete references.

Signed on this \_\_\_\_\_ day of \_\_\_\_\_ 2013 at \_\_\_\_\_



**OBAKENG EDGAR MOTLHANKE**



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## **ABSTRACT**

The main objective of the study is to investigate the factors impacting on the effectiveness of SMMEs based in the Mafikeng area, of the North West Province in the Republic of South Africa. The Small Medium Micro Enterprises (SMMEs) are recognised as the key mechanism for general development globally. Furthermore the SMMEs are often perceived as the backbone of an economy and play an important role in the development process of most countries. Increasingly SMMEs have been recognized as an important vehicle for creating employment, reducing poverty, enabling industrialisation process, reducing income inequality and providing desirable sustainability in the economy as a whole.

In order to achieve the main objective outlined above, the researcher formulated the following main research question. What are the factors that impact on the effectiveness of SMMEs based in the geographic area of Mafikeng? For purposes of gathering data both the qualitative and quantitative research methods were used to investigate factors that impact on the effectiveness of SMMEs in the Mafikeng area.

The results of this study has shown the following factors as responsible for the ineffectiveness of SMMEs based in the Mafikeng area; lack of training, lack of financial support, cash flow problems, late payments by clients and poor marketing.

The study concludes by recommending that more funding and training need to be channelled towards SMMEs that have potential to succeed. Furthermore it is recommended that the government must develop more focussed strategies to specifically deal with challenges confronting SMMEs in general.

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## **LIST OF ABBREVIATIONS**

<b>BEE</b>	<b>: Black Economic Empowerment</b>
<b>DTI</b>	<b>: Department of Trade and Industry</b>
<b>GDP</b>	<b>: Gross Domestic Product</b>
<b>IDP</b>	<b>: Integrated Development Plan</b>
<b>LED</b>	<b>: Local Economic Development</b>
<b>MLM</b>	<b>: Mafikeng Local Municipality</b>
<b>NWP</b>	<b>: North West Province</b>
<b>PGDS</b>	<b>: Provincial Growth and Development Strategy</b>
<b>SEDA</b>	<b>: Small Enterprise Development Agency</b>
<b>SMME</b>	<b>: Small Medium Micro Enterprises</b>
<b>Stats SA</b>	<b>: Statistics South Africa</b>

## CHAPTER 1: INTRODUCTION TO THE STUDY

### 1.1 INTRODUCTION

The Small Medium Micro Enterprises (SMMEs) sector plays an important role in the development process of most countries. Increasingly, SMMEs have been recognized as key mechanism to general development as they contribute towards creating employment, reducing poverty, enabling the industrialisation process, reducing income inequality and providing desirable sustainability in the economy as a whole.

In short, SMMEs have a significant role to play in job and wealth creation (Nieman 2006: 167). Sunter (1994: 4) highlights the benefits of promoting SMMEs as job creation, poverty alleviation, equity and participation, wealth creation, and social stability. According to Berry *et al* (2002: 4) SMMEs have number of economic roles to fulfil. They contribute to a country's gross national product either by manufacturing goods of value, or through the provision of services to both consumers and other enterprises. This includes the provision of products, and to a lesser extent, services, to foreign clients, thereby contributing to overall export performance. From an economic perspective, however, SMMEs are not just suppliers, but are also consumers, which have an important role to play if they are able to position themselves in a market with purchasing power. In addition, demand is important for the income-generation potential of SMMEs, and their ability to stimulate the demand for both consumption and capital goods.

In LDC the role of SMMEs is especially critical. According to *Berry et al* (2007: 23) Small, medium and micro enterprises (SMMEs), particularly in LDC's, are the backbone of the nation's economy. They constitute the bulk of the industrial base and also contribute significantly to exports as well as to the Gross Domestic Product (GDP) or Gross National Product (GNP).

In Africa for instance, the role of SMMEs within the context of the development process is also significant. According to Brinders *et al* (2003:7), within the framework of NEPAD, the development of SMMEs is crucial for the achievement of broader development objectives. Therefore, the development of SMMEs provides an opportunity to alleviate poverty by providing employment to those who would otherwise be unemployed.

According to Bosma *et al* (2009: 29), in the United States (US) the SMME sector employs more than 12 million people, or 11% of the private sector employment. Furthermore, they generated 21% of the US GDP. The Small, Medium Micro and Enterprises (SMMEs) also play a significant role in both developed and developing countries globally. In the United States of America, for instance, SMMEs contribution is very high, as shown below.

- SMMEs represent 99.7% of all employer firms.
- Employ about half of all private sector employees, i.e. 11% thereof.
- Pay nearly 45% of total U.S private payroll.
- Have generated 60% to 80% of new jobs annually over the last decade.
- Create more than 50% of non-farm private GDP.
- Hire 40% of high tech workers such as scientists, engineers and computer workers.

In countries such as Malaysia, Brazil, Philippines, and India, small businesses can comprise as much as 60% of all companies. Small businesses are also known to play a vital role in job creation and economic development. Furthermore large developed industrial nations have the economic backbone from small businesses, and in the U.S for example, 90% of jobs are created by small businesses. Even in Africa, SMMEs create more employment and generate more output than large businesses. Tito Mboweni, the then Governor of the South African Reserve Bank, in a keynote address acknowledged that SMMEs are key

to African development. For instance, in Kenya, SMMEs play a critical role in the economy; it is estimated that they account for 12 – 14% of the GDP (Soni, 2005:01).

In South Africa the above statements are supported by Business Connexion Business report (2010: 14) that indicate that over twelve million South Africans rely directly on SMMEs for their livelihood, and SMMEs employ almost 60% of the employable population in South Africa today. Furthermore the (CGAP report: 2010:23) state that worldwide, SMMEs play a major role in the economy in terms of employment creation, income generation and output growth. Furthermore “SMMEs contribute more than 40 per cent of total GDP and account for more than 60 per cent of all employment in South Africa” (NPC annual report. 2011:03).

In order to facilitate the establishment and effective operation of the SMMEs, the South African government has introduced a number of legislative and policy frameworks, as shown below;



- The White Paper on Small Business Development (1995)
- The White Paper on National Strategy for the Development and Promotion of Small Businesses in South Africa; (1995)
- National Strategy for the Development and Promotion of Small Businesses in South Africa; (2005)
- National Small Business Development (2004);
- The National Small Business Act No 29 of 2004.
- The Integrated Small Business Development Strategy in South Africa (2004).

All these policy instruments and legislative prescripts were enacted to provide an enabling framework and to support the growth and promotion of SMMEs, based in the country.

## **1.2. STATEMENT OF THE PROBLEM**

However, in spite of the policy framework and enabling environment in place the SMME sector continues to struggle in South Africa in general, and in North West Province and Mafikeng in particular. As the North West Provincial Growth and Development Strategy (2006: 33) indicated that SMMEs are struggling because of the following issues; “objectives for SMMEs are seldom quantified and difficult to monitor, lack of access to funding, lack of skills and expertise, complex tender documents and procedures, also SMMEs find it difficult to access markets and be competitive, and they also lack mentorship”.

The preceding paragraph clearly indicates that SMMEs are experiencing lot of challenges. As a consequent, this study seeks to establish the challenges and factors that are impacting negatively on the effectiveness of SMMEs in the Mafikeng area.

## **1.3 AIM OF THE STUDY**

The aim of the study is to identify and examine challenges facing the SMMEs in the Mafikeng area and recommend appropriate mechanisms and strategies that will improve their effectiveness in order to ensure that SMMEs contribute optimally to the local economic development. Consequently the specific objectives of the study are as follows:

- To establish the number of SMMEs in the Mafikeng area.
- To identify the nature of business the SMMEs are involved with in the Mafikeng area.
- To identify and examine factors that impede the effective operations of SMMEs in the Mafikeng area.

- To investigate the effectiveness and relevance of government and municipality intervention and strategies to the local SMMEs based in Mafikeng
- To recommend possible solutions and strategies to overcome the challenges experienced by SMMEs in the Mafikeng area.

## **1.4 RESEARCH QUESTIONS**

1.4.1 How are the SMMEs structured in the Mafikeng area?

1.4.2 What are the factors that impede the effectiveness of SMMEs within Mafikeng area?

1.4.3 How effective and relevant are government and municipality strategies to local SMMEs?

1.4.4 What are the appropriate strategies that can assist both government and SMMEs to ensure that SMMEs contribute more optimally to the local economic development?

## **1.5 SIGNIFICANCE OF THE STUDY**

This study will add to the existing body of knowledge and practice in the discipline of development studies due to the following factors.

- The study will provide an insight into factors that impede effectiveness of SMMEs and make recommendations that will assist the SMMEs to be more effective and sustainable.
- The research findings of this study and the recommendations will assist the relevant SMME officials and local SMME owners in Mafikeng to adequately understand challenges faced by SMMEs.
- The findings of the study will provide possible solutions to address challenges facing SMMEs in the Mafikeng area.

## **1.6 RESEARCH METHODOLOGY AND DESIGN**

### **1.6.1 RESEARCH DESIGN**

The study uses both the qualitative and quantitative research methods. The reason why both qualitative and quantitative methods were used is because the study sought clearer and more precise responses comprising closed questions and open ended questions. In that regard the qualitative method is more exploratory and allows respondents to express themselves more and add more information given the nature of open ended questions. On the other hand the quantitative method is more conclusive in its purposes as it tries to quantify the problem and how prevalent it is and it also enables one to describe and interpret the object of study statistically.

Sellnitz, Jahoda, Deutsch and Cook as cited by (Terre-Blanche, 2006: 34) define a research design as “the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure”. Research design is a “strategic framework for action that serves as a bridge between research questions and the execution or implementation of a research” (Blanche, 2006:34).

The study is formal which needs communication with respondents for data collection. Furthermore this study is cross sectional as it gathers information in a specific time period rather than a longitudinal type of study in which case, data is collected over a longer period of time. This method was chosen because it will enable the researcher to gain relevant data on factors impacting on operations of SMMEs. The researcher believes that such designs are preferable with regard to the research problem and, most importantly extract the factors that eventually lead to the failure of SMMEs based in Mafikeng area. Therefore this research uses both quantitative and qualitative types of research.

### **1.6.2 RESEARCH METHODOLOGY**

According to Terre-Blanche (2006:31), research methodology “is the way in which the data is collected for the research project”.

### **1.6.3 QUANTITATIVE RESEARCH METHODOLOGY**

According to Bless *et al* (2006:44), quantitative research methodology relies upon measurement and uses various scales. Numbers form a coding system by which different cases and different variables may be compared. Systematic changes in scores are interpreted or given meaning in terms of the actual world that they represent. According to Bryman *et al* (2007: 28) quantitative research is a research strategy that emphasizes quantification in the collection and analysis of data and that:

- Entails a deductive approach to the relationship between theory and research, in which the accent is placed on the testing of theories.
- Has incorporated the practises and norms of the natural scientific model and positivism in particular; and
- Embodies a view of social reality as an external, objective reality.

In this study, specific aspects of quantitative research that are going to be used are categorical data (the labels that tell us what numbers measure) and descriptive statistics i.e. descriptive tables (because they outline patterns and trends of behaviour of data). Also numbers have the advantage of being exact.

### **1.6.4 QUALITATIVE RESEARCH METHODOLOGY**

According to Welman *et al* (2008: 188), qualitative methodology can, theoretically speaking, be described as an approach rather than a particular design or set of techniques. It is an “umbrella” phrase “covering an array of interpretative

techniques which seek to describe, decode, translate, and otherwise come to terms with the meaning of naturally occurring phenomena in the social world". It's a form of research conducted using a range of methods which use qualifying words and descriptions to record and investigate aspects of social reality.

According to Marshall and Rossman (1999: 2) qualitative research is intrigued with the complexity of social interactions as expressed in daily life and with the meanings the participants themselves attribute to these interactions. This is appropriate for my study as it allows for granting respondents in this study an opportunity to express themselves more easily and broadly on specific issues.

Therefore both the quantitative and qualitative research methods will be used to investigate factors that impact on the effectiveness of SMMEs in the Mafikeng area. The reason for using both is that they provide different perspectives and usually complement each other, and they also increase the validity of the results by means of data sources. Bless *et al* (2006:44) argue that "in fact a comprehensive study will use both qualitative and quantitative research methods and thus cannot strictly be called either qualitative or quantitative"

#### **1.6.5 RELIABILITY AND VALIDITY OF THE STUDY**

According to Bless *et al* (2006:146) reliability is the extent to which the observable (or empirical) measures that represent a theoretical concept are accurate and stable when used for the concept in several studies. Basically reliability is concerned with the consistency of measures. On the other hand validity is concerned with just how accurately the observable measures actually represent the concept in question or whether, in fact, they represent something else.

According to Babbie and Mouton (2001: 44), "reliability relates to whether a particular technique applied to the same object would yield the same results".

To enhance reliability of this study, the researcher used standardized and structured questionnaires. In addition, the researcher operated in a systematic and consistent manner during the information gathering process.

#### 1.6.6 POPULATION AND SAMPLING



The study focused specifically on the SMMEs that are located within the Mafikeng geographic area. If these SMMEs need financial and non-financial support, or any related assistance, the nearest agencies for support are SEDA Mafikeng, NW Department of Economic Development & Tourism and Mafikeng Local Municipality.

Bless *et al* (2006:184) describe population as the complete set of events, people or things to which the research findings are to be applied. Furthermore sampling is defined "as a method of selecting specific research participants from the target population and can be done in many ways" (Bless *et al*, 2006:101).

According to SEDA Mafikeng there are approximately 101 registered and operational SMMEs in Mafikeng, this number excludes those with a registration only. In this study 100 SMMEs are going to be included.

In order to get more data on factors contributing to SMME failure in the Mafikeng area, government and municipal officials are also included in the data collection. In this study 25 officials and experts who are directly working with SMMEs gave relevant data on SMME issues and therefore the following target groups are included:

- North West Department Economic Development and Tourism
- Small Enterprise Development Agency (SEDA) Mafikeng
- Mafikeng Local Municipality

### **1.6.7 SELECTION OF RESPONDENTS**

In this research, non-probability sampling is utilized. According to Bless, Smith & Kagee (2006:101), non-probability sampling refers to the case where the probability of including each element of the population in a sample is unknown. Non-probability sampling is thus frequently used in the social sciences. Only SMMEs which are convenient to the researcher (convenience sampling) are considered in the study. The reason is that there is no readily available data on the SMMEs in the Mafikeng area regardless of whether they are registered on SEDA database and are operational. The number of successful or failed SMMEs is also not known. In the event where the total number of respondents is not well known, it is difficult to decide the sampling interval so that each selected sample is reached for data collection. As a result, a non probability sampling (specifically convenience sampling) is utilized. Only SMMEs which are convenient to the researcher (convenience sampling) are considered in the study. According to Cooper and Schindler (2004:33) "a properly administered non probability sampling gives better results than probability sampling".

A total of 25 officials/experts who are working closely with SMMEs in government institutions such as, the Department of Economic Development and Tourism, Mafikeng Local Municipality and SEDA Mafikeng are included in the data collection process. The breakdown of how the questionnaire will be distributed is as follows; 12 SMME officials from Department of Economic Development and Tourism, 7 SMME officials from Mafikeng Local Municipality and 6 SMME officials from SEDA Mafikeng.

For this research only SMMEs in geographic area of Mafikeng were considered. The respondents were approached in their shops, homes and offices to participate in this study. 100 SMMEs were targeted mainly from the following categories, services, retail, catering, manufacturing and tourism industries. With

regard to officials the researcher targeted only those working closely with the SMMEs, by approaching them in their offices.

#### **1.6.8 DATA COLLECTION**

The purpose of this section is to provide details of the instrument used to collect data and to explain how it was administered. In this study questionnaires comprising open and closed questions were used to gather data. According to Bless *et al* (2006:111), "a research project stands or falls on the quality of the facts on which it is based. The importance of constructing an appropriate and accurate instrument for measuring and collecting data is an absolute necessity".

One hundred (100) questionnaires were distributed to the local SMMEs (in the following categories services, retail, catering, manufacturing and tourism industries) in the Mafikeng area, and 75 questionnaires were returned fully and accurately filled. A total number of 25 questionnaires were distributed to officials working closely with SMMEs from Department of Economic Development and Tourism, Mafikeng Local Municipality and SEDA Mafikeng, and 20 fully and accurately filled questionnaires were returned.

Each government official and SMME owner was shown the letter from North West University indicating the purpose of the interview, and issues relating to privacy, confidentiality and anonymity were explained.

#### **1.6.9 QUESTIONNAIRES**

For purposes of this research a questionnaire was used to collect primary data. The questionnaire was distributed to various SMMEs in the Mafikeng area as well as to government, municipality and SEDA officials working with the SMMEs. The questionnaire provided for both SMMEs owners and government and municipal officials to select answers they deem correct as they appear in the questionnaire.

Furthermore the questionnaires comprise both closed and open-ended questions. The majority of the questions are closed in order to make it simple for respondents to answer questions. Closed ended questions encourage respondents' participation and are also simple to administer during data analysis. The open ended questions give a chance for respondents to answer what is in their minds without restrictions.

#### **1.6.10 PRIMARY DATA**

Primary data is a form of data observed or collected directly from first hand-experience. This is further corroborated by Bless *et al* (2006: 184) by stating that primary data is collected with primary aim of answering the research question posed by the researcher. In this study primary data was collected from the SMMEs owners and officials working with the SMMEs in the Mafikeng area. This primary data specifically related to factors affecting the effectiveness of SMMEs based in Mafikeng area.

#### **1.6.11 SECONDARY DATA**



Secondary data refers to data used in a specific study, although collected by a different researcher for the purpose of addressing a different research problem (Bless *et al* 2006:185). Secondary data from Mafikeng local municipality, Department of Economic Development and Tourism, Mafikeng LED strategy, Department of Trade and Industry annual reports, SEDA annual report, minutes and archives material have been consulted. Secondary data such as the White Paper on National Strategy for the Development and Promotion of SMMEs in South Africa (1995), the North West Provincial Government SMME development strategy (2008) and SEDA strategic plan, North West Provincial Growth and Development Strategy have all been consulted and relevant data collected.

### **1.6.12 DATA METHODS**

For purposes of this study a computer software package called Statistical Package for the Social Science, commonly referred to as SPSS 18.0 was used to analyse data. The quantitative part of the questionnaire was displayed using tables and graphs. The qualitative data will be analyzed using a content analysis technique of summarizing themes and sub themes.

According to Bless *et al* (2006:163), once data collection and checking have been completed, the process of analysing data should begin. This analysis is conducted so that the researcher can detect consistent patterns within the data, such as the consistent co-variance of two or more variables.

### **1.6.13 ETHICS AND CONFIDENTIALITY**

Bless *et al* (2006:139) state that most researchers may have good intentions however; there is always the potential for the rights of research participants to be violated, either knowingly or unknowingly. Participants have basic rights when they elect to participate in a research study. The right to privacy and protection from physical and psychological harm is of paramount importance in any research activity. Often, issues arise that may affect participants adversely but are not considered or thought of by the investigator.

Confidentiality and anonymity of the respondents participating in this research was protected in the report by making it impossible to link specific data to a specific respondent. The respondent has the right to expect agreed anonymity and confidentiality as agreed with the researcher.

Prior to the questionnaire distribution the researcher individually approached the research respondents and gave them a letter of intent to conduct research. The researcher also assured the respondents of the confidentiality of responses and

stressed that the research was conducted purely for academic purposes only. The researcher also made a commitment to adhere to the right to privacy including the right to decline to participate in this research and not to be coerced to do so.

#### **1.6.14 LIMITATION OF THE STUDY**

This study focuses specifically on SMMEs that are within the Mafikeng area. Consequently, Mafikeng area cannot therefore represent the extent, nature and challenges of all other SMMEs in North West or South Africa given the different geographic, economic and entrepreneurial culture of different regions. As a result the conclusion may not represent the rest of the SMME sector in South Africa and may consequently not be generalised to other areas of South Africa.

#### **1.6.15 ORGANIZATION OF THE STUDY**

**This study is organised in four chapters as follows:**

**Chapter 1** of the study provides the introduction and background of the study. The chapter also sets out the objectives of the study, significance of the study and research methodology.

**Chapter 2** contains definition of key concepts and also provides a brief literature review.

**Chapter 3** provides socio-economic profile of Mafikeng, organisation and structure of SMMEs in Mafikeng and also discusses the findings of the study.

**Chapter 4** discusses the summary, conclusions and recommendations of this study and also provides areas for further research in the SMME sector.

## CHAPTER 2

### DEFINITION OF KEY CONCEPTS AND LITERATURE REVIEW

#### 2.1 INTRODUCTION

This chapter defines key concepts and provides a brief literature review of SMMEs and their importance to the development process. The chapter also discusses the government and other initiatives that are in place to facilitate the development and growth of SMMEs.

#### 2.2 DEFINITION OF KEY CONCEPTS

Different authors, scholars and experts attribute different definitions or interpretation of concepts depending on their school of thought and different contexts. However for purposes of this study the following definitions will be used.

**2.2.1 Small Medium Micro Enterprises (SMMEs)** – The SMMEs Act No 102 of (1996: 2) defines an SMME to mean “a separate and distinct business entity, including co-operative enterprises and non-governmental organizations, managed by one owner or more which, including its branches or subsidiaries, if any, is predominantly carried on in any sector or sub-sector of the economy which can be classified as a micro, a very small, a small or a medium enterprise. The NTSIKA Enterprise Development Agency report (1999: 12), defines SMMEs, as small business with fewer than 200 employees; a micro business with fewer than 50 employees and a medium business with between 50 and 200 employees. Nieman (2006: 4) describes SMMEs as independently owned, operated and financed, which have a relatively small share of the market place or relatively little impact on its industry.

### 2.2.2 Classification of SMMEs

According to the White Paper on National Strategy for the Development and Promotion of Small Business in Republic of South Africa (1995: 3) the SMMEs are categorized into the following four components.

- **Survivalist enterprises** are generally defined as businesses set up by people unable to find a paid job or get into an economic sector of their choice. Income generated from these activities usually falls far short of even a minimum income standard, with little capital invested, virtually no skills training in the particular field and only limited opportunities for growth into a viable business. This category is characterized by poverty and the attempt to survive.
- **Micro enterprises** are very small businesses, often involving only the owner, some family members and at the most one or two paid employees. They usually lack 'formality' in terms of business licenses, value-added tax (VAT) registration, formal business premises, operating permits and accounting procedures. Most of them have a limited capital base and only rudimentary technical or business skills among their operators. However, many micro enterprises advance into viable small businesses. Earning levels of micro-enterprises differ widely, depending on the particular sector, the growth phase of the business and access to relevant support.
- **Small enterprises** constitute the bulk of the established businesses, with employment ranging between five and about 50. These enterprises are usually managed by the owner or by the owning community. They are likely to operate from business or industrial premises, be tax registered and meet other formal registration requirements. Classification in terms of assets and turnover is difficult, given the wide differences in various business sectors like retailing, manufacturing, professional services and construction.

- **Medium enterprises** constitute a category difficult to demarcate vis-à-vis the "small" and "big" business categories. It is still viewed as basically owner/manager-controlled, though the shareholding or community control base could be more complex. The employment of 200 and capital assets (excluding property) of about R5 million are often seen as the upper limit.

According to Chabane (2003:35), the small business sector in South Africa is highly diverse not only in terms of structures and problems but also growth potential and access to support. This diversity applies not only to the different economic sectors but also to the various stages of growth of these enterprises. The abbreviation "SMMEs" (small, medium and micro-sized enterprises) along with the general term "small business" is widely used to contrast this sector with bigger business. The important distinctions however exist within the sector between survivalist activities, micro enterprises, small enterprise and medium-sized enterprises

### **2.2.3 Development**

According to Todaro and Smith (2006: 810) development is the process of improving the quality of human lives. Three equally important aspects of development are (i) raising people's levels-their incomes and consumption levels of food, medical services, education, etc, through relevant economic growth processes, (ii) creating conditions conducive to the growth of people's self-esteem through the establishment of social, political, and economic systems and institutions that promote human dignity and respect, and (iii) increasing people's freedom by enlarging the range of their choice variables, as by increasing varieties of consumer goods and services.

Finally Seers (1969:3) argues that development occurs with the reduction and elimination of poverty, inequality and unemployment within a growing economy. He further poses the following questions to define development. What has been

happening to poverty? What has been happening to unemployment? What has been happening to inequality? If all three of these have become less severe, then beyond doubt this has been a period of development for the country concerned. If one or two of these central problems have been growing worse, especially if all three have, it would be strange to call the result "development" even if per capita income doubled.

#### **2.2.4 Poverty**

The definition of poverty has generated a lot of debate in South Africa and abroad in recent years. This is because poverty is a multidimensional phenomenon that means different things to different people.

According to Allen and Thomas (2000:3) poverty is lack of development, whereas development implies moving towards getting rid of poverty. However, "in practice it has proved quite possible historically for development to occur without alleviating poverty". This might be a good indication of poverty even in the so-called developed countries. There are many developed countries which have much of poverty. On the other hand, Todaro (2006: 732) defines poverty in absolute terms as a "situation where a population or section of a population is able to meet only its bare subsistence essentials of food, clothing, and shelter to maintain minimum levels of living".

The United Nations (UN) defines poverty "as the total absence of opportunities, accompanied by high levels of undernourishment, hunger, illiteracy, lack of education, physical and mental ailments, emotional and social instability, unhappiness, sorrow and hopelessness for the future. Poverty is also characterized by a chronic shortage of economic, social and political participation, relegating individuals to exclusion as social beings, preventing access to the benefits of economic and social development and thereby limiting their cultural development" (World Bank report 2008: 13)

According to World Bank report (2008: 34) poverty is pronounced deprivation in well-being, and comprises many dimensions. It includes low incomes and the inability to acquire the basic goods and services necessary for survival with dignity. Poverty also encompasses low levels of health and education, poor access to clean water and sanitation, inadequate physical security, lack of voice, and insufficient capacity and opportunity to better one's life.

### **2.2.5 Entrepreneur**

Entrepreneurship is considered worldwide as an important factor in the increase of development, poverty alleviation, competitiveness and sustainable development. According to Scarborough and Zimmerer (2006: 4) an entrepreneur is a person who creates a new business in the face of risk and uncertainty for the purpose of achieving a profit and growth by identifying opportunities and assembling the necessary resources to capitalize on those opportunities. Entrepreneurs usually start with nothing more than an idea, often a simple one, and then organize the resources necessary to transform the idea into a sustainable business. This definition is further corroborated by Nieman, (2006: 4), who defines entrepreneur "as a person who sees an opportunity in the market, gathers resources, and creates and grows a business venture to satisfy these needs. He/she takes the risk of the venture and is rewarded with profit if it succeeds". "Entrepreneurs are those people who make something happen from nothing, and are the force behind SMMEs" (SMME business toolkit. 2006:40)

According to Haydam (2004: 64) entrepreneurship is regarded as the ability to organise the resources into a creative combination, for the sole purpose of production. It requires some kind of initiative, and willingness to take risk to enable one to become involved in pursuing a business venture.

Entrepreneurs are very important players in the SMME sector as they are basically the backbone of the sector. They essentially conceptualise and activate a business concept and convert it into business product and sell it to the market.

### **2.2.6 Growth domestic product (GDP)**

GDP is the total market value of all final goods and services produced in a country in a given year, equal to total consumer, investment and government spending, plus the value of exports, minus the value of imports (Economist report 2006: 12). According to Todaro and Smith (2006: 815) GDP is “the total final output of goods, and services produced by the country’s economy, within the country’s territory, by its residents and non-residents, regardless of its allocation between domestic and foreign claims”.

According to DTI report (2005: 56) Gross domestic product is an aggregate measure of production equal to the sum of the gross values added of all resident institutional units engaged in production (plus any taxes, and minus any subsidies, on products not included in the value of their outputs). The sum of the final uses of goods and services (all uses except intermediate consumption) measured in purchasers' prices, less the value of imports of goods and services, or the sum of primary incomes distributed by resident producer units.

## **2.3 THE ROLE OF SMMES IN DEVELOPMENT PROCESS**

The role of SMMEs in development process of different countries has been acknowledged globally, with a lot of empirical research suggesting that SMMEs plays a crucial role towards job creation, industrial and economic growth and poverty alleviation. This statement is supported by Mahembe (2011:7) who argues that the SMME sector contributes prominently to the development through creating more employment opportunities, improving living standards, generating higher production volumes, increasing exports and introducing innovation and

entrepreneurship. Nieman *et al* (2007: 167) concurs, indicating that SMMEs have unique qualities which enable them to create, and provide job opportunities, stimulate initiative and innovations, promote healthy competition, and fulfil an extremely important socio-economic role far more easily than big businesses. Therefore SMMEs are in a better position to stimulate economic welfare and ensure economic balance.

In many developed and developing countries, SMMEs are considered ways of distributing income and instruments to reduce poverty. World Bank report (2001:29) underlies the importance of SMMEs in development as follows; "Further growth and employment in developing countries is mainly dependent on Small and medium enterprises (SMMEs)". According to UNIDO report (2005: 23) it is estimated that SMMEs employ 22% of the world adult population.

This statement is further corroborated by the European commission report (2007:34) that states that SMMEs are viewed as an engine of growth for the economy as they are an essential source of job creation, entrepreneurial spirit and innovation, and in that regard are seen as crucial for fostering competitiveness and growth.



Morrison *et al* (2003:417) further concurs by stating that in Japan the SMME sector accounts for the bulk of the country's business establishment, providing vital support for employment, for regional economies and by extension, for the day-to-day life of the Japanese people

According to NEPAD SMMEs Report (2007:23) the development of SMMEs is crucial for the achievement of broader development objectives, including poverty alleviation, economic development, as well as promotion of more democratic and pluralist societies. For African countries, the development of SMMEs will alleviate poverty by providing employment. Furthermore the SMME sector makes up over 90% of enterprise in the world and accounts for 50% to 60% of employment.

According to the DTI (2003: 25), worldwide SMMEs play a major role in the economy in terms of employment creation, income generation, and output growth. Half of all non-farm workers in Latin America and two thirds of all non-farmers in Africa work in the SMMEs. In Indonesia, informal enterprises generate about half of all new jobs, while enterprises with five or fewer workers constitute almost half of the total manufacturing employment, while in Thailand SMMEs comprise more than 97% of all firms in the manufacturing and trade/service sectors. In Mexico, SMMEs contribute 32% to GDP and 64% to total employment.

According to the ASGISA (2007: 33) "The SMME sector plays a crucial role in the national economy of South Africa. The SMME sector is vital in developing economies, providing a balance between supply and demand in the job market, bringing competition amongst businesses that leads to the more efficient utilisation of resources, the development of skills and technology, and thus the overall development of the country. It is considered to be one of the major sources of employment creation and community growth. The sum total of the estimated 2.8 million small, medium and micro-enterprises (SMMEs) contribute between 52% and 57% to the gross domestic product (GDP). It is also estimated that SMMEs contribute nearly 61% of employment in South Africa".

In South Africa, SMMEs accounted for 33% of the GDP in 2004. "SMMEs are prominent in community, social and personal services and the finance, real estate, wholesale and agriculture sectors, while large-scale enterprises dominate the mining, electricity and water sectors" (Ntsika report 2005:35)

On the basis of the accounts above it is very clear that SMME development is an invaluable key to reduce poverty by accelerating economic growth, and promoting and empowering the poor, women and the differently abled so that they can escape malnutrition, hunger and diseases.

### 2.3.1 EMPLOYMENT CREATION

The SMME sector plays an important role with regards to employment creation. According to Ntsika (2002:22) one of the best ways to address unemployment is to leverage the employment creation potential of SMMEs. According to the SEDA annual report (2006: 13) it is estimated that more than 1.5 million self-employed people constitute the SMME sector, contributing about 40% of the total remuneration in South Africa.

In other countries the SMMEs are some of the major employers and therefore play a vital role in creating employment opportunities. Corman and Lussier (1996:4) indicate that research has shown, and statistics have confirmed, that small business is the chief job generator in the United States. In fact in the economy of the 1990's the small business sector hired almost 9 out of 10 workers. In 1990, an estimated 20.4 million tax returns for small business were filed; fewer than 7000 of those businesses filing would be considered big business (more than 500 employees). Important to the economy of small businesses is the US Office of Advocacy's projection that from 1992 to 2005, 68 % of future employment growth is likely to come from small firms.

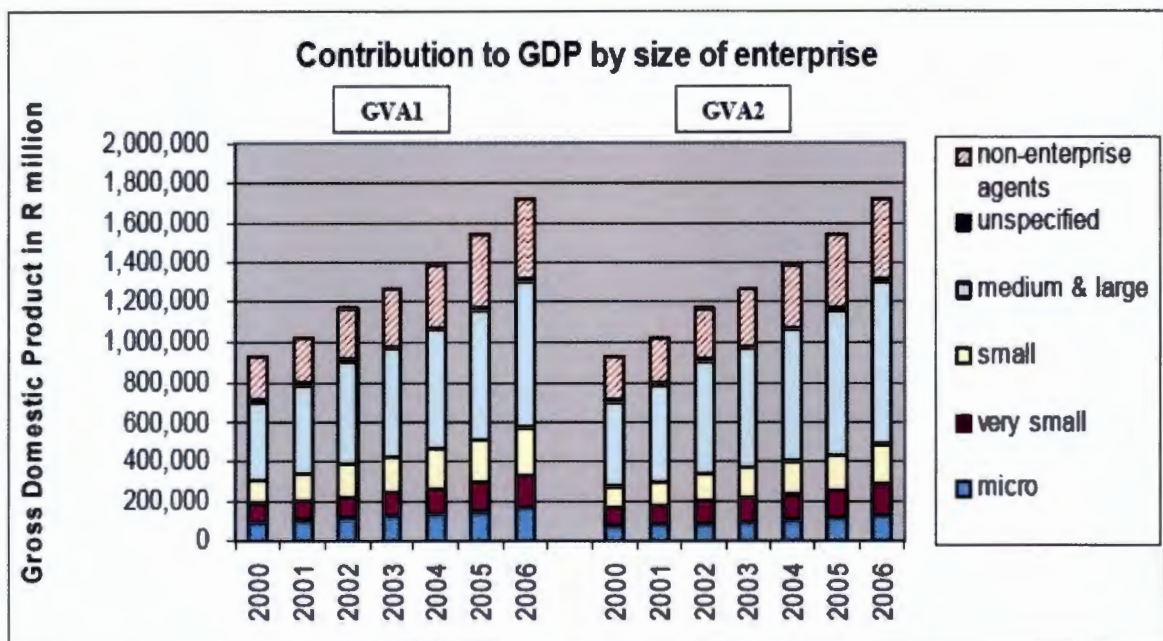
According to Brijlal (2008:1) data on SMMEs in South Africa suggests that SMMEs contribute about half of total employment and more that 30% of total Gross Domestic Product.

According to the Berry *et al* (2002: 27) "SMMEs are generally associated with more labour-intensive production and are hence perceived to have a high labour-intensive capacity. In South Africa many researchers have observed that most of the employment generated in the SMME economy does not result from the expansion of more established and larger SMMEs, but from the formation of new micro and survivalist enterprises".

### 2.3.2 SMME CONTRIBUTION TO THE GDP

According to SEDA report (2007: 13) “considering the economy as a whole the gross value added (GVA) generated by SMMEs amounts to R572 billion (assumption Gross value added or GVA1) or to R493 billion (assumption GVA2) in 2006, which is up from R313 billion or R274 billion in 2000”. GVA is a measure in economics of the value of goods and services produced in an area, industry or sector of an economy. The breakdown is illustrated in table 1 below:

Figure 2.1 Contribution to GDP by size of enterprise



Source: Statsa Integrated Business Register, March 2007, page 26.

## **2.4 ROLE OF SMMEs IN AFRICA**

Focusing more specifically in the African continent with regard to the SMME sector, the results and trends are in sync with the international norms. According to the AFRICA SMME Conference (2008: 2), "In the last ten years a significant number of African countries have witnessed significant growth and this trend is expected to be on the increase. However, there is still much work to be done to relieve poverty. Specifically, there has been a significant realization that Africa needs to look at the SMME sector if the current growth trend is to be sustained. It is now well established that SMMEs form the backbone of employment in Africa, as the sector is, by far, the biggest contributor to economic activity globally". According to Mureithi (2002:63), "in Kenya, the SMMEs play a crucial role in the country's economy. The SMMEs accounts for 12-14% of the GDP and also creates 250 000 new jobs annually".

In Senegal, in an effort to address challenges facing SMMEs, the Networking Strategy was introduced with UNIDO because it was believed it will improve the SMME sector. When organized in networks or when they operate through professional organizations, SMMEs were mobilized in business networks and encouraged to launch joint projects, which made the SMME sector in Kenya a resounding success (Schoeman 2008: 16)

Similarly in Lesotho the SMMEs have emerged as an alternative to formal employment and this development has been fostered by the availability of easy loans from the government SMME Network Lesotho Newsletter (2007: 11)

## **2.5 SMME POLICY FRAMEWORK IN SOUTH AFRICA**

The South African government is acutely aware of the important role that can be played by the SMMEs in the general well-being of the country. To that end the South African government has developed numerous policy instruments and

legislation pieces to provide for an enabling framework to ensure SMMEs are able to be efficient and add value to the country's economy. For the purposes of this research the following policy instruments and legislative prescripts have been singled out as among the most important ones in relation to SMMEs.

### **2.5.1 THE CONSTITUTION OF THE REPUBLIC OF SOUTH AFRICA**

The Constitution of the Republic of South Africa, 1996 Chapter one (Act 108 of 1996) ("Constitution"), is the supreme law of the Republic of South Africa and provides, among others, how the three branches of Government, namely the Legislature (Parliament, provincial legislatures and municipal councils), the Executive Authority and the Judicial Authority should conduct their business. (GCIS, 1996:2). Therefore the relevance of the Constitution to the Mafikeng based SMMEs and SMME service provision is that it provides authority to government and municipal officials to create an enabling environment for the growth of SMMEs.

### **2.5.2 THE WHITE PAPER ON NATIONAL STRATEGY FOR THE DEVELOPMENT AND PROMOTION OF SMALL BUSINESS IN SOUTH AFRICA (1995)**

The White Paper on the National Strategy for the Development and Promotion of Small Business in South Africa was promulgated in 1995. It was initiated to create an enabling environment for the creation and promotion of SMMEs.

According to Berry *et al* (2002:34) "The National Strategy for the Development and Promotion of Small Business in South Africa was the first major effort by the South African government to design a policy framework particularly targeting the entire spectrum of the SMME sector".

This strategy came about as a result of realisation that there was no uniform and integrated approach to specifically deal with matters relating to the SMMEs. According to the DTI report (2003:7) the overall objective of this strategy was to

create an enabling environment for the accelerated growth of SMMEs following a history characterised by the dominance of large capital-intensive firms and continued neglect of small businesses.

### **2.5.3 NATIONAL STRATEGY FOR THE DEVELOPMENT AND PROMOTION OF SMALL BUSINESS IN SOUTH AFRICA (1995)**



The main objective of the National Strategy on SMMEs is to regulate, stimulate, and govern SMMEs activities in South Africa. Throughout the world it has been found that SMMEs play a critical role in absorbing labour, penetrating new markets and generally expanding economies in creative and innovative ways. In that regard SMMEs are an important vehicle to address the challenges of job creation, economic growth and equity in South African society. The stimulation of SMMEs must be seen as part of integrated strategy to take the South African economy onto a higher road, one where the economy is diversified, productivity is enhanced, investment is stimulated and entrepreneurship flourishes.

### **2.5.4 INTEGRATED SMALL BUSINESS DEVELOPMENT STRATEGY (2005)**

The Integrated Small Business Development Strategy (ISBDS) was developed in 2005. The overall objective of this strategy was to provide strategic and integrated responses to the needs, challenges and opportunities facing the SMME sector.

According to ISBDS (2005: 1) the main objectives of the Integrated Small Business Development Strategy are as follows.

- Increasing the contribution of SMMEs to overall economic growth;
- Creating sustainable opportunities for female entrepreneurs;
- Giving greater opportunities to “previously disadvantaged” constituencies with regard to entrepreneurship promotion;

- Creating a stronger enabling environment conducive to small business development;
- Improving standards of communication between government (at all levels) and the SMME sector.

#### **2.5.5 THE NATIONAL LOCAL ECONOMIC DEVELOPMENT (LED) FRAMEWORK (2006)**

The National Framework for LED in South Africa aims to support the development of sustainable local economies through integrated government action. This government action is developmental and stimulates the heart of the economy which comprises those enterprises that operate in local municipal spaces. The framework is underpinned by an appreciation of the evolving practice of LED internationally and is based on the unique South African context and challenges. It contextualizes the move towards “new institutionalism” that breaks down the distinction between economy and society, showing how economic decision-making and action is shaped by the shared values, norms, beliefs, meanings, and rules and procedures, of the formal and informal institutions of society. (GCIS 2008:11).

The relevance of this policy to the SMMEs is that it commands local economic development in the country, including local authorities and therefore the Mafikeng Local Municipality as well. To that end it provides local authorities with direct actions for improving all economic development components including SMME development. It also specifically calls on municipalities to engage local services (SMMEs) during procurement of goods and services.

### **2.5.6 BROAD-BASED BLACK ECONOMIC EMPOWERMENT ACT 53 OF 2003**

The Broad-Based Black Economic Empowerment Act (53/2003): Codes of Good Practice on Black Economic Empowerment was gazetted on 9 February 2007 in the government gazette no 29617. It was put in place to replace earlier editions of the Act. The first Codes of Good Practice, dealing mostly with ownership and management, were released 1 November 2004, and the second set, incorporating special codes for SMMEs (small, medium and micro enterprises) and the remaining 5 pillars, were released 20 December 2005 (Business connection 2009:10). The relevance of BBEE Act (2003:55) to the SMMEs is that it provides an enabling framework for SMME with enough youth and women representatives to be in advantageous position to get government and municipal contracts and tenders.

### **2.5.7 PREFERENTIAL PROCUREMENT POLICY FRAMEWORK ACT 5 OF 2000**

The Preferential Procurement Policy Framework Act, 2000 (Act 5 of 2000) and its regulations were promulgated on 10 August 2001 in terms of Section 217(3) of the Constitution of the RSA to provide for the development of preferential procurement policies by different spheres of government (GCIS 2008:15).

The relevance of PPFA Act 5 of 2000 to the SMMEs is that it gives historically disadvantaged owned SMMEs and community co-operatives a chance to fully participate in economic activities of the government. This Act also seeks to address the challenge of access to markets by the SMMEs.

## **2.5.8 NORTH WEST PROVINCIAL GROWTH AND DEVELOPMENT STRATEGY**

The North West Provincial Growth and Development Strategy, provides a framework for integrated and sustainable growth and economic development for the province and its people over the next ten years. The relevance of North West PGDS to the SMMEs is that, it places the SMMEs as one of the strategic pillars of economic development and growth (PGDS report 2004:19).

## **2.5.9 NORTH WEST PROVINCIAL SMALL BUSINESS DEVELOPMENT STRATEGY 2009 – 2014**

In May 2009 the Department of Economic Development and Tourism commissioned a review of the 1998 SMME Strategy. During the month of June 2009 a series of workshops were organised and held with SMMEs in 11 Local Municipalities of the province. The result of this exercise culminated in a reviewed Provincial SMME Strategy, known as the North West Provincial Small Business Development Strategy (NW Provincial Small Business Development Strategy 2009:4). The relevance of NW Small Business Development Strategy to the SMMEs is that it serves as a blue-print with regard to the promotion and support of SMMEs in the North West.

## **2.5.10 SEDA**

The Small Enterprise Development Agency (SEDA) is an agency of the South African Department of Trade and Industry. SEDA was established in December 2004, through the National Small Business Amendment Act, Act 29 of 2004. SEDA is mandated to implement government's small business strategy; design and implement a standard and common national delivery network for small enterprise development; and integrate government-funded small enterprise support agencies across all tiers of government.

### **2.5.11 NTSIKA**

Ntsika is a government agency that is responsible for helping SMMEs through training and support services as well as the provision of non-financial support and business development services.

### **2.5.12 MAFIKENG LOCAL MUNICIPALITY LED STRATEGY**

**The LED goals for Mafikeng LM are as follows:**

- The alleviation of poverty through the broadening of the economic base in the Transport, Manufacturing, Human Resources, SMME and Tourism sectors. Implied in this goal is less dependence on the services sector as a provider of jobs and income.
- Create opportunities to transfer technology and skills that would result in the community increasing their skills levels, becoming more competitive within the regional labour force and increasing employment opportunities.
- Provide more effective infrastructure and business support that will help the community in attaining supplies and health care facilities. This will also help local businesses and SMMEs by boosting investor's confidence in the area. (Mafikeng Local Economic Development Strategy 2006:3).

Furthermore the Mafikeng LED strategy (2006: 93) undertakes to assist the local Mafikeng SMMEs through the following tools; funding programmes, public sector procurement, business development services, establishment of networks, matchmaking, infrastructure provision, and other typical facilities aimed at SMME support.

### **2.5.13 MAFIKENG LOCAL MUNICIPALITY IDP STRATEGY**

The purpose of the Mafikeng Integrated Development Planning Strategy is to better the quality of life of the people living within the area of the municipality. It provides the guidelines as to how to use the land within the municipality, which resources to use, and how to protect the environment. All strategic planning within the municipality must take place within the framework of the IDP. Through integrated development planning different plans are integrated, coordinated and linked to the use of natural, financial, human and physical resources (Mafikeng IDP strategy 2011:2)

### **2.6 THE ROLE OF THE NORTH WEST PROVINCE IN SMME DEVELOPMENT**

The North West Province has developed numerous SMME policy instruments and strategies to address issues relating to SMME development. Below are some of them.

- North West Provincial Small Business Development Strategy of 2009-2014.
- North West Province SMME Strategy.1998.
- The North West Provincial Growth and Development Strategy of 2006.
- North West Integrated Strategy on the Promotion of Entrepreneurship and SMME development. 1996.
- SMME Development toolkit. 2000.

According to North West Province SMME Strategy of (1998: 28), in 1998 the North West Province adopted an SMME strategy, known as North West Province SMME Strategy of 1998. This strategy was meant to ensure an appropriate enabling environment was in place in the province to support SMMEs. Below are the objectives of the North West Province SMME Strategy of 1998.

- Install and develop a culture of entrepreneurship amongst SMMEs in the North West, especially amongst high school children.
- Establishment of a forum for private sector initiatives towards the small business sector.
- Lowering the cost of entry for new small businesses and to stimulate the demand for products of the small business sector.
- Provide access to financial and non-financial support services.
- Elimination of biases against black-owned small businesses.

According to North West Province SMME Strategy (1998: 07), this SMME strategy “was meant for the entire province that was informed by a range of activities at the time that focused on promoting the growth and development of small businesses in South Africa. Some of these activities included the introduction of the 1995 White Paper on Small Business Promotion and the 1996 promulgation of the National Small Business Act. The legislative prescripts resulted in the establishment of Khula Enterprise Finance, the now defunct National Small Business Council and finally Ntsika Promotion Agency”.

In line with the above, the North West government embarked on a process of developing a new Provincial SMME Strategy that was aligned to the national legislative and policy imperatives. The result of this was to phase out the reviewed 1998 Provincial SMME strategy which gave birth to the current 2009-2014 North West SMME Strategy.



According to North West SMME Strategy 2009-2014 (2009:45) following in the steps of National government, the North West SMME Strategy aims to ensure and provide an appropriate enabling environment in place to support and develop the SMMEs in the North West province. In that regard the objectives of the North West SMME Strategy are as follows.

- To facilitate the improvement of coordination and partnership development with stakeholders and government structures that have programmes targeted at supporting SMMEs in the province.
- To increase the supply of financial services for SMMEs in the North West.
- To integrate and organize non-financial services for SMMEs in the North West.
- To create a demand for products and services produced by SMME development in the province.
- To reduce regulatory constraints for SMME development in the province.
- To facilitate effective communication and reporting on SMME activities in the province.
- To conduct on-going monitoring, evaluation, and knowledge management about SMME development activities in the province.

In essence the North West province, in line with prescripts and policy imperatives of the national government, clearly supports and advocates for the sustainable SMME development and also endeavours to provide an enabling framework to facilitate and ensure that SMMEs develop and flourish in the competitive market.

## **2.7 CHALLENGES FACING SMMEs IN SOUTH AFRICA**

Despite all the best intentions and interventions by the government, the SMMEs are still faced by numerous challenges that impact on their effectiveness. According to Brink *et al* (2003: 1), “the survival rate of small businesses is relatively low. Less than half of newly established small businesses survive beyond five years. This is not only true for South Africa, but also a common phenomenon around the world”.

According to Brijlal (2008:1), many SMMEs fail at the infancy stage and some fail a few years after start-up. It is estimated that 50% of all start-ups fail in their first

year, and 75% fail within the first to five years in the United States of America. It is generally accepted that when starting a business of any kind there are two eventual business scenarios, the business either succeeds or fails.

Corman and Lussier (1996:9) argue that some of the most obvious handicaps faced by small businesses are the inability to hire qualified employees, lack of funds, tax burdens, limited or non-existent credit with suppliers, high costs of advertising, and coping with competition. Many of the above challenges can be directly linked to improper planning and misuse of funds. Furthermore the main factors inherent in most business failures revolve around inadequate managerial ability, inadequate financing, poor competitive position.

According to Nieman *et al* (2007:32), the critical challenges facing SMMEs include:

- Access to start-up and expansion finance;
- Access to markets;
- Access to appropriate technology; and
- Access to resources (including human resources)

According to Brink and Cant (2003:01) it is estimated that the failure rate among SMMEs is between 70% and 80%. It is argued that often the ideas are good and the people behind them are competent, but “they do not have a clue of how to run a business” and have no underlying appreciation of business fundamentals.

## **2.8 FACTORS INFLUENCING FAILURE AMONG SMMEs**

### **2.8.1 LACK OF FINANCE**

According to Chandra *et al* (2001:57) “the most critical issues in the capital market are related to access to credit and its cost. Private savings consisting of

family and individual savings and retained earnings finance the majority of SMMEs investment capital. It is accepted that many businesses small or big require some form of starting capital to commence its operations. Without such capital injection the probabilities of failure are substantively increased right at the inception”.

The South Africa government has tried to address this phenomenon of lack of finance experienced by SMMEs by coming up with many programmes aimed at providing financial assistance to the struggling SMMEs. However it appears that such interventions have largely have had limited or no effect on SMMEs sustainability and success judging by SMMEs limited achievements.

According to Phaladi and Thwala (2009: 536), while the government has made some efforts to increase accessibility to finances, the targeted programmes have had limited success because the awareness and usage of existing promotional programmes is very low. In addition to insufficient access, high interest rates also pose a constraint to micro enterprise growth. Moreover reports indicate that there are core difficulties seen in terms of discrimination by financial institutions against micro-enterprises with little collateral, difficulties in accessing information and a lack of market exposure. Brink and Cant (2003:4) support that view by stating that “lack of financial sources is often reported as the major obstacle experienced by small businesses. In that regard financial issues important for business success are capital requirements, bookkeeping, financial planning, financial control, management of working capital, and income generation”.

### **2.8.2 INADEQUATE MARKETING OF BUSINESS PRODUCTS/SERVICES**

Scarborough *et al.* (2005:24) argue that building a growing base of customers requires a sustained, creative marketing effort. Keeping them coming back requires providing them with quality, convenience, service, fun and doing it quickly. Small business may have the best, high quality and affordable product or

service, however if the potential consumer does not have knowledge about the existence of the said product he will not be able to purchase it. Therefore it is important that every effort is taken to ensure that the product availability and quality is properly and promptly delivered to the intended consumer.

Brink and Cant (2003:4) concur by stating that that marketing factors such as insufficient marketing, inability to conduct market research, misreading the market, poor products or service, misreading customer trends and needs also impact on the success of SMMEs.

### **2.8.3 LACK OF RELEVANT SKILLS**

The success of any business venture relies heavily on the availability of appropriate skills and competence, the absence of which can have devastating effect on the profitability and sustainability of any business.

According to Phaladi and Thwala (2009: 535) South Africa is characterized by a systematic under-investment in human capital. This has resulted in a labour force with a skewed distribution of skills, career opportunities and work-place experience. Phaladi and Thwala (2009: 536) further argue that inadequacy in technical and managerial skills required in project implementation, lack of continuity in relation to type, scale of location of work cause irreparable damage to SMMEs in form of insolvency, high operational costs etc.

According to Funchall *et al* (2009:182) confidence in ability to perform tasks successfully through training and skills augmentation drives competitiveness forward in SMMEs so that they feel empowered to meet the standards required to acquire market share. Murphy (1996:13) further states that “much has been written about the need to improve the skills of small business owner-managers. It is a topic of intense interest to trainers, advisers and academics alike, and in

recent years a great deal of funding support has been made available to improve knowledge and skills in SMMEs in South Africa”.

#### **2.8.4 TECHNOLOGICAL CHALLENGES**

According to Funchall *et al* (2009: 181) technology does not assure SMME success or competitiveness; however SMMEs that make effective use of technology tend to be more competitive than those that do not. According to the SMME survey (2007: 35) technology (internet etc) is a real business enabler and that companies today optimize efficiency by utilizing technology opportunities.

Murphy (1996:12) states that “associated with the question of technology is the suspicion that that SMMEs use only single-track technology, that is, technology which cannot be readily modified to produce a range of products. The above is further supported by Nieman *et al* (2007: 32) who state that “lack of technology is another constraint facing SMMEs”.

#### **2.8.5 LATE PAYMENTS BY CLIENTS**

According to Business Connexion (2010:34) it is common business practice in South Africa that service providers or businesses send quotations or proforma invoices and successful service providers are then given an order authorizing them to provide goods or services. In that circumstance the SMME or service provider uses their own money, human capital and other resources to provide the required goods or services. Thereafter the SMME or service providers will then invoice the relevant client, be it the department or organization. Normally the departments or organizations undertake to pay for services or goods rendered in a period not exceeding 30 days. However the unfortunate reality is that the clients pay well after 30 days at best and at worst they pay after many months. In the interim the business or service provider will be unable to meet their financial obligation, unable to pay staff, maintain operational costs, pay bills and debts etc.

According to Phaladi and Thwala and (2009: 536) “delays with interim and final payments, as well as onerous contract conditions faced by small businesses can also impose huge constraints. Many small businesses have suffered financial ruin and bankruptcy because of delays in payments, which are common with government contracts”.

### **2.8.6 LOCATION OF THE BUSINESS**



Corman and Lussier (1996:188) argue that because of its long-term and everlasting effects on profitability, a firm’s location deserves thoughtful analysis. While it seems to be true that a location decision is only made when the business is first established or purchased, there are times when a business will want to expand or relocate. The economy or demographics may dictate a change in location. Regardless of the reason, the location decision may involve a significant expenditure, and you will have to live with your decision for a relatively long period of time.

Important considerations that a business owner may wish to take into consideration include among other things, proximity to market, transportation to facilities, labour supply, provision of government services, climatic conditions, urban/suburban/rural area, raw materials, cost of land, community attitude, freight costs, etc.

According to Scarborough *et al.* (2005:25), “for any business, choosing the right location is partly an art and partly science. Too often, business locations are selected without proper study, investigation, and planning. Some beginning owners choose a particular location just because they noticed a vacant building. But the location question is much too critical to leave to chance”.

### **2.8.7 TIGHT REGULATORY LABOUR ENVIRONMENT**

According to Brink and Cant (2003:4) the labour market in South Africa is highly regulated with a high level of labour market rigidity that is laws make it difficult to hire and fire people in South Africa. In this regard problems experienced include the inability to attract and retain suitable staff, loss of key employees, low productivity and inadequate training and development of employees.

Chandra *et al* (2001:28) further states that collective wage-setting agreements in South Africa play an important role in employment creation, by affecting the degree of flexibility to respond to local market conditions. Therefore as SMMEs are supported and encouraged to expand, care must be taken to ensure that labour market regulations do not become more binding.

### **2.8.8 INADEQUATE OR POOR MANAGEMENT**

Much has been written about issues relating to perceived poor or inadequate management and skills of managers and owners of SMMEs and their roles have been under intense scrutiny. Scarborough *et al.* (2005:23) states that in most small business, poor management is the primary cause of business failure. Sometimes the manager/owner of a small business does not have the capacity to operate it successfully. The SMME owner/manager lacks the leadership ability, sound judgement, and knowledge necessary to make the business work.

Murphy (1996:14) further corroborates by stating that from one position owner-managers are culpable; they are charged with displaying limited ability to manage financial resources, with exhibiting too much informal, fragmented and subjective managerial control; with being too task-product and sales-oriented, to the detriment of people and markets and marketing, and in addition, they are charged with being woefully parochial in outlook instead of internationalist.

The success or failure of any business venture is to some extent largely dependent upon the effective, efficient and diligent management of the business entity. Corman and Lussier (1996:8-9) argue that “poor management is the main reason businesses fail. Poor management encompasses incompetence. Many new small business ventures are started by people who lack extensive knowledge of many aspects of operating a business. You must become competent not only in your own field but in a related areas. Since you typically cannot afford to hire outside experts as you start out, you must rely on your own abilities”.

### **2.8.9 POOR RECORD KEEPING**

According to Corman and Lussier (1996: 46) “it is extremely important that you keep complete and adequate financial records, record keeping requires maintaining detailed information about purchases, sales, orders, expenses, and cash balances from double-entry bookkeeping system. This information can and should be used for future planning”

Based on the above the importance of keeping and maintaining accurate, up to date and precise records of business transactions cannot be overemphasized. Without proper record keeping the information, records, transactions and activities of the business are immediately compromised, and that may lead to a small business owner making fatal business decisions that may eventually lead to the demise of the small business concerned.

According to Phaladi Thwala and (2009: 535) poor record keeping is also a cause for small business failure. In most cases, this is not only due to the low priority attached to it by new and fresh entrepreneurs, but also lack of basic business management skills. Most business people, therefore, end up losing track of their daily transactions and cannot account for their expenses and profits at the end of the month.

### **2.8.10 CASH FLOW PROBLEMS**

Scarborough *et al.* (2005:43) states that many SMMEs are unable to manage their cash flow in a manner that will ensure that the business is able to use its monthly expenditure and sales. As a result many SMMEs end up being unable to meet basic monthly financial obligations and that causes untold damage to the SMME concerned. Many SMMEs are unable to or fail to prepare cash flow forecasts and budgets and prepare a cost-benefit analysis.

### **2.9 SUMMARY**

This chapter provided definition of key concepts, and a brief literature review of the role of SMMEs in development. The chapter also provided literature on SMME development programmes. Furthermore background of the SMMEs including the initiatives aimed at facilitating SMME development by the national and provincial governments, as well as the Mafikeng local municipality were also presented.

## **CHAPTER 3**

### **SOCIO-ECONOMIC PROFILE OF MAFIKENG AND STRUCTURE OF THE SMMEs IN MAFIKENG AREA**

#### **3.1 INTRODUCTION**

This chapter provides the socio-economic profile of Mafikeng, state and structure of SMMEs in Mafikeng area, challenges facing SMMEs in Mafikeng and further presents the analysis of the data, as well as the findings of the study.

#### **3.2 SOCIO-ECONOMIC PROFILE OF MAFIKENG**

Mafikeng, which falls under the Ngaka Modiri Molema district municipality, is the provincial capital of the North West province of the Republic of South Africa. The city of Mafikeng is the seat of the Provincial Legislature and a majority of the National State Departments regional offices. The municipality is a considerably large local municipality as compared to other four local municipalities constituting Ngaka Modiri Molema District municipality and it is established in terms of the Municipal Demarcation Act No.27 of 1998 (Mafikeng 2011/2012 IDP strategy 2011: 3).

The total area of the Mafikeng Local Municipality is approximately 3 703 km<sup>2</sup>. It is divided into 28 wards consisting of 102 villages and few suburbs. The population of the municipality is estimated at 290 228 people. Approximately 75% of the area is rural. The rural areas are in the southern and western part of the municipality and are under tribal authority (Stats SA Community 2007:49)

Mafikeng's rich and diverse history dates back to 1852 when the town was founded. It is most known for Anglo Boer war (Mafikeng Siege) that took place

from 1899 to 1902. Mafikeng Local Municipality like other local municipalities was brought about by the new Local Government transformation in South Africa and is a Category B Municipality established in terms of section 12 of the Municipal Structures Act, (Mafikeng 2011/2012 IDP strategy: 4).

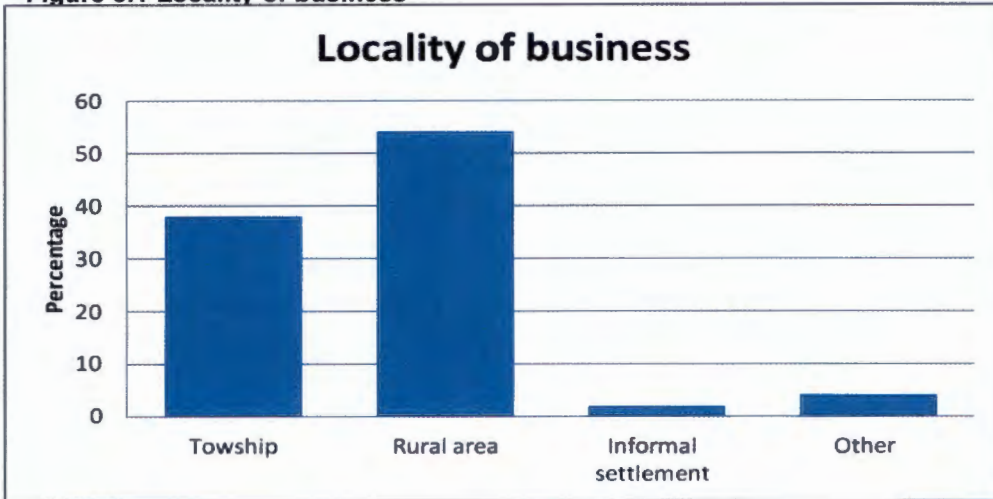
According to Stats SA Community (2007: 49), the gender profile for Mafikeng local municipality indicated a slightly higher proportion of females than males in the area (52% females to 48% males). An estimated 55% of the people in the municipality had no income in 2007. In general terms, the majority of households in the municipality earned less than the poverty line (R1600.00) and are therefore considered poor. Those classified as economically active are mostly employed in the government sector.

With regard to education levels in the Mafikeng area, the Stats SA Community (2007: 31) have indicated the following information. In Mafikeng 28% of residents have attained primary school education, 25% have attained secondary schooling, while 17% have no schooling at all, and only 8% have attained higher education levels. As for employment, 41.2% of residents of Mafikeng are unemployed. The largest portion of the Mafikeng labour force is employed in the government sector, followed by finance and business services, social services and trade sectors respectively at 16.2%, 15.2%, and 14.2% contribution to employment. With regard to poverty levels, 29% of Mafikeng residents are living under the minimum living income level.

### **3.3 STATE OF SMMEs IN MAFIKENG AREA**

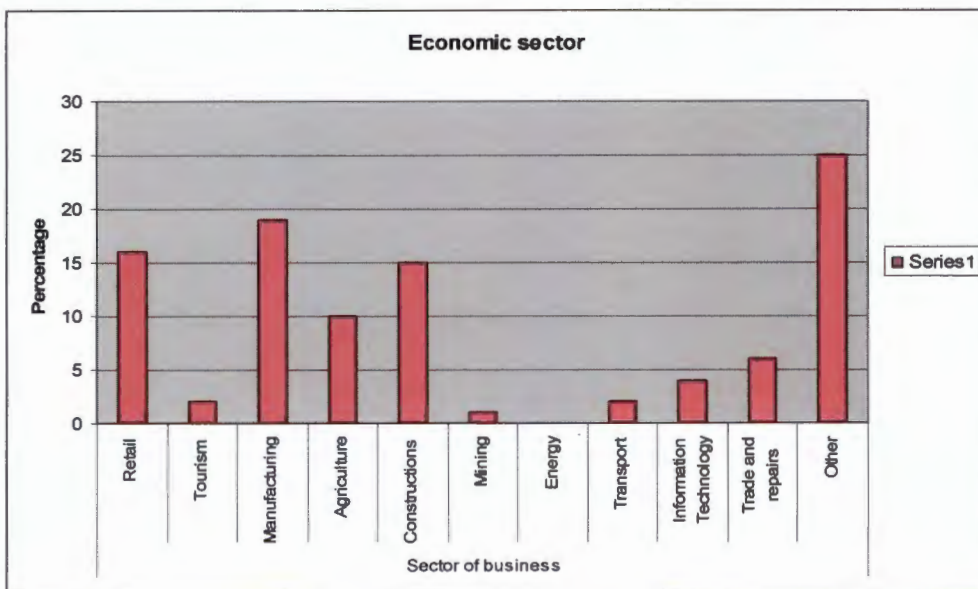
Below is the summary of the state of SMMEs in the Mafikeng area. This information comes from a study commissioned by Mafikeng Local Municipality to Urban Econ in 2008 to assess and analyse the state of SMMEs in Mafikeng area as well as the investment climate in the Mafikeng area.

**Figure 3.1 Locality of business**



Source: Mafikeng investment study 2008:28

**Figure 3.2 Products and services produced by SMMEs in Mafikeng**



Source: Mafikeng investment study 2008:31

Figure 3.3 Duration of business

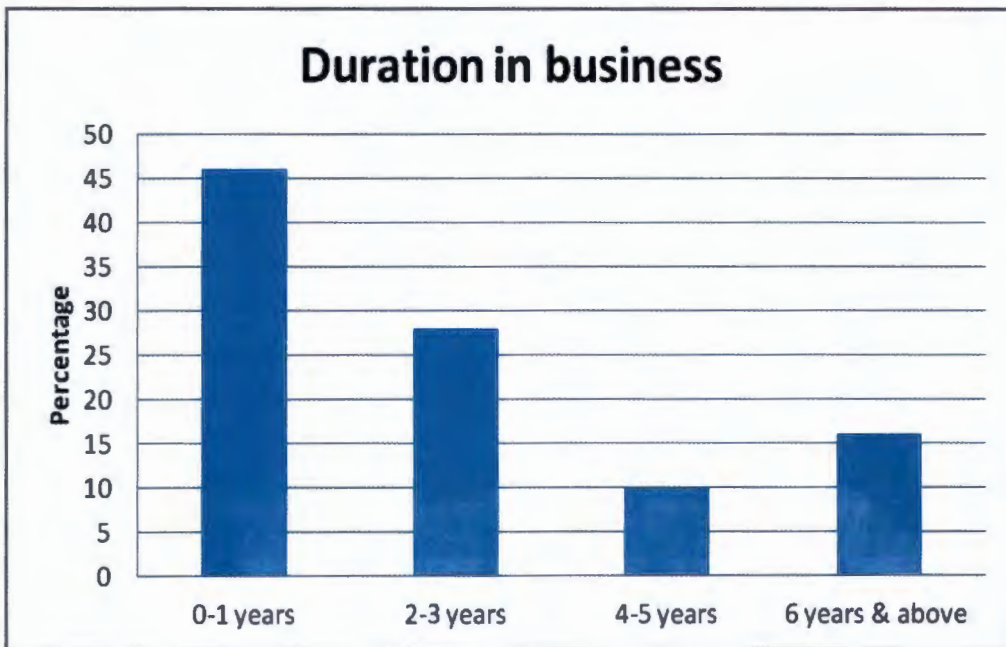
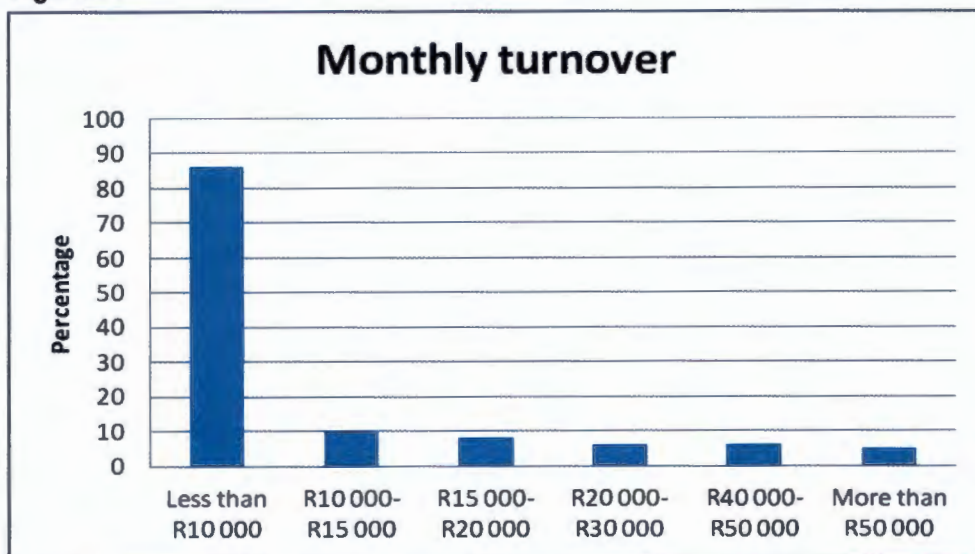
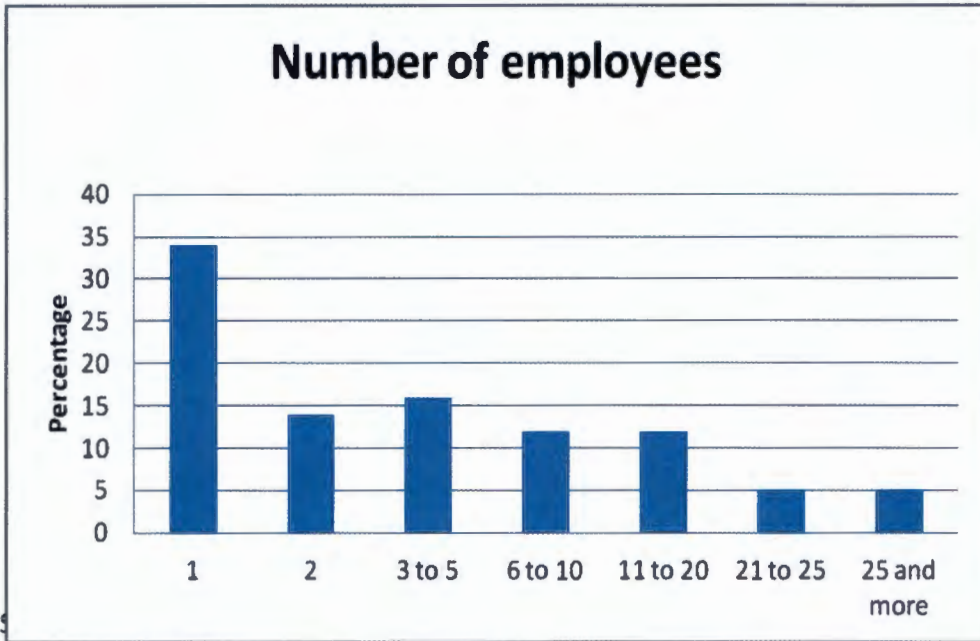


Figure3.4



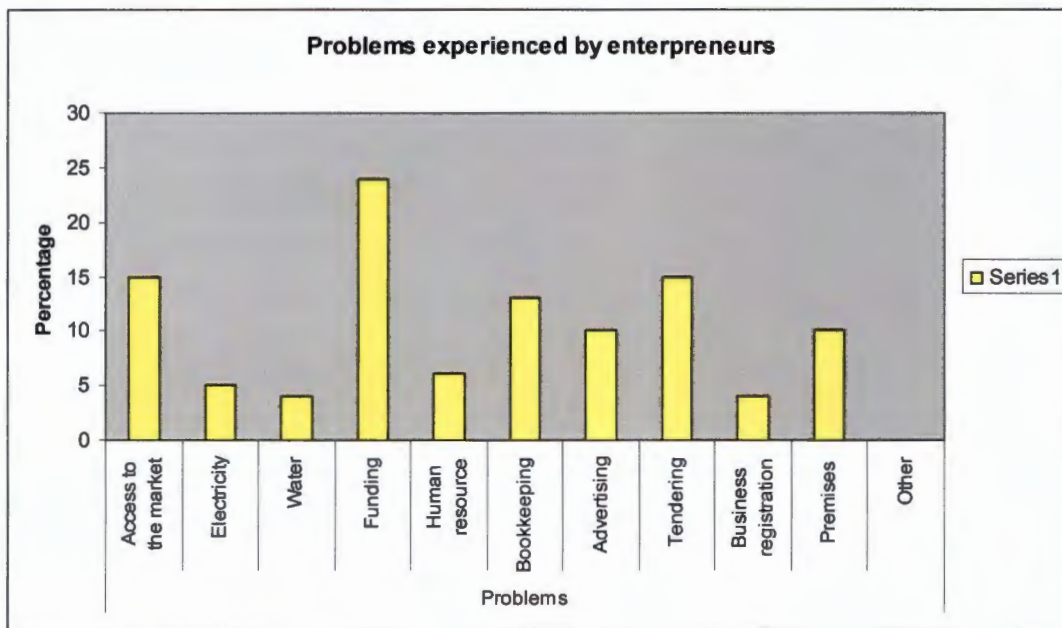
Source: Mafikeng investment study 2008:33

Figure 3.5 Number of employees



Source: Mafikeng investment study 2008:34

Figure 3.6 : Problems experienced by SMMEs in Mafikeng



Source: Mafikeng investment study 2008:36

Table below provides a breakdown of percentage contribution by the various SMMEs in terms of economic sectors in Mafikeng area.



Sector	Micro %	Small %	Medium %	Large %
Agriculture, forestry and fishing	3.4	9.2	43.8	43.6
Mining and quarrying	1.6	24.6	28.1	39.1
Manufacturing	4.9	7.5	21.2	66.4
Construction	2.8	32.5	14.7	50.0
Trade, catering and accommodation	4.2	20.1	18.1	68.7
Transport, storage and communication	8.8	19.1	20.2	51.9
Community, social and other personal services and finance and business sectors	15.7	13.9	2.6	67.8
<b>Total</b>	<b>5.9</b>	<b>14.8</b>	<b>15.4</b>	<b>63.9</b>

Source: Mafikeng investment study 2008: 19

### 3.4 ORGANISATION AND STRUCTURE OF SMMEs IN MAFIKENG AREA

According to Africa (2008:29) since the municipalities are in most direct contact with SMMEs in their respective areas, it is only logical that SMMEs and the public at large expect tangible support from their municipalities whenever SMMEs issues or problems arise.

The SMME overall policy mandate and legislative framework in the North West province, is the responsibility of the Department of Economic Development and Tourism, under the political leadership of Member of the Executive Council (MEC). However with regard to day to day issues of SMMEs based in Mafikeng the concerned SMMEs approach the dedicated SMME desk located at Mafikeng Local Municipality or they can approach Mafikeng SEDA.

According to Mafikeng Investment study (2008:21) the following information has been established in terms of SMMEs based in the Mafikeng area:

- The majority of SMMEs are located in the rural areas of Mafikeng.
- Almost 40% of SMMEs are owned by women in Mafikeng.
- SMMEs create more sustainable jobs than investment in public works.
- About 75% of SMMEs have a turnover of less than R1 million per year.

### **3.4.1. Challenges and Barriers to SMME Development in Mafikeng area**

The Mafikeng Investment report (2009: 67) stated that SMMEs in the Mafikeng area have identified the following as the main challenges facing the SMMEs.

1. Funding.
2. Skills development (i.e. financial, illiteracy and complications in writing a business plan).
3. Collateral criteria required by funding institutions.
4. Creativity and innovation.
5. Market research.
6. Infrastructure.
7. Access to land.
8. Crime.
9. Lack of information and effective communication.
10. Red tape.
11. Corruption and nepotism/favouritism.

### **3.5 CHARACTERISTICS OF THE RESPONDENTS**

During this study the focus was on the SMMEs that operate within the Mafikeng area. The majority of SMMEs in Mafikeng area who participated in this survey operate in almost all industries. The SMMEs include the following sectors: the services (31.5%), Retail (23.3%), Catering (19.2%), Manufacturing (11%), Telecommunication (8.2%), and Tourism (6.8%). With regard to funding, 77.3% of interviewed SMMEs have never received any form of funding while 21.3% have received some funding. With regard to location, 56% of interviewed SMMEs operate from urban areas and 29% from rural areas.

The majority of interviewed SMMEs are owned by Africans at 61.3%, as compared to 8% of white owned SMMEs. With regard to sex ratio 58.7% of SMMEs are owned by males, and 41.3% are owned by females. In respect to usage of technology 57.3 % indicated they used it, while 42.7% did not. With regard to making a profit 66.7% admitted they were not making any profit, while 33.3% indicated they were making a profit. As for the major challenges to run their SMMEs, 54.7% cited lack of finance, 20% cited lack of marketing, lack of skills is cited at 10.7%, followed by technological challenges at 8% and lastly human resources at 6.7%, Lastly with respect to training, 66.2% of those interviewed SMMEs have received some form of training, while 33.8% admitted that they haven't received any training.

### **3.6 DISCUSSION OF THE FINDINGS**

A total number of 100 questionnaires were distributed to the local SMMEs in the Mafikeng area, and 75 questionnaires were returned fully and accurately filled. A total number of 25 questionnaires were distributed to officials from Department of Economic Development and Tourism, Mafikeng Local Municipality and SEDA Mafikeng, and 20 fully and accurately filled questionnaires were returned.

The results from SMME owners and government respondents are depicted in a table format. The variables in the questionnaire are shown in frequency table and percentages followed by explanations and discussions.

The researcher has also provided further analysis on quantitative and qualitative data. The qualitative data is displayed using a content analysis of all the responses for each respective question.



**TABLE 3.1 AGE**

Age	Frequency	Percent (%)
<25	20	26.7%
25-35	21	28.0%
36-45	20	26.7%
46-55	10	13.3%
56-65	4	5.3%
Total	75	100.0

As indicated in Table 3.1 most of the respondents who participated in the study are below the age of 35. It is further revealed that 54.7% of respondents are below 35 years old. On the other side there were elderly people from the age of 56-65 who are still in business at 5.3%.

**TABLE 3.2 GENDER OF RESPONDENTS**

<b>Gender</b>	<b>Frequency</b>	<b>Valid Percent</b>
Male	44	58.7%
Female	31	41.3%
Total	75	100.0

Table 3.2 indicate the majority of the respondents are males, at 58.7% and females account for 41.3% of the total number of respondents in this study.

**TABLE 3.3 RACE OF RESPONDENTS**

<b>Race</b>	<b>Frequency</b>	<b>Percent</b>
Indian	8	10.7%
Whites	6	8.0%
Asian	15	20.0%
African	46	61.3%
Total	75	100.0

As depicted in Table 3.3 above 61.3% of respondents are from the African population, who constitute the majority of respondents. This majority is in line with the demographics of Mafikeng area where the black population is in the majority. The Asian-owned SMMEs stand at 20%, followed by Indians at 10.7% and Caucasians follow closely at 8%.

**TABLE 3.4 LOCATION OF BUSINESS IN THE MAFIKENG AREA**

Location	Frequency	Valid Percent
Urban area	42	56.0%
Rural area	22	29.3%
Informal settlement	10	13.3%
Other	1	1.3%
Total	75	100.0

Table 3.4 above reveals that the majority of SMMEs in Mafikeng are located in urban areas, standing at 56%. The SMMEs located in the rural areas stand at 29.3%, followed by those at informal settlements at 13.3%. It is also possible to understand from the data that there are people who are running their business in informal settlement areas. These are most probably very small and micro businesses targeting people with very low incomes residing in informal settlements.

**TABLE 3.5 FORMAL EDUCATION LEVEL OF RESPONDENTS**

Level of Education	Frequency	Percent
No schooling	7	9.3%
Primary school	10	13.3%
High school	36	48.0%
Tertiary	22	29.3%
Total	75	100.0

The educational level of the respondents ranges from no schooling at all to tertiary level. As indicated in Table 3.5 above most of the respondents have high school level as their highest academic qualification totalling a majority of 48%. With regard to tertiary education 29.3% of the respondents have acquired tertiary education. 13.3% of respondents have primary school level of education, while 9.3% of remaining respondents don't have any form of schooling.

**Table 3.6 HOW LONG HAS YOUR BUSINESS BEEN OPERATIONAL?**

<b>Length of business operation</b>	<b>Frequency</b>	<b>Percent</b>
Less than two years	29	38.7%
Three to five years	24	32.0%
More than five years	14	18.7%
More than ten years	8	10.7%
Total	75	100.0

The most important information on the operation and survival rates of SMMEs is depicted in Table 3.6 above. The majority of SMMEs at 38.7% have been operational for less than two years. It is a good indication that most of the respondents are in the start-up phase. At this stage many SMMEs face the highest challenge in terms of managing their business from their lack of experience and financial shortages. However, there were 32% of the respondents who have been running their business for more than three years and the other 18.7% for more than five years. It was interesting to see 10.7% of SMMEs who have been operational for more than ten years. According to SEDA's annual report (2008: 16)"the majority of SMMEs fail within the first two years". Therefore it is encouraging to see SMMEs which are beyond the first two years of operation.

**TABLE 3.7 WHAT WAS YOUR SOURCE OF FUNDING FOR STARTING YOUR BUSINESS?**

<b>Source of funding</b>	<b>Frequency</b>	<b>Percent</b>
Own funding	36	48.0%
Family and friends	23	30.7%
Bank loan	7	9.3%
Government funding	5	6.7%
Municipality funding	4	5.3%
Total	75	100.0

One of the challenges of SMMEs is the start-up funding. As indicated in Table 3.7 above, the majority (48%) of SMMEs have used their own funding to start their business, they have not been funded. It is interesting to note that 30.7% of SMMEs have relied on funding sourced from their own families and friends, followed by bank loan at 9.3%, government funding stand at 6.7% and municipality funding is lagging behind at 5.3%. It is evident that majority of SMMEs have not received any government funding and in fact many rely on funding from family and friends. In that regard it is clear that government and banks play a very minimal role in funding the SMMEs despite many government-driven small business support organizations and intervention agencies.

**TABLE 3.8 HAVE YOU EVER RECEIVED ANY FUNDING FROM GOVERNMENT/MUNICIPALITY?**

<b>Government or municipality funding</b>	<b>Frequency</b>	<b>Percent</b>
Yes	16	21.3%
No	59	77.3%
Total	75	100.0

As illustrated in table 3.8 above the majority of SMMEs at 77.3% claim to have never received any funding either from government or municipality. On the other hand 21.3% agreed that they had received funding from government or the municipality. This figure clearly indicates that majority of SMMEs have not received any funding from either the government or the municipality.

**TABLE 3.9 DO YOU USE ANY SOURCE OF TECHNOLOGICAL INSTRUMENTS IN YOUR BUSINESS?**

<b>Use of technology</b>	<b>Frequency</b>	<b>Valid Percent</b>
Yes	43	57.3%
No	32	42.7%
Total	75	100.0

Technology improves the performance of businesses. However, SMMEs do not have equal access to technology relevant to their business. As revealed in Table 3.9 above, 57.3% of SMMEs have access to technology while the remaining 43.7% do not have any access to technology.

**TABLE 3.10 HAVE YOU EVER ATTENDED ANY TRAINING RELATED TO YOUR BUSINESS?**

Training attended	Frequency	Valid Percent
Yes	25	33.8%
No	50	66.2%
Total	75	100.0%

It is believed that entrepreneurial and small business management training contributes towards a better performance of SMMEs, all but a few get an opportunity to attend such training programmes. In South Africa, lack of skill in many industries is a main challenge given the history of the country. Training programmes and tailor made programmes assist in filling such gaps. However, SMMEs hardly get such access. As shown in Table 3.10 above, 66.2% of respondents did not get a chance to attend training. On the other hand 33% of respondents indicated that they have received training. That clearly indicates that majority of SMMEs at 66.2% did not attend training related to the business they are managing, compared to about 33% that have attended training.



**TABLE 3.11 TYPE OF INDUSTRY YOUR BUSINESS IS OPERATING**

Type of industry	Frequency	Percent
Services	23	31.5%
Retail	17	23.3%
Catering	14	19.2%
Telecommunication	6	8.2%
Tourism	5	6.8%
Manufacturing	8	11.0%
Total	73	100.0
Missing system	2	

As depicted in Table 3.11, SMMEs in Mafikeng area of the North West province who participated in this survey operate in almost all industries including the services at 31.5%, Retail at 23.3%, Catering at 19.2%, Manufacturing at 11%, followed by Telecommunication at 8.2%, and lastly Tourism sector at 6.8%.

**TABLE 3.12 WHICH ONE OF THE FOLLOWING IS YOUR MAJOR CHALLENGE TO RUN YOUR BUSINESS?**

	<b>Frequency</b>	<b>Percent</b>
Financial	41	54.7%
Marketing	15	20.0%
Technology	6	8.0%
Lack of business skills	8	10.7%
Human resources	5	6.7%
Total	75	100.0

SMMEs are tied up with many challenges at different stages of their business development at different levels. Table 3.12 indicate that financial problems at 54.7% is the highest challenge followed by marketing challenges at 20%, lack of business skills is at 10.7%, technological challenges account for 8% and lack of human resources is at 6.7%. This finding is supported by other similar SMME findings, especially in relation to finance.

**TABLE 3.13 WHICH OF THE FOLLOWING FACTORS CONTRIBUTED HIGHLY TO YOUR BUSINESS CHALLENGES**

	<b>Frequency</b>	<b>Percent</b>
Cash flow problems	23	30.7%
Late payments by clients	20	26.7%
Location of the business	7	9.3%
Crime	10	13.3%
Poor record keeping	4	5.3%
Lack of business skills	11	14.7%
Total	75	100.0

As indicated in table 3.13 above the major challenge of SMMEs is finance-related problems, in this instance cash flow problem. The majority of the respondents accounting for 30.7% cite cash flow as the number one factor in their business challenge. It is worth noting that the problems of SMMEs are not only linked to access to finance but also at managing the available finance. This is a double challenge for SMMEs and government officials responsible to promote SMME development in the Mafikeng area of the North West province. The second challenge cited by the SMMEs relates to late payments by clients, affecting 26.7% of respondents. Lack of business skills, and crime follow at 14.7% and 13.3% respectively, followed by location of the business at 9.3% and lastly poor-record keeping at 5.3%.

**TABLE 3.14 HOW MANY EMPLOYEES DO YOU HAVE?**

<b>Employees</b>	<b>Frequency</b>	<b>Percent</b>
One	18	24.0%
Two	17	22.7%
Three	9	12.0%
Four	9	12.0%
Five	3	4.0%
More than five	19	25.3%
Total	75	100.0

As indicated in the literature review, SMMEs are contributing highly towards job creation in many countries including South Africa. SMMEs contribute highly to development in distributing wealth and poverty alleviation though job creation especially at the lower end of the market. This study was interested to find out the number of people employed by the SMMEs who participated in this survey. Fortunately all respondents have created jobs for themselves and for their community. As illustrated in table 3.14 above the SMMEs, accounting for 25.3%, have created more than five jobs followed by 24% who created just one job.

According to this study 22.7% of SMMEs have created two jobs. These groups of respondents have at least created a job for the owner. In the past there has been much criticism of SMMEs that they are mainly a one man-show that is- they employing only the owner, but that's still a positive contribution. If an enabling environment is created, such SMMEs can plan for growth and employ more people and contribute to revitalization of their community and the economy at large.

**TABLE 3.15 IS YOUR PROFIT INCREASING SINCE YOU STARTED YOUR BUSINESS?**

<b>Profit</b>	<b>Frequency</b>	<b>Percent</b>
Yes	25	33.3%
No	50	66.7%
Total	75	100.0

Table 3.15 above indicates that majority of respondents at 66% indicated that their business income or profit is not increasing. On the other hand 33% of respondents indicated that they were making profit. The above scenario clearly demonstrates the challenges facing the SMMEs, and why they are not effective in their operations in the economy.

### **3.7 CONTENT ANALYSIS FOR OFFICIALS WORKING CLOSELY WITH SMMEs**

This section deals with the responses from the officials working directly with SMMEs from the Department of Economic Development and Tourism, SEDA Mafikeng and Mafikeng Local Municipality. The discussions emanate from the open ended answers from the officials working with the SMMEs as they appear on the questionnaires.

#### **3.7.1. Main factors leading to SMME failure to succeed in business**

According to officials (from government, municipality and SEDA), with regard to factors that lead to failure rate among most SMMEs the general sentiment from SMME officials is as follows. The SMMEs do not know how to identify and penetrate the relevant markets, hence their failure to succeed and prosper in business. They also cite wrong intentions on the part of SMMEs when deciding to venture into business, in that they are not guided by entrepreneurial instinct but by other reasons, such as quick tenders, increasing their income, and tiredness for working for a boss. The other reason being cited as cause of failure is lack of relevant skills from the SMMEs to run and manage their businesses in a profitable and sustainable way.

According to Phaladi and Thwala (2009: 536) inadequacy in technical and managerial skills required in project implementation, lack of continuity in relation to type, scale of location of work cause irreparable damage to SMMEs. This is further corroborated by Scarborough *et al.* (2005:23) "in most small business, poor management is the primary cause of business failure". The other major issue as cited by SMME officials is that the current funding for SMME development is inadequate, resulting in high failure rate amongst SMMEs.

### **3.7.2. What are possible solutions and strategies to make SMMEs more efficient, successful and sustainable?**

In terms of possible solutions to assist with SMME challenges, the officials (from government, municipality and SEDA), working closely with the SMMEs advised as follows. There should be more funding for SMME development, and government must support SMMEs by assisting them with markets and procuring goods from the SMMEs. There was also a general sentiment that the government must introduce more tax rebates for SMMEs, that SMMEs should be exempted from most taxes. More importantly the SMMEs must be assisted with mentorship and be taken to training programs. Lastly the SMME officials also advised that the SMMEs should to try and identify a niche area and focus on that more specifically, to get more experience and excel, that is, they must do what they can do best.



### **3.7.3. What are possible new strategies and interventions to ensure the success of SMMEs?**

With regards to new strategies and interventions to ensure SMMEs succeed and are profitable and sustainable the general view among the SMME officials (from government, municipality and SEDA), is that SMME's must be exempted or given rebates on taxes to ensure that they grow capital and re-invest in the business. More tough and clear legislative pieces must be implemented to root out crime, corruption and fraud. Also SMME's must be assisted with product development and packaging. Lastly government must only fund projects that have reasonable prospects of success and are aligned to government programmes such as IDP's, MIG's, PGDS, etc.

### **3.8 CONTENT ANALYSIS FOR SMMEs OWNERS**

This section deals with the responses from SMMEs owners from the Mafikeng area, which emanates from the open ended answers from the SMMEs owners as they appear on the questionnaires.

#### **3.8.1. In your opinion what are the main challenges facing your business?**

With regard to citing challenges facing their SMMEs, some SMME owners have responded as follows. The SMME owners claim that the government is not providing them with adequate funding to start or develop their SMMEs, hence they use their own money and that invariably dries up within a year or two forcing them to terminate business operations. Secondly they cite markets as their challenge because they do not have databases or information as to which markets they can take their products or services to. A majority of SMME owners further decried the fact that government takes too long to pay them for services or products rendered or provided. Consequently they are unable to meet their operational demands, eventually leading to them to close their business.

The other challenge they pointed out is that as a result of high rental rates in prime and accessible sites, they are forced to trade from obscure and inaccessible locations. As a result most of these businesses are located in poor or inaccessible locations, and clients can't access them. The other challenge is that because of factors such as BEE, tenders being issued along political considerations, corruption etc. This puts them in difficult a position as they don't have political connections. They also cited the issue of high crime rate as a challenge including robberies and thefts.

### **3.8.2. In your opinion what can help you to make your business succeed?**

In responding to what they think can be done to make their businesses more successful and sustainable the majority of SMMEs responded as follows. The government must pay on time for services/goods rendered. The government must provide more funding for SMMEs to ensure their businesses grow and are profitable, and for the same reasons government must assist SMMEs with training. The BEE deals and tenders must also be awarded to all, based only on merit not for political reasons. Also importantly crime must be reduced, and the same applies to corruption and fraud. Finally the majority of SMMEs also feels there should be a SMME dedicated funding agency to assist the emerging and fully established SMMEs.

### **3.8.3. In your opinion what government and municipality strategies and interventions can be introduced to the SMME sector to ensure their optimum contribution to the economy?**

The government and municipality must have an inclusive meeting with the SMMEs to get all their challenges. Based on those challenges a SMME inspired and oriented comprehensive strategy should then be developed to deal specifically with all those challenges experienced by the SMMEs. The SMMEs owners also highlighted that the government and municipality should also assist them with training, funding, mentorship, monitoring and evaluation programmes. Lastly the SMMEs requested that the government should strive to give local SMMEs more contracts/tenders instead of awarding them to SMMEs outside the Mafikeng area. The latter, according to local SMMEs has devastating impact on their small businesses, because at times local government and municipality go outside the province to procure goods/services that can readily be provided by local SMMEs.

### **3.9 SUMMARY**

This chapter discussed the socio-economic profile of Mafikeng, organisation and structure of SMMEs in Mafikeng and also reported on the findings of the study and provided an analysis of the data.

## CHAPTER 4

### CONCLUSIONS AND RECOMMENDATIONS

#### 4.1 INTRODUCTION

This chapter provides the summary and conclusions based on the findings of the study. The chapter also outlines the recommendations to solve the challenges identified in the study, as well as indicating areas for further research in the SMME sector so that SMMEs become more efficient and sustainable.

#### 4.2 RESEARCH CONCLUSIONS

The majority of respondents cited the following factors as the ones affecting the effectiveness of the SMMEs in the Mafikeng area.

- **Financial problems-** majority of SMMEs owners are struggling to get financial backing from the government or its agencies. This assertion is further portrayed in table 3.8 which indicates that 77% of SMMEs have never received any funding from the government or its agencies. Furthermore 54.7% of SMMEs cite lack of funding as their main challenge. All the above corroborates the SEDA report (2008:15) which indicated that “access to finance has been identified as a major barrier hindering the success of small business, contributing to about 80% of SMMEs failure”.
- **Lack of training-** As table 3.10 indicates the majority of SMME owners, at 66.2% have never received any training related to their area of business interest. That clearly indicates that a majority of them were already setting themselves for failure because they entered business without any training related to their business. According to Funchall *et al* (2009:182) confidence in ability to perform tasks successfully through training and

skills augmentation drives competitiveness forward in SMMEs so that they feel empowered to meet the standards required to acquire market share.

- **Cash flow problems-** As illustrated by table 3.13, the majority of SMMEs at 30.7% state that they have problems in managing their cash flow functions. They are unable to track the money coming into and out of business. They cited excessive stock, slow moving stock/goods and poor credit repayments by clients. According to the SEDA Annual report (2012:5) research has demonstrated that SMMEs find it difficult to obtain finance from financial institutions and many SMMEs experience cash flow problems as a result.
- **Late payments by clients-** As illustrated in table 3.13, the SMME owners at 26.7% decry the fact that they deliver the goods to the clients, especially government using their own money. However when it comes to payment the government takes up to several months before they make a payment. The issue of late payments by clients remain a serious threat to the SMMEs sustainability, hence the decision by SEDA to establish the SEDA Public Sector SMME Payment Assistance Hotline. According to SEDA report (2012:2) "SEDA Public Sector SMME Payment Assistance Hotline has facilitated R300 million worth of late payments on behalf of SMMEs for services rendered to public sector institutions. The Hotline was established in September 2009 with the objective to ensure that late payments (unpaid for more than 30 days after submission of invoice) are kept to a minimum and SMMEs liquidity is not negatively affected".
- **Poor marketing-** As table 3.12 illustrates 20% of SMMEs indicated that they are unable to market their products at times. As a result of their inadequate marketing abilities they are consequently unable to penetrate their intended market. According to Zimmerer *et al* (2005: 22) building a growing base of customers requires a sustained, creative marketing effort. Keeping them coming back requires providing them with value, quality, convenience, service, and fun-and doing it all quickly. By building a powerful marketing plan small companies do not have to spend enormous

sums of money to sustain a successful marketing effort. Creative entrepreneurs find innovative ways to market their businesses effectively to their target customers without breaking the bank.

In addition government officials and SMME owners have indicated other factors as a challenge for SMME growth, as contained in the content analysis. A majority of SMME owners do not know how to identify and penetrate the relevant markets, hence their failure. The other reason for failure is that when SMME decide to venture into business, they are not necessarily guided by an entrepreneurial instinct or business idea but by other reasons, such as quick tenders/contracts, increase in personal income, tired for working for a boss. The other reason being cited as cause of failure is lack of relevant skills by the SMMEs to run and manage their businesses in a profitable and sustainable way. The last major issue as cited by both SMME officials and SMMEs owners is that the funding for SMME development is inadequate.



The suggested solutions from both government officials and SMME owners to address such SMME challenges range from financial to non-financial interventions and other strategies. Here are the possible solutions and strategies as obtained from both the SMME owners and government SMME officials. There should be more funding for SMME development, and government must support SMMEs by assisting them with market penetration and by procuring goods and services from the SMMEs. There is also a general sentiment that the government must introduce more tax rebates for SMMEs, they should also be exempted from most taxes. More importantly the SMMEs must be assisted with mentorship and be taken to training programs.

## **4.3 RECOMMENDATIONS**

The following recommendations are based on the findings of this study and the resultant conclusions. It is anticipated that these recommendations may be used as guidelines for the government, Mafikeng local municipality, SEDA Mafikeng and SMME owners to try mitigate the challenges facing the SMMEs in the Mafikeng area.

### **4.3.1 SMME Support Agencies Approach**

Most SMME owners claim that they are not getting the necessary interventions and assistance from government, municipality and other relevant stake-holders. As a result the challenges of SMMEs seem to be increasing rather than decreasing. Many business-support agencies targeting financial and non-financial challenges of SMMEs seem to be doing too little. The main approach from support agencies can contribute more if there are specific and tailor made approaches than a total blanket-approach to solve the SMME challenges. Though their challenges seem similar, each SMME needs specific interventions. Therefore it is recommended that the SMME support agencies must develop more specific and tailor made approaches to assist different SMMEs, given the fact that SMME challenges are diverse, and are influenced by different circumstances, e.g. regional, political climate, entrepreneurial environment and economic circumstances.

### **4.3.2 Financial Support**

Financial support remains a very important component with regard to ensuring that SMMEs are sustainable and profitable. Firstly it is recommended that government must merge all its funding agencies and form a single centralised funding agency dedicated to specifically assist the SMMEs. Such dedicated SMME funding agency will award funding to SMMEs that have reasonable

prospects of success or have been operational for more than three years and the owner must be willing to invest at least 30% of their own personal financial resources into the business. Secondly rigid banking requirements need to be relaxed to afford SMMEs an opportunity to acquire financial assistance and be given a fair chance to prove themselves. In that regard government should act as collateral for SMMEs to secure funding from banking institutions.

#### **4.3.3 Training and Skills Support**

Training plays an important role in the SMME sector. The government must enter into agreements with Universities that will see government paying for training of SMMEs in programmes and courses related to their core businesses. The courses should cover areas such as marketing, product development, financial management, entrepreneurship, human resources management, stock management, and tendering process.

Furthermore SMME officials (from Department of Economic Development and Tourism, Mafikeng local municipality and Mafikeng SEDA) must conduct regular coaching and mentoring programmes to capacitate the SMME owners. In conclusion established businesses and private sector must be encouraged to provide annual coaching clinics and present business models to the local SMMEs. This could be done by implementing minor tax rebates for big business that are actively coaching and partnering with emerging SMMEs.

#### **4.3.4 Marketing support**

From the study it is evident that majority of SMMEs are struggling to market their products. Therefore the study recommends that the government and municipality must assist the SMMEs by assisting them to market their products by creating website for SMMEs, holding market fairs and trade exhibitions and paying

advertorials and advertisements on different media platforms on behalf of SMMEs to enable local SMMEs to market their products and services effectively.

#### **4.3.5 Enabling environment**

An enabling environment plays a critical role in the success or failure of any business venture, whether small or big. Without a good enabling environment the probabilities of business failure are high. In that regard it is recommended that the government must ease or simplify the business registration laws, tax administration, implement tax rebates for SMMEs, award contracts and tenders fairly and competitively, and reduce crime and corruption.

#### **4.3.6 Payments by clients**



It is commonly known that an SMME will provide particular services/goods to a client, with a pro-forma invoice attached, after receipt of such goods/services the client will then process a payment. In paper, this process appear to be short and clear, however in reality the payments take months or even years at worst to be effected. Therefore the study recommends that all payments for goods/services delivered must be paid in strictly 30 days. In that regard a dedicated 24-hour SMME hot-line should be established to address all queries relating to payments to the SMMEs.

#### **4.3.7 Usage of SMMEs as economic vehicle**

The geographic area of Mafikeng does not have any big money generators like mining, industries, factories, major tourism attraction and others. Therefore the study recommends that the local authorities must assist in creating strong, sustainable and profitable SMMEs that will be used as economic boosters of the Mafikeng area. Such SMMEs will in turn create decent employment and stimulate local economic development. This in turn will improve the general livelihood of its

citizens and alleviate poverty in the process. This will also in turn help the citizens of Mafikeng to make a livelihood and it will also eventually help South Africa in some way to achieve the UN 2015 Millennium Development Goals (MDG's)

#### **4.3.8 Business location and rentals**

Some SMMEs have indicated that they are unable to afford exorbitant rentals in prime and easily accessible areas. As a result they are forced to trade in obscure and inaccessible areas and as a consequence they are far from their prospective clients. Therefore the study recommends that the local authorities must give SMMEs space at former NWDC industrial buildings at lower rentals, and must build facilities at other areas to be used specifically by the SMMEs.

#### **4.4 FURTHER RESEARCH**

It is recommended for future research, that a comparison of challenges for SMMEs in South Africa with those from other different geographical areas, income levels, political circumstances and entrepreneurial culture, must be conducted. This will assist the SMMEs and government agencies to fully understand the dynamics of SMMEs and also know the challenges that run across the entire country. This in turn will assist the government to develop an integrated approach to SMME development that will be able to effectively respond to the needs and aspirations of all SMMEs in the Mafikeng area and those across North West province and South Africa at large.

#### **4.5 SUMMARY**

As it has been alluded to in this research the SMMEs face enormous challenges. In that regard the SMMEs based in the Mafikeng area raised the following as factors impacting on the effectiveness of their SMMEs, financial problems, lack of training, cash-flow problems, late payments by clients and poor marketing. The

SMMEs are expected to fulfil a number of roles ranging from creation of employment, local economic development, poverty alleviation, and others. Not only are these very divergent policy objectives, but also the policy tools introduced to meet these objectives can be equally different, ranging from literacy training, business skills programs to marketing techniques. Therefore the national and local authorities have the responsibility to develop a holistic, thorough, and research based approaches to make sure that SMMEs start to contribute optimally to the economy of Mafikeng, North West province and South Africa as a whole. Therefore it is anticipated that these research findings will serve as guidelines to ensure that SMMEs challenges are addressed and Mafikeng based SMMEs start to be efficient, sustainable and profitable.

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## ANNEXURE A

### QUESTIONNAIRE

Kindly place an X in the relevant boxes below, to indicate your age, sex and grade:

AGE	X	GENDER	X	CULTURE	X
<25		Male		Indian	
25-35		Female		Caucasian	
36-45				Asian	
46-55				African	
56-65					

*Please answer the following questions to the best of your ability:*

#### **SECTION I**

*This section is only for SMME owners*

##### 1. The location of your businesses

Location	X
Urban area	
Rural area	
Informal settlement	
Other specify	

##### 2. What is your level of education?

Education level	X
No schooling	
Primary school	
High school	
Tertiary	

3. For how long your business has been operational

<b>Duration</b>	<b>X</b>
Less than two years	
Three to five years	
More than five years	
More than ten years	

4. What was your source of funding for starting your business?

<b>Source of start up funding</b>	<b>X</b>
Own funding	
Family and friends	
Bank loan	
Government funding	
Municipality funding	
Other, please specify	

5. Have you ever received any funding from government/municipality?

Yes	
No	

6. Do you use any form of technological instruments in your business?

Yes	
No	

7. Did you attend any training related to your businesses?

Yes	
-----	--

No	
----	--

7.1 If yes, who provided training, and what type of training was it?

.....

8. In what type of industry is your business operating

Industry	X
Services	
Retail	
Catering	
Telecommunication	
Tourism	
Manufacturing	
Other, Please specify	

9. Which one of the following is your major challenge to run your business?

Challenges	X
Financial	
Marketing	
Technology	
Lack of business skills	
Human resources	
Other, Please specify	

10. Which of the following factors contributed highly to your business challenges?

<b>Factors</b>	<b>X</b>
Cash flow problem	
Late payments by clients	
Location of the business	
Crime	
Poor record keeping	
Lack of business skills	
Other, Please specify	

10.1 Please elaborate.....

11. How many employees do you have?

<b>No of employees</b>	<b>X</b>
One	
Two	
Three	
Four	
Five	
More than five	

12. Is your income and profit increasing since you started your business?

Yes	
No	

13. In your opinion what are the main challenges for your business?

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14. In your opinion what can help you to make your business succeed?

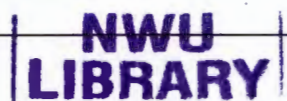
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15. In your opinion what's the role of municipality in facilitating SMME development?

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## SECTION II

*This section is for economic development professionals and SMME experts (That is officials from SEDA, Mafikeng Local Municipality, and Department of Economic Development and Tourism)*

16. Do you think SMME failure is still a challenge for government and business owners?

<b>Description</b>	<b>X</b>
Strongly disagree	
Disagree	
I do not know	
Agree	
Strongly agree	

17. Do you think there are enough business support strategies currently available from government/municipality to SMMEs?

<b>Description</b>	<b>X</b>
Strongly disagree	
Disagree	
I do not know	
Agree	
Strongly agree	

18. In your opinion, in those cases where there has been SMME failure what were the main causes of such failures?

Description	X
Start up funding	
finance for growth	
lack of business skills	
Technology	
Lack of entrepreneurial skills	
Other, please specify	

19. In your opinion what are the main factors contributing for SMME failure?

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20. In your opinion what are the possible solutions and strategies to make the SMME's more efficient, successful and sustainable?

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21. In your opinion what government/municipality strategies and interventions can be introduced to the SMME sector to ensure their optimum contribution to the countries economy?

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Department of Development Studies

Private Bag X2046 Mmabatho

2735 Tel: 0183892524

18 OCTOBER 2010

**Confirmation letter in respect of Mr Obakeng Motlhanke**

This serves to confirm that **Mr. Obakeng Motlhanke**, student number **16678729** is a registered MA student at the Mafikeng Campus of the North-West University, Department of Development Studies. In terms of University rules the students have to complete mini-dissertations before the end of October 2010. In order for him to meet this deadline, Mr Motlhanke has to collect and analyse data as well as write the final report by the end of the month.

In view of the above, your office is highly requested to give the student an opportunity to undertake this important exercise.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Molope', is written over a faint, illegible stamp.

**Mokgadi Molope Mrs.**

**Programme Coordinator**