An assessment of factors impeding business growth of small and medium enterprises in Govan Mbeki Municipality in Mpumalanga province

T Madela
orcid.org 0000-0002-3128-5462

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Supervisor: Dr HM Lotz

Graduation: October 2019
Student number: 26933772

DECLARATION

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ABSTRACT

Small to medium sized enterprises are generally acknowledged as the drivers of innovation, economic growth and employment in many countries including South Africa. However, these entities still face various challenges that hinder their business growth to reach bigger markets. This lack of business growth is believed to be the cause of eventual failure of small to medium enterprises within a very short space of time after inception. It has recently been reported that almost 50% of small to medium enterprises fail within two (2) years of inception, according to the Head of Small Enterprises at Standard Bank. Despite the overlap between factors that hinder business growth and those that cause business failure; this study sought to investigate the former in Govan Mbeki local Municipality.

In the context of this study, business growth refers to an increase in the market dominance, assets, number of employees and revenue of a business. The main research question sought to find factors that prevent small to medium enterprises from becoming large entities. This study was conducted through the distribution of questionnaires to owners and managers of small to medium enterprises within the demarcated area. The said questionnaire consisted of a total of forty statements formulated to probe the factors affecting growth.

Statements in the questionnaire were grouped together to form relevant constructs. The formulated constructs were inspired by the findings from the literature and previous studies on typical factors affecting business growth. These constructs were access to finance, regulatory laws, business location, training and resources, general economic impact and strategy and growth intention. The survey was conducted by sending questionnaires to owners of the enterprises in Govan Mbeki local Municipality. The results from this study showed that the growth SMEs in Govan Mbeki local Municipality is hindered by the general economic outlook which involves lack of markets for their products and services. The respondents further cited the lack of resources and training together with the absence of strategies and know-how capabilities on to growing the enterprise. Lack of access to finance and funding for growth was also raised as a barrier to enterprise growth in this area. Furthermore, respondents also strongly agreed that corruption is a hindrance to the growth of their businesses. This study has also created an opportunity for future studies to focus on the development of strategies to grow small to medium enterprises in South Africa.

Keywords: Govan Mbeki Municipality, Entrepreneurship, small to medium sized, business growth, growth intention, corruption, barriers, growth-strategies, finance and funding.

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NATURE AND SCOPE OF THE STUDY

1.1 Introduction

The growing number of small to medium sized enterprises (SMEs) in South Africa is encouraging, however, the longevity and growth of these entities in terms of assets and revenue seems to be a serious challenge. The combined number of small, micro and medium sized enterprises (SMMEs) is reported to be around 2.4 million, according to the Small Enterprise Development quarterly report issued in 2017 (Small Enterprise Development Agency, 2017:2). This report further revealed that in the first quarter of 2017, more than 33% of SMMEs operated in Gauteng, followed by almost 16% in KwaZulu Natal and 11% in Limpopo and Western Cape. Other provinces showed lower percentages. Provincial classification of growth of SMEs revealed the highest growth rate of about 34% in Limpopo, followed by 14% in Gauteng and other provinces showed relatively low rates in the same period (Bureau for Economic Research Note 1, 2016:15). However, the lack of growth mentioned above refers to the number of SMEs not the business growth in terms of revenues, assets and employees, which is the purpose of this study. As highlighted above, amongst other things, the development and growth of these entities create job opportunities and further results to local and national economic growth. Seeing the slow growth leading to premature failure of SMEs; the South African government established the ministry of Small Business Development in 2014. The intended role of this ministry was to support and alleviate the inception and growth of SMEs by creating conducive environment for SMEs (Small Business Development Department, 2018).

According to Olawale and Garwe (2010:731), business growth is defined and measured using absolute or relative changes in sales, assets, employment, productivity, profits and profit margins. This definition of business growth is adopted in this study; mainly because sales are regarded as a good indicator of business performance, size and growth. Brush *et al.* (2009:482) describes business growth as a geographical expansion, addition of more establishments, and entrance to new markets, addition of customers, acquisitions and mergers. Drucker 2011 cited by (Buys, 2012:15), emphasises that the sustainability of small businesses is achieved when revenues and earnings sustain on-going business success while retained profits are utilized for future business growth.

Sexton 1997 (cited by Van Zyl, 2014:175) declares that business growth is the essence of entrepreneurship, which makes the relationship between growth and entrepreneurship a relevant question. However, the reasons for the failure of SME's becoming large entities remains a concern and a question to be answered. The actual measures of business growth undertaken in this study are employment growth, sales growth and asset growth. Small and medium enterprises (SMEs) have been acknowledged as key contributors to economic growth and are therefore referred to as crucial drivers of the economy, innovation and job creation (Bureau for Economic Research Note 1, 2016:5). Despite the aforementioned potential economic benefits from SMEs, many entities are showing stagnation in both turnover and number of employees (SBP Bulletin 2, 2015:1). These two contrasting issues need to be addressed in order to realize the benefits of growing small business enterprises in South Africa.

1.2 Definition of key concepts

Small and medium sized enterprises (SME) comprise of a broad range of firms which includes formally registered, informal and non-VAT registered organisations (The Department of Trade and Industry, 2008). In South Africa, businesses are defined by the National Small Business Act (102 of 1996) according to five categories namely, standard industrial sector and subsector classification, size of class, fulltime equivalent of paid employees, turnover and asset value (excluding fixed property) as indicated in Table 1.1.

Table 1.1: Classification and definition of SMEs in South Africa

Standard Industrial Classification	**Size of class**	**Total Full-time Employees**	**Turnover (R'm)**	**Asset Value (R'm)**
Agriculture	Medium	100	5	5
	Small	50	3	3
Mining & Quarrying	Medium	200	39	23
	Small	50	10	6
Manufacturing	Medium	200	51	19
	Small	50	13	5
Electricity, Gas and Water	Medium	200	51	19
	Small	50	13	5
Construction	Small	200	26	5
	Medium	50	6	1

Retail and Motor Trade and Repair Services	Medium	200	39	6
	Small	50	19	3
Wholesale Trade, Commercial Agents and Allied Services	Medium	200	64	10
	Small	50	32	5
Catering, Accommodation and other Trade	Medium	200	13	3
	Small	50	6	1
Transport, Storage	Medium	200	26	6
	Small	50	13	3
Finance & Business Services	Medium	200	26	6
	Small	50	13	3
Community, Social Services	Medium	200	13	6
	Small	50	6	3

Source: National Small Business Amendment Act (26 of 2003).

Abbreviations used in the study are presented in Table 1.2 below.

Table 1.2: Abbreviations

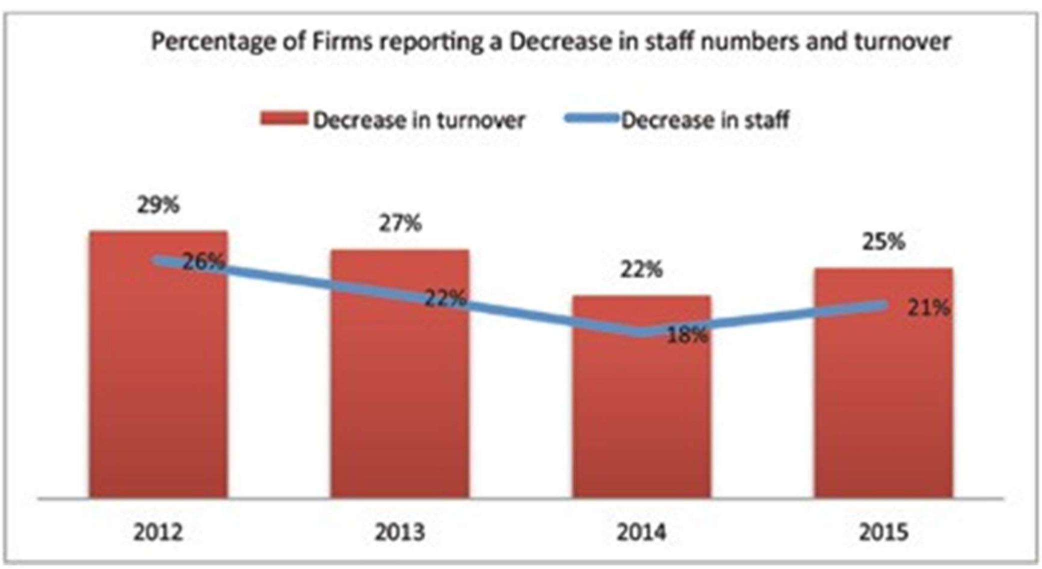
Abbreviation	**Meaning**
SMMEs	Small, Medium Micro Enterprises
SME	Small Medium Enterprise
GEM	Global Entrepreneurship Monitor
DTI	Department of Trade and Industry
CIPC	Companies and Intellectual Property Commission
QLFS	Quarterly Labour Force Survey
GDP	Gross Domestic Product
SEDA	Small Enterprise Development Agency
VAT	Value Added Tax
SA	South Africa
SBP	Small Business Project (Report)
TFE	Total Full Time

1.3 Problem Statement

Despite the positive impact of thriving Small and Medium Enterprises (SMEs), these firms are still faced with a variety of challenges that hinder their growth in South Africa. The Finscope survey (2010:10) found that the challenges faced by SMEs are often location specific and as a result, SMEs exhibit slower growth compared to their larger counterparts.

The Small Business Project (SBP) Alert report (2015:1) conducted by business environment specialists revealed a significant decline of the SME growth index in South Africa. This annually conducted study found that one in five firms showed a decline in turnover between 2014/15 while 20% of the panel reported no growth in turnover for the same period. Figure 1.1 below shows a decline of turnover from 29% in 2012 to 25% in 2015; a similar trend was also observed on the staff turnover, declining from 26% in 2012 to 21% in 2015. In essence, the study found that only 56% of SMEs reported an increase in turnover at an aggregate annual of about 11%, which is regarded as marginally better than the 9% reported in 2012 but lower than the average of 13% recorded in 2013 and 2014. Clearly, the growth of SMEs remains slow and unstable. The SME growth index aimed towards establishing a solid-evidence based understanding of SMEs in South Africa (SBP Bulletin 2, 2015:2).

Figure 1.1: Percentage of firms reporting a decline in staff and turnover



Source: SBP Alert (2015).

The lack of business growth of SMEs in South Africa clearly poses a risk of economic stagnation, thus the creation and growth of SMEs remains key to the economic development of the country. Nkwinika and Munzhedzi (2016:79) admit that the growth of small to medium size business enterprises is one of the solutions in the development of local economy. The authors insist that the rise of small businesses is another way of empowering local governments to use locally available resources to promote inclusive economic growth at a local level. However, the growth of small businesses is inhibited by various challenges.

It is for the aforementioned reasons that this study is performed to identify and investigate obstacles that restrict the needed growth of SMEs. Essentially, this study is intended at investigating the causes of stagnation of existing small and medium enterprises in Govan Mbeki municipality as well as identifying causes of lack of transition of SMEs to large and sustainable entities.

1.4 Rationale and Significance of the Study

Development, expansion and growth of SMEs are key in the economy of any developing country, especially South Africa, where the unemployment rate is at its highest ever at 27.7%, according to the statistics South Africa report (2017). This highest rate of unemployment serves as proof that big corporates in both government and private sectors cannot employ all people. It is for this reason that the growth of SMEs is needed in order to assist by creating employment opportunities. Harrington *et al.* (2016/17:3) believe that the key priority to curb unemployment is to introduce reforms that are aimed at fostering a more business enabling environment, particularly for small and medium sized enterprises, which contribute to employment. Small businesses have proven to contribute substantially in developing economies by creating jobs, economic growth and more equal income distribution.

1.5 Objectives of the Study

The following primary and secondary objectives were set for this study:

1.5.1 Primary Objective

The primary objective of this study is to assess the factors that impede business growth of small and medium enterprises in the Govan Mbeki Municipality.

1.5.2 Secondary Objectives

The following secondary objectives were formulated as a means to address the primary objective:

- Define small and medium sized enterprises;
- Obtain insight of those factors that impedes growth of small and medium enterprises by means of a literature study;
- Assess the impediments to growth of small and medium enterprises by means of an empirical survey; and
- Provide recommendations to owners of SMEs on ways to manage these impediments.

1.6 Scope of the Study

This section describes the field of study, industry demarcation and the geographical demarcation.

- **Field of study**

The field of this study falls within the subject of entrepreneurship in existing businesses. More specifically, the study will be conducted among small and medium sized enterprises.

- **Industry demarcation**

This study is not limited to a specific industry.

1.7 Geographical demarcation

Govan Mbeki local Municipality falls within the Gert Sibande district which is located in the Mpumalanga province in South Africa. Govan Mbeki consists of 9 areas and towns, namely; Bethal, Charl Cilliers, Embalenhle, Evander, Kinross, Leandra, Leslie, Secunda and Trichardt, see the demarcation map in Figure 1.2. The economic contribution of Govan Mbeki Municipality to local, provincial and national GDP is through the mining and manufacturing sectors (Statistics South Africa, 2017).

Figure 1.2: Map of Govan Mbeki Local Municipality

Source: Municipality Website

1.8 Research Methodology

The study is quantitative in nature, thus the research design to be employed will be in the form of a survey. Data collection will be performed through a structured questionnaire.

1.8.1 Study Population

The targeted population for this investigation includes all small to medium enterprises within the Govan Mbeki Municipality. This study is conducted on business owners and managers operating in various business sectors in the Municipality. A total sample of 150 business owners is targeted.

1.8.2 Research Instrument

The research instrument selected for this study is a structured questionnaire (see Annexure A & B). The questionnaire consists of two sections. Section A comprises of demographic information, section B comprises of statements relating to factors that impede business growth. Respondents were requested to indicate on a 4-point Likert scale the degree to which they strongly agree (4) or strongly disagree (1) with each of the statements.

1.8.3 Data Collection

The collection of data will be conducted as follows:

1) A list containing the names and telephone numbers of all the small and medium enterprises that is registered with the Local Economic department of the Govan Mbeki Municipality is obtained from this department.
2) Members that are randomly selected and will be contacted by any convenient means (i.e. email, hand delivery). The purpose of the research will be explained and respondents will be assured that this survey is voluntary.
3) Members who indicate a willingness to participate will be e-mailed a questionnaire and the informed consent form. Those who indicate an unwillingness to participate will be deleted from the list.

1.8.4 Data Analysis

The data collected is processed and statistically analysed by the Statistical Consultation Services of the North-West University (Potchefstroom Campus). The processing of data involves coding of the information received from questionnaires followed by converting of the data into useful information such as frequency tables. The developed tables and trends will be used to draw conclusions and recommendations on the issue of business stagnation. Mean values will be used to measure the central tendency and the standard deviation to indicate the distribution of the data. The validity of different variables is verified using Cronbach’s Alpha coefficients.

1.9 Ethical Considerations

Respondents are informed in a covering letter of the survey that participation in the research is voluntary and that they may withdraw from the study at any time. In addition, respondents are assured that their participation is anonymous (see informed consent form in Annexure A). The ethical clearance to conduct this survey is granted by the University’s Ethics Committee. The ethics clearance number given is: NWU – 00686 – 18 – S4.

1.10 Limitations of the Study

The following limitations regarding the study are presented:

- The study is limited to the Govan Mbeki Municipal area and is therefore not representative of all small and medium enterprises in South Africa.
- The lack of response from the target population poses a real limitation to the study.

1.11 Layout of the Study

Chapter 1 – Chapter 1 consisted of an introduction to the study, the problem statement indicating the need for the study as well as the objectives of the study. The research methodology included the research design, target population, research instrument, and data collection and analysis were presented.

Chapter 2 – Chapter 2 consists of a literature review on small and medium sized enterprises, specifically focussing on factors impeding the growth of SMEs. This chapter discusses the general challenges and factors that impede the growth of SMEs. This chapter further reports findings from various surveys and studies where factors impeding the growth of SMEs were identified. Specific and leading factors impeding the growth SMEs are discussed in subsequent sections of this chapter. Furthermore, reports a typical case of specific factors hindering the growth of SMEs at Techiman Municipality in Ghana. The last part of this chapter discusses models and strategies suggested to grow enterprises.

Chapter 3 – This chapter presents the results and discussion.

Chapter 4 – This chapter entails the conclusions drawn from the findings of this study.

Chapter 5 –This chapter presents the recommendations drawn from this study

Chapter 2

LITERATURE REVIEW

2.1 Introduction

SMEs in South Africa are consistently reported to be stagnant with regards to revenues, growth in asset value, market growth and increased number of employees; and this is contrary to the worldwide trends where SMEs constitute the largest employer in both developed and developing economies (SBP Alert, 2015:1). Evidently, the latest findings from SBP business environment specialist's survey revealed that SMEs in South Africa have a low SME Growth Index. This survey also revealed that one in five firms reported a decline in turnover between the year 2014 and 2015 while 20% of the firms reported no growth in turnover in the same period (SBP Alert, 2015:1). Despite the fact that formal SMEs contribute approximately 98.5% of the number of formal firms in the South African economy, these firms only account for 28% of the jobs, which is below the international trends of 60 to 70% (SBP Alert, 2018). It is reported that 12% of employment comes from medium-sized enterprises while 11 to 15% is attributed to small and micro enterprises (SBP Alert, 2018:2). Turnover and employment are two critical general measurements of business growth; mainly because turnover impacts the wealth that is created in the economy while employment addresses the social stability of the country (SBP Alert, 2015:1). The following section discusses the importance of SMEs in the overall economy of the country.

2.2 The role and importance of the growth of SMEs

It is alleged that governments have realized the importance of the growth of SMEs, this has been evidenced by the focus on enabling conditions for post-entry growth for SMEs (Cusmano, Koreen & Pissareva, 2018:12). In South Africa, this has been evidenced by the establishment of small business ministerial representation. The main concern about growth relates to the growth of small firms into medium size firms and the scaling up of medium size firms to become large entities (Cusmano *et al.*, 2018:12). Business growth used to be considered to be a linear and predictable process, but various in-depth studies have shown that the growth path is a non-linear, opportunistic and unpredictable process (Bilal, Khan, & Akoorie, 2016:370). Van Zyl and Neneh (2014:173) percieve business growth as a good goal and an important measure of business success that is a key driver of wealth creation, employment and economic development in every country.

These authors further argue that although growth is viewed as a natural phenomenon that occurs until profit is maximized; studies show that not all SME owners want to grow their businesses to maximize profits. Small and medium enterprises (SMEs) are increasingly seen as playing a significant role in the economies of many countries (Olawale & Garwe, 2010:733). Thus, governments around the world are recently showing strong focus on the development of the SME sector to promote economic growth. The importance of SMEs is further emphasised in the National Development Plan (NDP) which has set out a target for 90% of employment opportunities to be created by SMEs by the year 2030 (SBP Alert, 2014:1). However, despite the best effort of the South African government, new and existing SMEs have achieved limited growth (Olawale & Garwe, 2010:730). Olawale & Garwe (2010:732) argued that even though SMEs show higher growth rate in percentage terms, most SMEs do not grow at all, since they are established as the last resort rather than the first choice and opportunity. However, Farrokh, Kordnaeij, & Zali, (2016:6204) upholds that business growth is a phenomenon that happens over time; hence it should be studied over time. The following section classifies the meaning of business or enterprise growth adopted in this study.

2.3 Measures of enterprise growth

The classification of business growth adopted in this study involves growth indicators such as increase in sales, revenues, number of employees, assets and physical output of the market share. However, it is acknowledged that growth in some companies is manifested by sudden increase in sales, without any changes in assets or recruitment; but this may result into an inaccurate measurement of growth (Farrokh *et al*. 2016:6203). In the aforementioned case, the key will be to analyse growth indicators separately and use one chosen indicator across industries studied (Farrokh *et al*. 2016:6203). Studies reveal that business growth is driven by increased demand for products and services offered, which literally results to an increase in sales and further drive the acquisition of assets and recruitment of additional employees to meet market demands (Farrokh *et al*. 2016:6203).

2.3.1 The role of entrepreneurial environment conducive for growth

According to the SBP Alert (2014:1), the NDP's target for job creation from SMEs depends on the creation of the business environment that will support the growth and sustainability of existing SMEs as well as the culture of entrepreneurship that promotes the success of SMEs. Olawale & Garwe (2010:734) suggested that the real issue in new firm growth is that most new SMEs in South Africa struggle to move from the first stage of existence to other stages of growth such as survival, success, take-off and resource maturity.

A survey to find factors constraining entrepreneurial activity in SMEs in South Africa revealed government policy as the leading constraint at 61%, followed by access to finance at 44% and education and training at 42% (Global Entrepreneurship Monitor, 2015/16). This survey asserted that these three abovementioned factors have been identified as critical since the first participation of South Africa in global entrepreneurship monitor, started in 2001. It is rather disappointing that government policies are still regarded as constraints to entrepreneurial activity and business growth, since the government claims that SMEs are key vehicle for job creation, economic growth and equity in South Africa. It is therefore important to discover specific issues affecting growth within the general factors identified by past studies.

Studies show that most SME owners are not interested in business growth and choose to deliberately refrain from pursuing growth, after the launch of the business (Van Zyl & Neneh, 2014:173). He further suggests that the concept of entrepreneurship does not end when the business is created but also includes the intention to grow the business. According to Saddler-Smith *et al* 2003 (cited by Van Zyl, 2014:174), the intention to grow the business is the essential characteristic of entrepreneurial behaviour for any business owner.
Olawale & Garwe (2010:731) found that the real issue in the growth of new firms in South Africa is that new firms struggle to move from the first stage called existence to survival, success, take-off and resource maturity. Furthermore, a survey conducted by FinScope (2010) revealed that the objectives of any stakeholder interested in small enterprises will mainly be achieved through the growth of these enterprises. This survey further found that obstacles to business growth tend to be location specific.

In the current unemployment rate which is reported by StatsSA (in 2017) to be 27.6%, the need for growth and success of small businesses remains indispensable. The high unemployment rate clearly shows that both government and private sector alone cannot absorb all unemployed people in this country; hence the need to establish successful small business enterprises to help is important. Wang (2016:174) argued that the idea that was formed at the end of the 19th century stating that large firms are the greatest support for economic growth has been challenged by the significant role of SMEs in the economy.

2.3.2 Business growth index

A study conducted by SBP Alert in 2014 to determine the Growth Index of SMEs in South Africa consistently revealed regulatory burden as the critical challenge facing small enterprises, since the inception of the initiative of determining the growth index in 2011. The study revealed factors such as frequent changes in the regulatory environment, the need to keep track of overlapping and conflicting regulatory requirements across departments and levels of government, poor communication and access to information as well as administrative inefficiencies in government departments and municipalities as contributing to the lack of business growth in SMEs. The aforementioned factors essentially imply that the SME owner spends a disproportionate amount of time dealing with regulatory compliance (SBP Alert, 2014:3).

Furthermore, it is reported that the SME Growth Index has established that small enterprises tend to spend an average of eight working days a month trying to deal with red tape. In addition to this time consuming requirements of regulatory compliance, this process is also costly, the study revealed. The Davis Tax Committee Interim report on SMEs (cited by SBP, 2014:2) further revealed the cost of regulatory compliance to be approximately R216 000 per year. This literally means that if the company has a turnover of R5 million, these costs represent 4 % of turnover (SBP Alert, 2014:2). This scenario is clearly disincentive, not conducive and adversely impacts the business owners' time. Furthermore, studies (i.e. SBP, 2014) show that most SMEs identified their red tape and time consuming issues to be with South African Revenue Services (SARS), labour issues, dealing with municipalities and compliance with black economic empowerment (BEE).

2.4 Challenges impeding the growth of SMEs

The failure of SMEs in transforming into established entities is one of the major concerns facing South Africa (Farrokh *et al*., 2016:6202). Hence, it remains necessary to investigate how business performance changes over time (in terms of growth, decline or stability) and to identify factors that explain why other firms experience growth while others do not.

Interestingly, Wiklund and Shepherd (2003) cited by (Van Zyl & Neneh, 2014:174) concluded that the pursuit of business growth is an intentional decision that an enterprise owner takes. However, this decision and intention is affected by a range of internal and external factors that can impede the outcome. External factors such as globalisation forces SMEs to be more innovative in order to achieve significant growth (Cusmano *et al*. 2018:12). In the light of this impact, lack of innovation in SMEs is regarded as a barrier to business growth. Cusmano *et al.* (2018:12) suggest that supporting innovation in established SMEs holds the potential to contribute to inclusive growth through the enhancement of productivity and global relevancy. Studies reveal that business growth is driven by increased demand for products and services offered, which results in an increase in sales and further drive the acquisition of assets and recruitment of additional employees to meet market demands (Farrokh *et al*. 2016:6201).

2.4.1 Challenges found by the National Small Business Survey

The National Small Business (NSB) Survey conducted on more than 17950 small businesses throughout South Africa in 2016 revealed dominant challenges affecting the growth of SMEs to be insufficient marketing, lack of funding, insufficient cash flow and lack of sales (National Small Business Chamber, 2016). This survey further revealed that competition from large entities together with difficulties in scaling to meet client's needs are also dominant challenges preventing the growth of SMEs. According to the survey, 39% of small businesses placed sales and marketing as key areas in which they require further skills and training. Despite the dominance of lack of funding being the hurdle to business growth, the survey found that 75% of SMEs did not apply for a loan or other means of finance for their business in the previous year. The majority of SMEs surveyed further indicated that they would most likely apply for finance for growth, followed by working capital and equipment finance, respectively (National Small Business Chamber, 2016).

Furthermore, the NSB survey revealed that although the challenges to business growth have remained the same in the past three (3) years; lack of increase of sales and marketing as obstacles have become notable. According to this survey, the inability of a small business owner to build client base and make sales is recently becoming dominant, after lack of funding. The similar survey conducted in 2015 revealed that 57% of SMEs listed lack of funding and insufficient cash-flow as their top obstacles hindering growth of their businesses.

In 2016, 57% of SMEs listed the same obstacles to still be barriers to their growth. In addition, the majority of surveyed SMEs admitted their need for assistance with sales and marketing (43%) followed by business and strategic planning (26%), financial management (13%) and 5% respondents citing information technology (National Small Business Chamber, 2016).

2.4.2 Obstacles impeding SME growth identified by the world bank

In 2007, the World Bank Enterprise Survey of South Africa identified 15 obstacles to be the cause of lack of growth of micro, small and medium size businesses in South Africa. These obstacles were found to be access to finance, access to land, business licensing and permits, corruption, courts, crime, customs and trade regulations, electricity, inadequately educated workers, labour regulations, political instability, practices of informal sector competitors, tax administration, tax rates and transportation of goods and supplies (World Bank Enterprise Survey for South Africa, 2007).

In an effort to narrow the identified obstacles, Mthimkhulu & Aziakpono (2015) performed a study to classify the identified obstacles in terms of the most binding and pertinent. Their study found crime, electricity and corruption to be the top constraints to the growth of SMEs in South Africa. Crime was found to be the overall binding obstacle (Mthimkhulu & Aziakpono, 2015:17). Access to finance was found to have limited effect on most businesses; this may suggest that access to finance has somehow improved over time (Mthimkhulu & Aziakpono, 2015:17). However, this observation on access to finance is foreign to the findings from most researchers who dominantly found it as the top obstacle hindering the growth of SMEs. Okpara and Wynn, 2007, cited by (Dauda & Nyarko, 2014:221) found that obstacles that impede growth are lack of financial resources, lack of management experience, poor location (effect of market size), non-business conducive laws and regulations, poor infrastructure, corruption, low product/service demand and general external economic conditions. Ghoshal (2002) and Davidsson (2006) cited by (Farrokh *et al*. 2016:6205) found factors affecting growth of SMEs to be: entrepreneurial judgement with the ability of entrepreneurial knowledge, growth motivation, opportunity recognition and the capability of the organisation. Table 2.1 shows that impediments facing the growth and expansion of SMEs are not specific to a particular country, but seem to be common and similar in most cases. The assessment on the three African countries revealed lack of finance or funding and corruption as the main constraint among others.

Table 2.1: Comparative list of obstacles to SME growth in selected African countries

Country	List of Obstacles	Author (s)
South Africa	• Lack of finance/funding • Lack of managerial capacity/Skills • Lack of access to services • Corruption and lack of access to tender contracts • Compliance costs associated with VAT and labour legislation • Lack of collateral • Lack of institutional support • Restrictive regulation laws • Lack of marketing and pricing strategies • Lack of innovation and new product/service development • Electricity disruptions • Lack of Technological capabilities	(Dauda & Nyarko, 2014) (Olawale & Garwe, 2010) (Wang, 2016) (SBP Alert, 2014) (Sitharam & Hoque, 2016)
Egypt	• Lack of access to finance • Lack of access to infrastructure • Non-business conducive government policies (red tape) • Restrictive regulatory-government bureaucracy • High taxes • High paperwork and restrictive requirements • Corruption	Ghanen (2013) cited by (Dauda & Nyarko, 2014, p. 222). Dana (2000) cited by (Dauda & Nyarko, 2014, p. 222)
Ethiopia	• Lowly educated workforce • Lack of business skills • Corruption • High inflation • Lack of access to finance • Dysfunctional competitive	(Dauda & Nyarko, 2014, p. 222)

Source: Author's compilation from various sources

An investigation conducted by Wang (2016) revealed a number of obstacles that hinder the growth of SMEs in developing countries. Table 2.2 below presents the findings of the aforementioned investigation.

Table 2.2: Obstacles to business growth of SMEs

Obstacles	**Rating [%]**
Access to finance	13.51
Competition	11.29
Electricity	11.13
Tax rates	11.10
Political instability	7.51
Corruption	6.51
Lack of skilled workforce	6.00
Crime, theft and disorder	4.97
Tax administration	3.47
Macroeconomic instability	3.21
Access to land	3.10
Labour regulations	3.00
Transportation	3.00
Business licensing and permits	2.63

Source: (Wang, 2016)

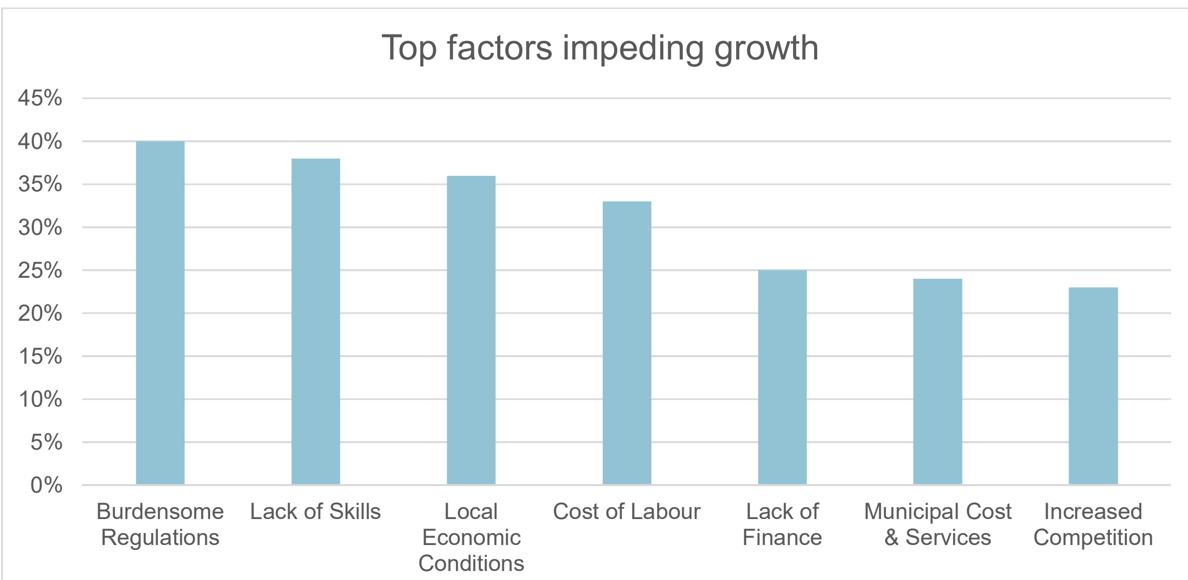
Table 2.2 above shows lack of access to finance as the main constraint to business growth of SMEs, followed by competition, electricity and tax. Inadequate finance has been found to have serious inhibiting effects to the growth of SMEs in most African countries (Fowowe, 2017:17). The implication of these findings is that firms that intend to grow must first overcome financial constraints and obtain more external finance. However, this challenge is not only posed to individual firms but to government, financial institutions and small business agencies (Fowowe, 2017:17).

It is suggested that this challenge needs to be addressed from both the supply and demand dimensions; where supply seeks to understand the nature of financial system in African countries while demand focuses on how African firms have generally interacted with financial services (Fowowe, 2017:17).

It is notable that under these conditions, a robust community of SMEs has a potential of being a dynamic, transformational force that is comparable to large entities; though at relatively smaller scales (SBP Alert Paper 1, 2013:1). Furthermore, healthy SMEs remain key in driving innovation, enhanced competition, entrepreneurship, job growth and spur economy wide efficiency and poverty alleviation.

Figure 2.1 shows the results from a panel of 500 established SMEs operating in manufacturing, tourism and business services industry with the staff compliment of less than 50 employees. When asked about top factors that impede the growth of their businesses, the respondents reported burdensome regulations as the top barrier at 40%, followed by skills shortage at 38%, local economic conditions at 37% and cost of labour at 32% (SBP Bulletin 2, 2015:1).

Figure 2.1: Top factors impeding business growth in South Africa



Source: (SBP Bulletin 2, 2015)

Farrokh *et al*. (2016:6204) argue that the growth of SMEs is rather a complex process that is influenced by internal factors such as firm-specific features; and external factors. The following section discusses the effect of these factors.

2.5 Internal and external factors affecting the growth of SMEs

Olawale & Garwe (2010:735) found the obstacles to business growth to be composed of internal and external environment. The authors identified internal environmental factors as finance (i.e. owner's equity contribution and collateral), managerial competency of the owner, location of the business, investment in information technology, cost of production and networking. The aforementioned factors are regarded as stand-alone or firm-specific and are controllable.

Business growth was found to be also affected by external environment factors, which are also known as systemic factors (Olawale & Garwe, 2010:733). According to Olawale & Garwe (2010:733), systemic factors or state variables include contractual and informational frameworks, macroeconomic environment, social factors (i.e. crime, corruption and ethics), technology and regulatory environment. Most of these state variables are rather not controllable by new SMEs. Farrokh *et al*. (2016:6205) also classified the factors affecting the growth of SMEs to be both internal and external. Their internal factors included education and training, management structure and competency, and decentralization of ownership; while macro-economic environment and government support were classified as external factors. The issue of internal and external factors being the obstacles to the growth of SMEs was also found in the study conducted in Algeria. This study classified external factors as legal frameworks, access to external financing and human resource cpacity; while internal factors compised of entrepreneurial charecteristics, management capacities, marketing skills and technological capacities (Bouazza, Ardjouman & Abada, 2015:104).

Bilal, Khan and Akoorie (2016:369), refer to business growth as a complex and multidimensional phenomenon that has evident variations and differential effect at various levels. Their study further found that with the global competitiveness and hedging strategies used by large entities; small and medium businesses face more difficulties in sustaining and establishing growth. Mbonyane and Ladzani (2011) discovered that the problem of growth and increasing early demise of SMEs was due to weak control in the organization and lack of knowledge regarding growth barriers for SMEs.

In their study, Bruwer and Van den Berg (2017: 7) concluded that the South African economic environment has been adversely influenced by a range of both macro and micro economic factors which ultimately affect the growth and sustainability of SMEs in South Africa.

Further investigation of the South African economic environment found it to be non-conducive for SMEs to grow and be sustainable (Bruwer & Van den Berg, 2017:7). Table 2.3 shows a non-exhaustive list of factors that influence the South African economy, which also impede the growth of SMEs. This list clearly shows the interconnection between external and internal factors.

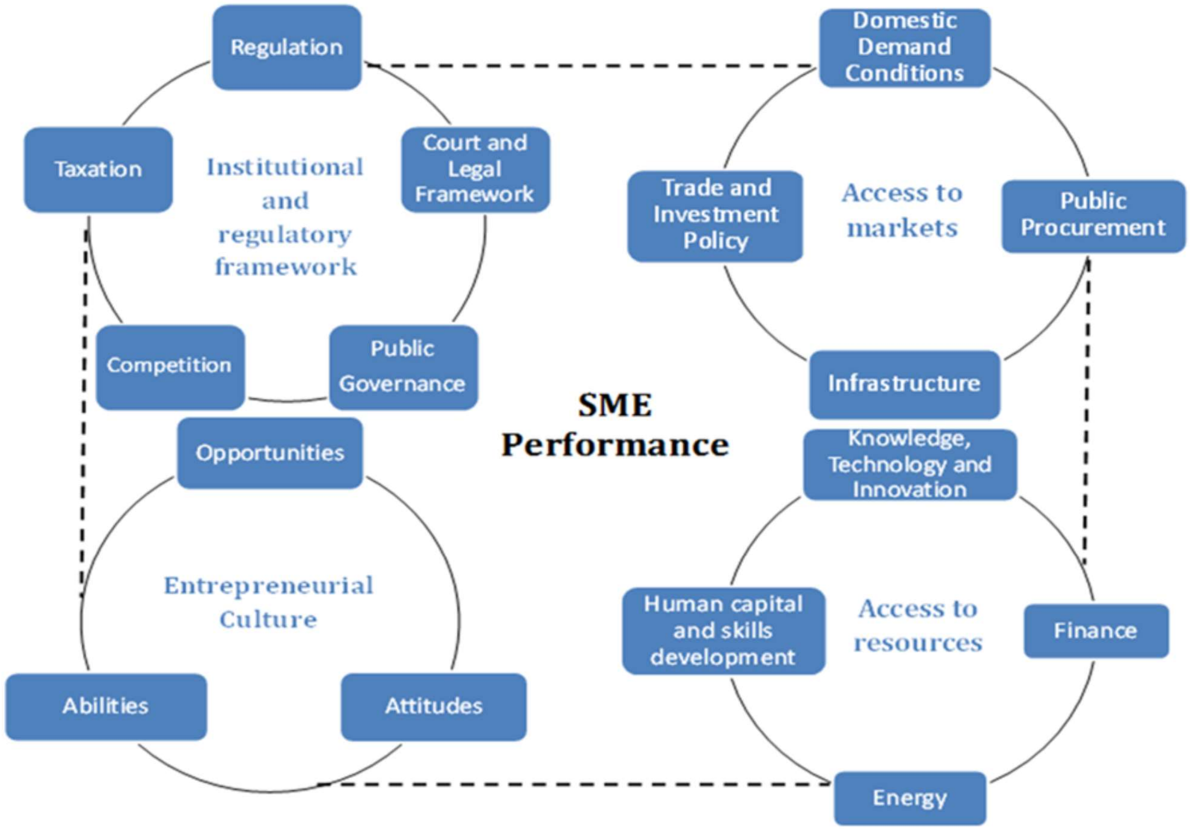
Table 2.3: External and internal factors inhibiting the growth of SMEs

External Factors	**Internal Factors**
Economic uncertainty	Bad business infrastructure
Extensive red tape/regulation barriers	Bad pricing strategies
High costs of credit	High levels of internal/external competition
High levels of crime	Incompetent human resources
High interest rates on loans	Lack of financial knowledge
Rapid changes to government legislation	Lack of external funding
Rapid technological advancements	Limited knowledge of markets
Weak service delivery from government	Lack of proper marketing strategies
Frequent electricity outages	Lack of business planning
High inflation rates	Inability to deal with red tape
Unstable demand of products/services	Lack of customer relations
Strict government legislation	Non-payment of debtors/customers
High taxation rates	Lack of mentorship
High levels of competition	Lack of business skills
	Poor business location
	Poor cash flow management
	Substitute products/services

Source: (Bruwer & Van den Berg, 2017)

A schematic summary showing the interaction of external and internal factors is depicted in figure 2.2 below.

Figure 2.2: External and internal factors impeding the growth and performance of SMEs



Source: (Cusmano *et al*. 2018)

It is clear that SMEs are more dependent on their ecosystem than large companies, this is mainly attributed to their internal constraints, which makes them vulnerable to market failures, policy inefficiencies (i.e. tax, labour laws) or the results from the interaction of regulatory conditions, depicted in Figure 2.2 above (Cusmano *et al*. 2018:18). Cusmano *et al.* (2018:18), agree with other research findings that the growth and performance of SMEs is inhibited by both internal and external factors. Admittedly, regulatory procedures in areas such as license and permit systems, insolvency regimes and taxation are still major obstacle of business growth in many countries, OECD members in particular (Cusmano *et al*. 2018:19). It is reported that some of these regulatory procedures are complex and should be handled with precaution. For instance, while the increase in value added tax (VAT) from 14 to15 % in South Africa may be good for the country's revenue, it remains a burden to consumers who support the growth of SMEs. In essence, the VAT policy may be viewed to be restrictive to the growth of SMEs, especially when the taxpayer's money is not used for infrastructure developments that will also boost the growth of SMEs by offering them opportunities.

2.5.1 The effect of macroeconomic instability on SMEs

Macroeconomic factors cannot be managed by SME owners and the development and achievement of SMEs depend greatly on how well the administration steers through these issues, Mazzarol, Thierry, Noelle & Vicki, 1999 cited by (Leboea, 2017:66). Some of these issues are economic issues, price increases, interest tariffs, redundancy, exchange tariffs, taxation, and transformation.

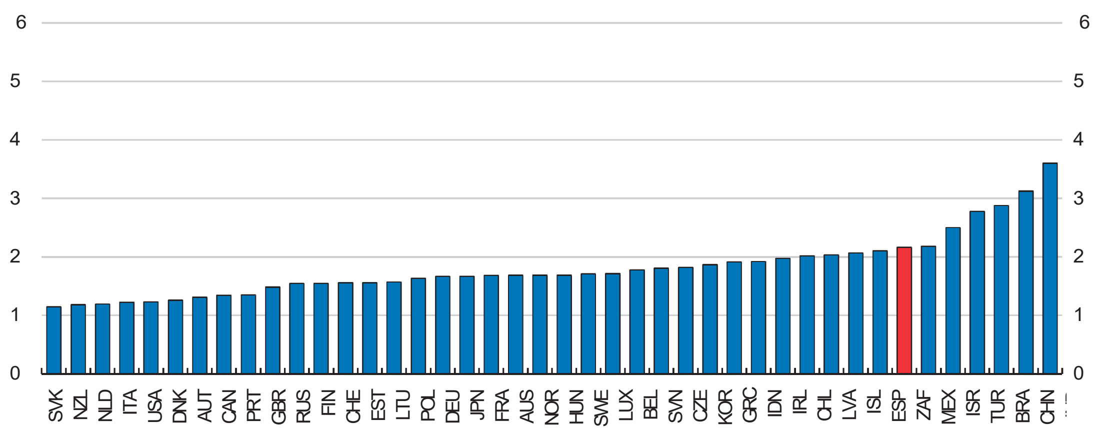
The majority of SMEs in South Africa are incapable of dealing with transformation. Needless to say, the capability to tackle transformation is not only significant but also the chief achievement aspect of SMEs as well, Viviers, 2004 cited by (Leboea, 2017:69). Many South African SMEs lack suitable aptitude to handle frequently transforming environment of business and this put them in danger of extinction in the long run. Fiscal aspects have an express impact on the magnetism of diverse approaches and expenditure model in the economy and have noteworthy and imbalanced effects on institutes in diverse businesses and in diverse places. Economic aspects comprise of the economic and financial guidelines of the government, price increases, interests tariffs and foreign exchange tariffs. These charges manipulate the requirement for goods and services and therefore the development of SMEs, Ehlers & Lazenby, 2007 cited by (Olawale & Garwe, 2010:732).

South Africa's recent financial situation is portrayed not only by high interest charges but also by low development tariffs, high price increase rates and reducing exchange tariffs. Additionally, expenditure and assurance have disappeared with SMEs that demonstrated abridged sales (Olawale & Garwe, 2010:732). However, Khawaja, (2006:11) argues that the taxation factor is not connected to financial weight or the tax charge as a key limitation for SMEs but it is the governmental and corruption expenses related with directives and taxes. On the other hand, redundancy is high. Every aspect of these can hinder sales, income and economic potential of SMEs (Olawale & Garwe, 2010:732).

2.6 Policy and Regulation Barriers

The OECD report (2017) pointed out that regulatory conditions have a strong impact on the growth of SMEs in South Africa. Regulatory conditions encompasses the conditions of tax, permits, licensing and labour laws (OECD Economic Surveys, 2017:13). South Africa has been classified as having high and burdensome regulations that are a hindrance to business growth (OECD Economic Surveys, 2017:13). Unfortunately, rapid wage growth and overregulated labour market cannot be easily changed in South Africa without provoking labour union. Figure 2.3 shows that regulation laws (impeding business growth) are still high in South Africa compared to other countries, as a result, the ease of doing and growing a business is suppressed. As a result of high regulations, South Africa is ranked 74th out of 190 in the recent World Bank's survey (2017) that was looking at the Ease of Doing Business.

Figure 2.3: Regulatory barriers in South Africa against other countries

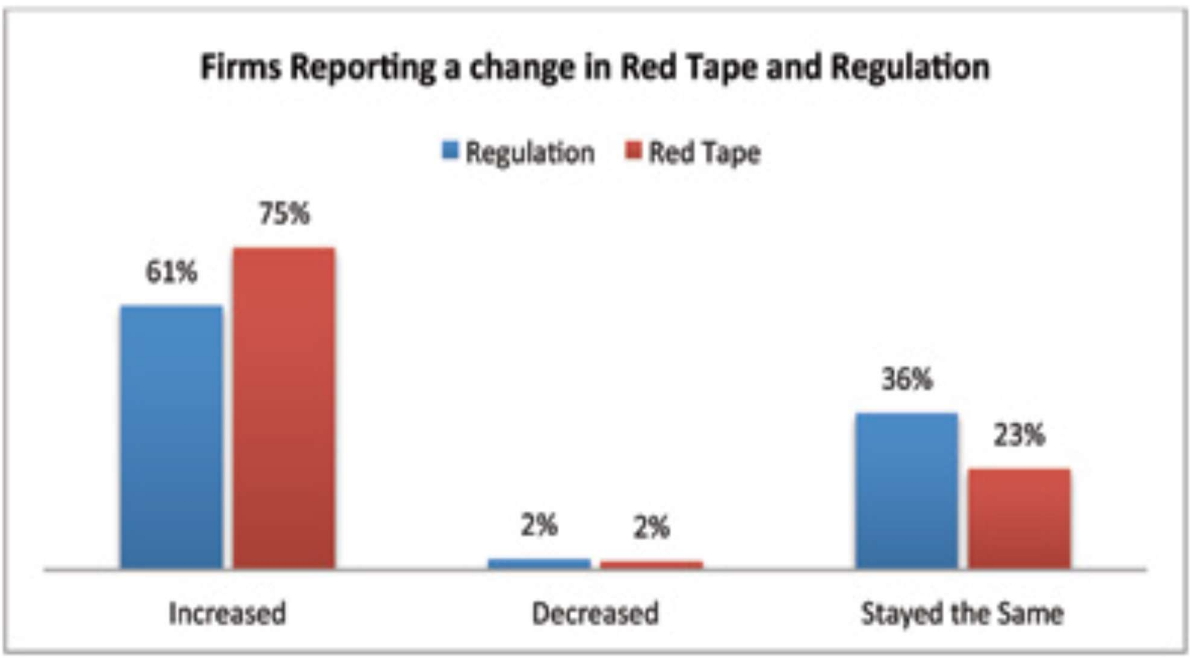


Source: (OECD Economic Surveys, 2017).

SBP (2014:2) reports that the overall frequent changes in regulations (tax, BBBEE scores, permits etc.) tend to bring uncertainty, especially if the purpose is not fully understood. For instance, in the year 2013, over 60% of small businesses surveyed were not sure of the regulations that they needed to comply with (SBP Alert, 2014:2). However, issues with regulation seem to be across Africa; a study conducted in Assin North Municipality in Ghana also found high collateral requirements and high levels of taxation to be the barriers of growth of SMEs in the country (Dauda & Nyarko, 2014:219). A survey was conducted on SPB panellists to assess the changes in the red tape or regulatory burdens in South Africa.

Interestingly, 61% of the population responded that the regulatory has increased compared to 58% obtained in 2014; the same population responded that red tape has also increased (SBP Alert, 2014:2), refer to figure 2.4. Figure 2.4 shows the response from the panellist with regards to whether regulation and red tape have increased, decreased or remained the same. It is clear that SMEs continue to suffer from non-business conducive environment and red tape, which restricts the growth of these entities. These results are contrary to the claimed status that the government of South Africa values the existence and growth of SMEs, as stipulated in the National Development Plan (NDP). The vision of the NDP is said to create a business friendly environment and business-enabling government policy; however, the implementation seems to contradict this vision, thus, resulting in an environment that hampers the business growth of SMEs (SBP Alert Paper 2, 2014:2).

Figure 2.4: SMEs survey results on the changes in regulatory barriers



Source: (SBP Alert, 2015)

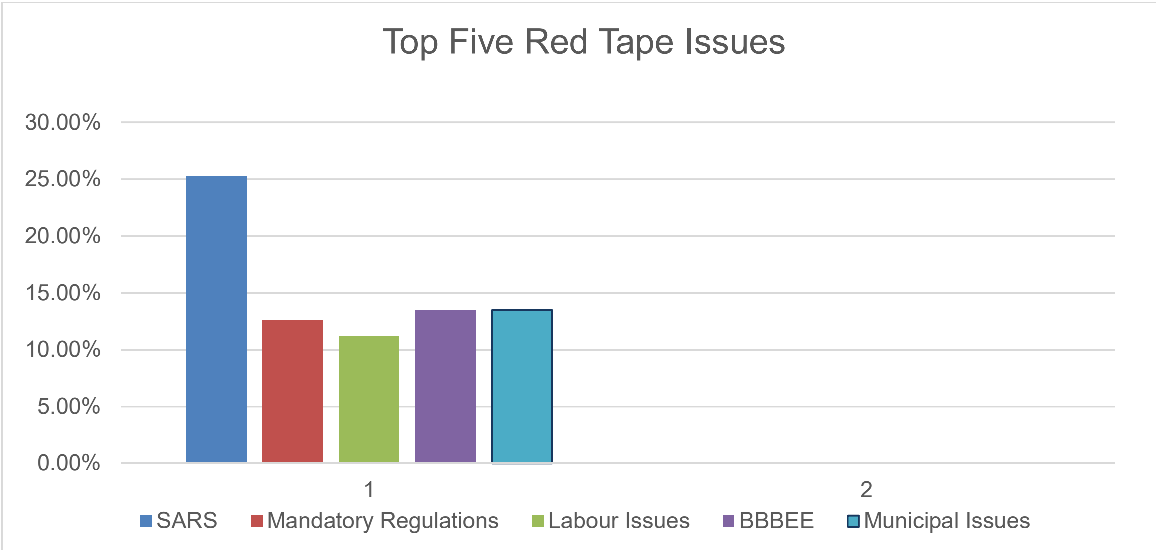
Compliance with the tax system has proven to be costly for SMEs in South Africa; taxes strongly influence decisions about the size and structure of the SME (OECD Economic Surveys, 2015). Furthermore, taxes tend to impose larger compliance cost on SMEs because of fixed costs. The SME growth index reported that SMEs spend close to 4% of their annual revenues on compliance matters (SBP Alert Paper 1, 2013:9).

Studies reveal that there are two special tax regimes for SMEs in South Africa, namely; small business corporation, which is a regime for small firms with taxable income up to R20 million; and the second one is the simplified turnover tax introduced in 2008 to reduce the burden for microenterprises with a turnover of up to R1 million. A study conducted by SBP and Stellenbosch University found that small enterprises operating in the manufacturing sector are not growing because they are unable to adjust the wages down to curb competition because they are bound by inflexible bargaining council wage agreements (SBP Alert Paper 2, 2014:2). In essence, the said labour agreements wage rates are stipulated in the Labour Relations Act, which governs both the employer and the employee. As a result, this forces smaller firms to pay above median wage rates, regardless of their affordability. This is a specific case where the government policy impedes the growth of SMEs.

Despite the aforementioned regulations being the barrier to business growth of SMEs, developed countries are gradually unlocking this barrier by focussing on the entrepreneurial ecosystem of high-growth firms (Mason & Brown, 2013:3). The basis for this focus is that high growth firms are essential in driving innovation, productivity, internationalization and creation of new employment, according to OECD report (2013) and Brown *et al*. 2014 cited by (Mason & Brown, 2013:3). This initiative sought to promote and support growth-oriented entrepreneurship through conducive policies. This policy development comprises of several evolving dimensions, which accepts that not all SMEs possess equal economic value and their policy-based barriers to growth are different (Mason & Brown, 2013:3). Storey and Greene (2010:208) claim that small businesses that transit to middle-sized and later become large businesses, over a short period of time are central and key to economic prosperity. Thus, the ability of a country to nurture the growth of such businesses is the most important element of enterprise development (Storey & Greene, 2010:208).

In spite of general limitations caused by regulatory conditions, SMEs are still heavily embedded with serious red tape issues. Specific red tape issues raised include, inefficiencies of the South African Revenue Services (SARS), labour law regulations, Broad-Based Black Economic Empowerment and municipal issues (SBP Alert Paper 1, 2013:9). Quantified results from a panel of 500 SMEs are graphically presented in figure 2.5.

Figure 2.5: Top five red tape issues reported by SMEs in South Africa



Source: (SBP Alert Paper 1, 2013)

The issues raised by the panel with regards to SARS are reported to be the difficulties in obtaining tax clearance certificates. This is cited as a barrier because it is a compulsory document during tendering for business (SBP Alert Paper 1, 2013:9). In this survey, the panel emphasised that their frustration revolves around not getting this document on time. Hence, most SMEs view SARS as adhering to an ethic punishment as opposed to facilitation of information to enhance the growth of businesses (SBP Alert Paper 1, 2013:9).

A typical case demonstrating this red tape frustration was reported by one of the SBP panellists, who was presented with a payment demand for allegedly not complying with the VAT audit, which excluded his input claims (SBP Alert Paper 1, 2013:9). Literally, this charge or payment demand was for an amount that the firm could not have owed. This unfair judgement was challenged by the said firm but the response from SARS was that the problem was caused by the late capturing of data. Despite the back and forth frustration this may have caused; the big impact was on the failure of this firm in getting the tax clearance certificate on time to bid for tenders. In an interview, the owner estimated that this dispute caused him a direct cost of close to R50 000, excluding opportunity costs (SBP Alert Paper 1, 2013:9). Another concern raised, is the levying of VAT on invoices instead of it being levied on receipts; causing firms to become liable for large bills to SARS before they can even receive payments from their sales (SBP Bulletin 2, 2015:2). Therefore, both late payments and the VAT upfront have a detrimental knock-on effect on the survival and growth of SMEs, especially in tough economic climate.

2.6.1 Corruption and Competition Policy

Transparency, integrity and competitive neutrality of government policies in the public sector remains essential for a level playing field of businesses of all sizes (Cusmano *et al*. 2018:18). Controversy and corruption in the public sector are detrimental to all businesses; these pose particular problems for SMEs by restricting them access to market, thus limiting their growth (Cusmano *et al*. 2018:18).

The detrimental effect of corruption is that business deals and opportunities are given to a small number of SMEs who are associated with political incumbents (Cusmano *et al*. 2018:18). This phenomenon has generally been evident in South Africa, and has led to a number of state commission of enquiries. Contrary to this growing pandemic practice; OECD research studies assert that a transparent regulatory environment, efficient bankruptcy regulation and judicial system are crucial to the growth of SMEs, especially those that are in innovation and high risk sectors (OECD Economic Surveys, 2017).

It is reported that current competition policies constitute a barrier to both entry and growth of SMEs in South Africa (OECD Economic Surveys, 2017:46). This report further reveal that South Africa's economy suffers from the lack of openness, which adversely affects the cost of doing business and impedes the growth of SMEs, thereby limiting inclusiveness (OECD Economic Surveys, 2017:46). Roberts (2016:8) argues that the competition policy tends to favour incumbents, particularly the big ones in exchange for their B-BBEE programmes. This phenomenon has created a toxic culture where existing structure of ownership and control excludes the majority and feeds the view that the only way to get access to wealth and business growth is through corruption and rent seeking (Roberts, 2016:10). However, it is stimulating to know that competition authorities have been active in detecting and sanctioning monopoly. With the exception of the construction industry, it is reported that 76 cartels were detected and sanctioned between 2005 and 2015, according to the World Bank survey 2017, cited by (OECD Economic Surveys, 2017:46).

Essentially, guaranteeing the integrity and the enforcement of competition policies is crucial. For example, guaranteeing that incumbents can be effectively challenged in many industries including gas, fuel, electricity and telecommunication and banking can potentially boost rapid growth of SMEs (particularly young entrepreneurs) in those sectors, and thus expand their participation in the economy (OECD Economic Surveys, 2017:47).

In addition, regulations should be targeted, consistent, transparent, proportionate and evidence-based (SBP Alert Paper 2, 2014:3). Therefore, it is suggested that each policy proposal is subjected to a rigorous and comprehensive Regulatory Impact Assessment (RIA) process (SBP Alert Paper 2, 2014:2). In addition, the provisions of the legislation should be carefully considered, to not only focus on the intention but the actual likely outcomes (both intended and unintended) as well (SBP Alert Paper 2, 2014:2).

The corruption perception index conducted in 2017 showed a ranking position of 71 out of 180 for South Africa, which is relatively high compared to other developed countries (Transparency International, 2017). Global Economic Monitor (GEM) surveys have consistently reported that corruption has become more prevalent while restricting both the survival and growth of small enterprises in South Africa. Crime and corruption in the form of bribery and nepotism have become the culture in securing business deals (Sibeko, 2018).

Leboea (2017:100) also alludes that matters relating to regulation and compliance often take longer than they should because of the illegal monetary compensation that is often required to process the documents in time. It is further reported that this form of behaviour is also a cause of delayed payment of invoices. Due to these shameful occurrences, the growth and performance of SMEs remain restricted (Leboea, 2017:100). Olawale and Garwe (2010:732) report that owners of SMEs are not aggressively pursuing business growth avenues, instead they are focusing on day to day operational matters that involve protection and security upgrades to combat the ever increasing theft and crime in their premises. Regrettably, measures to combat crime have become a notable expense to SMEs (Olawale & Garwe, 2010:732).

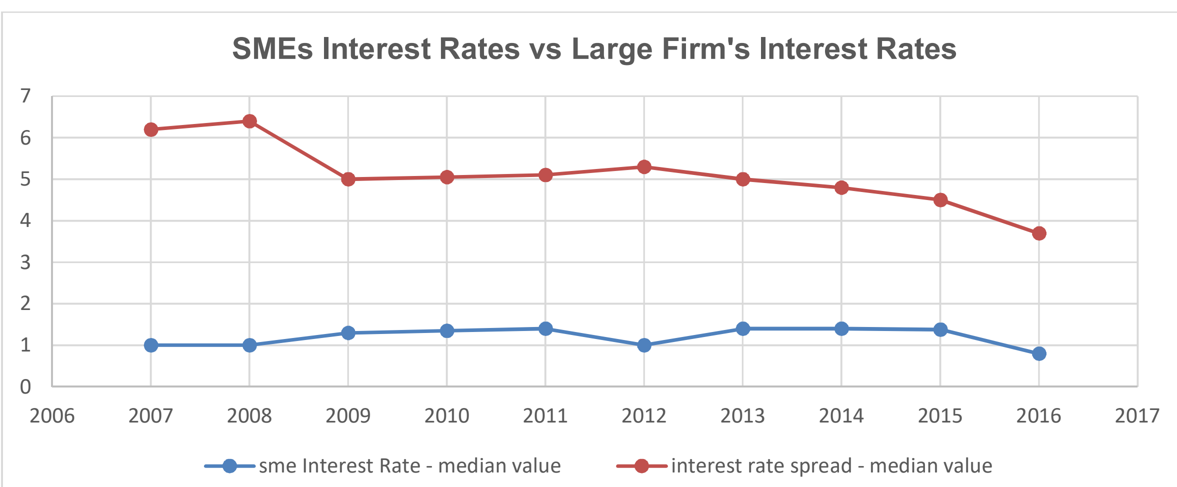
Despite the aforementioned concerns, regulation remains necessary but South Africa needs suitable and business-friendly regulations. This needed regulation should be better designed, more efficient in its application and less demanding on the time and resources of those subject to it (SBP Alert Paper 1, 2013:10). Therefore, the use of a Regulatory Impact Assessment is essential. The following section focusses on the lack of finance and funding

2.7 Access to finance

Access to finance is regarded as the critical prerequisite for the development of dynamic and productive SMEs in the context of increasingly globalised and digital world (Cusmano *et al*. 2018:19). Unfortunately, persistent challenges in access to finance limit SME growth in many countries. Global trends have pointed out that finance is one of the most important factors that determine the survival and growth of SMEs (Dauda & Nyarko, 2014:219). However, despite the well-developed banking sector in most emerging countries, studies reveal that access to finance by SMEs is still a hindrance to business growth (OECD Economic Surveys, 2017). All businesses require capital in order to start trading and also to fund growth; thus lack of access to capital can be a barrier to the business growth of any SME (Olawale & Garwe, 2010:733).

FinMark Trust (cited by Olawale & Garwe, 2010:734) reported that only 2% of new SMEs in South Africa were able to access business loans in 2006. Finfind (2017) report asserts that SMME lending is low in South Africa compared to similar economies. The percentage of SMME loans compared to total loan request was reported to be 10.4% in November 2017 (FinFind Report, 2017). Research studies show that SME lending has remained stagnant since 2008 (recession); but has increased for large businesses. In addition, interest rates have significantly declined across many countries, which represent more accommodating credit conditions; however, interest rates charged to SMEs remains high compared to large businesses (Cusmano *et al*. 2018:19). Figure 2.6 above depicts the difference between the average interest rate given to SMEs versus large entities.

Figure 2.6: The general gap in credit costs between SMEs and large enterprises

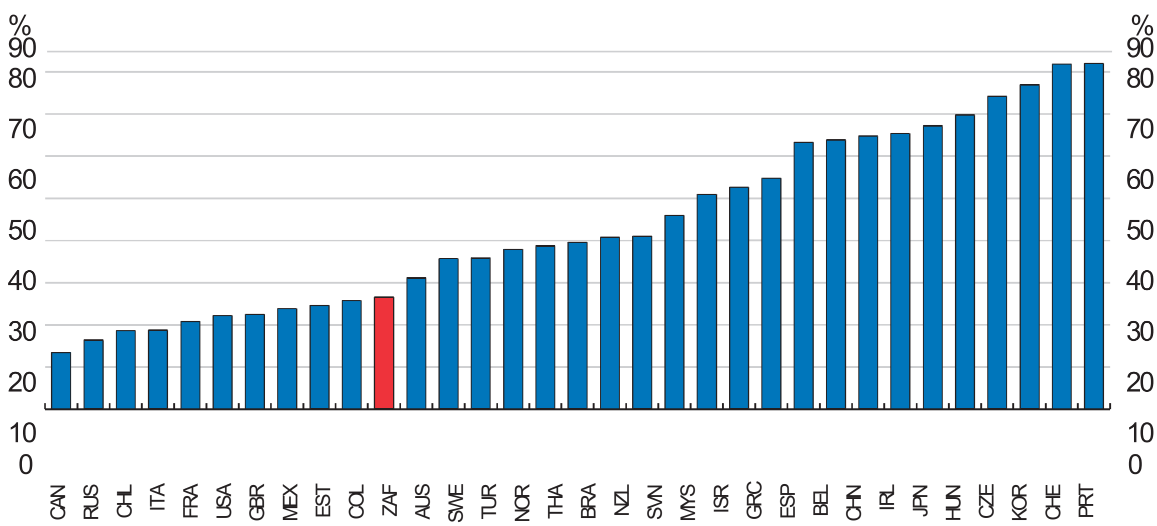


Source: OECD (forthcoming), cited by (Cusmano *et al*. 2018:19)

BER Research Note 1 Report (2016:1) states that given the highly conservative nature of South African banks and lenders; it is highly unlikely that these institutions will fund SMEs. This study also found that the likelihood of business funding by the aforementioned institutions can vary depending primarily on locational differences of the SMEs. For instance, a survey conducted by Finscope revealed that SMMEs located in Gauteng and North West tended to have greater access to finance than SMMEs located in other provinces (Finmark Trust, 2010). This survey further found that SMMEs in Mpumalanga and Northern Cape had serious difficulties to access business finance and funding. The study claims that the reason for this difficulty is because the two provinces are predominantly rural. Lack of access to external finance is a general constraint for SMEs located in Sub-Saharan Africa, (Dauda & Nyarko, 2014:222).

An OECD survey (2017:51) further confirmed that SMEs repeatedly face financial constraints due to lack of credit history and collateral. The survey points out that the unequal distribution of wealth and low employment rate make informal finance (known to be the usual form of start-up and business growth capital for new acquisition) less accessible in South Africa. The current form of formal financing is dominated by the banks; however, bank lending to small and medium enterprises is very low and accounts for only 26% of business lending (OECD Economic Surveys, 2017:51). This clearly explains why access to finance for business growth is among the leading barriers. Figure 2.7 shows the results of the lending rate in South Africa compared to other countries.

Figure 2.7: Lending rate in South Africa (ZAF) compared to other countries



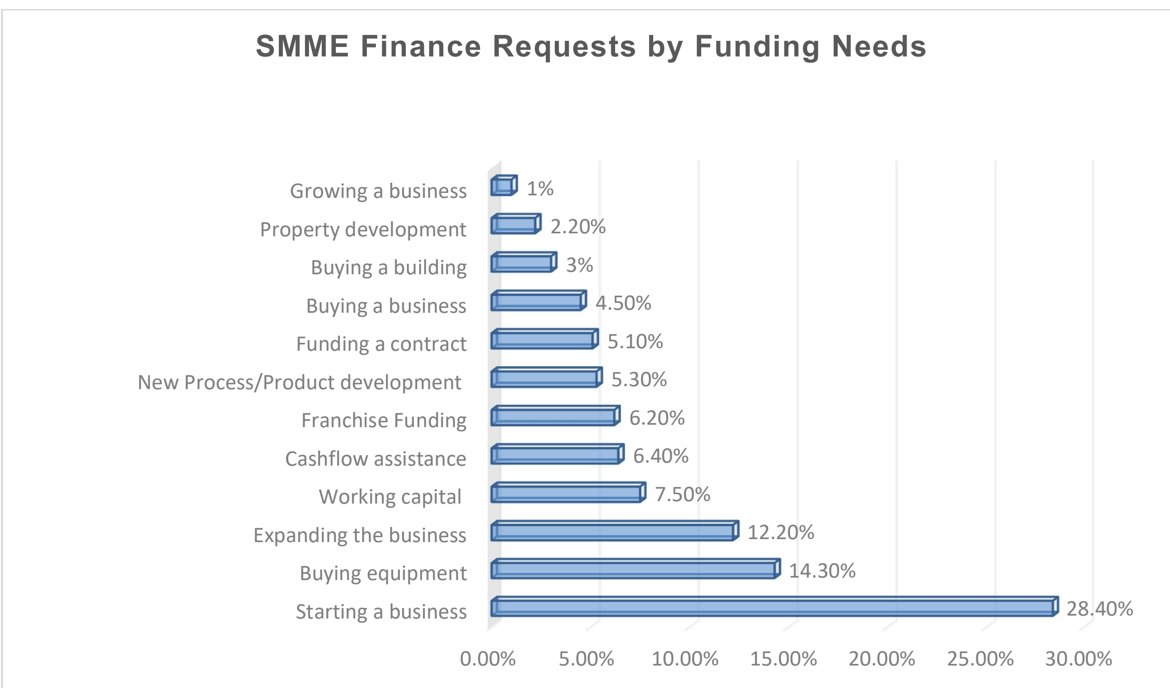
Source: (OECD Economic Surveys, 2017)

According to FinFind report (2017), the growth of any business requires the combination of the following types of finance:

- Asset finance,
- Debtor finance,
- Equity finance,
- Property finance,
- Franchise finance,
- Trade finance,
- Working capital,
- Enterprise and supplier development finance

The data produced by the Finfind report (2017) in South Africa, a total of 62.4 % funding requests were attributed to starting a business, buying equipment and expanding the business. Figure 2.8 shows other finance requests by SMEs. It is evident that access to finance is crucial for business growth in the country, see figure 2.8. Unfortunately, only 13% of formal businesses reported to have had access to finance or funding with 7% reporting that they would not apply for loans because they do not qualify (FinFind Report, 2017).

Figure 2.8: SMME finance requests by funding needs



Source: Finfind data (2017)

Contributory to access to finance and lack of credit history; small and medium enterprises are faced with poor financial management and cashflow constraints. Poor cashflow and cost management is exacerbated by delayed payments; where 45% of procuring agencies were found to have exceeded the 30 day limit in 2015/16 (Auditor General Report, 2016).

Concerns raised by funders is that SMEs bear high rate of failure (75% reported), higher risks, lack of collateral, difficulty to provide credit worthiness, small cash flows, lack of SME experience and poor financial literacy (FinFind Report, 2017). Lack of collateral and surety to secure funding can be dominant during the initial funding of the business but less of an issue on an existing business that has started trading (Olawale & Garwe, 2010:731). This business can use its retained profits in order to grow, however, this is rarely done because of lack of financial management skills within SMEs. Studies further reveal that lack of training, education and mentorship are among leading factors that restrict the growth of SMEs.

2.8 Lack of skill and training

Martin and Staines (2008) cited by (Olawale & Garwe, 2010:731) found lack of managerial experience and financial skills to be among factors impeding the growth of SMES. Other studies (Abdel, Rowena & Robyn, 2010) cited by (Sitharam & Hoque, 2016:278) also found that small business owners have a very basic understanding of financial and accounting information and have serious problems with financial planning literacy. Lack of business and financial management skills by SME owners is believed to be caused by the lack of relevant entrepreneurial education and training (Sitharam & Hoque, 2016:278). Critical skills such as market analysis, opportunity-recognition, formulation and crafting of business strategies are still lacking in most SMEs (Leboea, 2017:57). The importance of entrepreneurship competencies, management and workforce skills are key drivers of innovation and growth of SMEs (OECD Economic Surveys, 2017:49).

Skills shortage in SMEs requires particular attention. This is due to the fact that skills increase the marketability of the business and further improve its competitiveness (SBP Alert Paper 1, 2013:4). An evidence for the SME Growth Index showed a strong correlation between the company’s turnover growth and skills acquisition through owner and employee training (SBP Alert Paper 1, 2013:4). SBP recorded that approximately 58% SMEs who experienced growth in turnover between 2011 and 2012 had invested in training for the business owner.

This issue of skills shortage raises a question as to what competencies and characteristics should an entrepreneur possess in order to grow the business?

Despite the well-studied characteristics of entrepreneurs, successful entrepreneurs tend to share characteristics of raw energy and intelligence that are accompanied by certain attitudes and behaviours (Spinelli Jr & Adams Jr, 2016:30). Spinelli Jr and Adams Jr (2016: 30) found three entrepreneurial attributes to be key for success in business. These attributes are: positive response to challenges and mistakes, personal initiatives and perseverance. According to Spinelli Jr and Adams Jr (2016:198), entrepreneurial leaders require a sound foundation in traditional management skills (i.e. people management, financial management, conflict management and general business management). Spinelli Jr and Adams Jr (2016:199), further lists other critical competencies that successful entrepreneurs should acquire and possess, refer to Table 2.4 in this regard.

Table 2.4: Critical skills required and possessed by successful entrepreneurs

Entrepreneurial Leadership • Problem solving • Decision making • Stakeholder management • Communications and planning	**Definition** Ability to lead and making decisions regarding growth initiatives.
Marketing Management Skills • Market research and evaluation • Marketing planning • Customer relations • Product pricing • Sales management • New product management	Talks to the ability to create marketing plans and strategies to penetrate new markets in order to grow the business.
Financial Management • Raising capital • Cashflow management • Profit management • Bookkeeping, accounting and control • Financing alternatives • Contract management • Law and Tax	Talks to the ability to source and manage finance with an intention to grow the business.
Information Technology • Management of Telecommunications • Management of Media advertisement	Talks to the ability manage technology and internet interactions between the company and the world.

Source: (Spinelli Jr & Adams Jr, 2016)

Several studies emphasize the importance of the management capacities of top management team as key to the growth of small businesses (Bouazza, Ardjouman, & Abada, 2015:104). Olawale and Garwe (2010:733) refer to management capacities as sets of knowledge, skills and competencies that can improve the efficiency of a small enterprise; thus enhancing the prospects of business growth. Aylin *et al.* (2008) cited by (Bouazza *et al*. 2015:104) state that management skills are essential factors to the growth of SMEs; and further emphasises that lack of these skills is a barrier to growth, and can lead the business to fail. Pasamen (2007) cited by (Bouazza *et al*. 2015:104) noted that the growth pattern of SMEs is linked to their managerial capacities.

Marketing skills have also been found to be crucial to the growth of SMEs; of which lack of these skills can have a negative impact on the success of the business (Bouazza *et al*. 2015:104). Lack of technological capacities was also cited to be a hindrance to the growth of SMEs. Morse *et al.* (2007) cited by (Bouazza *et al*. 2015:105) assert that good technological capaciy is key to the growth of SMEs because it results in improved efficiencies, reduced costs and broadens the company's marketshare in both domestic and global environments. According to Lee (2001) cited by (Bouazza *et al*. 2015:105), small businesses that invest in technological capacities can be expected to obtain rapid growth compared to those that shun technology. In addition to the lack of skills and training, authors have found that poor infrastructure also contributes to the lack of the growth of SMEs. The following section discusses the impact of poor infrastructure to the growth of SMEs.

2.9 Poor Infrastructure

Infrastructure is a fundamental physical and directorial constitution that is required for the functioning of people or businesses or the services and amenities needed for a financial system purpose. Quality of infrastructure is a huge problem for many growing countries and South Africa is no different. The reputation of infrastructure in a country can greatly influence the expansion projections for SMEs. Infrastructure in this perspective consists of telecommunication, electrical energy and transport, which is not in good condition in South Africa (Leboea, 2017:74).

The restriction on the right to use civic infrastructure services is a main constriction to SME endurance and development as it confines the business and limits access to economy and resources (Leboea, 2017:74). For instance, the majority of SMEs use old and conventional tools in their businesses and they require transport and communication infrastructure suitable for the present business milieu where approximately all things are automatic. Proper infrastructure allows SMEs to have easy access to the market and resources as well (Majanga, 2015:179).

2.9.1 Shortage of Electricity supply

The quality of infrastructure has a huge impact on the growth potential of any business, particularly electricity (Olawale & Garwe, 2010:732). Electricity is deemed one of the vital infrastructures that play an important role in business operations. Insufficient power distribution in most countries within the African continent severely impedes growth of SMEs, says Hakala and Kohtamaki, 2011, cited by (Molonge, 2016:17). Electricity in South Africa, every now and then fails to cover the civic need thereby leading to power outages which directly and indirectly impact negatively on the daily business operations and overall revenue of SMEs, Kalra, 2009 cited by (Olawale & Garwe, 2010:732). Clearly, frequent power cuts are detrimental to the growth of SMEs, due to production loses and halted business activities. Electricity is oppressing numerous African markets, they append. Lack of electric power obstructs several businesses from controlling their production processes more so for industries that depend on electrical power on daily basis. Additionally, the increasing charge rate of oil and petroleum makes it difficult to uphold steady electrical power costs (Molonge, 2016:17). Loadshedding implemented by Eskom since 2007 has adversely affected the growth of SMEs in South Africa. SMEs are severely affected since they cannot afford to purchase back-up generators.

A number of African countries such as Senegal and Ghana rely on imported oil and innate gas to control their electrical power stations; and these have an unfavorable outcome on the overall economic development and the development of small businesses thereof (Farrell *et al*., 2008 cited by (Molonge, 2016:17). Gao *et al.* 2007 cited by (Molonge, 2016:17) note in Senegal, the regime employs oil to energise only a small percentage of its countrywide 623MW (megawatt) capacity gridiron. At some point oil cost per barrel escalated to $100, which made it impossible for the government to bear the burden and electrical power subsidies were not enough, therefore government resorted to increasing electrical bills for SMEs and this decision had a negative impact on the SMEs expenditure on operations.

The situation got worse when the government had to part with $300 million to fund electrical power costs in the years 2004-2007, Nikoomaram & Ma'atoofi, 2011 cited by (Molonge, 2016:17). Consequently, that expenditure impacted negatively on the government and this complicated things even worse by forcing government hand to cease providing adequate help to SMEs (Molonge, 2016:17).

2.10 Geographical Location and Networking

The geographical location of an SME or business in general is reported to have a strong influence on the market potential and growth opportunities of any business (Olawale & Garwe, 2010:731). The proximity of geographical location to targeted market and suppliers is key and enables businesses to identify and exploit growth opportunities in the market (Olawale & Garwe, 2010:731). Okten and Osili, 2004 cited by (Olawale & Garwe, 2010:731) raised the positive effect of networking for both business growth and access to finance. The size of population is attached to the location of the business, implying that the smaller the population, the smaller the chances of business growth in that particular region.

Formation of business networks is key for the stimulation of new ideas for business growth, since networks serve as valuable sources of contacts with people (Spinelli Jr & Adams Jr, 2016:127). Thus, lack of strategic networks serve as a barrier to growth of SMEs. In addition, formation of networks tend to increase the company's legitimacy, which ultimately attracts access to external finances. However, networking requires a personal initiative to engage people on either formal or informal basis (Spinelli Jr & Adams Jr, 2016:127).

2.11 Lack of Competitive and Growth Strategies

The dynamic nature of the business environment calls for business owners to continuously make decisions to remain relevant and competitive (Sitharam & Hoque, 2016:279). Evidently, competition among SMEs has grown to be very rival. Lack of competitive and growth strategies is generally and increasingly witnessed to be barriers to the growth of small to medium enterprises. This was evident in Ghana, where it was found that competition from large scale entities for finances and markets were major constraints facing the growth and expansion of SMEs (Dauda & Nyarko, 2014:227).

Most SMEs do not have statements of intent, such as vision, mission and strategic plans to grow the business (Majama & Magang, 2017:75). Perry (2001) cited by (Thompson, Bounds, & Goldman, 2012:12) found that formal planning is hardly ever done by SMEs. It was also found that SME owners tend to personalise their strategies to react to the performance of the enterprise, thus, SMEs remain less likely to pursue formal and rigid strategic plans (Thompson *et al*. 2012:38).

Many SMEs still question the value of strategic planning, these SMEs hold a belief that entrepreneurs are pioneers of ideas and concepts (Thompson *et al*. 2012:38). The main focus of these entrepreneurs is on the daily running of the business; not the formulation of strategic plans for future growth and sustainability of the business (Thompson *et al*. 2012:38). An argument raised by Dibrell *et al.* 2007 cited by (Thompson *et al*. 2012:38) is that managers who follow structured planning processes can become disconnected from the daily operations of the enterprise. Unfortunately, there is no research-based evidence detailing the importance of strategic planning for SMEs. However, strategic planning formulation has generally been the key element in driving the growth of big companies; strategies in these companies include diversification, market penetration and acquisitions (Thompson *et al*. 2012:39). It is quite evident that the absence of strategic plans is a barrier to the growth of SMEs.

The significance of strategy formulation and planning is essential to the growth and sustainability of any business, regardless of its size (Thompson *et al*. 2012:39). Appropriate and effective management of growth strategies is the main contributing factor to the growth and success of any enterprise, irrespective of the size (Thompson *et al*. 2012:39). A study conducted on SMEs in Botswana found that most SMEs do not have formal growth strategies that are incorporated into the daily activities of these companies (Majama & Magang, 2017:88).

2.12 SME growth barriers found in Techiman Municipality in Ghana

A study conducted in Techiman Municipality Ghana revealed the following factors to be the cause of lack of finance or funding from bank institutions (Nyarko, Asani, & Darkwah, 2013). The results of the study are presented in Table 2.5. Clearly, the lack of collateral was found to be the main cause of finance rejection for SMEs in the said municipality in Ghana.

Table 2.5: Factors impeding access to finance in Techiman Municipality

Variable	%
Lack of collateral	57
Lack of financial statement	21
Lack of business registration	12
No business plan	6
No bank account	4

Source: (Nyarko, Asani, & Darkwah, 2013)

In a study conducted by Dauda & Nyarko in 2014, the following factors were found to be the cause of lack of growth and expansion of SMEs. These factors are:

- High collateral requirements;
- High interest rates;
- Competition from large scale businesses;
- Limited capital of small businesses;
- Inconsistent financial information provided by SMEs;
- Poor record keeping and document management;
- Lack of standard financial reporting; and
- Weak managerial capacity of owners

The aforementioned factors constitutes the reasons given by both funders and applicants; for instance, while applicants complain about high interest rates and collateral requirements, funders complain about inconsistent financial records and poor document keeping. Besides, the said issues raised by funders, SMEs also have internal issues which contribute to them not meeting the requirements of funders. These internal issues are attributed to cash-flow problems mainly caused by late payments from clients and slow economic activity from their trading industries (SBP Bulletin 2, 2015:2). Studies show that it takes between 40 to 60 days to receive payments from clients and this delay puts SMEs on a bad cash-flow position to keep the business running (SBP Bulletin 2, 2015:2). Bad debt with high interest rates has also contributed to the cash crisis of a large number of SMEs.

2.13 Summary of factors affecting the growth of SMEs

In conclusion, it is deduced from the literature that the growth of SMEs is largely impeded by internal and external factors. Internal factors are found to be mostly within the control of the owner and the management of the enterprise. Multiple authors revealed that growth intention initiatives such as the formulation of competitive strategies, market penetration, product or service diversification, enhanced marketing plans and business models are key internal factors that every SME should consider. The integration of the growth intention initiatives in the business mission is essential because it sets the tone for growth to all participants. Despite issues around regulatory barriers, South African government has established a number of policy-based initiatives to improve access to market; typical initiatives include the preferential procurement policy framework and broad-based BEE status levels. These initiatives force big companies that do business with state institutions to include micro and small to medium enterprises in their value chain.

The following section discusses the strategies that can be applied to enhance the growth of SMEs. Furthermore, this section details applicable models and modes of business growth.

2.14 Strategies to enhance the growth of SMEs

In the quest to understand and resolve different hindrances of business growth caused by policy and regulatory laws, Mason and Brown (2014:4) tabulated the distinction between traditional and growth-oriented entrepreneurship policy, refer to Table 2.6.

Table 2.6: Traditional versus Growth-Oriented Entrepreneurship

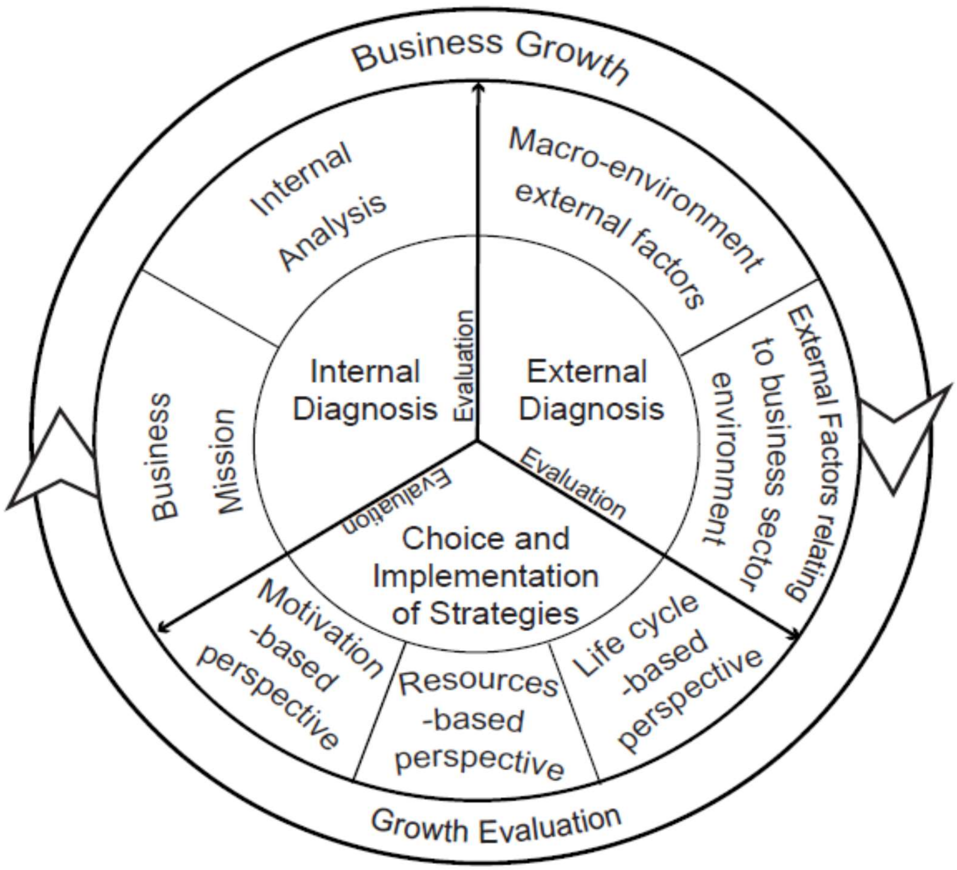
Traditional Enterprise Policies	Growth-Oriented Enterprise Policies
Strong focus on specific actors (i.e. individuals, entrepreneurs & geographic clusters of firms)	Main focus is on specific types of entrepreneurs and networks of entrepreneurs
The level of policy making is mostly 'top down'. The implementation of policy is mostly undertaken at national level but some initiatives are devolved.	The bulk of systemic policies are enacted at the regional or local level. Multi-scalar policy frameworks are emerging.
Main push by policy makers is to generate and promote entrepreneurial sources of finance aimed at start-ups, particularly in the form of venture capital and business angel funding	Recognition that different businesses have different funding requirements such as debt finance, peer to peer, crowdfunding etc. As businesses grow and upscale different firms require access to a 'funding escalator' and 'cocktails' of different funding sources
Main forms of assistance are 'transactional' forms of support such as grants, tax incentives, subsidies etc.	Main forms of assistance are 'relational' forms of support such as network building, developing connections between entrepreneurial actors, institutional alignment of priorities, fostering peer-based interactions
The generation of new firm-based intellectual property and innovation was seen as vitally important. The focus was very much on R&D and the protection of intellectual property rights. Strong encouragement to technology and innovation within high-tech sectors	Focus on developing innovation systems and fostering connections with customers, end users, suppliers, universities etc. Increasing recognition of unprotected and 'open' sources of innovation. Innovation is porous transcending many sectors and industries – both new and traditional

Source: (Mason & Brown, 2013:4)

Despite the effect of the aforementioned internal and external factors, sustainable growth can be realized through the adoption of management and organizational structures that are appropriate for implementing growth strategies (Farrokh *et al*. 2016:6204). Furthermore, it is suggested that the tendency to adopt decentralized ownership structure may be more effective for SME growth, since it can result to more application for external resources (Farrokh *et al*. 2016:6204). Adriana & Viviana (2016:34) proposed that the business model intended for growth of SMEs should consist of evaluation and integration of both internal and external factors, as depicted in Figure 2.9. The proposed model is based on three fundamental attributes, namely; internal diagnostics, external diagnostics and the selection of applicable strategies that are growth-oriented.

Notably, the proposed model further considers three key business perspectives that can hinder the growth of SMEs. These are motivation-based perspective (which talks to the intention or interest of the owner), resource based perspective (i.e. finance, skills etc.) and life cycle based perspective (future product demand and required improvement and innovation). Figure 2.9 shows the model of formulating and evaluating the intended growth strategy.

Figure 2.9: Strategy formulation model for growth generation of SMEs



Source: (Adriana & Viviana, 2016:34)

Furthermore, a detailed interrogation of strategy formulation shows that the lack of reliable evidence to base a coherent single-minded strategy is the reason for failure to unleash the potential of SMEs (SBP Alert, 2018:2). This lack of reliable evidence to base a single-minded strategy further suppresses the entrepreneurial value of SMEs to drive innovation and grow to employ millions of South Africans (SBP Alert, 2018:2). Furthermore, other internal factors that have an impact on business growth are the age and size of the organization, owner's motivation to grow, ownership structure and knowledge management.

Studies suggest that it is crucial that these factors are integrated and form part of the internal analysis that every SME should conduct. Adriana and Viviana (2016:37) specifically suggest that the recognition and valuation of internal factors should be followed by adaptation and diffusion into the business mission such that growth remains a practical course of action. In essence, this means that the internal analysis process should include the definition of the business mission from the discovered internal capacities of the enterprise. It is essential that the impact of internal factors is viewed in the light of business growth; where opportunities are exploited, while strengths are utilized to their full potential (Adriana & Viviana, 2016:37). In addition, internal analysis should also reveal the weaknesses of the enterprise so that support can be offered. Table 2.7 shows the aspects that every SME should consider during internal analysis.

Table 2.7: Aspects to consider in the internal analysis

Enterprise	Management structure Planning and decision-making capacity Communication channels Control mechanisms Mission and vision articulation
Commercial	Uniqueness of products or services Product or service quality Product or service range Participation of the enterprise in the market Price competitiveness Existence of marketing plans and strategies
Innovation	Ability to create new products or improve existing products Investment in new technology Ability to own and protect innovations
Finance	Ease of access to funding Lending capacity Existence of collateral Assessment of enterprise profitability Availability of cash/cashflow status Recovery frequency of accounts receivable Cost stability
Human Capital	Skills set alignment with business needs Educational level and relevance Team's attitude towards learning Remuneration and retention strategies

Source: (Adriana & Viviana, 2016:37)

The impact of external factors has also been reported by several authors to be a barrier to the business growth of SMEs. According to Adriana and Viviana (2016:37), identification of external factors (macro-economic) that are related to the business sector will reveal opportunities and threats to the enterprise; thus, making the formulation of relevant strategies to grow the business a simple and effective task. In addition, the choice and implementation of strategies that are growth-oriented offers the potential for enterprises to expand their market and forge policies that are oriented towards business growth (Adriana & Viviana, 2016:37).

It is clear that the approach of strategy formulation, internal analysis and articulation of business mission can enhance business growth of SMEs; however, this effect can be realized through the integration of aspects that are related to business growth (Adriana & Viviana, 2016:37). Despite the formulation of growth-oriented strategies, business growth is also grossly affected by market demand, competitiveness and the industry which the SME operates (Farrokh *et al*. 2016:6204). These are typical external or macroeconomic factors that affect business growth. Table 2.8 shows the aspects that every SME should consider when assessing the external environment.

Table 2.8: Aspects to consider in the external analysis

Overall Economic Environment	Globalization Domestic economic issues Interest rates Programmes for international trades
Government and Legal Environment	Licenses and permits Tax and VAT laws Red tape issues Corruption
Technological Environment	Access to new technologies Availability of technological centres Relationship of SMEs with educational centers Innovation hubs

Source: (Adriana & Viviana, 2016:38)

The following section discusses the models and modes to enhance business growth.

2.15 Models and Modes of Business Growth

Churchill and Lewis (1983) cited by (Olawale & Garwe, 2010:730), identified five (5) stages of business growth, namely; existence, survival, success, take-off and resource maturity. This model clarifies the dynamics of SME growth including the unique characteristics, barriers and requirements of growing small to medium businesses. Olawale and Garwe (2010:730) found that the real issue in new firm growth is that most new SMEs in South Africa struggle to move from the first stage of existence to other stages of growth such as survival, success, take-off and resource maturity. Adriana & Viviana (2016:31) attribute this stagnation to the lack of strategic planning and forward-thinking from the owners of SMEs. These authors believe that the process of strategic planning is as vital for big companies as it is for small to medium size enterprises because it enables them to formulate the necessary actions that are directed at growing the business.

According to Hodge *et al* 1998 cited by (Adriana & Viviana, 2016:31), business growth can be achieved by applying strategies that are oriented to increasing production and sales, new market penetration, mergers and acquisitions. Furthermore, business growth has been found to be conditioned by both internal and external factors; and understanding of these factors dictates the strategy to be applied in order to achieve higher competitiveness and a better position in the market (Adriana & Viviana, 2016:32)

Studies reveal that business growth is an intentional process and journey that a visionary entrepreneur undertakes. Arora and Fosfuri, 2003 cited by (Domi & Mehmeti, 2013:463) pointed out that the adoption of a hybrid mode of business growth can prove to be beneficial in unlocking barriers to the growth of SMEs. Their study revealed that hybrid growth take place in various forms that include licensing, joint ventures, franchising and formation of strategic alliances. Joint ventures tend to offer SMEs an opportunity to grow by sharing the risk and resources with the partnering company (Domi & Mehmeti, 2013:464).

In the context of business growth, joint ventures involve entering into joint ventures as a method of penetrating new foreign markets, Lu and Bermish, 2006 cited by (Domi & Mehmeti, 2013:464). Domi and Mehmeti (2013:464) assert that joint ventures and strategic alliances are less risky and costly methods of growing a business compared to growth through organic methods or acquisition.

Licensing is another mode of growth, where technology can be transferred from one company to another (Domi & Mehmeti, 2013). Studies (Fosfuri, 2006 and Shane, 1996) cited by (Domi & Mehmeti, 2013:463) proposed that licensing companies tend to overcome common difficulties such as manufacturing, marketing, limited managerial capacities and distribution.

2.15.1 Hybrid Organisations

Hybrid modes are ways that can be adopted in order to grow the business. Any chosen mode is founded on two conditions, namely, access and veto, Bel, 2006 cited by (Domi & Mehmeti, 2013:464). According to Bel, 2008 cited by (Domi & Mehmeti, 2013:464), under the context of hybrid, access means the right to use a particular asset while veto means the right to exclude others from using that particular asset.

The four forms of hybrid modes of growth are:

- Growth through the formation of joint ventures
- Growth through product or service licensing
- Growth through the formation of strategic alliances
- Growth through franchising

It is suggested that SMEs can achieve business growth through the implementation of any of the above elements. Licensing mode involves the selling of rights to the licensee to use part of the company's intellectual property, which can be a form of technology or innovation, (Domi & Mehmeti, 2013:465). Even though the advantages of hybrid growth seem to involve shared business risk, reduced financial burdens and opportunity to penetrate foreign markets to grow the business; relevant legal advice should be sought when contractual agreements are made (Domi & Mehmeti, 2013:469).

2.16 Summary of growth strategies

In light of the above suggestions regarding strategies to enhance the growth of SMEs, formulation of growth strategies involving joint ventures and strategic alliances was dominant. The aforementioned strategies were described as qualities of hybrid organisations, who further pursue growth through franchising and acquisition.

Chapter 3

RESEARCH METHODOLOGY AND RESULTS

3.1 Introduction

This chapter details the research methodology and the technique used to collect and analyze the data received from the respondents. It is aimed at providing general information about the respondents, which represent the brief profile of the research population. This is a quantitative research study where the data was collected through the formulated questionnaires. Quantitative research focuses on the reliability (measure of consistency) and replicability of the data collected (Welman, Kruger, & Mitchell, 2005:9). Statistical tools such as descriptive analysis, frequency analysis and the analysis of variation (ANOVA) were utilized in this study. The results were presented through graphs, pie charts and cross tables.

3.2 Research Methodology

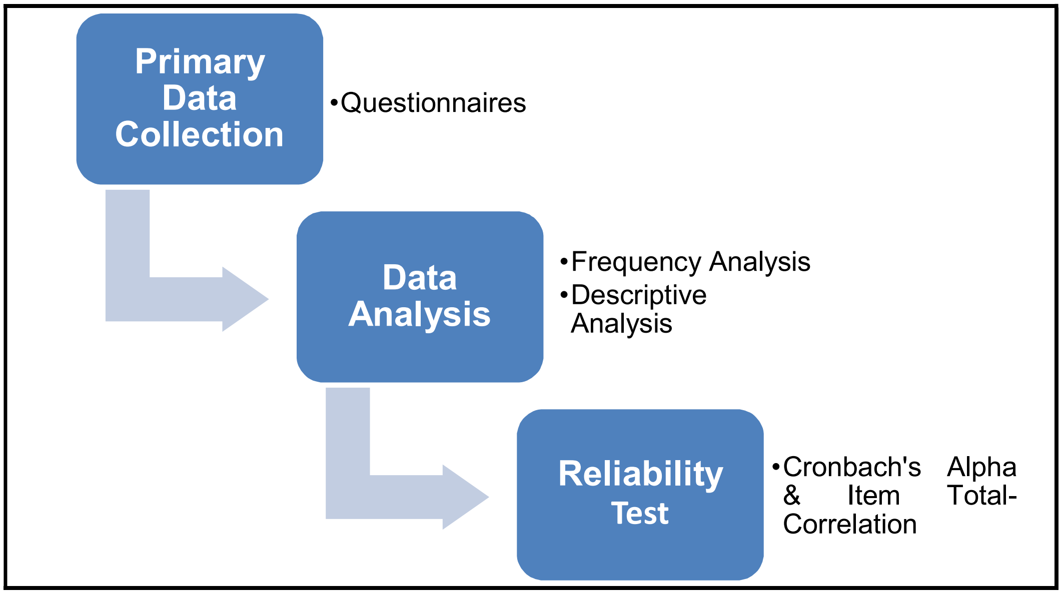
The data was collected through formulated questionnaires that were distributed (email and hand-delivered) to managers of SMEs in Govan Mbeki Municipality. Questionnaires were distributed to a random sample of 150 SMEs in the area. In essence, a total of 150 questionnaires were distributed to SME owners in the region of Govan Mbeki municipality, however, only 107 questionnaires were returned back, thus providing a response rate of approximately 71%. As alluded to in the previous chapters, this quantitative research study was aimed at assessing the barriers that impede the growth of SME's in the Govan Mbeki Municipality. It should be noted that this study was not limited to any specific industry.

3.2.1 Data collection and method of analysis

The data collected from this study was analyzed using Statistical Package for Social Sciences (SPSS). The Likert or summated attitude scale consisting of statements prompting the SME owners to indicate the degree to which they agree or disagree with the content was used. A four-point scale [strongly disagree (1), disagree (2), agree (3) and strongly agree (4)] was selected for this survey. Statements contained in the questionnaire were mostly formulated to represent a positive attitude. The SPSS was mainly used to examine the profile of respondents and the distribution of responses on different questionnaire statements.

The data collected was further analysed using statistical measures to calculate the Cronbach's coefficient alpha and item-to-total correlation in order to test for its validity and reliability. Figure 3.1 shows an overview of how the analysis was conducted.

Figure 3.1: Process flow for data collection and statistical analysis



Source: Author's Compilation

3.3 RESULTS - Frequency and Descriptive

This section entails findings regarding the statistical analysis of the data collected from the respondents. Frequency analysis is generally used to determine whether the distribution is even or clustered across the intervals (i.e. scale), while descriptive analysis is concerned about the summary of the data obtained from the group of individual units (Welman *et al*. 2005:231).

3.3.1 Demographic Information

Due to confidentiality and sensitivity of personal information, some of the demographical information was canvassed in this survey. Typical information such as gender, age and annual revenues was canvassed and not analysed in this study. However, demographic information such as the time of the enterprise in operation was analyzed. For instance, 71.7% of the respondents have been in business for less than five (5) years while 16.2% have been in business between 5 and 10 years, see the results in Figure 3.2.

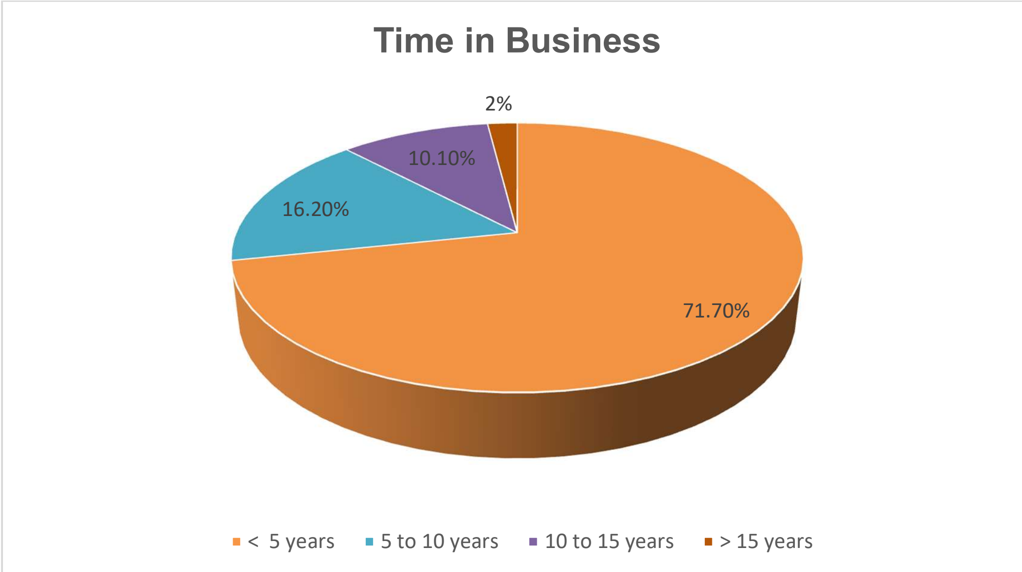


Figure 3.2: Time in operation of the SMEs

3.3.2 Educational Background

The level of education was included in the questionnaire as part of profiling the participants. The data analysis revealed that 65% of the participants had Matric (grade 12) followed by 18% with Diplomas, while 7% does not have Matric, see detailed results in Figure 3.3.

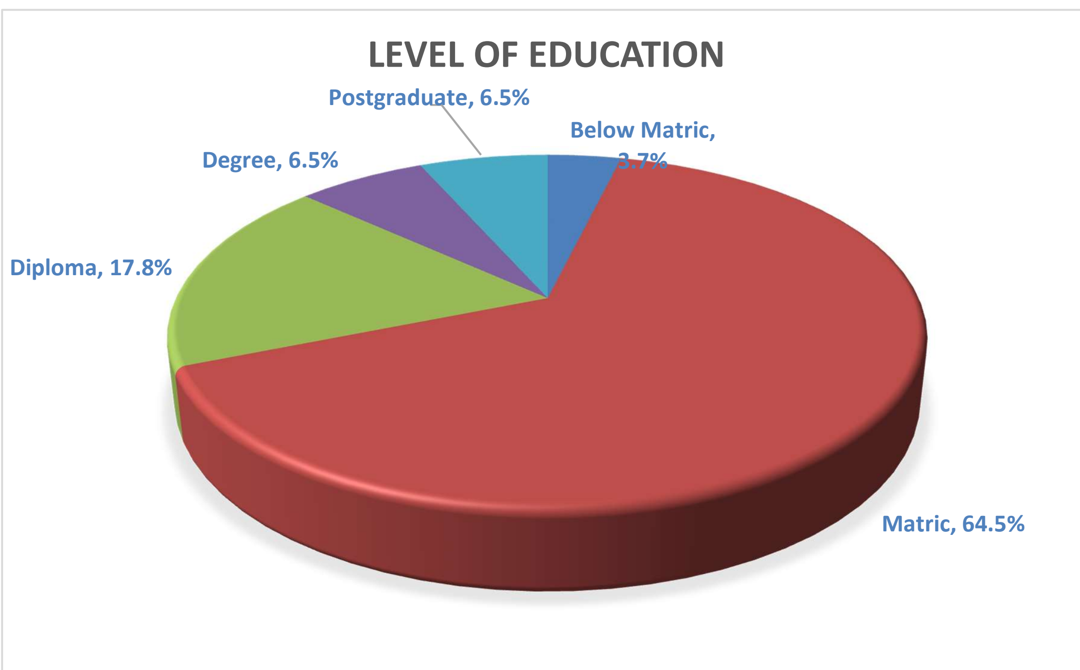


Figure 3.3: Level of education of respondents

3.3.3 Number of Employees

Based on the fact that this study is focused on small to medium enterprises, the report on the number of employees was deemed essential. The number of employees is one of the crucial elements considered in the classification and definition of different enterprises in South Africa. However, there seems to be an overlap in factors considered in the definition and classification of enterprise. The classification considers five business categories, namely; standard industrial sector and subsector classification, size of class, fulltime equivalent of paid employees, turnover and asset value (excluding fixed property). The classification of enterprises is presented in Table 1.1 in chapter 1. Unfortunately, despite all appropriate efforts done to ensure that all participants within the research population fall under the umbrella of SMEs, only the number of employees was obtained from the respondents due to the confidentiality of other classification categories. The number of employees employed by SMEs in the study sample is shown in Figure 3.4.

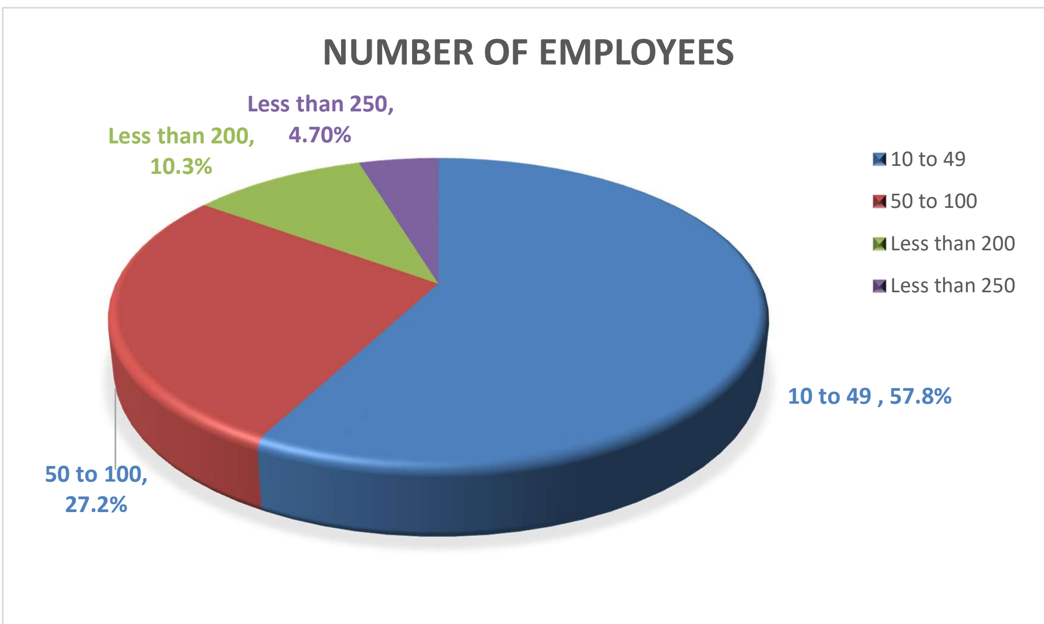


Figure 3.4: Number of employees employed by SMEs

3.3.4 Business Industry

The distribution of the industry in which respondents conduct their businesses is shown in Figure 3.5. From Figure 3.5, it is clear that the majority of our respondents had 32.4% of their businesses in training and development while about 29.4% were involved in manufacturing-engineering and fabrication, see the details in Figure 3.5.

However, the classification of the business sector of our population was not crucial in this study since it was not focused on any particular industry. However, it is interesting to note the significant amount of SMEs in manufacturing-engineering and fabrication, this is in line with majority of big entities in mining and heavy engineering in the Govan Mbeki municipality and Mpumalanga province at large. Figure 3.5 presents the results.

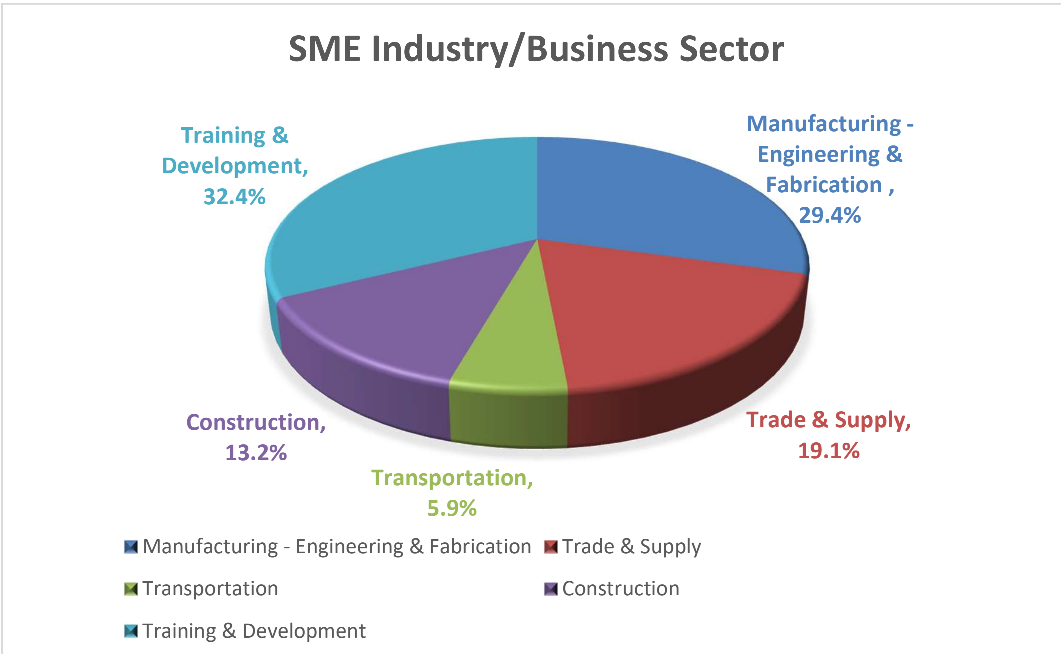


Figure 3.5: Industry where respondents conduct their businesses

3.4 Frequency of Response Analysis

This section focuses on the statistical analysis that was done on the response from each statement contained in the questionnaire. The mean and standard deviation values representing the degree of response attitudes and variation are presented in Table 3.1. These results are presented in Table 3.1, where (1) represents strong disagreement and (4) representing strong agreement. Respondents were required to indicate their degree of agreement with the statement from the questionnaire. These statements were phrased in a positive or negative mode; of which the respondents were required to choose from four response categories, namely: Strongly Disagree, Disagree, Agree and Strongly Agree.

Table 3.1: Percentage results of response frequencies

Code	Questionnaire Statements	Strongly Disagree (1)	Disagree (2)	Agree (3)	Strongly Agree (4)	Mean Values	Standard Deviation
BG1	The lack of finance is a barrier to business growth.	27.4%	3.8%	42.1%	26.2%	2.68	1.143
BG2	Poor management is the cause of stagnation.	2.8%	17.9%	31.1%	48.1%	3.25	0.849
BG3	Our business has a strategy to grow the business.	2.8%	11.2%	35.5%	50.5%	3.34	0.788
BG4	The lack of business opportunities is a cause of stagnation.	1.0%	8.6%	42.9%	47.6%	3.37	0.683
BG5	Our product or service is not in demand in the region.	48.2%	27.6%	15.2%	12.6%	1.95	1.050
BG6	Government policies are restrictive of growth.	1.9%	49.5%	35.0%	13.6%	2.60	0.745
BG7	The tax on SMEs is too high.	1.9%	25.2%	57%	15.9%	2.87	0.688
BG8	The government supports SMEs.	7.5%	20.6%	58.9%	13.1%	2.78	0.769
BG9	Local companies buy products from local SMEs.	9.3%	31.8%	52.3%	6.5%	2.56	0.755
BG10	Corruption is a cause of stagnation.	3.7%	11.2%	14.0%	71.0%	3.52	0.839
BG11	The services offered by SMEs are required by local firms.	2.9%	5.8%	45.6%	45.6%	3.34	0.722
BG12	The geographical location of the SMEs is a barrier to growth.	33.0%	19.4%	33.0%	14.6%	2.29	1.081
BG13	The market share is too small for growth within the Municipality.	32.4%	28.4%	26.5%	12.7%	2.20	1.034
BG14	A lack of access to credit from financial institution poses a barrier to business growth.	8.7%	35.6%	34.6%	21.2%	2.68	0.906
BG15	The lack of skills in the community is a cause of stagnation.	1.0%	7.8%	42.7%	48.5%	3.39	0.675

Code	Questionnaire Statements	Strongly Disagree (1)	Disagree (2)	Agree (3)	Strongly Agree (4)	Mean Values	Standard Deviation
BG16	Competition is a barrier to business growth prospects.	7.7%	48.1%	34.6%	9.6%	2.46	0.775
BG17	Lack of capability (i.e. skilled and competent personnel; computer skills) is a barrier to our business growth.	2.9%	5.8%	43.3%	48.1%	3.37	0.725
BG18	Lack of resources (i.e. machinery, equipment & office space) is a barrier to our business growth.	1.0%	3.8%	38.5%	56.7%	3.51	0.623
BG19	The lack of interest from the founder/owner is a barrier to business growth.	7.5%	11.2%	36.4%	44.9%	3.19	0.913
BG20	Our business has written plans and strategies to grow the business.	3.7%	12.1%	42.1	42.1%	3.22	0.805
BG21	Our business has developed long term goals.	3.7%	7.5%	44.9%	43.9%	3.29	0.765
BG22	Our business intends to expand the business outside our local municipality area.	2.8%	11.3%	31.1%	54.7%	3.38	0.798
BG23	Our business has received funding from the government.	60.4%	25.5%	6.6%	7.5%	1.61	0.911
BG24	The government provides sufficient support to SMEs.	11.2%	25.2%	52.3%	11.2%	2.64	0.829
BG25	South African labour laws act as a barrier to growing our business.	5.7%	21.9%	65.7%	6.7%	2.73	0.669
BG26	The local economic development (LED) department is helpful.	53.8%	29.2%	14.2%	2.8%	1.66	0.827
BG27	Our business is part of the local business forum.	1.0%	26.9%	17.3%	54.8%	3.26	0.892
BG28	I have received formal training in financial management.	3.7%	13.2%	72.0%	11.2%	2.91	0.622

Code	Questionnaire Statements	Strongly Disagree (1)	Disagree (2)	Agree (3)	Strongly Agree (4)	Mean Values	Standard Deviation
BG29	I have received formal business management training.	0.9%	13.2%	75.5%	10.4%	2.95	0.523
BG30	Strategies to grow the business are discussed in our business	1.0%	12.4%	35.2%	51.4%	3.37	0.737
BG31	The lack of mentorship and guidance is a cause of the lack of growth and expansion.	4.7%	3.8%	40.6%	50.9%	3.38	0.774
BG32	The lack of support (in terms of product/service usage) from large local entities is a barrier to business growth.	-	4.7%	57.5%	37.7%	3.33	0.564
BG33	The lack of skilled personnel is the cause of stagnation (no growth).	2.9%	9.6%	40.4%	47.1%	3.32	0.737
BG34	Our business industry is highly competitive.	-	5.6%	50.0%	44.3%	3.39	0.595
BG35	South Africa's poor economic outlook has a negative impact on the growth of our business.	-	20.6%	30.8%	48.6%	3.28	0.787

3.5 Summary of frequency analysis results

The results obtained from this study clearly revealed the attitude of respondents for each statement; for instance, the majority (71%) of respondents strongly agreed that corruption is a barrier to business growth. This was evidenced by the mean value of 3.52 and a relatively low standard deviation of 0.839, representing the degree of variation from the respondents. It is not surprising that respondents find corruption as the barrier to business growth, this plague has been reported by other researchers. Furthermore, the recent survey on corruption perception index revealed a ranking of 73rd for South Africa out of 180 countries that participated in the Transparency International (TI) survey; according to Transparency International report (2018). Considering the mean values, it is clear that most respondents found corruption to be the highest barrier to business growth of SMEs in Govan Mbeki municipality.

However, it is rather interesting to note that this specific finding is contrary to a popular belief that lack of finance is the main barrier to business growth. This finding is rather interesting to note, since it is contrary to findings from previous research studies, which found lack of finance as the main barrier to enterprise growth.

3.6 Descriptive Statistics

Descriptive Analysis

Descriptive statistics refers to the description and summary of the data obtained from the group of individual units of analysis (Welman *et al*. 2005:231).

Constructs

In order to make sense of the data collected, related statements were grouped together to form relevant constructs. These explanatory variables were categorically linked to reflect specific factors (as revealed in the literature - Chapter 2) that impede the growth of SMEs. The following constructs were formulated:

- Access to finance and funding
- Regulatory Laws
- Strategy and Growth Intention
- Training and Resources
- Location of the SME
- Markets & General Economic Impact

3.7 Reliability Statistics

This section is intended to report the reliability and validity of the data collected during this study. It is further aimed at confirming the correlation of statements grouped to form constructs. In this context, Cronbach's coefficient alpha and item-to-total correlation were calculated and used as indicators of the reliability and validity of the scale measurements.

Cronbach's coefficient alpha value was used to measure the internal consistency on the statements selected to form constructs. A general guideline value of 0.5 was adopted for the Cronbach's Alpha value, where values above 0.5 served as an indication of the reliability of the construct. However, it should be noted that some statements were omitted from the constructs since they were found to be irrelevant or not representative in that particular construct.

Table 3.2 presents the results of the calculated Cronbach's Alpha values for respective constructs. For instance, the Cronbach's Alpha of access to finance and funding was found to be 0.742, which is above the 0.5 guideline value, thus this construct was deemed reliable. However, the hypotheses statement (BG23) was omitted as it had negative effect (i.e. resulted to low values) on the Cronbach's Alpha. This was done for all statements that had lower correlation within the construct, in the same light, Cronbach's Alpha values were recalculated. The recalculated values for our research measures (constructs) were all found to be higher than the guideline value of 0.5 for this subject. These values ranged from 0.583 to 0.742. Therefore, these results endorse that the research constructs and scales used possess high level of reliability and are satisfactory for conducting further data analysis through inferential statistics to test the research hypotheses.

Table 3.2: Cronbach's Alpha, Mean and Standard Deviation values for constructs

Constructs	Statements forming Constructs	Cronbach's Alpha	Mean	Standard Deviation
Access to Finance & Funding	BG1 & BG14	0.742	2.6916	0.93578
Regulatory Laws	BG6, BG7, BG8_r, & BG24-_r	0.583	2.5125	0.48898
Strategy & Growth Intention	BG3, BG19_r, BG20, BG21, BG22 & BG30	0.605	3.0688	0.46636
Training & Resources	BG2, BG15, BG17, BG18, BG26_r, BG28_r, BG29_r, BG31 & BG33	0.742	3.0501	0.46206
Location	BG5, BG9, BG11, BG12_r & BG13_r	0.594	2.9453	0.61561
Markets & General Economic Impact	BG4, BG34 & BG35	0.671	3.3505	0.53882

*r- reversed statements

Based on the mean values presented in Figure 3.6, it is evident that the general economic impact, strategy and growth intention together with training and resources are the leading barriers to the growth of SMEs in Govan Mbeki Municipality. The aforementioned constructs had mean values above 3, which is between the attitudinal scales of agree and strongly agree.

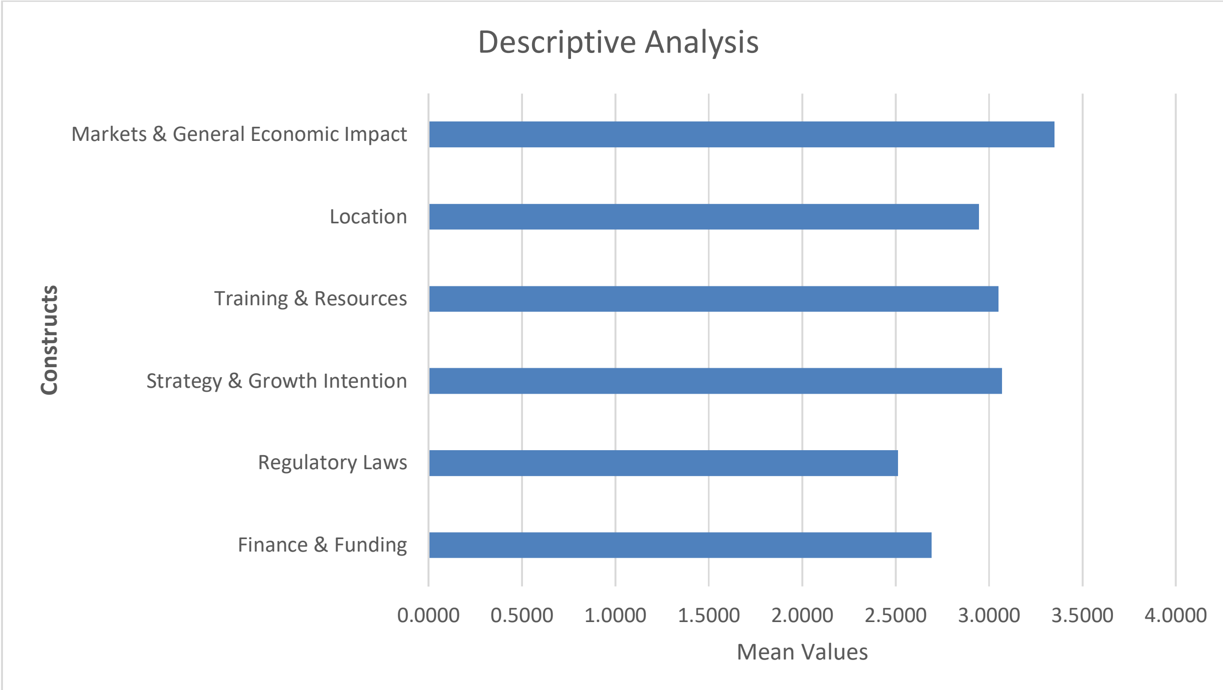


Figure 3.6: Mean values for constructs

3.7 Discussion of Constructs

The following section discusses the statistical results of each construct formulated during this study.

3.7.1 Access to finance

In the context of this study, access to finance refers to the ease and ability of SMEs to receive or be granted funding in order to growth their market share position. Questions related to finance and funding were grouped together to form a construct. It should be noted that questions were asked by forming a positive statement. Respondents were asked to choose whether they strongly agree, strongly disagree, agree or disagree with the statement given in the questionnaire.

The following statements were considered under access to finance:

- The lack of finance is a barrier to business growth.
- Lack of access to credit from financial institutions poses a barrier to business growth
- The business has received funding (omitted because it was inconsistent with the other statements selected for this construct)

3.7.2 Regulatory laws

In the context of this study, regulatory laws refers to government or state rules that can indirectly hinder the growth of SMEs. Questions related to regulatory laws were grouped together to form this construct. The following questions were grouped:

- Government policies are restrictive to growth
- Tax on SMEs is too high
- The government support is not sufficient
- Corruption is the cause of business stagnation
- South African labour law act as barrier to business growth

3.7.3 Growth Intention and Strategy

In the context of this study, this construct refers to the existence of plans, actions and strategies that are intended for business growth of which lack or absence of can be the barrier to business growth. Statements considered under this construct are:

- Our enterprise have a strategy to grow the business
- Lack of interest from the founder /owner is a barrier to business growth
- Our business has written plans and strategies to grow
- Our company have developed long term goals
- Our company intends to expand the business outside our local municipality area
- Strategies to grow the business are discussed in our business

3.7.4 Training and Resources

Training and resources refers to the presence and availability of skills and resources required to grow the enterprise. Questions that are related to training and resources were grouped together to form this construct. The following statements were considered to form this construct:

- Poor management is the cause of stagnation
- Lack of skills in the community is the cause of stagnation
- Lack of capability (i.e. skilled and competent personnel; computer-based skills) is a barrier to business growth.
- Lack of resources (i.e. equipment, machinery and office space) is a barrier to growth
- The local economic development office is helpful
- We have received training on financial management

- We have received training on business management
- Lack of mentorship and guidance is the cause of lack of growth and expansion
- Lack of skilled personnel is the cause of business stagnation

3.7.5 Location

This refers to the effect of geographic location with regards to population and potential clients for products produced and services offered by SMEs. The following statements were grouped to form this construct:

- Our product or service is not in demand in the region
- The government supports SMEs
- The geographic location of the SMEs is the barrier to growth
- The market share is too small for growth within the Municipality
- Our business is part of the local business forum

3.7.6 Markets and General Economic Impact

Markets and general economic impact refers to the local environment as it relates to business opportunities and demand. Lack of economic growth in South Africa over the past few years has had the negative impact on the growth of SME's. Leboa (2015:39) attributes this to globalization and the interconnection in the economy. In order to form a construct to rate the effect of the general economic impact, the following statements were grouped:

- The lack of business opportunities is the cause of stagnation
- The lack of support (i.e. product or service usage) from large local entities is a barrier to business growth
- Our business industry is very competitive
- South Africa's economic outlook has a negative impact on the growth of our business

These statements were grouped together to give an indication as to whether SMEs view general economic impact as the barrier to their growth.

3.8 Group Statistics

Independent T-Tests

Significance tests were conducted on the set constructs formulated in order to measure any statistical significant difference between the means and distributions of samples.
The cut-off point commonly used in social science suggests that the model should be significant at p-values equal to 0.05 levels or better. The p-value indicates whether there is any statistical difference between the means, where p-values of less than 0.05 indicates the existence of statistical difference. It should be noted that the p-values were only reported for the sake of completion since the sample was based on availability rather than a random sample. The first independent test looked at the effect of the level of education against the constructs. The p-value for this construct was found to be 0.046, thus indicating that there is a significant difference in the response of the educated and uneducated with regards to access to finance and funding. This implies that respondents with qualification higher than Matric strongly agreed that lack of access to finance is the barrier to business growth while those with qualifications lower than Matric tended to partially agree but leaning towards disagreeing. This was clearly shown by the mean values determined for the two levels of education, see results in Table 3.3. Furthermore, this analysis was further confirmed by the effect size of 0.42, which also indicated that there is a practically significant difference.

Table 3.3: Constructs versus level of education

Construct	Qualification	No. of Responses	Mean	Std. Deviation	p-value	Effect Size
Finance & Funding	Matric	73	2.5822	0.92801	0.046	0.42
	Above Matric	33	2.9697	0.90086		
Regulatory Laws	Matric	73	2.4121	0.35325	0.010	0.50
	Above Matric	33	2.7424	0.65695		
Growth Intention & Strategy	Matric	73	3.0621	0.48713	0.927	0.02
	Above Matric	33	3.0707	0.42498		
Training & Resources	Matric	73	3.0392	0.49353	0.825	0.04
	Above Matric	33	3.0589	0.38838		
Location	Matric	73	3.0219	0.66674	0.012	0.41
	Above Matric	33	2.7490	0.42114		
Market & Economic Impact	Matric	73	3.4132	0.58142	0.024	0.38
	Above Matric	33	3.1919	0.39114		

Furthermore, respondents were asked to indicate whether they have received funding from government in order to grow their businesses. It was found that 84% (90/107) of the respondents indicated that they have not received financial assistance from the government, while 15.9% (17/107) indicated that they have received some funding from the government. However, when asked whether they once applied for funding from the government; 61% of the respondents said no while 38% said yes. Therefore, one can conclude that the lack of funding or access to finance is also caused by the absence of applications; which could be caused by the lack of information from funders. Despite these ambiguous findings, access to funding seems to still be a barrier to the growth and sustainability of SMEs in Govan Mbeki municipality. However, it is evident that there are many factors that contribute to lack of access to funding. The study has revealed that SME owners do not apply for funding, especially from the government due to the lack of confidence.

Lack of confidence in the government structures to grant funding was the reason given by the group of SME owners in Govan Mbeki Municipality, when they were asked for additional comments. They further mentioned that most funders require impossible requirements or collateral as part of surety for the loan granted. However, FinFind Report (2017) revealed that SME owners lack the skills necessary to find the right funders and to identify the relevant finance product that matches their specific funding need. In addition, SME owners were found to struggle to prepare relevant business documentation required by finance providers. These skills include the lack of know—how required to present the business case in a manner that will enable funders or investors to release funds aimed at growing the business. Although access to funding is essential for business growth and sustainability, it is sad to witness the rejection of many applications due to poor financial skills and lack of funding experience from the SME owners (FinFind Report, 2017).

It is furthermore clear from Figure 3.6 that the lack of resources and training also contribute to the lack of business growth in a number of ways. For instance, lack of finacial skills hinder SMEs from confidently convincing funders. This alone, proves that lack of appropriate and relavant training and upskilling is a barrier to business growth. In our survey, respondents indicated that they have received some form of training on financial and business management; 73 – 75% agreed that they have received this form of training.

However, the statistical measure in a form of mean values were found to be 2.91 and 2.95, respectively. In the same context, the standard deviation indicating the degree of variation was found to be 0.622 and 0.523 respectively; this indicates that the degree of variation in the response is minimum.

3.9 Analysis of Variance (ANOVA)

The analysis of variance was conducted to analyse the difference between the group means of the number of employees in relation to the formed constructs. This analysis assessed the difference between the means and the effect size. The recommended and general guideline values of the effect size adopted are:

- 0.2 – Small ≈ indicating no practical significant difference
- 0.5 – Medium ≈ indicating marginally significant difference
- 0.8 – Large ≈ indicating practically significant difference

Table 3.4 shows the results of the effect size and p-values used to measure the existence of statistical differences among the constructs and the number of employees. It is clear from the results that there is a significant difference between the number of employees in a category of 1 – 5 and the range from 6 – 10 with regards to their view of certain constructs. This was evidenced by the effect size of 0.67 and the p-value of 0.007 which is far below the recommended value of 0.05 used as an indicator to test if there is any statistically significant difference between the means. This suggests that enterprises with the number of employees less than 5 found access to finance as the barrier to their business growth while those with more than 10 employees did not necessarily found this to be a bigger barrier.

No significant difference was found between the groups with regards to regulatory laws being the barrier to growth, a consensus was reached by all groups. This means that all SMEs found restrictive regulatory laws are a barrier to business growth. However, a significant difference was noted between the groups concerning other constructs. Based on these results, it is evident that enterprises with lower number of employees experience different challenges and barriers from those with a higher number of employees.

Table 3.4: Analysis of variation of the constructs against the number of employees

Construct	No. of Employees	Mean value	Std. Deviation	Effect Size	p-value
Finance & Funding	1 - 5	3.0204	0.77701		0.007
	6 - 10	2.3704	0.97658	0.67	
	11 plus	2.5769	0.99692	0.44	
Regulatory Laws	1 - 5	2.5017	0.53373		0.142
	6 - 10	2.4074	0.38698	0.18	
	11 plus	2.6731	0.50877	0.32	
Growth Intention & Strategy	1 - 5	2.8680	0.51284		0.001
	6 - 10	3.2469	0.30442	0.74	
	11 plus	3.1859	0.40091	0.62	
Training & Resources	1 - 5	2.8701	0.49497		0.002
	6 - 10	3.2263	0.35870	0.72	
	11 plus	3.1306	0.39527	0.53	
Location	1 - 5	2.6143	0.40751		0.000
	6 - 10	3.3488	0.55856	1.31	
	11 plus	3.0346	0.65316	0.64	
Market & Economic Impact	1 - 5	3.0816	0.46413		0.000
	6 - 10	3.5309	0.52509	0.86	
	11 plus	3.5577	0.48749	0.98	

3.10 Summary

Descriptive analysis using mean values of the formulated constructs revealed the main barriers (Figure 3.6) to the growth of SMEs in Govan Mbeki to be the following:

- Lack of markets in the area and unfavourable economic environment
- Lack of internal enterprise growth strategies and intention to grow
- Lack of resources and training on business management and growth
- Lack of funding or access to funding for business growth
- Lack of clientele in the area (enterprise location)
- Unfavourable regulatory laws

It is clear from these findings that SMEs are faced with a variety of barriers that impede that growth. These barriers consist of both internal (i.e. lack of market growth strategies) and external (i.e. lack of funding, unfavourable regulatory laws) factors.

Independent tests revealed a significant difference between respondents with higher qualification than those with qualifications lower than matric with regards to their view on access to finance and funding. Respondents with higher qualifications found access to finance to be the significant barrier to business growth while those with lower qualifications found it to be marginally significant. Clearly, the level of education had a significant impact on responses received. It is clear from the analysis of variation (ANOVA) that enterprises with a higher number of employees face different challenges than those with lower number of employees. For instance, enterprises with the number of employees less than 5 found access to finance as the barrier to their business growth while those with more than 10 employees did not necessarily found this to be a bigger barrier.

Chapter 4

CONCLUSIONS AND RECOMMENDATIONS

4.1 Conclusion

Despite the role of SMEs which remains vital in building a competitive private sector, increasing employment, innovation and the general revival of economy in South Africa; these entities are still faced with serious challenges that hinder their growth from SMEs to becoming large business enterprises. These challenges which tend to starve these entities from reaching their full potential slightly differ from region to region (i.e. geographic location of the entity) due to different economic drivers in particular regions. As a result, this study was aimed at assessing typical factors that hinder the growth of SMEs in Govan Mbeki Municipality.

Findings from the investigation also revealed that the barriers affecting the growth of SMEs in Govan Mbeki Municipality are both internal and external. These findings seem to be in line with the classification of internal and external factors outlined by other authors (Adriana & Viviana, 2016 and Bruwer & Van den Berg, 2017). This study prominently revealed markets and general economic impact; lack of strategy and growth intention; and lack of training and resources (see Figure 3.6) as the leading barriers to the growth of SMEs in Govan Mbeki municipality. This barrier refers to the effect of macro-economic factors including the demand of products or services offered by SMEs. It is clear that macro-economic factors such as interest rates, monetary policy decisions, inflation and foreign exchange rates have a direct effect on the demand and consumption patterns of products and services offered by SMEs, thus impacting the growth of SMEs.This intensifies the suggestion by Adriana & Viviana (2016:37) who stated that the identification of external factors (macro-economic) that are related to the business sector will reveal opportunities and threats to the enterprise; thus, making the formulation of relevant strategies to grow the business a simple and effective task. Lack of resources and training was also found to be the cause of stagnation for SMEs in Govan Mbeki Municipality.

This study has proven to be peculiar to common research studies for SMEs in a sense that the core objective was to investigate the barriers that hinders the growth of SMEs, not necessarily the cause of their failure, which is commonly researched.

However, it was noted in the literature that the two phenomena tend to be interrelated; where lack of growth can be the indicator of apparent and inevitable failure. Despite several limitations and challenges regarding the literature that is specific to growth hindrances and un-returned questionnaires during this study, the following conclusions were made:
Based on 107 out of 150 usable questionnaires that were hand-delivered and emailed to small and medium enterprises in Govan Mbeki local municipality, it was evident from the results that factors affecting business growth are common to those found by previous researchers. However, this specific study revealed the leading barrier to growth to be the markets and general economic impact. This particular construct was formed by the following questions:

- The lack of business opportunities is the cause of stagnation
- Our business industry is very competitive
- South Africa's economic outlook has a negative impact on the growth of our business

When asked whether the lack of business opportunities is the barrier to business growth, 47.6% of respondents strongly agreed that the said concern is a barrier to the growth of their enterprises. Evidently, the mean value for this specific questionnaire was found to be 3.37 with the standard deviation of 0.683.

Furthermore, the same construct required respondents to comment on the effect of the country's economic outlook on the growth of SMEs. Notably, 48.6% of the respondents strongly agreed that South Africa's economic outlook has a negative impact on the growth of their businesses. In addition, lack of resources, training and skills was also found to be a significant barrier to the growth of SMEs in Govan Mbeki Municipality. It should be noted that the barriers to growth were presented through the formed constructs, see the detailed ranking of these barriers in Figure 3.6. Furthermore, the analysis done on individual questionnaires statement revealed that 71% of the respondents strongly agreed that corruption is a barrier to the growth of their business. Corruption is the issue of poor governance and regulatory system. Interestingly, this finding is consistent with that found by SBP researchers in 2014 (SBP Alert, 2014:3) who found regulatory burdensome to be the highest barrier hindering the growth of SMEs in South Africa. In addition, respondents commented that the crux of corruption is rooted in the tender system where SME owners who are not connected to officials nor have enough cash for bribery are excluded from being awarded tender contracts. Notably, approximately 50% of respondents strongly agreed that lack of mentorship is also a barrier to business growth.

4.2 Recommendations

The outcome of this study has resulted into the formulation of the following recommendations:

Firstly, SMEs need to be able to deal with the effect of internal barriers to their growth by considering the following recommendations:

- SME's should be empowered to navigate through negative economic conditions, this can be achieved through diversifying their product and service offering. The SMEs should also invest in continuous improvement and value addition to their offerings in order to obtain differentiation from its competitors while being preferred service providers to broad range of clients.
- Owners of SMEs should build a determined intention and interest to grow their enterprises. This effort should start by the application of internal analysis to determine the strengths, weaknesses, threats and opportunities of the enterprise. This should be followed by the development of a business model informed by a practical and clearly articulated vision and mission statements.
- It is strongly recommended that owners of SMEs consider investing in high growth activities, creation of new products or services and business models. These should be complimented by the optimisation of core commercial competences particularly, sales, pricing and marketing.
- SMEs should invest in developing business, financial and marketing skills. These skills are key to the sustainability and growth of the enterprise. Specific business and financial skills that SMEs need include cash-flow management, bookkeeping, debt management and taxation.
- SMEs should consider formalized mentorship programmes from recognized and accredited incubators (i.e. Raizcorp, Shanduka Umbrellas). It is crucial that the selection of the business mentor is in line with the SME's sector. In addition, effective mentorship can be an added resource that can provide business owners with the knowledge and guidance that are crucial to business growth.
- Local SMEs should consider collaborating with other SMEs outside their region or countries in order to share information and also penetrate large markets.

In summary, SMEs in Govan Mbeki Municipality need to be better managed, have viable business models and maintain updated financial records together with proper cashflow management. In order to source funding and financing, SMEs need to be enabled to properly articulate their funding requirements, provide convincing business plans that are positioned to attract funding. SME owners should consider the use of external auditors and business analysts on annual basis in order to evaluate if the business in still sound and liquid. This initiative will further assess the profitability of the business and also recommended viable business models.

Finally, as part of internal house-keeping, SMEs need to develop a trading history and rack record (i.e. referral letter, letter of task completion or recognition) necessary to secure funding. SME owners should also consider other sources of funding such as the use of venture capitalists, private/family debt and online alternative finance (soliciting funds from the public or crowd-funding).

Secondly, SMEs need to be able to deal with the effect of external barriers to their growth, the following should considered:

- Local authorities should enforce large entities in the region to purchase products offered by local SMEs in order to improve the demand and curb the effect of the country's negative economic outlook. This should include the utilization of services rendered by SMEs.
- South African government should consider improving access of SMEs to finance and funding by strengthening the reforms for banking systems. These reforms are interest rates, collateral requirements and creditworthiness systems. This will alleviate SMEs access to finance and funding to expand their businesses.
- Management of funding and financing of SMEs should be done at local levels rather than at national levels (i.e. treasury)
- Efforts should be commenced to develop, grow and promote a range of diversified financial instruments for SMEs. These instruments include leasing (this does not seem to be fully utilized in South Africa) as a financial option.
- Formation of bilateral cooperation between government authorities and SME owners in order to promote and develop entrepreneurial culture in Govan Mbeki Municipality at large. This should be done through the formation of effective incubation hubs that are monitored and evaluated on monthly basis.

Establishment of student internships to expose them to the business world will improve the entrepreneurial culture and spirit within the region.

- Considering the speed of digitization, SMEs should dilute their traditional ways (i.e. selling of products only through physical interaction) of doing business and invest more in information technology and know-how agreements with international companies in order to improve their competitiveness and technological capacities.
- The department of small business development should increase its presence in small local municipalities (i.e. Govan Mbeki) in order to understand the challenges of SMEs in these municipalities.

Furthermore, owners and managers of SMEs consider developing business strategies that are focused on business growth. It is suggested that organic growth is the most effective way of growing the business, especially, SMEs because they may not have enough capital to acquire other businesses (Ahuja, Segel, & Perrey, 2017:1). Ahuja *et al*. (2017:2) found that top growing companies have applied one of the three strategies to achieve organic growth. The three strategies to be considered also by SMEs are:

- Investing in existing products or services that have high growth potential; this means reallocating funds and energy to these items.
- Creation of new products, services and business models to reach larger market segments
- Optimization and consistent development of core commercial capabilities of the business through training of personnel in areas such as sales, pricing and marketing

SME owners should choose a strategy or a combination that is closely linked to the nature of its business. This is mainly because there is no single formula for achieving organic growth. The application of the aforementioned strategies is strongly recommended since it was evident in the study that SMEs struggle grow because of the current negative macroeconomic environment.

Furthermore, Domi and Mehmeti (2013:465) recommend that SMEs should explore alternative financing instruments, such as:

- Asset-based finance
- Alternative forms of debt
- Hybrid tools and equity instruments

The aforementioned forms of financing instruments can potentially offer opportunities to bridge the SME financing gap and to serve the diverse needs of SMEs (Cusmano *et al*. 2018:20). Evidently, studies show that SMEs that depend on external finance tend to grow faster in countries that have developed financial markets where access to finance improves post-entry performance and growth (Cusmano *et al*. 2018:20).

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ANNEXURE A

- Informed consent form –

Consent to Participate in a Research Study

Title:	An assessment of factors impeding business growth of small and medium enterprises in the Govan Mbeki Municipality

Investigator:

Name: **Thabani Madela** **Student No:** 26933772

Introduction

- You are requested to participate in a research study to investigate the factors impeding business growth of small and medium enterprises (SME's) in the Govan Mbeki local Municipality.
- You were selected as a possible participant because you own or manage an SME.
- This is a voluntary study, participants are not forced to participate but their inputs will be highly appreciated and will be treated will all confidentiality
- We ask that you read this form and ask any questions that you may have before agreeing to be in the study.

Purpose of Study

- To assess factors restricting the growth of SMEs in Govan Mbeki Municipality.
- Ultimately, this research will be published as part of the mini dissertation for Masters of Business Administration (MBA) at North West University.

Confidentiality

- This study is anonymous. We will not be collecting or retaining any information about your identity.
- The decision to participate in this study is voluntary.

Right to Ask Questions and Report Concerns

- You have the right to ask questions about this research study and to have those questions answered by me before, during or after the research. If you have any further questions about the study, at any time feel free to contact me, *Thabani Madela* at *thabanimadela276@gmail.com* or by telephone at 078 102 4825. If you like, the summary of the results of the study will be sent to you.

Consent

- This is a voluntary study, participants are free to opt out from participating.

ANNEXURE B

Questionnaires

SECTION A: DEMOGRAPHIC INFORMATION

The following information is only required to assist us in developing a profile of the respondents. All your responses will be treated confidentially. We appreciate your help in providing this important information.

Title: An assessment of factors impeding business growth of small and medium enterprises in the Govan Mbeki Municipality

Mark the applicable block with a cross (X). Complete the applicable information.

A1	**Highest Qualification**	**Below Matric**	**Matric**	**Diploma**	**Degree**	**Postgraduate**

A2	**Industry**	Manufacturing Engineering & Fabrication	Trade and Supply	Transportation	Construction	Training & Development

A3	**Length of Business in operation**	< 5 years	5 to 10 years	10 to15 years	> 15 years

A4	**No. of Employees**	1 -5	6 - 10	11 - 20	21 - 49	50 - 100	>100<250

A5	**Our company has a vision statement**	Yes	No

A6	**Our company has a mission statement**	Yes	No

A7	**Have you received any kind of business training?**	Informal training	Formal training (i.e. Mentorship)	No training – self taught	Other

A8	**Current External Source of funding**	Banks Loan	Family & Friends	Incubator Hubs	Municipal Government Dept. (DTI, SEDA or LED)	Other

A9	**This regulation restrict the growth of my business**	Labour Laws (min. wage bill)	Tax	Licenses & Permits	Other

SECTION B: BARRIERS of BUSINESS GROWTH of SMEs SURVEY

Indicate to what extent you agree or disagree with the statements. Mark the applicable block with a cross (X).					
CODE		**Strongly disagree**	**Disagree**	**Agree**	**Strongly Agree**
BG1	The lack of finance is a barrier to business growth.	**1**	**2**	**3**	**4**
BG2	Poor management is the cause of stagnation.	**1**	**2**	**3**	**4**
BG3	Our business has a strategy to grow the business.	**1**	**2**	**3**	**4**
BG4	The lack of business opportunities is a cause of stagnation.	**1**	**2**	**3**	**4**
BG5	Our product or service is not in demand in the region.	**1**	**2**	**3**	**4**
BG6	Government policies are restrictive of growth.	**1**	**2**	**3**	**4**
BG7	The tax on SMEs is too high.	**1**	**2**	**3**	**4**
BG8	The government supports SMEs.	**1**	**2**	**3**	**4**
BG9	Local companies buy products from local SMEs.	**1**	**2**	**3**	**4**
BG10	Corruption is a cause of stagnation.	**1**	**2**	**3**	**4**
BG11	The services offered by SMEs are required by local firms.	**1**	**2**	**3**	**4**
BG12	The geographical location of the SMEs is a barrier to growth.	**1**	**2**	**3**	**4**
BG13	The market share is too small for growth within the Municipality.	**1**	**2**	**3**	**4**
BG14	A lack of access to credit from financial institution poses a barrier to business growth.	**1**	**2**	**3**	**4**
BG15	The lack of skills in the community is a cause of stagnation.	**1**	**2**	**3**	**4**
BG16	Competition is a barrier to business growth prospects.	**1**	**2**	**3**	**4**
BG17	Lack of capability (i.e. skilled and competent personnel; computer skills) is a barrier to our business growth.	**1**	**2**	**3**	**4**

BG18	Lack of resources (i.e. machinery, equipment & office space) is a barrier to our business growth.	**1**	**2**	**3**	**4**
CODE		**Strongly disagree**	**Disagree**	**Agree**	**Strongly Agree**
BG19	The lack of interest from the founder/owner is a barrier to business growth.	**1**	**2**	**3**	**4**
BG20	Our business has written plans and strategies to grow the business.	**1**	**2**	**3**	**4**
BG21	Our business has developed long term goals.	**1**	**2**	**3**	**4**
BG22	Our business intends to expand the business outside our local municipality area.	**1**	**2**	**3**	**4**
BG23	Our business has received funding from the government.	**1**	**2**	**3**	**4**
BG24	The government provides sufficient support to SMEs.	**1**	**2**	**3**	**4**
BG25	South African labour laws act as a barrier to growing our business.	**1**	**2**	**3**	**4**
BG26	The local economic development (LED) department is helpful.	**1**	**2**	**3**	**4**
BG27	Our business is part of the local business forum.	**1**	**2**	**3**	**4**
BG28	I have received formal training in financial management.	**1**	**2**	**3**	**4**
BG29	I have received formal business management training.	**1**	**2**	**3**	**4**
BG30	Strategies to grow the business are discussed in our business	**1**	**2**	**3**	**4**
BG31	The lack of mentorship and guidance is a cause of the lack of growth and expansion.	**1**	**2**	**3**	**4**
BG32	The lack of support (in terms of product/service usage) from large local entities is a barrier to business growth.	**1**	**2**	**3**	**4**
BG33	The lack of skilled personnel is the cause of stagnation (no growth).	**1**	**2**	**3**	**4**
BG34	Our business industry is highly competitive.	**1**	**2**	**3**	**4**

BG35	South Africa's poor economic outlook has a negative impact on the growth of our business.	**1**	**2**	**3**	**4**

Please select the correct one by putting a cross (X) on Yes or No .

BG36	Our business has received funding from government to grow our business.	Yes	No
BG37	Our business has received funding from a bank to grow the business.	Yes	No
BG38	Our business has once applied for funding from the government**.**	Yes	No
BG39	Our business has marketing strategies to advertise our products and services to potential clients.	Yes	No