

# **The role of SMMEs in employment creation in Ngaka Modiri Molema District North West**

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Date: 06 April 2019

## **DECLARATION**

I, Jeremiah Mogoai Matebesi declare that this mini-dissertation is my original work and it has never been submitted anywhere before for any academic purpose. I also declare that I have acknowledged all sources used in my mini-dissertation

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## **ABSTRACT**

Small Medium and Micro Enterprises (SMMEs) have recently been the subject of both academia and political discourse. This is informed by the fact that the SMME sector has been identified as a strategic component in the fight against unemployment, poverty and inequality. Many nation states throughout the world have recognized the potency of this sector in ameliorating above-mentioned social ills.

Based on the above background, the objective of this study were designed to (1) assess the percentage point contribution of SMMEs that contributes towards job creation, (2) to determine whether SMMEs in Ngaka Modiri Molema District encourages local economic development by procuring raw materials and capital equipment's locally, provincially or nationally. Thirdly, (3) the study intended to evaluate whether labour employed by the SMME sector in the district is paid salaries, commissions, wages or profit sharing. Fourthly (4) the study wanted to evaluate the extent to which SMMEs make use of banks to procure loans and finally (5) the study wanted to ascertain if SMMEs in Ngaka Modiri Molema District employ labour temporary or permanently.

The research methodology employed in the study was triangulation and both the qualitative and quantitative method were used to achieve the objectives of the study. A questionnaire was circulated to obtain primary data and interviews with SMME supporting institutions were conducted to "validate SMME concepts." The study revealed that 51.8% of SMMEs in the district of Ngaka Modiri Molema were able to increase employment by between 5 and 10 people since January 2016.

The study also established that SMMEs in Ngaka Modiri Molema encourages local economic development hence 58.3% of SMMEs in Ngaka Modiri Molema were found to procuring raw materials and capital equipment's locally. Based on these findings, the study recommended that more funding be allocated to SMMEs that operate in the agriculture, food and beverage industries because empirical evidence indicate that many SMME in the district are concentrated in above-mentioned sectors of the economy.

**Key words:** SMMEs, Ngaka Modiri Molema District, Employment Creation

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## **ABBREVIATIONS AND ACRONYMS**

ABSA	Amalgamated Banks of South Africa
BER	Bureau of Economic Research
SMME	Small Medium and Micro Enterprises
NMMDM	Ngaka Modiri Molema District Municipality
DTi	Department of Trade and Industry
FEED	Finance Economy and Enterprise Development
SME	Small Medium Enterprise
MSME	Micro Small Medium Enterprise
GDP	Gross Domestic Product
UNIDO	United Nations Industrial Development Organisation
NSBA	National Small Business Act
OECD	Organisation for Economic Cooperation and Development
MDG'S	Millennium Development Goals
JIPSA	Joint Initiative on Priority Skills Acquisition
GEAR	Growth Employment and Redistribution
ASIGSA	Shared Growth Initiative for South Africa
IDP	Integrated Development Programme
SEDA	Small Enterprise Development Agency
SEFA	Small Enterprise Finance Agency
SAMAF	South African Micro Finance Apex Fund
DFI	Development Finance Institutions
IDC	Industrial Development Corporation
CSBP	Centre for Small Business Promotion

CIPRO	Companies and Intellectual Property Registration Office
NYDA	National Youth Development Agency
LED	Local Economic Development
DBSA	Development Bank of Southern Africa
NGOs	Non-Governmental Organizations
MAC	Manufacturing Advice Centers
TAC	Tender Advice Centers
GEP	Gauteng Enterprise Propeller
GEM	Global Entrepreneur Monitor
WEF	World Economic Forum

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# CHAPTER 1

## ORIENTATION AND BACKGROUND OF THE STUDY

### 1.1 INTRODUCTION

South Africa's prioritization of the SMME sector is informed by the fact that the small business sector plays an important role in the economy. These enterprises contribute significantly to the national GDP and have proved to be major contributors towards job creation (DTI, 2008). The SMME sector can be key drivers of economy growth, innovation and employment creation (BER, 2016). The role of SMMEs in the economy of South Africa was not the same before and after the attainment of democracy. Pre-democratic set up in South Africa experienced a situation whereby there was a disproportionate bias in favour of established big businesses at the expense of Small Medium Micro Enterprises (SMMEs) but the post 1994 political arrangement heralded a new era which saw much support being given to SMMEs (Mboyani & Ladzani, 2015:550).

The establishment of the Ministry of Small Business Development in 2014 demonstrated the resolve by the government of South Africa to support and reposition SMMEs as major drivers of economic growth and job creation. The passing and the subsequent amendments of the National Small Business Act 29 of 2004 also highlighted the commitment of the South African government towards supporting SMMEs. The new Ministry of Small Businesses coordinated all institutions supporting SMMEs that were hitherto operating in silos (BER, 2016).

In the context of South Africa, there are SMMEs that operate in the formal economy and others operate in the informal economy. SMMEs are distinguishable from other types of businesses by size, turnover, asset ownership and the number of people they employ. According to the National Small Business Amendment Act 29 of 2004, SMMEs are categorized and the very small, for an example, hires not more than three people. Others are operated by the owner alone whiles medium sized enterprises hire between 50 and 100 people. There is still a need to measure the economic impact of SMMEs located in various districts like Ngaka Modiri Molema. Ngaka Modiri Molema District is constituted by five local municipalities namely, Ditsobotla Local Municipality,

Mahikeng Local Municipality, Tswaing Local Municipality, Ratlou Local Municipality and Ramotshere Moiloa Local Municipality. Ngaka Modiri Molema District is one of the four (4) districts in the North West Province. The district is predominantly rural (NMMDM Annual Report, 2016/2017). There is a total of 118 Small Medium and Micro Enterprises that are registered with the Department of Finance Economy and Enterprises Development. SMMEs are spread unevenly in all municipalities that constitute Ngaka Modiri Molema District. Most of them are concentrated in Mahikeng and Ramotshere Molioa Local Municipalities.

## **1.2 PROBLEM STATEMENT**

The 2011 Census indicates that unemployment and subdued economic growth are perennial problems affecting the district of Ngaka Modiri Molema. For an example, Ramotshere Moiloa Local Municipality recorded an unemployment rate of 36.2% out of a total population of 150.713. The municipality also registered an economic growth rate of 0.92% (Census, 2011). Mahikeng Local Municipality registered unemployment of rate of 35.7% out of a total population of 291.527 and an economic growth rate of 1.16% (Census, 2011).

According to Census (2011), unemployment rate in Ratlou Local Municipality is at 43.9% out of a total population of 107.339 and its growth rate is at around 0.11%. Ditsobotla Local Municipality is sitting at an unemployment rate of 28.3% out of a population of 168,902; its growth rate is at 1.35%. Tswaing Local Municipality's unemployment rate is hovering at around 28.7% out of a total population of about 124,218.

The economic growth rate of Tswaing Local Municipality is a paltry 0.84% (Census, 2011). The 2011 Census indicates that Ngaka Modiri Molema as a district is besieged by intractable challenge of unemployment. Despite the gloomy picture of high unemployment in the district of Ngaka Modiri Molema as painted by the 2011 Census, there is also a gap in terms of the impact of Small Medium and Micro Enterprises in relation to mitigating the effects of unemployment in the district. Empirical data on the role of the SMME sector in terms of job creation and fostering local economic development in Ngaka Modiri Molema District is not readily available despite the fact that the North West Province is home to a total of 667 433 SMMEs.

### **1.3 RATIONAL OF THE STUDY**

The study will contribute to the existing body of knowledge through the establishment of empirical information on the SMMEs that are based in Ngaka Modiri Molema District and the capacity of these business entities to create employment. The latter is important as the literature review indicates that research institutions in South Africa focuses mainly on SMMEs located in the metropolitan areas. The study will also enable policy makers to have scientific information on the contribution of SMME in the economy of Ngaka Modiri Molema District.

This information can be used as a baseline by policy makers for designing effective programs/policies that are aimed at supporting SMMEs and helping micro enterprises to grow into small businesses, small businesses to develop into medium enterprises and medium enterprises to be established listed companies. The study is expected to validate or disprove the assumption that SMMEs are net job creators in the district of Ngaka Modiri Molema. The study will contribute to the much-needed shift towards establishing empirical data on the economic role of SMMEs in Ngaka Modiri Molema District.

### **1.4 AIMS AND OBJECTIVES OF THE STUDY**

The main purpose of this study is to determine the role of the SMME sector in the economy of Ngaka Modiri Molema District. The study intends to establish the percentage of SMMEs that contributes towards job creation in Ngaka Modiri Molema District. This research also seeks to evaluate the expenditure patterns of the SMME sector in Ngaka Modiri Molema District i.e. whether small business owners procure raw materials and capital equipment's locally, provincially or nationally. Furthermore, this study will be attempting to evaluate industries in the SMME sector that absorb more labour. The study will also strive to evaluate whether employed labour in the SMME sector is mainly permanent or temporary. One of the objectives of this study is to determine the type of remuneration received by employees in Ngaka Modiri Molema District i.e. whether employees receive wages, salaries, commissions or profit sharing. The extent of how SMMEs in Ngaka Modiri Molema make use of financial institutions like banks to apply for business loans will also be evaluated.

#### **1.4.1 Research objectives**

- I. To measure the percentage of SMMEs that contributes towards employment creation in Ngaka Modiri Molema Districts;
- II. To determine whether SMME in Ngaka Modiri Molema District procure raw materials and capital equipment's locally, provincially or nationally;
- III. To evaluate whether labour employed by the SMME sector in Ngaka Modiri Molema receive wages, salaries, commissions or profit sharing;
- IV. To determine if employees hired by SMMEs are temporary or permanent;
- V. To establish the extent to which the SMME sector make use of financial institutions like banks to save money and apply for business loans.

#### **1.4.2 Research questions**

- I. What is the percentage of SMMEs that contributes towards employment creation in Ngaka Modiri Molema District?
- II. Does SMMEs in Ngaka Modiri Molema District procure raw materials and capital equipment's locally, provincially or nationally;
- III. Does SMMEs in Ngaka Modiri Molema District hire employees permanently or temporary?
- IV. Do employees employed by SMMEs in Ngaka Modiri Molema receive salaries, commissions, wages or profit sharing?
- V. Are SMMEs in Ngaka Modiri Molema making use of financial institutions like banks to obtain business loans?

### **1.5 DEFINITION OF KEY CONCEPTS**

**Small Medium and Micro Enterprises** (SMMEs) are defined by the National Small Business Amendment Act of 2004 as separate and distinct business entities that are managed by one or more owners. These business entities exist in almost all sectors and sub-sectors of the economy.

**Micro enterprise:** The turnover in this type of enterprise is less than the value added tax registration limit of (R150 000 per year). The enterprises generally lack formality in terms of registration and generally employ no more than 5 people.

**Small Enterprise:** In this type of business entity, the upper limit is 50 employees. Small businesses are generally more established than micro enterprises and exhibit more complex businesses practices.

**Medium Enterprises:** The maximum number of employees is 100 or 200 for the mining, electricity, manufacturing and construction sectors. These enterprises are generally characterized by decentralization of power to an additional management layer. The above definitions of the SMME sector is applicable to this study because the context of the study is a South African district of which the National Small Business Amendment Act of 2004 is applicable.

**Local Economic Development:** Is the process by which government, the private sector, public sector, business and non-governmental organizations work collectively to create better conditions for economic growth and employment generation. The aim is to improve the quality of life for all (World Bank Urban Development Unit 2003:4).

**Ngaka Modiri Molema District:** The district is made up of five municipalities that include Mahikeng Local Municipality, Ratlou Local Municipality, Tswaing Local Municipality, Ramotshere Moiloa Local Municipality and Ditsobotla Local Municipality. The district is located in the North West Province – South Africa (Demarcation Board of South Africa, 2018).

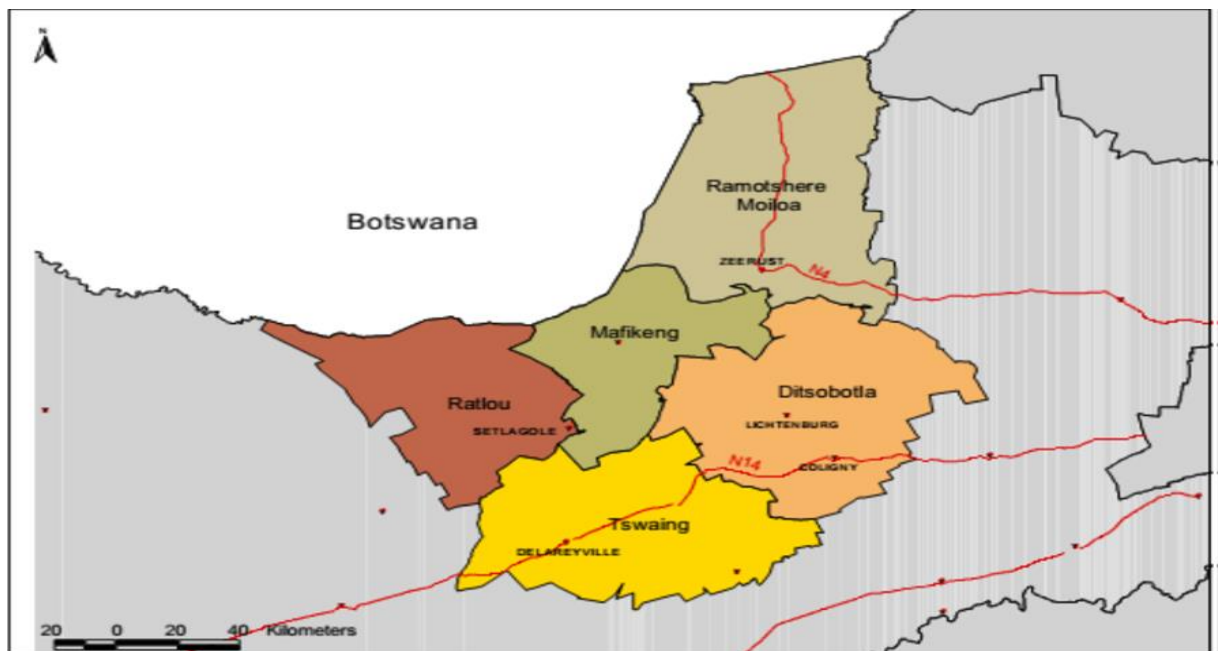


Figure 1: Map of Ngaka Modiri Molema District and its five (5) local Municipalities (Source: Ngaka Modiri Molema District Municipality 2015 IDP Document).

## **1.6 OUTLINE OF THE MINI-DISSERTATION**

### **Chapter 1: Orientation and Background of the study**

This chapter introduces the subject matter and clarifies research questions and objectives

### **Chapter 2: Literature Review**

This chapter gives a broad overview of the subject matter

### **Chapter 3: Research Methodology**

This chapter outlines the research methodology that has been followed

### **Chapter 4: Data Presentation, Analysis and Interpretation**

This chapter analyses raw data that has been gathered

### **Chapter 5: Findings, Discussions, Conclusion and Recommendations**

This chapter communicates recommendations and outcomes of the study

## **1.7 CHAPTER SUMMARY**

Chapter (1) introduced the subject that is being studied which is an evaluation of the SMME in Ngaka Modiri Molema District and the capacity of this sector to create employment and foster economic development. The chapter explain the importance of the study and highlighted the problem statement. It also explained both the research objectives and research questions of the study. The chapter reflected on the rational of the study and importance of the study. The outline of the study is explained in chapter one and key definitions are also illustrated. In chapter two, the literature review will be discussed in order to give a broader background and understanding of the phenomena of SMMEs and how this business sector has evolved in many parts of the world. The literature review will also reflect on challenges facing SMMEs and the role of SMMEs in the economy. Continental and regional overviews on the performance of SMMEs will be pursued.

## **CHAPTER 2**

### **LITERATURE REVIEW**

#### **2.1 INTRODUCTION**

In this chapter, the theoretical framework of SMMEs will be explored, the generic overview on the role of Small Medium and Micro Enterprises will be presented, the definition of Small Medium and Micro Enterprises will be discussed, the role played by Small Medium and Micro Enterprises in the economy will also be interrogated, the risks associated with the SMME sector will be discussed, the total spread of SMMEs in South Africa will be investigated and inherent characteristics of SMMEs will also be explored. The international context of SMME's will be perused, the regulatory environment of SMME's will be studied, support mechanisms and challenges facing SMMEs will also be highlighted. Literature review in the scholarly environment gives a window of opportunity for researchers to have a broad understanding of the subject matter. Sekaran & Bougie (2013:50) define literature review as "step by step process that involves the identification of published and unpublished work for secondary data sources on the topic of interest and the evaluation of this work in relation to the problem."

#### **2.2 DEFINITION OF SMMEs**

There is no a universal or common definition of Small Medium and Micro Enterprises and this sector is defined differently from one country to the other (DTI, 1995:8). Similar characteristics which are used to distinguish different categories in the SMME sector includes size of the business, annual turnover, assets and number of employees (Makhubele, 2015:22).

Makhubele (2015: 21) posits that SMMEs are marred by challenges of definition which are informed by different elements associated with multiple aspects. The author also emphasizes the importance of contextualizing studies of SMMEs in order to maximize clarity and avoid confusion. Various scholars throughout the world have also embraced the problematic nature of SMMEs definition hence different definitions in many countries (Abo & Quartey, 2010: 219).

It is however imperative not to confuse the definition of SMMEs with their classifications. It is equally important to understand the SMME ecosystem and the fact that some operate in the formal economy and others operate in the informal economy. Small Medium and Micro Enterprises (SMMEs) are not homogenous business entities and their operations are spread in various sectors and subsectors of the economy such as agriculture, tourism and manufacturing to mention but a few (BER, 2016:6-7).

Small Medium Enterprise (SMEs) generally operates in the formal economy while all other categories of the SMME sector like micro and very small operate mainly in the informal economy. Small Medium Enterprises (SMEs) can be identified by the total number of people employed, size and overall asset portfolio. On the other hand, micro enterprises are survivalist in outlook, operate mainly in the informal economy and at times are run by individuals from poor backgrounds (BER, 2016:5).

### **2.3 THEORETICAL FRAMEWORK**

Barret and Reardon (2000:5) have developed the theoretical framework adopted for this study. The theory developed by the latter authors is a conceptual framework that links the small business sector and employment creation. The framework has the following elements that are interlinked; entrepreneurial culture, factors of production like labour and capital, income, improved livelihood and poverty reduction. The authors argue that the small business sector should develop an entrepreneurial culture whose combination with principal factors of production such as labour, capital and land can result in the production of goods and services.

Produced goods and services can in turn contribute towards firms earning an income. Production of goods and services also results in people being employed and earning a living. The high rate of unemployment is reduced and employees earn salaries that they can use to support their families, improve their livelihoods and emerge out of the scourge of poverty. The model further argues that any firm including SMMEs that correctly make use of the factors of production combined with an entrepreneurial culture can result in business growth and job creation. This model can be customized and implemented by SMMEs in any geographic area that suffers from high unemployment, poor work ethic and low entrepreneurial spirit (Barret & Reardon, 2000:5).

## **2.4 A COMPARATIVE DEFINITION AND CATEGORIZATION OF SMME IN SUB-SAHARAN AFRICA, ASIA AND LATIN AMERICA**

### **2.4.1 The SMME sector in Asian countries**

In Malaysia, definition of the SMME sector is informed by the National SME Development Council (NSMEDC). An SME that operates in the manufacturing sector in Malaysia is expected to have the following variables: turnover of not more than RM 25 million and it must not employ more than 150 full time people. Small business operating in the service sector and other subsectors of the economy are expected to have a turnover of not more than RM5 million and should not employ more than 50 full-time employees NSMEDC (2013:1522). Malaysian definition of the SMME sector is not as comprehensive as compared to other countries discussed above. The definition is silent on the other aspects of the SMME sector such as micro, very small and survivalist's business respectively.

In China, the SMME sector is regulated through the Interim Categorizing Criteria on Small and Medium sized Enterprises and the SME Promotion Law of China (Xiangfeng, 2008:38). The definition of the small business sector in China is confined to the Small and Medium Enterprise respectively. In China, a small enterprise in an industry must have less than 300 employees with a total asset portfolio of ¥40 million and a business revenue of less than ¥30 million. In the construction sector, a small enterprise must employ less than 600 employees with a total asset of ¥40 million and a business revenue of ¥30 million. Wholesale, Transport, Post, Hotel and Restaurant sectors must have a total asset that is less than ¥40 million and business revenue that is less than ¥30 million. In terms of employment, Retail and Wholesale must have less than 100 employees. Transport sector must have less than 500 employees, Post must have less than 400 employees, Hotel and Restaurant must have less than 400 employees. Retail in terms of business revenue it must have less than ¥10 million annually (Xiangfeng, 2008:39).

The medium enterprises in China are also categorized differently according to industry, employment and business revenue. Industry must have between 200-300 employees, total assets of ¥40 million and business revenue of ¥30 million to ¥300 million. The construction sector must have between 600 and 3000 employees with

total assets of ¥40 million and business revenue of between ¥30 million and ¥400 million. Wholesale must have between 100-200 employees, asset portfolio of ¥40 million and business revenue of ¥30 million to ¥300 million. Retail must have between 100-500 employees and a business revenue of 10million to 150 million. Transport must hire 500 – 3000 employees with a business revenue of ¥30 million to ¥300 million. Post must hire between 400 -1000 employees and must have a business revenue of between ¥30 million and ¥300 million. Hotel and restaurant must hire between 400-800 employees and have a business revenue of between ¥30 million and ¥150 million respectively (Xiangfeng, 2008: 39).

In India, the small business sector is regulated by the Micro, Small and Medium Enterprise (MSME Development Act of 2006). Enterprises are defined based on the investment towards plant and machinery. Those that operate in the service sector are categorized based on the investment made towards equipment. As per the MSME Development Act of 2006, a micro enterprise in India must make an investment towards plant and machinery not exceeding 25 lakh rupees. A small enterprise is characterized by an investment in plant and machinery that exceeds 25 lakh rupees and not exceeding 5 crore rupees. A medium size enterprise in India is distinct in terms of investment in plant and machinery which should not exceed 5 crore rupees and not be more than 10 crore rupees (Ghatak, 2010:2).

According to Chittithaworn et al., (2010:18), in Thailand, the Institute for Small and Medium Enterprise Development categorized the small business sector into the production sector which comprise of Agriculture, Manufacturing and Mining. The trading sector comprises of Retail and Wholesale. The last categorization is the Service sector. In the production sector, medium size firms must not exceed 200 million bath in terms of annual turnover and small size business should not go beyond 50 million bath in terms of annual turnover. In the service sector, medium size enterprise should not exceed 200 million bath in terms of annual turnover and small size enterprises are limited to 50 million annual turnover respectively.

In the trading sector, medium size businesses are enterprises with an annual turnover of 100 million and small business have an annual turnover not above 50 million bath (Chittithaworn et al., 2010:181).

In terms of number of employees, in the production sector, the medium size business must have no more than 200 employees and the small business must not have more than 50 employees. In the service sector, medium size businesses must have 200 employees and small size must have 50 employees. In the trading sector, Wholesale medium size should not have more than 50 employees. Retail medium size enterprises must not hire more than 30 employees and small size enterprises should not hire more than 15 employees (Norlaphoompipat, 2008).

In Vietnam, the categorization of the small business sector is regulated by the Central Government Decree no 90/2001/ND-CP, issued on the 21<sup>st</sup> November 2001. The Decree defines SMEs as “Independent production and business establishment which makes business registration according to the current law provisions, each with registered capital not exceeding 10 billion dong or annual labor not exceeding 300 people.” Small Medium Enterprises with employees not exceeding 300 people account for 100 % of business enterprises and more than 7% of all employees employed in the non-agricultural sector. The new policy regime (Central Government Decree no 90/2001/ND-CP) regulates areas such as SME finance, guarantee funds for SMEs and the buildup of industrial parks for the small business sector in Vietnam (Uchikawa & Keola, 2009:246).

#### **2.4.2 The SMME sector in Latin America**

In Latin America, the small business sector is responsible for most of the production and absorption of the labor force. The SMME sector is also an important catalyst in the economic activities of the majority of the people in South America. For an example, the small business sector in Argentina represents a total of 99% of all enterprises, hiring close to 70% of the workforce. There are close to four million SMEs in Brazil and that sector represent 40% of the Growth Domestic Product. The SME sector in Paraguay and Uruguay represent a total of 50% and 60% of GDP respectively.

A further analyses and breakdown of the SME sector in South America and the Caribbean indicates that 80% of small businesses hire not more than 10 employees. A small business in Latin America employs more than 120 million people. The small sectors in South America like in developing countries are owned by the family and process labor-intensive goods for the local market. Many of the local small businesses in the region (Latin America and the Caribbean) are arrested in the same stage of

development due to lack of technological infusion in processes and operations (Albaladedjeo, 2001, 7).

#### **2.4.3 The SMME sector in the Africa continent**

In Botswana, a micro business has fewer than six (6) employees plus the owner and the enterprise generally has a gross total of P60 000 annually. Micro-enterprises in Botswana are generally not registered and operate in the informal economy. Small business in Botswana consists of not more than 25 workers and its annual turnover is between P60 000 and P1.5 million. Small enterprises of Botswana are mainly registered and operate in the formal economy. Medium size businesses of Botswana are defined as enterprises that have a workforce of less than 100 paid workers with an annual gross income of between P1.5 million and P5 million (Munjoma, 2011:9).

In Zimbabwe, the government use the definition of the United Nations Industrial Development Organization (UNIDO) to define its SMMEs. Thus definition of Small Medium and Micro Enterprises in Zimbabwe is not as clear cut like in other countries. In Zimbabwe, the small business sector is defined in terms of two indicators which is job creation and asset portfolio (Chikweche & Mujeyi, 2015: 292). Other characteristics defining the SMME sector in Zimbabwe includes non-registration of the company with regulatory institutions such as the Companies Act. The same author's Chickweche & Mujeni (2015:292) postulates that the definition of the SMME sector in Zimbabwe is out of date as it uses the Zimbabwean currency without taking into considerations the economic challenges in that country.

In Nigeria the SMME sector is also country specific in terms of definition and it is also defined differently from other countries. The Central Bank of Nigeria defines small scale business as a company that has a turnover of not less than ₦25 000 and not more than ₦ 500 000. The 2005-revised policy on SMME in Nigeria defines a small enterprise as a business with a turnover of not less than ₦500 000 and not more than ₦ 5 million. The micro enterprise on the other hand is defined as a business entity that has a turnover of ₦500 000 according to the policy regime of the Central Bank of Nigeria. Generally, a small business in Nigeria is defined as any business venture that is privately owned providing goods and services for purposes of generating a profit (Uchehara, 2006).

In the context of Tanzania, scholars such as McMahon et al. (1993) express the complexity of defining the SMME sector. The author's difficulty is expressed as 'vexing and enduring difficult.' However, the Ministry of Trade and Industry in Tanzania collectively package all small business under the umbrella term SME. The SME sector in Tanzania refers to Small, Medium and Micro business. Interchangeably, the sector is also referred to as Micro, Small and Medium Enterprises (MSMEs).

A micro enterprise is any business venture in Tanzania that employs between 1 and 4 people with a capital investment of up to 5 million per annum. A small enterprise is any entrepreneurial entity that hires between 5 and 49 people with a capital investment that is between 5 million and 200 million. A medium enterprise is defined as a business venture that employs between 50 and 99 employees with a capital investment of between 200 million to 800 million. A large enterprise is any business that that employs 100+ employees with a capital investment of 800 million (Nkonoki, 2010:18-19).

#### **2.4.4 The SMME sector in South Africa**

In the context of South Africa, classification of the SMME sector is provided in the 1995 White Paper on National Strategy for the Development and Promotion of Small Business and the National Business Act of 1996. The NBA of 1996 as amended in 2004 classifies the SMME sector as follows:

**Micro enterprise** is classified as a business with 5 or less employees and a turnover of not more than R150 000 per annum. These micro enterprises operate in both the formal and informal economy of South Africa. Other characteristics of the micro enterprises is that generally businesses do not qualify for Value Added Tax because of their small size, they are businesses that are managed by the owner(s) and they are also characterized by informal operational and accounting systems. In other sectors of the economy such as construction, manufacturing, electricity, mining and the limit of micro enterprises is 20 workers.

**Very small businesses** hires between 1 and 10 workers and have a turnover ranging between 400 000 and 500 000 but the turnover is determined by industry classification. Depending on industry classification, the total assets value of the very small business is not more than 500 000.

**Medium sized** businesses hires between 50 and 100 employees with the exclusion of industries such as construction, manufacturing, mining and electricity. Medium sized businesses have more than one layer of management with significant devolution of power. Specialization in terms of labor is one of the defining characteristic of medium sized enterprises. Medium size business ventures also have a total asset portfolio value of not less than R7.5 million and an annual turnover of not less than R6 million and not more than R25 million as per industry sector. Critically, medium size enterprises are defined by legislation as companies that operate in the formal economy.

**Small enterprises** are established compared to very small and micro enterprises. The business models and operations of small enterprises are complex. Small enterprises employs between 11 and 50 employees and are also characterized by a turnover that ranges from R2 million to R6 million. Small enterprises total asset portfolio in terms of value is not more than R2 million and does not exceed R4.5 million.

**Table 2.1: Schedule of SMMEs by the NSB Act of 1996**

Sector or subsector in accordance with the Standard Industrial Classification	Size or class	Total full-time equivalent of paid employees <i>Less than:</i>	Total annual turnover <i>Less than:</i>	Total gross asset value (Fixed property excluded) <i>Less than:</i>
Agriculture	Medium	100	R4.00 m	R4.00 m
	Small	50	R2.00 m	R2.00 m
	Very Small	10	R0.4 m	R0.40 m
	Micro	5	R0.5 m	R0.10 m
Mining and Quarrying	Medium	200	R30.00 m	R18.00 m
	Small	50	R7.50 m	R4.50 m
	Very Small	20	R3.00 m	R1.80 m
	Micro	5	R0.15 m	R0.10 m
Manufacturing	Medium	200	R40.00 m	R15.00 m
	Small	50	R10.0 m	R3.75 m
	Very Small	20	R4.00 m	R1.50 m
	Micro	5	R0.15 m	R0.10 m
Electricity, Gas and Water	Medium	200	R40.00 m	R15.00 m
	Small	50	R10.00 m	R3.75 m
	Very Small	20	R4.00 m	R1.50 m
	Micro	5	R0.15 m	R0.10 m
Construction	Medium	200	R20.00 m	R4.00 m
	Small	50	R5.00 m	R5.00 m
	Very Small	20	R2.00 m	R2.00 m
	Micro	5	R0.15 m	R0.15 m
Retail and Motor Trade and Repair Services	Medium	100	R30.00 m	R5.00 m
	Small	50	R5.00 m	R2.50 m
	Very Small	10	R3.00 m	R0.50 m
	Micro	5	R0.15 m	R0.10 m
Wholesale Trade, Commercial Agents and Allied Services	Medium	100	R50.00 m	R8.00 m
	Small	50	R25.00 m	R4.00 m
	Very Small	10	R5.00 m	R0.50 m
	Micro	5	R0.15 m	R0.10 m
Catering, Accommodation and other Trade	Medium	100	R10.00 m	R2.00 m
	Small	50	R5.00 m	R1.00 m
	Very Small	20	R1.00 m	R0.20 m
	Micro	5	R0.15 m	R0.10 m
Transport, Storage and Communications	Medium	100	R20.00 m	R5.00 m
	Small	50	R10.00 m	R2.50 m
	Very Small	10	R 2.00 m	R0.50 m
	Micro	5	R0.15 m	R0.10 m
Finance and Business Services	Medium	100	R20.00 m	R4.00 m
	Small	50	R10.00 m	R2.00 m
	Very Small	10	R2.00 m	R0.40 m
	Micro	5	R0.15 m	R0.10 m
Community, Social and Personal Services	Medium	100	R10.00 m	R5.00 m
	Small	50	R5.00 m	R2.50 m
	Very Small	10	R1.00 m	R0.50 m
	Micro	5	R0.15 m	R0.10 m

Source: National Small Business Act of 1996

## **2.5 THE ROLE OF SMMEs IN THE ECONOMY**

Small Medium and Micro Enterprises are generally accepted as playing an important role in expanding the domestic economy and present new opportunities of job creation in economies of nation states throughout the world (Machacha, 2002:277). According to Gordon (2003:15); Maksoud and Youseff (2003:1-15) the small business sector is responsible for 60% to 70% of employment creation in first and third world countries respectively. The latter view is supported by Ntsika (1999:16) that Small Medium and Micro Enterprises are important inputs in the generation of employment and overall economic growth in many countries. The small business sector has attributes that are similar to other firms, however, SMMEs cannot be compared with large companies due to the unique nature of operations and the general ecosystem.

The small business sector contributes towards the much needed economic certainty and the allocation of all activities that produces goods and services in a country. Small Medium and Micro Enterprises have high numbers in any economy in the world. These businesses have the capacity to innovate, can easily breathe life into new ideas and are linked to major companies through the umbilical cord of subcontracting (Kroon and Moolman, 1992: 129).

SMME are poverty reduction pillars and job creators in many economies globally. SMME are not only viewed as providing opportunities to those who cannot find gainful employment in the formal economy but are generally viewed as creators of wealth (Reily, 1993: 11). In Africa, nation states such as South Africa, Egypt, Morocco, Kenya, Uganda, Botswana and Tanzania have taken conscious decisions to support the small business sector. The small business sector which constitutes 95% in countries affiliated with the Organization for Economic Cooperation and Development (OECD) has also been identified as playing a critical role in the economic growth of member states (OECD, 2000).

In developed countries such as the United Kingdom, Turkey and Germany, the SMME sector is responsible for more than 60% of main economic activities (Ntsala, 2000:171). It has further been argued that the small business sector (SMMEs) accounts for 99.9% of the enterprises that trade in China. This sector also accounts for 84% of the total work force and 71% of sales in China (Mauganidze, 2013:3).

The same author (Mauganidze, 2013:3) argues that the small business sector hires close to 70% of the labor force in the economy of Japan and SMMEs accounts for 98% of the total enterprises in that country. The Southern Entrepreneurship and Small Business Association (2002: 28-29) asserts that the Nordic region comprises mainly of countries with better performing economies and such performance can be attributed to the family owned small business sector. Nyamunda (2009: 6) agrees that SMMEs are a factor in promoting the private sector, the achievement of job creation and decreasing poverty especially in the African continent. The same author further argues that the support of the small business sector by governments in Africa is in line with the strategic objectives of the Millennium Development Goals (MDGs) of reducing poverty.

SMMEs in South Africa are viewed as important catalysts towards job creation and overall economic growth (Hendrik, 2002: 2). Furthermore, SMMEs in South Africa constitute 91% of registered companies, contributes between 51% and 57% to the overall economy of the country. The SMME sector also accounts for nearly 60% of employment in South Africa and the small business sector is more effective in terms of labor absorption as compared to large corporations. The SMME sector is labor intensive and contributes immensely towards creation of job opportunities and the overall reduction of poverty (Kongolo, 2010: 2288-2291).

Despite some pessimism in the capacity of the SMME sector in promoting the socio-economic profile of nation states through the creation of opportunities for sustainable employment, there are however signs of optimism and hope. Berry et al. (2002:25-26) argues that small to medium businesses in South Africa have the potential to ameliorate the harsh effects of intractable unemployment. However, the same authors (Berry et. al., 2002) argues that the SMME sector is not a silver bullet for challenges related to economic development, economic growth and job creation.

## **2.6 SMME REGULATORY ENVIROMENT IN SOUTH AFRICA**

The post-apartheid government of South Africa took a conscious decision to develop financial support and non-financial regulatory mechanism with the strategic objective of supporting Small Medium and Micro enterprise.

According to Malefane (2013: 671) the recognition that the government of South Africa has bestowed upon the Small Medium and Micro enterprise is accepted as an effort to drive economic transformation and poverty reduction. This support for the small business sector is encapsulated in the legislative, institutional, financial and non-financial regulatory mechanism.

### **2.6.1 Legislative Support**

Policy instruments used to support Small Medium and Micro enterprises in South Africa varies and have been developed and implemented in different phases since the dawn of democracy. Key among them is the Constitution of the Republic of South Africa, Act 108 of 1996; the National Business Act, Act 102 of 1996; The White Paper on the National Strategy for the Development and Promotion of Small Business in South Africa (1995); the Joint Initiative on Priority Skills Acquisition (JIPSA) whose strategic objective is to ensure the growth of key skills noted through the Accelerated and Shared Growth Initiative for South Africa (Asgisa) that promote identified SMMEs sectors and the Growth, Employment and Redistribution Strategy (Gear) of 1996 (Williams, 2000:178; Rogerson, 1998:189).

The Local Government and Municipal Systems Act of 2000 is also an important policy intervention aimed at reducing spatial inequalities and accelerating integration of development projects (Geyer, 2006:2). In addition to the legislative chest, there are strategies such as the Integrated Developmental Planning (IDPs) in municipalities which are aimed fostering socio-economic development in various municipalities; there is also the Economic Growth Path Strategy of 2010 with the objective of delivering not less 5 million jobs; there is also the local government turnaround strategy adopted in 2009. The Growth and Development Strategies are located in the SMMES units in each province (Malefane, 2013: 675).

### **2.6.2 Institutional Support**

Specific government departments which were identified for purposes of promoting SMMEs in South Africa include the Department of Economic Development, Environmental Affairs and Tourism; the Department of Public Works using the Expanded Public Works Programme; the Department of Local and Provincial

Government and the Departments of Roads, Transport and Agriculture (Maia, 2006:16). BER report (2016) posits that the Small Enterprise Development Agency of 2004 (SEDA) is responsible for implementing South Africa's SMME development strategy and align government institutional funding model in all spheres of government.

The report also indicates that Small Enterprise Finance Agency (SEFA) its mandate is to provide funding not exceeding R3million to Small Medium Micro Enterprises and the agency came into existence after its amalgamation with the South African Micro Finance Apex Fund (SAMAF) and Khula Enterprise Finance Limited. Other Development Finance Institutions (DFI) includes the National Development Agency (NDA), Ntsika Enterprise Promotion Agency, the Industrial Development Corporation (IDC), the Centre for Small Business Promotion (CSBP), the Land and Agricultural Development of South Africa (Biekpe, 2006: 1).

The role of the Companies and Intellectual Property Registration Office (CIPRO) is to register SMMEs in South Africa and to provide advisory services to the Department of Trade and Industry (DTI) on developments in the small business sector (Malefane, 2013: 676). Other known agencies include the National Youth Development Agency (NYDA) which caters youth led small business sector.

Province specific institutions created to assist the small business sector with complex business modalities such as investments, international trade and the development of competition strategy includes Limpopo Economic Development Corporation, Northern Cape Economic Development Agency, Invest North West, Mpumalanga Economic Development Agency and Free State Development Corporation (Malefane, 2011: 12).

At the municipal level, the Local Economic Development (LED) units have been identified as strategic vehicles to accelerate support for municipal based SMMEs (Africa, 2008:1). LED units are expected to find creative ways which include forming partnerships with the private sector and collaborating with key institutions such as the Development Bank of Southern Africa (DBSA) with the sole purpose of ensuring the development of the SMME sector at local level (Malefane, 2011:1). In and around many municipalities throughout South Africa especially in economically depressed areas, close to 74.1% of category A municipalities (districts) and 73.8% of category B

(local) municipalities have identified SMME development as part of the ongoing LED strategy (Rogerson and Nel 2005:134).

There is evidence which indicate that municipalities across South Africa have demonstrated determination in employment creation and have resolved to support the small business sector. The support for small business sector is more pronounced in rural municipalities where cooperatives are supported through the provision of small market stalls and general support associated with the informal sector (Rogerson and Nel 2005:134).

According to Lazdani and Netswera (2009:228) the private sector in South Africa also play an important role in providing support to the SMME sector in South Africa. Non-Governmental Organizations (NGOs) and private donors play a critical role in the promotion of SMME support. The Old Mutual Rural Economic Development Initiative focuses on the development of communities around issues such as local economic development, health, education and the support for emerging businesses (Old Mutual South Africa, 2002). The Amalgamated Bank of South Africa (ABSA) also has an initiative called the ABSA Enterprise Development which has a mandate to create an enabling environment for SMME support through provision of grants and access to markets (Makhubele, 2015: iii).

### **2.6.3 Non-financial Support**

There are number of non-financial support services that are focused towards supporting the sustainability of the SMME sector. Khula Enterprise before it was merged to form SEDA also provided non-financial support to the SMME sector in areas such as mentorship, bookkeeping, legal services, human resources and general management (Agupusi, 2007: 6). Currently, Ntsika Enterprise Promotion also provides non-financial support to the SMME sector in the following areas: (a) Manufacturing Advice Centers (MACs) whose role is to advice SMMEs on other role players such as service providers that specialize with specific manufactured goods (b) Ntsika Enterprise Promotion has Tender Advice Centers (TACs) which are responsible for providing SMMEs with the technical aspects of tendering and tenders that are already in the market (c) the Local Business Service Centers (LBSCs) are mandated to provide the SMME sector with general information (Berry, et al., 2002:3).

In South Africa, the province that is leading in terms of providing SMME with both financial and non-financial support is the Gauteng Province which has launched the “Gauteng Enterprise Propeller.” The GEP was established in 2005 as part of a strategy to support SMMES.

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

Challenges and constrains facing Small Medium and Micro Enterprises are many and varies depending on the classification of the business as either small, medium, micro, very small or survivalist. Olawale & Garwe (2010:730) argue that the socio-economic contribution of the small business sector is acknowledged in South Africa but these type of businesses are also characterized by both failure and high mortality rates. The same authors argue that close to 75% of small to medium businesses in South Africa do not reach a stage of growth. It means that some SMME fail in one of the five stages of small business development which are “existence, survival, success, take-off, and resource maturity (Churchill & Lewis, 1983:1). Von Broembsen et al (2017), GEM (2005) corroborates the former authors and agrees that small to medium enterprises that are formed in South Africa are unlikely to pass the initial stage of development and many of them fail to surpass the 42 months’ threshold when compared with other selected Global Entrepreneur Monitor firms.

### **2.7.1 Internal and External environment affecting SMMEs**

The SMME sector is generally influenced by both the internal and external environment. Internal environment is defined as all those factors which the firm has total control over. The internal environment includes variables such as finance especially startup capital, managerial skills, location of the business, information technology, networking and costs of producing goods and services (Cassar, 2004:262) On the other hand, the external environment is defined by (Beck 2007:19-20) as elements or state factors which the firm has no control over and includes aspects such as legal contracts, information sharing arrangements, macroeconomic fundamentals, technology, crime, ethics and corruption.

### **2.7.2 Internal environment**

**Financial resources:** The success rate of the small business sector depends heavily on access to financial resources.

The inability of small enterprises to access funding stifles the firm's growth potential and can choke them from the start (Cassar, 2004:262-3). Startup businesses normally depends on the owner's financial equity or the entrepreneur can access funding through informal channels such as kinship or can make use of formal avenues such as banks and the accelerated growth of the business can be supported by profits generated (Olawale and Garwe, 2010: 731). The challenge of accessing financial resources comes second only to education and training in South Africa (Olawale and Garwe, 2010: 731). According to Fin Mark Trust (2006) it is only 2% of startup small businesses that are able to successfully obtain financial assistance such as bank loans. Almost 75% of credit applications from formal sources of financial institutions towards SMMEs are declined and this state of affairs has negative growth implications for the small business sector in South Africa (GEM, 2002).

**Managerial skills:** Managerial acumen can simply be defined as specific skills, mental disposition and a particular thought processing mechanism necessary for individual optimal performance (GEM, 2009). It has been established that in South Africa lack of training and development remains one of the major inhibitors blocking the success rate of startup companies and the growth rate of established SMMEs (GEM, 2006). Skilling and training owners of newly established SMMEs is the corner stone of successful entrepreneurship in South Africa.

**Production Costs and Information Technology:** According to Phillips and Wade (2008) information technology is generally an important input in any business venture that is either at the initial stage of existence or well established. Information technology is also seen as a catalysts enhancing effectiveness, efficiency and also a propeller of economies of scale in almost all business ventures whether small, medium or transnational. Costs of production such as labor and electricity needs to be observed as failure to do that can result in inefficient operations and systems that reduce the profitability of the company (Smallbone et al., 2003:54).

**Location:** It is critical to note that any business venture that is located away from its key customers or suppliers is bound to fail and the failure can impact negatively on the growth prospects of any business venture (Dalh & Soresnson, 2007:1-2).

**Networking:** Good networking skills can contribute towards easy access to information that can enable the SMME sector to be successful. Networking can also assist business owners to access general information and build necessary relationships that fosters mutual benefit between small business owners and other stakeholders such as potential investors and Development Finance Institutions (Shane and Cable, 2002: 367). Networking seems to be the lifeblood of all businesses and provides many opportunities that can elevate both startup businesses and well-established enterprises.

### **2.7.3 External environment**

**Economic variables:** The central role of economic factors such as inflation, fiscal and monetary policies cannot be overemphasized as the variability of such factors impact on the consumption of individuals and businesses alike. The variability of the mentioned economic factors can influence the tempo of demand and supply in the economy (Ehlers and Lazanby, 2007). High inflation rates which erode the value of the currency, high unemployment, decreased consumption and exchange rates contributes towards low sales which in turn negatively impact on the turnover of the small business sector (The Economist, 2009). It is then incumbent upon owners and managers of SMMEs to pay attention to economic factors and from time to time assess how this factors impact on the running of their businesses (Zahra et al., 2002:1-2).

**Crime:** Studies indicates that South Africa is one of the crime bastions of the world and it has been designated as the country that is infested with crime and drugs (The United Nations Office of Drugs and Crime, 2007). It has also been established that crime is impacting the small business sector negatively in South Africa and the South African Police Services Crime Statistics (2009) reported that crimes that affects the small business sector are on the rise in South Africa. It has also been established that due to the rise in crimes that are related to the SMMEs sector, growth in the latter has been declining due to the fact that small business owners are now focusing on

increasing expenditure on the security apparatus rather than investing on growing their businesses (Standard Bank & Fujitsu Siemens Computers, 2009).

**Corruption:** South African has been identified as one of the countries with the high prevalence of corruption in the world. It has further been established that this corruption is concentrated in both the public and the private sector (Transparency International, 2008).

The findings of the Transparency International are also confirmed by the Corruption Perception Index which publishes countries rankings annually. The recently released report on Corruption in South Africa indicate that close to 15 000 whistle blowers came forward to report cases of corruption and the perception index indicate that South Africans are against rampant abuse of power (Corruption Watch, 2016).

Transparency International (2008) further designates South Africa at number 43<sup>rd</sup> with a CPI of 5.1% and it has been established that SMMEs participate in corrupt activities such as bribes due to the need to comply with the regulatory requirements. About 70% of small to medium enterprises identified corruption as a stumbling block towards the growth and development of the SMME sector. On the other hand, only 60% of large enterprises have identified corruption as a problem (World Bank: 2005).

**Labor:** Mahadea (2008) posit that the success of the small business sector is directly depended on the employment of skilled people but the author also points out challenges of expensive skilled labor which many SMMEs cannot afford. In the context of South Africa, labor laws are designated as an obstacle towards the growth of the small business sector especially as it relates to firing and hiring of staff (OECD, 2015). Many SMMEs have discovered that labor laws in South Africa make it not easy to fire or retrench workers when the company is forced by circumstances such as poor turnover, economic downturn or even when employees are not adding any value to the business (BER, 2016).

An example to support the above perspective is provided by (Berry et al., 2002:95) and postulates that SMMEs that operates in the manufacturing sector such as textiles and furniture production are labor intensive, which means such sectors absorb more labor but they are equally subjected to rigid labor laws which at times impact negatively on the growth of the small business sector.

The question on the high minimum wage in South Africa is also a perennial problem as SMMEs struggle to hire skilled and unskilled workers respectively (BER, 2016).

**Infrastructure:** The under-development of infrastructure impacts negatively on the overall performance of the small business sector. Outages of power decrease the overall production of goods and services. Poor roads and communications infrastructure also affect the overall development and growth of SMMEs. Goods become expensive and communication with potential stakeholders such as customers, debtors and suppliers also becomes difficult (Kalra, 2009).

In a study that was conducted by Finmark Trust (2010) it was discovered that the small business sector in Gauteng had problems associated with having a physical space to do business and in provinces such as the North West, the study revealed that SMMEs have problems such as utilities linked with electricity cuts. On the other hand, provinces such as Mpumalanga and Northern Cape were found not to be having the same problems of space, utilities and amenities.

Hashi (2001:221) identifies an unfriendly regulatory system which puts much pressure on the small business sector through heavy taxes and registration fees as another drawback affecting the growth of SMMEs. Many SMMEs in South Africa are oblivious to the regulatory regime and institutional support systems such as the Small Enterprise Development Agency (SEDA) and the Small Enterprise Finance Agency (SEFA) amongst others which have been created by government to assist small business (GEM:2006)

**Internationalization:** Small Medium and Micro Enterprises found in the first and third worlds respectively experience the same problems related to international trade which includes but not limited to the standards imposed for product quality in recipient countries, language barrier, cultural differences, transport and logistics (SDP Report First Draft:2011)

**Delay in Payment:** Some of the challenges which are beyond the control of small firms are delays in the payment of SMMEs by government departments. SMMEs depend largely on the steady flow of income in order to grow and keep their businesses alive. Government policy is that small businesses that have provided goods and services should be paid within 30 days after the service was rendered.

However, practically the latter is not the case as some SMMEs have to wait for more than 30 days in order to receive payments. Such delays result in bankruptcy and they also ruin the financial position of Small Medium and Micro Enterprises (Phaladi & Thwala, 2009: 4). The death of the small business sector especially in construction is directly and indirectly linked to the government's failure to implement its own policy on procurement processes.

**Low levels of Research and Development:** Research and Development (R&D) is a critical factor in the growth of SMMEs because empirical information generated through R&D will enable innovation, planning and the implementation of business ideas (BER, 2016). Scholarly studies have also discovered that South African SMMEs are not innovative in orientation as compared to their counterparts in developed countries and the lack of innovativeness deny them of opportunities of building concrete linkages with big companies (Boyseens, 2011: 68).

It is suggested that the South African government should consider incentivizing research on SMMEs with the strategic objective of establishing capacity around innovation, technology diffusion, the strengthening of relations between local and international firms that are knowledge driven (GEM, 2014).

**Ineffective government bureaucracy:** Governments throughout the world set the regulatory environment for almost all aspects of life including the SMME sector. Both the GEM (2014) and WEF (2014/15) report on global competitiveness identified government bureaucracy in South Africa as one critical factor interfering with the promotion of entrepreneurial spirit and the growth of SMMEs in general.

Aspects such as delays in the issuing of trading licenses and red tape in the startup of small business was also highlighted in the WEF (2014/15) report. The DTI (2005) report on policy has also isolated the challenges of intergovernmental relations in as far as SMME coordination is concern. The same report (DTI, 2005) mentions that poor coordination of SMMEs result in silo mentality amongst various spheres of government and that result in duplication as each department end up creating its own database of SMMEs.

**Risks facing SMME's in South Africa:** There are both internal and external risks which affect the small business sector in South Africa (BER, 2016). The death of many

SMMEs in South Africa happens at the initial stage of development and businesses die within 3-5 years (DTI, 2008). Third World countries are prevalent with “necessity driven” SMMEs while First World countries are predominantly “opportunity driven” SMMEs (GEM, 2014). It has been discovered that go-getters who are after better opportunities but retain their day job pursue “opportunity-driven” businesses.

These types of businesses (opportunity-driven) are viewed as dissimilar from (necessity-driven) that are embarked on due to unemployment and limited work opportunities (GEM, 2014). Opportunity driven businesses have been found to have the resilience to survive and contribute towards job creation as compared with necessity driven enterprises. As it has already been alluded in some parts of this paper, high interest rates, high taxation and other macro-economic indicators such as the unfavorable exchange rate are some of the serious risks facing the SMME sector in South Africa.

## **2.8 INDIVIDUAL CHARACTERISTICS OF SMME OWNERS**

There are many schools of thought and controversies surrounding specific traits which have an influence in the success or failures of Small Medium and Micro Enterprises. These schools of thought and controversies can be found amongst scholars in both developing and developed countries respectively. For the purposes of this study the level of education of an SMME owner will be examined to ascertain its impact on the success or failure of the business. Work experience by the small business owner will also be examined to check its effect on the success or failure of the business. Gender will also be perused to verify the correlation of success between small business enterprises that are owned by men and women. Household responsibility will also be studied to verify the extent of its influence on the failure or success of an enterprise. Like many other attributes of the SMME sector, individual characteristics of small business owners are not a one size fit all as they are influenced by various factors such as culture, country specific government policies and the level of economic development within a specific country.

### **2.8.1 Education**

Generally, it is assumed that an individual who embarks on a business venture armed with education is bound to perform well.

The attainment of education is believed to provide the small business owner with a range of knowledge around technical aspects such as production costs, product design and strategies that can be employed to ensure the expansion of the business (Nicter & Goldmark, 2009: 1454). However, Burki and Terrel (1998:162); Tan and Batra (1995:1) argues that the debate on the owner attainment of education and the link with company success is not as straight forward as many would like to believe. The authors believe that that the small business space is littered with complexities as studies in both the developed and developing countries produce different results. Small business owners located in third world countries often have low levels of education due to the fact that the rate of primary completion is generally low and it differs from one region to the other.

For an example, Sub-Saharan Africa registered 60% primary school completion rate, South Asia registered 80% completion rate, North Africa and the Middle East registered 90% completion rate respectively (World Bank: 2009). The following authors Orlando and Pollack (2000:3); Soderbom and Teal (2001:1), agrees that SMMEs generally have owners and workers with low levels of education. Chile is cited as having 21% of business owners at micro level in possession of a bachelor's degree compared to 42% of small business owners in the same country and 55% for owners in the medium size categories (Alvarez and Crespi, 2003: 235).

Contrary to the developing world, the developed countries entrepreneur educational attainment seems to be higher amongst those who own medium sized businesses whiles in developing countries the level of education amongst those who own medium sized companies is low. However, the Inter-American Development Bank in a study revealed that there is no correlation between secondary school attainment and the growth of small businesses in Latin America (Kantis et al., 2002). Variably, in Sub-Saharan Africa studies have established a correlation between secondary school attainment and the upward mobility of small businesses in Kenya and Zimbabwe. But no correlation was found between primary school attainment and the growth of SMMEs in the same countries (Kenya and Zimbabwe) (McPherson, 1991: 27; Mead & Liedholm, 1998: 68, Parker: 1995). In South Africa, the government's 2030 forecasting blue print has established that SMMEs especially in the service sectors such as sales and accounting suffer from shortage of skills (NDP, 2011).

It has also been concluded that skills deficiency and poor entrepreneurial spirit hampers the country's ability to develop and create the much needed employment opportunities in South Africa (DTI, 2008).

### **2.8.2 Work Experience**

Work experience can be defined as all the processes, procedures, systems and policies that an individual acquires practically in work environment. Work experience can be acquired both in the formal and informal sectors respectively. Work experience allows SMME owners and workers alike to obtain technical expertise, knowledge and other by-products such as networking (Nicter & Goldmark, 2009: 455).

Parker (1995) in a Kenyan study established that small business owners who acquired work experience of not less than seven (7) years were able to nurture and grow their businesses as compared to those who did not have that experience. Prior work experience has equally been designated as one of the most important traits that enable small businesses to grow.

Those with prior work experience especially in the same sector within a specific SMME tends have not only experience but also important business contacts (Kantsi et al., 2004). It has been established by (Barr, 1988: 3) that many small businesses especially in the African continent have fewer small to medium size enterprises that offers on the job experience.

For an example, it has been established that owners and employees of small to medium enterprises in Ghana have no more than five (5) years of previous work related experience as opposed established big companies that have on average 10 years work experience. Work experience seems to be a critical input in as far as the growth of the SMME sector is concerned. However, it also poses a challenge if work experience is to be prioritized since the small business sector is seen by many as a fall back mechanism against market failures associated with the formal sector that at times is unable to generate enough job opportunities.

### **2.8.3 Gender**

According to Rubio (1991) women dominate the small to medium enterprises in third world countries due to the relaxed entry requirements and few alternative employment

opportunities available for them. In Africa and Latin America, it has been established through scientific studies that women own 61% of small to medium businesses.

In Malawi and Kenya women in the small to medium size enterprises own close to 41% while in the Dominican Republic and Swaziland women own close to 84% of the small to medium enterprises.

#### **2.8.4 Household**

A Guatemalan study indicates that the extra household responsibility imposed upon women by the society is a key impediment towards the growth of female owned small to medium enterprises (Kevane and Wydick, 2001: 1228).

It has also been established that the latter challenge is compounded by lack of skills and illiteracy (ILO, 1999). Many women entrepreneurs also face challenges related to market penetration hence a study has revealed that 36% of them trade with potential buyers who come to their houses as opposed to 20% of men (Kantor, 2005: 68).

Household responsibilities have negative effect on the success of female entrepreneurs because it confines them to selected few industries (Nicter & Goldmark, 2009: 1455).

The two scholars Downing & Daniels (1992) have further established that female owned small businesses contributes immensely towards family income and it is this extra added obligation which induce women not to specialize in their business ventures.

Women who trade in the textile industry in the Dominican Republic have been found to have more productivity as compared with their male counterparts. Debates are still raging as to whether there is a direct association between gender and the success rate of SMMEs.

It is mainly in developed countries scholarly work where divergent views on the existence of a positive correlation between the success factors of female owned small businesses and the perceived predilection to pursue the objectives of business growth (Storey, 1994: 112).

However, given the uniqueness of the small business sector and its inherent contradictions, it will be naïve to pit women owned enterprises against male owned businesses on critical variables such as productivity, effectiveness, efficiency and firm growth (Marlow & Patton, 2005:731).

**Table 2.2: NUMBER OF SMMEs PER PROVINCE IN SOUTH AFRICA**

SMMEs	Number Quarter (2008Q1)				Number (2015 Q2)			
	Total	formal	informal	other	Total	formal	informal	other
<b>Total</b>	2182823	666 501	1 420933	95 389	2251821	667 433	1497860	86 528
<b>W/Cape</b>	223 933	114 976	95 212	13 745	230 324	110 107	110 188	10 030
<b>E/Cape</b>	218 865	56 579	154 631	7 655	197 366	50 670	141 739	4 957
<b>N/Cape</b>	29 894	11 450	11 768	6 676	20 611	8 534	9 058	3 019
<b>FS</b>	114 949	31 040	76 127	7 783	96 846	26 224	60 816	9 806
<b>KZN</b>	418 406	102 591	289 347	7 783	373 434	74 976	283 165	15 293
<b>NW</b>	109 860	25 817	76 855	7188	112 856	27 430	79 153	6 273
<b>GP</b>	687 556	270 093	405 180	12 283	785 321	306 231	465 100	13 989
<b>MP</b>	193 259	29 760	156 814	6 685	185 399	35 208	141 129	9 063
<b>Limpopo</b>	186 101	24 193	155 001	6 907	249 663	28 054	207 512	14 098

Source: Stats SA, BER

An attempt to quantify the SMME sector in South Africa should be taken with caution as it very difficult to give an accurate number of the SMME sector due to complexities of the ecosystem of the SMME sector characterized business that operates in the formal economy and others existing in the informal economy. The complexities are also exacerbated by lack of uniformity on the scientific methodologies used by various research institutions to study the sector (Berry et al., 2002: 13-14). The table above indicate that the North West Province is ranked number seven (7) in South Africa in terms of the total number SMME. Table 2.2 also indicate that the total number of SMME in the North West Province has been increasing between 2008 and 2015.

For an example, the table indicate that Quarter 1 of 2008, the North West Province had a total of 25 817 SMMEs operating in the formal economy and 76 855 SMMEs operating in the informal economy. In total, the North West Province had 109 866 SMMEs in 2008. Table 2.2 also indicate that the North West Province in 2015, had a total of 27 430 SMMEs operating in the formal economy and a total of 79 153 SMMEs operating in the informal. In the year 2015, the province had a total of 112 856 SMMEs operating in both the formal and informal economies respectively.

## **2.9 CHAPTER SUMMARY**

The literature review provided an opportunity for a proper context of the Small Medium and Micro Enterprise sector. The literature reviews also highlighted the definitional complexities that are associated with the SMME sector. The literature review gave an international perspective and how various countries in Africa, Europe and Asia view and manage the SMME sector. An account on the challenges facing the SMME sector has been given. Individual characteristics fostering and impeding the growth of the SMME sector has been outlined. Risks facing the SMME sector have also been investigated and the total number of the SMME sector in South Africa for specific years has been illustrated. Finally, the regulatory environment affecting SMMEs in South Africa has also been discussed in detail. Challenges and risks facing SMMEs were also discussed. The next chapter, which is chapter three (3) will be dealing with the research methodology that will be followed in this study. Chapter 3 will reflect on aspects which relates to the methodology of the study.

## **CHAPTER 3**

### **RESEARCH METHODOLOGY**

#### **3.1 INTRODUCTION**

In this chapter, a detailed overview of the research process which includes research design, research methods, philosophy and approach were applied to answer research problem discussed in Chapter 1 (Makhubele, 2015:70). In this section, discussions were established on the theoretical underpinnings informing the research process, philosophy, theoretical assumptions linked with the objectives of the study and inherent implications for the selected methodology of the study (Saunders et al., 2012: 4-5). Research is defined by (Saunders et al., 2012: 4-5) as an undertaking by an individual or individuals aimed at discovering the unknown with a specific plan for purposes of producing new knowledge. This study adopted both the qualitative and quantitative methods respectively. The main aim of this chapter is to explain carefully the chosen plan on how this study was conducted so as to respond to the research objectives.

#### **3.2 RESEARCH PHILOSOPHY AND PARADIGM**

Easterby-Smith et al (1997) identified three reasons that make the link between research philosophy and research methodology important. Firstly, the authors are of the view that research philosophy assist scholars to identify and fine-tune the research strategy. Secondly, a sound understanding of research philosophy helps the researcher to be in a position to assess different types of research methodologies and to avoid the use of wrong research approaches in a particular study. Thirdly, research philosophy is seen as an enabler in enhancing the researcher's ability to creatively employ new research techniques that were hitherto unknown to the researcher. According to Hussey & Hussey (1997) philosophy in the realm of research can be understood within the context of two schools of thought being phenomenological and positivist alternatives. Research philosophy ought to be understood in concert with the concept of research paradigm (Babbie, 2010). Research paradigm is interpreted as a composition of ways of doing research, theories that are used in research and belief systems that are employed in research (Babbie, 2010).

The authors Easterby –Smith et al (2011:27) present a dichotomous framework representing both the positivist and the phenomenological philosophy respectively. The framework demonstrates divergent philosophical paradigms that influence academic research and are still a bone of contention in the field.

**Table 3.1: The dichotomy of philosophical paradigms**

	<b>Positivists Paradigm</b>	<b>Phenomenological Paradigm</b>
<b>Basic beliefs</b>	<ul style="list-style-type: none"> <li>-The world is external and objective</li> <li>-Science is value free</li> </ul>	<ul style="list-style-type: none"> <li>-The world is socially constructed and subjective</li> <li>-Observer is part of what is being observed</li> <li>-Science is driven by human interest</li> </ul>
<b>Research should</b>	<ul style="list-style-type: none"> <li>-Focus on fact</li> <li>-Look for casualty and fundamental laws</li> <li>-Reduce phenomena to simplest elements</li> <li>-Develop ideas through induction</li> </ul>	<ul style="list-style-type: none"> <li>-Focus on meaning</li> <li>-Try to understand what is happening</li> <li>-Look at the totality of each situation</li> </ul>
<b>Preferred methods</b>	<ul style="list-style-type: none"> <li>-Operationalizing methods so that they can be measured</li> <li>-Taking large samples</li> </ul>	<ul style="list-style-type: none"> <li>-Using multiple methods to establish different views of phenomena</li> <li>-Small samples investigated in depth</li> </ul>

Source: Easterby-Smith et al. (2011:27)

The positivist school of thought is the most suitable research paradigm for this study and its inherent objectivity assisted this study to meet its research objectives. According to (Sekaran & Bougie, 2013:29) the positivist school of thought asserts that the central intention of research is to empirically explain a subject matter (phenomenon) and quantify it directly. Blumberg et al (2014:16) argues that the positivist school of thought has two fundamental assumptions which are (a) that the society is studied through the process of gathering facts objectively and (b) that the society comprises of simple components which can be set apart and analyzed separately to make sense of the phenomenon being studied.

In the context of this study, facts on SMME' were objectively gathered through the circulation of carefully drafted questionnaires, deconstruction of secondary sources such as reports from institutions responsible for the development of SMMEs etc. The quantitative approach on this study dovetailed neatly with the principles of having to reduce various categories of data in order to make sense of the phenomena being studied and to respond to the objectives of the study. In the context of this study, the use of the positivist approach was motivated by the epistemological view that says (a) the phenomenon being studied is independent and is not influenced by the researcher. Secondly, an objective study that is devoid of subjectivity can be pursued because positivism embraces facts and reality on the ground (Maruster & Gijzenburg, 2012: 18).

Adopting the positivist approach in this study resulted in the production of accurate data emanating from the subject matter that is being studied objectively (Saunders et al., 2012: 134). In this research project, the data generated by the research process was not changed or contaminated by the researcher's feelings or subjectivity (Saunders et al., 2012). Esterby-Smith et al., (2011:27) proclaims that at the positivist paradigm in research is premised on the critical notion that says "the world is external and objective." The nature of quantitative approach in research is that it leads to the objective discovery about the phenomenon being studied (Cohen, Manion & Morison, 2000). The researcher's inherent values and biasness was completely expunged due to the fact that quantitative approach make use of statistics to analyze the data (Babbie, 2010:136). The inflexibility imposed by the statistical procedure in the analysis of data prevents subjectivity. Quantitative research is normally used to solve abstract aspects of reality and not day to day matters.

Data in quantitative research was used mainly for the purpose of assessing information that is numeric in nature and the alignment of the study with the positivist school of thought that recognizes facts and reduction of the subject matter into individual elements (Easterby-Smith et al., 2011). According to Makhubele (2015:72) change in statistical data can be traced by employing quantitative methods of research. Equally, numerical data play a significant role in quantitative research because it is used to describe the sample of a population that is being studied (Makhubele, 2015:72).

For purposes of describing the sample in this study, statistical analysis techniques and correlations were employed in order to give an accurate description of the SMME sector in Ngaka Modiri Molema District and the contribution of this sector in employment creation. The descriptive statistical analysis was used to obtain accurate number of SMMEs in each sector and sub-sector of the economy in Ngaka Modiri Molema District. Quantitative study allowed the researcher to make use of statistical techniques to describe and analyze differences in quantitative quantifications. In order to minimize biasness, the principle of an outsider in a research study was observed. Attention was paid to the relationship that exist between the SMMEs and employment creation in the district of Ngaka Modiri Molema.

### **3.3 RESEARCH APPROACH**

Approach in research can be based on observer-measurement and observer-non measurement approaches respectively. Alternatively, a research study can be based on a combination of the two mentioned approaches (observer-measurement and observe-non-measurement approaches. For the purposes of this study, combination of observe-measurement (empirical) and observer-non-measurement (non-empirical) was used. Motivation for the use of both research approaches is provided below. The literature review has provided an inside information about the subject matter as it allowed the researcher to study and make reference to previous studies that reflected on the same subject matter that is being studied in this research project (Saunders et al., 2012). The main purpose of the literature review was to establish a comprehensive overview of the subject matter. The overview included local and international trends on SMMEs. The second part of the literature review was also to ensure the following:

- Incorporate important domestic research output and policy regime regulating the SMME sector in South Africa;
- To illustrate the international context of the SMME sector and the milieu inhabited by the small business sector;
- To generally evaluate challenges and constraints facing the SMME sector in South Africa
- The observe-non-measurement (qualitative) is used to support arguments in the study by referencing past research studies. Quoting previous studies enables the reader to locate the original author referenced in the last section of the study.

Empirical data was obtained through the use of a questionnaire as a data collection tool to study the role of SMME in employment creation in Ngaka Modiri Molema District. According to Easterby-Smith et al., (2001) empirical data refers to “data based on observation or experience.” The composition of this study was designed in such a way that incorporates both the empirical and non-empirical approaches respectively. The literature review which represent the non-empirical approach of the study was employed to give instruction to the structure and implementation of the questionnaire survey (empirical research) (Saunders et al., 2012).

The generation and construction of a theory from obtaining and analyzing data as part of understanding the subject matter being studied is what defines an inductive approach in research (Saunders et al., 2012:135). In this research project, the inductive approach was instrumental in enabling research objectives to be reached. The table below gives a summation of the reasons behind the research method, the logic behind the research method and the approach on how the outcome of the research study can be widely applied (generalized) (Sunders et al., 2012:135).

**Table3.2: Induction**

Reason	Research : induction
Logic	Knowing premises are used to generate untested premises
Generalizability	Generalizing from specific to general
Use of data	Data collection is used to explore phenomenon, identify themes, patterns and create a conceptual framework
Theory	Theory generation and building

*Source: Saunders et al. (2012:144)*

### **3.3.1 Research Design**

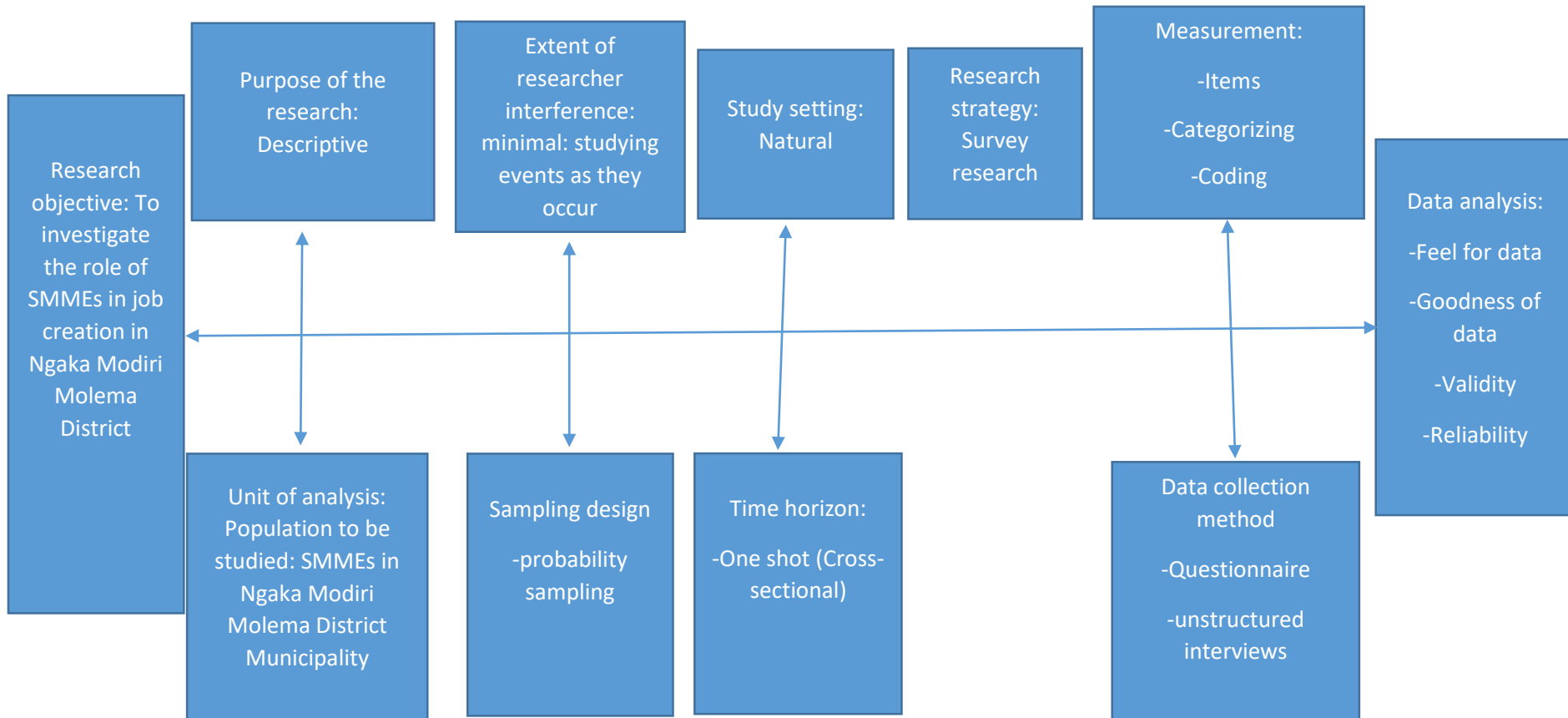
There is a general agreement from various authors on the definition of a research design. According to Saudners et al., (2012) research design is a blue print that guides the path to be taken when conducting a research. Other authors, Welman et al., (2014) argues that the research design clearly explains the role of different participants in a research study. The same authors Welman et al (2014) also assert that research design link the participants in a study with the conclusion of the study and how the research problems should be resolved.

Research design has also been defined as a research methodology that provides a carefully thought out practical plan that has clear procedures on how the research problem should resolved (Babbie, 2010:33). This research study has adopted the definition of the research design as explained by Blumberg et al., (2014) that define research design as “a blue print for fulfilling research objectives and answering the research questions.” Saunders et al., (2012) explains the research design as the logic that creates an important link between data that is to be collected and research questions. According to Makhubele (2014:75) research design plays an important role in responding to the research objective which in the context of this study is to determine the role of SMMEs in employment creation in Ngaka Modiri Molema District.

Sreejesh et al., (2014) argues that research design is directly linked with the following critical elements:

- Choosing of the relevant data analysis techniques
- Conceptualization of the relevant sampling procedure and sampling size
- The correct and appropriate strategy on how data was collected
- Appropriate measurements and scale processes for quantifying the chosen information
- Selection of data required as per the identified problem and the chosen research design
- Application of the correct design e.g. descriptive or exploratory design

**Figure 3.1: Research design adapted for the study**



Source: Adapted from Sekaran and Bougie (2013:95)

### 3.3.2 Research Methodology

According to Babbie (2010), research methodology lays the foundation of the study in way that also seeks to answer key research objectives. In assessing the role of SMMEs in job creation in the district of Ngaka Modiri Molema, both qualitative and quantitative methods of research were used.

Combination of qualitative and quantitative methods in a research study is referred to as mixed method (Saunders et al. 2012:35) Bryman (2016) explains the importance of using mixed methods as follows:

- Application of mixed methods can promote clarification of research findings and meanings emanating from the research study;
- The use of mixed method promotes the incorporation of various view points in the research study;
- Mixed method helps in an instance where one method falls short in terms of clarifying results that are inexplicable. The other method can simply be used to offset the shortcomings of another method.
- Quantitative approach can be utilized to assist in the explanation of results obtained through the use of the qualitative approach;
- Qualitative approach in research enhances the feel of process and procedure whiles quantitative research form the basis of frameworks in social life (Bergman et al., 2009).
- Mixed approach in research promotes a feeling of thoroughness and satisfaction. Thoroughness is defined as the idea that a detailed account of the phenomena is explored through the use of qualitative and qualitative approaches (Bergman et al., 20199:09).
- Bergman et al (2009:91) argues that the application of the mixed method will enable the researcher to use method of research to compensate for the weakness of another method thus answering all critical research objectives. The author's argument suggests that both qualitative and quantitative methods of research have inherent weaknesses and strengths respectively.

- The fusion of the two methods then suggests that the researcher can rely on the strengths of both methods.

The use of qualitative and quantitative methods of research enables the study to be reflective of triangulation. Objectives of the study were also addressed through the inclusion of open-ended-questions in the questionnaire (Saunders et. al., 2012:166).

Opened ended questions assisted the researcher in establishing the extent of challenges facing SMMEs in Ngaka Modiri Molema District. Open ended questions also helped in identifying interventions that can be used to assist SMMEs in Ngaka Modiri Molema District. Open-ended questions further assisted in the inclusion of questions that probed spheres of government that are responsive to the needs of SMMEs in Ngaka Modiri Molema District.

According to Creswell (2009) triangulation or mixed method is based on the principle of logic where one method dominates and the other is less emphasized. In the context of this study, the quantitative part of the study was more dominant and the qualitative part of the study was under-emphasized. The quantitative part of the study came before the qualitative part of the study. Triangulation as an approach enhances the understanding of the nature of SMMEs that operates in Ngaka Modiri Molema District.

### **3.3.3 Steps in the mixed (dual) method**

#### **Step1:**

Unstructured interviews were conducted with institutions supporting SMMEs in the district of Ngaka Modiri Molema to “verify constructs” like terminology and definitions to be used in the questionnaire that was circulated to SMMEs in Ngaka Modiri Molema District.

#### **Step2:**

This step reaffirms the critical role of the quantitative part as central to the study. Questionnaire designed in step 1 was used to gather information (data collection). Data was analyzed using statistical methods and systems such as the SPSS were used. The North West University’s Department of Statistics was used for purposes of statistical analysis. Statistical analysis was utilized using the following techniques

Cronbach's alpha, descriptive statistics and correlations. The latter techniques were illustrated through the use of graphs, tables and pie charts.

### **3.3.4 Strategy to be followed in the study**

Saunders et al (2012) argues that research strategy is informed by the research objective. At the center of the research strategy is the process of gathering information (data collection). The research method of data collection is determined by the research approach e.g. qualitative or quantitative study. A good research strategy should be able to succinctly respond to the research questions and research objectives. The following important research elements influences the research strategy; time allocated for the study, resources, a hitherto body of knowledge on the subject matter, research objectives and research strategy (Saunders et al., 2012).

### **3.3.5 Definition of descriptive research**

Sekara & Bougie (2013:97) argues that descriptive research is ideal for gathering information that "describe" special features of the population under study. In the context of this study, the key objective is to determine the role of SMMEs in creating employment in Ngaka Modiri Molema District (Babbie, 2010:93). The choice of descriptive research enabled the study to achieve following:

- Determine the role of SMMEs in creation of employment in Ngaka Modiri Molema District;
- Validated data was generated for decision makers in terms of the percentage point contribution of SMMEs in the economy of Ngaka Modiri Molema District Municipality.
- SMME sectors which contribute significantly in the economy of Ngaka Modiri Molema were highlighted and that information can be used by decision makers to either increase support for such SMMEs and maybe to know their geographical location in the district.
- Descriptive research will also help decision makers to have a sound knowledge of most of the challenges affecting the SMME sector in the district.

### **3.3.6 Defining the descriptive research strategy**

A descriptive study can assume many forms including the use of the mixed method (qualitative and quantitative) methods (Sekaran & Bougie, 2013:97). For the purpose of this study, both the quantitative and qualitative methods were used in order to achieve the objectives of the research project. The qualitative method was used in the first step of the study through the use of unstructured interviews to reaffirm research constructs from SMME regulating institutions such as SEDA and the Department of Economy and Enterprise Development in the North West Province. The quantitative method was implemented by making use of a survey to collect information from SMME in Ngaka Modiri Molema District.

### **3.3.7 Choosing the method for the research project**

According to Babbie (2010) the concept of “method choice” relates to the evaluation of various data collection instrument to ascertain and chose the one that will assist in the attainment of the research objectives of the study. For the purpose of this study, a survey was selected as a method to evaluate the role of SMME in creating jobs in Ngaka Modiri Molema District.

### **3.3.8 Survey**

Blumberg et al. (2014) describes a survey as a process of gathering information for purposes of analyzing, comparing and critiquing phenomena that is being studied. A survey is a simple and cost effective method of collecting data.

It enabled the researcher to gather information from a larger population of the phenomenon (SMMEs) that are the subject of the study (Saunders *et al.*, 2012:171). Makhubele (2015: 81-82) identified the following set of steps that a researcher should observe when developing a questionnaire:

- Firstly, the researcher should think through the phenomena (subject) that is going to be studied and other quantifiable variables;
- The review of the literature in the study can assist the researcher in the development of the questionnaire;

- Pre-study processes such as pilot studies can be used by the researcher to test the relevancy of the questionnaire and to improve it before the actual implementation;
- Once feedback has been received from the pilot on the questionnaire instruments, improvements can be made and the instrument can be submitted to the supervisor for approval before the actual process of collecting data.

A survey method was used in this study because it allowed the use of descriptive statistics to be used with ease. Babbie (2010:440) describes descriptive statistics as instruments utilized in the deconstruction and summation of large quantities of numbers for purposes of deriving meaning out of that data.

The survey method was also used because it allowed the researcher to gather information for purposes of explaining the characteristics of a population that is being studied (Babbie, 2010:254). The application of triangulation in this study was informed by the collaborative effect between qualitative and quantitative methods. Information obtained through the qualitative method will be incorporated into the quantitative questionnaire. The questionnaire for this study was inclusive of not more than three (3) open ended questionnaires.

### **3.3.9 Defining a questionnaire**

According to Sakaran & Bougie (2013:147), a questionnaire can be defined as a pre-compiled list of questions that are answered by the respondents. The questionnaire was chosen as a data collection instrument because it has the capacity to gather sizeable volumes of data (Makhubele, 2015:87). The questionnaire was finalized after interviews on “verifying SMME constructs” with the manager of SEDA was conducted.

### **3.3.10 Time horizon**

The concept of time horizon is defined as the scope of time through which the research will be conducted (Makhubele, 2015:84). A cross-sectional study is defined as a study that focus on what is being studied “at one point in time” (Babbie, 2010:106). For this research project, the study was a cross-sectional study and was focusing on the role of SMMEs in employment creation in Ngaka Modiri Molema since January 2016.

### **3.4 APPLICATION OF PROCEDURES AND TECHNIQUES**

Techniques in a study relates to how a small representation (sample) that represent a bigger population was selected. Research aim and objectives guided the entire process on procedures and techniques (Makhubele, 2015: 84). This section elaborates on questionnaire used to collect data, the size of the sample and the sample frame (Babbie, 2010).

#### **3.4.1 Population**

The selected group from the phenomena being studied that represent a bigger whole is called the population of the study (Babbie: 2010). The population for this study was SMMEs that are located in Ngaka Modiri Molema District in the North West Province, South Africa. Any business entity that does not meet the criteria of an SMME as defined by the National Business Act of 2004 will be excluded from the study.

#### **3.4.2 Sampling frame**

Sampling frame is defined as all the key characteristics which serves as a reservoir that is used to select the sample (Blumberg et al., 2014:183). Sampling frame contains a detailed exhaustive list of all elements which constitute the population of the study. For the purpose of this study, Small, Medium and Micro Enterprises in the District of Ngaka Modirima Molema serve as the sampling frame for this research project. SMME are present in all of the four regions that constitute North West Province.

SMME are distinguishable from established businesses by size, turnover and asset portfolio. All other business ventures including SMMEs which falls outside Ngaka Modiri Molema District were excluded from the study. An alphabetical list of all SMMEs in Ngaka Modiri Molema was obtained from the Department of Economy and Enterprise Development. The list contained contact details for 118 registered SMMEs in the district.

A total of 60 SMMEs were selected after assigning the entire sampling frame random numbers. Sample size for the study is representative due to the fact that only businesses that are designated as SMMEs within the district of Ngaka Modiri Molema were selected.

All 60 participants were used in the survey and interviews with SEDA management were limited to verifying 'concepts and definitions' used in the SMME sector. The source of the SMME data is the Department of Economy and Enterprise Development in the North West Provincial Government.

### **3.4.3 Probability sampling**

This study applied probability sampling to gather information (collection of data) from SMMEs that are located in the district of Ngaka Modiri Molema in the North West Province. Probability sampling can simply be defined as a method of sampling characterized by "random selection" that gives each element in the study a fair chance of selection.

A sample that is not biased is more possible when probability sampling is applied in a study. The key objective of probability sampling is to minimize sampling error (Bryman *et al.*, 2015:170).

Probability sampling was selected for this study due to the following reasons:

- Probability sampling will permit the researcher to apply statistical tests to arrive at conclusions about the phenomena that is being studied (Bryman *et al.*, 2015:171).
- Probability sampling is critical in social sciences due to the fact that it's the possibility for the generalization of findings exists (Bryman *et al.*, 2015:175).
- The researcher is cognizant of the fact that the use of probability sampling gives all elements of the population in the study equal opportunity of being selected in the study (Bryman *et al.*, 2015:171).

Given the selection of the probability sampling, it means all SMMEs that operate in the district of Ngaka Modiri Molema have an equal chance of being selected for this study.

### **3.4.4 Data analysis**

In this section, mechanism to select, analyze and manage data was discussed. The use of statistical techniques was explained. The detailed deconstruction of both quantitative and qualitative data was also explained.

### **3.4.5 Quantitative analysis**

In this section, the processes and procedures for data analysis were explained. Statistical techniques, data measurement, the use of computer programs and data handling are all explained in this section. The motivation for the selection of data analysis strategy is provided in this section (Makhubele, 2015:88). Descriptive statistics is defined as a “the process of describing the distribution of and relationship among variables in order to come with conclusions about the population on the basis of data collected” (Saunders *et al.*, 2012:266). The same author continues to argue that descriptive statistics gives an accurate account of facts (Saunders *et al.*, 2012:266). The results of the survey were analyzed statistically through the use of the SPSS package (Babbie, 2010|:422).

In order to establish maximum understanding of the role played by SMMEs in the economy of Ngaka Modiri Molema District, the incorporation of illustration in the study will be implemented (Makhubele, 2015:87). By illustration, it means the utilization of qualitative data to demonstrate quantitative results (Makhubele, 2015:87). Illustration is guaranteed by summarized set of descriptive coefficient that is allocated a data set which indicates the population of the study as well as the responses from the qualitative side of the study. The techniques that was used to give a detailed account of the data are “central tendency, frequency distribution and measures of variation” (Saunders *et al.*, 2012:502). Primary data collected in this study was deconstructed through quantitative techniques that are responsible for the ordering of data. This includes pie charts, bar charts and tables (Makhubele, 2015:89). It is important to indicate that two questionnaires in the total sample of 60 questionnaires have missing values as respondents did not fill them.

### **3.4.6 Qualitative analysis**

Babbie (2010:394) defines qualitative analysis of data as a method that is devoid of number or numeracy. Qualitative analysis was used on responses obtained from open-ended questions included in the questionnaire. Observation of themes and editing of data was used to achieve the following: meaning, simplicity, checking of errors, completeness and readability.

### **3.4.7 Measure of goodness**

In this area, instruments adopted for the quantification of concepts are evaluated to check if the targeted concept is being accurately measured (Sekaran & Bougie, 2013:225).

### **3.4.8 Validity**

The purpose of applying the principle of validity is to ascertain “How” accurate is the measuring instrument and whether phenomena that has been targeted measures what is supposed to be measured (Sekaran & Bougie 2013:225). For the purpose of this study, content validity will be conducted. A straightforward question without any equivocation like “what is the annual turnover of your business” constitute content validity.

The determination of various elements of participants is known as “criterion-related validity” (Sekaran & Bougie, 2013:226). Criterion validity can also be defined as the capacity of a quantification to quantify similar constructs elsewhere (Zikmund, 2000:343). The aim of this research project is to determine the role of SMMEs in the creation of jobs in Ngaka Modiri Molema District.

The dovetailing result established between theories and the quantifying instrument chosen for the study is known as construct validity (Field: 2013). SMMEs are in conformity with the theory to evaluate the role of SMME in job creation in Ngaka Modiri Molema District.

### **3.4.9 Reliability**

The determination of biasness in the quantifying mechanism is known as reliability (Sekaran & Bougie, 2013:228). According to Welman *et al* (2005:145) reliability is about the integrity of the results and the fact that they can be trusted. The examination of reliability was executed through the application of descriptive statistics on information gathered (data). In as far as the aim of achieving research objectives is concerned, Cronbach Alpha was utilized to quantify the reliability of many other items. Cronbach Alpha quantification of 0.7 is regarded as optimum measurement (Blumberg *et al.*, 2014:482).

### **3.4.10 Ethics**

Sekarana & Bougie (2013:13) argues that upholding of ethical standards starts with the researcher. Saunders *et al* (2012) define ethics as the acceptability of actions pursued in tandem with the rights of those being studied. Ethics is also defined as a set of acceptable conduct that is embedded in the research process. Ethics in the context of research refers to the conceptualization of the following standard research items: research questions, clear articulation of the research topic, design of the research study, data collection method, analysis of data and compilation of the results in a manner that is consistent with research ethics (Saunders *et al.*, 2012).

This research project was undertaken and guided by the code of ethics of the North West University. Maruster & Gijzenburg (2013:68-71) argues that there are critical ethical principles such as the principle of anonymity, principle of confidentiality and principle of ensuring that participants are not exposed to any harm during the implementation of the research that must be observed.

### **3.4.11 Limitations of the study**

- It could have been ideal to have adopted a longitudinal approach of not less than five years (5) for this study in order to accurately determine the role of SMMEs in job creation in the district of Ngaka Modiri Molema;
- The findings of this study might not be generalized to other districts either in the North West Province or outside the North West Province (Englis, Englis, Solomon & Valentine, 2009:113);
- Generalization is hampered by the fact that the homogeneity of SMMEs in terms of definition does mean they perform equally in different areas and have similar challenges;
- One of the key factors that can compromise the objective of this research project is a low response rate from participants. The results of an inadequate sample will impact on the credibility of the study;
- Time and costs constrains can also hamper the researcher's ability to collect data and interpret findings before the cut of date.

### **3.5 CHAPTER SUMMARY**

This chapter has comprehensively dealt with the research methodology adopted in this study. The chapter has extensively defined different concepts of research methodology and how the application of such has enabled the study to respond to research questions and objectives. Key concept such as data collection procedures have been discussed. Sample and sample size as key concepts have also be explained. Both the quantitative and qualitative methods have been unpacked to ensure clarity. Concepts of reliability, validity and ethics have also been discussed to ensure that the research project conforms to all the norms of academic research. Limitations of the study is also illustrated and philosophy is applied to concepts of research design such as data collection strategy, the role of a survey and questionnaire in a research project. Probability sampling is extensively explained and its suitability for this study is also explained. The next chapter is deal specifically with the data presentation and analysis. This is the chapter that refines raw data so that meanings can be produced.

## CHAPTER 4

### DATA PRESENTATION, ANALYSIS AND INTERPRETATION

#### 4.1 INTRODUCTION

In this chapter, the outcome of a questionnaire distributed to Small Medium and Micro Enterprises based in Ngaka Modiri Molema District, North West Province, which have existed for more than two years are analyzed. Data was obtained using the questionnaire that contains structured questions and unstructured questions respectively. The findings of the study were established from 60 randomly selected SMMEs that operate in the district of Ngaka Modiri Molema District Municipality. A total of 60 samples questionnaires were circulated amongst active SMMEs operating in the district of Ngaka Modiri Molema. Out of a total of 60 questionnaires distributed, a total of 60 questionnaires were received back from respondents although some sections in two of the questionnaires were not filled. The total response rate was 100%. The SPSS data analysis techniques were used to analyze data obtained from SMME respondents based in Ngaka Modiri Molema District.

#### SECTION A: DEMOGRAPHIC INFORMATION

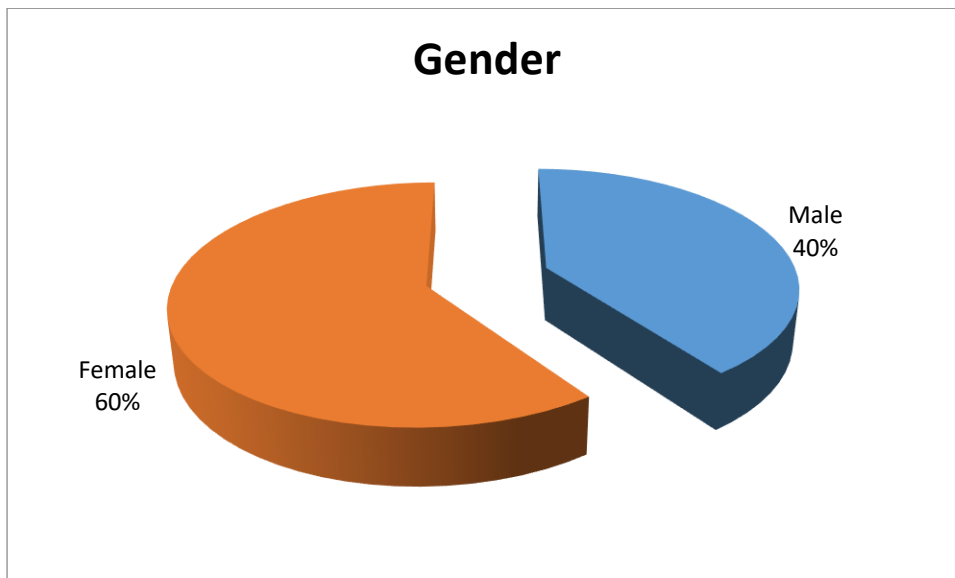
Sample Size: N = 60 respondents

**Table 4.1: Gender**

<b>Gender</b>	<b>Frequency</b>	<b>%</b>
Male	24	40
Female	36	60
<b>Total</b>	<b>N = 60</b>	<b>100</b>

**Source: Primary data**

**Figure 4.1**



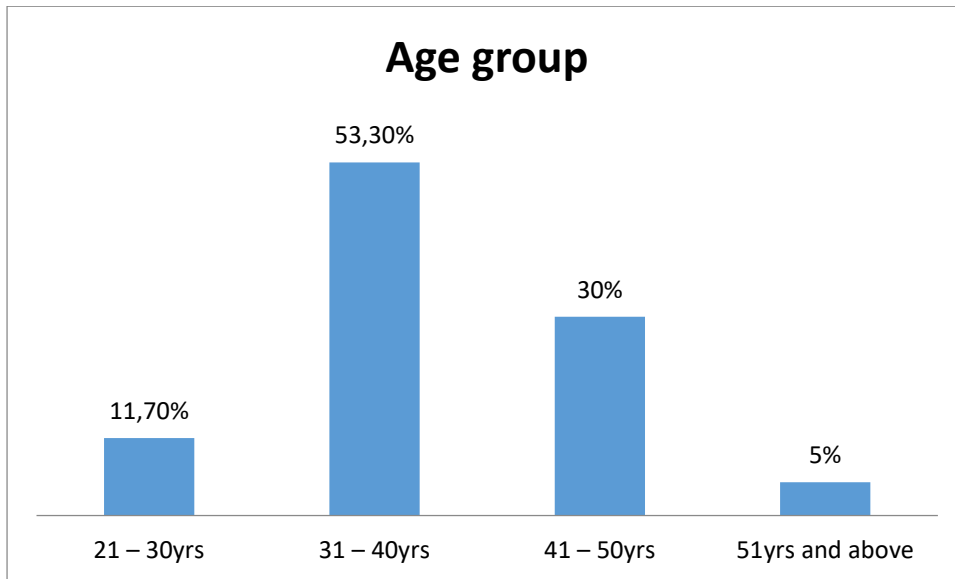
Analysis of gender indicates that majority of those who own and operate Small Medium and Micro enterprises are women. Women constitute 60% of SMMEs participants in Ngaka Modiri Molema district while men constitute 40%. Though the number of women participating in SMMEs is greater that of men, it does not necessarily down play the participation of men in the SMME sector.

**Table 4.2: Age group**

Age group	Frequency	%
21 – 30yrs	7	11.7
31 – 40yrs	32	53.3
41 – 50yrs	18	30
51yrs and above	3	5
<b>Total</b>	<b>N = 60</b>	<b>100</b>

**Source: Primary data**

**Figure 4.2: Age group**



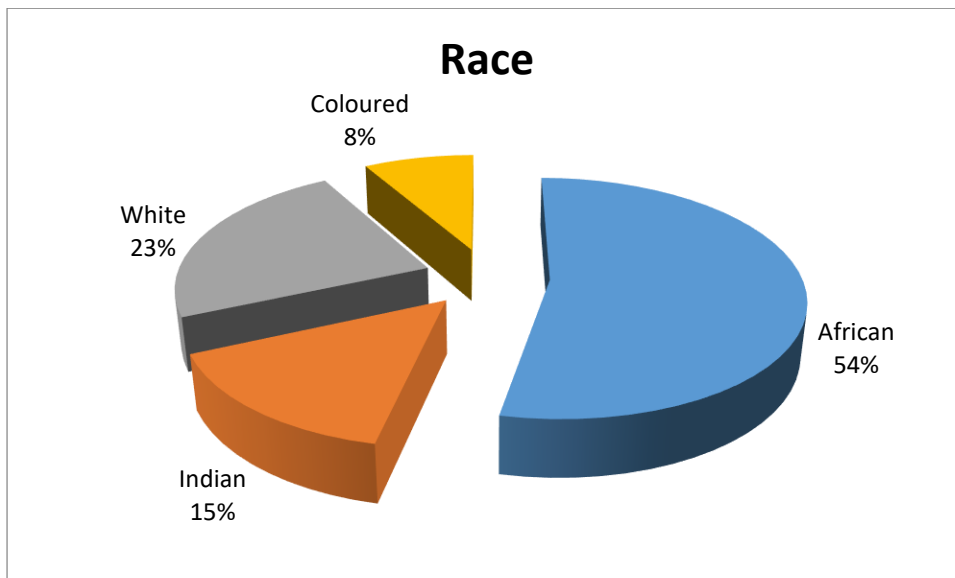
The 31-40 years old age group are in majority in terms of participation in the SMMEs sector in Ngaka Modiri Molema District. This age cohort dominates SMMEs in Ngaka Modiri Molema by a total of 53.3%. The 41-50 year olds are second with 30% while the 21-30 years age group are third with 11.7% and the 51 years age cohort are the last with 5%. It's clear that young people in Ngaka Modiri Molema District do not participate actively in the SMME sector while the older generation dominates ownership and participation in the small business sector.

**Table 4.3: Race**

Race	Frequency	%
African	32	53.3
Indian	9	15
White	14	23.3
Coloured	5	8.3
<b>Total</b>	<b>N = 60</b>	<b>100</b>

**Source: Primary data**

**Figure 4.3: Race**



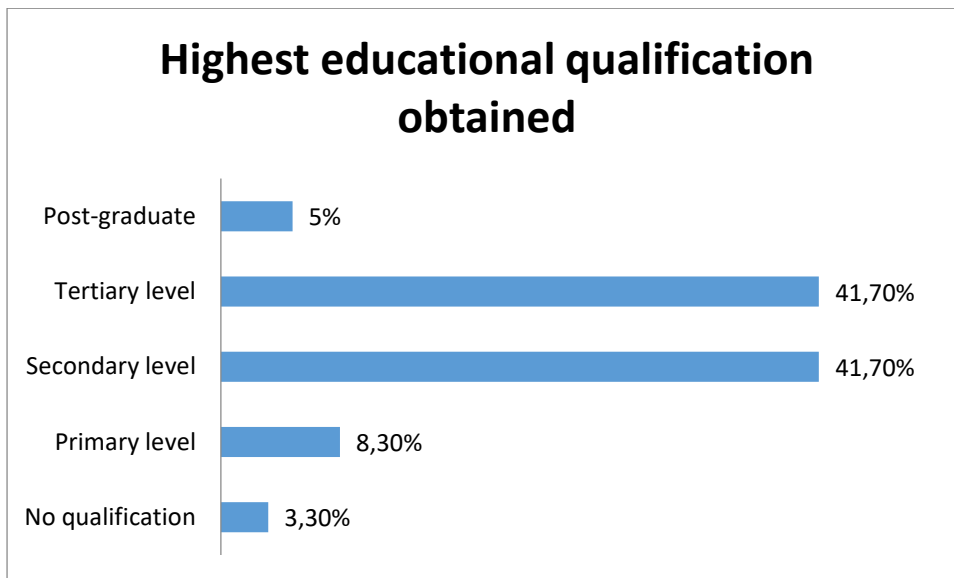
African people dominate participation in the SMME sector in Ngaka Modiri Molema with a total of 54%. White people come second at 23%, followed by Indians at 15% and Coloureds at 8% respectively. This picture is reflective of the fact that majority of those who are unemployed and seeks to make use of the SMME sector to survive are African people.

**Table 4.4: Highest educational qualification obtained**

Educational Level	Frequency	%
No qualification	2	3.3
Primary level	5	8.3
Secondary level	25	41.7
Tertiary level	25	41.7
Post-graduate	3	5
<b>Total</b>	<b>N = 60</b>	<b>100</b>

**Source: Primary data**

**Figure 4.4: Highest educational qualification obtained**



A total of 5% of the population participating in the SMME sector in Ngaka Modiri Molema District post-graduate qualification. A total of 41.7% of the population have tertiary education. A total of 41.7% of the population have secondary education. A total of 8.3% of the population have primary education and a total of 3.3% of the population have no qualification. The results are interesting as a trend emerges that indicate that the literate section of the community in Ngaka Modiri Molema District are viewing the SMME sector as viable alternative to earn a living.

## **SECTION B: ROLE AND PROFILE OF THE BUSINESS IN THE ECONOMY**

**Table 4.5: The business has been running for**

<b>Business duration</b>	<b>Frequency</b>	<b>%</b>
Less than 1 year	1	1.7
More than 1 year	8	13.3
More than 2 years	35	58.3
More than 3 years	13	21.7
4 years and above	3	5
<b>Total</b>	<b>N = 60</b>	<b>100</b>

**Source: Primary data**

A total of 1.7% of SMMEs in Ngaka Modiri Molema District have been existing for a year. A total of 13.3% has been in existence for more than 1 year. A total of 58.3% of SMMEs in Ngaka Modiri Molema have been existing for more than 2 years. A total of 21.7% of SMME has been existing for more than 3 years. A total of 5% of SMMEs has been existing for more than 4 years. Inferences can be drawn that there an interest and will to keep the SMME model of business sustainable as majority of business in the district have been existing for more than two years.

**Table 4.6: The ownership structure of the business is:**

<b>Ownership Structure</b>	<b>Frequency</b>	<b>%</b>
Individual	47	78.3
Two owners	5	8.3
Three owners	7	11.7
Four owners and above	1	1.7
<b>Total</b>	<b>N = 60</b>	<b>100</b>

**Source: Primary data**

A total of 78.3% of SMME are owned by individuals in Ngaka Modiri Molema District. Followed by 8.3% of SMMEs that are owned by 2 people. A total of 11.7% of SMMEs are owned by 3 people and a total of 1.7% of SMMEs are owned by more than 4 people and above. The high number of individuals who own SMMEs reflect the informality of the SMME business model and the easy entry into this sector.

**Table 4.7: What is the size of the business in terms of employees?**

<b>Business size (employees)</b>	<b>Frequency</b>	<b>%</b>
Survivalist business employing only the owner	7	11.7
Micro enterprise employing not more than 5 people	18	30
Very small enterprises employing not more than 10 people	29	48.3
Small enterprises employing not more than 50 people	5	8.3
Medium enterprises employing between 100 to 200 people	1	1.7
<b>Total</b>	<b>N = 60</b>	<b>100</b>

**Source: Primary data**

A total of 11.7% of SMMEs in Ngaka Modiri Molema District are survivalist's businesses employing only the owner. A total of 30% of SMMEs in Ngaka Modiri Molema District are micro enterprises employing not more than 10 people. A total of 8.3% SMMEs in Ngaka Modiri Molema District are small enterprises employing not more than 50 people. A total of 1.7% of SMMEs in Ngaka Modiri Molema District are medium enterprises employing between 100 and 200 people. A total of 48.3% of SMMEs in the district are very small employing not more than 10 people. This indicates that the category of SMME that has labour absorptive capacity is large in the district. This is a positive trend given the high unemployment rate in the area.

**Table 4.8: What is the size of the business in terms of turnover?**

<b>Business size (turnover)</b>	<b>Frequency</b>	<b>%</b>
Business generating a turnover of less than twelve thousand (R12 000) per annum	3	5.1
Business generating a turnover of hundred thousand (R100 000) per annum	21	35.6
Business generating a turnover of one million (R1 000.000) per annum	27	45.8

Business generating a turnover of five million (R5 000 000) per annum	7	11.9
Business generating a turnover of less than sixty four million (R64 000.000) per annum	1	1.7
<b>Total</b>	<b>N = 59</b>	<b>100</b>

**Source: Primary data**

A total of 5.1% of SMMEs generates a turnover of less than R12 000 per annum. A total of 35.6% of SMMEs generates a turnover of 100 000 per annum. A total of 45.8% of SMMEs generates a turnover of R1000 000 per annum. A total of 11.9% of SMMEs generate a turnover of R5 000 000 per annum. A total of 1.7% of SMMEs generate a turnover of less than R64 000 000 per annum. The district has more number of SMME that generate at least a million per year. This is a positive trend as it indicates the development stage of SMME that are graduating from one level to the other.

**Table 4.9: Kindly indicate the geography location of your business**

<b>Location of business</b>	<b>Frequency</b>	<b>%</b>
Mahikeng Local Municipality	17	29.3
Ditsobotla Local Municipality	8	13.8
Ramothshere Local Municipality	15	25.9
Ratlou Local Municipality	11	19
Tswaing Local Municipality	7	12.1
<b>Total</b>	<b>N = 58</b>	<b>100</b>

**Source: Primary data**

A total of 29.3% of SMMEs are based in Mahikeng Local Municipality. A total of 13.8% of SMMEs are located in Ditsobotla Local Municipality. A total of 25.9% of SMMEs are found in Ramotshere Moiloa Local Municipality. A total of 19% of SMMEs are located in Ratlou Local Municipality and a total of 12.1% of SMMEs are based at Tswaing Local Municipality. It is expected that majority of SMME be located in both Ramatshere Moiloa and Mahikeng given the fact that this two sub-regions dominates the district in terms of economic activity.

**Table 4.10: Does your business operate in the following sector of the economy?**

<b>Business sector</b>	<b>Frequency</b>	<b>%</b>
Agriculture	11	30.6
Mining	6	16.7
Tourism	5	13.9
Transport	7	19.4
Retail and wholesale	7	19.4
<b>Total</b>	<b>N = 36</b>	<b>100</b>

**Source: Primary data**

A total of 30.6% of SMMEs operate in the agriculture sector. A total of 16.7% of SMMEs operate in the mining sector. A total of 13.9% of SMMEs operates in the tourism sector. A total of 19.4% SMMEs operates in the transport sector. A total of 19.4% operates in the retail and wholesale sector. There are no surprises with more SMMEs participating in the agricultural sector given the dominance of the sector in the province of North West and the district of Ngaka Modiri Molema.

**Table 4.11: Does your business operate in the following industries?**

Industry	Frequency	%
Food and beverage	23	74.2
Manufacturing	1	3.2
Construction	4	12.9
Automobile	2	6.5
Other	1	3.2
<b>Total</b>	<b>N = 31</b>	<b>100</b>

**Source: Primary data**

A total of 74.2% of SMMEs operates in the food and beverage industry. A total of 3.2% of SMMEs operates in the manufacturing industry. A total of 12.9% of SMMEs operates in the construction industry. A total of 6.5% of SMMEs operates in the automobile industry. A total of 3.2% of SMMEs operate in other industries. Food and beverage are the easiest industries not requiring a lot of inputs and regulatory compliance to start a business hence the dominance of the food and beverage industry.

**Table 4.12: Since January 2016 until now:**

Item	Frequency	%
My company has increased employment by between 5 to 10 people	29	51.8
My company has increased employment by between 10 to 20 people	13	23.2
My company's employment rate has not changed	13	23.2
My company's employment rate decreased by 5 to 10 people	1	1.8
<b>Total</b>	<b>N = 56</b>	<b>100</b>

**Source: Primary Data**

A total of 51.8% of SMMEs indicates that were able to increase employment in the district of Ngaka Modiri Molema in the category of 5 to 10. A total of 23.2% of SMMEs report an increase of employment between 10 and 20 people. A total of 23.2% of SMMEs report an unchanged employment rate. A total of 1.8% of SMMEs report a decrease in employment of between 5 and 10 people. It is clear that the SMME sector in the district has the capacity to create employment because the % of business that have increased employment since 2016 to date is far greater than that of SMMEs that decreased employment or stagnated.

**Table 4.13: Are your employees:**

Item	Frequency	%
Temporary employed?	25	41.7
Permanently employed?	15	25
Casual workers?	10	16.7
Contract workers?	10	16.7
<b>Total</b>	<b>N = 60</b>	<b>100</b>

**Source: Primary data**

A total of 41.7% of SMMEs employ temporary workers. A total of 25% of SMMEs employ workers permanently. A total of 16.7% of SMMEs employ workers casually. A total of 16.7% of SMMEs employ contract workers. The high number of SMMEs that hires labour temporarily in the district of Ngaka Modiri Molema is indicative of the informal character of most of the SMMEs. This trend also confirms the lack of job security in the SMME sector in Ngaka Modiri Molema District.

**Table 4.14: Most of my employees are recruited from within**

Item	Frequency	%
The family	7	11.7
Within the municipality	44	73.3
Within the province	8	13.3
Outside the province	1	1.7
<b>Total</b>	<b>N = 60</b>	<b>100</b>

**Source: Primary data**

A total of 11.7% of labor recruited by SMMEs is from within the family. A total of 73.3% of labor recruited by SMMEs is from within respective municipality. A total of 13.3% of labor recruited by SMMEs is from within the province. A total of 1.7% of labor recruited by SMMEs is from outside the province. SMMEs in Ngaka Modiri Molema absorb labour from within the district. It means that SMMEs are contributing towards alleviating unemployment because labour is sourced locally.

**Table 4.15: How do you pay your employees?**

Item	Frequency	%
Salary with benefits	12	20.3
Salary without benefits	35	59.3
Wages	11	18.6
Profit sharing	1	1.7
<b>Total</b>	<b>N = 59</b>	<b>100</b>

**Source: Primary data**

A total of 20.3% of SMMEs pays employees a salary and benefits. A total of 59.3 of SMMEs pays employees a salary without benefits. A total of 18.6% of SMMEs pays employees' wages. A total of 1.7% of SMMEs pays employees through profit sharing. The high number of SMMEs in the district of Ngaka Modiri Molema that pay

employees' salaries without benefits reflects the informal character of the SMMEs and the fact that the small business sector is general a method of helping people to reduce the impact of joblessness.

**Table 4.16: How do you rate the response of financial institutions like banks in assisting small businesses?**

Rating	Frequency	%
Good	5	8.35
Very good	3	5
Average	21	35
Poor	20	33.3
Very poor	11	18.3
<b>Total</b>	<b>N = 60</b>	<b>100</b>

**Source: Primary data**

A total of 8.35% of SMMEs rated banks response rate as good. A total of 5% of SMMEs rated banks response rate as very good. A total of 35% of SMMEs rated banks response rate as average. A total of 33.3% of SMMEs rated banks response rate as poor. A total of 18.3% of SMMEs rated the banks response rate as very poor. The high number of SMMEs in the district of Ngaka Modiri Molema have no confidence in private financial institution like banks. It means majority of SMMEs in the district believe that financial institutions are not helpful. This outcome is consistent with challenges of financial access and assistance which have been established in the chapter two of this study.

**Table 4.17: I source raw materials and operational tools (machines) for my business**

Source	Frequency	%
Within the municipality where the business is located	35	58.3
Within the district where the business is located	18	30
Within the province where the business is located	7	11.7
<b>Total</b>	<b>N = 60</b>	<b>100</b>

**Source: Primary Data**

A total of 58.3% of SMMEs buy raw materials and operational tools within the municipality where the business is located. A total of 30% of the SMMEs buy raw materials and operational tools within the district where the municipality is located. A total of 11.7% of SMMEs buy raw materials and equipment's within the province where the business is located. SMMEs in Ngaka Modiri Molema District use the operational budgets to procure goods and equipment's within the areas where businesses are located. It means that SMMEs contributes towards ensuring local circulation of liquidity thus directly participating in the local economy.

**Table 4.18: How will you rate government in terms of supporting SMMEs?**

Rating	Frequency	%
Good	2	3.3
Very Good	1	1.7
Average	22	36.7
Poor	19	31.7
Very poor	16	26.7
<b>Total</b>	<b>N = 60</b>	<b>100</b>

**Source: Primary data**

A total of 3.3% of SMMEs rated government good in terms of support. A total of 1.7% of SMMEs rated government very good in terms of support. A total of 36.7% of SMMEs rated government average in terms of support. A total of 31.7% of SMMEs rated government poor in terms of support. A total of 26.7% SMMEs rated government very poor in terms of support. Majority of SMMEs in the district of Ngaka Modiri Molema do not have confidence in the government's ability to responds to the needs of the sector. Equally, the majority of SMME in the district are not dismissive of the government's willingness to assist the small business sector. Many of the SMMEs believe the government is not bad or good just average in terms of response to the needs of SMMEs in the district.

### **SECTION C: SOURCE OF INFORMATION**

#### **4.19: Kindly indicate the source which you have used to access information on SMMEs in the last 12 months**

Sources	Frequency	%
TV and radio news	45	77.6
Internet news sites	7	12.1
Newspapers	6	10.3
<b>Total</b>	<b>N = 58</b>	<b>100</b>

**Source: Primary data**

A total of 77.6% of SMMEs used Television and radio news to access information. A total of 12.1% of SMMEs used internet news sites in the last 12 months. A total of 10.3% of SMMEs used newspapers to access information. It is not a surprise that many SMMEs in Ngaka Modiri Molema District make use of television and radio to access information about SMMEs. The district is rural in character with a low access to other mediums of communication like the internet. Television and radio are able to penetrate and reach even those SMMEs that are in the remote part of the district. This trend is however contradicting because majority of those who participate and own

SMMES in the district at least according to this analysis have both secondary and postgraduate education. It means they have the capacity to make use of other mediums of communication other than television and radio.

## SECTION D: RELIABILITY ANALYSIS

Cronbach's alpha ( $\alpha$ ) reliability coefficient, whose numerical value ranges from 0 to 1, measures the reliability (or internal consistency) of a questionnaire (or survey) consisting of Likert-type scales and items. A high value (close to 1) for Cronbach's alpha reliability coefficient indicates good internal consistency of the items in the scale.

**Table 4.20**

**Scale:** 1 = very good, 2 = good, 3 = average, 4 = poor, 5 = very poor

Item	N	Mean	Standard Deviation	Skewness
How do you rate the response of financial institutions like banks in assisting small businesses?	60	3.52	1.05	-0.46
How will you rate government in terms of supporting SMMES?	60	3.78	0.94	-0.31
<b>Cronbach alpha(<math>\alpha</math>) = 0.717, N = 2</b>				

**Source: Primary data**

The Cronbach's alpha coefficient (0.717) in Table 4.5.1 above is greater than 0.7, and this implies that the participants have responded consistently to those two survey items. Mean values that are closer to 3 indicate that the responses of financial institutions and government in assisting (supporting) SMMES are average, whereas values of the mean closer to 4 show that the responses by both institutions are poor. Low standard deviations indicate that the responses are clustered closer to their respective means (averages). Negative skewness values imply that the responses by the financial institutions and government are poor.

## SECTION E: CORRELATION ANALYSIS

### Spearman's rank rho test

This test is concerned with the correlation between two ranked variables (X and Y). The Correlation is statistically significant if the p-value is less than 0.05 level of significance.

The coefficient of Spearman's rank correlation is given by

$$r = 1 - \frac{6\sum D^2}{N(N^2 - 1)}$$

where

- D = differences of ranks of corresponding values of X and Y
- N = number of paired values in the data
- $-1 \leq r \leq 1$

**Table 4.21: Spearman’s rank correlation between age group and views (perceptions) of respondents about the responses of financial institutions and government in assisting SMMEs**

Items		
How do you rate the response of financial institutions like banks in assisting small businesses? (N = 60)	Correlation coefficient(r )	-0.209
	p - value	0.109
How will you rate government in terms of supporting SMMEs? (N = 60)	Correlation coefficient(r )	-0.230
	p - value	0.077

**Source: Primary data**

SPSS 25 software package was used to perform the correlation analysis and the results are shown in Table 4.6.1. Since all the p-values are greater than 0.05 level of significance, then the correlation between age group and views of SMMEs about the items listed in Table 4.6.1 is not statistically significant. It means that the views of the young and old SMMEs do not differ in terms of the items listed in table 4.21.

**Table 4.22: Spearman’s rank correlation between educational level and views (perceptions) of respondents about the responses of financial institutions and government in assisting SMMEs**

Items		
How do you rate the response of financial institutions like banks in assisting small businesses? (N = 60)	Correlation coefficient(r )	-0.197
	p - value	0.132
How will you rate government in terms of supporting SMMEs? (N = 60)	Correlation coefficient(r )	-0.160
	p - value	0.223

**Source: Primary data**

Since all the p-values are greater than 0.05 level of significance, then the correlation between educational level and views of SMMEs about the items listed in Table 4.22 is not statistically significant. It means that the views of the less educated and more educated SMMEs do not differ in terms of the items listed in table 4.2

## 4.2 QUALITATIVE ANALYSES

**In your view what are critical challenges facing SMMEs in your respective municipality? If there are any, please explain.**

Verbatim feedback from open-ended questions. Six (6) responses were randomly selected from each open-ended question in the questionnaire.

Responses revealed following themes:

“Government not visible on small business”

“No support, u need connections”

“No government does not communicate with us as small businesses”

“Municipality and government not contacting or communicating with SMMEs”

“They do not market the support they provide to small business”

“Government not serious about small business especially farmers”

SMMEs identified lack of government intervention as a major challenge facing the sector in the district of Ngaka Modiri Molema. It means that the SMME sector view government not as enabler of SMME development in the district but rather as a stumbling block towards progress. This outcome is consistent with results in chapter two of this study which identified government either through regulation or inaction as contributing towards the under-development of the SMME sector. It means that the SMME sectors ability to grow and create jobs is likely to be affected by the local municipalities lack of support and commitment.

**In your view what do you think should be done to empower SMMEs in the local economy of your municipality?**

Responses revealed following themes:

“Access to finance and markets”

“Financial empowerment”

“More business given to small companies”

“Financial access”

“Mentoring and financial assistance”

“Training and finance support”

SMMEs in Ngaka Modiri Molema identified financial access as important to wards the success of the SMME sector. The theme is consistent with facts established in chapter two of this study which amongst many highlights financial exclusion as major challenge facing SMMEs throughout the world. The implications of themes emerging from this question is that extension of financial support would enable the SMME sector in the district of Ngaka Modiri Molema to continue to contribute towards creation of

employment. Financial support equally means that the SMME sector in Ngaka Modiri Molema would continue to grow and propel local economic growth and development.

**Between the local municipality, the district and the provincial government which sphere of government is more responsive to the needs of SMMEs? Kindly explain.**

Responses revealed following themes:

“District municipality sometimes at least they communicate”

“Province government communicate with small business people”

“Provincial government is always communicating”

“Provincial government at least places adverts on the radio”

“Provincial government sometimes call us”

“Province government use radio a lot to communicate”

Based on the dominant themes emerging from qualitative responses, the provincial government has been approved by SMMEs in the district of Ngaka Modiri Molema as the sphere of government that respond positively towards the needs of the SMME sector. It means there is discord between local municipalities, the district municipality and SMMEs in the district of Ngaka Modiri Molema hence low rating of the local sphere of government.

The other implications for themes emerging in this question is that the sphere of government which is closest to the eco-system of the SMMEs (local government) is not responsive towards support for SMMEs and it not only reduce the potency of the sector from creating jobs but it also put much burden on the provincial government in terms of support for small businesses. Furthermore, it means all spheres of government which include the local, district and provincial governments can coordinate the support towards SMMEs more and more employment opportunities will be created for the district of Ngaka Modiri Molema.

### **4.3 CHAPTER SUMMARY**

This chapter has provided the analysis of section (A), (B), (C), (D), (E) and Qualitative information. Section (A) the study relates to the demographic information. Section (B) relates to the profile and role of SMMEs in the economy of Ngaka Modiri Molema

District. Section (C) deals with platforms used by SMMEs in Ngaka Modiri Molema to access information. Section (D) relates to reliability analysis and section (E) relates to validity analysis. The next chapter presents findings, discussions, conclusions and recommendations of the study.

# **CHAPTER 5**

## **FINDINGS, DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS**

### **5.1 INTRODUCTION**

This chapter seeks to discuss the results as they relate to the role of Small Medium and Micro Enterprises and the capacity of this business entities to create employment in Ngaka Modiri Molema District. The research objectives of the study which relates to the economic role of Small Medium and Micro enterprise and the capacity of this model of enterprises to create employment in the district of Ngaka Modiri Molema have been established. This chapter start with summaries of each chapter, followed by findings of the survey and findings of the qualitative part of the study. The chapter also respond to the key objectives of the study which include (1) establishment of the % point of SMMEs that contribute towards employment creation in the district of Ngaka Modiri Molema District (2) where SMMEs in the district under study source raw materials and equipment's (3) where SMMEs in the district source labor (4) how labor is employed in the district and (5) how SMMEs in the district rate financial institutions like banks in relation to supporting SMMEs in the district of Ngaka Modiri Molema.

#### **5.1.1 Summary of research**

It is important to reflect on what the purpose of the research study is all about and to recap on the objectives of each chapter of the study.

#### **Chapter1**

Chapter one of the study introduced the subject matter and explained the rational and importance of the study. The chapter provided a comprehensive problem statement which relates to the existence of gap between the SMME sector and its contribution towards economic growth and development in Ngaka Modiri Molema District. In particular, the study wanted to evaluate the extent to which SMMEs in the district mentioned above are able to create jobs given the high rate of unemployment, poverty and inequality in the district. This chapter also explained research questions and objectives.

The chapter also provided the rationale of the study and ends with the outline of the study.

## **Chapter 2**

Chapter two of the study dealt extensively with the literature review and important aspects which relate to the definition of SMMEs in some parts of the world. The different categorization of SMMEs internationally was also explored. A global overview of the SMME sector was explored. The impact of SMMEs in the economy of the world was investigated. Challenges facing SMMEs were also discussed in this chapter. Individual characteristics of SMME owners like level of education and gender were also discussed. A total spread of SMMEs in South Africa between 2008 and 2015 is also highlighted in chapter 2.

## **Chapter 3**

Chapter three of the study discussed extensively the research design and methodology that will be adopted for this study. Justification was provided as to why other methods were chosen over others. For an example, chapter three explains why this study adopted a mixed method of qualitative and quantitative approach. It also explains at length the difference, advantages and disadvantages of each method. The chapter also explains data collection methods and analysis. It also highlights the importance of validity, reliability and ethics in a research project.

## **Chapter 4**

Chapter four is all about analysis of data collected and techniques such as frequency tables and pie charts have been used to analyse data. This chapter also gives a sense whether the research questions and objective have been achieved or not. Qualitative and quantitative data is analysed in this chapter. Spearman's correlations between different variables of the study is also used for purposes of analysis

## **5.2 Significance of the study**

This part explains the importance of the study and what the research project intended to achieve.

### **5.3 Objectives of the study**

Objectives of this study were to evaluate as whether SMMEs in Ngaka Modiri Molema District contribute towards employment creation. The study also wanted to ascertain as if SMMEs in Ngaka Modir Molema reinvest profits generated locally or not. The study wanted to establish whether SMMEs in the district procure raw materials and equipment's in the district or outside. The study wanted to establish if SMMEs in Ngaka Modiri Molema District recruit potential employees outside or within the district. The study also wanted evaluate if SMME employees in the district are hired permanently or not. It was also the objective of the study to establish if employees hired by SMMEs are paid through wages, salaries, profit sharing or they receive commissions. Finally, the study wanted to evaluate the extent to which SMMEs make use of financial institutions like banks to seek financial assistance.

### **5.4 Research questions**

Research questions of this study questioned if SMMEs in Ngaka Modiri Molema District contributes towards job creation. The research questions questioned if SMMEs in the district procure raw materials and equipment's inside or outside the district of Ngaka Modiri Molema. Research questions of this study questioned if SMMEs in the district make use of institutions like banks to seek financial assistance. The research questions also wanted to ascertain the method of payment used by SMMEs in the district to pay employees i.e. salary, wages, commissions or profit sharing. Finally, the research questions questioned if SMMEs in the district of Ngaka Modiri Molema employ labour temporarily, casually or permanently.

### **5.5 Findings**

The study established that SMMEs in Ngaka Modiri Molema District contributes immensely towards job creation. It was also established that since January 2016 to date, a total of 51.8% of SMMEs in Ngaka Modiri Molema created employment and hired between 5 and 10 people. The study also established that SMMEs in Ngaka Modiri Molema also procure raw materials and equipment's for business locally. A total of 58.3% of SMMEs in Ngaka Modiri Molema buy equipment's and raw materials locally. It means SMMEs in Ngaka Modiri Molema contributes towards local circulation

of currency which is an important indicator of local economic participation. Findings also indicate that SMMEs in Ngaka Modiri Molema hires labour temporarily and pay employees' salaries for work done. 59.3% of SMMEs in Ngaka Modiri Molema District pay employees' salaries without benefits. The latter is also an important indicator of local economic activity. The study further established that SMMEs in Ngaka Modiri Molema have no confidence in financial institutions like banks and willingness of this institutions to financially assist small business owners. 33.3% of SMMEs in Ngaka Modiri Molema believe that banks are not responsive when it comes to assisting the SMME sector. A total of 77% of SMMEs in Ngaka Modiri Molema make use of television and radio to access information that relates SMMEs.

Themes emanating from the qualitative part of the study indicate that SMMEs do not trust government and believe that government is not doing enough to support the SMME sector. On the question of areas that need interventions, the emerging theme is that of financial assistance. Majority of SMMEs believe that improved financial support from government can assist the sector to develop. The theme that is emerging strongly in terms of which sphere of government is responsive to the needs of the SMME sector is that of the provincial government. Most SMMEs in the district of Ngaka Modiri Molema believe that the provincial government is visible and somehow assisting the SMME sector as compare to the local and district municipalities respectively

## **5.6 Discussion and conclusions**

The findings of this study for once have proved a positive correlation between SMMEs in Ngaka Modiri Molema District and the capacity of this business entities to create employment for the majority of people who are struggling to make ends meet due to high unemployment, poverty and inequality in the area. A total of 51.8% of SMME in the district have hired between 5 and 10 people since January 2016. This finding corroborates the argument of Gordon (2003:15), (Maksoud and Youseff, 2003: 1-15) who collectively argued that the small business sector contributes towards employment creation and is responsible for close to 60%-70% of employment in both the developing and developed countries respectively. Machacha (2002:277) also agrees with latter authors and argues that SMMEs generally play an important role in expanding the economy of nation states.

The SMMEs sectors ability to create employment in the district of Ngaka Modiri Molema is confirmed despite the fact that majority of SMMEs in the district are not receiving sufficient financial support. The potency of the SMME sector in terms of creating job opportunities in the district is proven although many of the SMMEs are not receiving support from the local sphere of government. The governments doubling up of support for SMMEs in the district of Ngaka Modiri Molema can certainly result in the repositioning of small business sector as a major contributor towards employment creation. Furthermore, government coordinated support towards SMMEs in the district can also contribute towards the improvement of the sectors ability towards mitigating the negative effects of high unemployment in the district.

The SMME sector in the district of Ngaka Modiri Molema also play a pivotal role in fostering local economic growth and development. A total of 58.3% of SMMEs procure utilities in the district of Ngaka Modiri Molema. Once more, it is proven that an effective support from government can assist the SMME sector in the district of Ngaka Modiri Molema to keep the profits generated and circulating in the local economy. It ought also to be mentioned that it's a positive development that majority of SMMEs are buying goods and services in areas where they operate (locally) despite the fact that support from local authorities towards the sector is minimal.

The SMMEs capacity to positively play a pivotal role in the economy of Ngaka Modiri Molema is further signalled by the fact that a total of 59.3% of SMMEs pay salaries and 73.3% of labour is recruited locally. The findings on the SMMEs sectors ability to pay salaries and procure labour locally confirms the positive correlation that exist between the small business sectors ability to promote employment in the district of Ngaka Modiri Molema District. The implication is that the findings on SMMEs ability to pay salaries and recruitments of labour locally can significantly improve if technical and financial support can be extended to the sector in the district of Ngaka Modiri Molema. However, SMMEs in Ngaka Modiri Molema do not hire employees permanently and the latter might be influenced by the informal character of the sector, size of the business and the small revenue base of most of the SMMEs. A total of 41.7% of SMMEs hire labour temporarily. The latter indicates the lack of job security that is associated with the SMME sector globally.

The high percentage of non-permanent employment in the sector is reflective of the easy entry and exit that also points to the low regulation and informal character of the small business sector generally. Financial institutions are not trusted by the SMMEs in Ngaka Modiri Molema. Notwithstanding the 35% that remain ambivalent towards the banking sector, fact is a total of 33.3% in the district believe that the banking sector is not responsive towards the plight of the small business sector. The latter finding (33.3%) of SMMEs that points out at the banking sectors unresponsive attitude towards supporting the sector highlights the non-assistive posture of the private sector towards supporting and promoting SMMEs in the district of Ngaka Modiri Molema District.

The latter implies that there is unholy alliance of non-responsiveness between some sections of government (local) and the banking sector towards the support and promotion of the SMME sector in Ngaka Modiri Molema. Cassar (262:3), is in agreement with the views expressed by small business operators and argues that the sectors inability to access funding stifles the firm's potential and chokes them when they are still at an infant stage. The Fin Mark Trust (2006) also gives credence to the attitude of SMMEs in Ngaka Modiri Molema District as the Trust argues that it is only 2% of start-up businesses that are able to successfully obtain financial assistances such as bank loans.

## **5.7 Recommendations**

The findings of this study are consistent with the international, national and regional empirical outcomes which indicate that SMMEs plays a pivotal role in creating jobs, propelling economic development and growth. It is against this background that the following recommendations are made:

- That more funding from government and the private sector be allocated to the SMMEs that are primarily in the agricultural, food and beverage industries in the district of Ngaka Modiri Molema. This is due to the fact that the findings of the study have shown that many SMMEs in the district of Ngaka Modiri Molema are concentrated in above-mentioned sectors of the economy;
- Training and financial support should be extended to all SMMEs in the district of Ngaka Modiri Molema but more emphasis should be placed on “women

owned SMMEs” because the study has established that 60% of SMME operators in the district of Ngaka Modiri Molema are women;

- The government and SMME based support institutions should have special incubator and development programmes for SMMEs that have the capacity to generate a turnover of R1 million per annum because such business enterprises are in majority in the district of Ngaka Modiri Molema.

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## Appendix

### Questionnaire used to collect data from SMMEs based in Ngaka Modiri Molema District



North West University  
Private Bag X 2046  
Mmabatho  
2046

#### **Request for assistance to complete questionnaires**

My name is Jeremiah Matebesi and I am a Masters of Business Administration student at North West University. I am currently conducting a research with this topic: **The role of SMMEs in employment creation in Ngaka Modiri Molema District.**

The questionnaire will take about thirty (20) minutes to complete. Please kindly assist in completing the attached questionnaire. You need not write your name as the questionnaire is voluntary. Please answer questions truthfully and honestly. The responses will be treated with utmost confidentiality.

Kind regards

M.J Matebesi

## **SECTION A: DEMOGRAPHIC CHARACTERISTICS**

### **1. Gender**

- (1) Male
- (2) Female

### **2. Age**

- (1) Below 20
- (2) 21-30
- (3) 31-40
- (4) 41-50
- (5) 50 and above

### **3. Race**

- (1) African
- (2) Indian
- (3) White
- (4) Coloured
- (5) Others

### **4. Educational Qualification**

- (1) No qualifications
- (2) Primary level
- (3) Secondary level
- (4) Tertiary level
- (5) Post-graduate

## **SECTION B: ROLE AND PROFILE OF THE BUSINESS IN THE ECONOMY**

### **1. The business has been running for:**

- (1) Less than a year
- (2) More than a year
- (3) More than two years
- (4) More three years
- (5) More than for years and above

### **2. The ownership structure of the business is:**

- (1) Individual ownership

- (2) Owned by two people
- (3) Owned by more than three people
- (4) Owned by more than four people
- (5) Owned by more than 5 people and above

**3. What is the size of the business in terms of employees?**

- (1) Survivalist business employing only the owner
- (2) Micro enterprise employing not more than 5 people
- (3) Very small enterprises employing not more than 10 people
- (4) Small enterprises employing not more than 50 people
- (5) Medium enterprises employing between 100 to 200 people

**4. What is the size of the business in terms of turnover?**

- (1) Business generating a turnover of less than twelve thousand (R12 000) per annum
- (2) Business generating a turnover of hundred thousand (R100 000) per annum
- (3) Business generating a turnover of one million (R1 000.000) per annum
- (4) Business generating a turnover of five million (R5 000 000) per annum
- (5) Business generating a turnover of less than sixty-four million (R64 000.000) per annum

**5. Kindly indicate the geography location of your business**

- (1) Mahikeng Local Municipality
- (2) Ditsobotla Local Municipality
- (3) Ramothshere Local Municipality
- (4) Ratlou Local Municipality
- (5) Tswaing Local Municipality

**6. Does your business operate in the following sector of the economy?**

- (1) Agriculture
- (2) Mining
- (3) Tourism
- (4) Transport
- (5) Retail and wholesale

**7. Does your business operate in the following industries?**

- (1) Food and beverage
- (2) Manufacturing
- (3) Construction
- (4) Automobile

(5) Other

**8. Since January 2016 until now:**

- (1) My company has increased employment by between 5 to 10 people
- (2) My company has increased employment by between 10 to 20 people
- (3) My company's employment rate has not changed
- (4) My company's employment rate decreased by 5 to 10 people
- (5) My company's employment rate decreased by more than 20 people

**9. Are your employees:**

- (1) Temporary employed?
- (2) Permanently employed?
- (3) Casual workers?
- (4) Contract workers?
- (5) Volunteers?

**10. Most of my employees are recruited from within**

- (1) The family
- (2) Within the municipality
- (3) Within the province
- (4) Outside the province
- (5) Foreign nationals

**11. How do you pay your employees?**

- (1) Salary with benefits
- (2) Salary without benefits
- (3) Wages
- (4) Commission
- (5) Profit sharing

**12. How do you rate the response of financial institutions like banks in assisting small businesses?**

- (1) Good
- (2) Very good
- (3) Average
- (4) Poor
- (5) Very poor

**13. I source raw materials and operational tools (machines) for my business**

- (1) Within the municipality where the business is located
- (2) Within the district where the business is located
- (3) Within the province where the business is located
- (4) Outside the province that hosts the business
- (5) From foreign markets

**14. How will you rate government in terms of supporting SMMEs?**

- (1) Good
- (2) Very Good
- (3) Average
- (4) Poor
- (5) Very poor

**16. In your view what are critical challenges facing SMMEs in your respective municipality? If there are any please explain**

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.....  
.....  
.....

**17. In your view what do you think should be done to empower SMMEs in the local economy of your municipality?**

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.....  
.....  
.....

**18. Between the local municipality, the district and the provincial government which sphere of government is more responsive to the needs of SMMEs? Kindly explain your answer**

.....  
.....  
.....  
.....

**SECTION C: SOURCE OF INFORMATION**

Kindly indicate the source which you have used to access information on SMMEs in the last 12 months

<b>Sources</b>	<b>Yes</b>	<b>No</b>	<b>Don't know</b>
1. Government website			
2. TV and radio news			
3. Internet news sites			
4. Newspapers			
5. Documentary shows on TV			
6. Friends and family			
7. Sales adverts pamphlets			
8. SMME brochures and magazine			