

# **The significance of an operating model for SMME's requesting funding from the Gauteng Government**

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## TABLE OF CONTENTS

|                                                                 |    |
|-----------------------------------------------------------------|----|
| ABSTRACT .....                                                  | 7  |
| ACKNOWLEDGEMENTS .....                                          | 8  |
| CHAPTER ONE .....                                               | 9  |
| INTRODUCTION.....                                               | 9  |
| 1.1BACKGROUND OF THE STUDY .....                                | 9  |
| 1.2PROBLEM STATEMENT .....                                      | 11 |
| 1.3 RESEARCH AIMS AND OBJECTIVES.....                           | 12 |
| 1.4 RATIONALE.....                                              | 12 |
| 1.5 SIGNIFICANCE.....                                           | 13 |
| 1.6 DELIMITATIONS AND ASSUMPTIONS .....                         | 13 |
| 1.6.1 DELIMITATIONS.....                                        | 13 |
| 1.6.2 ASSUMPTIONS .....                                         | 14 |
| 1.7 PROPOSED CHAPTER LAYOUT.....                                | 15 |
| 1.8 DEFINITION OF KEY TERMS .....                               | 16 |
| CHAPTER TWO.....                                                | 18 |
| LITERATURE REVIEW.....                                          | 18 |
| 2. INTRODUCTION.....                                            | 18 |
| 2.1 THE SOUTH AFRICAN ECONOMY .....                             | 18 |
| 2.2 GOVERNMENTS AGENDA FOR ECONOMIC DEVELOPMENT .....           | 20 |
| 2.3 DISTINTION BETWEEN OPERATING MODEL AND BUSINESS MODEL ..... | 22 |
| 2.4 INTERGRATING STRATEGY AND OPERATING MODEL.....              | 24 |
| 2.4.1BENEFITS OF A CLEAR OPERATING MODEL FOR SMMES .....        | 27 |
| 2.5 CHALLENGES PROMINENT IN SMMES .....                         | 31 |

|                                                                                        |    |
|----------------------------------------------------------------------------------------|----|
| 2.6 FACTORS THAT INFLUENCE OR IMPACT SMMES.....                                        | 33 |
| 2.7 CONCLUSION .....                                                                   | 35 |
| CHAPTER THREE .....                                                                    | 36 |
| RESEARCH DESIGN AND METHODS/ RESEARCH METHODOLOGY .....                                | 36 |
| 3. RESEARCH APPROACH AND DESIGN .....                                                  | 36 |
| 3.1 RESEARCH SETTING .....                                                             | 37 |
| 3.2 POPULATION SAMPLING AND TECHNIQUE .....                                            | 37 |
| 3.2.1 SAMPLING CRITERIA .....                                                          | 38 |
| 3.3 METHODS OF DATA COLLECTION .....                                                   | 40 |
| 3.3.1 DATA COLLECTION INSTRUMENTS .....                                                | 40 |
| 3.3.2 DATA COLLECTION PROCEDURES .....                                                 | 40 |
| 3.4 METHODS OF DATA ANALYSIS .....                                                     | 41 |
| 3.5 MEASURES OF ENSURING RIGOUR AND TRUSTWORTHINESS .....                              | 42 |
| 3.6 ETHICAL CONSIDERATIONS .....                                                       | 44 |
| 3.7 CONCLUSION .....                                                                   | 44 |
| CHAPTER FOUR .....                                                                     | 45 |
| DATA ANALYSIS .....                                                                    | 45 |
| 4.1 INTRODUCTION.....                                                                  | 45 |
| 4.2 DESCRIPTIVE STATISTICS.....                                                        | 45 |
| 4.2.1SECTION ONE: BACKGROUND INFORMATION AND BIOGRAPHIC<br>INFORMATION .....           | 46 |
| 4.2.2 SECTION TWO: QUANTITATIVE SECTION (CLOSED-ENDED QUESTIONS:<br>FREQUENCIES) ..... | 46 |
| 4.2.3 SECTION THREE: QUALITATIVE SECTION (OPEN-ENDED QUESTIONS).....                   | 54 |
| 4.2.3.1 THEME ONE: VALUE-ADD OF OPERATING MODEL FOR SMMES .....                        | 55 |

|                                                                                                                         |    |
|-------------------------------------------------------------------------------------------------------------------------|----|
| 4.2.3.2 THEME TWO: THE FUNDING CHALLENGES ENCOUNTERED BY SMMEs AND ADDITIONAL GOVERNMENT SUPPORT REQUIRED BY SMMEs..... | 59 |
| 4.3 CONCLUSION .....                                                                                                    | 62 |
| CHAPTER FIVE .....                                                                                                      | 64 |
| CONCLUSION AND RECOMMENDATIONS.....                                                                                     | 64 |
| 5.1 INTRODUCTION.....                                                                                                   | 64 |
| 5.2 CHAPTER SYNOPSIS.....                                                                                               | 64 |
| 5.3 CONCLUSION .....                                                                                                    | 65 |
| 5.4 RECOMMENDATIONS .....                                                                                               | 66 |
| 5.4.1 OPERATING MODEL FOR SMMEs.....                                                                                    | 66 |
| 5.4.2 CHALLENGES ENCOUNTERED BY GOVERNMENT .....                                                                        | 67 |
| 5.5 MEETING OBJECTIVES.....                                                                                             | 68 |
| 5.6 GROWTH AND DEVELOPMENT FOR SMMEs.....                                                                               | 69 |
| 5.7 LIMITATIONS OF THE STUDY.....                                                                                       | 71 |
| 5.8 AREAS OF FURTHER STUDY .....                                                                                        | 71 |
| REFERENCES.....                                                                                                         | 73 |

## **DEFINITION OF KEY TERMS**

|                                                           |    |
|-----------------------------------------------------------|----|
| DEFINITION OF KEY TERMS .....                             | 16 |
| TABLE 1: ACRONYMS .....                                   | 16 |
| TABLE 2: DEFINITION OF TERMINOLOGY USED IN THE STUDY..... | 16 |
| TABLE 3: NATIONAL SMALL BUSINESS ACT DEFINITIONS .....    | 17 |

## **LIST OF FIGURES**

|                                                               |    |
|---------------------------------------------------------------|----|
| FIGURE 1: EMPLOYMENT CONTRIBUTION .....                       | 21 |
| FIGURE 2: BUSINESS & OPERATING MODEL .....                    | 22 |
| FIGURE 3: DELOITTE BUSINESS & OPERATING MODEL FRAMEWORK ..... | 23 |
| FIGURE 4: STRATEGY, BUSINESS MODEL & OPERATING MODEL.....     | 25 |

|                                                                                                   |    |
|---------------------------------------------------------------------------------------------------|----|
| FIGURE 5: INTEGRATED STRATEGY & OPERATING MODEL FRAMEWORK...                                      | 26 |
| FIGURE 6: COMPANIES WITH ROBUST OPERATING MODELS POST BETTER<br>FINANCIAL RESULTS OVER TIME ..... | 30 |
| FIGURE 7: STATUS OF THE COMPANY .....                                                             | 47 |
| FIGURE 8: BUSINESS REGULATION .....                                                               | 47 |
| FIGURE 9: SECTOR OF SMME OPERATION .....                                                          | 48 |
| FIGURE 10: FUNDING APPLICATION.....                                                               | 49 |
| FIGURE 11: OPERATING MODELS.....                                                                  | 50 |
| FIGURE 12: DEVELOPING AN OPERATING MODEL.....                                                     | 50 |
| FIGURE 13: GOVERNMENTS ASSISTANCE IN DEVELOPING AN OPERATING<br>MODEL .....                       | 51 |
| FIGURE 14: ASSESSING THE EFFECTIVENESS OF THE OPERATING MODEL                                     | 52 |
| FIGURE 15: INCREASED EFFECTIVENESS OF BUSINESS OPERATIONS .....                                   | 53 |
| FIGURE 16: INCREASED PROFITABILITY IN BUSINESS.....                                               | 53 |
| FIGURE 17: BUSINESS OBJECTIVE.....                                                                | 54 |
| FIGURE 18: KEY COMPONENTS OF THE OPERATING MODEL .....                                            | 58 |
| FIGURE 19: THE OPERATING MODEL CANVAS .....                                                       | 59 |
| FIGURE 20: ESTIMATED PROVINCIAL NET MIGRATION STREAMS, 2006-2016                                  | 67 |

## **APPENDICES**

|                                              |    |
|----------------------------------------------|----|
| APPENDIX A: DATA COLLECTION INSTRUMENTS..... | 40 |
| APPENDIX B: INFORMED CONSENT FORM.....       | 45 |
| APPENDIX C: ETHICAL CLEARANCE.....           | 48 |

## **ABSTRACT**

The South African economy is experiencing significant impact and contribution from the SMMEs sector with regards to economic activity stimulation and the creation of employment. The creation of employment and stimulation of economic activity contributes towards the effective eradication of poverty. The distinctive factor about Small Medium and Micro Enterprises (SMMEs) is their innovative approach and self determined manner of approaching business as it culminates in the creation of a conducive market as SMMEs tend to stimulate the economy through reduction of poverty, creation of employment and economic emancipation. Most SMMEs operations are normally undertaken outside mainstream economic hubs this becomes an added advantage as SMMEs have a tendency to service an untapped market and also employs inhabitants from within the areas they operate in.

As part of governmental strategic objectives in relation to economic stimulation and growth, the Gauteng Provincial Government (GPG) has undertaken to develop SMMEs through the provision of business related financial and non-financial support that will ensure the growth and sustainability of the SMMEs. It is imperative for SMMEs operating models to be developed and strengthened, this will in turn yield effective, profitable and fully fledged business that can also operate in the mainstream economy as efficient as they are operating in the other sectors of the economy.

The performance of SMMEs is hindered by various business obstacles and the inexistence of an operating model tends to be one of the pivotal obstacles for SMMEs. An effective operating model is fundamental for any business especially for SMMEs as it integrates the strategic direction and objectives that align the management and other business processes.

This study aims to explore the importance and significance of an operating model for SMMEs that are requesting funding from the Gauteng Provincial Government. The study undertook the interviewing of SMMEs registered on the Gauteng Department of Economic Development database to obtain empirical data and information pertaining to their operating models and the effectiveness thereof.

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## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 BACKGROUND OF THE STUDY**

The Gauteng Provincial Government (GPG) has over the years committed to the development and growth of the economy and of the province to alleviate poverty and reduce unemployment. The GPG in its endeavours to grow the economy of the province and reduce unemployment has embarked on the development of Small Micro and Medium Enterprises (SMMEs) through the provision of business related financial and non-financial support. The GPG has streamlined its focus in the development of SMMEs specifically located and operating from various townships within the province.

As part of the overall economic development agenda, the South African government has prioritised the provision of effective support and development of a conducive business environment, particularly in the SMME environment, as this forms a critical aspect in the economic development of the country post-apartheid. Taking into consideration the experience of other developing countries, South Africa has adopted and continues to implement policies and strategies that are favourable for SMMEs in the efforts of addressing the negative effects of apartheid and developing a robust economy (Rogerson, 2004:65).

A plethora of initiatives have been explored and implemented by government in order to assist in the development and sustainability of SMMEs. The interventional approach for SMMEs entails a number of governmental strategic interventions which includes affirmative public procurement, assistance in promoting local clusters of SMMEs (Rogerson, 2006:54), the establishment of business incubators as an infrastructural support measure, new frameworks for informal economy entrepreneurs, and the innovation of a range of local advice or support centres designed both to nurture entrepreneurship and the advancement of existing SMME entrepreneurs.

The prioritisation by government to effectively support and develop SMMEs emanates from the main objective of economic stimulation for growth and

sustainability, taking into consideration the economic growth and sustainability challenges facing the country on the backdrop of the global economic crisis and meltdown. “Small and Medium-size Enterprises (SMEs) give jobs to a large share of employees, add a considerable share to total business turnover, and make a country’s economy more flexible” (Burger, Jaklič & Svetličič 2007:36). Fundamentally, SMMEs are the generators of organic jobs, promote sustainable employment which lead to poverty eradication (Bakare, Biodun & Chidi, 2013: 97).

The United Nations Conference on Trade and Development (UNCTAD) (2005) emphasizes that “Small and Medium-sized Enterprises (SMEs) are important agents of development throughout the world, and that promoting a country’s SME sector plays a crucial role in maintaining high employment and income generation and is therefore critical for achieving sustainable growth” (cited in Bakare, et al 2013: 97). The South African economy has not been enjoying much external economic stimulation because the global economy has been severely impacted by the global economic challenges.

The primary objective for the support of SMMEs by the Gauteng Provincial Government which is parallel to the national agenda is purely to address the economic development programme which is the reduction of unemployment and eradication of poverty. The only way that this could be achieved effectively and efficiently is through the development and strengthening of SMMEs operating models in order for the said businesses to become efficient, effective, profitable and fully fledged business. Empowering SMMEs will ultimately lead to increasing the rate of employable for members of societies and communities in which they operate in thus providing economic emancipation through effective and sustainable participation. The effect of this would be significant to the economic development agenda which includes the reduction of unemployment and the eradication of poverty.

This study assists in determining the importance and significance of operating models for SMMEs and explores the SMMEs views, experiences and perceptions of having an operating model. This study also looks at the best operating approach SMMEs should utilise, taking into considerations the economic landscape of Gauteng and the environment in which they operate in. It is critical that the operating model

elements are considered when SMMEs develop operating models for implementation in their respective businesses.

## **1.2 PROBLEM STATEMENT**

SMMEs have the potential to effectively contribute to the growth of the South African economy, given the nature of businesses that are developed through this process as well as the number of people that can obtain employment from such businesses. The contribution of the SMMEs to the economy is valuable as they effectively impacted the employment statistics of the country positively given the ability to create new job opportunities and effectively reduce the unemployment rate. This further adds value as the employment created by SMMEs impacts the Gross Domestic Product (GDP) of the country (Imbadu, 2017:4).

This study aims to explore the importance and significance of an operating model for SMMEs requesting funding from the Gauteng Provincial Government. This will be established through an analysis of different views of SMMEs; a number of questions will guide the research question such as:

- Are operating models for SMMEs able to yield the desired outcomes which include profitability and growth?
- What are SMMEs experiences and perceptions of having an operating model?

These questions contribute in identifying similar or opposing views that SMMEs have, regarding the significance of an operating model when it comes to applying for funding from the GPG: Department of Economic Development. This study also provides a broader understanding of SMMEs perspective of the operating models and whether this model is developed by the Gauteng Provincial Government would have any effect when applying for funding.

### **1.3 RESEARCH AIMS AND OBJECTIVES**

#### **AIMS**

- The aim of this study is to examine and explore the significance of an operating model for SMMEs and explore the SMMEs views and experience of having an operating model.

#### **OBJECTIVES**

- Investigate the effectiveness of operating models for SMMEs;
- Investigate if operating models of SMMEs will yield profitability and growth;
- Investigate the challenges encountered by SMMEs; and
- Suggest recommendations that will eradicate or decrease the challenges and difficulties faced by SMMEs such as developing a standardised operating model

### **1.4 RATIONALE**

The GPG has realized the importance of providing the necessary support to the development of SMMEs thus creating a conducive environment in which SMMEs can operate. This support includes educating SMMEs on a number of business related matters as part of equipping them with effective business management skills and knowledge (Abor & Quartey, 2010:220). Various number of initiatives have been explored and implemented by government in order to assist in the development and sustainability of SMMEs as the “activities of the Small, Medium and Micro-Enterprise (SMME) economy in Africa are crucial for promoting job creation and poverty alleviation” (English & Henault, 1995:35).

This study does not only focus on interventions by government to stimulate economic growth by ensuring the sustainability of SMMEs, but it also looks at the significance of an operating model for SMMEs requesting funding from GPG. The choice for conducting this study is guided by the need to understand if an operating model for SMMEs is able to yield the desired business outcomes. The study also provides a broader understanding of SMMEs perspective on the operating models and if

developed by the Gauteng Government, would it have any effect when SMMEs apply for funding.

## **1.5 SIGNIFICANCE**

The realization by government to assist SMMEs is based on trying to explore other means of stimulating economic growth and ensuring sustainability, due to the challenges that are facing the growth of the country's economy as a result of the global economic crisis and meltdown. "Levels of foreign direct investment (FDI), which are essential for economic growth, declined for about two decades and recently stagnated at 2–3 per cent of world total" (Maas, 2010:97). The South African economy has not been enjoying much external economic stimulation because the global economy has been severely impacted by the global economic challenges.

The intervention by the South African government to assist SMMEs includes the provision of financial support, skills and infrastructure development to promote effective businesses operation that is aimed and increasing productivity and delivery of services. Most multinational corporations or foreign progressive businesses continue to invest by planting their business where infrastructure, governance and other business stimulating factors are well managed. This means that such business will invest in a country that has good infrastructure such as electricity, roads and transport systems that will ensure effective business operations.

The sole objective of investing or planting businesses in countries with the said capacity in terms of infrastructure is to ensure that capital cost and operational costs of the business are capped at a minimal and manageable level (Akinboade & Lalthaperstand, 2009:133). This is aimed at not only facilitating local economic growth or business development but to also encourage the attraction of investment from other external economies to increase economic activity and growth.

## **1.6 DELIMITATIONS AND ASSUMPTIONS**

### **1.6.1 Delimitations**

The Gauteng Department of Economic Development (GDED) is a GPG subsidiary agency that is established with the objective of facilitating economic development

within the Gauteng Province. GDED is entrusted by the SMMEs that register on their database with the information they provide. GDED is obligated and mandated by legislation to protect such information from being misused or misrepresented in any form in terms of the Protection of Personal Information Act.

The study only focuses on SMMEs that are registered on the GPG database which serves as an umbrella database for a number of GPG subsidiary agencies which include: The Gauteng Enterprise Propeller (GEP) and the Gauteng Department of Economic Development (GDED). SMMEs must be currently operational and reside in the Gauteng Province. SMMEs not registered on the database of GPG will be excluded from the study.

The Gauteng Province is divided into five (5) districts in terms of the GPG demarcation process, these districts are: Ekurhuleni, Tshwane, City of Johannesburg, Sedibeng and West Rand.

Accessing the required information is a mammoth task and challenge given the sensitivity of the information and the legislative obligation and protection required on the part of the GDED. Taking into consideration that GDED is a government department, tasked with the responsibility of economic development within the Gauteng Province, it is challenging obtaining the information as clearance is sort from the department and confirmation provided that the information/data required is only for the purpose of the study and that the findings should not be published for public consumption without prior approval from the GPG and GDED. This subject is hardly researched and therefore, the literature is limited.

### **1.6.2 Assumptions**

A number of SMMEs operating in the townships operate without structured and effective operating models. It is assumed that the lack of or inadequate operating models impact the effectiveness and sustainability of these SMMEs adversely.

## **1.7 PROPOSED CHAPTER LAYOUT**

The research paper consists of five chapters of which chapter one focused on providing a technical layout of information of the research paper. Chapter one also included the problem statement, research aims and objectives, significance of the study as well as the assumption and delimitations of the research paper.

The second chapter deliberated on the literature reviewed for the research. The third chapter unpacked the research methodology applied in the research this included data collection methods, data analysis methods, and sampling techniques. The third chapter also explored the study area, study design, and the methods to maintain and ensure rigour and reflexivity.

The fourth chapter encompasses comprehensive data collected in the form of closed-ended questions (quantitative) and qualitative questionnaires. An analysis of the collected data as well as the extrapolation of the information from the questionnaires will be provided in chapter four.

A comparison of the findings from the literature review, as well as findings from the data collected through the questionnaires formed part of this chapter. Arguments for and against the research and progressive input into the improvement of the study are highlighted as well as the challenges emanating from the undertaking of the study. In chapter five the research report is concluded. This chapter provides an exploration on recommendations in relation to addressing the findings as well as challenges identified in the research report.

## 1.8 DEFINITION OF KEY TERMS

### DEFINITION OF TERMINOLOGY OR KEY CONCEPTS USED IN THE STUDY

TABLE 1: ACRONYMS

|             |   |                                            |
|-------------|---|--------------------------------------------|
| <b>GP</b>   | : | Gauteng Province                           |
| <b>GPG</b>  | : | Gauteng Provincial Government              |
| <b>GDED</b> | : | Gauteng Department of Economic Development |
| <b>GEP</b>  | : | Gauteng Enterprise Propeller               |
| <b>SMME</b> | : | Small Medium Micro Enterprise              |
| <b>SME</b>  | : | Small and Medium Enterprise                |
| <b>TER</b>  | : | Township Economic Revitalisation           |

TABLE 2: DEFINITION OF TERMINOLOGY USED IN THE STUDY

|                         |   |                                                                                                                                                      |
|-------------------------|---|------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Government</b>       | : | Government is an assembly of people with the intention of manage or govern a community, unit, country or state (Oxford Dictionary)                   |
| <b>Operating Model</b>  | : | An operating model is the operational design that makes it possible to deliver a business strategy (Ashridge, 2013)                                  |
| <b>Township</b>         | : | A suburb or city of predominantly black occupation, formerly officially designated for black occupation by apartheid legislation (Oxford Dictionary) |
| <b>Township Economy</b> | : | Businesses and markets based in the township (Gauteng Province, 2014)                                                                                |

**TABLE 3: NATIONAL SMALL BUSINESS ACT DEFINITIONS**

|                                |   |                                                                                                                                                                                                                                                           |
|--------------------------------|---|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Survivalist Enterprises</b> | : | Operates in the informal sector of the economy.<br>Mainly undertaken by unemployed persons.<br>Income generated below the poverty line. Little capital invested, not much assets. Not much training.<br>Opportunities for growing the business very small |
| <b>Micro Enterprises</b>       | : | Between one to five employees, usually the owner and family.<br>Informal - no license, formal business premises, labour legislation<br>Turnover below the VAT registration level of R300 000 per year.<br>Basic business skills and training.             |
| <b>Very small enterprise</b>   | : | Part of the formal economy, use technology.<br>Less than 10 paid employees<br>Include self-employed artisans (electricians, plumbers) and professionals                                                                                                   |
| <b>Small enterprise</b>        | : | Less than 100 employees<br>More established than very small enterprises, formal and registered, fixed business premises.<br>Owner managed, but more complex management structure                                                                          |
| <b>Medium enterprise</b>       | : | Up to 200 employees<br>Still mainly owner managed, but decentralised management structure with division of labour<br>Operates from fixed premises with all formal requirements.                                                                           |

Source: National Small Business Act, 1996

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2. INTRODUCTION**

SMMEs have the potential to effectively contribute to the growth of the South African economy. The continued contribution of SMMEs in the creation of employment for inhabitants is a valuable one as it serves as a critical intervention for sustainable social and economic growth (Pathak & Tewari, 2014:35). Taking into consideration the nature of businesses that are developed through the SMME process as well as the number of employment opportunities that manifest, it is evident through various research, the contributions of SMMEs to economic growth is imperative (Chiloane-Tsoka & Rasivhetshele, 2014:138). The importance of SMMEs is however being affected by business regulations promulgated by government as it tends to create obstacles that require extensive resource input on the part of SMMEs which in most instance not available on their part (Chiloane-Tsoka & Rasivhetshele, 2014:139).

The impact of SMMEs in the economy is further impacted by their structure and their purpose of existence. This is observed on the bases that SMMEs in South Africa are generally understood as businesses that are developed or established for the sole purpose of meeting needs and requirements of consumers through the provision of consumable goods and services initially on a moderate scale. These types of businesses include but are not limited to family businesses, individually owned and managed businesses and small partnerships as well as joint ventures “SMMEs of less than 50 employees, the owner is typically the source of action in the firm, he/she is the one making important decisions regarding products and production methods, as well as offered services” (Friedrich 2004:51), 40% of the achievement and accomplishment of an SMME is dependent on the entrepreneurs themselves (Rogerson, 2001:267).

#### **2.1 THE SOUTH AFRICAN ECONOMY**

The South African economy is complex as it comprises of three categories which are the formal economy, semi-formal and informal economy. The distinction of these categories is mainly based on the types of businesses operating in each economic

category, however the distinction is not only limited to the type of business but also includes compliance with legislation and other relevant regulatory and governance prescripts of the country.

Each economic category has a specific role it plays in relation to contributing towards the growth and development of the South African economy. The informal category of the economy, mainly consists of informal types of businesses. The informal sector is a part of the economy that is neither taxed nor monitored by government and may also consists of household establishments that are not officially registered as businesses and do not have business licenses or fixed place of business (King & McGrath, 1999:27). These businesses are not fully recognized as contributors due to their unstructured and lack of compliance to the relevant legislative prescripts and systems. A number of semi-formal and formal businesses that are purely South African based in most cases emanate from the informal economy and to a large extent are categorized as Small Medium Micro Enterprises (SMME's) who effectively contribute to the economy notwithstanding their lack of compliance to legislative requirement.

However due to the complexity of the South African economy and influence by foreign markets and economies, SMMEs find it difficult to compete with larger international and local organisations this is based on the fact that no business operates in a silo given that the business world has become accessible to everyone from any part of the world. Businesses with a large global network have entered markets that were predominantly operated by SMMEs. This has resulted in most of these small businesses being overshadowed by large corporation and the sustainability of the small business is at stake (Pathak & Tewari, 2014:36). The cost of regulation and governance also contributes to the challenges SMMEs experience in terms of growth and sustainability, "only about 1% of micro enterprises that start with fewer than five employees grow to employ 10 people or more" (Friedrich, 2004:51).

For the purpose of ensuring business continuity, it is important that SMMEs have a reliable source of income and finance (Growthpoint Properties, 2011). The effectiveness of SMMEs operating models is paramount for sourcing funding of the

business through any financial institutions as well as government assistance. This will in turn encourage business sustainability and growth through business efficiency and effectiveness in line with government objectives and interventions.

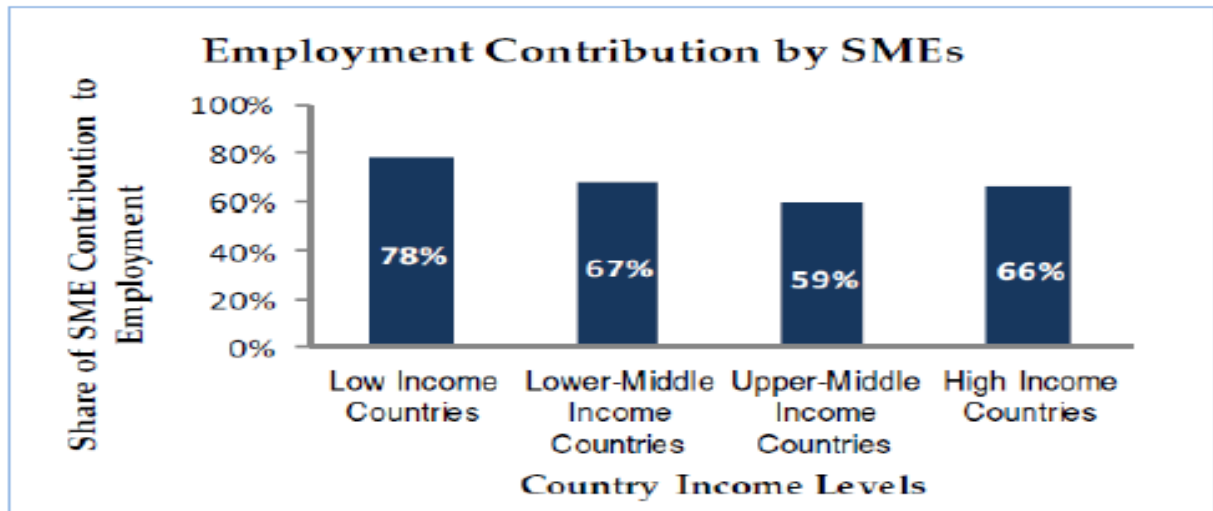
## **2.2 GOVERNMENTS AGENDA FOR ECONOMIC DEVELOPMENT**

In South Africa, the National and the Gauteng Provincial Government has begun to invest a lot of resources in developing policies, legislation and strategies to assist SMMEs this is encouraged by the positive contribution towards employment opportunities created by SMMEs (TeSai, 2014:4). This intentional intervention by government is in response to the ever rising unemployment rate, inequality and poverty based on the observation that SMMEs have become one of the key propellers of economic growth and development (Dalberg, 2011:4).

Government is mandated to explore other avenues in relation to job creation, poverty eradication and sustainability of the country's resources "private entrepreneurial activities must be enhanced, especially in Small, Medium and Micro Enterprises to create employment, foster economic development and alleviate poverty" (Akinboade & Lalthapersad-Pillay, 2009:131). The contribution by SMMEs to the South African labour market is significant as it is assisting in addressing the unemployment rate through job creation (Chiloane-Tsoka & Rasivhetshele, 2014:140).

Government has only begun to realize the impact that small businesses could have on the Gauteng economy as statistical information internationally has shown that SMMEs contribute 42% of employment in the formal economy and 2 million in informal economy (Chiloane-Tsoka & Rasivhetshele, 2014:138). The reviews of other countries employment statistics indicate that the impact of SMMEs to the labour market is significant (TeSai, 2014:5). However in South Africa some researchers have estimated that 91% of formalised businesses are SMMEs, providing employment to about 60% of the labour force and total economic output accounts for roughly 34% of Gross Domestic Product (GDP) (The Banking Association South Africa, 2016).

**FIGURE 1: EMPLOYMENT CONTRIBUTION**



Source: Dalberg, 2011:8

The promotion of the government agenda of economic development needs to be implemented on all spheres of government as this will ensure fast tracking of the process of development. The National Strategy for the development and promotion of small business in South Africa clearly highlights that the creation of an enabling environment for the development of small businesses needs to happen both nationally and provincially (TeSai, 2014:7).

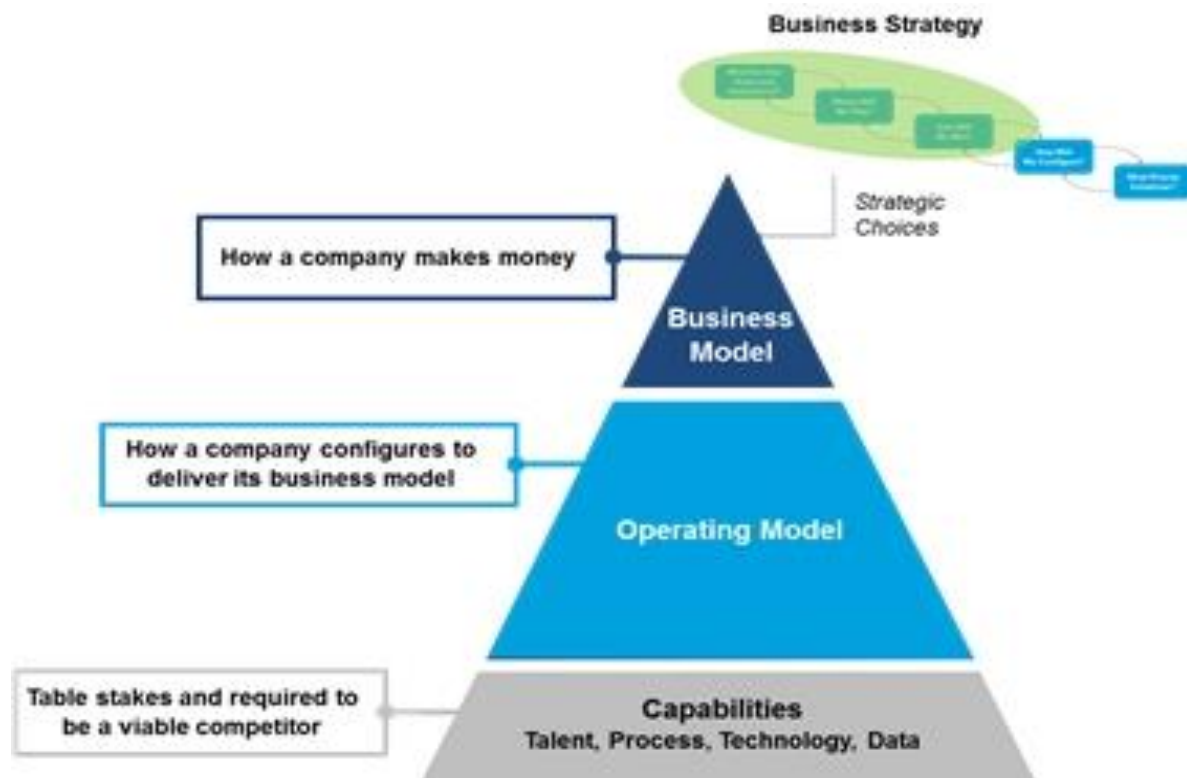
It is evident that the role of SMMEs is becoming more prominent as the bridge linking main stream business with developing businesses across various sectors as they continue to ensure innovative approach not only in the business management aspect but also the introduction of new goods and services offered in the economy (The Banking Association South Africa, 2016). The global trend of capacitating SMMEs for the betterment of economic activity is creating a conducive interactive global market whereby new ideas, improved processes and technology inclined initiatives can be implemented for effective business. This is observed not only in South Africa but also in Brazil, Russia, India, and China (BRICS) economies (The Banking Association South Africa, 2016). Fundamental to the effectiveness of the SMMEs in the various sectors of economies is the ability of the SMMEs being structured and operationally inclined to participate in their specific environments.

## 2.3 DISTINTION BETWEEN OPERATING MODEL AND BUSINESS MODEL

An operating model refers to the manner in which the business operates and how specific systems in the organisation will be implemented “it dictates where and how the critical work gets done across an organisation, it serves as the vital link between a company’s organisational strategy and the detailed organization design that it puts in place to deliver on the strategy” (Cooper et al, 2012:3).

A business plan and a business model are the fundamental foundation of a business, in which the business strategy is established. A business model “is the way in which a business generates revenue and makes profit from business operations” (Investopedia). The figure below draws a clear distinction between an operating model, business model and business strategy.

**FIGURE 2: BUSINESS & OPERATING MODEL**

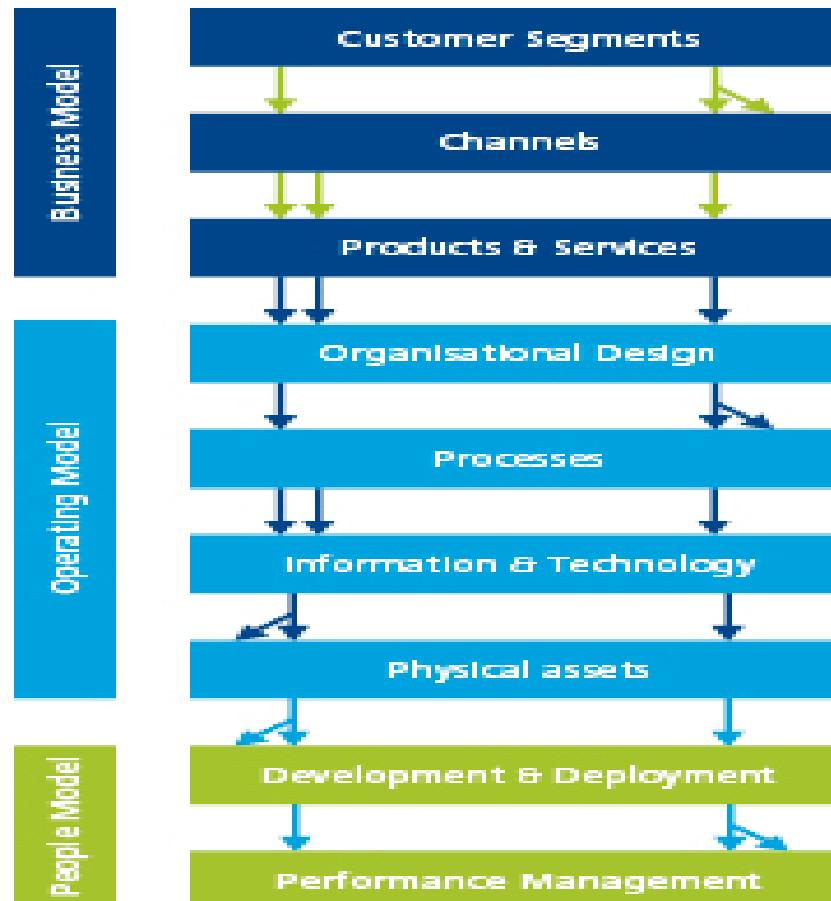


Source: Corbett, Drumm & Grimm, 2015

One may try to find a distinction between an operating model and business model however an operating model forms part of the business model “an operating model is the engine at the heart of the business model that helps make the business model work” (Ashridge, 2015:2). The Deloitte framework for business models and operating

model provides a better distinction between business and operating models. This distinction is evidently depicted in the framework below.

**FIGURE 3: DELOITTE BUSINESS & OPERATING MODEL FRAMEWORK**



Source: Ashridge, 2015: 5

It is therefore imperative for an organisation to develop and implement an operating model based on the fact that an adequate and efficient operating model ensures that the business is ultimately able to operate in any economic sector “an operating model helps drive and steer the business to a new and optimised way of working” (Ithia, 2015) be it in the main stream economy or in the secondary economy (informal sector) “having the right operating model in place goes beyond ‘doing business’” (Growthpoint Properties, 2011), this implies that entrepreneurs will be able to perform in various economies both locally and internationally as this would give entrepreneurs leverage and exposure to grow their business from being and SMMEs operating locally to being organisations that would compete globally.

## **2.4 INTERGRATING STRATEGY AND OPERATING MODEL**

A number of strategic models, methods and analysis tools exist in the business environment can be utilised for the purpose of analysing the business environment to diagnose for effective intervention. The methods of analysis used can either assess strategic alignment of the organization or the viability of the business model or the strategic alignment of the operating model.

The formation of a comprehensive strategy includes analysing the internal and external environment as well as addressing organisational weaknesses whilst exploiting industry opportunities for the benefit of the business. The strategy determines the most appropriate course of action with respect to the attainment of the organisational goals.

With the formulation process of an organisation strategy various analytical tools could be used to make strategic decisions such tools could include PESTLE analysis. PESTLE analysis is a strategic framework or tool used by businesses or organisations to analyse and monitor the environment that the business operates in (Frue, 2013). PESTLE analysis gives organisations the opportunity to view the whole environment from many different angles.

The other common utilised analysis tools or models are Porters Five Forces and SWOT/TOWS analysis, each of the tools or models defines the company's position in the market. However the distinction between the two models is that Porters Five Forces is used to analyse the competitive environment within an industry and SWOT analysis tends look more deeply at the organisation to analyse its internal potential (Ashridge, 2015:5). Porters Five Forces is a micro tool and SWOT is more a comparatively macro tool.

The distinction between the business model and an operating model is clearly illustrated in section 2.4. The business model when further alluded to in section 2.4 forces customer segmentation and needs analysis with respect to the organisation. On the other side, the operating model integrates the strategic weaknesses and opportunities with the operational requirements identified in the business model for effective interventional approach.

It is imperative that an organisation aligns and integrates its strategy with its business model as this allows the organisation to focus on achieving business outcomes which have been strategically set and outline as imperatives for the business. The alignment and integration of the organisations business model and its strategy will lead to the transformation and innovation of the organisation which will result in the organisation being business service orientated. This will consequentially ensure that the organisation moves from a cost-reduction organisation to business-outcome focused organisation.

**FIGURE 4: STRATEGY, BUSINESS MODEL & OPERATING MODEL**

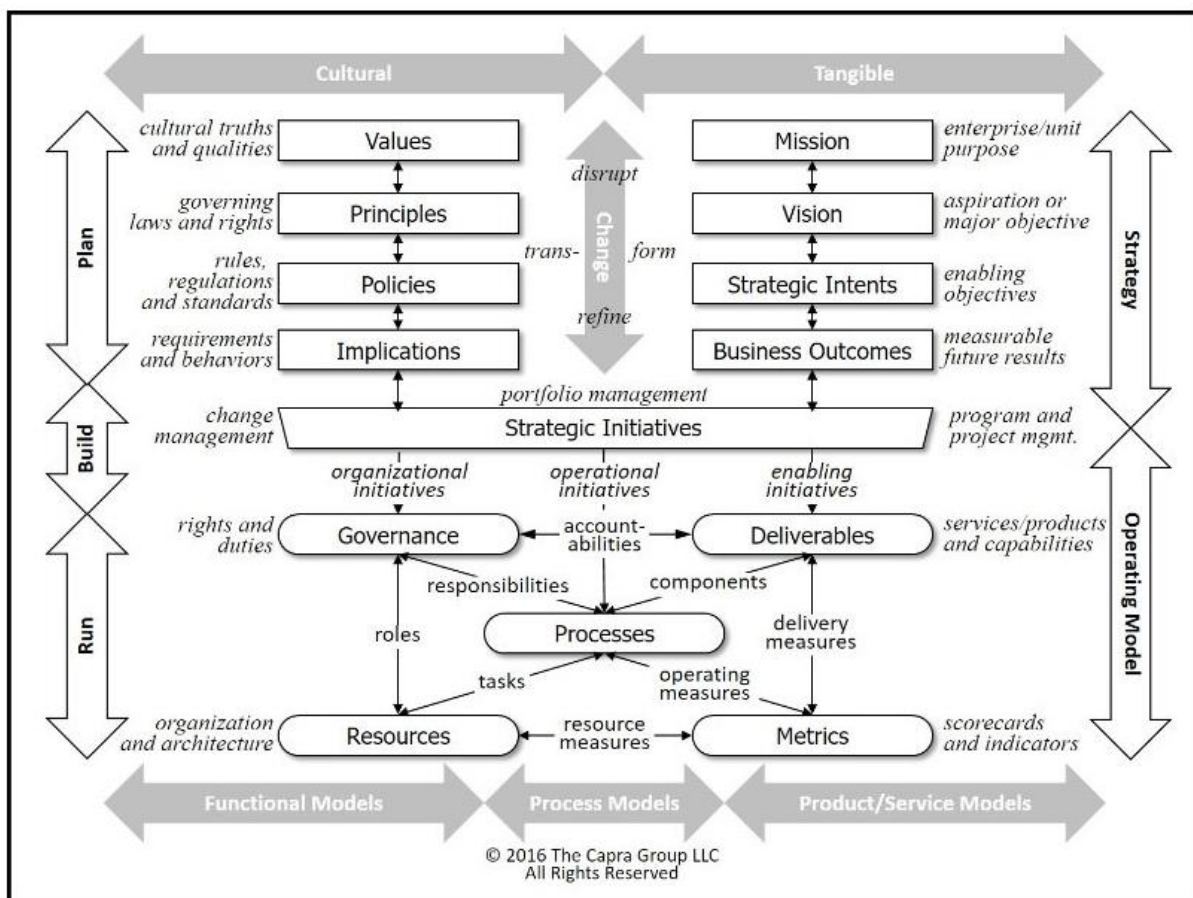


Source: Aswegen, 2015: 2

Every company or organisation should have an integrated strategy and operating model and not standalone organizational models or governance models. Tightly integrated strategies, business model and operating models create a highly energized and engaged workforce. The amalgamation of these models provides a top-to-bottom alignment and engagement of the entire organisation value chain.

Operating models, business models and strategies simplify and clarify goals, objectives, initiative, roles and processes. They uncover and resolve strengths, weaknesses, gaps and opportunities. An integrated framework unleashes creativity and innovation across an organization, it determines the direction of where the organisation is going and what strategic direction the organization is going to take and the most practical and profitable way of achieve the set goals.

**FIGURE 5: INTEGRATED STRATEGY & OPERATING MODEL FRAMEWORK**



Source: Cantrell, 2015

Figure 5 illustrates that an integrated framework forms a solid platform for execution as shared services become highly efficient, supporting operational excellence. Business units can focus on highly effective customer-oriented services and well-designed tightly integrated operating models can rapidly adjust to ever changing business conditions which support agility.

#### **2.4.1 Benefits of a clear operating model for SMMEs**

Operating models can assist SMMEs in identify projects and opportunities that will be profitable and sustainable according to Grimsley (2014) “process and strategy such as operating models assist a company in deciding where scarce resources should be used in the production of goods or services”.

The implementation of an operating model can help bridge a gap for SMMEs as when there is a persistent and significant gap between strategy, implementation and execution (Blenko, Garton & Mottura, 2014) the implementation of an operating model by SMMEs could contribute in ensuring that organisations are able to take on projects that are usually scoped outside their normal production and operating system. An “operating model can serve as a blueprint for how resources are organized and operated to get critical work done” (Bain & Company, 2014). This will be beneficial as it could encourage the utilisation of resources (including human resources) that can be allocated for the duration of a project to ensure that the tasks and resources assigned for the project are readily available for the purpose of attaining the set objectives.

Other beneficial attributes of operating models for SMMEs include the ability to forecast their needs in terms of resources, projects and income. This element of forecasting attributed to the operating model ensures that an organisation can plan and project what the future needs or demands will be as well as the relevant resources required for the satisfaction of those particular needs arising from the forecasted organisation activities, as illustrated by Heizer & Render (2013:137) “good forecasts are critical in all aspects of a business”.

Forecasting is a structured and scientific process used to predict and envisage future events and trends for the purposes of developing and implementing measures to deliver on the objectives identified by the organisation (Heizer & Render, 2013). The utilisation of forecasting could assist the SMMEs in making strategic decisions which could ensure that the SMMEs prepares for changes and challenges accordingly.

Developing effective operating models will ensure that SMMEs are able to constantly identify, develop and generate new products preferred by consumers. Operating models can also assist in SMMEs in innovatively approaching collaborations and

engagement with the private and public sector. This will further ensure that SMMEs can engage with seasoned entrepreneurs already running successful business as mentors. This innovative approach will further ensure that SMMEs are equipped with the capacity to attract and retain customers (Timm, 2015).

Operating models ensure that organisations constantly engage with their consumers and translate customer desires into target designs. Operating models also ensure that SMMEs will be producers and manufacturer producing goods and services in the shortest possible time and in the desired quality. Proficient operating models will ensure that SMMEs generate most of their revenue and profit from new products that are ethical, environmentally sound and sustainable. It is imperative that SMMEs regularly review and align their operating models in order to ensure consistency and effectiveness of the model for their businesses (Blenko, Garton & Mottura, 2014).

Operating models will ensure effectual quality control processes as quality control is a crucial element that guarantees the success or failure of a product or organisation. SMMEs can either “create their own statistical definition (or metric) by which they can measure their products or services” (Growth Coach, 2016) or they can even adhere to international standards of quality which are established and recognized by the International Organization for Standardization. An efficient quality control process conceptualised in the operating model can assist SMMEs in reducing costs in order to obtain the highest quality which would result in maximum profit, taking into consideration that all businesses established have fundamental objectives which included profit growth, market share growth and sustainability (Growth Coach, 2016).

Quality is an important element in the organisation however the cost associated with quality highly affects the profit margin. If SMMEs produce poor quality products it may directly or indirectly result in injury and lawsuits, it is important for organisation to uphold high ethical standards. This statement is further alluded to by Williams (2016) “SMMEs should focus on quality and price to gain and hold customers, instead of focusing solely on profits. SMMEs should identify their core customer base in order to build and maintain market share through continuous improvement of products and services”.

Operating models contain a critical element of process design which can effectively minimize wastage and ensure that SMMEs adhere to environmental sustainability. Process design which is “the activity of determining the workflow, equipment needs, and implementation requirements for a particular process” (Business dictionary, n.d) contributes to maximizing profit and full structural utilisation through the effective utilisation of the attributes of this process. Correct process design will enable SMMEs to meet future demands and will also allow SMMEs to fully utilise the facility. It is imperative for SMMEs to be able to adjust to technology, product features, product mix and volumes for the betterment of their business operations.

It is imperative for SMMEs to choose their location strategically as this determines their costs, operating expenses and profitability, as “location decision has a direct effect on an operations costs as well as its ability to serve customers (and therefore its revenues)” (Tutor2U, 2015). SMMEs need to expand and begin to trade internationally as world markets are expanding but it is a very complex process because political risks, cultural and economic issues, location of markets, availability of suppliers and exchange rates have to be considered. When an SMME considers its location it is important to not only consider low wage rates but also the production factors and productivity of the labour force in the region and country. Location decisions may also influence their business’ transport costs these “include the cost of getting inputs into the business (e.g. raw materials for the production line or stocks for sale) and also the cost of getting products delivered to customers” (Tutor2U, 2015).

As a business principle, business should always try be in close proximity with their main suppliers and their largest customers. This approach assists in minimising high transportation costs and could lead to cost saving that can add towards profitability. (Timm, 2015). It is also crucial for governments to offer incentives to local and international investors to encourage growth and investment in the country. Proximity to markets, suppliers and competitors plays a major role in location decisions.

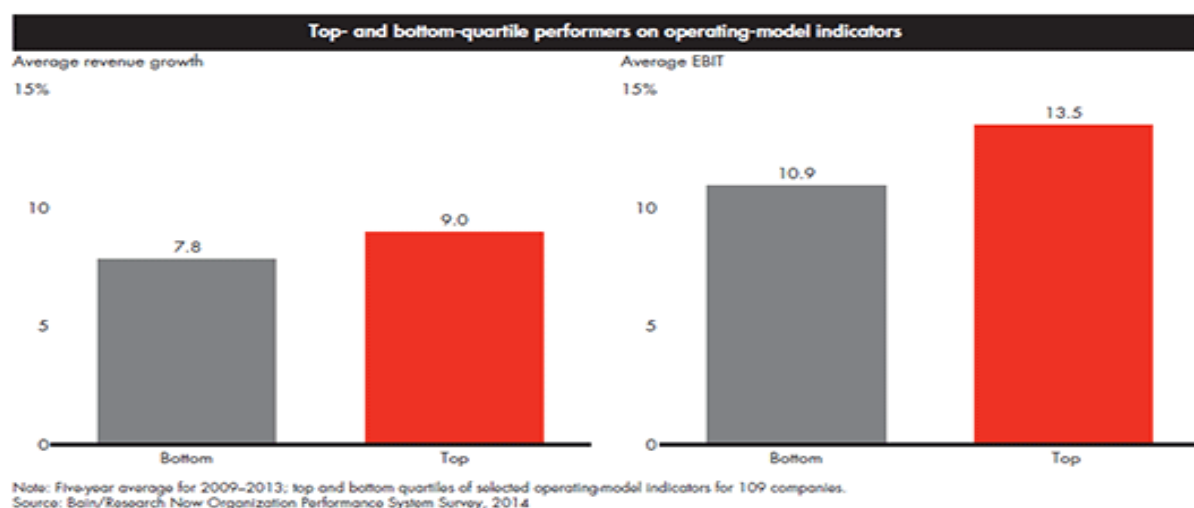
Operating models assist SMMEs to ensure that inventory required to sustain delivery on the service demanded by stakeholders is readily available. The operating model will ensure that a record of all inventory is kept, this will ensure that all damage is kept to the minimum.

Operating models will ensure that SMMEs develop a successful supply management strategy which may result in the improvement of the organisations competitiveness in the particular industry. An effective supply chain management system should guarantee improvement of turnaround times and delivery of required goods or services by stakeholders in order to contribute to the attainment of the organisational objectives of market share growth, increased quality production and profit. The implementation of the supply chain element of operations management contributes to the SMMEs sourcing, and production processes as compliance with legislative requirements in relation to procurement will be promoted through this process.

SMMEs need to develop and implement operating models in order to be competitive locally and internationally as “when SMMEs fail develop or adapt their operating models as their business strategies shift, they often struggle to remain competitive” (PWC, 2012: 3). It is evident in the figure below that companies with robust operating models tend to improve their financial results.

#### FIGURE 6: COMPANIES WITH ROBUST OPERATING MODELS POST BETTER FINANCIAL RESULTS OVER TIME

*Figure 1: Companies with robust operating models post better financial results over time*



Source: Bain/Research Now Organization Performance System Survey, 2014 (cited in Blenko, Garton & Mottura, 2014)

It is also crucial for SMMEs to consider the economic landscape in Gauteng and the environment in which they operate in, when they develop their operating models. It is also imperative for SMMEs to consider the best operating model and to establish what elements of operations management they would need to apply in order for their

business to operate effectively as “high-performing companies have set up their operating models so that organizational structure, accountabilities, governance and employee behaviours, along with the right people, processes and technology, all together to support the strategic priorities” (Blenko, Garton & Mottura, 2014). It is also important for the SMMEs to critically understand their role and contribution as viewed by the Gauteng Provincial Government and the national agenda with regards to the reduction of unemployment and eradication of poverty.

## **2.5 CHALLENGES PROMINENT IN SMMES**

SMMEs are not recognised as main stream business platforms; this tends to become an impediment to the growth of the businesses because they are unable to secure formal financial aid. This challenge for financial assistance for SMMEs is not uniquely a South African phenomenon as research states that some developing and developed countries also experience this in relation to their SMMEs (Dalberg, 2011:4). The inadequate support particularly financially, for SMMEs has a detrimental impact on the growth and development of the economy taking into consideration the role SMMEs play in the economy( Cheong & Teo ,2004). This problem becomes even more prominent in small or survivalist enterprises “the smaller the company, the lower the odds of it obtaining funding” (Shane, 2013).

SMMEs are “strongly restricted in accessing the capital that they require to grow and expand, with nearly half of SMEs in developing countries rating access to finance as a major constraint” (Dalberg, 2011:4). This continues to hinder business growth for SMMEs as they are no formal and structured processes for them to obtain financial aid. Most financial institutions strongly believe that “lending to small businesses is more expensive than lending to big companies” (Shane, 2013). Small businesses sometimes find it difficult to pay higher interest rates required by financial institutions. This therefore requires that small business should be in a possession of seriously large capital available for investment in the businesses if they will not utilise the funding from financial institutions. This is however not always possible as most businesses are not that fortunate to have large capital to invest (Beattie, 2014).

Most SMMEs are not formally structured business, it is sometimes difficult for them to attain and sustain critical skills required for the business. The lack of critical skills and

adequate funding tends to impact business development negatively and could lead to businesses not progressing or succeeding in the economy (Odendaal, 2013). The lack of knowledge and skills in most SMMEs hinders the effectiveness of the business it is therefore “important that SMMEs have ample knowledge about the industry that they are entering, their competitors, target market, current trends, advertising and marketing techniques as well as financial know-how” (Taylor, 2015). It is however very unfortunate to note that “8 of 10 small business start-ups are no longer in existence after five years due to lack of management, knowledge and skills” (Moya 2016). SMMEs often lack adequate knowledge and information and that will contribute to the strategic develop of their business. This in most instances is observed through the lack of business plans, strategic plans and operating models (Taylor, 2015).

A survival method and technique used by SMMEs is tendering. Most SMMEs embark on the tendering process for government contracts in order generate regular income; acquire skills and sustaining their business. However this approach is not dully sustainable as small business sometimes cannot survive given the time frames associated with the tendering process (Odendaal, 2013). SMMEs “need to establish whether their business is capable of meeting the requirements of the tender” (SEDA, n.d).

As part of government support of SMMEs certain conditions have been set to privilege these businesses through government processes. The conditions ensure that preservation and privileges are provided to SMMEs when conducting business with government. Government has noticed that “maintaining a business is a large challenge” (Beattie, 2014) for SMMEs, therefore government has made it “compulsory for tenders offered to large organisations to subcontract a minimum of 30% of the value to emerging suppliers including small and black-, women-or youth-owned enterprises” (Paton, 2016).

The conditions set by the government will also expose SMMEs to acquire the knowledge and skills for effective management of their businesses and assist with business diversification as “diversifying is vital to growing a business” (Beattie, 2014).

## **2.6 FACTORS THAT INFLUENCE OR IMPACT SMMEs**

Various economic factors and variables may have direct and indirect influence and effect on the potential attractiveness, consumption patterns and profitability on organisations particularly SMMEs in an economy. “Economic variables such as fiscal and monetary policies of the government, inflation, interest rates and foreign exchange rates, influence the demand for goods and services and the growth of new SMMEs” (Ehlers and Lazenby, 2013).

### **2.6.1 Inflation**

Inflation causes financial instability and uncertainty, this in turn forces consumers and buyers to restrict expenditure on goods and services resulting in a reduction of the demand of goods and services and ultimately leading to a reduced market size. SMMEs are negatively impacted by an increasing inflation rate, “the rate at which credit is made available to SMMEs is also impacted by inflation, as central banks may have to increase interest rates to control inflation which may lead to high credit costs” (Ligthelm & Cant, 2012:5; Viviers et al, 2012:4), this in turn directly affects value of wealth resulting in fewer opportunities for SMMEs.

### **2.6.2 Interest rates**

The rate at which interest is charged, has both a negative and positive influence on SMMEs profitability and growth given the availability of funding for SMMEs by government institutions focused on the development of SMMEs. These institutions by nature are established to assist SMMEs and are likely to have lower interest rate charges for SMMEs (Ligthelm & Cant, 2012:5). High interest rates can have an adversely negative effect on SMME growth and profitability as increasing interest rates “limits both consumption rates and the amount of capital that can be raised” (Viviers et al, 2012:4).

### **2.6.3 Unemployment**

Unemployment hinders the progression of entrepreneurship; a high unemployment level may result in people resorting to entrepreneurship as a mode of survival (Dollinger, 2009:43; Wickham, 2011:63). When the rate of unemployment increases,

earnings become limited resulting in restricted markets, in South Africa's current high rate of unemployment an increased number of more people are "opting for self-employment yet spending power is limited", (Ligthelm & Cant, 2012:5), this results in reduced growth or business failure.

#### **2.6.4 Tax**

A country's taxation system influences SMME development and profitability (Robertson et al, 2013:301), as increasing tax results in decreased profits for SMMEs (Ahwireng-Obeng & Piaray, 2009:78). The South African corporate tax and value added tax (VAT) costs are one of the highest tax rates in the world (Viviers et al, 2012:4) and the complication of the South African tax system raises cost even further. This has a greater impact in the cost of doing business as a large number of SMMEs struggle with administering tax returns or using the tax return system and therefore are required to seek assistance from tax experts, this is costly as most tax experts charge a fee (Luiz, 2012:65).

#### **2.6.5 Political-institutional factors and Political instability**

Political instability in South Africa's and the instability of emerging markets are a few of the factors that have a negative impact and affect the business environment. A large number of SMMEs from various regions in South Africa move into metropolitan areas such as Gauteng, Cape Town and Durban, thus increasing competition for the local SMMEs (Ahwireng-Obeng & Piaray, 2009:78).

A hostile political environment suffocates entrepreneurship and this further increases the costs of doing business as international organisations and local banks restrict access to capital, this is considered a threat to the SMME environment.

#### **2.6.6 Access to capital**

The inability to raise capital for SMMEs due to restricted access to finance from financial institution is a negative factor impacting entrepreneurship. SMMEs are unable to purchase raw materials, access skilled labour, infrastructure, distribution and transport logistics or secure the necessary expertise in order to survive during

adverse conditions and to grow their businesses so that they maybe to be competitive (Wickham 2011:71; Robertson et al, 2013:313).

## **2.7 CONCLUSION**

The literature reviewed has sought to reflect on the contribution and role of SMMEs as economic and societal drivers in South Africa and globally. Although private sector and the South African Government have acknowledged their responsibility to ensure the continuous and incessant business development support and financial support to SMMEs, a high number of SMMEs still continue to experience challenges which may result in SMME failure.

SMMEs in South Africa and globally experience challenges ranging from inaccessibility of finance, tax, political instability and government policy, inflation, marketing, interest rate, lack of infrastructure development, limited access to technology, skills development and training. To address some of the challenges encountered by SMMEs an operating model is deemed to be valuable catalyst in the SMME space. An operating model seeks to transform and integrate the strategic direction and objectives enabling SMMEs to align the management and other business processes to ensure effectiveness in their business.

SMMEs continue to be major contributors to the development of innovative businesses in the various sectors they operate in. SMMEs contribute to the creation of sustainability and competitiveness in the various sectors. This results in accelerated growth of both the SMME and the economy of the country as they also effectively contribute towards the eradication of poverty and the addressing high unemployment rates in the country.

## CHAPTER THREE

### RESEARCH DESIGN AND METHODS/ RESEARCH METHODOLOGY

#### 3. RESEARCH APPROACH AND DESIGN

This study adopted a quantitative and qualitative approach. According to Bless, Higson-Smith and Sithole (2013: 16), “circumstances or the problem under investigation demand that both approaches be used in the same study in order to confirm or elaborate each other; this is called a mixed-methods approach”. The quantitative approach has been used because quantitative data has been analysed using statistical procedures, this has enabled the findings to be generalised from a relatively small sample to an entire population. The qualitative method that has been used because it is more flexible and circular, and it has allowed the researcher to investigate a problem from the point of view of the respondent, determining what respondents “think and feel about a particular phenomenon or issue” (Bless *et al.*, 2013: 34).

The study has been undertaken from a comprehensive point of view and approach, it was imperative for a mixed methods approach to be utilised. A mixed methods approach “provide[s] the researcher with the necessary framework for discussing issues related to mixing qualitative and quantitative type of research” (Garza & Landrum, 2015: 1). A mixed methods approach is a methodology for conducting research that involves collecting, analysing, and integrating (or mixing) quantitative and qualitative research (and data) in a single study. The purpose of this type of research is that qualitative and quantitative research combined provides a better understanding of a research problem or issue than either research types alone (Welman *et al.*, 2012: 150).

This has been achieved by means of a descriptive cross-sectional study of the knowledge and practices of SMMEs within the Gauteng Province registered on the GDED database. Participants were drawn into the study using a random sampling technique. The required sample size based on the above criteria was five percent (5%) of the total SMMEs registered on the GDED database. However, in order to address the anticipated limitation of a poor response rate, six percent (6%) of the total SMMEs registered on the database received the questionnaires upon

distribution. The percentage of SMMEs in the sample is calculated based on the actual proportions of registered SMMEs on the database.

The cross sectional study has enabled a comparison of the different population groups, this allowed an observation of the various elements of the SMME operating model. The cross sectional study also determined the importance and significance of an operating model for SMMEs and also further explored the SMMEs views, experiences and perceptions of having an operating model. A cross sectional study allowed one to compare different variables at the same time. However the limits of a cross sectional study is that if it conducted over a shorter time and there will be no clarity on the cause-and-effect relationship.

### **3.1 RESEARCH SETTING**

The study was conducted in Gauteng which is one of the nine provinces in South Africa, in which most of its territory is defined by two of the nation's largest cities, Pretoria (Tshwane) and Johannesburg (Gautengonline, n.d). The Gauteng Province is divided into five (5) districts in terms of the GPG demarcation process, these districts are: Ekurhuleni, Tshwane, City of Johannesburg, Sedibeng and West Rand. GDED is provincial government department in the Gauteng Province. The Gauteng Province consists of a large number of sub-sections within the districts. Participates that were interviewed were from various sub-sections, this is done to avoid being bias towards one section in the district. The participants have been withdrawn from the GDED database and qualitative interviews were conducted in the participants business premises, quantitative questionnaires were emailed to participants.

### **3.2 POPULATION SAMPLING AND TECHNIQUE**

When research is conducted it is imperative to decide on the population in which information will be taken from. This procedure is referred to as sampling. Sampling can be described as “a process of selecting units (e.g. people, organisations, etc.) from the population of interest so that by studying the sample, the researcher may fairly generalise the results back to the population from which they were chosen” (Krauss, 2005: 758).

Sampling refers to a subset of a group (Krauss, 2005: 758). The chosen subset must be representative of the population. Purposeful sampling was the sampling technique that was used. (Krauss, 2005: 760) cites Babbie (1990:97) and states that purposive sampling is selecting a sample on the basis of one's own knowledge of the population, its elements, and the nature of the research aims.

Probability sampling method was applied in this research, simple random sampling approach was used this was done to:

1. Achieve a representative sample
2. Reduce the sampling bias by ensuring that frames and populations are sampled

The sampling strategy that was followed in this study followed this process:

- Define the population, obtain a list of the sampled population, list and number the population
- Use a probabilistic method to select the units of analysis this was done by using a simple random sampling method, this ensured that the population was represented, and that all SMMEs had an equal chance/probability of being selected reducing generalization.

This approach was deemed strategic as it is well structured and careful assessment and review of the SMMEs on the database indicated that those already registered have complied with the requirements of the department in relation to submission of required documents and information. This strategic approach was beneficial to the study and a structured population had already been established and the selection of the sample had more effective given that the required information for the purpose of the study was already in place.

### **3.2.1 Sampling criteria**

The selected population for the purpose of the research was all the SMMEs in Gauteng however the study population was SMMEs currently active and registered on the Gauteng Department of Economic Development (GDED) database within the Gauteng Province. Small Micro and Medium Enterprises (SMMEs) in South Africa are generally understood as businesses that are developed or established for the sole purpose of meeting needs and requirements of consumers through the provision of consumable goods and services initially on a moderate scale.

The selected population for the purpose of the research was the SMMEs currently active and registered on the Gauteng Department of Economic Development (GDED) database within the Gauteng Province. Five percent (5%) of the total number of the SMMEs registered on the GDED database were taken as a sample to contact a quantitative and qualitative analysis on in relation to the research topic. The analysis enabled the research to make informed findings, recommendations and conclusions on the topic research based on the analysis of the information from the sample identified and selected.

The sample value was selected with the cognisance of the fact that a large number of these SMMEs currently are not able to collate and manage their information and data which could be useful in this study hence only a five percent (5%) sample has been selected to ensure that the analysis and correlation of data and information as accurate as possible for the purposes of this study. The rationale behind the five percent (5%) sample is to also ensure consistency with the particular sector. The study analysed information from the selected sample that included: business plans/strategy, financial statements, annual reports and other compliance documents that form part of statutory requirements by legislation. The study further aimed to understand the impact of such process on the SMMEs in relation to their growth and sustainability as well as the practical day to day functioning of their businesses.

The population who applied for funding at GDED or GEP were easily identifiable however ascertaining the full number of applicants was difficult. The applicants had to meet the following criteria in order to participate.

Applicants should be:

- Registered on the GDED TER database
- Applied for business funding from the department
- Willing to participate
- Be of either sex and of any race

### **3.3 METHODS OF DATA COLLECTION**

#### **3.3.1 Data collection instruments**

Semi-structured interviews were used with the aid of semi-structured interview guides for data collection. Welman *et al.* (2012:167) explains an interview guide as including list of subjects that the interviewer should use through the course of the interview and also the order of questions in the interview guide may be varied. Semi-structured interviews were chosen because the research was aimed to understand the significance of the business models of the SMMEs and their impact on economic development within the Gauteng Province. Semi-structured interviews were chosen because they offer the researcher an opportunity to probe on vague answers and ask for explanation for inadequate answers (Welman *et al.*, 2012:167).

The interviews guides consisted of open ended questions. One advantage of adopting open ended questions and semi-structured interviews in the study is that they allowed participants to answer questions in their own words and provide more details. The weakness of employing these techniques was that participants were not completely honest in their answers. They may have just answer questions for the sake of answering or answer according to what they think researchers want to hear however that was problematic as due to time constraints the study did not look to uncover the truth.

#### **3.3.2 Data collection procedures**

A self-administered questionnaire was used to collect the quantitative data. It was written in English to ensure that the correct information that was required was provided and given the fact that most of the business process and documents submitted to the department have been in English. Participating SMMEs were approached once approval and clearance has been obtained from GDED. They were formally requested through a letter to participate in study. Upon completion, the questionnaires were submitted to a central point where they were be analysed.

Semi-structured interviews were used to collect the qualitative data as this allowed the researcher to probe and obtain clarification on some of the points given by the respondents. Bless *et al.* (2013: 27) pointed out that for interviews, data collection

may include the use of video camera and tape recorders, therefore an audio recorder was used for the collection of the data. The interview guides used consisted of open-ended questions, which allowed the participants to provide more details when answering the questions; however, a challenge existed as some participants were not completely honest when answering particular questions, which resulted in some of the information being inconsistent.

Participants were contacted and invited to participate in the study. Upon completion, the questionnaires were submitted at a central point at the Gauteng Department of Economic Development where they were collected. The semi-structured interviews were used to collect the qualitative data this allowed the researcher to probe and obtain clarification on some of the points given by the respondents.

The interviewer approached this in a manner that did not make participants feel uncomfortable when responding to interview questions. Ideally and where possible, male interviewer conducted interviews with male participants to avoid any animosity and conflict. The researcher aimed to apply reflexive methods in this throughout the process by applying proper ethics thus setting standards for the other researchers

### **3.4 METHODS OF DATA ANALYSIS**

Bless *et al.* (2013: 27) illustrates that for interviews, data collection may include the use of video camera or a tape recorder, an audio recorder was used for the data collected. The interview guides consisted of open-ended questions, which allowed the participants to provide more details when answering the questions.

Once the data had collected together, the interviews were transcribed word for word. Data was abstracted, conceptualised and thematised in order identify common themes. Coding and thematising of data and information is done when the needs to qualitatively measure variable in the study.

With the quantitative data, the data obtained was entered into a database. Each participant's data was issued a unique identifier letter. The data was edited for duplicate records, missing values/information, out-of-range values or miscoded values. In case of incomplete data, the records were checked to ensure that all the relevant information required was reassessed and obtained and entered into the

database. Backups of data were made on multiple sets of flash drives that is securely locked up in various secure locations. The data is kept in secure onsite as well as offsite. Univariate and bivariate analyses was conducted on the data. A unique identifier letter or number was used to identify participants (no participant names or identity numbers have captured).

### **3.5 MEASURES OF ENSURING RIGOUR AND TRUSTWORTHINESS**

Reflexivity can be understood as an attempt to reflect on how the researcher is positioned in a certain social, political, cultural and linguistic context (McNair, Taft & Hegarty, 2008:2). Reflexivity refers to how the research is conducted within the fieldwork that poses different challenges for proper research to be done. This refers to how people react towards the researcher during research and what the researcher does to position him/her so that he/she is not distracted from conducting research.

During interviews participants were requested to respond in English but if they do not understand, a translation in their preferred vernacular was provided to avoid them repeating themselves and not answering the questions correctly. Semi-structured interviews were chosen because this gives the researcher the chance to probe on vague answers and ask for explanation for inadequate answers (Welman *et al*, 2012:167).

Member checks were also employed for the purpose of verify the emerging theories formed during dialogue (Shenton, 2003). Particular participants were asked to provide rationale for theories observed during data analysis. It was critical for the research to undertake this phase in order for interpretations to not contradict findings from subjects. Previous research findings were be examined to assess the degree to which the study's results are congruent with those of past studies (Shenton, 2003:69). By so doing one could therefore understand similarities since other literature was done in a different context existing themes had been covered in this research. High levels of transferability are encouraged in this research meaning that findings of this research can be applied in other situations (Shenton, 2003:69).

Guba (2002, cited by Shenton, 2004: 10) illustrates that, “credibility, dependability, triangulation and transferability are commonly used to address the rigour of qualitative research studies”.

When using a qualitative research method, triangulation can be verified by employing more than one researcher or by applying a mixed method of data collection (Shenton, 2004). Both a qualitative and quantitative research method was applied in this research. The semi-structured interviews enabled one to provide themes from the data collected in the research. The closed-ended questions approach ensured that the responses that were received from the participants were interpreted and analysed in a way that allowed the information to be presented in a statistical format for the purpose of the study.

Another method of triangulation is member checking, where research participants read and validate the transcription of their interview. Member checks were also expedited; however, in this instance it was to verify the emerging theories formed during the dialogues (Shenton, 2003). It means that some participants were politely requested to give the rationale for theories observed during the data analysis. This was therefore important for the research to have undergone this phase so that the interpretations do not contradict the findings from the subjects.

The next step was to examine previous research findings to evaluate the degree to which the study’s results correspond with those of past studies (Shenton, 2003: 69). By doing so, the researcher could therefore understand the similarities since other research found in the literature was conducted in a different context word(s) missing existing themes had been covered in this research. High levels of transferability are encouraged in this research, meaning that findings of this research can be applied to other situations (Shenton, 2003: 69). From the literature review it was observed that for such research there are high chances that research of this type could provide similar results in different contexts.

The analysis of the information remained the property of the GDED given the nature of the information that will be collated as in impacts on individual SMMEs and the fact that the GDED is a government institution responsible for the development and

growth of the Gauteng Economy. It was therefore be deemed imperative of the analysis to remain a property of the organisation.

### **3.6 ETHICAL CONSIDERATIONS**

Ethical behaviour was imperative in study as in other important and significant field of human activity (Welman, 2012). Ethics are vital in research because they form guidelines and principles for the researcher. When dealing with human matters in both social biological and sciences ethics should form the foundation in research (Welman, 2012).

In this study, participants had the rights to confidentiality and were free to withdraw from the study. All participants were given assurance that their names or any identification was not used in the study at any given time, prior to the interviews, to ensure anonymity and confidentiality. Informed consent was attained by issuing out consent forms to participants who were required to sign, should they be willing to participate (see Annexure B). Protection of participants was guaranteed and what the participants shared with the researcher would not be traced back to them.

### **3.7 CONCLUSION**

This chapter discussed the research methodology applied in the research. This included data collection methods, data analysis methods, and sampling techniques. This chapter also provided an examination of the study area, study design, and the methods to maintain and ensure rigour and reflexivity. The qualitative and quantitative research method applied provided a better understanding of the research problem which was achieved by means of a descriptive cross-sectional study.

A self-administered questionnaire was used to collect the quantitative data. The interviews guides consisted of open ended questions allowed participants to answer questions in their own words, this awarded participants the opportunity to provide more details. The study population was SMMEs currently active and registered on the Gauteng Department of Economic Development (GDED) database within the Gauteng Province.

## **CHAPTER FOUR**

### **DATA ANALYSIS**

#### **4.1 INTRODUCTION**

This chapter will present the analysis and findings of the study. The aim of the study is to examine and explore the significance of an operating model for SMMEs and to further explore the SMMEs views, experiences and perceptions of having an operating model as well as determine the challenges that SMMEs encounter. The study adopted a mixed method research methodology; therefore it relied on both primary data (interviews and questionnaires) and secondary data (academic journals, textbooks, internet and articles). Data gathered from field notes made during interviews and from the questionnaires was recorded, transcribed and analysed. Field notes in this instance can be understood as detailed notes made by hand and a tape recorder which was used during qualitative interviewing (Welman, Kruger & Mitchell, 2005:52). The data was therefore sorted and coded.

The fourth chapter will further encompass comprehensive data collected in the form of closed-ended questions (quantitative: frequencies). An analysis of the collected data as well as the extrapolation of the information from the questionnaires is provided in chapter four. A comparison of the findings from the literature review, as well as findings from the data collected through the questionnaires will form part of this chapter.

#### **4.2 DESCRIPTIVE STATISTICS**

In total, forty-five SMMEs (6% of the total number of the SMMEs registered on the GDED database) were approached to take part in the interview and only forty-two SMMEs responded and took part in the interview sessions (5% of the total number of the SMMEs registered on the GDED database). Due to time constraints as a result of the lack of response from the selected population, 42 (forty-two) participants were interviewed this is regarded as sufficient to achieve saturation, even with the alluded response rate. The interview population responses were analysed and their responses ultimately correlated as the similarities were beginning to be evidently observed.

Content covered in the questionnaire included biographic details and background information of the person being interviewed in section one, a quantitative section (closed-ended questions) in section two and qualitative section (open-ended, interview questions) in section three which included financial factors, expansion and growth factors, challenges encountered by the business, support offered by the government, required support by the business, and recommendations of improvement of the business operating model.

The SMMEs that participated in the study as the sample population indicated that they have the understanding of an operating model and its importance in relation to the effective functioning of their businesses. This was evidently observed as all the participants interviewed were either directors, managing partners, managing members or founding members of the companies. The responses to the questions are detailed below:

#### **4.2.1 Section One: Background Information and Biographic Information**

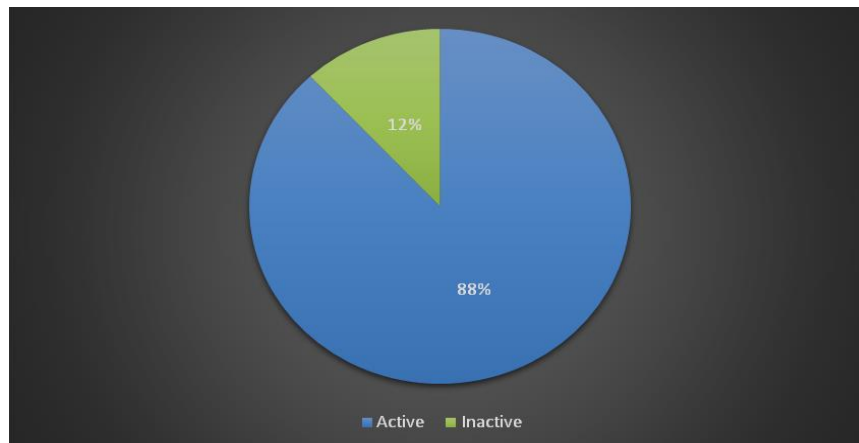
The questions asked under this section were to ascertain the age, gender and ethnicity of the people being interviewed. The data in this section gives a general profile of the respondents. In terms of gender, twenty-seven females and fifteen males were interviewed. The youngest person to be interviewed was aged twenty-five years and the oldest person interviewed was fifty-four years old. All of the respondents interviewed were of black ethnicity.

#### **4.2.2 Section Two: Quantitative Section (closed-ended questions: frequencies)**

This section explored the company details of the SMMEs interviewed. The reason was to determine the nature of the companies requesting funding from the Gauteng Government.

#### 4.2.2.1 Status of the company

**FIGURE 7: STATUS OF THE COMPANY**

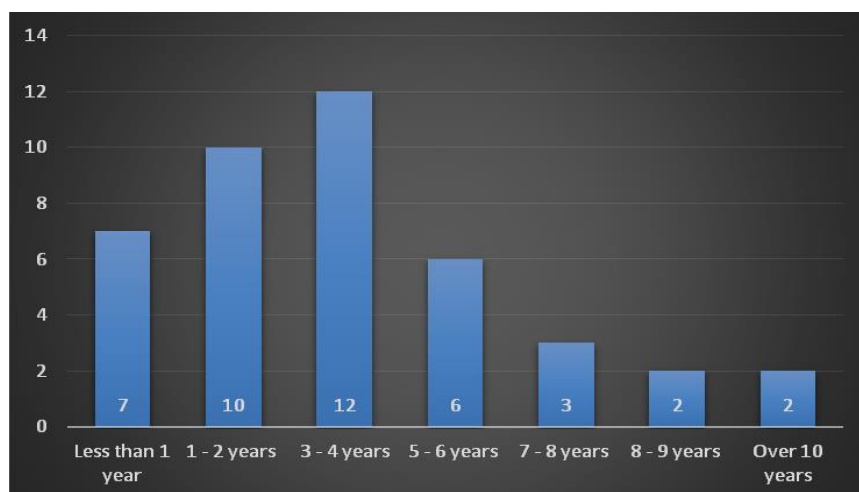


Source: By Author

Thirty-seven of the forty-two SMME's interviewed have active working companies that are currently operational (82%). 12%(5) of the SMMEs interviewed are inactive and are currently awaiting government funding in order to commence with their operations, this means that businesses are unable to afford the costs of running the business. This clearly proves Dludla's (2014) statement that "some SMMEs are unable to resume operations as they are incapable of raising funding from banks and other traditional funding institutions due to a lack of trading history, security and risk capital". All 12% of the SMME's are currently awaiting start-up capital and have never been operational since their registration.

#### 4.2.2.2 Number of years business registered

**FIGURE 8: BUSINESS REGULATION**



Source: By Author

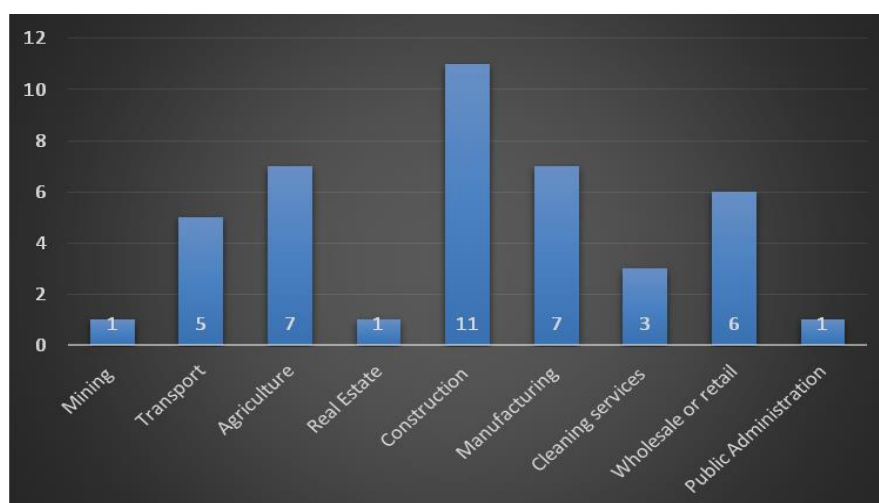
In South Africa the Companies and Intellectual Property Registration Office (CIPRO) is responsible for registering businesses. During the interview 17% (7) of the SMME's interviewed have been register for less than a year, 23% (10) of the businesses have been registered for a year but not more than two years. 28.5% (12) of the businesses have been registered between three to four years. 14% (6) of the SMMEs have between registered for five to six years and 5% (2) between eight to nine years. The other 5% (2) have been registered for over ten years.

An SMME registered in South Africa has a number of advantages. These advantages include but not limited to legal liability protect and business continuity Legal Liability Protection whereby SMMEs will not be held personally responsible for certain accidents and other liabilities. Thus, it is easier to obtain business insurance, or attract investors (Writing, 2011). Attracting investment for SMMEs is fundamental to the operations of the business as it ensures business growth and sustainability.

Business continuing is another advantage identified by Writing (2011) which is an essential element for SMME development as it provides a legitimate standing of the business as an entity, unlike informal businesses even if the owner of the company dies or becomes ill the business would continue operating. A registered business is an entity in its own right and therefore the ownership or control of the business can be assumed by another or even be sold. Neither legal liability protection nor business continuity is possible without the formal registration of the company.

#### 4.2.2.3 Business sector

**FIGURE 9: SECTOR OF SMME OPERATION**



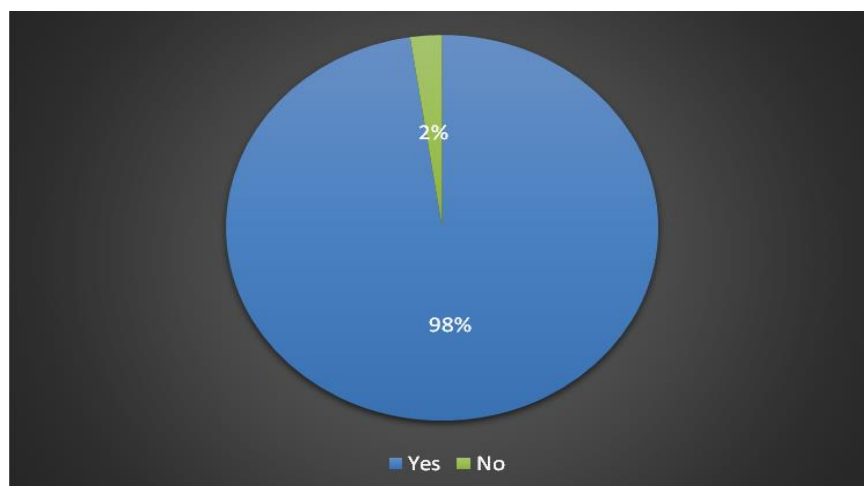
Source: By Author

It is essential that SMMEs choose the correct sector to operate in, as this can determine the success of the business, profitability, access to market, and access to investors. Investors always invest in businesses with a possible high return on investment rate.

During the interviews only 2% (1) of the SMMEs interviewed are currently operating in the mining sector, 12.5% (5) are operating in the transportation sector, 17% (7) are operating in the agriculture sector, 2% (1) of the SMMEs interviewed operate in the real estate sector, 26% (11) are operating in the construction sector, 17% (7) are operating in the Manufacturing sector. 7% (3) of the SMMEs interviewed operate in the cleaning and hygienic services sector, 14.5% (6) operate in the wholesale and retail sector and 2% (1) operate in the public administration sector.

#### **4.2.2.4 Apply for funding at a government institution**

**FIGURE 10: FUNDING APPLICATION**

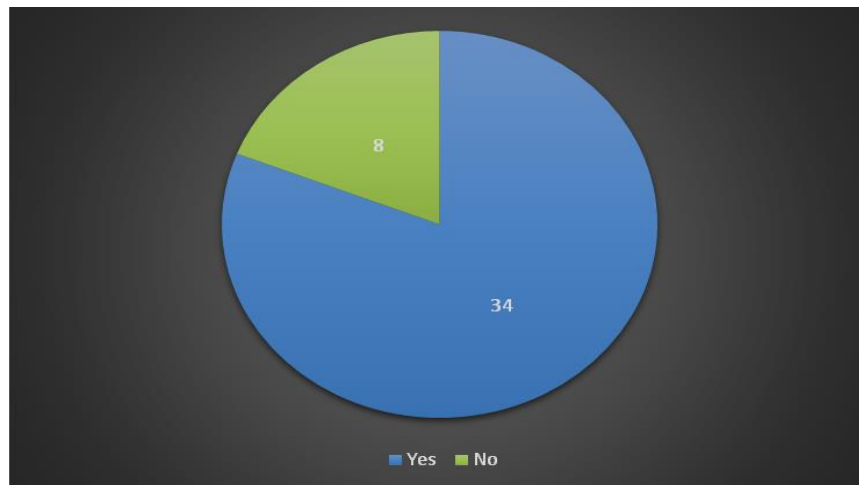


Source: By Author

Majority of the SMMEs interviewed had applied for funding and are currently awaiting government's response regarding the application for finance. The Gauteng government has a number of options in their funding portfolio. Funding may include both grants (no repayment option) and loan (reduced interest rate compared to South African financial institutions). During the interview 41 SMMEs (98%) have applied for funding and only 1 SMME (2%) is still in the process of applying for funding.

#### 4.2.2.5 Operating model of SMMEs

**FIGURE 11: OPERATING MODELS**



Source: By Author

During the interview 34 SMMEs (81%) indicated that the business has an operating model, this means that the business has a system, tool or process applied by the business to ensure growth, profitability or business continuity. 8 SMMEs (19%) interview did not have an operational model. The participants understanding of an operating model is discussed further in the qualitative analysis.

#### 4.2.2.6 SMMEs developing an operating model

**FIGURE 12: DEVELOPING AN OPERATING MODEL**



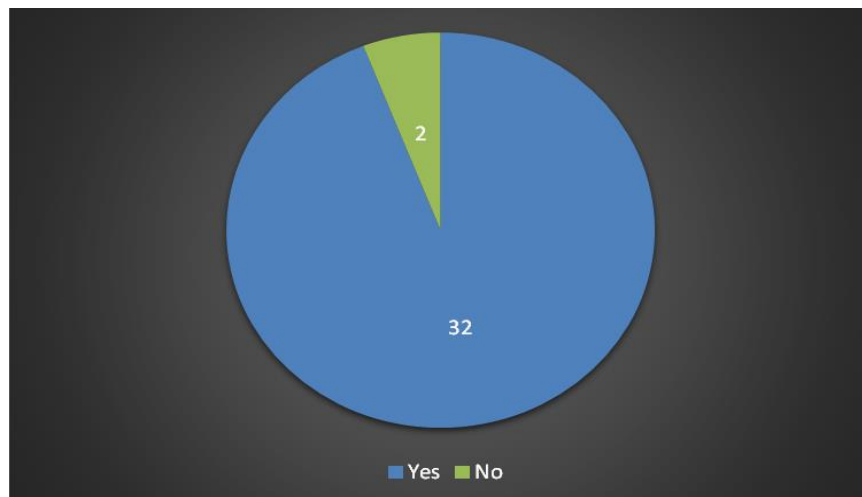
Source: By Author

81% of the SMMEs interviewed indicating that they currently have an existence operating model, 52% (18) from the initial 81% of the SMMEs interviewed have attended an entrepreneurial programme or business course that assisted them in

developing an operating model and 47% (16) from the initial 81% interviewed have not attended an entrepreneurial programme or business course to develop the model.

#### 4.2.2.7 Government assistance in developing an operating model

**FIGURE 13: GOVERNMENTS ASSISTANCE IN DEVELOPING AN OPERATING MODEL**

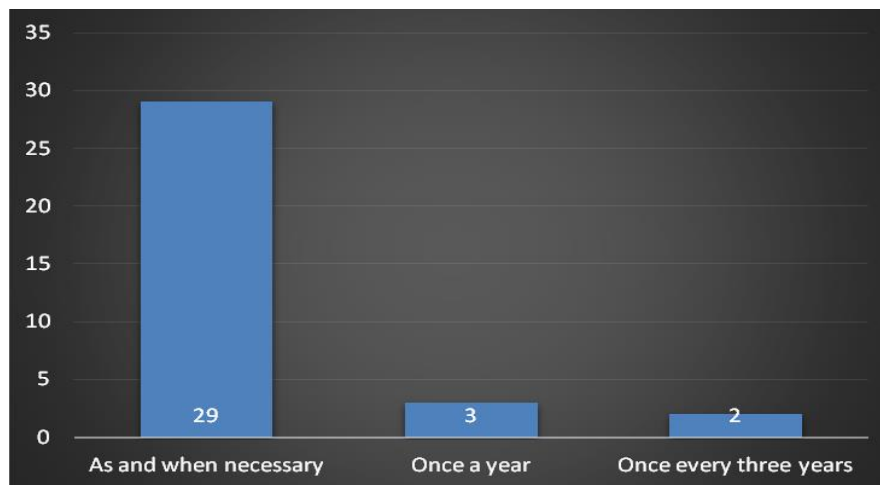


Source: By Author

94% (32) of SMMEs from the initial 81% percent of SMMEs who positively indicated that the business has an operating model, have stated that their businesses received assistance from government in developing an operating model, this was undertaken through an entrepreneurial programme or business course. The 6% (2) of the initial 81% indicated that they did not get any assistance or intervention from government to develop an operating model.

#### 4.2.2.8 Continuously assessing the operating model

**FIGURE 14: ASSESSING THE EFFECTIVENESS OF THE OPERATING MODEL**

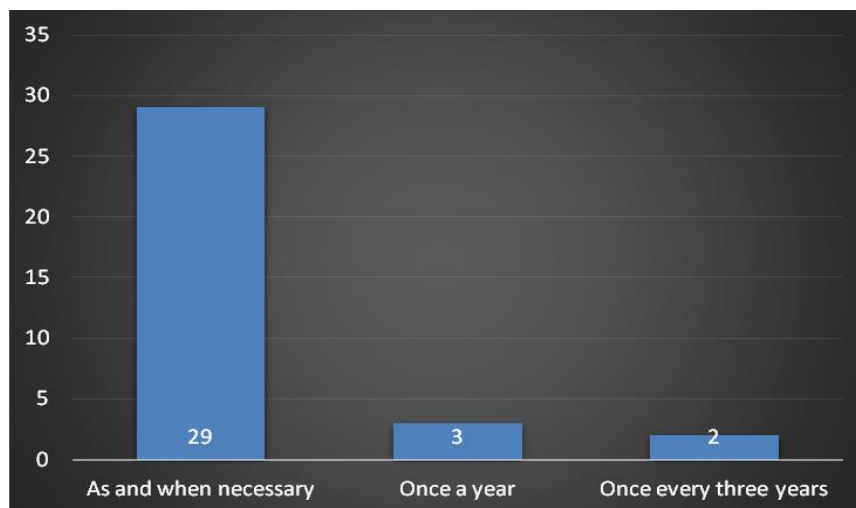


Source: By Author

It is essential for a business to continuously assess its operating model as this would assist in determining its effectiveness, reliability and ability to generate profit and effective operation of the business. 85% (29) of the SMMEs interviewed, indicated that the operating model of the business are assessed as and when necessary, 8% (3) indicated that their operating models were assessed once a year and only 6% (2) of SMMEs interviewed indicated that their operating model were assessed every 3 years.

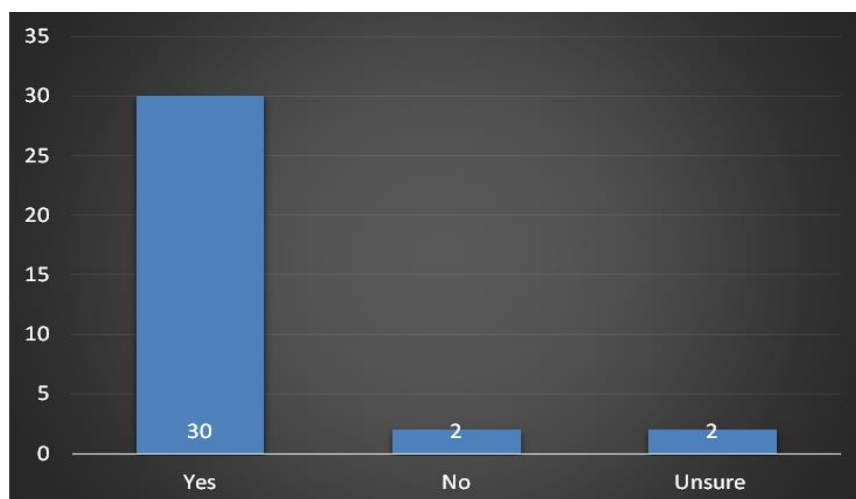
The SMMEs were further asked to indicate if the implementation of the operating model increased the effectiveness of operations in their business (this was used to determine if the operating model has had an impact in the operation of their company. 88% (30) of the SMMEs interviewed indicated that the operating model applied had increased the effectiveness of their business operations, 5% (2) of the respondents indicated that the operating models applied to their business had no effect in the operations of their business, 5% (2) of the respondents added an unsure/maybe column on the questionnaire sheet.

**FIGURE 15: INCREASED EFFECTIVENESS OF BUSINESS OPERATIONS**



Source: By Author

**FIGURE 16: INCREASED PROFITABILITY IN BUSINESS**

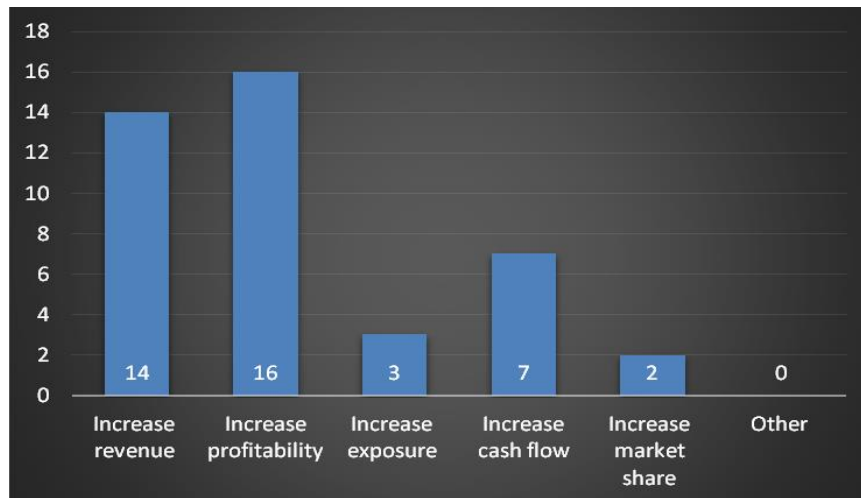


Source: By Author

Profitability is an important aspect to business operations, 88% (30) of the SMMEs interviewed indicated that the operating model applied had increased their profitability, 5% (2) of the respondents indicated that the operating models applied to their business had no effect on profit generation by the business and 5% (2) of the respondents added an unsure/maybe column on the questionnaire sheet.

#### 4.2.2.9 Business objective

**FIGURE 17: BUSINESS OBJECTIVE**



Source: By Author

“A business aim is the goal a business wants to achieve” (Business Case, 2013). The primary aim of most of the businesses interviewed was to add value which included making a profit, expanding the business and increased market share.

71% (30) of the businesses interviewed indicated that the primary aim of the business was to increase revenue and profitability in the business, a further 7% (3) of the business interviewed indicated that the primary aim of their business was to increase exposure and 16% (7) indicated that the primary aim was to increase the day to day cash flow which means that unlike looking at the overall concept of increasing profitability, the businesses trying to increase cash flow in order to stay afloat. Only 4% (2) business interviewed indicated that the primary aim of their business is to gain a market share of the industry.

#### 4.2.3 Section Three: Qualitative Section (open-ended questions)

The purpose of the qualitative section was to explore the importance and significance of an operating model. The data analysis will present the view that participants hold with respect to the significance and importance of an operating model in their respective businesses.

By making use of methodological triangulation of the data sources which is inclusive of the interview data, interview notes, research articles, newspaper articles and website information, two themes emerged from the research. This is due to the data

being conceptualised and thematised so that common themes would be identified. Coding and thematising of information is employed when the researcher wants to qualitatively measure variables of the study (Polit & Hungler, 1995:209).

The identified themes were (a) the value add of an operating model and impact that it has on the business; (b) the funding challenges encountered by business which includes the additional government support required by SMMEs. Complexity theory, chaos theory and systems theory provided the conceptual framework of the qualitative case study. The identified themes aligned with the consulted literature but due to the limited qualitative output in the quantitative study this led to an in-depth analysis in the qualitative section.

#### **4.2.3.1 Theme One: Value-add of operating model for SMMEs**

“An operating model describes how a business organises its resources to ensure its day-to-day operations support strategy” (FutureSME, 2015), an operating model also serves “as a blueprint for how resources are organized and operate to get the critical work done” (Blenko, Garton & Mottura, 2014). An operating model is the fundamental essence of a company, as it determines the strategic direction of the company and the direction that the company is to follow. In the participants’ interviewed 81% of the participants indicated that the business has an operating model. As part of the study, it was deemed imperative to ascertain the level of understanding and comprehension of an operating model by the SMMEs participating as a sample population. The following responses were observed from the participants:

“An operating model is a model that is used for the functioning and the processes of an organisation. An operating model is how you do things, it is a structured way of operating and doing day to day operational things emanating from a strategic process developed” (SMME DD, male, 5 years operating. 29 August 2017)

“An operating model is how the business is run and how the business will deliver; an operating model is like the back office of the organisation. In a store it is the processes of running the store and how the people working in the shop are organised, it is also how you manage the inventory and stock and suppliers. Every business should

have an operational model it establishes how they do things in that business and establishes how the business is run” (SMME L, female, 2 years operating. 1 September 2017).

An operating model is an important and fundamental tool in business operations. The effective utilisation or implementation of an operating model is prone to yield desired outcomes in relation to the business objectives. This in essence ensures the linkage between business vision, mission and strategic objectives. Even though the government has provided a platform to ensure that SMMEs are able to develop operating models, a large number of SMMEs are unable to apply them to their respective businesses:

“The programme offered by government does not teach us about applying the operating models in our business” (SMME B, female, 3 years operating. 29 August 2017).

“Government needs to give us funding and support to use the model because it’s hard work” (SMME E, male, 5 years operating. 2 September).

According to Dudler, Theofilou & Wright (2015) “a few organisations have a clear and consistent definition of what an operating model is, and the core capabilities needed to enable it”, the Accenture Strategy research (2015) further alludes to the fact that “more than 80 percent of executives agree that advanced operating models are an enabler of strategic growth” and “yet only 22 percent of executives say their company’s operating model is helping them put strategic growth initiatives into action”. This highlights that even though the importance of the operating model is highlighted by the SMMEs, government and private sector, the significance and usage ability is therefore relegated.

The quantitative interviews also highlighted that SMMEs do not change or adjust their operating model and a high number of SMMEs stated that changing the operating model is based on a time factor e.g. once a year or once every three years. This clearly indicated the inability to use and apply the operating model to the business as “continuously changing in the operating model can reduce a business’s ability to meet the strategic vision” (FutureSME, 2015).

A change in an operating model should be applied as and when necessary as “the current operating model is used in support of any strategy discussions to help put detail to any change plans” (FutureSME, 2015). It is therefore deemed fundamental for the business that “any significant change to a business can fail if the operating model does not support the proposed change” (Blenko et al., 2014).

The effective implementation of operating models by SMMEs can significantly improve their business operations and to a large extent contribute to their profitability. “Developing, implementing or improving an operating model can be a game changer for the organization, transforming processes ranging from decision-making to product development” (Adamopoulos, 2015). It is imperative for SMMEs to know which elements of their business need to be improved for the betterment of the operating model. The question posed is how SMMEs can improve the operating models of their businesses? The following were responses received:

“In order to improve the model of my business I need to constantly monitor the operations of my business” (SMME N, male, 4 years operating. 2 September).

“I can improve my operating model by increasing exposure and find investments in and around the system and also attend business seminars and workshops to connect to new clientele that will help me with improving my system” (SMME G, male, 2 years operating. 30 August)

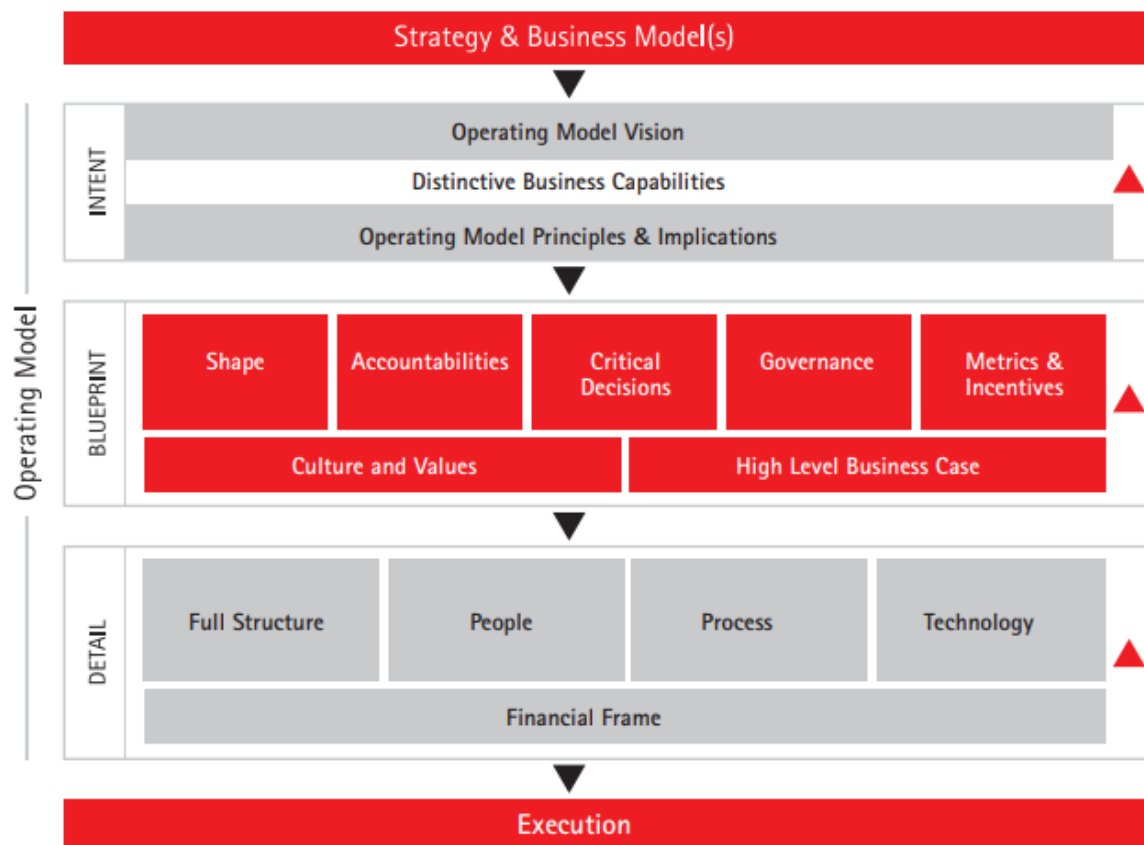
This is a clear indication that SMMEs are willing to monitor, consult and seek assistance even from external clientele to improve their business operating models.

It is important that employees in SMMEs are included in the development or the improvement of a current operating model “people are a critical pillar of a strong operating model that supports growth, as the operating model shifts, employees must transition as well” (Dudler et al, 2015), this statement is further reiterated:

Operating models can be improved by team work, brain storming & interacting with employees. Everyone counts” (SMME C, male, 2 years operating. 29 August).

The contribution of employees in an organisation can assist in the alignment of business strategy as it is imperative for a clear link between an operating model and growth strategy to be established “The operating model should be designed to support the business model and growth strategy, the C-suite must be aligned around the strategy and how to fund it” (Dudler et al, 2015). The diagram below clearly illustrates the link:

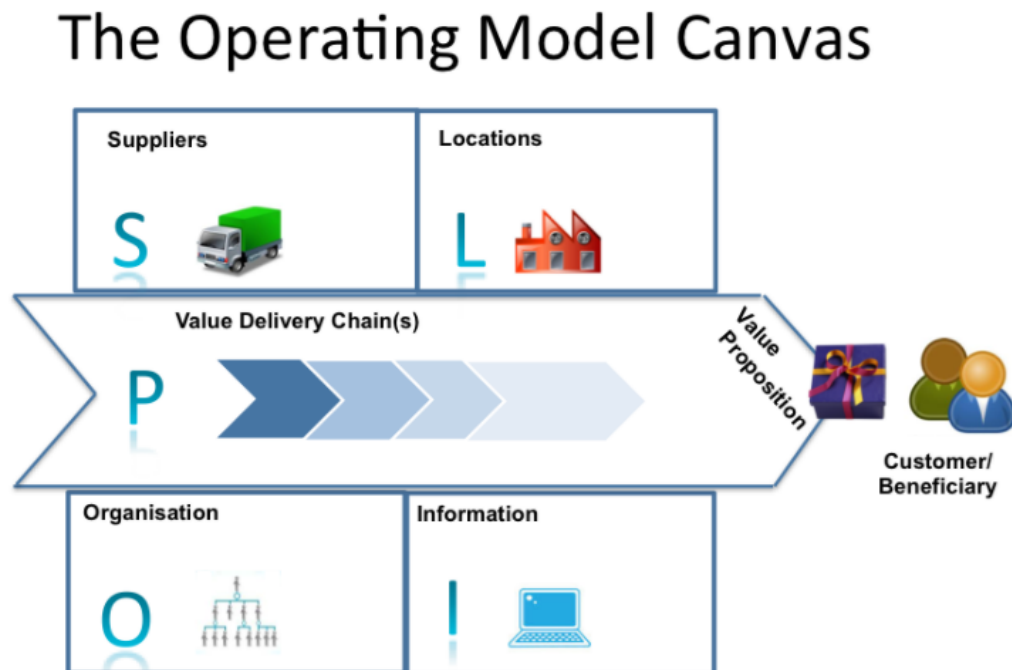
**FIGURE 18: KEY COMPONENTS OF THE OPERATING MODEL**



Source: Accenture Strategy, 2015

The linkage of the operating model, the growth strategy and business model culminate in progressive and sustainable trajectory for the business and depicted in the diagram above. The positive trajectory emanates from the fact that an operating model effectively supports growth as it encompasses all the processes and directions undertaken for the growth of the business in a systematic manner. This linkage takes into confidence the profit targets, the projected growth avenues and it also identifies the specific capabilities across the organization that are essential for market share attainment.

FIGURE 19: THE OPERATING MODEL CANVAS



Source: Ashridge, 2017

The operating model canvas above is critical to the success of the linkage of the operating model, growth strategy and business model. It is imperative for business to establish an operating model canvas as it prioritises investing in fundamental core capabilities that assist in delivering sustainably increased profit margins and growth. The benefit of the core capabilities is that it is able to contribute towards reducing, reworking and driving down costs and ultimately positively impact competitive differentiation.

#### **4.2.3.2 Theme Two: The funding challenges encountered by SMMEs and additional government support required by SMMEs**

SMMEs evidently continue to contribute towards the reduction of unemployment and significantly increase or contribute a very substantial percentage to the employment generated in the various economies “Small Medium Micro Enterprises are universally acknowledged as effective instruments for employment generation and economic growth” (Beyen, 2002:132), “SMMEs are an engine of innovation and growth and they help reduce poverty because they are labour-intensive and thus stimulate job

growth, but SMMEs are constrained by institutional and market failures” (Beck, 2013).

“In Africa, where the private sector is not well developed, SMMEs could play a critical role in stimulating development and alleviating poverty” (Beyen, 2002:132). A high number of SMMEs play a pivotal role in the growth and development of the economy but SMMEs are constrained by their limited internal resources, particularly with respect to finance, management resources and their knowledge-base compared with larger firms. Limited financial resources clearly make it harder for smaller firms such as SMMEs to support and to reap the benefits of innovative activity, particularly in terms of R&D and the marketing of new product innovations” (North, Smallbone & Wickers, 2011:305).

The number of SMMEs that participated in the study indicated that they experience funding challenges particularly for business development and growth. “The lack of adequate access to funding is one of the top reasons why SMMEs have such a high failure rate, low growth rates, and employ far fewer people than they potentially could” (Smit, 2017). SMMEs that participated in the study also indicated challenges pertaining to inadequate constructive support from government which continues to be an impediment to business growth and sustainability:

“I have challenges of capital and expenditure in order to run my business successfully. I would like the government to assist me with a financial grant for a sport development programme” (SMME M, male, 5 years operating. 2 September).

“I need start-up capital and marketing tools” (SMME S, female, 2 years operating. 2 September).

“I want funding to buy stock and market my business; I want government to help me with workshops on how to run a business” (SMME Q, female, 3 years operating. 2 September).

The support needed by SMMEs in most instances refers to business capital which includes tools, equipment, business premises and other fundamental resources generally required to start and sustain a business. “Having a high share of SMMEs

helps countries grow faster or reduce poverty at faster rates. Successful economies have more SMMEs, but their success is not explained by having lots of SMMEs but more focuses on their effectiveness in terms of economic growth and stimulation.

It is rather imperative for government to focus on eradicating or reducing financing constraint experienced by SMMEs' which will effectively contribute towards economic growth and ultimately yield poverty reduction (Beck, Demirgüç-Kunt and Levine, 2005: 1379). The addressing of the financing constraints experienced by SMMEs would significantly assist in levelling the playing field between firms of various sizes which would create a conducive business environments required to stimulate the economy for sustained growth.

The other significant challenges prominent in the SMME space is the delayed payment structure by government as “cash flow is the bloodline of small businesses as supplying to slow payers is small business suicide” (Smit, 2017). Even though SMMEs have other clientele from the Private Sector, but most of them rely heavily on business from Public Sector. “While SMMEs can rely on retail customers or other micro enterprises to pay them within 24 days on average, and other small businesses within 30 days, big business within 40 days and state sectors delay payment by anything from 54 to 64 days therefore approximately 80% of SMMEs do not do business with government” (Barners, 2017).

There are other interventions proposed by government to try and bridge the gap of financially supporting SMMEs that are likely to fail due to the lack of access to markets. The government has introduced and implemented incubation programmes. Incubation programmes “create successful enterprises with the potential to revitalise communities and strengthen local and national economies, these programmes allow SMMEs to graduate into the mainstream economy through the support provided by the incubators” (Department of Trade and Industry, 2015). Incubation programmes are one of support programmes or interventions that SMMEs stated they would require from the government:

“I would like government to help me with business management skills development and incubation skills and training” (SMME BB, male, 6 years operating. 2 September).

It is therefore imperative for the government to empower SMMEs “at policy level and interventions to push the financial system including removing regulatory constraints, related to provisioning and loan classification guidelines, collateral or loan repayment schedules, client documentation requirements, taxation issues (such as VAT on leasing), and entry barriers into the financial system” according to Beck (2015: 27).

The government further needs to support SMMEs with respect to entering the mainstream economy. Because the dealing with this matter at policy level will have an indirect impact on the financial system and as a result it could yield differential effects on the outreach efforts, however it would not give SMMEs the opportunity access markets. It might also have indirect impact by enabling the entry of new providers targeting previously unbanked entrepreneurs.

#### **4.3 CONCLUSION**

The qualitative and quantitative analysis undertaken indicated that majority of the SMMEs participating in the study share similar or identical challenges. Challenges include cash flow, funding, skills availability and training in the development and utilisation of operating model, challenges encountered regarding the utilisation of operating models as well as the benefits of effectively utilising an operating model.

In this chapter the main findings of the empirical study and the relevant information obtained and explained by means of closed-ended questions (quantitative) and qualitative questionnaires were presented.

The analysis of the collected data as well as the extrapolation of the information from the questionnaires was provided in chapter four. The various statistical techniques and methods as discussed within the scope of chapter three (research design and methodology of the study) were practically applied within chapter four.

The relevant data was captured and provided in figure format, data was also analysed from field notes gathered during data collection. Data was conceptualised and thematised.

The chapter relied on both primary data (interviews and questionnaires) and secondary data (academic journals, textbooks, internet and articles). A comparison

of the findings from the literature review, as well as findings from the data collected through the questionnaires formed part of this chapter.

Arguments for and against the research and progressive input into the improvement of the study was highlighted as well as the challenges emanating from the undertaking of the study.

## **CHAPTER FIVE**

### **CONCLUSION AND RECOMMENDATIONS**

#### **5.1 INTRODUCTION**

This chapter focuses on the conclusion of the study. It does so by summarizing the main findings and making recommendations on the significance of an operating model of SMMEs requesting funding from the Gauteng Government. This chapter will start by providing a chapter synopsis. This will be followed by recommendations and conclusion.

#### **5.2 CHAPTER SYNOPSIS**

This study consisted of five chapters of which chapter one provided a brief introduction and background of operating models of SMMEs requesting funding from the Gauteng Government. Furthermore, the chapter provided reasons why the study was conducted. Chapter one also depicts the technical layout of information of the study which included the problem statement, research aims and objectives, significance of the study as well as the assumption and delimitations of the study.

The second chapter deliberated on the literature reviewed for the research. This was undertaken to explore the different opinions, experiences and findings that other researchers have identified. The third chapter outlined the research methodology applied in the research which included data collection methods, data analysis methods, and sampling techniques. The third chapter will also provide and explore the study area, study design, and the methods to maintain and ensure rigour and reflexivity. This chapter also discussed the limitations of the study.

The fourth chapter encompassed comprehensive data collected in the form of closed-ended questions (quantitative) and qualitative questionnaires. An analysis of the collected data as well as the extrapolation of the information from the questionnaires was provided in chapter four. A comparison of the findings from the literature review, as well as findings from the data collected through the questionnaires formed part of this chapter. Arguments for and against the research

and progressive input into the improvement of the study were highlighted as well as the challenges emanating from the undertaking of the study.

In chapter five the research report will be concluded. This chapter will provide an exploration on recommendations in relation to addressing the findings as well as challenges identified in the research report.

### **5.3 CONCLUSION**

The empirical aspect of the study has yielded findings that have helped highlight the significance and importance of the operating model to ensure business success specifically for SMMEs. The most prominent theme of this study is the appropriateness or effectiveness of operating model and how it contributes to the strategy of an organisation which makes a remarkable difference in the business to be able to transform from survival to successful. In this study, it has been shown that the entrepreneurial support and assistance initiatives provided by the provincial government aimed at increasing capabilities and effectiveness deemed appropriate for business development and growth for SMMEs can assist in creation of sustainable employment and poverty alleviation.

This research has indicated that, should SMMEs be provided with skills training in; business management, strategy development and management, business model and operating model development and implementation and after support then they will effectively become important vehicles with respect to the development and transformation of economies in their respective regions.

The literature reviewed introduced various important elements within the field of SMME development, especially in the funding programmes offered by the government. In this chapter the objectives were revisited and it was indicated that all objectives had been met. The literature reviewed further indicated that the focus in SMME development for economic development purposes is not a uniquely South African thing, but a large number of countries that want to stimulate and grow their economies have paid significant attention to SMME development and support. It is further observed in the literature that key to the development and support of SMMEs is business strategy and operational excellence that is manifested by effective operating models.

## **5.4 RECOMMENDATIONS**

### **5.4.1 Operating model for SMMEs**

The effective implementation of an operating model significantly grows a business strategically and financially based on its effective process approach, however it remains the fundamental responsibility of the business owner to look for opportunities to grow their business and align with operating model to strategically focus on realisation of their vision and main business objectives.

For SMMEs to ensure their businesses are on a positive growth and profitable trajectory, it is imperative for the business to have a clear projection and plan with respect to their profit goals and where growth will come from in the future. It is further important for the business to identify the capabilities deemed essential to obtain a significant market share.

The linkage of operating model and operating model canvas to the growth strategy and business model significantly and positively impacts the effectiveness of the business in relation to growth and profitability.

It is therefore recommended that SMMEs should consider the integration of strategies, business models and operating models as part of their overall business strategy and approach. This alignment and integration will create a highly focused, energized and engaged workforce as all systems and process are integrated for efficiency and effectiveness. The integrated and aligned approach further ensures that SMMEs create a top-to-bottom alignment and engagement as well as provide a platform for bottom-to-top engagement as the information and process requires flow from both directions for effective implementation. With this approach, goals of the business are clarified and well communicated and understood by all stakeholders, objectives are outlined in a simply and understandable manner for execution and business bottom line is attainable and measurable throughout the business.

The integrated and aligned approach further assists in the SMMEs to be able to systematically uncover and resolve strengths, weaknesses, gaps and opportunities as well as assist in identify needless complexity. This process also assists in unleashing creativity and innovation across the business.

### 5.4.2 Challenges encountered by government

The Gauteng Province is deemed the economic hub as it provides support to other local provinces as well as undertakes business with other international cities and countries as mainstream economies, “Gauteng dominates South Africa’s economic activities the province accounts for 35 percent of the country’s total output” (Molokwane, 2014). The Gauteng Government and its local municipalities’ experience significant pressure emanating from the influx of a large number of people coming into Gauteng to seek opportunities and a better life “Gauteng is the most attractive migration destination in South Africa, South Africa has by far the largest economy in Africa” (Mthalande, 2015). The figure below indicates that “it is estimated that, between 2011 and 2016, Gauteng has received a higher number of migrants than any other province, yet the Eastern Cape, Free State and Limpopo are experiencing net population outflows” (Gauteng Provincial Government, 2016).

Figure 1.10: Estimated Provincial Net Migration Streams, 2006-2016

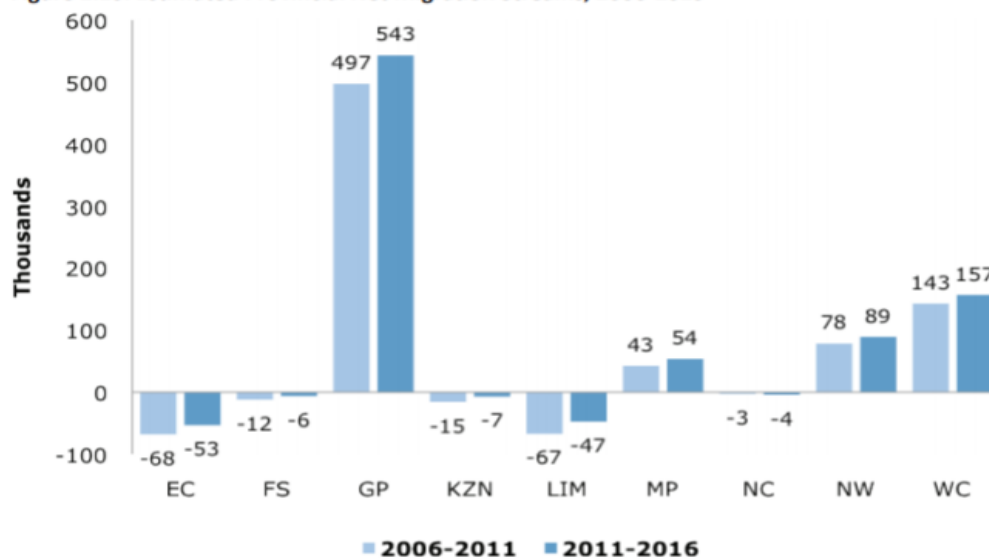


Figure 20: Estimated Provincial Net Migration Streams, 2006-2016

Source: Gauteng Provincial Government, 2016

This poses a challenge as the lack of skills, financial constraints and experience most new migrants turn to the government in search for access to entrepreneurial opportunities as the job opportunities are not sufficient or accommodative for the increased number of job seekers “rapid population growth and falling household size extended the service delivery challenge facing these municipalities” (Donnelly, 2012). This becomes a challenge for the government as budgetary constraints resulting from influx of migrants with expectation and a view of a better life.

The challenges arise when the Gauteng Government has budgeted for a certain number of people who reside in the Gauteng Province but the increased need emanating from the influx of large number of inhabitants coming into the Province seeking the financial intervention of government. “Rapid urbanisation can cause social problems, cities around the world are not only centres of economic opportunity but also concentrations of poverty, unemployment and inequality, and South Africa is no exception to this” (Gauteng Provincial Government, 2016).

In the response to the social challenges such as poverty and unemployment, the government provides training and business development initiatives to SMMEs in order to stimulate the economy and promote entrepreneurship. The government initiatives approaches is more focused on management programmes, skills development, and the development of models such as operating models and business model development in order to increase and promote more structures and sustainable businesses. However due to the increased urbanisation and influx of people into the cities, the government is unable to effectively support all those SMMEs as the number as become too large to address in one financial year given the available budget and resources.

## **5.5 MEETING OBJECTIVES**

The study was aimed at effectively undertaking and addressing the research objectives which were viewed as the basis for the study. Significant progress was made in the attempt to address the set objectives. This section outlines each objective and the progress thereof.

### **5.5.1 Investigate the effectiveness of operating models for SMMEs**

Through the literature reviewed and the mixed method research approach undertaken, the study has provided in-depth information and understanding on the effectiveness of operating models for SMMEs. The study has further yield valuable information and insight on the best practice approach for effective operating model development and utilisation for the benefit of SMMEs.

### **5.5.2 Investigate if operating models for SMMEs will yield profitability and growth**

The success of any business is determined by the profitability, market share and sustainability of that particular business. The study has provided insight on the relationship between an effective operating model and the profitability of the business. This has been evidently observed from the literature reviewed and the qualitative analysis undertaken with the target population. Through the study, the population indicated that the profitability of their business depends on the strategic approach in business management and operations. Therefore the effectiveness of an operating model is evidently deemed to yield profitability for SMMEs.

### **5.5.3 Investigate the challenges encountered by SMMEs**

The stimulation and growth of the South African economy is the priority on governments' agenda. This requires serious commitment from government, private sector and the society. The role of SMMEs is deemed to be fundamental in the economic development agenda and therefore the current approach, support and assistance accorded SMMEs is deemed inadequate. This is evidently observed through the literature and study as majority of the SMMEs still find it extremely difficult to establish operational businesses that can generate employment and economic activity. Majority of the SMMEs still have challenges with funding, business management training, strategy development inclusive of operating models and lack of access to sustainable business ventures.

It is evident that the study has significantly addressed the objectives that were set out in terms of the approach for the study. This has been achieved through the various research methodology and structure research process.

## **5.6 GROWTH AND DEVELOPMENT FOR SMMES**

SMMEs contribute significantly to the growth of the South African economy as they tend to create employment and assist in the alleviation of poverty. According to the research from the National Treasury Research (2008) "eight out of every ten new jobs created in South Africa are in through SMMEs". SMMEs have become vital for creating a conducive market as they are predominantly innovating and driven in

terms of their approach to business, this has in turn stimulated the economy through reduction of poverty, creation employment and economic emancipation. The most effective element about SMMEs is the fact that they are predominantly located outside of the big metropolitan areas which provides an opportunity to employ local people within their areas of operation thus alleviating poverty by encouraging economic activity.

The effectiveness and sustainability of SMMEs will depend on them optimising on every opportunity notwithstanding the current financial depression South Africa is experiencing and the global financial crisis impacting the value of the rand. However this could very well be an opportunity to for SMEs to bringing about more attractive relative prices of exports and import-substituting goods and services offered by main stream corporations. It is evident that in the current economic environment, an agile businesses that can respond appropriately stand to benefit.

Intervention by government through a structured education system or training programme inclusive of a developmental and implementable strategic models such as operation models and business models to support SMMEs in the country would aid in enhancing and elevating skills level among the workforce and empowering potential entrepreneurs to realise that potential.

The sustainable development and growth of SMMEs is imperative for stimulation and growth of the country's economy and its sustainability in general. This critical objective can be attained through institutions such as the South African Reserve Bank (SARB) and Public Sector Institutions established with sole purpose of economic growth and sustainability. These institutions are tasked with the responsibility of being enabling role players in providing a stable platform for economic participants through the effective regulation of price and ensure effective financial stability and governance. The role of the SARB and government also includes fiscal regulation and management by ensuring that the country has a well-contained inflation rate resulting in less volatile interest rates that will promote a state of control in terms of the country's financial system. A well managed and controlled financial system will create a conducive environment that promotes the development and sustainable growth of SMMEs.

## **5.7 LIMITATIONS OF THE STUDY**

This study deduced critical information from empirical literature to determine the significance of the operating model for SMMEs apply for funding from a Gauteng Government Department, this subject is hardly researched and therefore, the literature is limited. "It should be noted as it is widely accepted that all forms of research have certain limitations" (Cooper & Schindler, 2008:616; Dahlqvist, Davidsson, & Wiklund, 2000:17).

Accessing the required information was also a mammoth task and challenge given the sensitivity of the information and the legislative obligation and protection required on the part of the GDED. Cognisant of the fact that the Gauteng Government is tasked with the responsibility of protecting information for the Gauteng Province, it is evident that the accessing of information was also a challenge and the clearance for access to information was sort from the department and confirmation provided that the information/data required is only for the purpose of the study and that the findings should not be published for public consumption without prior approval from the GPG.

It was also a challenge to find SMMEs who had existing operating models and a private training service provider contracted by the Gauteng Government had to be contacted to disseminate the questionnaire as private training providers do not give training manuals to Gauteng Government officials or its agencies officials in fear of a dissemination of information by employees. The inability to access the training manual created a challenge as the training service provides training on both the development and implementation of the business model and operating model. The inability to access the manual presented a challenge as one could not determine the actual model applied, however the information gathering through various research methods utilised to obtain information from SMMEs that participated in the study provided better insight in relation to their understanding and purpose of an operating model.

## **5.8 AREAS OF FURTHER STUDY**

There is a need to further explore the significance of the operating model of SMMEs as well as the challenges encountered by the Gauteng Government and its agencies funding SMMEs as a number of challenges have been mentioned by the SMMEs

with regard to the operating model and its significance, importance and impact. A number of challenges have also been attributed to the Gauteng Government and its agencies, there is, therefore, a need to investigate the significance of the operating model of SMMEs as well as the challenges encountered by the Gauteng Government and its agencies face in funding SMMEs.

Over a period of time, researchers in the country have embarked on a number of studies on the significance, importance and impact of the operating model for larger and established private businesses generating high levels of profitability, but neglect the start-up micro enterprises and medium enterprise. The regular assessment and exploration of such matters is imperative in the country to ascertain the progress and impact therefore taking into consideration the value of SMMEs in the economy and the country in general. This study has attempted to make a contribution to this research and has significantly come out with valuable findings and recommendations.

This study recommends that the less successful SMMEs in Gauteng be exposed to outcome based training and after support aimed at developing key skills and knowledge on key and strategic models and after support provided by the provincial government. This will enhance their businesses and enable them to grow their businesses that would compete in the mainstream markets.

It is greatly envisage that the findings of this study will effectively contribute in the areas of theory, the development appropriate training programmes and methodology as well as policy formulation in the various departments mandated with the responsibility of developing and promoting the SMME sector. It is further envisaged that future research would endeavour to probe other avenues in this phenomenal critical area. It is imperative that the effective development and support for SMME is prioritised by the researcher in order for the research to be illuminating.

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**APPENDIX A**  
**DATA COLLECTION INSTRUMENT(-S)**

## QUESTIONNAIRE

### NORTH-WEST UNIVERSITY

#### THE SIGNIFICANCE OF AN OPERATING MODEL FOR SMME'S REQUESTING FUNDING FROM THE GAUTENG GOVERNMENT

|                      |  |
|----------------------|--|
| NAME OF BUSINESS     |  |
| YEAR OF REGISTRATION |  |

#### PURPOSE OF THIS QUESTIONNAIRE

The purpose of this questionnaire is to collect information and understand the significance and effectiveness of the operating model of SMMEs requesting funding from the Gauteng Government. The data collected in this questionnaire will determine the importance and significance of an operating model of SMMEs. This will assist the Gauteng Government in understanding that importance and significance of operating model for SMMEs. These questions may also provide a broader understanding of SMMEs perspective of the operating models and whether this model has any effect on the success, growth and output of an organisation. The questionnaire may also highlight the challenges SMMEs face with regards to sustainability in full participating in the economy, as well as the challenges SMMEs experience. The study further aims to evaluate the impact of small business on the social and political stability within the Gauteng economy.

#### Definitions

- An operating model is a visual illustration of how a business is run and how the business will delivers value to its customers.
- An operating model dictates where and how the critical work gets done across a business, it serves as the vital link between a company's strategy and the detailed organization design that it puts in place to deliver on the strategy (Cooper et al, 2012).

## QUESTIONNAIRE

### NORTH-WEST UNIVERSITY

#### **SECTION ONE: BACKGROUND INFORMATION**

##### **INSTRUCTIONS:**

PLEASE ANSWER ALL QUESTIONS

FOR THE STATEMENT BELOW,

PLEASE TICK ONLY ONE BLOCK MOST APPLICABLE TO YOUR BUSINESS

1. AGE

- ☐ 18 – 24
- ☐ 25 – 34
- ☐ 35 – 44
- ☐ 45 – 54
- ☐ OVER 55

2. GENDER

- ☐ FEMALE
- ☐ MALE

3. RACE / ETHNICITY

- ☐ INDIAN
- ☐ MIXED RACE
- ☐ BLACK
- ☐ WHITE

## QUESTIONNAIRE

### NORTH-WEST UNIVERSITY

#### **SECTION TWO: QUANTITATIVE SECTION**

##### **INSTRUCTIONS:**

PLEASE ANSWER ALL QUESTIONS

FOR THE STATEMENT BELOW,

PLEASE TICK ONLY ONE BLOCK MOST APPLICABLE TO YOUR BUSINESS

##### 1. OPERATIONAL STATUS OF THE COMPANY

|          |  |
|----------|--|
| ACTIVE   |  |
| INACTIVE |  |

##### 2. NUMBER OF YEAR BUSINESS REGISTERED

|                  |  |
|------------------|--|
| LESS THAN 1 YEAR |  |
| 1 – 2 YEARS      |  |
| 3 – 4 YEARS      |  |
| 5 – 6 YEARS      |  |
| 7 – 8 YEARS      |  |
| 8 – 9 YEARS      |  |
| OVER 10 YEARS    |  |

##### 3. BUSINESS SECTOR (WHAT IS THE MAIN ACTIVITY OF YOUR BUSINESS?)

|                       |  |
|-----------------------|--|
| MINING                |  |
| WHOLESALE OR RETAIL   |  |
| AGRICULTURE           |  |
| CONSTRUCTION          |  |
| TRANSPORTATION        |  |
| PUBLIC ADMINISTRATION |  |
| MANUFACTURING         |  |
| REAL ESTATE           |  |
| CLEANING              |  |

##### 4. HAVE YOU APPLIED FOR FUNDING FROM A GAUTENG GOVERNMENT DEPARTMENT?

|     |  |
|-----|--|
| YES |  |
| NO  |  |

## QUESTIONNAIRE

### NORTH-WEST UNIVERSITY

#### SECTION TWO: QUANTITATIVE SECTION (CONTINUED)

##### INSTRUCTIONS:

PLEASE ANSWER ALL QUESTIONS

FOR THE STATEMENT BELOW,

PLEASE TICK ONLY ONE BLOCK MOST APPLICABLE TO YOUR BUSINESS

5. DOES YOUR BUSINESS HAVE AN OPERATING MODEL?

|     |  |
|-----|--|
| YES |  |
| NO  |  |

6. HAVE YOU ATTENDED AN ENTREPRENEURSHIP OR BUSINESS TRAINING COURSE THAT HAS ASSISTED YOU IN DEVELOPING AN OPERATING MODEL

|     |  |
|-----|--|
| YES |  |
| NO  |  |

7. HAS THE GAUTENG GOVERNMENT ASSISTED YOU IN DEVELOPING AN OPERATING MODEL

|     |  |
|-----|--|
| YES |  |
| NO  |  |

8. HOW OFTEN DOES YOUR BUSINESS FORMALLY ANALYSE AND ASSESS THE EFFECTIVENESS OPERATING MODEL

|     |  |
|-----|--|
| YES |  |
| NO  |  |

9. HAS THE OPERATING MODEL INCREASED THE EFFECTIVENESS OF OPERATIONS IN YOUR BUSINESS?

|     |  |
|-----|--|
| YES |  |
| NO  |  |

## QUESTIONNAIRE

### NORTH-WEST UNIVERSITY

#### **SECTION TWO: QUANTITATIVE SECTION (CONTINUED)**

##### **INSTRUCTIONS:**

PLEASE ANSWER ALL QUESTIONS

FOR THE STATEMENT BELOW,

PLEASE TICK ONLY ONE BLOCK MOST APPLICABLE TO YOUR BUSINESS

10. HAS THE OPERATING MODEL INCREASED PROFITS IN YOUR BUSINESS?

|     |  |
|-----|--|
| YES |  |
| NO  |  |

11. WHAT IS THE MAIN OBJECTIVE OF YOUR BUSINESS?

|                          |  |
|--------------------------|--|
| INCREASE REVENUES        |  |
| INCREASE PROFITABILITY   |  |
| INCREASE EXPOSURE        |  |
| INCREASE CASH FLOW       |  |
| INCREASE MARKET<br>SHARE |  |
| OTHER                    |  |

## QUESTIONNAIRE

### NORTH-WEST UNIVERSITY

#### **SECTION TWO: QUALITATIVE SECTION**

##### **INSTRUCTIONS:**

PLEASE ANSWER ALL QUESTIONS  
FOR THE STATEMENT BELOW,  
PLEASE PROVIDE IN-DEPTH INFORMATION

1. WHAT IS YOUR UNDERSTANDING OF AN OPERATING MODEL?

---

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2. WHAT FUNDING CHALLENGES DOES YOUR BUSINESS ENCOUNTER?

---

---

3. EXPLAIN AND ELABORATE THE SUPPORT OFFERED BY THE GAUTENG GOVERNMENT TO THE BUSINESS

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4. WHAT OTHER SUPPORT WOULD YOU LIKE THE GAUTENG GOVERNMENT TO OFFER TO YOUR BUSINESS (EXCLUDING FUNDING)?

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---

5. HOW LONG HAVE YOU USED THE OPERATING MODEL?

---

---

6. HOW DO YOU THINK YOU CAN IMPROVE THE OPERATING MODEL OF YOUR BUSINESS?

---

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**APPENDIX B**  
**INFORMED CONSENT FORM**

## **QUESTIONNAIRE**

### **NORTH-WEST UNIVERSITY**

#### **THE SIGNIFICANCE OF AN OPERATING MODEL FOR SMME'S REQUESTING FUNDING FROM THE GAUTENG GOVERNMENT**

#### **CONSENT FORM FOR PARTICIPATING IN A RESEARCH STUDY**

**Research Conducted by:**

**Mrs A Sibiyi 25336339**

**Cell: 0614296362**

Dear Participant

#### **Description of the research and your participation**

You are invited to participate in a research study conducted by Ayanda Sibiyi, the purpose of this questionnaire is to collect information and understand the significance of an operating model for SMMEs requesting funding from the Gauteng Government.

The data collected in this questionnaire will determine the contribution of an effective or ineffective the operating model of SMMEs. This will assist the Gauteng Government in understanding that the success or failure of a business may be determined by the operating model. These questions may also provide a broader understanding of SMMEs perspective of the operating models and whether this model has any effect when applying for funding. The questionnaire may also highlight the challenges SMMEs face with regards to sustainability in full participating in the economy. The study further aims to evaluate the impact of small business on the social and political stability within the Gauteng economy.

#### **Protection of confidentiality**

Please note the following:

- This is an anonymous study survey, the answers you give will be treated as strictly confidential as you cannot be identified in person based on the answers you give.
- Please answer the questions in the attached questionnaire as completely and honestly as possible. This should not take more than 30 minutes of your time.
- The results of the study will be used for academic purposes only and may be published in an academic journal. We will provide you with a summary of our findings on request.

## QUESTIONNAIRE

### NORTH-WEST UNIVERSITY

#### THE SIGNIFICANCE OF AN OPERATING MODEL FOR SMME'S REQUESTING FUNDING FROM THE GAUTENG GOVERNMENT

#### CONSENT FORM FOR PARTICIPATING IN A RESEARCH STUDY

**Research Conducted by:**

**Mrs A Sibiya 25336339**

**Cell: 0614296362**

#### **Voluntary Participation**

Your participation in this research study is voluntary. You may choose not to participate and you may withdraw your consent to participate at any time. You will not be penalized in any way should you decide not to participate or withdraw from this study.

#### **Contact information**

If you have any questions or concerns about this study or if any problems arise, please contact Mr Johan Jordaan at North-West University at 018 299 1338

#### **Consent**

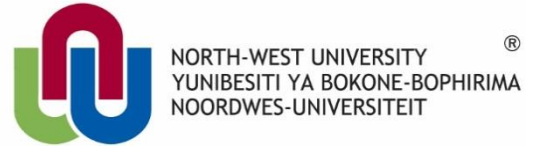
##### **Please indicate that:**

You have read this consent form and have been given the opportunity to ask questions.

You give my consent to participant in this study.

**Participant's signature:** \_\_\_\_\_ **Date:** \_\_\_\_\_

**APPENDIX C**  
**ETHICAL CLEARANCE**



25336339

A SIBIYA

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02 August 2017

## **ETHICAL CLEARANCE**

This letter serves to confirm that the research project of **SIBIYA, A** has undergone ethical review. The proposal was presented at a Faculty Research Meeting and accepted. The Faculty Research Meeting assigned the project number **EMSPBS16/06/03-01/56**. This acceptance deems the proposed research as being of minimal risk, granted that all requirements of anonymity, confidentiality and informed consent are met. This letter should form part of your dissertation manuscript submitted for examination purposes.

Yours sincerely

Prof CJ Botha

Manager: Research - NWU Potchefstroom Business School

Original details: Wilma Pretorius(12090298) C:\Documents and Settings\Administrator\My Documents\Briewe MBA\2017\