

Challenges faced by SME's within the Emfuleni Municipality

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Mini-dissertation submitted in partial fulfilment of the requirements for the degree *Master of Business Administration* at the North-West University

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Graduation ceremony: May 2019

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ABSTRACT

Small and medium enterprises (SMEs) play an important role in the growth of countries' economies. They function as leading sources of employment in both growing and advanced countries. SMEs play an important role in countries like South Africa, as they contribute significantly to higher production rates that lead to greater export capabilities; they continually drive innovation and economic diversification. SMEs in South Africa are unable to stay in business, as many newly established small businesses close their doors within the first three years of operation. This is due to SMEs facing many challenges and lots of them are difficult to overcome. The challenges that influence SMEs' ability to grow and operate sustainably, include lack of management and entrepreneurial skills, lack of sufficient operations management practices, lack of planning, limited knowledge, access to business information, inadequate financial management practices, insufficient location choices, lack of access to capital, insufficient institutional support, regulatory hurdles, deficient SME management education, poor customer service and poor business networking. The primary objective of this study was to investigate the challenges faced by SMEs within the Emfuleni Municipality. The study made use of a descriptive research design by implementing a quantitative research method to describe how SMEs within Emfuleni Municipality perceive the challenges identified from literature. The primary data for this study was collected, using a self-administered questionnaire that focussed on determining SME owners'/managers' perception of challenges faced by SMEs, how they experience the challenges themselves and the level of support obtained from their demographic area. A convenience sampling methodology was chosen and implemented for this study. A total of 1500 potential participants were selected for this study.

This study showed that SME owners have a moderately positive level of agreement regarding their perception on challenges faced by SMEs in general, indicating that the challenges enquired on are indeed challenges to SMEs in general. They have a moderately negative level of agreement on their perception of challenges faced by themselves in their own businesses, indicating that participants feel confident that they are managing the challenges well. However, participants have a strongly negative perception on the contribution that their demographic area have on their business sustainability, indicating that SME owners do not have confidence that their businesses can flourish in the Emfuleni Municipality.

Recommendations for this study focussed on SME owners assuring that they are well prepared to start businesses prior to starting their business. SME owners who feel confident in their abilities must continuously and truthfully assess their businesses' status in relation to challenges faced and aim to mitigate the challenges that they are facing. It was also recommended that the

Emfuleni Municipality assess their policies related to small businesses, making it more conducive to SME growth and to address their infrastructure maintenance to avoid unnecessary interruptions of business operations.

KEYWORDS AND THEIR DEFINITIONS

Entrepreneurship

“Entrepreneurship is a way of thinking, reasoning and acting that is opportunity obsessed, holistic in approach, and leadership balanced for the purpose of value creation and capture” (Spinelli & Adams, 2016:77).

Challenge(s)

“A task or situation that tests someone's abilities” (Oxford living dictionaries, 2017:nd).

Small and Medium Enterprise (SMEs)

“A separate and distinct entity, including cooperative enterprises and non-governmental organisations, managed by one owner or more, which including its branches or subsidiaries, if any, is predominantly carried on in any sector or subsector of the economy” (South Africa, 1996:2).

Emfuleni Municipality

The Westernmost municipality of three local municipalities comprising the Sedibeng district in Gauteng, South Africa (Emfuleni Municipality, 2014:nd).

Management

“The responsibility for and control of a company or organization” (Oxford living dictionaries, 2018:nd).

Business Sustainability

“The ability of firms to respond to their short-term financial needs without compromising their (or others’) ability to meet their future needs” (Bansal & DesJardine, 2014:71).

ACKNOWLEDGMENTS

First and foremost, to God our Father in Heaven to whom I owe all my capabilities, for granting me the ability to complete this dissertation. I would not have been able to complete this journey without Your guidance, wisdom and strength.

To my wife and sons, Lizelle, JC and Griffin: thank you for all your patience throughout this entire process. I am thankful for all your support and encouragement. Lizelle, thank you for taking such good care of our sons while I was busy working on my studies. Boys, thank you for not making Mommy rip all her hair out when she had to take care of you on her own.

To my study leader, Prof. Louis van Staden: thank you for all your patience and understanding and for not giving up on me. Thank you for all your guidance, motivation and encouragement throughout the process of writing this dissertation, I don't think I would have been able to complete it without your help.

To my mother and my sister: thank you for all the support that you gave me. Mom, especially, for allowing me to work at your house over weekends and some late nights during the week.

To my statistical consultant, Prof. Suria Ellis: thank you for all the assistance with processing and analysing the data obtained from the questionnaires. It means a lot to me.

To the language editor, Ma'am Kocks, for assisting with the language editing of this document. Thank you for your corrections and wisdom.

To Jacques Vermeulen, for helping me through a tough time and assisting me to drive myself through it. Thank you for your encouraging words and lending an empathetic ear.

To my friends: thank you for all your encouragement and understanding of all the missed social activities.

Lastly, I want to dedicate this dissertation to a man who believed that I could do anything I set my mind to: my father, Carl Myburgh. I know you would have been proud of me.

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CHAPTER 1 NATURE AND SCOPE OF STUDY

1.1 INTRODUCTION

Small and Medium Enterprises (SMEs) form a critical component and are major contributors to the strength of economies. They are also seen as a large component to economic expansion (Pillay, 2016:8; Smit & Watkins, 2012:6325). The sheer number of SMEs in a country and their diverse natures make an important contribution to a country's GDP and by being drivers of innovation (Madanchian *et al.*, 2015:81; Makina *et al.*, 2015:1). SMEs contribute up to 36% to South Africa's Gross Domestic Product (GDP) and are responsible for the generation of 40% of all forms of economic activities (Leboea, 2017:50; Agbenyegah, 2013:2).

According to Gill and Biger (2012:656), it is essential to investigate the challenges to small businesses growth as SMEs play a fundamental role in job creation, making SME prosperity very important as it forms part of reducing poverty and unemployment, especially in countries like South Africa with high unemployment rates, compared to other countries in the world (Makina *et al.*, 2015:1; Smit & Watkins, 2012:6326). SMEs are also described as employment multipliers, as new jobs created by one SME, contributes to the creation of other jobs in other sectors of the economy (Wiese, 2014:13). SMEs account for approximately 91 percent of recognised businesses and 60% of the employment in South Africa (Cant & Wiid, 2013:707).

Various authors, however, believe that small business owners face numerous challenges in the operation of their businesses (Chimucheka & Mandipaka, 2015:309; Ngek, 2014:253; Lekhanya & Mason, 2014:331-332; Cant & Wiid, 2013:707). People are hesitant to start their own business, due to the uncertainties they may face, as well as a lack of confidence in their own abilities (Herrington *et al.*, 2014:4-5). They further state that rigorous regulatory requirements and demanding labour laws combined with an inefficient workforce add to these challenges.

1.2 BACKGROUND AND PROBLEM STATEMENT

According to the Global Entrepreneurship Monitor (GEM), South Africa has a high un- and under employment rate of $\pm 40\%$ (Herrington *et al.*, 2017:5). According to StatsSA (2017:7) Gauteng Province had an official unemployment rate of 30.2% and an expanded unemployment rate of 33.3%. The Emfuleni Municipality is no different from the rest of Gauteng, with a last recorded unemployment rate of $\pm 34.7\%$, according to Census 2011 (StatsSA, 2018:nd). Small businesses are essential for the generation of jobs and earning, contributing significantly as drivers of innovation and growth (Wehinger, 2014:2). Despite significant contributions SMEs

make to a country's economy, they continuously face challenges that compromise their survival rate (Hutchinson & De Beer, 2013:237). The high failure rate of SMEs in South Africa reduces optimism regarding reduction of the country's unemployment rate (Fatoki, 2014c:922).

Herrington *et al.* (2014:4-5) state that small business' owners can face numerous challenges when it comes to running a sustainable business. They further state that the rigorous regulatory requirements combined with demanding labour laws and inefficient labour force create further challenges for small businesses. According to Choto *et al.* (2014:96), many individuals are hesitant to start their own small businesses due to a lack of self-confidence, feeling incapable to change the outcome of their lives, thus giving up before even starting.

According to Agbenyegah (2013:5-6), SMEs face many overwhelming challenges such as difficulties in obtaining financial aid, inadequate education and a lack of applicable training within their relevant field of business. Dikgwatlhe (2014:1) adds that most SMEs are found lacking in effective planning of their operations. Small businesses can also face difficulties such as undue costs due to fraudulent activity (Herrington *et al.*, 2014:4-5). The challenges faced by SMEs in South Africa, and their general inability to mitigate the effects of these challenges on their sustainability, is a cause for concern, serving as motivation to investigate the challenges faced by SMEs in the Emfuleni Municipality.

1.3 LITERATURE REVIEW

The National Small Business Amendment Act 29 of 2004 (South Africa, 2004:2) describes small enterprise as "a separate and distinct entity, together with its branches or subsidiaries, if any, including cooperative enterprises, managed by one owner or more predominantly carried on in any sector or subsector of the economy". These enterprises generally employ less than 200 full time employees, generate turnover less than forty million rand and must have a total gross asset value less than eighteen million (South Africa, 2004:2).

According to Tehseen and Ramayah (2015:50), SMEs contribute significantly to economic development and social advancement of every country. They further add that SMEs are characterised as adaptable, can be established within any business segment and are regarded as the lifeblood of a country's economy. South African SMEs face numerous challenges during start-up, growth and maturity phases of business (Mthisi, 2015:12). According to the literature, the following are constant challenges faced by SMEs.

1.3.1 Lack of management and entrepreneurial skills

SME's management capabilities are essential to the success of any organisation and without sufficient competencies SME owner/managers are unable to operate their business in a viable and beneficial manner (Bezuidenhout & Nenungwi, 2012:11660). The skills, competencies and knowledge that SME owner/managers possess may significantly impact on their decision-making ability (Karadag, 2015:27).

Managerial problems are among the main reasons why small businesses in developing countries fail (Hutchinson & De Beer, 2013:238). An SME management's quality of management and entrepreneurial skill is a fundamental factor determining a company's chances of survival. SMEs that perish within three years of creation, often displayed inadequate leadership and organisational skills (Ndege, 2015:81). Lekhanya and Mason (2014:341-343) determined that SMEs with owner/managers who have a lack in business management skills, tend to be less successful than businesses that do have highly skilled owner/managers. They also maintain that, globally, exceptional and substantial entrepreneurial and managerial skills are central to establishing viable small, micro and medium sized businesses.

1.3.2 Lack of sufficient operations management practices

Various authors feel that an inability to manage operational activities effectively, such as record keeping of activities, utilising optimised supply chains and effective project management, may well pave the way to a loss of reputation for companies, reducing their future revenue prospects (Mafimidiwo & Iyagba, 2015:107; Dubihlela & Omoruyi, 2014:1022 & 1026; Hutchinson & De Beer, 2013:238; Bezuidenhout & Nenungwi, 2012:11664). According to Dikgwathle (2014:26), most SMEs lack sufficient operations management practices, such as total quality management, project management and basic inventory management systems, creating a constant challenge for those trying to manage with limited resources. Successful SMEs have well defined and monitored business processes in place, allowing them to cut down on operational costs and benchmarking their own operations with industry leaders as a means of foreseeing customer requirements (Ndege, 2015:81). If SMEs' leaders wish to remain successful and grow sustainably, they must master the technical business skills required in managing their business operations efficiently (Bezuidenhout & Nenungwi, 2013:11667).

1.3.3 Lack of planning

According to Fatoki (2014c:925), developing a business plan, creating a vision, setting a mission, and formulating long- and short-term objectives seem simple enough. However, most SMEs do not have pre-defined business or strategic plans. He adds that a lack of planning is a fundamental problem for many SMEs and it simply leads to the inevitable failure for businesses without strategic plans in place. Mafimidiwo and Iyagba (2015:105) also identified a lack of long-term strategic plans as a challenge to small contracting firms. Development and implementation of long- and short-term plans are essential for an SME's sustainability (Hiatt & Sine, 2012:5). SMEs are typically exposed to greater risks than their larger counterparts, due to continuously changing business environments and their smaller size (Karadag, 2015:29). The same author also states that, historically, SME leadership tend to neglect formulating proper strategic plans for their businesses, seemingly not appreciating the significance of planning, as most SMEs fail due to major deficiencies in their planning processes. A lack of planning therefore contributes significantly to another frequent challenge faced by SMEs, being lack of access to capital (Fatoki, 2014a:97). Fatoki further determined from the four major financial institutes within South Africa that business plans are indispensable documents when applying for loans, especially in the start-up phase of a business.

1.3.4 Limited knowledge and access to business information

Many authors agree that limited knowledge of and access to vital business information is a significant challenge to SMEs and is a major contributor to SME failure in South Africa (Chimucheka & Mandipaka, 2015:310; Mthisi, 2015:14; Hutchinson & de Beer, 2013:238; Bezuidenhout & Nenungwi, 2012:11664 & 11667). According to Mthisi (2015:14), SMEs are generally unaware of the existence of national business information. Nevertheless, complicated procedures involved with gaining access to the information also discourages them from using it. Difficulties in accessing appropriate technologies and information are often experienced by SMEs (Chimucheka & Mandipaka, 2015:310). Even though internet is more readily available, continuous use of it is still hampered by a lack of electricity, mainly in rural areas. They also include that SMEs have inadequate access to market information attributable to only a small number of them having access to advanced communication technologies (Chimucheka & Mandipaka, 2015:310). However, SMEs lack of knowledge can rather be attributed to the lack of know-how in the existence and use of business information (Hutchinson & de Beer, 2013:238). In their study, Bezuidenhout and Nenungwi (2012:11664-11667) found that 63% of the participants that felt that they lacked industry awareness were small business owners.

1.3.5 Inadequate financial management practices

Shortages in financial management knowledge pose challenges to the longevity of small businesses due to its negative impact on the success and viability of these businesses (Hutchinson & De Beer, 2013:238). Small businesses fail by and large due to their owner/managers not being able or not having the necessary know-how to manage the businesses' finances properly (Ndege, 2015:83). This even with some of them having access to capital needed to assure sustainable operations. Despite this, they try to save on costs by not employing financial managers, as these skills normally come at a premium (Ndege, 2015:83).

Karadag (2015:28-30) feels that, despite operating in high risk and uncertainty environments and with limited resources, small business owner/managers tend to place higher priority on their businesses' production, services or marketing capabilities over their financial management capabilities. She also believes that SME owners do not want to give up their decision-making powers related to their businesses' finances, even though this eventually results in poor financial management practices within the businesses, usually leading to their failure. In 2016 two thirds of businesses in South Africa closed due to financial reasons (Herrington *et al.*, 2017:7). Businesses were either not profitable enough or they experienced challenges in obtaining financial support to sustain the business, generally due to poor financial management practices (Herrington *et al.*, 2017:7).

1.3.6 Insufficient location choices

Various authors found that poor business location choices can often lead to experiencing unnecessary challenges, such as marketing inefficiencies, high crime rates and inflated rental costs (Chimucheka & Mandipaka, 2015:312; Lekhanya & Mason, 2014:342; Ndege, 2015:83; Fatoki, 2014b:1016; Cant & Wiid, 2013:713). Finding an effective business location is difficult. Yet SME owners often take the first business location they can find, while not considering the impact the location may have on their business, like whether it suits the type of business (Khosa & Kalitanyi, 2014:209). The latter two authors add that a business location can be the difference between a business' success and its failure and the suitability of a business' location is dependent on the type of operations of the business and its customers, hence impacting on its potential for growth.

According to Agbenyegah (2013:204), lack of access and their proximity to markets are limiting factors to the success of small businesses. Likewise, businesses cannot operate in isolation or outside their internal and external business environments. Businesses in poor locations

experience inadequate access to information which is an essential element to modern day businesses, due to unreliable infrastructure such as internet and electricity supply in most African countries (Choto *et al.*, 2014:96; Khosa & Kalitanyi, 2014:209; Lekhanya & Mason, 2014:336-344).

1.3.7 Lack of access to capital

Limited resources are generally a challenge faced by entrepreneurs in their business ventures, frequently limiting their operating capacity. Access to capital is one of the most common limiting resources many entrepreneurs face (Choto *et al.*, 2014:95; Ndege, 2015:74). Berg and Fuchs (2013:2) mention that in emerging economies such as South Africa, SMEs are normally more credit constrained than larger organisations, seriously constraining their ability to grow. According to Hutchinson and De Beer (2013:238), financial institutions are generally risk averse, basing financing decisions on criteria such as credit history, past bank account management and evidence of repayment capability. They further state that SMEs often fail to meet these criteria, increasing the risk and transaction costs of SME lending, placing considerable emphasis on borrowers' ability to provide collateral to secure a loan. Lack of capital (financial support) was identified among the factors significantly contributing to failure rates of small businesses in developing economies (Gill & Bigger, 2012:658; Mafimidiwo & Iyagba, 2015:103).

1.3.8 Insufficient institutional support and regulatory hurdles

The South African government has various initiatives in place to support SME's (Hutchinson & De Beer, 2013:238-239). Although the Department of Trade and Industry (DTI) provides incentives and support to SMEs, the extent of support is totally insufficient, resulting in many of them failing in several specialised areas, highlighting a need for mentorship and evaluation programs to provide more sufficient support to new SMEs (Ndege, 2015: 74-93). What is more, even though the South African government has various support initiatives in place, some of the country's regulations makes it harder to start-up, run and grow small businesses (Cant & Wiid, 2013:712). According to Choto *et al.* (2014:96), entrepreneurs are discouraged from starting their own businesses or continuing to grow their businesses, due to some of these regulations involving arduous administrative processes that are expensive and making it complicated for entrepreneurs to register or grow their businesses.

1.3.9 Deficient SME management education

The South African education system does not encourage entrepreneurship as a career. Starting a business is something that people do if they fail to secure a job or they do not have a profession (Fatoki, 2014c:924). Mafimidiwo and Iyagba (2015:103) believe that a lack of SME management education may be a root cause of all other challenges faced by SMEs. Furthermore, a skills gap exists in the South African SME sector due to high costs of tuition. However, complacency and ignorance on the part of SME leadership also contribute significantly, as they just do not recognise the need for further education (Chimucheka & Mandipaka, 2015:312). According to Choto *et al.* (2014:95), education is a key aspect in creating an entrepreneurial culture in South Africa, emphasizing that the educational level of thriving SMEs' management far exceeds that of businesses that are less successful.

Ndege (2015:94) states that it is of strategic importance to start-ups wishing to grow their businesses sustainably to overcome their competency gaps, thus signifying a dire need for affordable, skills-based training. Cant and Wiid (2013:711) found that more than a third of the participants in their study did not obtain a Grade 12 level qualification.

1.3.10 Poor customer service

Customer satisfaction is a response customers have to a specific product or service regarding the degree to which consumption meets the customers' expectation or surpassed it (Lamb *et al.*, 2015:5-6). They further add that sustaining that satisfaction can be cumbersome. According to Antoncic *et al.* (2016:93), customer service determines whether new customers will become regulars to an establishment, further arguing that high self-efficacy and competence in marketing is important when starting a new business. Businesses need to nurture long term customer relationships as these will support them through tough and trying times (Xesha *et al.*, 2014:37). Companies that are unable to manage customer satisfaction or marketing of their products effectively are sure to fail before long (Fatoki, 2014c:925).

1.3.11 Ineffective Business Networking

SMEs regularly depend on their business networks to obtain much needed resources, such as quality raw materials, technology, emerging trends and other information concerning demands and tastes of customers (Tehseen & Ramayah, 2015:54). They also argue that SMEs must develop and maintain long term networking relationships that will allow them to obtain these essential resources that are vital to assure sustainable growth of their companies. Dikgwatlhe

(2014:72) believes most small businesses do not place high value on association with other businesses pertaining to sharing of ideas and innovations or to gain from operating complementary types of businesses. He also says that South African SMEs lack interest to collaborate, which may contribute to outsourcing skills that may not be readily available to the individual business. Good business networking is an aspect that can improve SMEs' chances of sustainability and growth (Hutchinson & De Beer; 2013:241).

1.4 RESEARCH OBJECTIVES OF THE STUDY

The following primary and secondary research objectives were set for this study.

1.4.1 Primary objective

The primary research objective was to investigate the challenges faced by SMEs within the Emfuleni Municipality.

1.4.2 Secondary objectives

To achieve the primary objective, the following secondary objectives were formulated.

- Identifying and gaining insight into some of the challenges faced by SMEs, through conducting a literature review.
- Evaluating SME owners' view on challenges faced by SMEs in general (General Challenges).
- Assessing SME owners' view on challenges faced by them in their own businesses (Personal Challenges).
- Determining SME owners' view on the operational friendliness of the Emfuleni Municipality for SMEs (Demographic Contributions).
- Analysing the effects of selected demographic variables on SMEs' view of general challenges, Personal Challenges and Demographic Contributions.
- Determining if there are any correlations between selected demographic variables, General Challenges, Personal Challenges and Demographic Contributions.

1.5 SCOPE OF THE STUDY

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

1.5.1 Discipline

The field of study falls within the subject matter of Business Management and Entrepreneurship.

1.5.2 Geographical demarcation

This study will include any type of SME contained within the Emfuleni Municipality, excluding franchises. Figure 1-1 presents a graphical representation of Emfuleni Municipality.

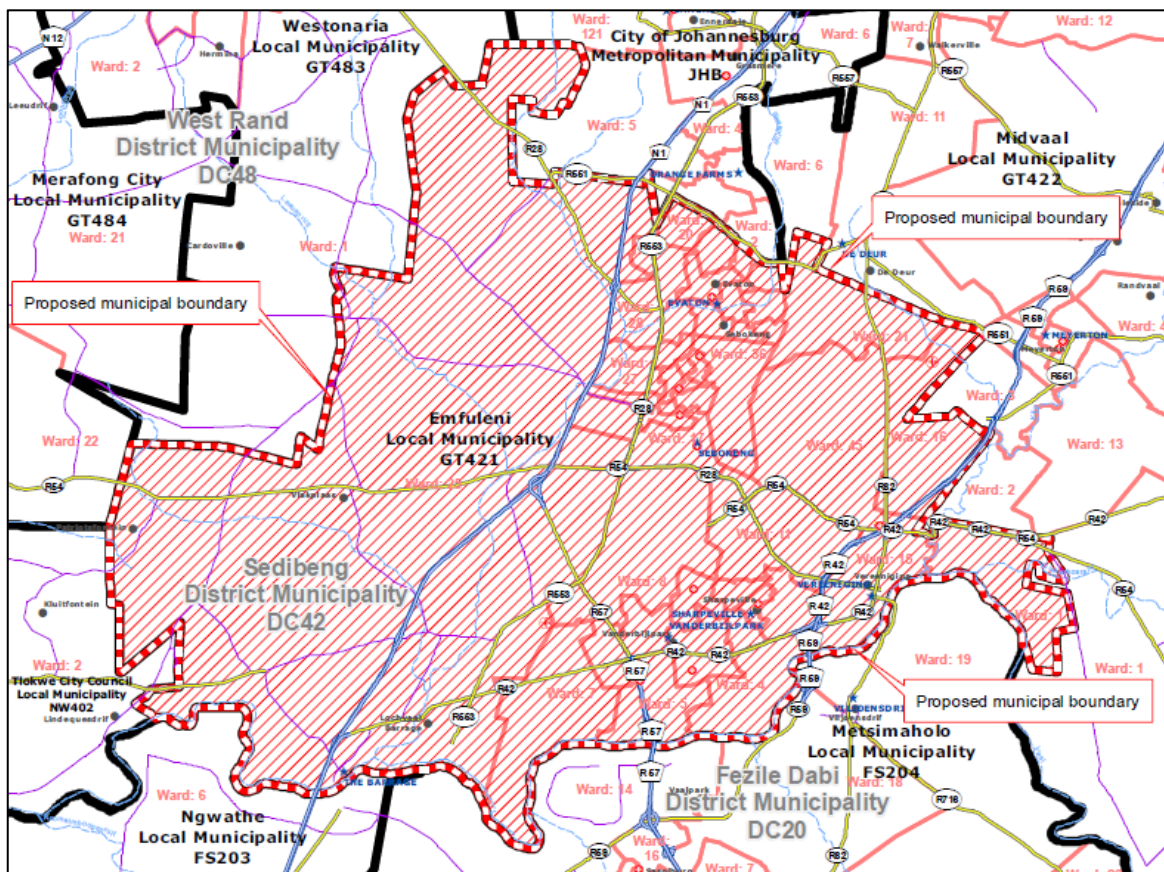


Figure 1-1: Map of Emfuleni Municipality (Source: <http://www.demarcation.org.za/index.php/gauteng/gp-prov-dems/circular-1-2012-1/123-01-dem4184/file>)

Emfuleni Municipality covers a 987 km² area of land and is the Westernmost municipality of three local municipalities comprising the Sedibeng district in Gauteng, South Africa. Emfuleni

Municipality has a high population concentration and houses $\pm 80\%$ of the Sedibeng district's total population. It is strategically located with access to well-maintained road networks: the N1 national route traverses its municipal area and links it to Johannesburg and Bloemfontein. The municipality has two main city/town centres, Vereeniging and Vanderbijlpark. It also contains six large peri-urban townships of Evaton, Sebokeng, Sharpeville, Boipatong, Bhopelong and Tshepiso. (Emfuleni Municipality, 2014:nd)

The industries which were considered in the study included but was not limited to the following:

- Engineering services (manufacturing)
- Handy man services
- Home improvement services (kitchens, bathrooms etc.)
- Building contractors
- Gardening services
- Property developers

1.6 RESEARCH METHODOLOGY

This section offers a brief discussion of the research methodology used in the study. The literature study, empirical investigation, research design, sampling, measurement instruments, data analysis and the fundamental role it has in collecting the data are subsequently discussed below.

1.6.1 Literature study

In this study, secondary information was gathered from existing information. The information was then investigated to contribute to the research and to provide context for the study by using previous works by other authors. To put the concepts of the study into perspective, a literature study was done by using accredited and scholarly journals, relevant books, subject specific journals and websites such as the banking association of South Africa, Emfuleni Municipality, Global Entrepreneurship Monitor and research methodology websites.

Various electronic databases were consulted to obtain relevant articles and journals. Among others, Emerald, JSTOR, EbscoHost and SA Media and the NWU's thesis and dissertation data base, were used.

The researcher made use of electronic search engines like Google and Google Scholar to get familiarised with current informal trends around the concepts being investigated. Books covering a range of subjects including entrepreneurship, operations management and research methodology were used.

1.6.2 Empirical investigation

This subsection provides information on the empirical research design, the target population, sample plan, measuring instrument and the data analysis processes followed in this study.

1.6.2.1 Empirical research design

Joubert *et al.* (2016:26) define empirical research as research on everyday problems. It includes the social, political, educational, economic and health problems experienced in our daily lives. Research design can be defined as the overall-plan setting out how to conduct the research project in the most efficient manner, detailing the actions needed for collection, measurement and analysis of information that helped the researcher to solve the business research problem (Sreejesh *et al.*, 2014:27). Three types of research designs exist, namely: Exploratory research, Descriptive research, and Causal research (Babin & Zikmund, 2016:53-60).

1.6.2.1.1 Exploratory research

Exploratory research, as its name implies, intends to explore specific facets of a research area and does not intend to provide final and definite answers to the research questions raised (Dudovskiy, 2016d:nd). It is not intended to provide conclusive evidence, but is done to determine the nature of the problem and to help to understand it better, merely exploring research topics with varying levels of depth (Feinberg *et al.*, 2013:54). Questions of what and why are asked during exploratory research, utilising different methods in establishing the validity of the questions (Agbenyegah, 2013:248).

1.6.2.1.2 Descriptive research

Descriptive research is a statement of current affairs and an attempt to determine, describe or identify what is relevant. It intends to investigate present issues or challenges through a process of data collection enabling a more complete description of the situation (Dudovskiy, 2016c:nd). It is thus regarded as conclusive research and is applied when research objectives include determination of frequencies, to which variables are linked (Feinberg *et al.*, 2013:57). He adds that it is used if there is a need for estimates concerning events of interest.

The primary objective of this study was to investigate the challenges faced by SMEs within the Emfuleni Municipality. Therefore this study employed a descriptive research design due to its investigating which challenges, faced by SMEs in general, were the ones affecting SMEs the most in the Emfuleni Municipality, thus studying the status within the municipality regarding the challenges that they were facing

1.6.2.1.3 Causal research

Causal research is conducted to find the range and characteristics of cause-and-effect relationships. It is also known as explanatory/correlation research (Salkind, 2012:12; Burns & Bush, 2014:107). It can be conducted to evaluate influences of specific changes on existing standards and practices, analysing situations or specific challenges and on explaining the patterns between variables (Dudovskiy,2016a:nd).

1.6.2.2 Research method

According to Bryman *et al.* (2014:30), generally two types of research methods are used: quantitative and qualitative research. They also mention that quantitative research has always been the prevalent method of research, although the use of qualitative methods is currently becoming progressively common.

1.6.2.2.1 Quantitative research

Quantitative research methods tend to focus on quantitative data collection and analysis, testing theories, incorporating practices and norms of natural sciences, especially those of positivism expressing a view of social reality as an external, objective reality (Bryman *et al.*, 2014:31). Stressing utilisation of formalised questions, it is descriptive in nature, enabling researchers to determine causal relationships between specific variables (Berndt & Petzer, 2011:348).

1.6.2.2.2 Qualitative research

According to Bryman *et al.* (2014:31), qualitative research methods usually focus on words rather than focusing on quantification of analysis and data collection. It mainly focuses on an inductive approach to the relationship between theory and research, emphasizing the generation rather than the testing of theories, emphasizing the way in which individuals interpret their social world. (Bryman *et al.*, 2014:31)

A quantitative research methodology was used for the purpose of this study. This helped to test the data collected and analyse it against the theories developed from the literature study.

1.6.2.3 Target population

A target population represents a specific group of participants, from whom a researcher wishes to obtain data, enabling them to answer their research question after analysis (Lamb *et al.*, 2015:186; Agbenyegah, 2013:256). The following provides information on the intended population assessed. The target population included in the study consisted of owner/managers of SMEs contained within Emfuleni Municipality, excluding major franchises such as KFC, McDonalds, Wimpy, Spur and commercial retailers such as Spar, Checkers and Pick n Pay. In other words, businesses that form part of a large corporate chain.

1.6.2.4 Sampling frame

The sampling frame represents elements of a target population considered eligible for inclusion, available for selection in a scientific study (Feinberg, 2013:302; Unrau *et al.*, 2007:279). Due to privacy rights of the SA population, a detailed list of all registered SME's is not publicly available. Furthermore, due to the high likelihood of unregistered small businesses, a sampling frame cannot be identified. Owing to the absence of a sample frame, invitations to participate will be sent to small businesses that have made their contact information publicly available on business directory sites such as Vaal Triangle Business Directory, with screening criteria of needing to have a main business site within the Emfuleni Municipality. Confirmation that only one questionnaire was completed by each participant will be done by filtering questionnaires through selected biographic information.

1.6.2.5 Sampling method

Two major sampling methods exist: a non-probability and a probability sampling method. These two methods will be discussed briefly in this section.

1.6.2.5.1 Non-probability sampling

Non-probability sampling is a sampling method that does not make use of random selection, implying that some units of the population are more likely to be chosen than others, indicating that some level of bias exists in using this method (Bryman *et al.*, 2014:171). Four types of non-probability sampling methods will be discussed. These methods are Quota sampling, Convenience sampling, Judgment sampling and Snowball sampling (Dudovskiy, 2016e:nd)

i) Quota sampling

Quota sampling is a research sampling method that entails dividing the total research population into segments; a quota sampling unit is then selected representing each subgroup (Agbenyegah, 2013:259).

ii) Convenience Sampling

A convenience sample is one that is easily accessible to the researcher and there is a good chance that there will be a good response rate (Bryman *et al.*, 2014:178). They also add, however, that findings from convenience samples are impossible to generalise and data obtained from convenience sampling will not allow generation of definitive findings.

iii) Judgement sampling

Judgement sampling entails that the researcher's sample selection criteria are based on personal judgement that the individuals chosen are likely to give accurate information (Lamb *et al.*, 2015:188).

iv) Snowball sampling

Snowball sampling, also known as "chain referral sampling", involves nomination of additional primary data sources by the initial primary data sources, who are deemed relevant to the study and contacted by the researcher (Dudovskiy, 2016h:nd; Bryman *et al.*, 2014:178). Snowball

sampling is therefore based on referrals and when this method is applied, the sample members are obtained through a chain referral.

1.6.2.5.2 Probability sampling

Through making use of a probability sampling method each member of the population has a known non-zero opportunity of taking part in the research and randomisation is the core of this sampling method (Dudovskiy, 2016f:nd). Using this method ensures that a representative sample is more likely. The probability sampling technique is applied the most, due to the selection of the participants being stringently decided by chance. It is important to note that every participant of the population is identified (Agbenyegah, 2013:260). Probability sampling consists of four sampling methods; namely simple random sampling, systematic sampling, stratified random sampling and cluster random sampling (Agbenyegah, 2013:261; Wegner, 2007:215; Salkind, 2006:86-92).

i) Simple random sampling

The simple random sampling method is the most basic form of probability sampling methods. Each individual unit of the population has an equal chance of being included in the study (Bryman *et al.*, 2014:172-173). Agbenyegah (2013:262), Jackson (2006:15) as well as Grinnell & Unrau (2005:210) state that the simple sampling method allows a unique identifier to be provided to each participating member from the target population. Simple random sampling requires the researcher to develop an accurate sampling frame, chooses exact elements from the sampling frame using mathematical calculations to determine the specific element required to form part of the research sample (Neuman, 2006:227).

ii) Stratified random sampling

Variables such as age, race, geographical region and gender are referred to as strata and are likely to be utilised in dividing a research population into segments (Neuman, 2006:231). He adds that another form of random sampling where researchers initially identify a set of mutually exclusive subgroups, dividing the sample frame by the subgroup and further applies random selection methods to select an appropriate set of research participants from every subgroup, is called Stratified random sampling.

Application of stratified sampling assumed to be homogenous and sufficiently representative of various strata put together, can minimise research errors due to the use of random sampling

methods (Salkind, 2006:91). This sampling method is also useful if a researcher wants to examine certain characteristics of specific population sub groups (Cooper & Schindler, 2014:351).

iii) Systematic sampling

Systematic sampling is similar to random sampling in that every n^{th} member of a population is included in the study (Dudovskiy, 2016i:nd). The first member of the sample is still chosen using a randomly determined number; this member is then followed by every n^{th} member of the sample frame (Bryman *et al.*, 2014:173).

iv) Cluster random sampling

When using the cluster sampling method, the primary sampling unit is not the unit of the population to be sampled, but the groups or clusters of the population of those units (Bryman *et al.*, 2014:173). Dudovskiy (2016b:nd) supports this by stating that cluster sampling involves identifying and including clusters of participants representing the population.

Cluster sampling differs from stratified sampling as in cluster sampling, a cluster is observed as a sampling unit. However, in the stratified method, specific components of strata, such as age, are recognised as a sampling unit.

1.6.2.5.3 Preferred sampling method and technique

The study made use of a non-probability sampling method utilising a hybrid technique of convenience and snowball sampling. The researcher opted for this sampling approach due to the large quantity of SMEs in the Emfuleni Municipality and the level of difficulty with which all the SMEs in the municipality were identified. The researcher was not able to identify all the SMEs within the geographical area accurately. He provided his questionnaires to as many SMEs he could possibly identify from sites such as the Vaal Business directory (www.vaalio.co.za), focussing only on businesses that were situated in the Emfuleni Municipality. Electronic surveys were sent to these businesses via email. The business owners were also requested to forward the surveys to businesses which were not included in the communication sent out.

1.6.2.6 Sample size

The researcher aimed to retrieve information from as many businesses as possible. The questionnaire was distributed to a total of ±1500 potential participants.

Table 1-1: Summary of sampling methodology

| | |
|--------------------------------------|---|
| Population | Owners of SMEs within the Emfuleni municipality, excluding persons who solely own franchises. |
| Sampling frame | No sampling frame is available. |
| Sampling element and unit | All types of SMEs contained within Emfuleni Municipality, excluding franchises. |
| Sampling method and technique | Non-probability sampling method, hybrid convenience and snowball sampling technique. |
| Sample size | ±1500 participants. |

1.6.2.7 Measuring instrument

The researcher utilised a standard questionnaire originally developed by van der Merwe (2010), from whom permission was requested to do so. It was adapted to suit the geographic area (Emfuleni Municipality) where this study was conducted.

Section A – Personal information

This section of the research instrument aimed to determine the demographic information of the participants. It required that participants provide the current age group they fall under, what their marital status is, whether they are male or female and their highest academic qualification. Furthermore, it requires participants to provide their work experience prior to deciding on becoming self-employed and to indicate the number of years they have been self-employed.

Section B – Business information

Within this section the research instrument gathered information on the businesses participants are currently involved with. This information includes the industry the business operates in, its legal status or the form of ownership, and how long the business has been in operation. It determines how participants came about owning the business, the source of their start-up

funding, where the business operates from, how many employees are currently being employed by the business and the annual turnover it generates. It also establishes whether the business owners had exposure to self-employment as children, if their current business is the first business they've owned and if not, what happened to their first business?

Section C – Challenges faced by SMEs.

In this section the instrument gauged the opinion of participants regarding factors that may hinder SMEs from growing. The research instrument also measured what challenges these entrepreneurs are currently facing in their own businesses.

The influence of demographic aspects on the operations of businesses was also ascertained. These aspects include the number of entrepreneurial opportunities, effect of policies, networking opportunities, infrastructure, export opportunities and allows them to add additional demographic aspects that influence the operations of their business.

Section D – Development needs of SMEs

The development needs of SMEs were investigated within this section of the research instrument. It enquired if participants have received any type of training from a government agency or from the private sector and requires them to indicate the type of training received. It investigates if business owners know of any organisations that are specifically established to support SMEs, also in which manner it does so? Business owners are also encouraged to indicate what their specific development needs are.

1.6.2.8 Data collection

The following describes the process that was followed for the collection of data.

1.6.2.8.1 Access to sample population

Access to the sample population was achieved by going through business directories and sending emails to these businesses. Furthermore, requesting participants to forward the survey to other SMEs they are in contact with. In some cases businesses provided the researcher with a list of SMEs that they were in contact with to whom the researcher sent further questionnaires to.

1.6.2.8.2 Data collection method

The researcher utilised Google Forms to compile his questionnaire in. The cover letter and informed consent were also integrated into this survey platform's form. The researcher chose this platform for its user friendliness and the level of trust most people have in Google Applications. Links to the survey questionnaire were sent to potential participants through email, which also contained a copy of the cover letter. Furthermore, due to utilising a snowball sampling method, it was important that participants could easily forward the survey to other potential participants. Forwarding the link was also not limited to email and could be forwarded through other social media platforms such as Facebook, WhatsApp and LinkedIn.

Participants who were unwilling to take part in the survey could choose not to take part in the survey and it would route them to the end of the survey. However, if they chose to continue with the survey they were routed to the first set of survey questions.

The chosen survey platform also had an integrated data sheet that captured all the choices made by participants automatically, making the data capturing process more reliable and efficient than through using manual questionnaires.

1.6.2.9 Data analysis

The data gathered from participants through the utilisation of social media platforms was entered into an electronic data file with the use of the Statistical Package for Social Science (SPSS). The data analysis will include:

- The reliability of the factors (General Challenges, Personal Challenges, Demographic Contributions) measuring the challenges faced by SMEs was assessed through the implementation of Cronbach Alpha reliability statistical analysis, ensuring internal reliability of aforementioned factors.
- The questionnaire was set up by an expert in the field of small business and entrepreneurship. Furthermore, the questionnaire was also placed under review of several other subject matter experts and of a statistical analysis expert from the North West University. Therefore the instrument was deemed content valid.
- The questionnaire's Construct Validity was determined by calculating the KMO value for each factor and each factor was found construct valid.

- Descriptive statistical methods were used to analyse data obtained from the questionnaire. The methods included presenting data in terms of means, standard deviation, frequencies and percentages of the variables concerned.
- Inferential statistical methods were also used to draw comparisons between selected demographic variables and the factors. These methods included conducting T-tests and ANOVAs, finally describing the statistical and practical significance of differences between variables. Spearman's rank correlation was also used to describe relationships between the identified factors and selected demographic variables.

1.6.3 Ethical considerations

The following will provide some background on the ethics of the proposed study. However, based on the information contained within the "Guidelines for research Ethics" (NWU 2010:48) from the "Manual for post graduate studies" (NWU), there are no ethical concerns.

1.6.3.1 Autonomy

This study will not affect the autonomy of any participant taking part in the survey.

1.6.3.2 Benefit

The study aims to investigate challenges faced by its participants and will provide recommendations to mitigate the consequences of these challenges. The findings of the study will benefit both the participants of the study as well as aspiring entrepreneurs, therefore highlighting and creating awareness of the challenges faced by SMEs within the Emfuleni Municipality.

1.6.3.3 Informed Consent

An informed consent form was adapted, from the "Ethical requirements for post graduate research studies" document, from the informed consent form included in the document's Annexure A. The informed consent form was integrated into the body of the questionnaire and must be read prior to continuing with completion of the questionnaire.

1.6.3.4 Application for ethical clearance

The application form for ethical clearance, as provided by the NWU School of business and governance, was completed and obtained (ref: **EMSPBS16/06/03-01/39**).

1.7 LIMITATIONS OF THE STUDY

As in all empirical studies, this study has limitations. The limitations as identified should be considered when recommendations are made as well as conclusions.

The limitations of the study are as follows:

- The findings of this study are only generalisable to the sample group and are not generalisable for the population as a whole due to the non-probability convenience sampling methodology used.
- Personal challenges of participants' business were assessed from business owners' own perspectives and were possibly not answered truthfully, in an effort by participants not to look bad or due to possible ignorance of their businesses' actual status regarding the challenges enquired upon.
- In relation to the number of participants approached to complete questionnaires, a very small number of participants filled in the questionnaires. This may be due to several factors, such as no time to fill out the questionnaire and lack of interest from the participants' side.

1.8 CONTRIBUTION OF THE STUDY

Around the world and in South Africa, SMEs are identified as productive drivers of economic growth and development. SMEs make up ±91% of formalised businesses and provide employment to ±60% of the labour force in SA. Furthermore, SMEs' total economic output accounts for ±34% of GDP. (Banking Association South Africa, 2018)

It is therefore important to investigate challenges faced by the country's SMEs, that may pose a risk to their sustainability. Furthermore, provide recommendations, which will assist SMEs in improving their sustainability, also encouraging their growth. Thus, ensuring stability to the

country's economic stability and even adding to the growth of the economy through their growth and ability to increase their labour force.

1.9 OUTLINE OF THE PROPOSED CHAPTERS

The study will describe its nature and scope, followed by a literature review, research methodology and an empirical study. Lastly, conclusions will be drawn, as well as recommendations made. Please refer to Figure 1-2 for an outline of the study followed by a short description of each chapter.

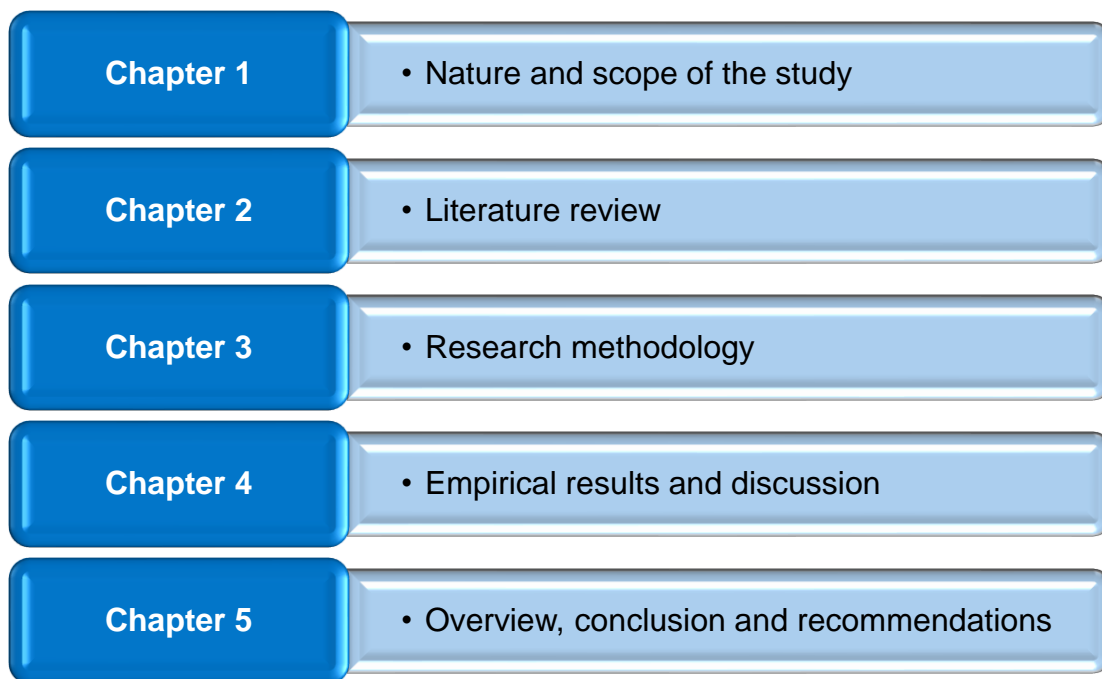


Figure 1-2: Chapter layout

Chapter 1: Nature and scope of the study

This chapter served as an introduction to the study. It provided a background and problem statement for the study. Furthermore, the chapter identified some of the challenges faced by SMEs and explained the role of SMEs in international and local economies. The chapter presented the study's primary and secondary objectives, in doing so, defined the need and importance of the study.

Empirical research will be done by means of a questionnaire, that will be filled in by a pre-determined study population and analysed statistically. The chapter also gives the limitations of the study and sets the study's chapter layout.

Chapter 2: Literature review

The literature review comprised of a broad study on SMEs forming part of the research. The chapter defined SMEs and discussed the challenges faced by them, which were identified from the literature.

Chapter 3: Research methodology

The research methodology chapter discussed the methodology followed in this study. The chapter provided information on the target population assessed. It provided information regarding the sample size and sampling method followed. The methods used to analyse the data obtained from the questionnaires, were also explained.

Chapter 4: Empirical results and discussion

The chapter presented the results obtained from the questionnaires that were completed. The main findings will be presented and discussed in this chapter.

Chapter 5: Overview, conclusion and recommendations

This chapter offered conclusions based on the findings provided in Chapter 4. Thereafter, recommendations were made to mitigate the challenges faced by SMEs in the Emfuleni Municipality. The chapter included an evaluation on whether the objectives set out for the study were achieved and recommendations for further studies, were made.

CHAPTER 2 LITERATURE REVIEW: OVERVIEW OF SMALL AND MEDIUM ENTERPRISES (SME) IN SOUTH AFRICA

2.1 INTRODUCTION

Small and Medium enterprises (SMEs) perform an important function in a country's economic advancement, because they act as main sources of employment and growth in both emerging and advanced countries (Ramakumba, 2014:19). The improvement of SMEs was distinguished as an important measure to alleviate high unemployment rates in South Africa (Jassiem *et al.*, 2012:6910). According to Aigbavboa *et al.* (2014:350), the role SMEs play in countries like South Africa is significant, as they contribute considerably to generation of higher production volumes leading to greater export capabilities. They further state that SMEs contribute by introducing innovation and increasing entrepreneurial skill, making it important that its SMEs continually show growth, especially if the country wants to achieve its own economic growth objectives.

According to Urban and Naidoo (2012:147), even though SMEs are a focus area for promotion of economic development and promises to resolve socio-economic challenges, the South African SME sector faces a wide array of difficulties restricting them from achieving and sustaining competitive positions in their respective industries. Furthermore, according to Masutha and Rogerson (2014: S48), SMEs in South Africa have not yet made the significant impact expected by policymakers, despite longstanding commitment and support from the government.

Internationally, research generally finds that small and medium sized businesses are more likely to fail in comparison to their corporate counterparts (Sibanda & Manda, 2016:195). SMEs are generally more susceptible to failure due to their newness and smallness (Afolabi & Macheke, 2012:237). Most studies distinguish between internal factors (factors indicating the capabilities of the owner or manager) and external factors (the environment the business operates in) when referring to causes of small business failure (Sibanda & Manda, 2016:196). Abdurahman *et al.* (2012:7529) state that internal factors rather than external factors are major factors affecting businesses' decline and failure. They add that among the common internal factors that lead to poor business performance, are a general lack of financial management skills, inadequate management skills, weak production scheduling and oversight, and insufficient marketing practices. Small business failure occurs even though small business owners often have good

ideas and are competent to manufacture their product or provide their service, but they normally do not have an idea how to run a business sustainably (Chiliya & Roberts-Lombard, 2012:462).

However, external factors cannot be excluded as contributors to SME's failure. These factors relate to lack of access to affordable capital, high crime rates in the area of the businesses' premises, perceived high levels of red tape and inadequate support from non-financial SME support institutions (Soni *et al.*, 2015:60-62). The impact of some of these factors can be reduced if SME owners/managers are able to manage their internal factors better.

This chapter sets out to define SMEs on the basis of this study and provides an explanation of the contribution SMEs make to the economy and unemployment rates of South Africa, as well as some of the challenges currently faced by SME's.

2.2 DEFINING SMEs

According to Madusise (2012:8), there is no uniformly accepted definition for an SME. The definition varies between industries and countries. However, for this study's purposes, an SME will be defined in a South African context as described by the National small business act (South Africa, 1996:2). This definition states that a SME is *"a separate and distinct entity, including cooperative enterprise and non-governmental organisations, managed by one owner or more which, including its branches or subsidiaries, if any, is predominantly carried on in any sector or subsector of the economy mentioned in column 1 of the schedule and which can be classified as a micro-, a very small, a small or a medium enterprise by satisfying the criteria mentioned in columns 3, 4 and 5 of the schedule opposite the smallest relevant size or class as mentioned in column 2 of the schedule"*.

The columns mentioned in the definition provided for a SME is set out as follows. Column 1 classifies businesses between different standard industrial sectors or sub-sectors. These sectors or subsectors are agriculture; mining and quarrying; Manufacturing; Electricity, Gas and Water; Construction; Retail and Motor Trade and Repair Services; Wholesale Trade, Commercial Agents and Allied Services; Catering, Accommodation and other Trade; Transport, Storage and Communications; Finance and Business Services; Community, Social and Personal Services. Column 2 shows the different classes or sizes of SMEs for each standard industrial sector or sub-sector. These classes are medium, small, very small and micro enterprises. Column 3 stipulates the maximum number of employees for each class of SME, and standard industrial sector or sub sector. Column 4 further indicates the highest total annual turnover for each class of SME, and standard industrial sector or sub-sector. Finally, column 5

specifies the upper limit of total gross asset value for each class of SME, and standard industrial sector or sub-sector. Therefore, if a manufacturing SME with 30 employees, with a total annual turnover of R20-million and total gross asset value of R3-million were to be classified, the business could be classified as small according to column 3 and 4's criteria. However, due to the businesses' annual turnover exceeding the upper limit of a small (R10-million) SME classification, the business is classified as a medium sized business. Table 2-1 provides a consolidated view of the small business classification schedule, provided by the National Small Business Act (South Africa, 1996:15).

Table 2-1: Consolidated schedule defining SMEs

| Size or class (Column 2) | Total full-time equivalent of paid employees depending on sector, less than: (Column 3) | Total annual turnover depending on sector, less than: (R million) (Column 4) | Total gross asset value (fixed property excluded) depending on sector, less than: (R million) (Column 5) |
|--------------------------|---|--|--|
| Medium | 200 to 100 | 50,00 to 4,00 | 18,00 to 2,00 |
| Small | 50 | 25,00 to 2,00 | 4,50 to 1,00 |
| Very Small | 20 to 10 | 5,00 to 0,40 | 1,80 to 0,20 |
| Micro | 5 | 1,50 to 0,15 | 0,10 |

(Source: National Small Business Act No. 102 of 1996 (South Africa, 1996:15))

The White Paper (South Africa, 1995) on national strategy for the development and promotion of small business in South Africa (South Africa, 1995:10) further subdivide SMEs as follows:

- **Survivalist enterprises** are persons undergoing activities who are unable to find paying jobs or enter the economic sector that they wish to enter into. These persons' earnings are normally less than would be earned from a job paying minimum wage. The activities generally require low capital investment and, what is more, necessitate minimal skills development in any specific discipline. These businesses' activities are normally undertaken out of desperation to earn a living and to provide for their families.
- **Micro-enterprises** refer to businesses with very few employees. The businesses' workforce generally consists of the owner and one or two employees paid for their assistance. Such enterprises normally have an informal make-up, few of them are registered as businesses, are not tax registered, and do not follow standardised accounting procedures. Many of these types of businesses are located at informal

business premises and are normally not in possession of any operating permits. Micro enterprise owners generally have limited capital available to them, combined with rudimentary business and technical abilities. However, various micro-enterprises have the potential to develop into feasible small enterprises.

- **Small enterprises** are usually owner-managed or are controlled directly by the owner group. These enterprises are likely tax-registered with SARS, operate from formal premises and meet other official regulatory prerequisites. The largest part of established businesses is regarded as small enterprises, with employee quantities ranging from five (5) to fifty (50).
- **Medium Enterprises** are still considered to be owner/manager run. However, the shareholder management base can be more intricate than that of a small enterprise. Employment levels of up to two hundred (200) employees and capital asset values of approximately R5 million are often seen as the upper limit of a medium sized enterprise.

2.3 SMEs' CONTRIBUTION TO THE SOUTH AFRICAN ECONOMY

SMEs are perceived as the mainstay of any economy. Worldwide they supplement economic expansion, political stability and social elevation substantially (Mthisi, 2015:11). According to Abdurahman *et al.* (2012:7530), SMEs make up more than 80% of all South African businesses. Therefore SMEs are quintessential for growth of any economy through their impacts on gross domestic product (GDP) and employment rates of countries (Wiese, 2014:13).

2.3.1 SMEs contribution to GDP

SME's operational activities play a valuable role in the stimulation of economic growth and are considered as an important component for realizing successful economic expansion (Pillay, 2016:8; Smit & Watkins, 2012:6325). Their quantities and varying natures of business operations play a substantial role in the contribution they make to an economy's GDP (Madanchian *et al.*, 2015:81). Over and above their varying natures, SMEs also contribute significantly to economic growth by being drivers of innovation (Makina *et al.*, 2015:1) and through development of new sectors, induce economic diversification (Mthisi, 2015:11). SMEs also contribute to greater levels of export through increased production volumes further increasing a country's GDP (Aigbavboa *et al.*, 2014:350). They added that an estimated 91% of all formal businesses in South Africa are SMEs and these SMEs contribute approximately 52% to its GDP. However, in comparison with other countries such as Brazil (59%), Chile (57%),

China (60%) and Germany (87%), South African SMEs' contribution to its GDP is still small (Leboea, 2017:50), indicating that there is room for improvement.

2.3.2 SMEs contribution to employment creation

Sub-Saharan countries have a problem that both their youth population and unemployment rates are continuously increasing (Klopper, 2015:18). People must move away from the idea of looking for jobs and must rather consider creating employment for themselves and others (Herrington *et al.*, 2014:19). They further stated that this is due to failure of the corporate sector to create more jobs and even though government has increased its levels of staffing, it is not a sustainable solution. People can no longer only depend on large corporations and government as sole providers of jobs, as South Africa's official unemployment rate stands at 27.7% after the third quarter of 2017 (StatsSA, 2017:7).

SMEs provide employment to about 60% of the labour force (Cant & Wiid, 2013:707). Even though many start-up SMEs fail, the ones that do survive and become successful create wealth for their founders and jobs for the communities in which they are situated (Afolabi & Macheke, 2012:237). This makes SME business activity very important as it forms part of the core to reducing of unemployment and alleviation of poverty, particularly in countries like South Africa with high unemployment rates (Makina *et al.*, 2015:1; Smit & Watkins, 2012:6326). Choto *et al.* (2014:94) support this by stating that small businesses are central to work creation and wealth distribution in South Africa. According to Wiese (2014:13), SMEs are perceived as an employment multiplier: new jobs created by SMEs subsequently create other jobs. He elaborates that in industries such as manufacturing, this multiplier effect can be nearer to a multiplier of three, creating an overall increase in national consumption.

Even though SMEs contribute significantly to the growth of an economy and to employment opportunities, South Africa has one of the lowest success rates regarding the creation of sustainable SMEs (Ngek, 2014:253). The current rate of SME failure in South Africa is alarming, as between 40 and 60% of SMEs close their doors within the first two years of their lifecycle and this number increases up to 70% by the end of the third year (Hendricks *et al.*, 2015:87). Therefore, a need exists to investigate why their challenges cause so many SMEs to fail within the first three years of their existence.

2.4 CHALLENGES FACED BY SMEs

There are many challenges identified by various authors that are faced by SMEs. Among these challenges that contribute to slow SME growth and failure are lack of management and entrepreneurial skills (Sarwoko & Frisdiantara, 2016; Ndege, 2015), lack of sufficient Operations Management Practices (Mafimidiwo & Iyagba, 2015; Chimucheka & Mandipaka, 2015; Soni *et al.*, 2015), lack of planning (Karadag, 2015; Ndege, 2015), limited knowledge and access to business information (Chimucheka & Mandipaka, 2015; Choto *et al.*, 2014), inadequate financial management practices (Ramasobana *et al.*, 2017; Sibanda & Manda, 2016), insufficient location choices (Bouazza *et al.*, 2015; Chimucheka & Mandipaka, 2015), lack of access to capital (Muriithi, 2017; Iweka *et al.*, 2016), insufficient institutional support and regulatory hurdles (Soni *et al.*, 2015; Ndege, 2015), deficient SME management education (Herrington *et al.*, 2017; Mafimidiwo & Iyagba, 2015; Chimucheka & Mandipaka, 2015), poor Customer service (Antoncic *et al.*, 2016; Tehseen & Ramayah, 2015), poor business networking (Strategic partnerships and Joint ventures) (Zhu *et al.*, 2017; Tehseen & Ramayah, 2015).

2.4.1 Lack of management and entrepreneurial skill

According to Karadag (2015:27), globally a lack of managerial and entrepreneurial skills rank among the primary causes of SME failure, as a lack thereof may contribute significantly to inadequate decision-making capabilities. The level of managerial and entrepreneurial skills an SME's owner/manager displays, plays an important role in the operational efficiency and success of their businesses (Sarwoko & Frisdiantara, 2016:37; Mafimidiwo & Iyagba, 2015:107, Chiliya & Roberts-Lombard, 2012:464). Several authors (Ndege, 2015:92; Choto *et al.*, 2014:95; Aigbavboa & Thwala, 2014:776) found that a lack of management and entrepreneurial skills are among the main challenges hindering SME growth. Furthermore, the contrast between SMEs that show growth and those that do not, rests in the skills shown by growing SMEs' owners/managers (Lekhanya & Mason, 2014:343). Continually growing SMEs' owners/managers have an ability to anticipate their firms' investment requirements, enabling them to estimate, select, bargain and construct sustainable business relationships (Fatoki, 2014a:95), therefore, managing their companies more efficiently and providing an enhanced platform to compete and grow (Sarwoko & Frisdiantara, 2016:40; Bezuidenhout & Nenungwi, 2012:11660). Managerial and entrepreneurial skills also contribute to a business' competitive advantage. Eniola and Ektebang (2014:81) say that the managerial and entrepreneurial skill and competence displayed by SME owners/managers contribute far greater towards a business' ability to obtain competitive advantage, than physical assets do. This is because physical resources, such as modern machinery, can easily be purchased by business

competitors and then the business that obtained modern machinery first, would have lost its advantage. However, a business owner's intellectual capabilities and skills cannot be as easily obtained as a modern piece of machinery (Eniola & Ektebang, 2014:81). Business owner/managers should be able to keep a level head in crises. Their managerial skills level is therefore a very important factor in the long-term survival of their businesses. The better skilled business owners are at managing their businesses, the better they will be able to anticipate crises and deal with them (Vrchota & Rehor, 2017:55).

Many authors determine that a positive relationship is shown between business success and SME owner/management abilities and skills (Fatoki, 2014a:98; Chiliya & Roberts-Lombard, 2012:468). Hutchinson and De Beer (2013:238) state that a lack of management and entrepreneurial skills contributes to high business failure rates in South Africa. SMEs who succumb within three years of business formation, often display inadequate leadership and organisational skills (Ndege, 2015:81). Chimucheka and Mandipaka (2015:312) also believe that a lack of managerial and entrepreneurial skills may be the root cause of many other challenges SME leaders experience, thus emphasising its importance. According to Agwu and Emeti (2014:104), a lack of management skills is a large challenge to the survival of SME in Nigeria, and many small business failures occur due to a lack of experience and competence.

Entrepreneurs are often the sole managers of their businesses. Their personal initiative is important, and they must be able to show a wide variety of skills to achieve success in their business undertakings (Glaub *et al.*, 2015:23). Small business owners who have strong practical skills in the product or service being delivered, but not enough knowledge pertaining to the management of a business, tend to fall victim to not being able to recognise root causes and their symptoms as they arise within their businesses (Smith *et al.*, 2014:118). Agwu and Emeti (2014:108-109) found that a lack of managerial skill is indeed a significant challenge to SMEs in the Port-Harcourt City, Nigeria, with 61.82% of participants in their study agreeing that shortages in managerial skills hamper the success of their businesses. In a study by Mayombe (2016:467), participants submitted that they are hesitant to apply for loans, fearing that they will not be able to pay them back, because they felt that they did not have enough managerial skills.

2.4.2 Lack of sufficient operations management practices

Operations management is the way businesses manage their systems and methods that they use to convert their input materials to products or services (Urban & Naidoo, 2012:149). They also say that operations management is at the core of any manufacturing business regardless of the type of products being manufactured. Furthermore, many SMEs may have general

strategies in place, although the operational systems they have in place are not always contributing effectively to these strategies (Soni *et al.*, 2015:48). According to Dikgwatlhe (2014:26), very few SMEs have written, standardised operational procedures. A lack of operations and functional area management poses a great risk to the growth and survival of SMEs (Chimocheka & Mandipaka, 2015:310). They add that SME owners who only have technical backgrounds tend to find operations and functional area management the most challenging. A lack of competence in inventory management and poor record keeping further contributes greatly to the failure of businesses (Hutchinson & De Beer, 2013:238).

Supply chain strategies have a strong influence on the potential profitability of a business (Heizer & Render, 2014:469). According to Dubihlela and Omoruyi (2014:1022) as much as effective supply chain strategies are compulsory for large corporations, they should also be compulsory for SMEs. They added that SMEs must formulate, implement and maintain formal supply chain strategies effectively. In doing so, they improve business performance, allowing them to run more efficiently and beat their competitors (Dubihlela & Omoruyi, 2014:1022).

In their study, Mafimidiwo and Iyagba (2015:106-107) found that SMEs felt utilisation of modern construction methodologies would contribute well to business profitability. Ndege (2015:81) states that most successful SMEs have well defined and monitored business processes allowing them to reduce running costs. He adds that these SMEs' leadership adhere to industry benchmarks and service delivery standards as a means of satisfying customer requirements. Bezuidenhout and Nenungwi (2013:11667) found that if SMEs want to be successful and run sustainably, they must master the technical competencies involved with operations management.

2.4.3 Lack of planning

SMEs are often guilty of not doing proper strategic planning as part of their normal operations and sound strategic planning is an important part of good decision making within the business (Agwu & Emeti, 2014:105). One of the main reasons businesses fail is a lack of management practices, planning, in particular (Nassif *et al.*, 2014:111). Inadequate business planning simply precedes SME failure (Fatoki, 2014c:925). Mafimidiwo and Iyagba (2015:105) support this by identifying the ability of developing long term strategies as a challenge to small contracting businesses. Ndege (2015:93-95) further supports this by stating that unsustainable SMEs lack clear strategic business plans and vision. A lack of strategic planning leads to businesses initiating projects that are not aligned to the direction the business is going in (Sádaba *et al.*, 2015:38-42). They also note that inadequate project planning further leads to partially

completed projects or projects which, when finished, do not even feel successful. Many other challenges, such as obtaining finance, stem from a lack of business planning (Fatoki, 2014a:97). He further adds that business plans are distinguished as indispensable documents, especially in the start-up phase.

According to Munguia *et al.* (2016:805), planning is important to the success of any business, and the size of the business is irrelevant. They further say that the planning phase of conducting business allows important decisions to be made about what the business wants to achieve and how it will achieve it. Development and implementation of effective long- and short-term plans are essential for an SME's sustainability (Hiatt & Sine, 2012:5). SMEs operate in highly volatile business environments characterised by a high rate of technological changes and stiff competition, and the use of strategic management as a tool to reduce the impact of these characteristics is seen as a necessity (Sandada & Chikwama, 2016:96). Karadag (2015:29) agrees and states that small businesses must apply strategic management methods and techniques as planning instruments, due to the turbulent business environments they operate in. She also says that even though small businesses' exposure to risk is greater than their large counterparts', SME leadership tended to neglect the need for strategic planning. Furthermore, due to the turbulent business environments SMEs find themselves in, it is important that every SME has a clear plan for their future (Vrchota & Rehor, 2017:54). Urban and Naidoo (2012:151) state that a general lack of planning skills, such as strategic planning (to launch new products or not), operational planning (how much of specific products must be scheduled for production in the month), and control decisions (when to conduct preventative maintenance on key machinery); pose significant risks to SME sustainability. One of the main reasons why small businesses claim that they do not do strategic planning, is because they believe that it removes its flexibility to reacting to uncertain environments (Batra *et al.*, 2018:496) However, they say that strategic planning actually helps businesses handle the uncertainties of their volatile business environments, making them more adaptable to these uncertainties.

Hutchinson and De Beer (2013:240) found in their study that 68.5% of their participants did not do any type of formal planning. They further deduced that most SME owners only did day-to-day planning, ignoring long term planning all together, appearing as if SME leaders do not appreciate the significance of planning. In support, Vrchota and Rehor's (2017:56-60) findings show that almost 75% of participants to their study are also not looking further into the future, as they are not setting up any written strategies. They add that SME managers must move away from a reactive way of doing business to a more pre-emptive and rounded approach to dealing with the chaos and change within their areas of business.

2.4.4 Limited knowledge and access to business information

A major cause of small business failure in South Africa is due to a lack of business knowledge (Bezuidenhout & Nenungwi, 2012:11667). Numerous SMEs may not have sufficient knowledge of their specific industries, making it harder to identify opportunities and to exploit those opportunities (Hutchinson & De Beer, 2013:240). Many SMEs are unaware of the existence of business information (BI), but due to complicated procedures involved with gaining access to the information, SMEs are often discouraged from using it (Mthisi, 2015:14). Survivalist entrepreneurs are challenged by being unaware of their potential, due to an inability or unwillingness to see the bigger picture and not realising the relevance of BI for the sustainability of their businesses (Choto *et al.*, 2014:96). They add that it indicates these entrepreneurs have a narrow view of business development. According to Gauzelin and Bentz (2017:43-44), SMEs see BI systems as something that is only effective for large companies, as they invest more on technology. They add that this is because large companies have the resources to maintain these *complicated* BI software systems and most SMEs feel that they do not have the resources necessary to utilise BI systems fully. Puklavec *et al.* (2018:241) support this by saying that the use and adoption of BI systems depend heavily on the attitude top management has towards its use, and in the case of SMEs the owners are generally the managers of the company that currently still feel that it is too complicated to use. However, they also add that if external support for BI systems were more readily available, SME owners may find its use more attractive.

Access to and reliability of valuable business information are among the challenges affecting small contractors in Nigeria (Mafimidiwo & Iyagba, 2015:105). Chimucheka and Mandipaka (2015:310) believe that, even though the internet is more readily available, SMEs have inadequate access to make continuous use of market information and only a small quantity of them have access to advanced communication technologies that could enable them to do so. Most SMEs do not make use of information systems either, even though, if strategically utilised, these systems can provide these businesses with a competitive advantage that leads to an increase in the share of the market (Jassiem *et al.*, 2012:6911). They add that not using such systems may lead to longer lead times, poor usage of business resources and reduced productivity. Papachristodoulou *et al.* (2017:73-74) supports this by pointing out three of the main advantages a BI system has for businesses:

- It reduces data analysis and reporting effort. Reports can be compiled with less effort and are of better quality, creating easier access to information and allowing for better reactions to new information.

- The decision-making process is improved due to the more accurate and current data, and information.
- Lastly the top two benefits lead to cost savings and a competitive advantage, due to SMEs capability of making better informed decisions faster.

Cant and Wiid (2013:713) determined that 82.1% of persons responding to their survey felt that they lacked knowledge of their target markets, further stating that low demand for business' products could stem from insufficient knowledge of their target markets and inability to adjust their marketing strategies to fill the gap. Dubihlela and Omoruyi (2013:57) consider SMEs' ability to build dynamic business knowledge capabilities as an important factor that could enable and empower their owners to adapt to change. Even though SMEs now need BI systems as much as large companies do, their adoption rate is still very low, and reduces SMEs' ability to effectively compete with large businesses that operate in the same environment as they do (Boonsiritomachai *et al.*, 2016:2).

2.4.5 Inadequate financial management practises

Sibanda and Manda (2016:196) note that two of the most common financial management factors affecting SME success are a failure to manage costs or an inability to predict rising costs and fail to pursue qualified assistance. Most SMEs find it difficult to manage their finances due a lack of financial expertise on the owner's part (Karadag, 2015:28). Even though this could result in the business facing financial difficulties, many small businesses do not obtain technical assistance in finance-related areas or empower themselves by improving their financial skills. Karadag (2015:28) believes that this is to save on costs in addition to not being willing to give up their managerial power. Most SMEs' accounting practices do not follow any standard practice and they can therefore not properly assess their financial performance (Agwu & Emeti, 2014:105).

Abdurahman *et al.* (2012:7531) believe proper budgeting practices are a significant financial management tool that is being applied inappropriately. They add that budgets indicate what a business' future expectations are. Many SMEs record their transaction history at random without adhering to any established form of accounting, making it difficult to monitor their cash flows (Sibanda & Manda, 2016:197). Furthermore, SMEs are regularly characterised by over-expenditure and wasting scarce resources. Additionally, failure to manage and control finances, affects business processes undesirably in newly established businesses worldwide (Ndege, 2015:83). He further adds that these failures are an especially common occurrence in

developing economies. According to Mafimidowo and Iyagba (2015:102), SMEs in Nigeria lack awareness that competencies in financial management is important and that the way they manage their finances, reflects this. Inefficient financial management practices greatly contribute to SMEs' inability to obtain external capital from financial institutions (Gill & Biger, 2012:658). Fatoki (2014a:97) supports this, adding that banks and other creditors use financial information provided by SMEs to determine whether to lend money to them or not.

Overall, financial management forms the core of management decisions in small businesses (Karadag, 2015:26). She adds that ineffective financial management has a detrimental effect on the achievements of SMEs and their sustainability, due to the financial nature of most SMEs' challenges. Jassiem *et al.* (2012:6912) concluded that although utilisation of financial information systems does not serve as a guarantee for businesses' success, those who do have the technical background to manage their finances themselves may be more competitive in the markets they operate in. Furthermore, without utilising financial information systems combined with a lack in financial management practices, can contribute to SME failures (Ramasobana *et al.*, 2017:9350). In their study, Bezuidenhout and Nenungwi (2012:11663) found that a large portion of their participants felt that they had low competency, regarding financial management. This is supported by Hutchinson and De Beer (2013:241-242) who obtained similar results in their study, adding that a shortage of financial management skills poses a great threat to the longevity of SMEs as it impacts their potential to succeed and remain viable negatively.

2.4.6 Insufficient location choices

One of the most important decisions for businesses to make is where to locate their business' premises (Heizer & Render, 2014:364). They also suggest that a business' location has a large influence on its overall success. According to Bouazza *et al.* (2015:06), SME management does not consider all their business' operational requirements when choosing a location for it, frequently choosing the first available location they can find, even though the location itself is not suited for the business' needs. They also state that SMEs must sometimes adjust their initial investment strategies due to the chosen premises being too small or having a large area of the location sitting idle and paying for more than they can cover through operational income. SMEs' location choices frequently impact their market growth potential due to insufficient proximity to their clients and/or their suppliers, increasing transportation costs (Khosa & Kalitanyi, 2014:210). They add that proximity to suppliers and clients provide a form of enhanced environmental scanning, improving their chances of identifying new growth opportunities.

According to Agbenyega (2013:204), SMEs situated in rural areas are less likely to create growth opportunities than their urban counterparts, mostly due to rural businesses' lack of access and proximity to markets. She also said that businesses cannot operate in isolation, as most rural businesses do. SMEs located in rural areas find it particularly difficult to access external funding from financial institutions as these institutions are not easily accessible from rural areas (Lekhanya & Mason, 2014:343). Rural areas often have shortages of office spaces, warehouses and factories, forcing many SMEs to operate from residential premises (Mugobo & Ukpere, 2012:832). Locations that lack basic infrastructure such as well-maintained roads, transportation systems, irregular power supply and access to the internet also pose as significant challenges to SMEs (Choto *et al.*, 2014:96). This is especially true for newly formed businesses that rely considerably on existing infrastructure, as they themselves are generally unable to afford development of alternative options (Agwu & Emeti, 2014:105).

In contrast, inner city locations have their own drawbacks. Although business locations can be closer to better suppliers and more frequent customers, crime rates around the business' location can become a significant challenge (Khosa & Kalitanyi, 2014:210). Businesses situated in areas where high crime rates exist cannot rely on past customer trends to predict operational trends, as patrons would rather avoid being victimised by criminals, thus avoiding risky locations for less crime ridden areas (Hiatt & Sine, 2014:4). They also state that this could result in poor customer service, which would eventually pose a threat to business sustainability, due to businesses not being able to service the needs of customers that visit their businesses. Crime reduces property values and as a result reduces businesses' chances of obtaining credit, paying high insurance premiums due to higher risks facing financial service providers (Fatoki, 2014c:1016). Furthermore, according to Cant and Wiid (2013:711-712), the costs of doing business for SMEs goes up due to crime, either directly (loss of products) or indirectly (security costs).

It would then make sense for SMEs to make use of business parks. However, this too poses a significant challenge to SMEs as most business parks are expensive, especially for newly established SMEs (Ndege, 2015:83). Therefore high costs in good locations then force newly established SMEs to less optimal locations that may not be fruitful for the growth of newly established businesses (Agwu & Emeti, 2014:105). In their study, Chimucheka and Mandipaka (2015:312) found that 62% of their participants felt that their businesses were not located optimally. Cant and Wiid (2013:713) supports this as they found that an insufficient business location is ranked 3rd among market related challenges and stating that a business' location plays a substantial role in the prosperity of a SME.

2.4.7 Lack of access to capital

Lack of access to capital is one of the widest spread challenges facing SMEs globally. SMEs in emerging economies, many in sub-Saharan Africa, often experiences obstacles in attaining external financial assistance, and are more constrained in obtaining credit than their large business counterparts, inhibiting their ability to grow and survive (Muriithi, 2017:40; Karadag, 2015:27; Berg & Fuchs, 2013:2). African financial institutions are not only expensive, but also have a constrained outreach by only being able to serve a small percentage of the total population (Muriithi, 2017:40). These financial institutions seem to be unwilling to extend loans to SMEs, mostly due to the high risk of not being paid back their money (Haselip *et al.*, 2014:370). SMEs markedly are limited by gaps in financial service provision systems, such as high interest rates, and high collateral requirements (Bouazza *et al.*, 2015:107). In addition, SMEs have limited options available to them to cover their large working capital requirements due to these gaps (Mafimidiwo & Iyagba, 2015:103), making it tough for new SMEs to obtain capital from commercial banks at favourable rates (Ndege, 2015:83). Sub-Saharan Africa SMEs also rely heavily on trade credit and informal financing sources (Haselip *et al.*, 2014:370). Lekhanya and Mason (2014:335) state that SMEs often make use of short-term loans that are more easily accessible than long term loans. However, these loans are much more expensive, due to exorbitant interest rates and the need to refinance more frequently.

Most investors tend rather to invest in well-established businesses, where they are certain of carrying minimal risk and certainty of return on investment (Kanchana *et al.*, 2013:74). SMEs are not innocent regarding the challenge of a lack of capital, as SMEs are not always investment ready. Most are unable to assess their future capital requirements accurately (Fatoki, 2014a:95-98). He also notes that SME owners must be able and willing to put their own money towards their businesses, giving most investors peace of mind that the owner is not just pursuing an attractive opportunity, but is vested in the business' idea and will work harder to attain success for the business. However, most business owners cannot or are unwilling to put up the collateral security required to secure their desired loan amount (Khosa & Kalitanyi, 2014:210). Ingle (2014:43) supports this by stating that very few SMEs in South Africa can make a strong enough case to banks convincing them that they should be entitled to credit facilities such as overdrafts.

Due to limited capital sources available to them, many SMEs are forced to establish themselves with small capital inputs from the owners and grow themselves from retained earnings (Gregory, 2013:3). Many small businesses owners utilise their own savings and income as their most significant source of capital (Chimucheka & Mandipaka, 2015:311). Business owners who do

not have the capital values required to start their own businesses often rely on family members' financial reserves as a source of capital (Gill & Biger, 2012:657). However, businesses that do manage to overcome their lack of capital without the support from financial support intuitions, such as banks and other small business capital funds, later tend to attribute their longer-term success to the fact that they learnt to manage their businesses' challenges without relying on a bail out (Ingle, 2014:41).

Lack of easily accessible capital inhibits SMEs from investing in other ventures, expand into different market sectors or invest into much needed training for themselves and their employees, that could improve operational efficiencies (Hutchinson & De Beer, 2013:238). Making it difficult to survive and grow; according to Iweka *et al.* (2016:92) the more funds they can access, the better they would be able to generate income on their own, through further investment in their operations.

In his study, Mabaso (2014:44) found that 55.2% of the participants used their own savings and income as start-up capital for their businesses, with only 25.9% of participants stating that they used capital received from banks. Choto *et al.* (2014:98-99) supports this finding, as 50% of the participants to their study found it difficult to obtain capital from banks and most of their participants felt that a lack of capital obstructs the growth of their businesses. Furthermore, 75% of all credit applications by new SMEs are rejected (Fatoki, 2014a:94). Pointing out that a lack of access to capital is a meaningful challenge to SMEs, it contributes greatly to slow growth of SMEs and their failure rates (Mafimidiwo & Iyagba, 2015:103).

2.4.8 Insufficient institutional support and regulatory hurdles

According to Ingle (2014:43), remarkably few SMEs are aware that institutional support programs exist. He further explains that of those that knew about these programs and applied for assistance, none have received any feedback other than acknowledgment of their application. Many different institutions such as the Small Business Development Agency (SEDA), National Empowerment Fund (NEF), Industrial Development Corporation (IDC) and National Youth Development Agency (NYDA) exist, providing support programs to SMEs (Soni *et al.*, 2015:67). However, they support Ingle's (2014:43) view that very few SMEs are aware of their existence. They also add that SMEs who are aware of these institutions' existence are not sure what the purpose of these institutions are. Hutchinson and De Beer (2013:238-239) state that SMEs have had inadequate support from formal business development services despite high levels of attention directed to these institutions in the past decade. They add that state offered, small business support and training programs do not provide sufficient upliftment to the

informal economy and it is considered that the bulk of government small business schemes have been of little worth to the informal sector. This is mostly due to agencies interacting with and supporting development of the informal sector being unable to coordinate their efforts effectively (Hutchinson & De Beer, 2013:238-239).

Even though the South African government has various initiatives in place to support SMEs, several laws in place make it hard to start-up, run and grow SMEs in the country (Cant & Wiid, 2013:712). Entrepreneurs are discouraged from starting their own businesses due to regulations put in place by the South African government (Choto *et al.*, 2014:96). They also said that the regulations require arduous administrative processes to be followed, making it complicated for entrepreneurs to register their businesses. Ideally it should be easy to register a business. SMEs receive negligible support and guidance from the government, even though it is the government's duty to create an enabling environment for economic development (Ndege, 2015:74-75). Due to the arduous processes of creating formal businesses, many informal businesses chose to stay as such, even though they may forgo some advantages of being formalised by staying informal (Ingle, 2014:43-44). He continues to say that most of these informal SMEs feel that they are better off by not formally registering their businesses. As much as red tape involved with formalising new businesses inhibits it from happening, small business establishment is also restrained by an exceptionally confusing and complicated regulatory environment, more specifically pertaining to labour laws. He further stated that even though the laborious labour laws cannot be explicitly blamed for failure of small businesses they constrain formation and growth of SMEs (Ingle, 2014:43-44).

Hutchinson and De Beer (2013:243) found that all their participants were not offered any form of non-financial support. In their study: Chimucheka and Mandipaka (2015:312) found that 23% of their participants have never heard of any government support programs and out of the 77% who have heard of such programs and have received such support felt that the level of support they received was insufficient. Ngek (2014:261) concluded that to reap the much-anticipated benefits from the SME, segment governments must start focussing on developing high quality SMEs.

2.4.9 Deficient SME management education

A major obstacle faced by SMEs is their lack of business management education (Choto *et al.*, 2014:95). Generally, people do not leave school and become successful business owners overnight (Ingle, 2014:41). He further says that even though most people feel that anyone can become an entrepreneur, a lack of education of SME owners, or their management towards

business failure, is misunderstood by most people. Improving persons' education enhances their chances of starting successful businesses but will also enable them to navigate the ever changing and competitive business environments well (Herrington *et al.*, 2017:33-34). They add that there is a strong correlation between the perception of well-developed capabilities (skills) and a tendency to start entrepreneurial activities, confirming that any form of education is important for the development of entrepreneurial competencies.

According to Ndege (2015:94), access to skills-based training programs is strategically important if start-up businesses wish to overcome the competency gap in the small business sector. In South Africa a lack of managerial competence in small businesses result from a lack of suitable training. Survivalist enterprises rarely become sustainable business ventures due to poor skills development (Hutchinson & De Beer; 2013:238). A lack of entrepreneurial and business training contributes to operational challenges faced by SMEs (Mafimidiwo & Iyagba, 2015:103).

There are many institutions available for the provision of training and advisory services. However, there is still a skills gap in the SME sector, mainly due to small business owners not being able to afford or unwilling to pay the high tuition fees (Chimucheka & Mandipaka, 2015:311). Yahya *et al.* (2012:21) support by concluding that SMEs' inclination to partake in training was highly correlated with the view SME management had towards training within their companies. They further add that one of the most significant deterrents of SME training is their reluctance towards spending money on it. Chiliya and Roberts-Lombard (2012:467) found that most (86.11%) of the participants to their study did not see the need to attend management training, adding that most SME managers considered training programs as tedious activities, rather than opportunities to improve the way they manage their businesses.

Cant and Wiid (2013:711) found that more than a third (35%) of the participants taking part in their study did not matriculate, while a small number of their participants had a degree (12%) and a post graduate degree (12%). Chimucheka and Mandipaka (2015:312-313) found that more than 40% of participants to their questionnaires admitted that they lacked experience and skills needed to run their respective businesses. They further pointed out that a lack of SME management education could be the root cause of all other challenges SMEs face in some form and concluded by saying that to reduce the severity of challenges experienced by SMEs, entrepreneurship education and training is required.

2.4.10 Poor customer service

Fatoki (2014c:925), as well as Hutchinson and De Beer (2013:238), cites poor customer service as a sizeable factor leading to failure of new SMEs. Customer satisfaction is a response to a specific product or service regarding the degree to which consumption meets the customers' expectation (Lamb *et al.*, 2015:5-6). They also state that customer satisfaction is the impression that a product has met or surpassed customers' expectations, meeting customer expectations and sustaining that satisfaction can be cumbersome. Misunderstanding customer needs can lead to hindrances of SME growth, suggesting that businesses need to improve relationships between their customers and themselves, clarifying the needs of their customers (Xesha *et al.*, 2014:37). They add that businesses need to nurture long term customer relationships as these will support them through tough and trying times.

Antoncic *et al.* (2016:93) argue that marketing is an important factor affecting the success, growth, and profitability of SMEs. They further elaborate by stating that high levels of self-efficacy and competence in marketing is key when starting a new business. SMEs can benefit significantly from improved customer relations due to several aspects such as repeat business, work continuity and improved profitability (Thwala, 2014:776). Businesses must always consider the complexity and connectedness of the market places they operate in, even if they do not wish to utilise relationships as a strategy (Xesha *et al.*, 2014:37).

Business owners must understand that they must be willing to give to-, share with- and support their customers (Xesha *et al.*, 2014:38). According to Tehseen and Ramayah (2015:58), small businesses generally have fewer customers or quite a small customer base. Customer relationships are important to understand and fulfil customer's needs. Satisfied customers result in their loyalty, which contributes considerably towards a company's success (Tehseen & Ramayah, 2015:58). Therefore, due to small businesses, smaller customer base SME cannot afford to lose customers due to poor customer service (Lekhanya & Mason, 2014:333-334). Customers are aware that they hold the ultimate trump card over businesses: their loyalty. It is therefore essential for businesses to remember past interactions with their customers and continue to build on those interactions (Xesha *et al.*, 2014:41). A noteworthy characteristic of some of the world's most successful SME's is providing excellent services and products. These businesses are dedicated to satisfying their customers, research, innovation and attention to quality services and products (Ndege, 2015:84). He adds that many South African SMEs are characterised by a lack of professionalism and customer service and that it is impossible for small businesses to attain dependable clients without displaying commitment to service excellence.

Cant and Wiid (2013:709-713) found that small businesses' knowledge of their target markets are a concern to most (82.1%) of the SMEs who took part in their study. They include that small businesses must also know how their offerings compare with their competitors', to assure that potential customers choose them over their competitors. They add that to be able to meet the needs of their customers, small business must know who their customers are and what they want, where and when they want it. Dubihlela and Omoruyi (2013:57) support this by finding that small businesses that focus on motivating their managers and employees to display excellent customer service, tend to show improved reaction to market trends and can adapt better to changes in customer requirements.

2.4.11 Poor business networking

According to Zhu *et al.* (2017:227), business networking refers to businesses' informal social connections with their stakeholders, noting that SMEs that effectively utilise their networks, retrieve suitable and dependable information in a timely fashion. They further add that this allows firms to stay on track with changing customer preferences, staying up to date with new technologies, in so doing reducing the risks attached to market volatility. SMEs regularly depend on suppliers and complimentary business acquaintances to obtain much needed resources, such as quality raw materials, technology, emerging trends and other information concerning demands and tastes of customers (Tehseen & Ramayah, 2015:54). They also argue that it just makes sense for SMEs to develop long term relationships and utilise them assuring sustainable growth of their companies. Effective use of resources and knowledge transfer among alliance partners provides both businesses with outright advantages such as cost reductions and may further lead to improved performance of both partners. According to Xesha *et al.* (2014:37), business owners must start to recognise the importance of building and maintaining relationships with other businesses. They add that businesses which can merge resources and accelerate learning between them, could have a winning strategy in future. Good business relationships with other business create collaborative norms and conduct through shared problem solving and better support among single businesses (Zhu *et al.*, 2017:227). They similarly state that businesses with close relationships with other businesses forming part of their supply chain can request real-time changes in response to notable changes in market requirements.

Furthermore, one of the main drivers for SMEs to attain joint venture or partnership is to access foreign markets (Dikgwatlhe, 2014:24). He adds that SMEs are generally cautious to embark on such ventures due to their requiring them to go into an alliance with large corporations, resulting in having to give up their independence, thus leading to SMEs becoming less interested in

competing in the global arena. However, the positives may outweigh the negatives. In South Africa for example, Khosa and Kalitanyi (2014:214) recommend that foreign African entrepreneurs partner with their local counterparts, from whom they generally rent their premises, cutting their operating costs, and also being able to take advantage of government grants aimed at South African small businesses. They also state that there are positives involved for the South African small business owner in this regard too, as the local business owners would then be able to reap the benefits of attaining better entrepreneurial skills, which is much needed.

Dikgwatlhe (2014:72) further found that most small businesses do not place high value on association with other businesses regarding sharing of ideas and innovations or to gain from operating complementary types of businesses. South African SMEs have a lack of interest in collaboration, which may have aided in outsourcing skills that are not readily available to the individual business (Ndege, 2015:82). He adds that small businesses, generally form important parts of larger businesses, supply chains and that small businesses need not be absorbed into the large businesses, as temporary partnerships can be formed using long term contracts. Mafimidiwo and Iyagba (2015:106) highlighted partnerships with larger companies as one of the ways SMEs can grow their companies further, although, most business owners who took part in their study are not using that as a strategy yet.

2.5 SUMMARY

World-wide SMEs are notable contributors to the development of countries' economies as they are major contributors to employment generation and output growth of a country, regardless of it being developing or developed countries (Wiese, 2014:13; Jassiem *et al.*, 2012:6910). In countries such as South Africa (a developing country), the emphasis on SME growth and development is even greater, as they have been earmarked as a solution to the country's ever-growing level of un-employment and low GDP growth rates (Makina *et al.*, 2015:1; Choto *et al.*, 2014:94; Aigbavboa *et al.*, 2014:350; Smit & Watkins, 2012:6326).

The definition of what constitutes SMEs differs between countries and industries. However, South African SMEs can generally be characterised as independent businesses that employ less than 200 full time employees, have a turnover of less than R50-million and a total asset value of less than R18-million (South Africa, 1996:15).

SMEs make a considerable contribution to the growth of the South African economy (Pillay, 2016:8; Madanchian *et al.*, 2015: 81; Wiese 2014:13; Smit & Watkins 2012:6325), as they make

up more than 80% of the country's businesses (Abdurahman *et al.*, 2012:7530), and contribute up to 52% of its GDP (Aigbavboa *et al.*, 2014:350).

The corporate sector fails to create more jobs, even with government increasing its staffing levels it, is not a sustainable solution to the shortages of jobs in the country (Herrington *et al.*, 2014:19). As South Africa's official unemployment rates stand at 27.7% (StatsSA, 2017:7), people can no longer rely on the corporate sector and government for jobs. However, SMEs forms part of the core to reducing unemployment (Makina *et al.*, 2015:1; Smit & Watkins, 2012:6326), they are central to job creation and wealth distribution (Choto *et al.*, 2014:94), and are perceived as an employment multiplier, as jobs created by SMEs have the potential to support the creation of other jobs (Wiese 2014:13). According to Cant and Wiid (2013:707), out of all employment generated by formalised businesses, SMEs contribute up to 60% of jobs generated. Even though SMEs make such a notable contribution to South Africa's output growth and employment, they fail at an alarming rate, as 40% to 60% of businesses established fail within their first two year of existence, further increasing up to 70% by the end of the third year (Hendricks *et al.*, 2015:87), making it important to investigate the challenges SMEs face to operate sustainably.

Research shows that the following challenges significantly impact SMEs' ability to operate and grow sustainably: lack of management and entrepreneurial skill; lack of sufficient operations management practices; lack of planning; limited knowledge and access to business information; inadequate financial management practises; insufficient location choices; lack of access to capital; insufficient non-financial institutional support and regulatory hurdles; deficient SME management education; poor customer service; and poor business networking (Strategic partnerships and joint ventures). These challenges are discussed in greater detail in the aforesaid literature study. The following chapter sets out the research methodology followed for this study.

CHAPTER 3 RESEARCH METHODOLOGY

3.1 INTRODUCTION

This chapter sets out the research methodology followed for this study. Empirical research is the basis of the scientific method. It consists of analysing and logically interpreting empirical evidence to determine facts or proving of theories (Marczyk *et al.*, 2017:6). A literature study using secondary data from a wide variety of secondary sources was compiled in chapter 2. These secondary sources include journal articles, recent theses, websites and books relevant to the subject of challenges faced by SMEs. This study made use of a descriptive research design, due to the researcher's intent to investigate which of common challenges faced by SMEs worldwide, affects SMEs the most in the Emfuleni Municipality. A study's research design is the blue print on how data is collected (de Jongh, 2017:106), measured and analysed (Sreejesh *et al.*, 2014:27) and there are three commonly used research designs, exploratory-, descriptive- and causal designs (Geldenhuys, 2018:17; Babin & Zikmund, 2016:53-60; McDaniel & Gates, 2013:37).

The study followed a Quantitative research methodology, as this method tests theories developed through the literature study more effectively. The target population of the study is the SMEs that operate within the boundaries of the Emfuleni Municipality. An accurate sampling frame could not be developed for this study as there isn't a directory that contains all the SME's of the population SME's fully, therefore, also making it difficult to use any of the probability sampling methods. The researcher had to make use of a hybrid of non-probability methods, consisting of convenience and snowball sampling methods, due to the lack of a complete list of SMEs operating in the Emfuleni Municipality.

A self-administered questionnaire was used to get primary data from sample members. This questionnaire was distributed by making use of an electronic survey platform (Google Forms) that could easily be distributed through several electronic mediums (e-mail, social media and WhatsApp). The researcher's intent was to have the survey distributed through email or WhatsApp. The researcher distributed the questionnaire to ±1500 SME owner/managers.

The questionnaire's validity was assured through the review from four experts on small business, as well as a statistical expert's review. The reliability of the questionnaire was tested by determining its Cronbach Alpha value.

3.2 LITERATURE STUDY

In this study, secondary information was gathered from existing information. The information was then investigated to contribute to the research and to provide context for the study by using previous work by a variety of authors. To put the concepts of the study into perspective, a literature study (Chapter 2) was done by using accredited and scholarly journals, relevant books, subject specific journals and websites such as the Banking Association of South Africa, Emfuleni Municipality, Global Entrepreneurship Monitor (GEM) and research methodology websites.

Various electronic databases were consulted to obtain relevant articles and journals. Among others, Emerald, JSTOR, EbscoHost and SA Media and the NWU's thesis and dissertation data base were used.

The researcher made use of electronic search engines like google and google scholar to get familiarised with current informal trends around the concepts being investigated. Books covering a range of subjects including entrepreneurship, operations management and research methodology were also used.

3.3 EMPIRICAL RESEARCH

The empirical research approach forms the basis on which the scientific method rests. It is a fact-based approach relying on direct surveillances and testing during the process of acquiring new knowledge (Marczyk *et al.*, 2017:6). It comprises methodical scrutiny and logical interpretation of empirical data for establishing facts or proving a theory (Sreejesh *et al.*, 2013:4). Most of the common empirical research approaches include the use of statistical models describing patterns and associations, structural models recovering theoretical constructs, experimental or quasi-experimental studies measuring causal influences, of which each has its own strengths and weaknesses (Reiss, 2011:950).

3.4 RESEARCH PROBLEM AND OBJECTIVES

3.4.1 Research problem

According to the GEM's report, South Africa has a high un- and under employment rate of $\pm 40\%$ (Herrington *et al.*, 2017:5). According to StatsSA (2017:7), Gauteng Province had an official unemployment rate of 30.2% and an expanded unemployment rate of 33.3%. The Emfuleni

Municipality is no different from the rest of Gauteng, with a last recorded unemployment rate of $\pm 34.7\%$, according to Census 2011 (StatsSA, 2018:n.d). Small businesses are essential for the generation of jobs and earnings, contributing significantly as drivers of innovation and growth (Wehinger, 2014:2). Despite significant contributions SMEs make to a country's economy, they continuously face challenges that compromise their survival rate (Hutchinson & De Beer, 2013:237). The high failure rate of SMEs in South Africa reduces optimism regarding reduction of the country's unemployment rate (Fatoki, 2014c:922).

Herrington *et al.* (2014:4-5) state that small business owners can face numerous challenges when it comes to running a sustainable business. They further state the rigorous regulatory requirements combined with demanding labour laws and inefficient labour force creates further challenges for small businesses. According to Choto *et al.* (2014:96), many individuals are hesitant to start their own small businesses due to a lack of self-confidence and feeling incapable to change the outcome of their lives, thus giving up before even starting. Agbenyegah (2013:5-6) supports the previous authors by stating that SMEs face many overwhelming challenges such as difficulties in obtaining financial support, inadequate education and a lack of applicable training within their relevant field of business. Dikgwatlhe (2014:1) further adds that most SMEs are found lacking in effective planning of their operations. Small businesses can also face difficulties such as undue costs due to fraudulent activity (Herrington *et al.*, 2014:4-5). The challenges faced by SME in South Africa and their general inability to mitigate the effects of these challenges on their sustainability, is a cause for concern.

3.4.2 Primary research objective

The primary research objective was to investigate the challenges faced by SMEs within the Emfuleni Municipality.

3.4.3 Secondary objectives

To achieve the primary objective, the following secondary objectives were formulated.

- Identifying and gaining insight into some of the challenges faced by SMEs, through conducting a literature review.
- Evaluating SME owners' view on challenges faced by SMEs in general (General Challenges).

- Assessing SME owners' view on challenges faced by them in their own businesses (Personal Challenges).
- Determining SME owners' view on the operational friendliness of the Emfuleni Municipality for SMEs (Demographic Contributions).
- Analysing the effects of selected demographic variables on SMEs' view of general challenges, Personal Challenges and Demographic Contributions.
- Determining if there are any correlations between selected demographic variables, General Challenges, Personal Challenges and Demographic Contributions.

3.5 RESEARCH DESIGN

Research design is described as the framework wherein a research project is conducted, a blueprint providing guidance on how data is collected, measured and analysed (de Jongh, 2017:106). It is the over-all plan set out defining how to conduct most efficiently a research project that describes the actions taken to collect data, measuring and analysing the information, helping the researcher to achieve a conclusion about their specific research problems (Sreejesh *et al.*, 2014:27). There are three central types of research designs, namely exploratory, descriptive or causal in nature (Geldenhuys, 2018:17; Babin & Zikmund, 2016:53-60; McDaniel & Gates, 2013:37). The following is a description of the research designs.

3.5.1 Exploratory research

Exploratory research design is utilised to explore an unknown research area and is also used when more information and insight are needed about a research problem (Gravetter *et al.*, 2016:06). An exploratory research design is not done to obtain conclusive evidence, but rather to obtain better insight into the nature of research problems and to help future researchers to understand it better, therefore merely exploring research problems with varying levels of depth (Cooper & Schindler, 2014:129; Sreejesh *et al.*, 2014:31; Feinberg *et al.*, 2013:54). Exploratory research designs are characterised by being fairly loose and flexible operations that focus more on understanding different aspects of the problem being investigated (de Jongh, 2017:106). Therefore, these types of research designs tend to involve more qualitative approaches including interviews and focus group discussions (Bhattacharjee, 2012:6), due to its exploratory nature (Salkind, 2012:213).

3.5.2 Descriptive research

Descriptive research designs are used to delve deeper into patterns or trends of a situation (describing the situation better). However, it does not aim to identify causal links between the elements involved in the situation (Gravetter *et al.*, 2016:06). Descriptive research designs focus on providing a better appreciation and narrative of certain characteristics of objects, groups or population (de Jongh, 2017:107). According to Babin and Zikmund (2016:54), the objective of descriptive research designs is to describe or learn from ongoing activities by studying changes in behavioural patterns of the subjects researchers are interested in. In other words: when conducting descriptive research, researchers are trying to understand current events and how they may affect other factors better, by painting a picture of what is going on right now regarding the research subject (Salkind, 2012:197-198) and not to understand why certain things occur (Cooper & Schindler, 2014:21).

3.5.3 Causal research

Causal research designs require researchers to already have a thorough understanding of that which they are conducting research on (Babin & Zikmund, 2016:57). They further add that the basic principle of causal relationships is that when one thing (cause) happens, it leads to another thing (effect). Causal research designs usually have a more conclusive disposition and are frequently characterised by using experiments to uncover the magnitudes of the correlation in question (de Jongh, 2017:107). The purpose of conducting a causal research study is to determine causation among variables or incidences. Causal research's objective is therefore to indicate cause and effect between dependent and independent variables (Bryman *et al.*, 2014:37; Salkind, 2012:229). Cooper and Schindler (2014:139) further add that the concept of causality is based on the logic of testing hypotheses from which inductive conclusions are made.

3.5.3.1 Chosen research design

The primary objective of this study was to investigate the challenges faced by SMEs within the Emfuleni Municipality district. Therefore this study employed a descriptive research design due to its investigating which challenges, faced by SMEs in general, were the ones affecting SMEs most in the Emfuleni Municipality, thus, studying the status within the municipality regarding the challenges that they were facing.

3.6 RESEARCH METHOD

The research method narrates how collection and analyses of a study's data and information will take place. Initially there seems to be very little distinction between quantitative and qualitative research methodology, except that the one methodology uses measurements and the other does not (Bryman *et al.*, 2014:30). However, they continue by stating that the difference between these two methodologies differs far more than that. The following section explains both these two methodologies and indicates which of the two approaches was followed by the researcher.

3.6.1 Quantitative research method

Wiid and Diggins (2015:95) define quantitative research methods as gathering data from larger, more representative samples and statistical calculation of results from the data obtained from these samples. Bryman *et al.* (2014:31) further add that quantitative research regards the approach between theory and research as deductive and adopts an objectivist understanding of social reality. Quantitative research is commonly used for testing theories, and answers questions related to how much, how often, how many, when and who (Cooper & Schindler, 2014:146-148). Thijs (2016:27) supports this, stating that a quantitative research method addresses the 'what' of a problem, by following a standardised process to obtain primary data to answer the question. A quantitative research method approach includes the distribution of self-administered questionnaires to a representative sample (Geldenhuys, 2018:15). Research problems or questions are quantified through this method and it establishes how different variables affect one another in a quantitative manner (O'Gorman & McIntosh, 2015:155-156). A quantitative research method holds many advantages for a researcher. Geldenhuys (2018:15) mentions some advantages that this method has, namely:

- Sufficiently large samples assure data accuracy.
- The structured questionnaires make it simple to collect demographic information such as: age, gender, home language and levels of income.
- This research method is not as expensive as other research methods.
- Data captured through quantitative methods are relatively simple to analyse and tabulate by making use of statistical software programmes.

3.6.2 Qualitative research method

A qualitative research method of enquiry aims to achieve an in-depth interpretation towards understanding the social circumstances of research participants in their natural surroundings through learning about their social and material encounters, perceptions, situations and history (Nchabeleng, 2016:92; O'Gorman & MacIntosh, 2015:138). According to Bryman *et al.* (2014:31), qualitative research methods tend to focus more on words than on collection of quantifiable data and the analysis thereof. They further add that a qualitative research method has an inductive approach to the relationship between theory and research by generating theories instead of testing them. Therefore qualitative research methods focus on interpreting rather than on quantifying. It aims to be subjective and not objective. Its processes are flexible and orientate themselves around the processes followed and not on the outcome of those processes (Kriel, 2016:8). Kriel (2016:8) further states that qualitative research methodology deems behavioural patterns and situations as indistinguishably linked. Qualitative research data collection techniques include the use of focus groups, in depth individual interviews, case studies, ethnography, grounded theory, action research and observations (Cooper & Schindler, 2014:144). They also note that qualitative research obtains data from a diverse range of sources, including the following:

- People (individuals or groups);
- Organisations or institutions;
- Texts (published, including virtual ones);
- Settings and environments (visual/sensory and virtual material);
- Objects, artefacts, media products (textual/visual/sensory and virtual material);
- Events and happenings (textual/visual/sensory and virtual material).

3.6.3 Chosen research method

A quantitative research methodology was used for the purpose of this study. This methodology enabled the researcher to provide a better description relating to challenges faced by SMEs in the Emfuleni Municipality, as more data could be obtained and analysed within a shorter time frame.

3.7 RESEARCH POPULATION AND SAMPLING METHODOLOGY

A study's research population is defined to demarcate clearly the type of subjects the researcher is interested in studying, as well as the area they are found in. Furthermore, the sampling methodology is used to choose units of the research population that will most likely be representative of the entire population. The following section describes the intended target population and sampling methodology for this study.

3.7.1 Target population

Through the undertaking of social research, researchers' focus is to generalise specific groups called populations (Nyakudya, 2016:85). According to Xabana (2016:28), a target population is the combination of all units wished to be analysed by a researcher, this combination of subjects is determined by the problem to be investigated, or the complete group of persons from whom information is required. Analysis of a researcher's target population's replies will ultimately allow the researcher to answer their research question (Lamb *et al.*, 2015:186).

The population included in the study consists of all types of SME's contained within Emfuleni Municipality. Emfuleni Municipality covers a 987 km² area of land and is the most western municipality of three local municipalities contained within the Sedibeng district in Gauteng, South Africa. Emfuleni Municipality has a high population concentration and houses ±80% of the Sedibeng district's total population. It is strategically located with access to well-maintained road networks. The N1 national route traverses its municipal area and links it to Johannesburg and Bloemfontein. The municipality holds two main city/town centres: Vereeniging and Vanderbijlpark. It also holds the six large peri-urban townships of Evaton, Sebokeng, Sharpeville, Boipatong, Bhopelong and Tshepiso. (Emfuleni Municipality, 2014:nd)

3.7.2 Sampling frame

The sampling frame, though closely related to the sample population, is a more detailed and complete list of elements from which a sample is intended to be drawn. Ideally it should contain the complete list of the population members that suit the interest of the researcher (Cooper & Schindler, 2014:347). Due to privacy rights of the SA population, a detailed list of all registered SME's is not publicly available. Furthermore, due to the high likelihood of unregistered small businesses, a sampling frame cannot be identified. Owing to the absence of a sample frame, invitations to participate will be sent to small businesses that have made their contact information publicly available on business directory sites such as The Vaal Triangle Business

Directory, with screening criteria needing to have its main business site within the Emfuleni Municipality. Confirmation that only one questionnaire was completed by each participant will be done by filtering questionnaires through selected biographical information.

The industries which were considered in the study included but was not limited to the following:

- Engineering services (manufacturing);
- Handy man services;
- Home improvement services (kitchens, bathrooms, etc.);
- Building contractors;
- Gardening services;
- Property developers.

3.7.3 Sampling method

The basic principle of sampling is to choose some units of a population that will allow the collection of data that can be taken as a representation of the view of the entire population (Xabana, 2016:28). The sampling method determines which subjects would participate in a study. Samples are selected from a larger population with the characteristics that a researcher is interested in (Thipe, 2016:28). To select the most suitable sampling method, the sampling methods available must first be considered. There are two main methods of sampling: probability sampling and non-probability sampling (Coughlan, 2017: 93). The following is a discussion of both.

3.7.3.1 Non-probability sampling

A non-probability sampling method is known as a subjective process in which each component of the population selected is unknown and no attempt is made to generalize the results obtained from the sample (Agbenyega, 2013:259). Furthermore, potential sample members do not have an equal and independent chance of being selected (Salkind, 2012:102). Four types of non-probability sampling techniques exist, namely quota sampling, convenience sampling, judgement sampling and snowball sampling.

3.7.3.1.1 Quota sampling

The aim of quota sampling is to construct a sample returning a population in terms of relative quantities of people in different groupings, such as gender, ethnicity, age groups, socio economic groups and region of residence, as well as combinations of these groupings (O’Gorman & MacIntosh, 2015:162; Bryman *et al.*, 2014:180). Utilisation of quota sampling guarantees that the sample group embodies certain features of the population chosen by the researcher (Dudovskiy, 2016g:nd).

3.7.3.1.2 Convenience sampling

Convenience sampling involves the use of sample members who are easily accessible, willing to participate and within close geographical proximity to the researcher (Thipe, 2016:29). He adds, though, that data obtained from convenience sampling will not allow generalisation of definitive findings. This is due to this method being seen as a haphazard way of selecting participants and it is generally based on the proximity to the researcher (O’Gorman & MacIntosh, 2015:162). However, the findings could provide a springboard for further research or allow forging of links with existing findings in an area (Bryman *et al.*, 2014:178).

3.7.3.1.3 Judgement sampling

Judgement sampling entails that the researcher’s sample selection criteria are based on personal judgement of the researcher that the individuals chosen are likely to give accurate information or that they are experts in the area of interest (Lamb *et al.*, 2015:188; O’Gorman & MacIntosh, 2015:162).

Therefore the participants selected are considered to provide the best representation for the population considered within the study. It is important to note that the entire research population is not afforded an equal opportunity to participate. This creates a risk that the researcher may choose participants who may not be relevant to the study. A critical drawback for the judgement sampling method is that it is highly liable for research bias and errors due to researchers making inexpert judgements as part of the selection process (Agbenyegah, 2013:260).

3.7.3.1.4 Snowball sampling

Snowball sampling, also known as “chain referral sampling”, is a sampling method where the researcher initially contacts a small group of people, who are relevant to the study and then

makes use of these people to get into contact with others who are also relevant to the study (Bryman *et al.*, 2014:178). Dudovskiy (2016h:nd) supports this by saying that snowball sampling involves nomination of additional primary data sources by other primary data sources which were initially approached. Initially selected sample members act as a link to additional sample members through their own networks (O’Gorman & MacIntosh, 2015:162). In doing so, the sample ‘snowballs’.

3.7.3.2 Probability sampling

Through making use of a probability sampling method, each member of the population has a known likelihood of inclusion in the research study and because the probability of being sampled is known, generalisations can be made about the population through statistical methods (Vogt *et al.*, 2012:122). Using this method ensures that a representative sample is more likely by assuring that each population member has a known non-zero probability of being selected (Cooper & Schindler, 2014:349).

Probability sampling consists of four sampling methods: simple random sampling, stratified random sampling, systematic sampling and cluster random sampling (Agbenyegah, 2013:261; Vogt *et al.*, 2012:122; Wegner, 2007:215; Salkind, 2006:86-92).

3.7.3.2.1 Simple random sampling

Generally, simple random sampling is seen as a fair way to select a sample and its results can generally be generalised back to the target population (Coughlan, 2017:93). Simple random sampling is known as probability sampling’s purest form (Steyn, 2015:97; Cooper & Schindler, 2014:349). The simple random sampling method is the most basic form of probability sampling methods. Each individual unit of the population has an equal chance of being included in the study (Bryman *et al.*, 2014:172-173). Agbenyegah (2013:262), Jackson (2006:15), as well as Grinnell and Unrau (2005:210), state that the simple random sampling method requires that a unique identifier is provided to each participating member from the target population.

Simple random sampling requires the researcher to develop an accurate sampling frame (Neuman, 2006:227). It involves the use of a random process for the selection of participants, for example using a computer program to generate a random list of numbers, identifying participants from a numbered list of the known population (Vogt *et al.*, 2012:122). They further say that this sampling technique gives each member of the population an equal chance of being selected as part of the sampling, creating a high likelihood that the sample is representative of

the entire population and because each member of the population has an equal chance of being selected, it mitigates bias from the selection process. However, this sampling method has its drawbacks for researchers as it can be time consuming, expensive and generally requires larger sample sizes than other sampling methods (Cooper & Schindler, 2014:350).

3.7.3.2.2 Stratified random sampling

Variables such as age, race, geographical region and gender are referred to as strata and are likely to be utilised in dividing a research population into segments (Neuman, 2006:231). He adds that another form of random sampling where researchers initially identify a set of mutually exclusive subgroups, dividing the sample frame by the subgroup and further applies simple random selection methods to select an appropriate set of research participants from every subgroup, is called Stratified random sampling.

Application of stratified sampling assumed to be homogenous and sufficiently representative of various strata put together, can minimise research errors due to the use of random sampling methods (Salkind, 2006:91). This sampling method is also useful if a researcher wants to examine certain characteristics of specific population sub groups (Cooper & Schindler, 2014:351).

3.7.3.2.3 Systematic sampling

Systematic sampling is similar to simple random sampling in that every n^{th} member of a population is included in the study (Dudovskiy, 2016i:nd; Vogt *et al.*, 2012:124). The first member of the sample is still chosen using a randomly determined number; this member is then followed by every n^{th} member of the sample frame (Bryman *et al.*, 2014:173). Systematic sampling is more convenient for the researcher to carry out than simple random sampling. However, systematic sampling has a greater tendency to be biased (Cooper & Schindler, 2015:350-351; Vogt *et al.*, 2012:124).

3.7.3.2.4 Cluster random sampling

When using the cluster sampling method, the primary sampling unit is not the unit of the population to be sampled, but the groups or clusters of the population of those units (Bryman *et al.*, 2014:173; Cooper & Schindler, 2014:355). Dudovskiy (2016b:nd) supports this by stating that cluster sampling involves identifying and including clusters of participants representing the population. Cluster sampling then differs from stratified sampling due to in cluster sampling. A

cluster is observed as a sampling unit. However, in the stratified method specific components of strata, such as age, are recognised as a sampling unit (Dudovskiy, 2016b:nd).

3.7.3.3 Chosen sampling method

The study will make use of a non-probability sampling method, utilising a hybrid technique of convenience and snowball sampling. The researcher opted for this sampling approach due to the large quantity of SME’s in the Emfuleni Municipality and the level of difficulty with which all the SME’s in the municipality were identified. The researcher was unable to identify all the SME’s within the geographical area accurately. He provided his questionnaires to as many SME’s as he could possibly identify from sites such as the Vaal Business directory (www.vaalio.co.za), focussing only on businesses that were situated in the Emfuleni Municipality. Electronic surveys were then sent to these businesses via email. The business owners were also requested to forward the surveys to businesses which were not included in the communication sent out.

3.7.3.4 Sample size

The researcher aims to retrieve information from as many businesses as possible. However, an estimated number of units considered as a fair representation of businesses within the Emfuleni Municipality will be ±1500 units. Table 3-1 presents a summary of the sampling methodology used for this study.

Table 3-1: Summary of sampling methodology

| | |
|--------------------------------------|--|
| Population | Owners of SME’s within the Emfuleni municipality, excluding persons who solely own franchises. |
| Sampling frame | No sampling frame is available. |
| Sampling element and unit | All types of SME’s contained within Emfuleni Municipality, excluding franchises. |
| Sampling method and technique | Non-probability sampling method, hybrid convenience and snowball sampling technique. |
| Sample size | ±1500 participants. |

3.8 DATA COLLECTION

Various methods are used to collect research data. The data collection techniques depend largely on the research design and method in use. Each data collection method has its own advantages and disadvantages (Nyakudya, 2016:83). The procedures used to collect data involves the way data is obtained from the research sample. In quantitative research methodology (the methodology used by this study) these methods consist of either observation or survey methods (De Jongh, 2017:111). He states that in survey methods, data capturing takes place by making use of questionnaires where participants' responses to questions are captured and can be distributed through mailing systems, online and through either telephonic or face to face interviews.

3.8.1 Research instrument

The researcher chose to make use of self-administered questionnaires, as this instrument allows minimum interaction between the researcher and the study sample, therefore minimising the risk of bias. It was also more convenient and one of the faster methods of obtaining primary data, especially by making use of electronic distribution mediums such as e-mail and WhatsApp messaging. The questionnaire was sent out to a total of 1500 participants of whom 97 submitted replies (6.5% response rate).

3.8.1.1 Self-administered questionnaire

The researcher utilised a standard self-administered questionnaire, originally developed by Van der Merwe (2010) from whom permission was requested prior to using the questionnaire. The questionnaire was adapted to suit the geographic area (Emfuleni Municipality) where the researcher intended to conduct the research.

3.8.1.2 Layout of the questionnaire

The questionnaire used to gather primary data for the study consists of four sections, namely personal information of the participant, business information, challenges faced by Small and Medium Enterprises both by the participant themselves and the general challenges SME's face in the participants' opinion and development needs of small and medium enterprises. These sections are elaborated on further below.

Section A - Personal information

This section of the research instrument aims to determine some demographic information of the participants. It requires that participants provide the current age group they fall under, what their marital status is, whether they are male or female and their highest academic qualification. Furthermore, it requires participants to provide their work experience prior to deciding on becoming self-employed and to indicate the number of years they have been self-employed.

Section B - Business information

Within this section the research instrument gathers information on the businesses participants are currently involved with. This information includes the industry the business operates in, its legal status or the form of ownership and how long the business has been in operation. It determines how participants came to own the business, the source of their start-up funding, where the business operates from, how many employees are currently being employed by the business and the annual turnover it generates. It also establishes whether the business owners had exposure to self-employment as children, if their current business is the first business they've owned and if not, what happened to their first business?

Section C – Challenges faced by SMEs

In this section closed questions were asked to gauge the opinion of participants regarding factors that may hinder SME's to grow. The research instrument also measures what challenges these entrepreneurs are currently facing in their own businesses. The influence of demographic aspects on the operations of businesses is furthermore ascertained. These aspects include the number of entrepreneurial opportunities, effect of policies, networking opportunities, infrastructure and export opportunities, allowing them to add additional demographic aspects that influence the operations of their business. Participants could answer the questions by indicating their level of agreement on a seven-point Likert-scale, levels of agreements included; strongly disagree, disagree, slightly disagree, remain neutral, slightly agree, agree, strongly agree.

Section D- Development needs of SMEs

The development needs of SMEs are investigated within this section of the research instrument. It enquires if participants have received any type of training from a government agency or from the private sector and requires them to indicate the type of training received. It investigates if

business owners know of any organisations that are specifically established to support SMEs and in which manner it does so? Business owners are also encouraged to indicate what their specific development needs are.

3.8.1.3 Pilot study

Prior to sending out the questionnaires for the full-scale study, a pilot study first had to be conducted. The purpose of a pilot study is to establish the time participants require to complete the questionnaire, the feasibility of the questionnaire, identifying possible problems with the materials or the method used for data collection, such as questionnaire guidelines that are unclear (Leedy & Ormrod, 2014:114; Bless *et al.*, 2013:109). Pilot studies also help researchers improve any issues with scaled items, if necessary; evaluate if the method used for data analysis is appropriate and further identify the suitability of other possible resources required to carry out the main study (De Jongh, 2017:116). He further said that by doing this, it contributes to and confirms the reliability of the measuring instrument.

According to Coughlan (2017:109), it is advised to pilot a questionnaire with participants who are representative of the participants of the main study. Therefore the pilot study for the questionnaire was distributed to a small group of small business owners within the Emfuleni Municipality, prior to the distribution of the questionnaire for the main study. During the pilot study it was established that it took approximately 15 to 20 minutes to complete the questionnaire. The results obtained from the pilot study were not included in the final study.

3.8.1.4 Administration of the research instrument

The researcher utilised Google Forms to compile his questionnaire. The cover letter and informed consent was also integrated into this survey platform's form. The researcher chose this platform for its user friendliness and the level of trust most people have in Google Applications. Links to the survey questionnaire were sent to potential participants through email and WhatsApp messages. Furthermore, due to utilising a snowball sampling method, it was important that participants could easily forward the survey to other potential participants. Forwarding the link was not limited to email and could be done through other social media platforms such as Facebook, WhatsApp and LinkedIn.

Participants who were unwilling to take part in the survey could choose that they do not wish to take part in the survey and it would route them to the end of the survey. However, if they chose to continue, with the survey they were routed to the first set of survey questions. The chosen

survey platform also had an integrated data sheet that captured all the choices made by participants automatically, making the data capturing process more reliable and efficient than through using manual questionnaires.

3.9 DATA ANALYSIS AND REPORTING

According to Cuesta and Kumar (2016:7), data analysis systematically arrange and organise the raw data gathered, by assessing the outcomes of the gathered data in correlation with the research done, using mathematics, statistics, business and computer science.

3.9.1 Content validity

Content validity aims to identify all possible errors within the research project, including whether it is possible to make deductions from the data that was gathered (Bertram & Christiansen, 2014:186). According to Hair *et al.* (2016:257), content validity on its own is not seen as an adequate way of measuring validity and the researcher should use content validity together with construct validity to assess the research. There are several factors that can affect the validity of the questionnaire. These factors are: participants who do not take part in the research, experiences that may change participants' views and standpoints, participants who decided to stop working for themselves or maturation of participants' attitudes and habits (Saunders *et al.*, 2016:204; Wilson, 2010:121-122). Clearly stipulating the research questions and objectives, actively taking part in the implementation of the data collection method and ensuring the technique used, answering the research questions and reaching the research objectives, can improve the validity of a questionnaire (Wilson, 2010:122).

3.9.2 Construct validity

Construct validity is important to quantitative research and confirms that the correct tools were used for the topic being researched as it helps to determine if the questions in the questionnaire were piloted and are based on the literature review (Wilson, 2010:121). Bertram and Christiansen (2014:186) support this by stating that construct validity identifies if the data collection techniques and the instruments used measured and answered the research question. Comparing the data collected to the population and establishing if the data is a correct representation of the population, is one of the ways construct validity is confirmed (Hair *et al.*, 2016:257). They further say that a questionnaire's construct validity is accomplished by specialists' review of the elements making up the data's plausibility or by examining a small group of the participants. Construct validity is measured by conducting a measuring sampling

adequacy (MSA) (Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy). According to Field (2013:695) an MSA result of 0.50 or higher is acceptable. This study's construct validity was determined by calculating the KMO value for each of the factors identified.

3.9.3 Reliability

A research instrument's reliability is its ability to repeat the study it's intended for, when used by an independent researcher from its original creator and still obtain the same results (O'Gorman & MacIntosh, 2015:171). Reliability is achieved when the results collected are the same or similar if the process had to be repeated later with the same data collection method and group of participants (Bertram & Christiansen, 2014:186). A research instrument's reliability estimates how free the instrument is of any random or unstable errors and reliable instruments can be used with the confidence that short-term and situational factors will not interfere with the results obtained from its implementation (Cooper & Schindler, 2014:260). According to Wilson (2010:177), poor time management, participant bias, participant errors are factors that may lead to the study being unreliable and create a false representation of the population. Errors and bias on the part of the researcher are also factors that may lead to unreliable data (Saunders *et al.*, 2016:203).

This study's reliability was established by determining the Cronbach Alpha, which tests how successful the relationship is between the set of variables and the constructs fashioned from the accumulated data (Andrew *et al.*, 2011:202). A Cronbach Alpha of 0.70 or higher is suggested for a successful study. Any value less than 0.70 may indicate a lack of data reliability (Olagbemi, 2011:60).

3.9.4 Methods and statistical techniques used

When the primary data was collected, the data was analysed by considering a business owner's information needs, the nature of the research design and characteristics of the data collected, this determines what the most appropriate analytical method for data analysis is (Zikmund & Babin, 2010:66). The Statistical Package for Social Science (SPSS version 23) was used to clean, capture, edit and analyse the data. The researcher further used descriptive results (such as frequencies, percentages, mean scores and standard deviations) and inferential statistical results to analyse and evaluate the data collected. These results are further discussed in Chapter 4: Results and discussion.

3.9.4.1 Descriptive statistics

Descriptive statistics use collected data and summarise it in a visual format like tables or graphs, making interpretation of quantitative data collected for extensive projects convenient (Bertram & Christiansen, 2014:138). Determining the statistical method to use is guided by the research question and the research objectives (Saunders *et al.*, 2016:527). Measuring the central tendency of the data is one method that can be used to analyse the data. This includes determining the data's mode, median and mean (Scherbaum & Shockley, 2015:54). The value most commonly found in the data is indicated by the mode; the value in the middle of the data set is shown by the median, halving it into two equal parts; the average of the dataset is provided by the mean (Saunders *et al.*, 2016:529)

The mean and standard deviations were calculated for the analysis of the data within the various constructs, for this study. The mean shows the central tendency or the central location of the data. The standard deviation further describes how widely spread the data is within the data by measuring the distance from the mean (Osler, 2012:184; Gravetter & Wallnau, 2011:105). In this study, each question that made up the measured factors' means and standard deviations were calculated.

3.9.4.2 Inferential statistics

When a researcher is trying to reach conclusions extending beyond the sample drawn, inferential statistics help to make conclusions about the target population, which the sample was drawn from (Hair *et al.*, 2016:344). In this study, correlation analysis, Spearman's rank correlation, T test and ANOVA analysis techniques were used to analyse the data in greater detail. Correlation analyses were used to identify the level of relationship between the constructs (Cohen & Cohen, 2014:3). Spearman's rank correlation is a way of measuring the association between two variables, using data that can be ranked or placed in a specific order like age, highest level of qualification, business annual turnover (Sharma, 2012:462). The following scale is used to interpret Spearman's rank correlations ($|r|$) (Mooi & Sarstedt, 2011:88):

- $|r| < 0.1$ ~ No Correlation
- $0.1 \leq |r| < 0.3$ ~ Small Correlation
- $0.3 \leq |r| < 0.5$ ~ Medium/visible correlation
- $|r| > 0.5$ ~ Large correlation

Statistical significance and practical significance (effect sizes) of the relationship between two variables such as gender, age and number of employees in the business were tested by using T-tests. Unlike T-tests that only look at one variable at a time, ANOVA tests look at multiple variables at a time and their effects. ANOVA was also used to analyse data sets.

3.10 ETHICAL CONSIDERATIONS:

The following will provide some background on the ethics of the proposed study. However, based on the information contained within the “Guidelines for research Ethics” (NWU 2010:48) from the “Manual for post graduate studies” (NWU), there are no ethical concerns.

3.10.1 Autonomy

This study will not affect the autonomy of any participant taking part in the survey.

3.10.2 Benefit

The study aims to investigate challenges faced by its participants and will provide recommendations to mitigate the consequences of these challenges. The findings of the study will benefit both the participants of the study as well as aspiring entrepreneurs therefore highlighting and creating awareness of the challenges faced by SMEs within the Emfuleni Municipality.

3.10.3 Informed consent

An informed consent form was adapted, from the “Ethical requirements for post graduate research studies” document, from the informed consent form included in the document’s Annexure A. The informed consent form was integrated into the body of the questionnaire and must be read prior to continuing with completion of the questionnaire.

3.10.4 Application for ethical clearance

The application form for ethical clearance, as provided by the NWU School of Business and Governance, was completed and obtained (ref: EMSPBS16/06/03-01/39).

3.11 SUMMARY

The study's data was analysed in correlation with the objective of this study and expert advice was sought from the North West University's Statistical Consultation Services on how to examine these characteristics. The primary objective of this study was to investigate the challenges faced by SMEs within the Emfuleni Municipality. Secondary data was researched from various scholarly academic articles, books and internet sources. The secondary data was used in combination with the primary data collected through questionnaires, as a quantitative data collection method was used as research method. A self-administered questionnaire was distributed among participants and the researcher was available for assistance, where required. A sample of SMEs was selected from the target population of SME owners in the Emfuleni Municipality, this sample was selected through utilising a convenience sampling method. The sample size was 1500 participants of whom only 97 completed the questionnaire.

CHAPTER 4 EMPIRICAL RESULTS AND DISCUSSION

4.1 INTRODUCTION

In this chapter the results obtained from the questionnaires are presented, interpreted and discussed. The main objective is to investigate the challenges faced by SMEs within the Emfuleni Municipality. The analysis and interpretation of the quantitative data systematically collected from participants, is summarised within this chapter.

The data in this chapter was discussed starting with the demographic information, consisting of both personal information of the participants as well as information about their businesses. This data was analysed using frequency graphs and tables. Psychometric properties of the questionnaire were tested to confirm the questionnaire's construct validity and reliability. The content validity was established through scrutiny of it by several relevant subject matter experts. Its construct validity was confirmed by conducting a measuring sampling adequacy (MSA) test, that generates a Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy and exploratory factor analysis. Reliability was tested by calculating the Cronbach's alpha value for each of the constructs assessed. The discussion of the psychometric properties is followed by discussion of the results relating to participants' perception of the challenges identified in Chapter 2.

This data was analysed and discussed by several methods, including the use of descriptive statistics (mean scores and standard deviations). Inferential methods were then used to draw comparisons between the three identified constructs and selected demographic variables. These methods include the use of T-tests, one-way ANOVAs and calculation of effect sizes, to establish practical significance between different demographic variables compared with each other. Spearman's rank correlations were also calculated between different ordinal demographic variables and the constructs to measure the relationship between the variables and constructs. Lastly, a summary of the findings of the analysis conducted throughout the chapter, is given.

4.2 DEMOGRAPHIC INFORMATION

Demographic information helps to gain a better understanding about participants who took part in the study and provides better insight into the outcome of the results. The demographic target group consisted of SME owner/managers whose businesses operate within the Emfuleni Municipality, as was indicated in Section 3.7.3.4. The questionnaire was distributed to ±1500

participants. However, only 97 were returned to the researcher. The completed questionnaires were used to conduct the statistical analysis.

Participants' demographic information was captured in Section A and Section B of the questionnaire. Section A focussed on obtaining information of the participants such as age, marital status, gender, highest level of education, experience prior to self-employment, and number of years self-employed. Section B focussed on obtaining more business specific information such as business industry, business legal status, age of the business, path to business ownership, source of start-up funding, type of location, number of permanent employees, annual turnover, childhood exposure to business, and if it is the participant's first business. The demographic data is summarised in the figures and tables below.

4.2.1 Personal information of participants

Section A of the questionnaire was aimed at obtaining personal information of the participants, such as age, marital status, gender, highest level of education, experience prior to self-employment, and number of years self-employed.

4.2.1.1 Age distribution

The purpose of this question is to ascertain the age of participants to the questionnaire, in order to establish the participation level between age groups taking part in the study.

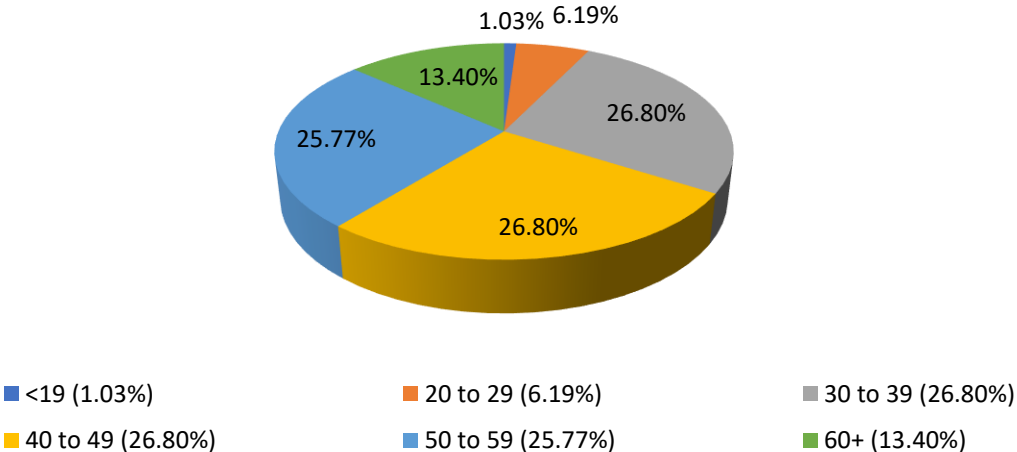


Figure 4-1: Age distribution of participants

Figure 4-1 shows that the majority of participants are equally represented by two age groups: 30 to 39 years and 40 to 49 years old (26.80% respectively). This age group was closely followed by people between the ages of 50 to 59 (25.77%) years old. The age group with the least number of participants are younger than 19 years. However, there were also very few participants between 20 to 29 years old. These two age groups combined only represent 7.22% of the participants.

4.2.1.2 Marital Status

The purpose of this question is to establish the marital status of the participants.

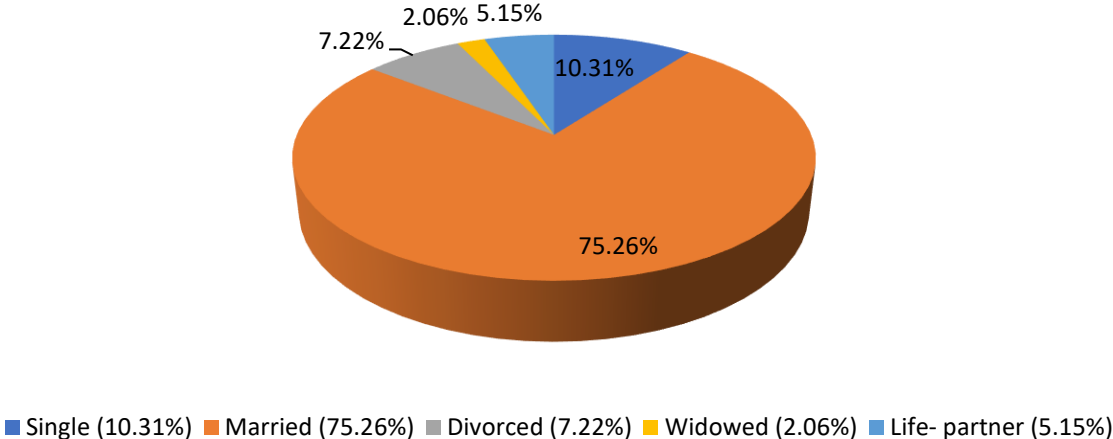


Figure 4-2: Marital status of participants

Figure 4-2 displays that 75.26% of the participants are married and represents the largest group of the participants. The second largest group of participants to the questionnaire are single people, who represented 10.31% of the participants. The smallest group represented by the participants was widowed people (2.06%).

4.2.1.3 Gender Distribution

This question aims at determining the ratio between male and female small business owners in the Emfuleni Municipal area.

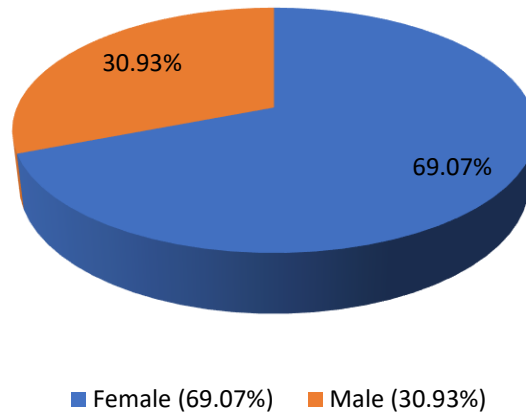


Figure 4-3: Ratio between male and female small business owners in the Emfuleni Municipal Area

Figure 4-3 indicates that more females responded to the questionnaire. The majority (69.07%) were females and only 30.93% of the participants to the study were male. This indicates that females are more likely to start their own businesses in the Emfuleni Municipal area.

4.2.1.4 Level of education

The purpose of this question was to determine the educational background of small business owners in the Emfuleni Municipality.

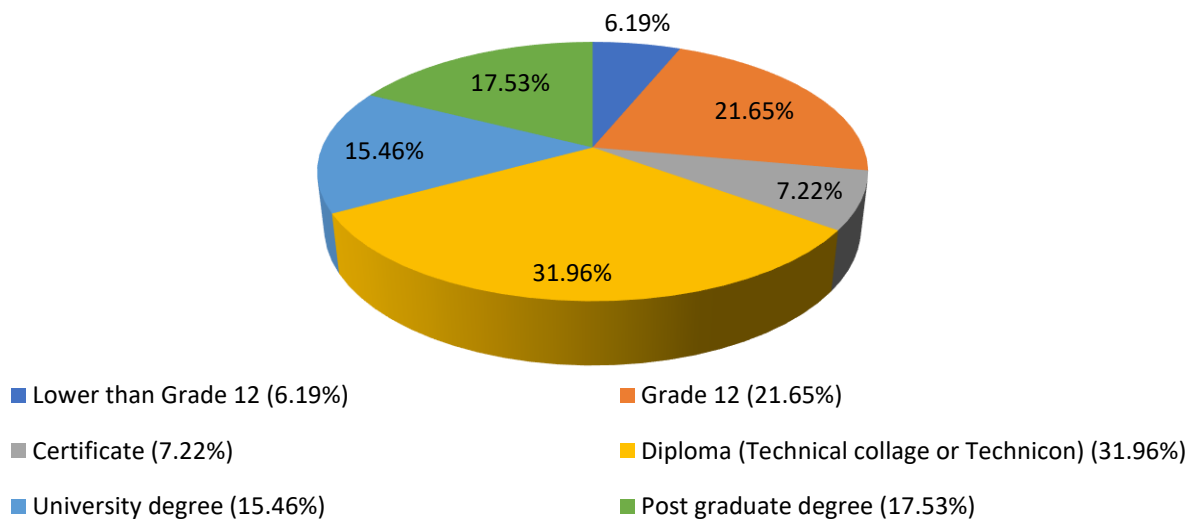


Figure 4-4: Education level of participants

An investigation into the level of education (refer Figure 4-4) of SME owners in the Emfuleni Municipality, initially leave the impression as though persons who have obtained a diploma at a Technical College or Technicon level (31.96%) are more likely to have their own business in the Emfuleni Municipality. However, if persons who have obtained a university degree and a post graduate degree are combined, they represent 32.99% of the participants to the questionnaire, indicating that persons with a tertiary education are more likely to be small business owners in the Emfuleni Municipality. The smallest group of participants to this study were persons with a lower than grade 12 level education (6.19%).

4.2.1.5 Previous experience

This question aims to identify what type of work background current small business owners have prior to starting their own businesses.

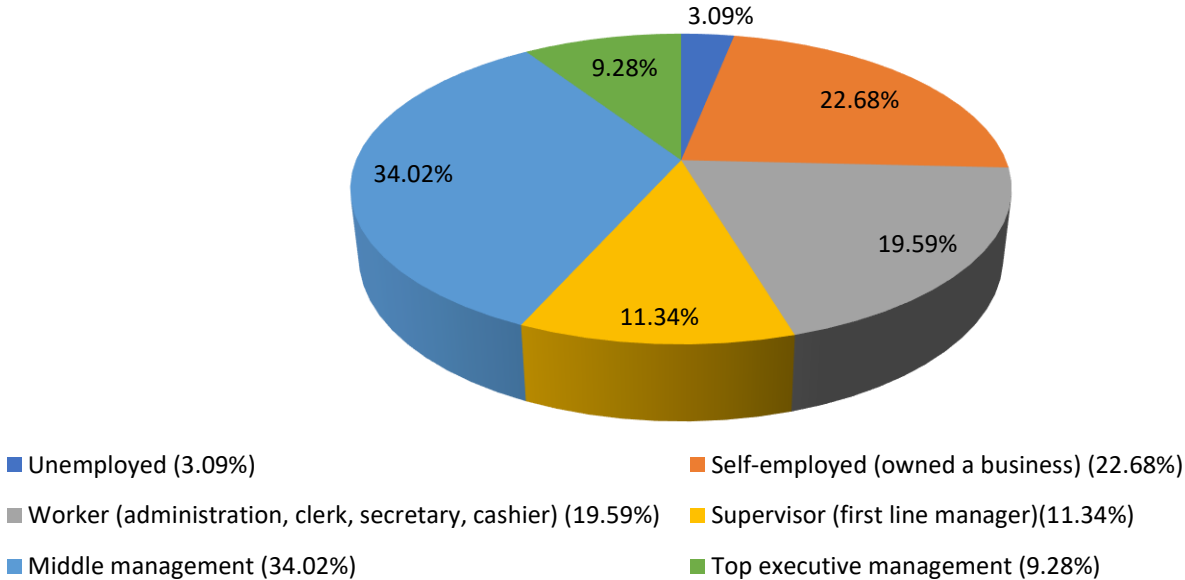


Figure 4-5: Work experience prior to starting own business

According to Figure 4-5, most small business owners in the Emfuleni Municipality were employed at middle management (34.02%) prior to starting their own businesses, with the next highest number of participants being self-employed (22.68%) prior to starting their current businesses. The smallest percentage of small business owners were unemployed (3.09%) prior to starting their own business, followed by 9.28% of participants who were top executives at their place of employment prior to starting their own businesses.

4.2.1.6 Number of years self-employed

This question aims to determine the number of years participants have been self-employed.

Table 4-1: Number of years participants are self employed

| Years self-employed | Frequency | Percentage |
|-------------------------------|------------------|-------------------|
| Less Than (1) one year | 1 | 1,03% |
| 1-5 Years | 32 | 32,99% |
| 6-10 Years | 30 | 30,93% |
| 11-15 Years | 8 | 8,25% |
| 16-20 Years | 7 | 7,22% |
| 21-25 Years | 7 | 7,22% |
| 26+ Years | 12 | 12,37% |
| Total | 97 | 100,00% |

An analysis of Table 4-1 shows that the majority of participants to the questionnaire have been self-employed for 1 to 5 years (32.99%), closely followed by participants who have been self-employed for 6 to 10 years (30.93%). The number of participants with years self-employed, least represented, were participants with less than 1 year as self-employed (1.03%).

4.2.2 Business information of participants

The purpose of the questions asked in Section B of the questionnaire are aimed at obtaining business specific information of the participants.

4.2.2.1 Business industry

The purpose of this question is to identify in which business industry participants' businesses operate.

Table 4-2: Participants' business industry

| Business Industry | Frequency | Percentage |
|-------------------------------------|------------------|-------------------|
| Retail Trade | 13 | 13,40% |
| Wholesale Trade | 1 | 1,03% |
| Manufacturing | 15 | 15,46% |
| Construction | 15 | 15,46% |
| Transport/Distribution | 8 | 8,25% |
| Accommodation and restaurant | 4 | 4,12% |
| Food industry | 6 | 6,19% |
| Agriculture/Forestry/Fishing | 1 | 1,03% |
| Services | 34 | 35,05% |
| Total | 97 | 100% |

According to Table 4-2 the business industry most represented by participants are businesses in the services industry (35.05%). These services include the following activities: accounting and financial, advertising, cleaning, design, gardening, hair and beauty, information technology, insurance, legal, mechanical repair, plumbing, security. The second largest industry represented by participants are jointly Manufacturing and Construction, each representing 15.46% of the participants. The industries least represented are Wholesale Trade and Agriculture/Forestry/Fishing, each making up 1.03% of the participants.

4.2.2.2 Business legal status

This question aims to determine the legal status of the participants' businesses.

Table 4-3: Business legal status

| Legal Status | Frequency | Percentage |
|----------------------------|------------------|-------------------|
| Sole proprietorship | 12 | 12,37% |
| Partnership | 5 | 5,15% |
| Close corporation | 37 | 38,14% |
| Company (private) | 34 | 35,05% |
| Company (public) | 4 | 4,12% |
| Business trust | 1 | 1,03% |
| Not registered | 4 | 4,12% |
| Total | 97 | 100% |

As displayed in Table 4-3, the greatest percentage of participants' businesses are Close Corporations (38.14%), followed by Private Companies (35.05%). The percentage of participants' businesses that were not registered is 4.12%. A question asking to clarify why the businesses are not registered was not included in the questionnaire. Therefore, the reason for non-registration is unclear.

4.2.2.3 Age of the business

The aim of this question is to establish how long participants' current businesses are active.

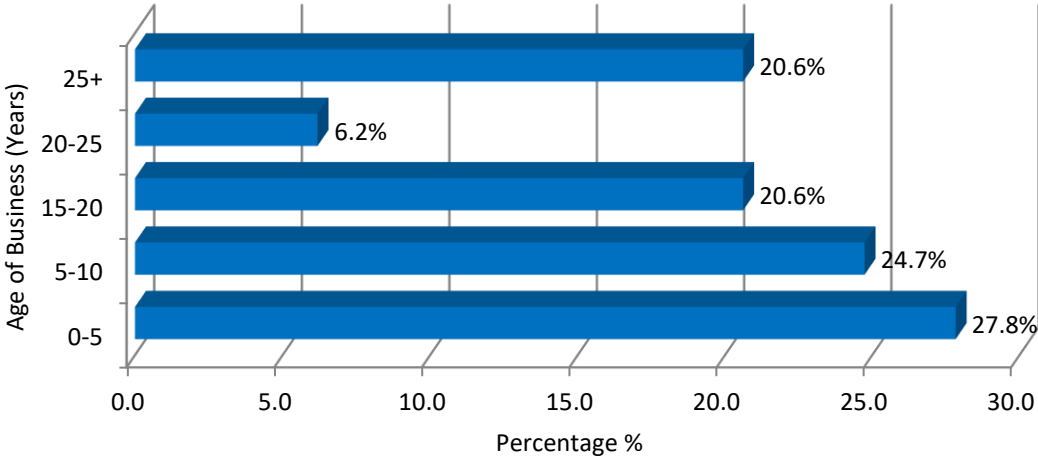


Figure 4-6: Age of current business

As depicted in Figure 4-6, except for businesses aged between 20 to 25 years, the percentage of distribution between categories is fairly even. However, the age category with the most businesses is between 0 to 5 years old, with 27.84% of participants' businesses falling in this category. The age category of businesses with the smallest percentage is 20 to 25 years (6.19%). The remainder of the age categories all comprise of between 20 and 25% of the participants.

4.2.2.4 Path to business ownership

The purpose of this question is to determine how participants came about owning a business and its results is presented in Figure 4-7.

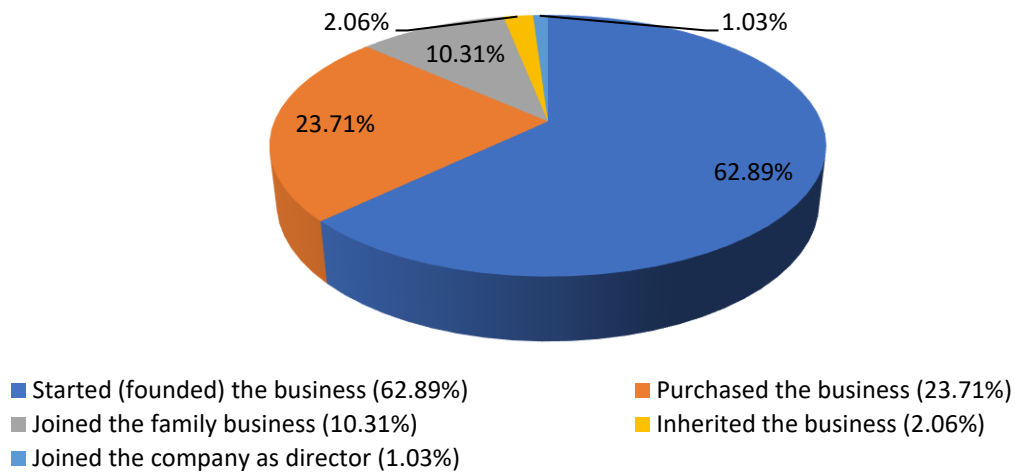


Figure 4-7: Participants' path to business ownership

The majority of the participants (62.89%) indicated that they started their own businesses (refer to Figure 4-7), followed by participants who indicated that they purchased their current businesses from others (23.71%). The smallest percentage of participants joined the company as directors (1.03%)

4.2.2.5 Source of start-up funding

This question aimed to identify participants' source of funding to start their respective businesses.

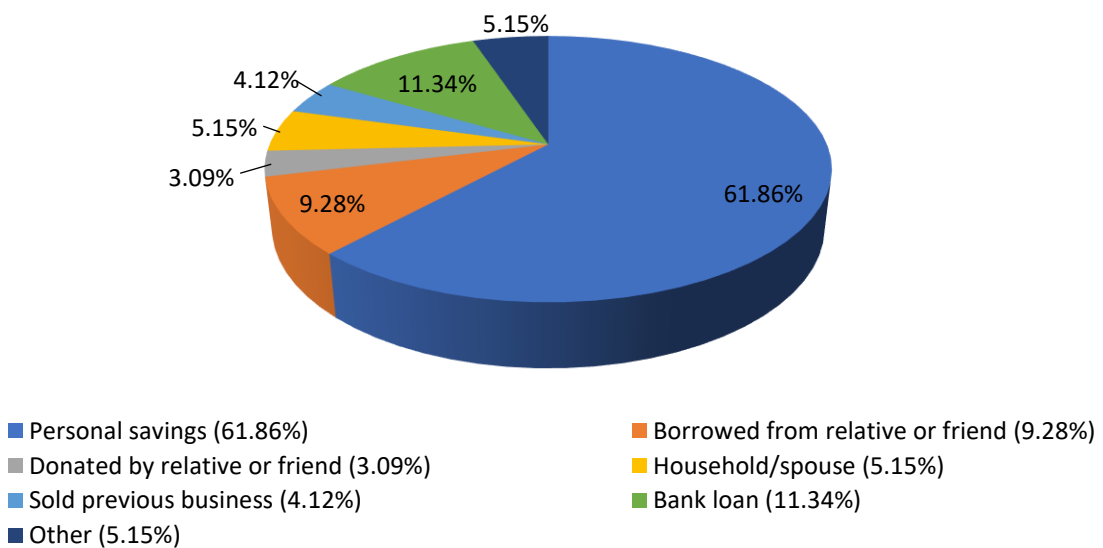


Figure 4-8: Source of start-up funding

Figure 4-8 demonstrates that most participants started their business from personal savings (61.86%). Only 11.34% of participants indicated that they started their business with the support from a bank with a bank loan. The remainder of participants indicated other sources of funding, including the following: borrowed or donated from a friend or family member, selling of previous businesses, and other sources.

4.2.2.6 Business location

The purpose of this question is to determine from what type of location participants’ businesses operate.

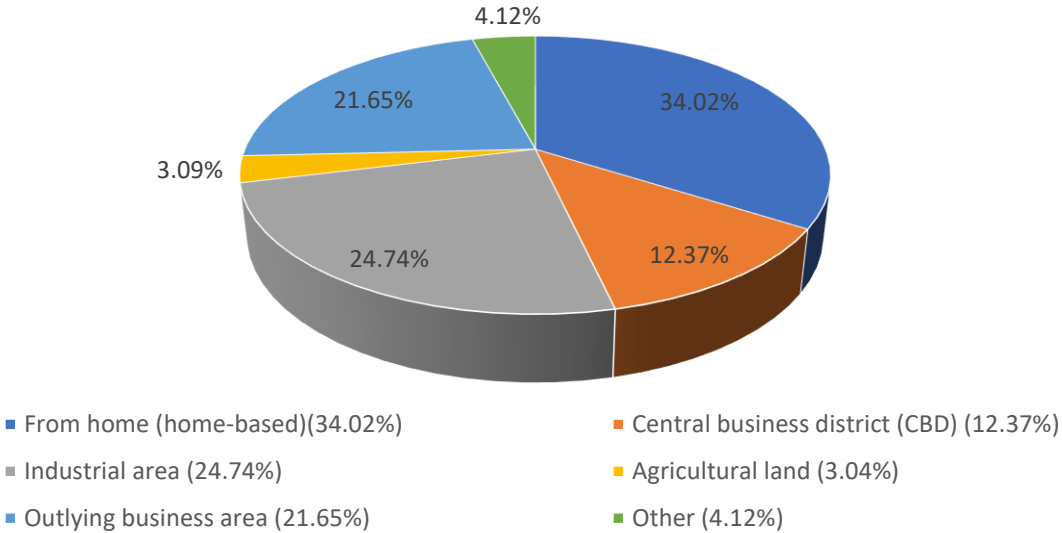


Figure 4-9: Business location

Figure 4-9 displays that most participants operate their businesses from home (34.02%), followed by businesses operated from industrial areas (24.74%) and outlying business areas (21.65%). In comparison, a small percentage of businesses (12.37%) are operated from the central business districts (CBDs) of the Emfuleni Municipality.

4.2.2.7 Number of employees

The question aims to establish how many employees participants' companies employ.

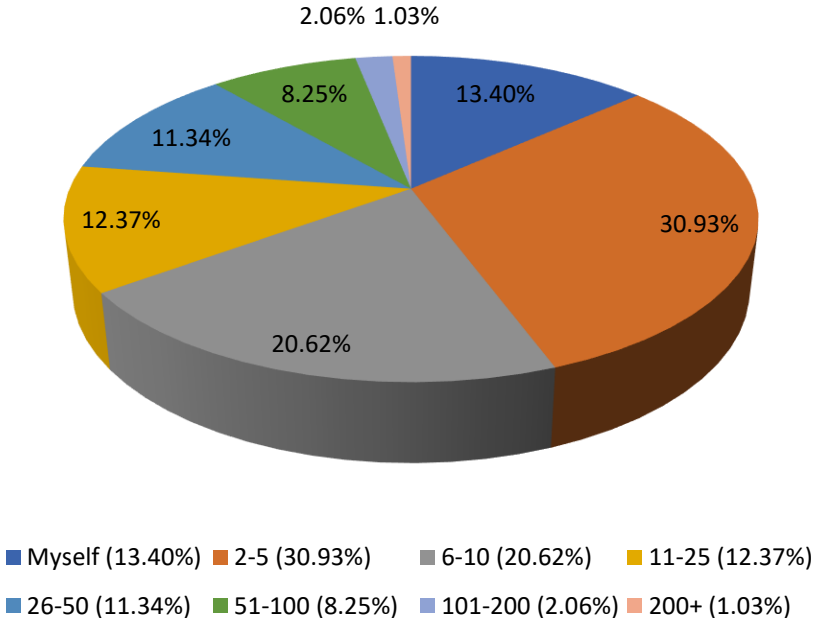


Figure 4-10: Number of employees employed

According to Figure 4-10, the majority of participants' companies employ 10 persons or less (64.95%), consisting of businesses comprising of only the owner (13.40%), 2 to 5 employees (30.93%) and 6 to 10 employees (20.62%) respectively. Only 11.34% of participants' companies employ 51 or more employees, consisting of companies employing 51 to 100 employees (8.25%), 101 to 200 employees (2.06%) and companies with more than 200 employees (1.03%). The remaining 23.71% of participants' companies employ between 11 and 50 employees.

4.2.2.8 Business turnover

The purpose of this question is to determine the annual turnover participants' companies generate.

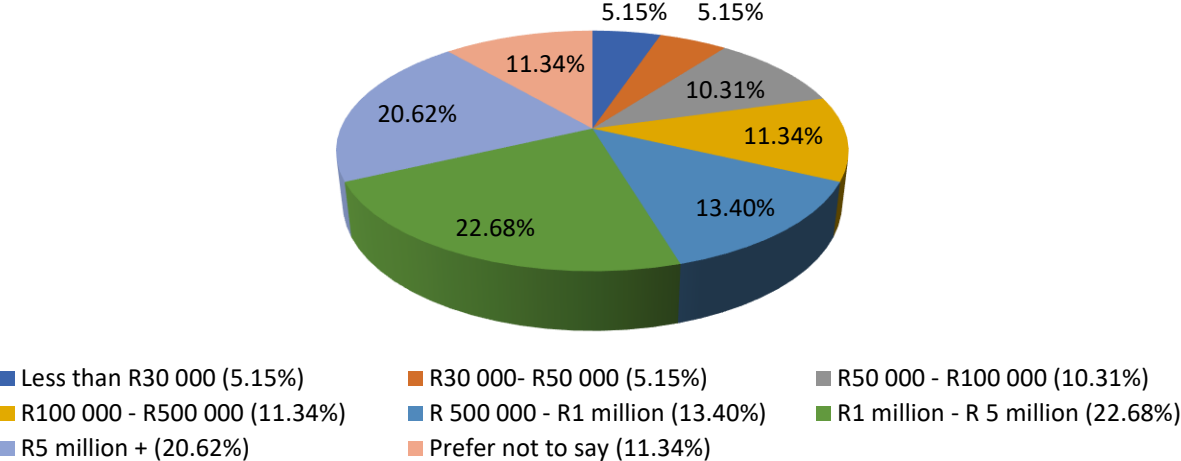


Figure 4-11: Annual turnover

When looking at individual annual turnover grouping categories (refer Figure 4-11), most of the participants' businesses earn between R1 million and R5 million (22.7%) and the least percentage of businesses earn between R30 000 and R50 000 as well as businesses that earn less than R30 000, each only representing 5.15% of the participants. However, businesses earning less than R1 million represent 45.35% of participants and businesses earning more than R1 million represent 43.30% of participants, with 11.34 % of participants preferring not to say what their annual turnover is. This indicates that the participants are equally represented by companies earning less than R 1million and companies that are earning more than R1 million.

4.2.2.9 Childhood influences

The purpose of this question is to identify if childhood influences have any influence on persons' willingness to start their own business.

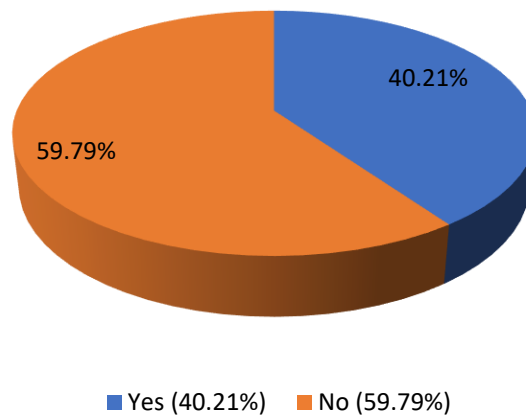


Figure 4-12: Business exposure as a child

Figure 4-12 shows that most participants to the survey did not have any self-employment business exposure during their childhood (59.79%). The remaining 40.21% did have exposure to self-employment during their childhood. The most common influence on them were either one or both of their parents and closely related family members.

4.2.2.10 First business owned

Participants were asked whether the current business they own, is their first business (refer to Figure 4-13). This was to establish the number of first-time business owners represented by the study sample. Upon answering NO, a follow up question as to what happened to the previous business was asked, to determine whether their previous businesses were still successful or not.

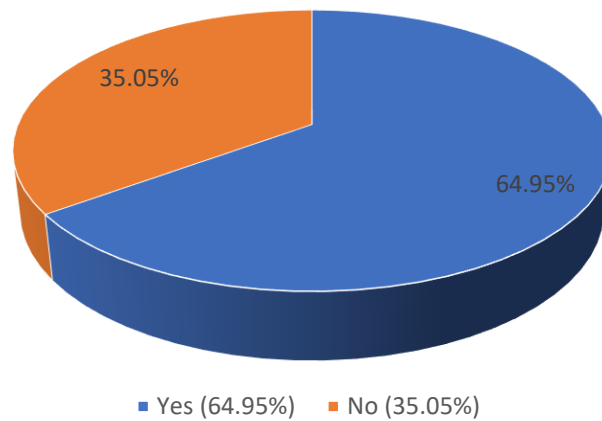


Figure 4-13: First business

Figure 4-13 indicates that for most participants it is the first time that they own their own businesses (64.95%) and 35.05% of participants said that they had owned other businesses before. The results of the follow up question are depicted in Figure 4-14.

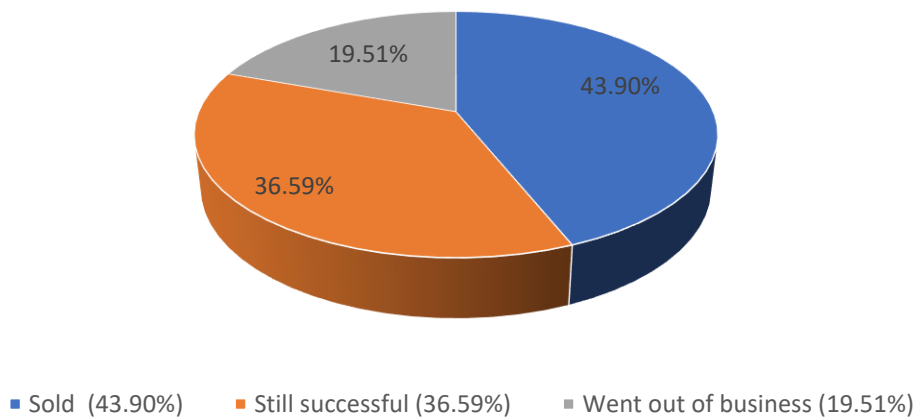


Figure 4-14: Previous business' status

From the participants who said that they have owned businesses before (refer Figure 4-14), 43.90% said that they sold the business, 36.59% said that their other businesses are still successful, and only 19.51% of these participants' businesses went out of business.

4.3 PSYCHOMETRIC PROPERTIES OF THE MEASURING INSTRUMENT

The psychometric properties of the measuring instrument were tested by looking at its content and construct validity, as well as the reliability of the instrument by calculating the Cronbach's alpha coefficients for the different constructs.

4.3.1 Validity

The following describes the content validity and construct validity of the questionnaire.

4.3.1.1 Content validity

A measuring instrument's content validity refers to the degree with which the items in the constructs of the instrument illustrate the concepts being researched (McDaniel & Gates, 2013:290). It involves the subjective scrutiny of experts on the appropriateness of the measurement (Feinberg *et al.*, 2013:131), therefore, using it to get acceptable reporting on the research questions that control the research. According to Cooper and Schindler (2014:257), content validity is sound if the measuring instrument holds a representative sample of the research concept.

The researcher used a research instrument compiled by an expert in the field of small businesses and entrepreneurship. The questionnaire was, however, also placed under the scrutiny of several other experts in the field of small business management, for their inputs. The questionnaire was also evaluated by a statistical expert from North-West University's Statistical Consultation Services, prior to sending it out to participants. Therefore, the instrument's content was deemed as content valid.

4.3.1.2 Construct validity

Validity is defined as the central measure of quality of a measuring instrument in research, showing how well the measuring instrument was able to measure what it intended to measure (Cooper & Schindler, 2014:257). The best single method to judge construct validity, is to conduct a confirmatory factor analysis (CFA). It checks how closely the factor structure matches the actual research findings (Babin & Zikmund, 2016:552). The validity of the constructs was statistically tested by making use of a CFA. Construct validity is measured by conducting a measuring sampling adequacy (MSA) (Kaiser-Meyer-Olkin (KMO) measure of sampling

adequacy). According to Field (2013:695), an MSA result of 0.50 or higher is acceptable. This study's construct validity was determined by calculating the KMO value for each construct:

4.3.1.2.1 Construct validity for challenges faced by SMEs in general (General challenges)

The first construct's (General challenges) MSA was calculated as 0.84, which is greater than the acceptable value of 0.50. The ten items that measured participants' opinions on "general challenges" were combined in one construct that explained 48.89% of the variance, with communalities between the various items ranging between 0.363 and 0.787 and construct loadings between 0.794 and 0.543.

4.3.1.2.2 Challenges faced by participants in their own businesses (Personal Challenges)

This construct achieved an MSA value of 0.881. The 15 items making up the combined construct measuring participants' opinion on their own personal challenges explain 50.59% of the variance. The communalities between these constructs range between 0.432 and 0.832 and construct loadings between 0.814 and 0.529.

4.3.1.2.3 Participants' opinion on the operational friendliness for SMEs in the Emfuleni Municipality (Demographic Contributions)

An MSA value of 0.804 was achieved by the third construct "demographic aspects". The CFA confirmed that the five items making up "demographic aspects" measuring the construct could be reduced to one, explaining 70.30% of the variance, with communalities on the items ranging between 0.472 and 0.845, construct loadings between 0.919 and 0.687.

According to the above explanation the instrument can also be deemed as construct valid. This implies that the instrument is reliable and valid, and the discussion of the results can be done.

4.3.2 Reliability

To determine the questionnaire's reliability, the internal consistency of the questionnaire had to be established by calculating the Cronbach Alpha coefficient values for each construct. Three constructs were used measuring participants' opinion on challenges faced by SMEs in general

(General challenges), challenges faced by participants in their own businesses (Personal Challenges) and Participants' opinion on the operational friendliness for SMEs in the Emfuleni Municipality (Demographic contributions). Table 4-4 presents the number of questions per construct, as well as the Cronbach Alpha value calculated for each construct.

Table 4-4: Cronbach Alpha values per construct.

| Construct | Number of items | Cronbach's alpha |
|----------------------------------|------------------------|-------------------------|
| General Challenges | 10 | 0.88 |
| Personal Challenges | 15 | 0.93 |
| Demographic Contributions | 5 | 0.88 |

The Cronbach Alpha coefficient values achieved by each construct ranges between 0.88 to 0.93 (refer Table 4-4). A Cronbach Alpha coefficient of between 0.70 and 0.80 is an indication of valid reliability, although values greater than 0.80 or greater indicate very good reliability (Babin & Zikmund, 2016:280-281; Field, 2013:679).

The Cronbach Alpha values for this study were all greater than 0.80 in measuring participants' opinion on challenges faced by SMEs in general (General Challenges), challenges faced by participants in their own businesses (Personal Challenges) and participants' opinion on the operational friendliness for SMEs in the Emfuleni Municipality (Demographic Contribution). Therefore this study is regarded as reliable.

4.4 RESULTS AND DISCUSSION

Descriptive statistics were used to summarise the data collected from the participants, these statistics give an efficient depiction of the selected sample. Descriptive statistics were used to evaluate Section C of the questionnaire focusing on the challenges faced by SME in the Emfuleni Municipality. Two descriptive statistical methods were calculated for each item, namely the standard deviation (SD) and mean (\bar{x}) scores.

Participants' perceptions of challenges faced by SME in the Emfuleni Municipality were measured by using a seven-point Likert-scale. Participants were asked to choose from one of seven options, that is strongly disagree (1), disagree (2), slightly disagree (3), neutral (4), slightly agree (5), agree (6), strongly agree (7). In this Likert-scale the neutral point is indicated by level four. Therefore 4 is a neutral opinion on the statement and therefore a mean greater than

4 indicates that participants have a greater agreement with the statement or question, while a mean less than four indicates that participants are more in disagreement with the statement or the question.

4.4.1 Challenges faced by SMEs within the Emfuleni Municipality

The collected data was analysed, interpreted and constructed into three constructs. These constructs grouped the data according to the participants' opinion on: challenges faced by SMEs in general (General challenges), challenges faced by participants in their own businesses (Personal challenges) and Participants' opinion on the operational friendliness for SMEs in the Emfuleni Municipality (Demographic contribution). Each construct's analysis is discussed below.

4.4.1.1 Participants' opinion on challenges faced by SMEs in general (General challenges)

The descriptive statistics (mean scores and standard deviations) for ten individual statements measuring participants' opinion on challenges faced by SMEs in general within the Emfuleni Municipality are shown in Table 4-5.

Table 4-5: General challenges

| General challenges | \bar{x} | SD |
|--|-----------------------------|-----------|
| Lack of awareness/access to business support | 5.26 | 1.62 |
| Lack of timely business information | 4.91 | 1.61 |
| Isolation from business network | 4.81 | 1.70 |
| Socio-cultural environment (lack of respect from large companies, community and stereo types) | 5.11 | 1.88 |
| Lack of business management skills | 4.45 | 2.01 |
| Lack of education and training (in general) | 4.27 | 2.05 |
| Inequality of access to credit (difficult to obtain financing as an SME) | 5.21 | 1.72 |
| Lack of self confidence | 3.69 | 2.01 |
| Risk aversion (great fear of failure) | 4.32 | 1.98 |
| Legislative (lack of focused SMEs policies from regional municipalities or government) | 5.42 | 1.53 |
| Overall mean score | 4.75 | 1.27 |

As indicated in Table 4-5, SME owners moderately agree with statements regarding the challenges faced by SMEs in general within the Emfuleni Municipality (\bar{x} =4.75; SD=1.27), therefore indicating that SMEs owners relatively believe that the challenges stated in Table 4-5

are the most general challenges they can face. The results showed that the statement participants were most in agreement with was “Legislative (lack of focused SMEs policies from regional municipalities or government)” (\bar{x} =5.42; SD=1.53), though the statement with which participants agreed the least with was “Lack of self-confidence” (\bar{x} =3.69; SD=2.01).

4.4.1.2 Challenges faced by participants in their own businesses (Personal Challenges)

Table 4-6 shows the descriptive statistics obtained from 15 individual statements that measure participants’ opinions on the challenges faced in their own businesses.

Table 4-6: Personal challenges

| Personal Challenges | \bar{x} | SD |
|--|-----------------------------|-------------|
| Lack of awareness/access to business support | 4.46 | 1.87 |
| Lack of timely business information | 4.10 | 1.76 |
| Isolation from business network | 4.37 | 1.86 |
| Lack of collaborations | 4.16 | 1.90 |
| Socio-cultural environment (lack of respect from large companies, community and stereo types) | 4.80 | 1.79 |
| Lack of business management skills | 3.39 | 1.83 |
| Lack of a plan | 3.34 | 1.83 |
| Lack of customer relationships | 3.21 | 1.92 |
| Poor location | 3.56 | 1.88 |
| Lack of strong relationship with employees | 2.75 | 1.77 |
| Lack of cash flow management | 3.95 | 1.86 |
| Facing liquidity and other financial challenges | 3.81 | 2.04 |
| Gaining acceptance/respect of people (internally and externally) | 3.60 | 1.83 |
| Difficulty accessing funding/credit | 4.44 | 1.98 |
| No time for training/upgrading of skills | 3.93 | 1.96 |
| Overall mean score | 3.86 | 1.33 |

A moderately negative overall mean score is shown in Table 4-6 (\bar{x} =3.86; SD=1.33), indicating that participants feel that they are not experiencing the challenges stated in Table 4-6 to a significant extent. The statement participants disagreed with most was “Lack of strong relationship with employees” (\bar{x} =2.75; SD=1.77). However, the statement participants agreed with the most was “Socio-cultural environment (lack of respect from large companies, community and stereo types)” (\bar{x} =4.80; SD=1.79).

4.4.1.3 Participants' opinion on the operational friendliness for SMEs in the Emfuleni Municipality (Demographic Contributions)

The descriptive statistics for participants' opinion on the operational friendliness for SMEs in the Emfuleni Municipality is shown in Table 4-7, and consists of 5 individual statements.

Table 4-7: Demographic contributions

| Demographic aspects | \bar{x} | SD |
|--|-------------|-------------|
| The Emfuleni Municipality is a source of ample opportunities. | 2.43 | 1.76 |
| The Emfuleni Municipality has proper policies in place for enhancing SMEs within it. | 1.95 | 1.29 |
| The Emfuleni Municipality provides ample network opportunities with other businesses. | 1.92 | 1.27 |
| The Emfuleni Municipality infrastructure (electricity, water, road network) adequately meets the needs of my business. | 2.04 | 1.63 |
| The Emfuleni Municipality provides an excellent base for export opportunities. | 2.07 | 1.49 |
| Overall mean score | 2.08 | 1.23 |

Table 4-7 expresses a strongly negative mean score regarding the operational friendliness for SMEs in the Emfuleni Municipality ($\bar{x}=2.08$; $SD=1.23$), therefore indicating that participants feel that the Emfuleni Municipal area is not a good area to conduct business in. The statement participants agreed with the most was "The Emfuleni Municipality is a source of ample opportunities" ($\bar{x}=2.43$; $SD=1.76$), although the statement participants disagreed with the most was "The Emfuleni Municipality provides ample network opportunities with other businesses" ($\bar{x}=1.92$; $SD=1.27$).

4.5 EFFECTS OF DEMOGRAPHIC VARIABLES ON CHALLENGES FACED

Inferential statistics were used to calculate the statistical significance of the demographic variables on the different constructs investigated. Conducting a T-test is one of the methods of determining statistical significance that examines the difference between the means of two variables in a construct (Blaauw, 2017:108).

To be able to comment fully on the practical significance of the difference between two variables' perceptions on challenges, is to calculate the effect size between the two variables.

The effect size indicates the differences between two variables, independent of units and sample size, but it also relates with the spread of data. It also indicates the extent between the difference of the two variables (Blaauw, 2017:108; Ellis 2010:4; Ellis & Steyn, 2003:51-53). By calculating Cohen’s D-value, the effect size between two variables can be determined. Cohen’s D-value is calculated by the difference of the two variables’ means divided by the standard deviations’ largest standard deviation of the two means (Gravetter & Wallnau, 2017:252; Ellis & Steyn, 2003:51-53). Cohen’s D-value indicates a small effect if it is 0.2, medium effect if it is 0.5 and a large effect if it is 0.8. Data with effect sizes greater than 0.8 are considered as practically significant as it is the result of a difference with a large effect (Ellis & Steyn, 2003:51-53).

4.5.1 The effect size of gender on the constructs

Table 4-8 shows the effect sizes and the p-values based on gender for the constructs chosen.

Table 4-8: The effect sizes between genders

| Your Gender | | N | Mean | Std. Deviation | p-value | Effect sizes |
|---------------------------|--------|-------|------|----------------|---------|--------------|
| General Challenges | Male | 67.00 | 4.75 | 1.29 | 0.96 | 0.01 |
| | Female | 30.00 | 4.74 | 1.23 | | |
| Personal Challenges | Male | 67.00 | 4.02 | 1.34 | 0.06 | 0.40 |
| | Female | 30.00 | 3.49 | 1.23 | | |
| Demographic contributions | Male | 67.00 | 2.12 | 1.22 | 0.64 | 0.10 |
| | Female | 30.00 | 1.99 | 1.27 | | |

As reflected in Table 4-8, the construct with the greatest effect size is personal challenges (Cohen’s D=0.40) indicating a small to medium effect where males (\bar{x} =4.02; SD=1.34) perceived larger challenges than females (\bar{x} =3.49; SD=1,23). The remainder of the constructs’ effect sizes were relatively small. Very little focus will be placed on p-values as they are normally used to generalise a population, which is not the purpose of this study. Therefore the study rather focused on the effect sizes between constructs and selected demographic variables. None of the effect sizes in Table 4-8 are large enough to be seen as practically significant.

4.5.2 The effect of marital status on the constructs

Table 4-9 shows the effects marital status had on the constructs identified in terms of Cohen’s D-value and p-values.

Table 4-9: Effect of marital status

| Marital status | | N | Mean | Std. Deviation | p-value | Effect sizes |
|---------------------------|---------|-------|------|----------------|---------|--------------|
| General Challenges | Single | 10.00 | 5.21 | 0.94 | 0.15 | 0.42 |
| | Married | 73.00 | 4.70 | 1.20 | | |
| Personal Challenges | Single | 10.00 | 3.79 | 1.32 | 0.93 | 0.03 |
| | Married | 73.00 | 3.83 | 1.31 | | |
| Demographic contributions | Single | 10.00 | 2.22 | 1.28 | 0.59 | 0.18 |
| | Married | 73.00 | 1.99 | 1.04 | | |

As indicated in Table 4-9, marital status has obtained a large p-values for each construct. However, marital status has a medium effect on the participants' perception of general challenges (Cohen's $D=0.42$) in the Emfuleni Municipality, with single persons ($\bar{x}=5.21$; $SD=0.94$) perceiving larger challenges than married participants ($\bar{x}=4.70$; $SD=1.20$). Marital status further has small effects on the remainder of the constructs assessed. Therefore there isn't a statistical significance or a practical significance of marital status on the constructs.

4.5.3 Effect of childhood exposure on the constructs

The effect participants' childhood exposure has on their perception of the constructs is shown in Table 4-10.

Table 4-10: Effect of childhood exposure

| Childhood exposure | | N | Mean | Std. Deviation | p-value | Effect sizes |
|---------------------------|-----|-------|------|----------------|---------|--------------|
| General Challenges | Yes | 38.00 | 4.91 | 1.16 | 0.43 | 0.16 |
| | No | 56.00 | 4.70 | 1.31 | | |
| Personal Challenges | Yes | 38.00 | 3.93 | 1.44 | 0.90 | 0.02 |
| | No | 56.00 | 3.89 | 1.24 | | |
| Demographic contributions | Yes | 38.00 | 1.83 | 1.06 | 0.10 | 0.31 |
| | No | 56.00 | 2.24 | 1.30 | | |

As shown in Table 4-10, the largest effect childhood exposure to business had on participants' perceptions was on demographic challenges (Cohen's $D=0.31$), still indicating a small effect. Participants who had childhood exposure to business ($\bar{x}=1.83$; $SD=1.06$), disagree more with demographic contributions than participants who did not ($\bar{x}=2.24$; $SD=1.30$). The remainder of the constructs' effect sizes were also small. All the constructs yielded a large p-value, therefore

indicating that childhood exposure to business did not have a statistically significant difference or practically significant effect on the participants' perception of the challenges.

4.5.4 The effect of owning first business on the constructs

The effect of participants' current business being their first business or not is displayed in Table 4-11.

Table 4-11: The effect of owning first business

| First Business | | N | Mean | Std. Deviation | p-value | Effect sizes |
|---------------------------|-----|-------|------|----------------|---------|--------------|
| General Challenges | Yes | 60.00 | 4.89 | 1.25 | 0.27 | 0.24 |
| | No | 34.00 | 4.59 | 1.25 | | |
| Personal Challenges | Yes | 60.00 | 3.94 | 1.36 | 0.75 | 0.06 |
| | No | 34.00 | 3.85 | 1.26 | | |
| Demographic contributions | Yes | 60.00 | 2.03 | 1.29 | 0.67 | 0.08 |
| | No | 34.00 | 2.14 | 1.09 | | |

Table 4-11 reflects that the construct experiencing the largest effect due to it being participants' first business is general challenges (Cohen's D=0.24), with participants who are operating their first businesses (\bar{x} =4.89; SD=1.25) agreeing more with the general challenges construct than participants who are not operating their first businesses (\bar{x} =4.59; SD=1.25). However, this effect is still small. None of the constructs' p-values are indicative of being statistically significant either, with all constructs obtaining large p-values. Therefore none of the constructs indicate that there is a statistical or practical significance between it being a participant's first business or not.

4.5.5 The effect of receiving training from government or private sector initiatives

Table 4-12 shows the effect receiving training from government or private sector initiatives had on the participants' perceptions of the constructs.

Table 4-12: The effect of receiving training

| Government or private sector training | | N | Mean | Std. Deviation | p-value | Effect sizes |
|---------------------------------------|-----|-------|------|----------------|---------|--------------|
| General Challenges | Yes | 35.00 | 4.74 | 1.30 | 0.80 | 0.05 |
| | No | 59.00 | 4.81 | 1.23 | | |
| Personal Challenges | Yes | 35.00 | 3.93 | 1.25 | 0.91 | 0.02 |
| | No | 59.00 | 3.89 | 1.36 | | |
| Demographic contributions | Yes | 35.00 | 2.04 | 1.24 | 0.85 | 0.04 |
| | No | 59.00 | 2.09 | 1.21 | | |

As depicted in Table 4-12, all constructs attained high p-values as well as very small effect sizes, with the largest effect size of receiving training being on the perception of general challenges where participants who have not received training ($\bar{x}=4.81$; $SD=1.23$), perceived the construct general challenges as greater than participants who have received training ($\bar{x}=4.74$; $SD=1.30$). The large p-values and small effect sizes indicate that there is no statistical or practical significance based on whether participants received training from any training initiatives.

4.5.6 Effect of knowledge of SME Specific Organisations on the Constructs

Table 4-13 shows the effect that knowledge of SME specific organisations had on participants' perception of the constructs.

Table 4-13: Effect of knowledge of SME specific organisations

| Knowledge of SME Specific Organisations | | N | Mean | Std. Deviation | p-value | Effect sizes |
|---|-----|-------|------|----------------|---------|--------------|
| General Challenges | Yes | 21.00 | 5.10 | 1.31 | 0.22 | 0.31 |
| | No | 73.00 | 4.69 | 1.22 | | |
| Personal Challenges | Yes | 21.00 | 4.17 | 1.41 | 0.33 | 0.24 |
| | No | 73.00 | 3.83 | 1.29 | | |
| Demographic contributions | Yes | 21.00 | 2.22 | 0.95 | 0.47 | 0.15 |
| | No | 73.00 | 2.03 | 1.29 | | |

Table 4-13 indicates that all constructs achieved a large p-value. The largest effect size achieved by a construct was that of "General Challenges" due to knowledge of SME specific Organisations, though still achieving a small effect size (Cohen's $D=0.31$), with participants who

have knowledge of SME specific organisations ($\bar{x}=5.10$; $SD=1.31$) agreeing more with the construct than participants who do not have knowledge of SME specific organisations ($\bar{x}=4.69$; $SD=1.22$).

Participants who have knowledge of SME specific organisations' ($\bar{x}=4.17$; $SD=1.41$) perception of "Personal Challenges" is greater than participants who have not heard of SME specific organisations ($\bar{x}=3.83$; $SD=1.29$), also achieving a similarly large effect size, though it is also still a small effect (Cohen's $D=0.24$). This, therefore, indicates that knowledge of SME specific organisations does not have a statistical or practical significance on the perception of participants.

4.5.7 Effect of experience prior to self-employment on the constructs.

Analysis of the results of the effect of participants' experience prior to self-employment on their perception of the constructs was done by making use of ANOVA analysis. The differences between various groups' perceptions of constructs is determined by making use of ANOVA analysis (Rutherford, 2012:2). Where T-test can only look at single variables at a time, ANOVA has the ability to assess multiple variables and their effects at the same time. Table 4-14 shows the effect participants' experience prior to self-employment had on their perceptions of the constructs.

Table 4-14: Effect of experience prior to self-employment

| Experience Prior to Self-employments | | N | Mean | Std. Deviation | p-value | Effect sizes | | | |
|--------------------------------------|--|-------|------|----------------|---------|---------------|--|---------------------------------|-------------------|
| | | | | | | Self Employed | General Worker (Administration, clerk, secretary, cashier) | Supervisor (first line manager) | Middle Management |
| General Challenges | Self Employed | 22.00 | 4.50 | 1.38 | 0.31 | | | | |
| | General Worker (Administration, clerk, secretary, cashier) | 19.00 | 5.23 | 1.01 | | 0.52 | | | |
| | Supervisor (first line manager) | 11.00 | 4.37 | 1.24 | | 0.09 | 0.69 | | |
| | Middle Management | 33.00 | 4.84 | 1.09 | | 0.24 | 0.36 | 0.37 | |
| | Top Executive management | 9.00 | 4.86 | 1.77 | | 0.20 | 0.21 | 0.27 | 0.01 |
| Personal Challenges | Self Employed | 22.00 | 4.05 | 1.47 | 0.70 | | | | |
| | General Worker (Administration, clerk, secretary, cashier) | 19.00 | 4.20 | 1.15 | | 0.10 | | | |
| | Supervisor (first line manager) | 11.00 | 3.60 | 1.25 | | 0.30 | 0.48 | | |
| | Middle Management | 33.00 | 3.80 | 1.27 | | 0.17 | 0.31 | 0.16 | |
| | Top Executive management | 9.00 | 3.69 | 1.62 | | 0.22 | 0.31 | 0.05 | 0.07 |
| Demographic contributions | Self Employed | 22.00 | 2.35 | 1.50 | 0.65 | | | | |
| | General Worker (Administration, clerk, secretary, cashier) | 19.00 | 2.15 | 1.04 | | 0.14 | | | |
| | Supervisor (first line manager) | 11.00 | 2.00 | 1.23 | | 0.24 | 0.12 | | |
| | Middle Management | 33.00 | 1.98 | 1.21 | | 0.25 | 0.14 | 0.02 | |
| | Top Executive management | 9.00 | 1.67 | 0.81 | | 0.46 | 0.46 | 0.27 | 0.26 |

Table 4-14 shows the One-way ANOVA analysis conducted to analyse the effect participants' previous work experience had on their perception of the constructs.

- Participants who were general workers indicated that they agreed more with the general challenges ($\bar{x}=5.23$; $SD=1.01$) than participants who have always been self-employed ($\bar{x}=4.50$; $SD=1.38$), generating a medium effect size (Cohen's $D=0.52$).
- Participants who were general workers also agreed more with the general challenges ($\bar{x}=5.23$; $SD=1.01$) than participants who were supervisors prior to being self-employed ($\bar{x}=4.37$; $SD=1.24$), generating a medium sized effect (Cohen's $D=0.69$).
- Participants who were middle managers ($\bar{x}=4.84$; $SD=1.09$) prior to self-employment, agreed less with general challenges than participants who were general workers ($\bar{x}=5.23$; $SD=1.01$). This generated a small effect size (Cohen's $D=0.36$).
- Participants who were middle managers ($\bar{x}=4.84$; $SD=1.09$) indicated that they agreed more with the general challenges than participants who were supervisors ($\bar{x}=4.37$; $SD=1.24$) prior to becoming self-employed, with a small effect size (Cohen's $D=0.37$).
- Participants who have always been self-employed ($\bar{x}=4.05$; $SD=1.47$) indicate that they agreed more with the personal challenges than participants who were supervisors ($\bar{x}=3.60$; $SD=1.25$) prior to being self-employed, generating a small effect size (Cohen's $D=0.30$).
- Participants who were general workers ($\bar{x}=4.20$; $SD=1.15$) indicated that they agreed more with the personal challenges than participants who were supervisors prior to being self-employed ($\bar{x}=3.60$; $SD=1.25$), generating a medium effect size (Cohen's $D=0.48$).
- Participants who were middle managers ($\bar{x}=3.80$; $SD=1.27$) prior to being self-employed indicated that they agreed less than participants who were general workers ($\bar{x}=4.20$; $SD=1.15$), with a small effect size (Cohen's $D=0.31$).
- Participants who were general workers ($\bar{x}=4.20$; $SD=1.15$) prior to being self-employed also agreed more with the personal challenges than participants who were top

executive managers (\bar{x} =3.69; SD=1.62), generating a small effect size (Cohen's D=0.31).

- Participants who were top executive managers (\bar{x} =1.67; SD=0.81) prior to being self-employed disagreed more with demographic contributions than participants who have always been self-employed (\bar{x} =2.35; SD=1.50), with a small effect (Cohen's D=0.46).
- Participants who were general workers (\bar{x} =2.15; SD=1.04) disagreed less with demographic contributions than participants who were top executive managers (\bar{x} =1.67; SD=0.81) prior to becoming self-employed, generating a small effect (Cohen's D=0.46).

4.5.8 Effect of what happened to previous businesses on the constructs

Table 4-15 shows the effect (Cohen's D-value) of what happened to participants' businesses, who previously owned businesses, had on their perception of the challenges.

Table 4-15: Effect of what happened to previous business

| What Happened to previous business | | N | Mean | Std. Deviation | p-value | Effect sizes | |
|------------------------------------|------------------|-------|------|----------------|---------|--------------|------------------|
| | | | | | | Sold off | Still successful |
| General Challenges | Sold off | 18.00 | 4.25 | 1.27 | 0.29 | | |
| | Still successful | 15.00 | 4.60 | 1.39 | | 0.25 | |
| | Out of Business | 8.00 | 5.09 | 0.83 | | 0.66 | 0.35 |
| Personal Challenges | Sold off | 18.00 | 3.70 | 1.49 | 0.60 | | |
| | Still successful | 15.00 | 3.97 | 1.20 | | 0.18 | |
| | Out of Business | 8.00 | 4.23 | 0.59 | | 0.35 | 0.21 |
| Demographic contributions | Sold off | 18.00 | 2.31 | 1.25 | 0.58 | | |
| | Still successful | 15.00 | 1.99 | 1.06 | | 0.26 | |
| | Out of Business | 8.00 | 1.90 | 0.67 | | 0.33 | 0.08 |

The effect of what happened to participants' previous businesses was analysed by making use of a One-way ANOVA analysis (Table 4-15).

- Participants whose previous businesses went out of business (\bar{x} =5.09; SD=0.83) agreed more with the general challenges construct than participants who sold off

(\bar{x} =4.25; SD=1.27) their businesses, generating a medium effect size (Cohen's D=0.66).

- Participants whose previous businesses are still successful (\bar{x} =4.60; SD=1.39) agreed less with the general challenges construct than participants whose previous businesses went out of business (\bar{x} =5.09; SD=0.83), yielding a small effect size (Cohen's D=0.35).
- Participants whose previous businesses went out of business (\bar{x} =4.23; SD=0.59) agreed more with the personal challenges construct than participants whose previous businesses were sold off (\bar{x} =3.70; SD=1.49), with a small effect size (Cohen's D=0.35).
- Participants whose previous businesses went out of business (\bar{x} =1.90; SD=0.67) disagreed more with the demographic contributions construct than participants whose previous businesses were sold off (\bar{x} =2.31; SD=1.25), generating a small effect size (Cohen's D=0.33).

4.5.9 The effect a source of start-up funding has on the constructs

Table 4-16 shows the effect (Cohen's D-value) participants' sources of start-up funding had on their perception of the identified constructs.

Table 4-16: Effect of start-up funding

| Source of start-up funding | | N | Mean | Std. Deviation | p-value | Effect sizes | | |
|----------------------------------|--|-------|------|----------------|---------|------------------|--|------------------------|
| | | | | | | Personal savings | Borrowed or gifted (donated) from relative or friend | Sold previous business |
| General Challenges | Personal savings | 65.00 | 4.79 | 1.24 | 0.55 | | | |
| | Borrowed or gifted (donated) from relative or friend | 11.00 | 4.98 | 1.04 | | 0.16 | | |
| | Sold previous business | 4.00 | 3.93 | 1.00 | | 0.70 | 1.01 | |
| | Bank loan | 13.00 | 4.82 | 1.55 | | 0.02 | 0.11 | 0.58 |
| Personal Challenges | Personal savings | 65.00 | 3.93 | 1.26 | 0.33 | | | |
| | Borrowed or gifted (donated) from relative or friend | 11.00 | 4.05 | 1.41 | | 0.09 | | |
| | Sold previous business | 4.00 | 2.73 | 0.77 | | 0.94 | 0.93 | |
| | Bank loan | 13.00 | 4.06 | 1.62 | | 0.08 | 0.00 | 0.82 |
| Demographic contributions | Personal savings | 65.00 | 2.04 | 1.18 | 0.28 | | | |
| | Borrowed or gifted (donated) from relative or friend | 11.00 | 2.27 | 1.81 | | 0.13 | | |
| | Sold previous business | 4.00 | 3.00 | 1.10 | | 0.81 | 0.40 | |
| | Bank loan | 13.00 | 1.71 | 0.64 | | 0.28 | 0.31 | 1.18 |

Table 4-16 indicates the One-way ANOVA analysis conducted to analyse the effect participants' source of start-up funding had on their perception of the constructs.

- Participants who used personal savings ($\bar{x}=4.79$; $SD=1.24$) as a source of start-up funding agreed more with the construct general challenges than participants who sold their previous businesses ($\bar{x}=3.93$; $SD=1.00$), generating a medium sized effect (Cohen's $D=0.70$).
- Participants who borrowed or were gifted their start-up funding from relatives or friends ($\bar{x}=4.79$; $SD=1.04$), agreed more with the construct general challenges than participants who sold their previous businesses ($\bar{x}=3.93$; $SD=1.00$), yielding a large effect size (Cohen's $D=1.01$).
- Participants who sold their previous businesses ($\bar{x}=3.93$; $SD=1.00$) as source of start-up funding, agreed less with the construct general challenges than participants who used a bank loan ($\bar{x}=4.82$; $SD=1.55$) as a source of start-up funding, with a medium effect size (Cohen's $D=0.58$).
- Participants who sold their previous businesses ($\bar{x}=2.73$; $SD=0.77$) as source of start-up funding disagreed more with the construct personal challenges than participants who used personal savings ($\bar{x}=3.93$; $SD=1.26$) as a source of start-up funding, generating a large effect size between the two variables (Cohen's $D=0.94$).
- Participants who borrowed or were gifted their start-up funding from relatives or friends ($\bar{x}=4.05$; $SD=1.41$), agreed more with the construct personal challenges than participants who sold their previous businesses ($\bar{x}=2.73$; $SD=0.77$), yielding a large effect size (Cohen's $D=0.93$).
- Participants who used a bank loan ($\bar{x}=4.06$; $SD=1.62$) as source of start-up funding, agreed more with the construct personal challenges than participants who sold their previous businesses ($\bar{x}=2.73$; $SD=0.77$) as source of start-up funding, with a large effect size (Cohen's $D=0.82$).
- Participants who used personal savings ($\bar{x}=2.04$; $SD=1.18$) as source of start-up funding, disagreed more with the construct demographic contributions than participants who sold their previous businesses ($\bar{x}=3.00$; $SD=1.10$) as source of start-up funding, yielding a large effect size (Cohen's $D=0.81$).

- Participants using start-up funding borrowed or gifted from a relative or friend ($\bar{x}=2.27$; $SD=1.81$), disagreed more with the construct demographic contributions than participants who sold their previous businesses ($\bar{x}=3.00$; $SD=1.10$) as source of start-up funding, generating a small effect size (Cohen's $D=0.40$).
- Participants using start-up funding borrowed or gifted from a relative or friend ($\bar{x}=2.27$; $SD=1.81$), disagreed less with the construct demographic contributions than participants who used a bank loan ($\bar{x}=1.71$; $SD=0.64$) as a source of start-up funding, with a small effect size (Cohen's $D=0.31$).
- Participants who used a bank loan ($\bar{x}=1.71$; $SD=0.64$) as source of start-up funding, disagreed more with the construct demographic contributions than participants who sold their previous business ($\bar{x}=3.00$; $SD=1.10$) as source of start-up funding, yielding a large effect size (Cohen's $D=1.18$).

4.6 CORRELATIONS BETWEEN CONSTRUCTS AND DEMOGRAPHIC VARIABLES

Six ordinal demographic variables were measured in a Spearman's rank correlation analysis. The demographic variables were age, highest academic qualification, age of the business, number of employees employed, annual turnover, experience as self-employed. Spearman's rank correlation calculates the relationship between pairs of ordinal variables, or between an ordinal variable and a ratio or interval, based on the rank order of the values of the variables instead of assigned values (Bryman *et al.*, 2014:323). The Spearman's rank correlation values of the six ordinal demographic variables are summarised in Table 4-17.

Table 4-17: Spearman rank correlation of constructs with selected ordinal variables.

| | | Correlations | | | | | |
|----------------------------------|-------------------------|---------------------------------|---|----------------------------------|---|--|---|
| | | In which age group do you fall? | Indicate your highest level of academic qualification | What is the age of the business? | How many permanent employees are employed by your business? | Indicate the turnover (annual sales) that your business generates? | Indicate the number of years that you are self employed |
| General Challenges | Correlation Coefficient | -0.16** | 0.13** | 0.05 | 0.09 | 0.17** | 0.00 |
| | Sig. (2-tailed) | 0.12 | 0.20 | 0.62 | 0.41 | 0.14 | 0.99 |
| | N | 94.00 | 94.00 | 94.00 | 93.00 | 83.00 | 94.00 |
| Personal Challenges | Correlation Coefficient | 0.01 | -0.04 | 0.16** | -0.03 | 0.02 | 0.08 |
| | Sig. (2-tailed) | 0.91 | 0.71 | 0.13 | 0.80 | 0.84 | 0.43 |
| | N | 94.00 | 94.00 | 94.00 | 93.00 | 83.00 | 94.00 |
| Demographic contributions | Correlation Coefficient | -0.11** | 0.00 | -0.20** | -0.06 | -0.10** | -0.11** |
| | Sig. (2-tailed) | 0.30 | 0.98 | 0.06 | 0.55 | 0.36 | 0.30 |
| | N | 94.00 | 94.00 | 94.00 | 93.00 | 83.00 | 94.00 |

**** indicates correlations greater or equal to 0.1 between the variables**

Table 4-17 shows that none of the comparisons drawn between the ordinal variables and the constructs attained a strong relationship between them. Small correlations are equal to 0.1, medium correlations are indicated by correlations equal to 0.3, and a strong correlation between variables is indicated by correlation values equal to and greater than 0.5 (Blaauw, 2017:107). Some small correlations between variables were attained though, as indicated in Table 4.17. They include:

- The younger the participant is, the greater their perception is of general challenges ($R_s = -0.16$, small negative correlation).
- The higher qualified participants are, the greater is their perception of general challenges ($R_s = 0.13$, small positive correlation).
- The greater participants' business turnovers were, the greater is their perception of general challenges ($R_s = 0.17$, small positive correlation).
- The older the participants' businesses become, the greater is their perception of personal challenges ($R_s = 0.16$, small positive correlation).
- Younger participants perceive demographic contributions better than older participants do ($R_s = -0.11$, small negative correlation).
- Participants whose businesses have been in business longer, disagreed more with the demographic contributions construct ($R_s = -0.20$, small negative correlation).
- Participants whose businesses generate larger annual turnovers, disagreed more with the demographic contribution construct than participants whose businesses generate lower annual turnovers ($R_s = -0.10$, small negative correlation).
- Participants whose businesses employ more employees, disagreed more with the demographic contribution construct ($R_s = -0.11$, small negative correlation).

4.7 FINDINGS

From the analysis of the data, the following findings were obtained:

4.7.1 Demographic profile

Finding 1: The majority of participants are represented by the age groups 30 to 39 years (26.80%), 40 to 49 years (26.80%) and 50 to 59 years (25.77%), representing a combined percentage of 79.37% of those who responded to the questionnaire.

Finding 2: 75.26% of the participants are married, 10.31% of the participants are single, 7.22% of participants are divorced, 2.06% are widowed and 5.15% of participants have a life partner.

Finding 3: 69.07% of the participants are female and the remaining 30.93% are male.

Finding 4: 64.95% of the participants have a Technical College or Technicon level diploma or higher qualification.

Finding 5: Most of the participants were employed as middle managers (34.02%), prior to becoming self-employed.

Finding 6: The largest percentage of participants have between 1 and 10 years' experience of self-employment (63.92%).

Finding 7: The largest percentage of participants' businesses operate in the services industry (35.05%).

Finding 8: Most of the participants' businesses are either registered as close corporations (38.14%) or private companies (35.05%), with only 4.12% of participants' companies not being registered.

Finding 9: 27.84% of the participants' businesses are 0 to 5 years old, (24.74%) 5 to 10 years old, (20.62%) 15 to 20 years old, (6.19%) 20 to 25 years old and 20.62% of the participants' businesses are older than 25 years.

Finding 10: Most of the participants started their businesses (62.89%).

Finding 11: Most participants used personal savings as start-up funding (61.86%)

Finding 12: The largest percentage of participants' businesses are operated from home (34.02%).

Finding 13: Most of the participants' businesses employ ten or less than ten employees (64.95%), with 13.40% employing only themselves, 2 to 5 employees (30.93%) and 6 to 10 employees (20.62%) respectively.

Finding 14: In terms of annual turnover, participants' businesses were fairly equally represented by those who earned less than R1 million (45.35%) and those who earned more than R1 million (43.50%).

Finding 15: 40.21% of the participants had childhood exposure to self-employment and 59.79% of the participants did not have exposure to self-employment as children.

Finding 16: To most participants their current business is the first one that they own (64.95%).

Finding 17: From those whose businesses are not the first business that they own, most participants sold off (43.90%) their previous business, 36.59% of the participants' businesses are still successful, and 19.51% went out of business.

4.7.2 Psychometric properties

Finding 18: Each construct assessed, achieved a reliability score of 0.88 or higher, indicating that the questionnaire had sound reliability.

Finding 19: All three constructs assessed, had KMO values of greater than 0.5, indicating solid construct validity.

4.7.3 Descriptive findings

Finding 20: The construct General Challenges obtained a moderately positive overall mean score ($\bar{x}=4.75$; $SD=1.27$), indicating that participants agreed that SMEs, in general, tend to experience the challenges making up this construct.

Finding 21: The construct Personal Challenges obtained a moderately negative overall mean score ($\bar{x}=3.86$; $SD=1.33$), indicating that participants feel that they themselves are not experiencing the challenges enquired about so severely.

Finding 22: The construct demographic contribution obtained a strongly negative mean score ($\bar{x}=2.08$; $SD=1.23$), indicating that participants feel that the Emfuleni Municipality is not conducive to business operations.

4.7.4 Effects of demographic variables on the constructs' perception

Finding 23: Gender did not have a statistically- or practically significant effect on participants' perception of the constructs.

Finding 24: Marital status did not have a statistically- or practically significant effect on participants' perception of the constructs.

Finding 25: Childhood exposure did not have a statistically- or practically significant effect on participants' perception of the constructs.

Finding 26: First time business ownership did not have a statistically or practically significant effect on participants' perception of the constructs.

Finding 27: Receiving government or private sector training did not have a statistically or practically significant effect on participants' perception of the constructs.

Finding 28: Knowing about SME specific organisations did not have a statistically or practically significant effect on participants' perception of the constructs.

Finding 29: Participants' experience prior to self-employment did not have a statistically or practically significant effect on participants' perception of the constructs.

Finding 30: What happened to participants' previous businesses did not have a statistically or practically significant effect on participants' perception of the constructs.

Finding 31: Participants who borrowed or were gifted their start-up funding from relatives or friends ($\bar{x}=4.98$; $SD=1.24$), agreed more with the construct general challenges than participants

who sold their previous businesses ($\bar{x}=3.93$; $SD=1.00$), yielding a large effect size (Cohen's $D=1.01$), indicating practical significance between the two views.

Finding 32: Participants who sold their previous businesses ($\bar{x}=2.73$; $SD=0.77$) as source of start-up funding, disagreed more with the construct personal challenges than participants who used personal savings ($\bar{x}=3.93$; $SD=1.26$) as a source of start-up funding, generating a large effect size between the two variables (Cohen's $D=0.94$), indicating practical significance between these views.

Finding 33: Participants who borrowed or were gifted their start-up funding from relatives or friends ($\bar{x}=4.05$; $SD=1.41$), agreed more with the construct personal challenges than participants who sold their previous businesses ($\bar{x}=2.73$; $SD=0.77$), yielding a large effect size (Cohen's $D=0.93$), indicating practical significance between these views.

Finding 34: Participants who used a bank loan ($\bar{x}=4.06$; $SD=1.62$) as source of start-up funding, agreed more with the construct personal challenges than participants who sold their previous businesses ($\bar{x}=2.73$; $SD=0.77$) as source of start-up funding, with a large effect size (Cohen's $D=0.82$), indicating practical significance between these views.

Finding 35: Participants who used personal savings ($\bar{x}=2.04$; $SD=1.18$) as source of start-up funding, disagreed more with the construct demographic contributions than participants who sold their previous businesses ($\bar{x}=3.00$; $SD=1.10$) as source of start-up funding, yielding a large effect size (Cohen's $D=0.81$), indicating practical significance between these views.

Finding 36: Participants who used a bank loan ($\bar{x}=1.71$; $SD=0.64$) as source of start-up funding, disagreed more with the construct demographic contributions than participants who sold their previous business ($\bar{x}=3.00$; $SD=1.10$) as source of start-up funding, yielding a large effect size (Cohen's $D=1.18$), indicating practical significance between these views.

4.7.5 Spearman's rank correlations between constructs and ordinal demographic variables.

Finding 37: The younger the participant is, the greater their perception is of general challenges ($R_s = -0.16$, small negative correlation).

Finding 38: The higher qualified participants are, the greater is their perception of general challenges ($R_s = 0.13$, small positive correlation).

Finding 39: The greater participants' businesses turnovers were, the greater is their perception of general challenges ($R_s = 0.17$, small positive correlation).

Finding 40: The older the participants' businesses become, the greater is their perception of personal challenges ($R_s = 0.16$, small positive correlation).

Finding 41: Younger participants perceive demographic contributions better than older participants do ($R_s = -0.11$, small negative correlation).

Finding 42: Participants whose businesses have been in business longer, disagreed more with the demographic contributions construct ($R_s = -0.20$, small negative correlation).

Finding 43: Participants whose businesses generate larger annual turnovers, disagreed more with the demographic contribution construct than participants whose businesses generate lower annual turnovers ($R_s = -0.10$, small negative correlation).

Finding 44: Participants whose businesses employ more employees, disagreed more with the demographic contribution construct ($R_s = -0.11$, small negative correlation).

4.8 SUMMARY

The results obtained from the questionnaires of this research study, were summarised within Chapter 4. Appropriate statistical techniques were used to best analyse the data based on recommendations of the expert statistical consultant who assisted with the data analysis. Analysis techniques included frequency graphs and tables, descriptive statistics (mean scores and standard deviations), KMO-test, effect sizes (Cohen's D-values) in combination with T-tests and one-way ANOVAs. The findings regarding challenges faced by SMEs within the Emfuleni Municipality were summarised in Section 4.7. Chapter 5 will provide a conclusion on whether this study achieved its objectives, as well as providing recommendations based on the limitations and objectives of this study.

CHAPTER 5 OVERVIEW, CONCLUSIONS AND RECOMMENDATIONS

5.1 INTRODUCTION

This chapter provides a conclusion to this study and provides an overview of the study. Conclusions are made on the objectives set out for the study based on the results obtained from primary data results. Recommendations are also made to SME owner/managers in the Emfuleni Municipality. The chapter further stipulates the limitations faced during the study and provides recommendations to researchers who would like to conduct research on the challenges faced by SMEs in the Emfuleni Municipality.

The primary research objective of this study was to investigate the challenges faced by SMEs within the Emfuleni Municipality.

To achieve the primary objective, the following secondary objectives were formulated:

- Identifying and gaining insight into some of the challenges faced by SMEs, through conducting a literature review.
- Evaluating SME owners' view on challenges faced by SMEs in general (General Challenges).
- Assessing SME owners' view on challenges faced by them in their own businesses (Personal Challenges).
- Determining SME owners' view on the operational friendliness of the Emfuleni Municipality for SMEs (Demographic Contributions).
- Analysing the effects of selected demographic variables on SMEs' view of general challenges, Personal Challenges and Demographic Contributions.
- Determining if there are any correlations between selected demographic variables, General Challenges, Personal Challenges and Demographic Contributions.

5.2 OVERVIEW OF THE STUDY

Chapter 1 provided the nature and scope of the study. Small and Medium Enterprises (SMEs) are important components and contributors to the strength of economies. They also play a large role in the expansion of economies (Pillay, 2016:8; Smit & Watkins, 2012:6325). SMEs are significant contributors to the growth of countries' GDP, due to their large numbers and through being drivers of innovation (Madanchian *et al.*, 2015:81; Makina *et al.*, 2015:1). It is estimated that SMEs form 91% of all formal businesses in South Africa (SA) and they contributed up to 52% of SAs GDP. According to Cant and Wiid (2013:707), SMEs also play a large role in the reduction of unemployment, employing as much as 61% of the country's labour force. However, even with this large contribution to employment, SAs unemployment rate in the third quarter of 2017 was still high, with 27.7% of the population unemployed (StatsSA, 2017:7). According to StatsSA (2017:7), Gauteng Province had an official unemployment rate of 30.2% and an expanded unemployment rate of 33.3%. The Emfuleni Municipality is no different from the rest of Gauteng, with a last recorded unemployment rate of \pm 34.7%, according to Census 2011 (StatsSA, 2018:nd). Even though SMEs make such a notable contribution to South Africa's output, growth and employment, they fail at an alarming rate (Hendricks *et al.*, 2015:87). They further state that 40% to 60% of businesses established fail within their first two years of existence, further increasing up to 70% by the end of the third year. Therefore, the challenges faced by SMEs in South Africa and their general inability to mitigate the effects of these challenges on their sustainability, is a cause for concern. This served as a motivation for this study to investigate the challenges faced by SMEs in the Emfuleni Municipality.

Chapter 2 presented a literature review on all relevant concepts of the study, looking at the context from a wider context filtering it down to the level of the study. This chapter focused on defining what classifies a business as an SME, also identifying challenges faced by SMEs in general from secondary information sources. The definition of what classifies a business as an SME and an explanation on the subdivision between different sizes of businesses within South Africa was provided (Section 2.2). The various identified challenges faced by SMEs worldwide included lack of management and entrepreneurial skill (Section 2.4.1.), lack of sufficient operations management practices (Section 2.4.2.), lack of planning (Section 2.4.3.), limited knowledge and access to business information (Section 2.4.4.), inadequate financial management practices (Section 2.4.5.), insufficient location choices (Section 2.4.6.), lack of access to capital (Section 2.4.7.), insufficient institutional support and regulatory hurdles (Section 2.4.8.), deficient SME management education (Section 2.4.9.), poor customer service (Section 2.4.10.) and poor business networking (strategic partnerships and joint ventures).

The contrast between SMEs that show growth and those that do not, rests in the skills shown by growing SMEs' owner/managers (Lekhanya & Mason, 2014:343). A lack of operations and functional area management poses a great risk to the growth and survival of SMEs (Chimocheka & Mandipaka, 2015:310). Development and implementation of effective long- and short-term plans are essential for an SME's sustainability (Hiatt & Sine, 2012:5). Numerous SMEs may not have sufficient knowledge of their specific industries, making it difficult to identify opportunities and to exploit those opportunities (Hutchinson & De Beer, 2013:240). Most SMEs' accounting practices do not follow any standard practice and they can therefore not properly assess their financial performance (Agwu & Emeti, 2014:105). Furthermore SMEs' location choices frequently impact their market growth potential due to insufficient proximity to their clients and/or their suppliers, which result in increasing transportation costs (Khosa & Kalitanyi, 2014:210). The lack of access to capital is also one of the widest spread challenges facing SMEs globally. SMEs in emerging economies, many in sub-Saharan Africa, often experiences obstacles in attaining external financial assistance, and are more constrained in obtaining credit than their large business counterparts, inhibiting their ability to grow and survive (Muriithi, 2017:40; Karadag, 2015:27; Berg & Fuchs, 2013:2). Remarkably few SMEs are aware of institutional support programs and some of those who know of these programs are not sure what the purpose of these programs are or received poor support from them, even though many different institutions exist especially created to provide support programs for SMEs (Soni *et al.*, 2015:67; Ingle, 2014:43). A lack of SME management education could be the root cause of all other challenges SMEs face in some form and they conclude by saying to reduce the severity of challenges experienced by SMEs, entrepreneurship education and training is required (Chimucheka & Mandipaka, 2015:312-313). Misunderstanding customer needs can lead to hindrances of SMEs growth, suggesting that businesses need to improve the relationships between their customers and themselves, clarifying the needs of their customers (Xesha *et al.*, 2014:37). According to Dikgwatlhe (2014:72), most small businesses do not consider strong relationships with other businesses as being a valuable business resource.

Chapter 3 provided an overview of how the research was designed and carried out. Therefore this study made use of a descriptive research design using a quantitative research methodology. The quantitative data was collected through the use of a self-administered questionnaire that was originally developed by van der Merwe (2010), from whom the researcher requested and obtained permission to use it in this study. The questionnaire's wording was adapted to suit the intended geographic area where the study was conducted. The layout of the questionnaire included a cover page, containing a cover letter explaining the purpose of the study and acknowledgement of informed consent. Furthermore, the questionnaire consisted of four sections, namely Section A: personal information (Demographic

variables of participants), Section B: Business information (Demographic variables of the business), Section C: Challenges faced by Small and Medium Enterprises, and Section D: Development needs of small and medium enterprises. The questionnaire was distributed making use of Google forms (electronic survey platform) and the link was distributed to participants, using electronic distribution channels such as e-mail and WhatsApp. The study made use of a convenience sampling method and distributed the questionnaire to ±1500 participants of whom only 97 participants completed the questionnaire (6.5% response rate).

Chapter 4 presented the findings of the analysed data. Once the questionnaires were returned, the data from them were captured, cleaned, edited and analysed using Statistical Package for Social Sciences (SPSS version 23) and were validated, coded and entered by the North-West University's Statistical Consultation Services. The researcher further used descriptive results (such as frequencies, percentages, mean scores and standard deviations) and inferential statistical results to analyse and evaluate the data collected. Key conclusions and recommendations pertaining to the secondary objectives of the study are discussed in the following subject.

5.3 CONCLUSIONS

The following conclusions were drawn from the secondary objectives set out for this study.

5.3.1 Secondary Objective 1: To identify and gain insight into some of the challenges faced by SMEs, through conducting of a literature review.

There are many challenges faced by SMEs throughout the world. The most common challenges identified from literature were discussed in detail in Chapter 2. These challenges include:

- **Lack of management and entrepreneurial skill (Section 2.4.1):** According to Karadag (2015:27), a lack of managerial and entrepreneurial skills rank among the primary causes of SME failure globally, as a lack thereof may contribute significantly to inadequate decision-making capabilities. The level of managerial and entrepreneurial skills an SME's owner/manager displays, also plays an important role in the operational efficiency and success of their businesses (Sarwoko & Frisdiantara, 2016:37; Mafimidiwo & Iyagba, 2015:107; Chiliya & Roberts-Lombard, 2012:464). Several authors (Ndege, 2015:92; Choto *et al.*, 2014:95; Aigbavboa & Thwala, 2014:776) also found that a lack of management and entrepreneurial skills are among the main challenges hindering SME growth.

- **Lack of sufficient operations management practices (Section 2.4.2):** Various authors feel that an inability to manage operational activities effectively, such as record keeping of activities, utilising optimised supply chains and effective project management, may well pave the way to a loss of reputation for companies, reducing their future revenue prospects (Mafimidiwo & Iyagba, 2015:107; Dubihlela & Omoruyi, 2014:1022 & 1026; Hutchinson & De Beer, 2013:238; Bezuidenhout & Nenungwi, 2012:11664).
- **Lack of planning (Section 2.4.3):** SMEs are often guilty of not doing proper strategic planning as part of their normal operations and sound strategic planning is an important part of good decision-making within the business (Agwu & Emeti, 2014:105). One of the main reasons businesses fail, is a lack of management practices, in particular planning (Nassif *et al.*, 2014:111). Inadequate business planning simply precedes SME failure (Fatoki, 2014c:925).
- **Limited knowledge and access to business information (Section 2.4.4):** Another major cause of small business failure in South Africa is a lack of business knowledge (Bezuidenhout & Nenungwi, 2012:11667). Numerous SMEs may not have sufficient knowledge of their specific industries, making it difficult to identify opportunities and to exploit those opportunities (Hutchinson & De Beer, 2013:240). According to Gauzelin and Bentz (2017:43-44), SMEs see business information systems as something that is only effective for large companies, as they invest more in technology.
- **Inadequate financial management practises (Section 2.4.5):** Sibanda and Manda (2016:196) note that two of the most common financial management constructs affecting SME success are a failure to manage costs, or an inability to predict rising costs, and failure to pursue qualified assistance. Most SMEs find it difficult to manage their finances due to a lack of financial expertise on the owners' part (Karadag, 2015:28). Most SME's accounting practices do not always follow any form of standard practices and they can therefore not properly assess their financial performance (Agwu & Emeti, 2014:105).
- **Insufficient location choices (Section 2.4.6):** One of the most important decisions for businesses to make, is where to locate their businesses' premises (Heizer & Render, 2014:364). They also suggest that a business' location has a large influence on its overall success. According to Bouazza *et al.* (2015:06), SME management does not consider all their business' operational requirements when choosing a location for it, frequently choosing the first available location they can find, even though the location it-self is not suited for the business' needs.

- **Lack of access to capital (Section 2.4.7):** A lack of access to capital is one of the widest spread challenges facing SMEs globally. SMEs in emerging economies, many in sub-Saharan Africa, often experience obstacles in attaining external financial assistance, and are more constrained in obtaining credit than their large business counterparts, inhibiting their ability to grow and survive (Muriithi, 2017:40; Karadag, 2015:27; Berg & Fuchs, 2013:2). A lack of easily accessible capital inhibits SMEs from investing in other ventures, expand into different market sectors or invest into much needed training for themselves and their employees that could improve operational efficiencies (Hutchinson & De Beer, 2013:238). According to Iweka *et al.* (2016:92), the more funds they can access, the better they would be able to generate income on their own, through further investment in their operations.
- **Insufficient institutional support and regulatory hurdles (Section 2.4.8):** According to Ingle (2014:43), remarkably few SMEs are aware that institutional support programs exist. He further explains that of those that knew about these programs and applied for assistance, none have received any feedback other than acknowledgment of their application. Even though the South African government has various initiatives in place to support SMEs, several South African laws make it hard to start-up, run and grow SMEs (Cant & Wiid, 2013:712). Entrepreneurs are discouraged from starting their own businesses due to regulations that are put in place by the South African government (Choto *et al.*, 2014:96).
- **Deficient SME management education (Section 2.4.9):** A major obstacle faced by SMEs is their lack of business management education (Choto *et al.*, 2014:95). Even though most people feel that anyone can become an entrepreneur, most people underestimate the contribution a lack of education for SME owners, or their management has towards business failure (Ingle, 2014:41). Improving persons' education will most likely enhance their chances of starting a successful business. However, it will also enable them to navigate the ever changing and competitive business environments well (Herrington *et al.*, 2017:33-34).
- **Poor customer service (Section 2.4.10):** Fatoki (2014c:925) as well as Hutchinson and De Beer (2013:238), cites poor customers service as a sizeable construct leading to failure of new SMEs. Misunderstanding customer needs can lead to hindrances of SME growth, suggesting that businesses need to improve relationships between their customers and themselves, by clarifying the needs of their customers (Xesha *et al.*,

2014:37). They add that businesses need to nurture long term customer relationships as these will support them through tough and trying times.

- **Poor business networking (Section 2.4.11):** SMEs who utilise their networks effectively, retrieve suitable and dependable information in a timely fashion (Zhu *et al.*, 2017:227). They further add that this allows firms to stay on track with changing customer preferences, staying up to date with new technologies and in so doing reducing the risks attached to market volatility. SMEs regularly depend on suppliers and complimentary business acquaintances to obtain much needed resources, such as quality raw materials, technology, emerging trends and other information concerning demands and tastes of customers (Tehseen & Ramayah, 2015:54). According to Xesha *et al.* (2014:37), business owners must start to recognise the importance of building and maintaining relationships with other businesses.

Conclusion: Secondary data sources were researched to identify the most common challenges faced by SMEs worldwide (Section 2.4). These challenges are lack of management and entrepreneurial skill, lack of sufficient operations' management practices, lack of planning, limited knowledge and access to business information, inadequate financial management practices, insufficient location choices, lack of access to capital, insufficient institutional support and regulatory hurdles, deficient SME management education, poor customer service and poor business networking.

5.3.2 Secondary objective 2: Evaluating SME owners' view on challenges faced by SMEs in general (General Challenges)

Secondary objective 2 is addressed in Section C of the questionnaire (C1-10) that asked SME owners to indicate their level of agreement on challenges faced by SMEs in general. The level of agreement was indicated in a seven-point Likert-scale, starting with strongly disagree (1) and ending with strongly agree (7) and a neutral view weighted as a 4. These results were discussed in detail in Chapter 4 (Section 4.4.1.1). The results show that SME owners have a moderately positive opinion about the challenges SMEs can face, in general ($\bar{x}=4.75$; $SD=1.27$).

Conclusion: The moderately positive overall mean score ($\bar{x}=4.75$; $SD=1.27$) indicates that participants agree that the challenges stated in Table 4.5 are common challenges SMEs can face.

5.3.3 Secondary objective 3: Assessing SME owners' view on challenges faced by them in their own businesses (Personal Challenges)

Section C of the questionnaire (C12-26) concentrated on secondary objective 3 and asked SME owners to indicate their level of agreement on challenges faced by themselves in their own businesses. The level of agreement was specified in a seven-point Likert-scale, beginning with strongly disagree (1) and ending with strongly agree (7) and a neutral view weighted as a 4. The results for these questions were discussed in detail in Chapter 4 (Section 4.4.1.2). The results display that SME owners have a moderately negative opinion about the challenges enquired on for this construct ($\bar{x}=3.86$; $SD=1.33$).

Conclusion: The participants to this study have a perception that the challenges stated in Table 4.6 are not common challenges that they are facing in their normal operations. This was indicated by the moderately negative overall mean score achieved by this construct ($\bar{x}=3.86$; $SD=1.33$).

5.3.4 Secondary objective 4: Determining SME owners' view on the operational friendliness of the Emfuleni Municipality for SMEs (Demographic Contributions)

Secondary objective 3 was assessed by Section C of the questionnaire (C28-32) and asked SME owners to specify their level of agreement on how conducive the demographic attributes of the Emfuleni Municipality are to conducting business. The level of agreement was specified in a seven-point Likert-scale, with strongly disagree (1) and strongly agree (7) and a neutral view weighted as a 4. These results for this construct were discussed in detail in Chapter 4 (Section 4.4.1.2). The results signposted that SME owners have a strongly negative opinion about the conduciveness for business operations within the Emfuleni Municipality ($\bar{x}=2.08$; $SD=1.23$).

Conclusion: Participants to this study feel that the Emfuleni Municipality is not an optimal base of operations for a small business, as they feel that small business does not get proper support in this area. This is shown by the strongly negative view participants have towards this construct ($\bar{x}=2.08$; $SD=1.23$).

5.3.5 Secondary objective 5: Analysing the effects of selected demographic variables on SMEs' view of General Challenges, Personal Challenges and Demographic Contributions

This objective was assessed by making use of inferential statistics through the use of t-tests and ANOVA analysis. The practical significance of differences between variables in relation to the constructs were assessed (General Challenges, Personal Challenges, Demographic Contributions) and was also evaluated by calculating Cohen's D-values. These results were discussed in intensively in Chapter 4 (Section 4.5). A summary of the results are as follows:

- Gender did not have a statistically or practically significant effect on the participants' perception of the constructs.
- Marital status did not have a statistically or practically significant effect on the participants' perception of the different constructs.
- Childhood exposure to business did not have a statistically or practically significant effect on the participants' awareness of the constructs.
- First time business ownership did not have a statistically or practically significant outcome on the participants' insight of the constructs.
- Receiving government or private sector training did not have a statistically or practically significant influence on participants' awareness of the different constructs.
- Knowing about SME specific organisations did not have a statistically or practically significant effect on participants' perception of the constructs.
- Participants' experience prior to self-employment did not have a statistically or practically significant outcome on participants' opinion of the constructs.
- What happened to participants' previous businesses did not have a statistically or practically significant effect on participants' perception of the different constructs.
- Participants who borrowed or were gifted their start-up funding from relatives or friends ($\bar{x}=4.98$; $SD=1.24$), agreed more with the construct general challenges than participants

who sold their previous businesses ($\bar{x}=3.93$; $SD=1.00$), yielding a large effect size (Cohen's $D=1.01$), indicating a practical significance between the two views.

- Participants who sold their previous businesses ($\bar{x}=2.73$; $SD=0.77$) as source of start-up funding disagreed more with the construct personal challenges than participants who used personal savings ($\bar{x}=3.93$; $SD=1.26$) as a source of start-up funding. Generating a large effect size between the two variables (Cohen's $D=0.94$), indicates a practical significance between these opinions.
- Participants who borrowed or were gifted their start-up funding from relatives or friends ($\bar{x}=4.05$; $SD=1.41$), agreed more with the construct personal challenges than participants who sold their previous businesses ($\bar{x}=2.73$; $SD=0.77$), yielding a large effect size (Cohen's $D=0.93$), demonstrating a practical significance between these views.
- Participants who used a bank loan ($\bar{x}=4.06$; $SD=1.62$) as source of start-up funding agreed more with the construct personal challenges than participants who sold their previous businesses ($\bar{x}=2.73$; $SD=0.77$) as source of start-up funding, with a large effect size (Cohen's $D=0.82$), depicting a practical significance between these meanings.
- Participants who used personal savings ($\bar{x}=2.04$; $SD=1.18$) as source of start-up funding disagreed more with the construct demographic contributions than participants that sold their previous businesses ($\bar{x}=3.00$; $SD=1.10$) as source of start-up funding, yielding a large effect size (Cohen's $D=0.81$), reflecting a practical significance between the different views.
- Participants who used a bank loan ($\bar{x}=1.71$; $SD=0.64$) as source of start-up funding disagreed more with the construct demographic contributions than participants who sold their previous business ($\bar{x}=3.00$; $SD=1.10$) as source of start-up funding, yielding a large effect size (Cohen's $D=1.18$), portraying a practical significance between these views.

Conclusion: Only participants' source of start-up funding has a practically significant effect on participants' perception of the assessed constructs. All the others had no practical significant effect on the views of the participants.

5.3.6 Secondary objective 6: Determining if there are any correlations between selected Demographic Variables, General Challenges, Personal Challenges and Demographic Contributions.

The relationship between six ordinal demographic variables and the constructs in this study was investigated. The results and statistical techniques used for this assessment was discussed in Chapter 4 (Section 4.6).

- The younger the participant is, the greater his/her perception is of general challenges ($R_s = -0.16$, small negative correlation).
- The higher qualified participants are, the greater their awareness is of general challenges ($R_s = 0.13$, small positive correlation).
- The greater participants' businesses turnovers were, the bigger their perception of general challenges were ($R_s = 0.17$, small positive correlation).
- The older the participants' businesses become, the better is their perception of personal challenges ($R_s = 0.16$, small positive correlation).
- Younger participants perceive demographic contributions better than older participants do ($R_s = -0.11$, small negative correlation).
- Participants whose businesses have been in business longer, disagreed more with the demographic contributions construct than the others ($R_s = -0.20$, small negative correlation).
- Businesses that generate larger annual turnovers, disagreed more with the demographic contribution construct than participants whose businesses generate lower annual turnovers ($R_s = -0.10$, small negative correlation).
- Participants whose businesses employ more employees, disagreed more with the demographic contribution construct than the others ($R_s = -0.11$, small negative correlation).

Conclusion 1: Participants with businesses with higher turnovers have a greater appreciation for challenges faced by SMEs, in general.

Conclusion 2: Participants whose business has been in business for longer periods have a greater appreciation for the challenges their businesses face.

Conclusion 3: Participants whose business has been in business for longer periods want to conduct business in a different area than the Emfuleni Municipality the most.

5.4 RECOMMENDATIONS

Recommendation 1: The challenges enquired on in the questionnaire, make up the construct “General Challenges” (Questions C1-10). Tested participants’ view on the effect of challenges, is that if left ignored, they are is certain to inhibit small businesses’ growth or even cause the business to fail. It is therefore important for newly established small businesses or persons thinking of establishing new small businesses first to assess their capabilities in relation to these challenges. Furthermore, where they see themselves falling short, they should consider getting training or assistance to mitigate the effects of these challenges.

Recommendation 2: The participants of this study feel that over all they are not experiencing the challenges enquired on for personal challenges (questions C12-26) to a significant extent, for small businesses to excel, they must be able to identify the challenges their businesses are facing and mitigate those challenges. Therefore it is recommended that small business owners critically and truthfully assess their own capabilities and that of their business regarding the challenges enquired on and then put measures in place to mitigate the effects of their most problematic challenges.

Recommendation 3: The challenge that scored the highest level of agreement within personal challenges was “Socio-cultural environment (lack of respect from large companies, community and stereo types)” ($\bar{x}=4.80$; $SD=1.79$). It is recommended that for small businesses to thrive, they need support from large companies in their area of operations in terms of providing opportunities to conduct work. However, this recommendation is twofold: small business owners must not just expect large companies to gift them opportunities to conduct work for them. They must at least try to reach a level of competence that will give large companies enough confidence to entrust small companies with work.

Recommendation 4: Access to capital is an important component to the growth of a business. Without a reliable source of capital, small businesses cannot plan for expansion or take on large projects. Therefore, it is recommended that South African Commercial Banks assess their policies related to providing small businesses with loans. However, small business owners cannot just go to a bank and request a loan without any form of assurance to the bank that they will get a return on investment. Therefore small business owners must comply with the requirements set out by the banks to obtain a loan. Over and above the money retained, it will

assist the business, as owners are normally forced to assess their business' status thoroughly and they can identify gaps in their operations as part of the process, which, if addressed, will make the business more sustainable in the long term.

Recommendation 5: The area where a small business conducts its operations has a prominent effect on a business's capabilities. Therefore, if the municipal area around the business is not managed in such a way that it is conducive to economic growth, small businesses will find it challenging to grow. Therefore, the Emfuleni Municipality must assess their policies related to small businesses and make them more conducive to SME growth. The Emfuleni Municipality must also maintain their infrastructure better to avoid any unnecessary interruptions in businesses operations.

5.5 LIMITATIONS OF THE STUDY

Limitations of this study were identified as follow:s

- The findings of this study are only generalisable to the sample group and are not generalisable for the population as a whole, due to the chosen non-probability convenience sampling methodology.
- Personal challenges of participants' business were assessed from business owners' own perspectives and were possibly not answered truthfully, in an effort by participants not to look bad or due to possible ignorance of their businesses' actual status regarding the challenges enquired about.
- In relation to the number of participants approached to complete questionnaires, a very small number of participants filled out the questionnaires. This may be due to several constructs, such as no time to fill in the questionnaire and lack of interest from the participants' side.

5.6 RECOMMENDATIONS FOR FUTURE RESEARCH

The following recommendations were identified for future researchers:

- Future research should make use of a probability sampling method so that findings from the study can be generalised to the population.

- Future research should consider doing a qualitative research methodology for this subject, as qualitative methods try to interpret social circumstances of research participants in their natural surroundings, learning about their social and material encounters. In doing so more honest results could be obtained.

5.7 SUMMARY

This chapter concludes this research study by attending to the secondary objectives of the study, making conclusions for each secondary objective, expressing the limitations of the study and making recommendations for future research. The chapter summarised this research study in brief. Recommendations were made derived from the conclusions made for the secondary objectives. Recommendations were made concerning General Challenges faced, Personal Challenges faced and Demographic Contributions. Limitations identified throughout this study were followed by possible recommendations for future research.

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ANNEXURE: QUESTIONNAIRE

Challenges faced by SMEs within the Emfuleni Municipality

Dear Participant

You are invited to participate in an academic research study conducted by Jan Myburgh, Masters student from the School of Business and Governance at the North- West University Potchefstroom.

The purpose of the study is to investigate the current challenges faced by small and medium sized enterprises and to make recommendations, which may improve the sustainability of small businesses within the Emfuleni Municipality.

Please note the following:

- This is an anonymous study survey as your name will not appear on the questionnaire. The answers you give will be treated as strictly confidential as you cannot be identified in person based on the answers you give.
- Your participation in this study is very important to us. You may, however, choose not to participate and you may also stop participating at any time without any negative consequences.
- Please answer the questions in the following questionnaire as completely and honestly as possible. This should not take more than 20 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.
- Please contact my study leader, Dr. L. van Staden (louis.vanstaden@nwu.ac.za) if you have any questions or comments regarding the study.
- By continuing to fill out and submitting this questionnaire you indicate that you have read and understand the information provided above. Furthermore, you give your consent to participate in the study on a voluntary basis.

- Also, please forward this survey to any other Small and Medium sized business owners/ managers you may know in the Emfuleni Municipal area (Vanderbijlpark, Vereeniging, Evaton, Sebokeng, Sharpeville, Boipatong, Bhopelong and Tshepiso) in assisting with obtaining a sufficient data set.

Section A: Personal Information

Please select the applicable option and fill additional information where necessary?

| | | | | | | | |
|----|---------------------------------|-----|---------|---------|---------|---------|-----|
| A1 | In which age group do you fall? | ≤19 | 20 - 29 | 30 - 39 | 40 - 49 | 50 - 59 | 60+ |
|----|---------------------------------|-----|---------|---------|---------|---------|-----|

| | | | | | |
|----|------------------------------|--------|---------|----------|---------|
| A2 | What is your marital status? | Single | Married | Divorced | Widowed |
|----|------------------------------|--------|---------|----------|---------|

| | | | | |
|----|----------------------|------|--------|----------------------------|
| A3 | What is your gender? | Male | Female | Other: (Please specify) |
|----|----------------------|------|--------|----------------------------|

| | | |
|----|---|--|
| A4 | Indicate your highest level of academic qualification | |
| | Lower than matric | |
| | Matric | |
| | Certificate | |
| | Diploma (Technical College or Technicon) | |
| | University degree | |
| | Post graduate degree | |

| | | |
|----|--|--|
| A5 | Indicate your past experience before self-employment (occupational background) | |
| | Unemployed | |
| | Self-employed (owned a business) | |
| | Worker (administration, clerk, secretary, cashier) | |
| | Supervisor (first line manager) | |
| | Middle management | |
| | Top Executive management | |

| | | |
|----|---|--|
| A6 | Indicate the number of years that you are self employed | |
| | Less than one (1) year | |
| | 1-3 years | |
| | 4-5 years | |
| | 6-10 years | |
| | More than 10 years. Please specify: | |

Section B: Business Information

Please select the applicable option and fill additional information where necessary?

| | | | | | | | |
|----|---|--|--|--|--|--|--|
| B1 | In which industry does your business operate? | | | | | | |
| | Retail trade | | | | | | |
| | Wholesale trade | | | | | | |
| | Manufacturing | | | | | | |
| | Construction | | | | | | |
| | Transport/Distribution | | | | | | |
| | Accommodation and restaurant (guest house, hotel, etc.) | | | | | | |
| | Food industry | | | | | | |
| | Agriculture/forestry/fishing | | | | | | |
| | Services (please specify the type of services) | | | | | | |
| | Other: (please specify) | | | | | | |

| | | | | | | | |
|----|---|--|--|--|--|--|--|
| B2 | Indicate the legal status of your business (form of business ownership) | | | | | | |
| | Sole proprietorship | | | | | | |
| | Partnership | | | | | | |
| | Close corporation | | | | | | |
| | Company (private) | | | | | | |
| | Company (public) | | | | | | |
| | Business trust | | | | | | |
| | Not registered | | | | | | |
| | Other: (please specify) | | | | | | |

| | | | | | | | |
|----|---|--------|---------|---------|-------|-----|--|
| B3 | What is the age of the business (years) | | | | | | |
| | 0-5 | 5 - 10 | 10 - 15 | 15 - 20 | 20-25 | 25+ | |

| | | |
|----|--|--|
| B4 | Indicate your path to business ownership | |
| | Started (founded) the business | |
| | Purchased the business | |
| | Join the family business | |
| | Inherited the business | |
| | Other: (please specify) | |

| | | |
|----|--|--|
| B5 | Indicate your source of start-up funding | |
| | Personal savings | |
| | Borrowed or gifted (donated) from relative or friend | |
| | Household/spouse | |
| | Sold previous business | |
| | Bank loan | |
| | Other: (Please specify) | |

| | | |
|----|--|--|
| B6 | Indicate the business premises (from where the business operates?) | |
| | From Home (home based) | |
| | Central business district (CBD) | |
| | Outlying business area | |
| | Industrial area | |
| | Agricultural land | |
| | Other: (Please specify) | |

| | | | | | | | | |
|----|---|-----|------|-------|-------|--------|---------|------|
| B7 | How many permanent employees are employed by your business? | | | | | | | |
| | Myself | 2-5 | 6-10 | 11-25 | 26-50 | 51-100 | 101-200 | 200+ |

| | | |
|----|---|--|
| B8 | Indicate the turnover (annual sales) that your business generates | |
| | Less than R30 000 | |
| | R30 000 - R50 000 | |
| | R50 000 - R100 000 | |
| | R100 000 - R500 000 | |
| | R500 000 - R1 million | |
| | R1 million - R5 million | |
| | R5 million + | |

| | | | |
|----|--|-----|----|
| B9 | Did you have any exposure to business in your childhood? (i.e. parents, family friend, close friend) | Yes | No |
| | If yes, who owned the business? (Please specify - i.e. parents, family friend, close friend) | | |

| | | | |
|-----|--|-----|----|
| B10 | Is the present business the first business that you own? | Yes | No |
| | If no, please indicate what happened to the business previously owned. | | |
| | Went out of business | | |
| | Still successful | | |
| | Sold off | | |
| | other: (please specify) | | |

SECTION C: Challenges faced by small and medium enterprises

Please Indicate to what extent you agree or disagree with the statements, select the applicable option and fill additional information where necessary?

| | | Strongly disagree | Disagree | Slightly disagree | Neutral view | Slightly agree | Agree | Strongly agree |
|---|---|-------------------|----------|-------------------|--------------|----------------|-------|----------------|
| Factors (Obstacles) that hinder SME's to grow and succeed | | | | | | | | |
| C1 | Awareness/Access to business support | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| C2 | Lack of timely business information | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| C3 | Isolation from business network | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| C4 | Socio-cultural environment (lack of respect from large companies, community and stereotype) | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| C5 | Lack of business management skills | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| C6 | lack of education and training (in general) | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| C7 | Inequality of access to credit (difficult to obtain financing as an SME) | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| C8 | Lack of self confidence | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| C9 | Risk averse (great fear of failure) | 1 | 2 | 3 | 4 | 5 | 6 | 7 |

| | | | | | | | | |
|-----|--|---|---|---|---|---|---|---|
| C10 | Legislative (lack of focussed SME's policies from regional municipalities or government) | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| C11 | Other: (Please specify) | | | | | | | |

| | | Strongly disagree | Disagree | Slightly disagree | Neutral view | Slightly agree | Agree | Strongly agree |
|---|---|-------------------|----------|-------------------|--------------|----------------|-------|----------------|
| Factors (obstacles) you are facing currently in running your business | | | | | | | | |
| C12 | Awareness/Access to business support | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| C13 | Lack of timely business information | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| C14 | Isolation from business network | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| C15 | Lack of partnership collaborations | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| C16 | Socio-cultural environment (lack of respect from large companies, community and stereotype) | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| C17 | Lack of business management skills | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| C18 | Lack of a plan | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| C19 | Lack of customer relation | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| C20 | Poor location | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| C21 | Strong relationship with employees | 1 | 2 | 3 | 4 | 5 | 6 | 7 |

| | | | | | | | | |
|-----|--|---|---|---|---|---|---|---|
| C22 | Lack of cash flow management | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| C23 | Liquidity and other financial challenges | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| C24 | Gaining acceptance/Respect of people (internally and externally) | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| C25 | Difficulty accessing funding/credit | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| C26 | No time for training/upgrading of skills | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| C27 | Other: (Please specify) | | | | | | | |

| | | Strongly disagree | Disagree | Slightly disagree | Neutral view | Slightly agree | Agree | Strongly agree |
|---------------------|---|-------------------|----------|-------------------|--------------|----------------|-------|----------------|
| Demographic aspects | | | | | | | | |
| C28 | The Emfuleni Municipality is a source of ample number opportunities. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| C29 | The Emfuleni Municipality has proper policies in place for enhancing SME's within it | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| C30 | The Emfuleni Municipality provides ample network opportunities with other businesses. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |

| | | | | | | | | |
|-----|---|---|---|---|---|---|---|---|
| C31 | The Emfuleni Municipality infrastructure (electricity, water, road network) adequately meet the needs of my business. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| C32 | The Emfuleni Municipality provides excellent base for export opportunities. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| C33 | Other aspects of the Emfuleni Municipality that motivated you in starting your business in this Municipality. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |

SECTION D: Development Needs of Small and Medium Enterprises

Please select the applicable option and fill additional information where necessary?

| | | | |
|-------------------------|--|-----|----|
| D1 | Have you ever been trained or developed by a government agency or the private sector? | Yes | No |
| | If yes, name the institution: | | |
| | Indicate the type of training you received | | |
| | Technical skills (i.e. handcrafting) | | |
| | Communication skills | | |
| | Accounting skills | | |
| | Management skills | | |
| | Technological skills | | |
| Other: (Please specify) | | | |
| D2 | Do you know any organisation which is specifically established for SMEs? | Yes | No |
| | If yes, what is the name of the organisation | | |
| | How does the organisation(s) help(s) to develop SME's in their activities (Choose one or more) | | |
| | Provides education and training | | |
| | Provides financial assistance | | |
| | Supports/enables networking with other SME's | | |
| | Provides access/ exposure to motivational speakers/role models | | |
| | Provides business information | | |
| Other: (Please specify) | | | |

| | | |
|----|--|--|
| D3 | Indicate your specific needs. (Choose one or more) | |
| | Financial support | |
| | Training/knowledge/skills | |
| | Tools, Equipment, machinery | |
| | Business advice, information, counselling, mentoring | |
| | Marketing support | |
| | Suitable business premises | |
| | Growth support | |
| | Technical support | |
| | Psychological support | |
| | Networking with other business owners | |
| | Infrastructure (roads, telephone, electricity) | |
| | Legal support | |
| | Other: (Please specify) | |

ANNEXURE: ETHICAL CLEARANCE



NORTH-WEST UNIVERSITY
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22 May 2017

ETHICAL CLEARANCE

This letter serves to confirm that the research project of MYBURGH JJH has undergone ethical review. The proposal was presented at a Faculty Research Meeting and accepted. The Faculty Research Meeting assigned the project number EM&PBS16/06/03-01/39. 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

A handwritten signature in black ink, appearing to read 'C. Botha'.

Prof C-J Botha

Manager: Research - NWU Potchefstroom Business School

Original details: Winia Pretorius(203009) C:\Documents and Settings\Administrator\My Documents\Bnews MBA2017

ANNEXURE: SOLEMN DECLARATION



Higher Degrees Administration

SOLEMN DECLARATION AND PERMISSION TO SUBMIT

1. Solemn declaration by student

I,

declare herewith that the thesis/dissertation/mini-dissertation/article entitled (**exactly as registered/approved title**),

which I herewith submit to the North-West University is in compliance/partial compliance with the requirements set for the degree:

is my own work, has been text-edited in accordance with the requirements and has not already been submitted to any other university.

LATE SUBMISSION: If a thesis/dissertation/mini-dissertation/article of a student is submitted after the deadline for submission, the period available for examination is limited. No guarantee can therefore be given that (should the examiner reports be positive) the degree will be conferred at the next applicable graduation ceremony. It may also imply that the student would have to re-register for the following academic year.

Signature of Student University Number

Signed on this day of of 20

2. Permission to submit and solemn declaration by supervisor/promoter

The undersigned declares that the thesis/dissertation/mini-dissertation complies with the specifications set out by the NWU and that:

- the student is hereby granted permission to submit his/her mini-dissertation/ dissertation/thesis:
 Yes No
- that the student's work has been checked by me for plagiarism (by making use of TurnItIn software for example) and a satisfactory report has been obtained:
 Yes No

Signature of Supervisor/Promoter
 Digitally signed by Louis van Staden
DN: cn=Louis van Staden, o, ou,
email=louis.vanstaden@nwu.ac.za,
c=ZA
Date: 2018.11.20 09:38:35 +02'00'

Date

ANNEXURE: COPY OF ID



ANNEXURE: LANGUAGE EDITING CERTIFICATE

TO WHOM IT MAY CONCERN

This is to certify that the signatory has done the language editing for the candidate...

SURNAME and INITIALS: **Myburgh, JJH**

TITLE: **Challenges faced by SME's within the Emfuleni Municipality**

DOCUMENT/DEGREE:

**Mini-dissertation submitted in partial fulfilment of the requirements for
the degree *Master of Business Administration* at the North-West University**

D. Kocks

Date **19 November 2018**

Denise Kocks

NOTE WELL: The language editor does not accept blame for post-editing / re-typing

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