

UNIVERSITY OF KWAZULU-NATAL

FACTORS DETERRING BUSINESS EXPANSION IN SOUTH AFRICA

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DECLARATION

I Zulu Bunono Mafuya declare that:

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- (ii) This dissertation has not been submitted for any degree or examination at any other university.

- (iii) This dissertation does not contain other persons data, pictures, graphs or other information, unless specifically acknowledged as being sourced from other persons.

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Date: 30 June 2013

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ABSTRACT

South Africa is a highly segmented semi-industrial country which is currently undergoing through a fundamental conflict that results to a vicious cycle of economic stagnation. It has become evident that to address its economic ills the country requires essential economical transformation, a process in which major economic problems should be addressed. This dissertation considered problems flowing from the aspirations of reducing an increasing unemployment rate. Such aspirations are related to the development of Small Medium and Micro Enterprises as a solution to create jobs against factors the impede such processes. There should be more focus on the implementation of adequate policies of growth such as the private business development. This dissertation examined the perceptions of the private enterprises CEOs and Owner/Managers regarding factors leading to slow levels of private business growth in the country. The study explicitly considered aspects that deter the growth of small, medium and micro enterprises (SMMEs) as well as large firms in South Africa. The focus of the research being on two different perspectives; external and internal factors that have an impact on the growth of Small and Medium Enterprises and large companies. This study was based on a sample survey consisting of thirty two (n =32) existing private business CEOs and Owner/ Managers from the Gauteng province using non-probability purpose sampling approach from a population size of 200 enterprises. The study followed a triangulation approach using two separate questionnaires of both quantitative and qualitative components. Empirical evidence shows that many entrepreneurs are encountering pitfalls when pursuing their business endeavors. The research reveals that there are a number of significant factors hampering the South African private business to grow. A descriptive analysis confirmed that SMMEs concurred on the factors which impede their advancement in business expansion. A ranking of constraints indicates that lack of business skills, access to finance, ineffective public policies, crime /corruption, late payments by customers are of top priority for policy intervention. There is a need for more research to determine policies and strategies that should adequately stimulate business growth. Business expansion strategies require constant evaluation and analysis of the emerging trends. Therefore the need for this study is to set out action plans for SMMEs to increase their efficiency, sustain themselves and guard against factors contributing to their failure.

TABLE OF CONTENTS

Description	Page
Title Page	
Declaration	i
Acknowledgements	ii
Abstract	iii
Table of Contents	iv
References and Appendices	ix
List of Figures	x
List of Tables	xi
List of Acronyms	xii

CHAPTER ONE INTRODUCTION TO THE RESEARCH PROBLEM

1.1	Introduction	1
1.2	Problem Statement	1
1.3	Motivation of the Study	2
1.4	Focus of the Study	3
1.5	Research Questions	4
1.6	Research Objectives	4
1.7	Proposed Methodology	5
1.8	Chapter Outline	5
1.8.1	Chapter 1: Background and importance of the study	6
1.8.2	Chapter 2: Literature review	6
1.8.3	Chapter 3: Research methodology	6
1.8.4	Chapter 4: Data presentation	6
1.8.5	Chapter 5: Discussion and analysis	7
1.8.6	Chapter 6: Conclusions and recommendations	7
1.9	Summary	7

CHAPTER TWO LITERATURE REVIEW

2.1	Introduction	8
2.2	Background	8
2.3	Concept Framework	14
2.4	Definition of Terms	15
2.4.1	Definition of Entrepreneurship	15
2.4.2	Defining SMEs in the South African Context	15
2.5	Entrepreneurship Prerequisites	17
2.5.1	Antecedents and Requisites to Business Start-ups and Processes	17
2.5.2	Competences to Operate Sustainable Business	18
2.6	Characteristics of an Entrepreneur	19
2.6.1	Passion	20
2.6.2	Locus of Control	21
2.6.3	Need for Independence	21
2.6.4	Need for Achievement	22
2.6.5	Risk Taking Propensity	22
2.6.6	Creativity and Innovation	22
2.7	Constraints of private business growth	23
2.7.1	Firms Innovativeness and Innovation Skills	23
2.7.2	Education	23
2.7.3	Access to Finance	25
2.7.4	Access to Markets	26
2.7.5	Crime and Corruption	27
2.7.6	Cash-in-Transit (CIT) Robbery	27
2.7.7	Corrupt Environment	28
2.7.8	Late Protracted Payments	29
2.8	Summary	30

CHAPTER THREE RESEARCH METHODOLOGY

3.1	Introduction	31
3.2	Aim of the Study	31
3.3	Participants and Location of the Study	31
3.4	Research Approach	34
3.4.1	Quantitative Methodology	35
3.4.2	Qualitative Methodology	35
3.4.3	Sampling	36
3.4.4	Procedure	38
3.4.5	Development of the Instrumentation	39
3.4.6	Pre-testing and Validation	39
3.4.7	Reliability	40
3.4.8	Validity	41
3.4.9	Quantitative Data Analysis	41
3.4.10	Qualitative Data Analysis	42
3.4.11	Summary	42

CHAPTER FOUR PRESENTATION OF THE FINDINGS

4.1	Introduction	43
4.2	Demographic Findings	43
4.2.1	Results of SA Business Development Questionnaire	44
4.3	Research Findings Based on Research Objectives	45
4.3.1	Question 1 - Business Skills	45
4.3.2	Question 2 - Access to Finance	47
4.3.3	Question 3 – Late Payments	48
4.3.4	Question 4 – Infrastructure	49
4.3.5	Question 5 – Public Policies	50
4.3.6	Question 6 – Stable Macro-economic Regime	52
4.3.7	Question 7- Good governance	53
4.3.8	Question 8 – Political Stability	55
4.3.9	Question 9 – Formalisation of Informal sector	56

4.3.10	Question10– Crime and Corruption	58
4.3.11	Descriptive Analysis of Elements Affecting Business Expansion in South Africa	59
4.3.12	E stablished Relationships B etween C onstraints that Impact Growth	61
4.4	Conclusion	62

CHAPTER FIVE CONCLUSIONS AND RECOMMENDATIONS

5.1	Introduction	63
5.2	Challenges Facing Entrepreneurs in South Africa	63
5.3	Findings from the Literature	64
5.4	Business Skills	65
5.5	Access to Finance	65
5.6	Late Payments	65
5.7	Infrastructure	67
5.8	Public Policies	67
5.9	Stable Macroeconomic Environment	69
5.10	Formalisation of Informal Sector	70
5.11	Good Governance	71
5.12	Political Stability	72
5.13	Impact of Crime and Corruption	72
5.14	Findings from the Research	73
5.14.1	Discussions, Conclusions and Recommendations	74
5.15	Conclusion	76

CHAPTER SIX CONCLUSION AND CLOSING COMMENTS

6.1	Introduction	77
6.2	Data Findings	77
6.3	Benefits of the Research	78
6.4	Recommendations based on Research Objectives to Solve the Business Problem	78
6.5	Business skills	79
6.6	Access to Finance/Capital	79
6.7	Late Payments	80

6.8	Infrastructure	81
6.9	Public Policy	82
6.10	Stable Macroeconomic Environment	82
6.11	Formalisation of Informal Sector	82
6.12	Good Governance	83
6.13	Political Stability	84
6.14	Crime / Corruption	85
6.15	Burden of Bank Charges for SMEs	85
6.16	Meeting Needs for Formal Financing	86
6.17	Research & Development	86
6.18	Training and Development	86
6.19	Technological Support	87
6.20	Improving Provision of Education Including its Curriculum in Academic Institutions	87
6.21	Labour Unrest	88
6.22	Lack of Information	89
6.23	Limitation of the Study	90
6.24	Suggestions for Further Research	91
6.25	Summary	92

REFERENCES	93
Appendix 1 African Business Development Questionnaire	102
Appendix 2 Semi-Structured Interview Questions	105
Appendix 3 Informed Consent Form	108
Appendix 4 Correlation Matrix of Factors Constraining S.A SMME Expansion	110
Appendix 5 Turnitin Summary	112
Appendix 6 Ethical Clearance	113

List of Figures

Number	Description	Page
Figure 2.1	Expanded Definition of Unemployment	10
Figure 2.2	Official Definition of Unemployment	10
Figure 2.3	Definition of unemployment by age group	10
Figure 2.4	Labour Force Participation Rate by Age Group 2011	10
Figure 2.5	Number of People Trying to Start their own Businesses	11
Figure 2.6	Number of People Running their own Businesses	12
Figure 2.7	Broad Definition of SMME's in the National Small Business Act	17
Figure 4.1	Business Skills Evaluation, as constraints Deterring Business Expansion	46
Figure 4.2	Evaluation of Lack of Access to Finance constraint to Business Expansion	47
Figure 4.3	Evaluation of Impact due to Late Payments by Customers	48
Figure 4.4	Evaluation on Effect of Infrastructure as a constraint to Business Expansion	49
Figure 4.5	Evaluation of Effect of Public Policies on Business Expansion	51
Figure 4.6	Evaluation of Macro-economic Environment to Business Expansion	52
Figure 4.7	Evaluation of Governance Principles importance to Business Development	54
Figure 4.8	Evaluation of the Importance of Political Stability	55
Figure 4.9	Assessment of Perceptions on Formalizing Informal Sector to Formal Sector	57
Figure 4.10	Evaluation of Crime and Corruption as constraints to Business Expansion	58

List of Tables

Number	Description	Page
Table 2.1	Serious Crime Report	28
Table 4.1	Sector Representation of Respondents	43
Table 4.2	Descriptive Statistics on Business Skills	46
Table 4.3	Descriptive Statistics on Access to Finance	47
Table 4.4	Descriptive Statistics on Late Payments by Customers/ Contractors	49
Table 4.5	Descriptive Statistics on Infrastructure Development	50
Table 4.6	Descriptive Statistics on Effects of Public Polices	51
Table 4.7	Descriptive Statistics on Macro-economic Factors	53
Table 4.8	Descriptive Statistics on Good Governance Principles	54
Table 4.9	Descriptive Statistics on Effects of Political Stability	56
Table 4.10	Descriptive Statistics on Transformation of Informal Sector	57
Table 4.11	Descriptive Statistics on Crime and Corruption	59
Table 4.12	Descriptive Statistics Business Development in South Africa	60
Table 5.1	Analysis of Quantitative Questions/ Statements	75

List of Acronyms and Abbreviations

ABSA	-	Amalgamated Banks of South Africa
CEO	-	Chief Executive Officer
DTI	-	Department of Trade and Industry
FNB	-	First National Bank
GDP	-	Gross Domestic Product
GEM	-	Global Entrepreneurship Monitor
GEM	-	Global Enterprise Monitor
ICT	-	Information and Communication Technology
ISBC	-	International Small Business Congress
IT	-	Information Technology
JCGM	-	Joint Committee for Guides in Metrology
MDG	-	Millennium development Goals
NBS (Acts)	-	National Small Business Amendment Acts
NDP	-	National Development Plan
NGO	-	Non Governmental Organisation
NGP	-	New Growth Path
NPD	-	New Product Development
OECD	-	Organisation for Economic Co-operation and Development
R&D	-	Research and Development
RSA	-	Republic of South Africa
SABD	-	South African Business Development
SABITA	-	Southern African Bitumen Association
SEDA	-	Small Enterprise Development Agency
SALGA	-	South African Local Government Association
SAPS	-	South African Police Services
SME	-	Small and Medium Enterprise
SMME	-	Small Medium and Micro-Enterprises
Stats SA	-	Statistics South Africa
UNIDO	-	United Nations Industrial Development Organisation
WB	-	World Bank

CHAPTER ONE

INTRODUCTION TO THE RESEARCH

1.1 Introduction

Focus on entrepreneurship studies by academics has been of great importance for a considerable time. The interest in the field of entrepreneurship is motivated by a number of factors. Some of these factors revolve around objectives to revitalise economies with slow growth in order to create job opportunities. A daunting challenge facing South Africa is the achievement of sustainable economic growth and job creation, which are of great essence to poverty alleviation and improvement of living conditions. According to the wide definition of unemployment which includes discouraged work seekers, the unemployment rate reflected in the third quarterly report of Statistics South Africa (2012), stood at 24.9 percent. A discouraged unemployed person is someone who has given up any hope to find work and stopped applying for work Stats SA (2012). The unemployment rate increases to 34 percent if one includes those wanting employment, but did not seek it. One solution to turning this situation around lies in encouraging entrepreneurship. The South African government has long identified Small Medium and Micro Enterprise development as a priority in creating jobs to solve the high unemployment rate. However, according to the Global Enterprise Monitor report (2011), expansion of the South African business start-up reaching the 3½ year mark is a woeful 2.3 percent. Simply put, many of the start-up firms are often unsustainable. The Statistics South Africa Report (2012), highlights that small business enterprises employ 68 percent of the employed people in the country and that they contribute 52 percent to 57 percent, of the South African Gross Domestic Product (GDP).

1.2 Problem Statement.

In spite of support provided to SMMEs in South Africa, ranging from government assistance, through many established entities, professionals, private consultants and advisors, the sector still faces growth problems. It has become common knowledge that the South African small business sector has been facing a myriad of external and internal challenges for years and these have significant adverse effects to business growth.

This is supported by the above sources and others as demonstrated in the literature.

The economy has grown rather slow due to lack of coherent and adequate economic transformation models in support of private business growth goals.

According to Bukula (2012), the application of government interventions through a number of support programmes aimed at the development and expansion of small business has not been effective. Though small businesses are recognised as major providers of jobs and contributors to the tax base, small businesses tend to be vulnerable and many new ventures fail. This research will focus on Micro, Small and Medium-sized Enterprises to establish what could be done to enable them to survive and grow. The primary research question of this dissertation is: What factors deter private business expansion in the country ?.

1.3 Motivation for the Study

Recent research by Gumede (2012) demonstrates quite convincingly that business expansion shortfall in South Africa, can be attributed to economic growth policy failures and to weak institutional capacities which fail to stimulate business expansion.

South Africa should design and implement viable economic development strategies to solve some of the mounting economic problems facing the country. This need is triggered by the fact that most of the previous and existing models are still failing to transform the South African economy into a path of growth. It is necessary for the continent to accelerate business development and, achieve inclusive economic growth. South Africa needs to move faster with clear identification of these obstacles, and implement reforms that minimize constraints. There is a need therefore for research to determine the types of policies and strategies that will encourage sustainable economic development of the South African economy. More efforts are needed to stimulate higher and sustained economic growth levels in order to achieve the desired Millennium Development Goals. In concrete terms, the eight MDGs are;

- (1) Eradicate extreme poverty and hunger by 2015 through economic growth.
- (2) Achieve universal primary education for all citizens.
- (3) Promote equality and women empowerment.
- (4) Reduce child mortality.
- (5) Improve maternal health.
- (6) Combat HIV/AIDs, Malaria and other diseases.

(7) Ensure environmental sustainability.

(8) Develop a global partnership for business development (FRN, 2006).

Some of these goals are calling for the involvement of the private sector, for example, goal 8 on Global Partnership drives a desire to secure new markets, leverage their core competencies in management, supply chains, innovation targeting information and communication businesses to make the benefits of new technologies available to the country. MDGs have provided a clear entry point for business to participate, as they seek profits, healthy workforces and healthy societies.

This study is aimed at investigating key factors affecting private business success in South Africa. The findings will provide more insight on the current situation so that entrepreneurs and business owners may address the factors which significantly affect business success. Research undertaken by GEM (2005) states that, factors which impede business success is important and should be monitored on an ongoing basis hence it supports economic development within a country. The study presents information which is of value to government officials, private business development agencies, financial services institutions, Non-Government Organisations, entrepreneurs and academics. Additionally, more value was added by Owners/Managers and CEOs who participated in the study to put forward ideas, best practice examples and their experiences and lessons learnt in implementing business strategies and support programmes for entrepreneurship and private business growth, all of which are of use to the above parties. The findings provide guidelines for those entering into business and those who support business development. The results and recommendations of this study can be drawn on and adopted by anyone with interest in private business development. The research provides insights into decision making when it comes to starting a business and ways in which entrepreneurs may sustain themselves and grow.

1.4 Focus of the Study

The focus of this study was on an entrepreneur rather than on an enterprise and the study had put into consideration the following:

- Barriers to business expansion as perceived by an entrepreneur.
- The environment within which entrepreneurs operate.
- Attitudes to public policies and entrepreneurship in South Africa.

The study considered theories, strategies and productivity improvements that are applicable to SMMEs. A personality traits approach reviewing empirical and theoretical literature concerning factors that deter business expansion in the country was used.

1.5 Research Questions

Despite support provided to SMEs ranging from government assistance, through many established entities, professionals, private consultants and advisors, South African SMMEs still face growth problems. The study should not end only with the investigation of the causes of failure, but types of interventions that could assist the private business in a beneficial way also need to be determined.

For further investigation, the literature review addresses the following sets of questions;

- (i) Why is business performance lagging in South Africa?
- (ii) What are the top constraints to business expansion in South Africa?
- (iii) What gaps exist in the knowledge relating to an understanding of the factors which constrain business demand for external sources of knowledge and expertise?
- (iv) What should be done to achieve desired levels that stimulate SMME growth
- (v) How can one shape public policy to be effective in addressing business expansion and providing access to finance?

1.6 Research Objectives

The following are the objectives of this study.

Objective One: To establish which micro-factors are important determinants of private business risk.

Objective Two: To ascertain the views of respondents concerning macro issues.

Objective Three: To evaluate the respondents perceptions on the impact of governance, political stability, informal sector support, crime and corruption on business growth.

Objective Four: To determining what factors respondents consider to be important for

their business survival and growth.

1.7 Proposed Methodology

The research methodology is designed to determine both economic opportunities and factors impeding business growth. It was thus a blend of quantitative and qualitative methodologies. Johnson, Onwuegbuzie, & Turner, (2007) define mixed methods as a research approach that focuses on research questions that require comprehension of day to day situations in life, the understanding of multi-level approaches and perspectives as well as cultural influences; all undertaken whilst utilising a quantitative research approach.

To meet the research purpose and address the research questions, a mixed methodology approach incorporating qualitative and quantitative components in a complementary way, is chosen. This is known as triangulation whereby quantitative and qualitative research methodologies are employed (Tashakkori and Teddlie, 2009). A combination of the two approaches tend to create a more holistic picture rather than what each of the techniques achieves when it is used on its own (Creswell and Plano, 2007).

The benefits of and the rationale for adopting triangulation are that errors in one method could often be the strengths of the other and that in combining the methods one is able to achieve the best of each while overcoming their respective deficiencies (Tashakkori, and Teddlie, 2009). Thirty two (n=32) research questionnaires will be completed by SME CEOs and owner-managers. The sample contained participants from across the SME size spectrum and across different industries. The research questions aim at growth through increased competitiveness of SMEs and its relation to employment creation. The study, therefore, will use a quota sample strategy. The rationale for the selection of non-probability sampling is that this sampling technique is to meet a triangulated research approach (Creswell and Clark 2007).

1.8 Chapter outline

In order to standardise this research project, it is critical to create a clear structure and presentation format. The dissertation is structured in a way that allows progression from general information regarding the SMMEs performance to a more specific information regarding the factors that have direct impact on economic growth.

The research is in the following structure.

1.8.1 Chapter One; Background and the Importance of the Study

This chapter considers the background of the research and the importance of the study.

It presents critical issues that contribute to business expansion, and provides an overview of the research problem, based on the research design and methodology. This chapter provides knowledge by responding to raised questions, and addresses objectives of the study. The ensuing chapters of this research examine relevant literature whilst considering the argument of the chosen research approach. It presents the content developed in support of business expansion problems and make recommendations for future research.

1.8.2 Chapter Two; Literature Review

This chapter presents a comprehensive literature review of the critical success factors in private business start-up and growth. This chapter provides information on whether the current government interventions aimed at improving business start-up and growth rate of SMEs are focused on the core areas necessary to support new business growth and survival. The chapter has attempted to bring together a range of issues considered relevant to the research.

1.8.3 Chapter Three; Research Methodology

This chapter is dedicated to the research scope and methodology applied as well as the design of the questions for the empirical research that are formulated and distributed to a selected group of entrepreneurs. It also describes the identified sample and the data analysis of the information collected.

1.8.4 Chapter Four; Data Presentation

This chapter focuses on the interpretation of the empirical research results by means of quantitative and qualitative analysis. The results are integrated with objectives and concepts identified during the literature review to develop a structured approach in accessing and understanding SME performance. Tables and figures have been used to

illustrate the findings.

1.8.5 Chapter Five; Discussion and Analysis

This chapter expands with further discussions on the findings in chapter four. It provides further relevance on the research findings of the study. Findings together with the literature are explained.

1.8.6 Chapter Six; Conclusions and Recommendations

This chapter brings the study to a close. Findings presented in chapter five are discussed in relation to the research objectives. Shortcomings and recommendations are also put forward on future areas of research in order to build on the outcomes of this research.

1.9 Summary

This chapter provides an overview of the study and introduction to the dissertation. The research problem has been discussed and introduced with suitable research issues motivated. The reasons for conducting the research have been explained together with what the objectives intended to discover. Given the research objectives, a critical interpretive approach was utilized. An appropriate research methodology has been stated. Data was gathered from people who have been in business for some time and who were therefore in a position to respond based on experience. The administered questionnaires contained both qualitative and quantitative questions. In addition, the value of the results and the limitations of the study have been outlined.

The following chapter, Chapter Two examines appropriate and contemporary literature relevant to this research study. The chapter examined a range of issues considered significant to the research and knowledge development of this dissertation.

CHAPTER TWO

LITERATURE REVIEW ON SMALL BUSINESS EXPANSION IN SOUTH AFRICA

2.1 Introduction.

This chapter discusses literature relevant to the research objectives concerning critical factors which impede small business expansion in South Africa. To examine this matter, this chapter is divided into three sections. Section 1, highlights constraints relating to small business (SMMEs) growth and definitions of entrepreneurial terms, to ensure a common understanding of them. Section 2 reviews eight models of personality traits which most literature had neglected. Section 3 presents reviews of the literature with regard to characteristics of an entrepreneur, external and internal factors which hamper the growth of SMMEs. This chapter provides a comprehensive literature review of factors that deter small business growth and issues pertaining to business failure concerning SMMEs in South Africa. This literature is reviewed under the context of continuous rise in South Africa's unemployment rate. Statistics South Africa's third quarter report (2012), reported an unemployment rate of 25.5 percent.

2.2 Background

The cited unemployment rate is premised upon those people looking for employment who are between the ages of 15 years and 64 years old. The unemployment rate increases to 34 percent if those wanting employment but have not sought such in the period under review, are included. The census 2011 results released in November 2012 confirm a gloomy picture in terms of fighting unemployment (particularly youth unemployment), stating that reducing poverty and increasing the entrepreneurial rate is the only viable solution. Census 2011 quotes the official unemployment rate in South Africa at 29.8 percent and the expanded definition at 40 percent. Youth unemployment remains a problem in South Africa's it is above 35 percent. The highest unemployment rate is among black Africans. The expanded definition of unemployment rate for African women was 52.9 percent and for African men it was 39.8 percent.

The unemployment rate among coloured women was 34.4 percent and among Indian women it was 23 percent.

In contrast, the expanded unemployment rate among white men was 8.1 percent and 12.5 percent among white women. These figures indicate a problematic situation for government and stress the need for them to make the right interventions and co-ordination of small business support.

The released census results confirm that South Africa's social and economic transformation has been slow resulting to the country's economy stuck in low gear (Gumede 2012).

The cause of slow economic growth is in poor and delayed policy reforms. Taking an idea from thought to action is very important adds (Gumede 2012).

Due to weak policy thinking, the country ends up with targets that are clearly unachievable. (Gumede 2012) states that even the job promises to be created by the New Growth Path strategy appears to be an ordinary dream. It is by surprise to note that the National Planning Commission has also fallen into the same trap, adds Gumede (2012). The problem is that, it is not only the ineffectiveness of poor policies that impede the country's economic growth and development, but poor strategies to implement economic policies and incompetent administration, said (Gumede 2012).

According to Reuss (2012), whilst government has come up with good ideas to tackle South Africa's challenges of poverty and inequality, there is a need to focus on the implementation of economic policies to get economic growth on a faster track. The implementation of good ideas is key to faster growth, added Reuss (2012).

Reuss (2012) Standard & Poor's Southern African Managing Director expressed a concern that with the current economic development approach the Treasury Department would not be able to meet its ambitious fiscal consolidation targets over the next three years if growth falls short of the expectations. Reuss (2012) adds "if growth is not back in leaps and bounds, then we must talk seriously about increasing taxes, and there are lots of question marks with regards to South Africa's growth", he said.

(iv) What policies, are effective to stimulate business expansion in South Africa.

According to Nieman, (2009) ,South Africa has an unacceptable and disappointingly high number of small businesses failure during their early years of operation. According to Hart (2012), the country has a definite evidence of a downturn in tacit recovery from the 2008 global financial crisis. This view has been supported in a recent research conducted by Adcorp Employment Index, (2012), the results of which are shown below.

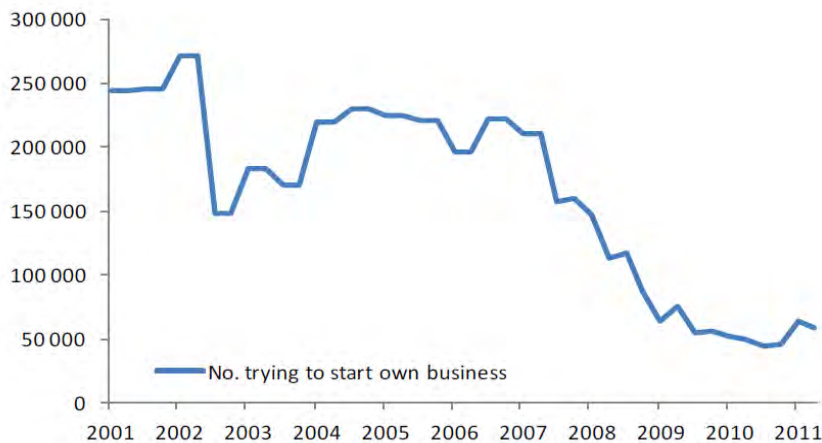


Figure 2.5; Number of people trying to start their own businesses, 2001- 2011
Source: Adcorp Analytics (2012)

Although the number of small businesses increased slightly to 2.4 million during the economic boom of 2004-2006, a great concern is that since 2006, the number of small businesses has shrunk by 18.2 percent. Another worrying trend is that the number of people trying to start their own businesses has fallen to an all-time low. The report presented a clear picture that entrepreneurship was on the decline.

The figure shows that in 2001 about 250 000 people were actively involved in setting up their own small business enterprises. This figure dropped to 58 000 in 2011, equating to a massive 76 percent slowdown in small business creation. Although the decline could be linked to the 2008 global financial downturn and resultant recession the following year, the figures indicated a worrying trend.

According to the Adcorp Employment Index, (2012), small businesses in South Africa have stagnated over the past decade.

The figure below shows that between 2001 and 2011, there are 2 million small businesses in the country that have opened.

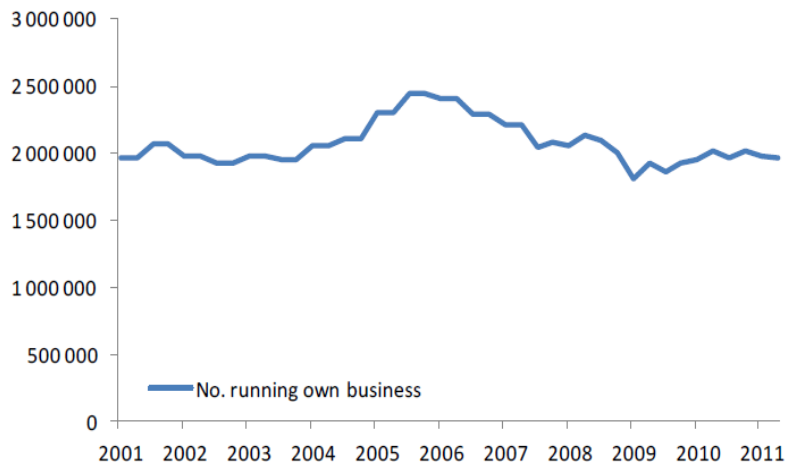


Figure 2.6; Number of people running their own small businesses in South Africa, 2001-2011

Source: Adcorp Analytics (2012)

Kirsty, (2012), reports that in South Africa, small businesses or startups fail at the rate of nine out of every ten businesses within the first two years of operation. This is attributable to multiple reasons such as lack of appropriate information, lack of awareness and preparedness amongst entrepreneurs and protracted payment by large corporations. A study conducted by Rolfe, Woodward, Lighthelm and Guimaraes (2010), revealed that, key factors regarded as negatively impacting on business development and expansion in South Africa include lack of: business skills, access to finance / capital, collateral as financial security on credit facility, substantial owner's equity, infrastructure, skilled labour, access to new technology.

Also highlighted in their findings are; insufficient government support, bad credit records, high production costs, and inadequate market research.

There is a growing body of literature endorsing that the success or failure of small businesses is dependent on the level of managerial competencies, legal and regulatory environments, and access to markets and finance and business premises at affordable rentals, lack of infrastructure, late payments, the acquisition of skills and managerial expertise to appropriate technology.

The latter is worth emphasising for various reasons, for example, South Africa's infrastructure spread is puzzling, in that while it is among the most technologically advanced countries in Africa, some areas have amongst the best and most efficient technology available yet in other geographical areas it is highly lacking. A third of the populations in rural areas are computer illiterate. Although this is a problem in many African countries, South Africa presents a different case given the high advancement in technology says Akhalwaya, (2012).

Some of the technology that needs to be considered by government include communications, low-cost energy production and manufacturing of small devices, Pearce, (2009). At the same time it has to be recognised that problems and constraints differ widely between the various segments of SMEs their sectors as well as owner categories according to Hartman, (2010). These constraints relate to among others, internal and external environment. Herrington, Kew and Kew (2008) suggested that the reason for the high failure rate of SMEs in South Africa is a result of lack of education and training.

Martin and Staines (2008) scrutinized the implication of management competence on SME performance and their findings indicated lack of managerial skills, poor economic conditions, lack of resources and poorly thought-out business plans, among other things, as crucial to SME success. Martin and Staines (2008) also said that the distinctive feature of growth and failure is equated to education, training and experience of owners or managers.

Adding to this, the size and start-up conditions of a small enterprise may play a big role. This implies that the enterprise-level barriers should be considered when analysing constraints to SME success and economic development. Research and statistics have shown that the failure rate of small businesses in South Africa is very high

According to the GEM report (2010), South Africa's established business rate, meaning those that have survived for at least three-and-a-half years.

South Africa's low survival percentage is an indication of the high failure rate among start-up businesses. The GEM Report, (2010) implies that of all the problems business owners experience, about 80 percent are caused by poor management.

2.3 Concept Framework

Many theories have been recommended to explain what could be done to stimulate private sector business expansion in South Africa. According to the South African treasury's economic policy and South African Treasury Report, (2007), South Africa has focused its economic policy on three vital aspects. These relate to the growth of small businesses, improving productivity and creating employment. Thus far there has been no emphasis on measuring productivity and also improving it among small businesses in South Africa. Although the government has committed to promote the private sector business, the application and implementation of its strategic methods leave a lot to be desired. Despite a raft of laws and institutions put into place in an attempt to promote the sector over the past eighteen years of democracy, South Africa still lags behind in the performance of its private sector business (Benkele, 2010).

(Benkele, 2010) adds that, South Africa's early stage business activity rate is much lower than other in countries. In 2009, 4.9 percent of working age population (18-64) had started and run a business for less than 3.5 years. This is well below Brazil's rate of 15.3 percent and China's rate of 18.8 percent. The Global Entrepreneurship Monitor (2010) reported that SMEs employ 61 percent of South Africa's workforce and business expansion is crucial for employment and growth. This highlights the importance of SMEs in addressing the unemployment rate in South Africa. Whilst government recognises this, there is still a lot needed to be done to improve the current approach.

It is for this reason that it was decided there was a need for a new study on entrepreneurship to investigate why private business fails to grow at desired levels. Essentially, this study investigates how the government can step up and create an enabling environment in which entrepreneurs can thrive. In this chapter the personality traits approach is applied to review empirical and theoretical literature which contributes to factors that deter business expansion in the country (Rauch & Frese, 2007). This study commences by looking at the antecedents and requisites of entrepreneurship in the process of business start-ups and operation. The review is extended to factors which trigger business start-up in the form of necessity and opportunity.

The investigation digs deep to unveil the nature of triggers of business expansion, the effect of antecedents and requisites of business start-up.

This research was conducted through an entrepreneurial personality trait approach.

This chapter consists of a literature study around personal characteristics of entrepreneurs and their effect in the development of business growth. Based upon a reviewed literature, this dissertation sets out to interrogate factors which are perceived to be deterring business growth.

2.4 Definition of Terms

2.4.1 Definition of Entrepreneurship.

Businesspersons are chiefly worried with producing new products, methods of producing or markets. This could be referred as the capacity to bring new products into the marketplace. Small businesses treat themselves in creative thinking beyond any other person; and as a result come up with resolutions that sail despite established knowledge (Okpara, and Wynn 2007).

Business people are driven by the sense of achievement and often take accountability for choices and the do not like monotonous and repetitive work. Entrepreneurs could possess a high education, could be well trained and well accomplished.

Conversely, they could be illiterate yet possess high business acumen which others might not have. According to Nieman (2009) an entrepreneur is a person who establishes and runs a business in order to make a profit and to increase such through growth. Entrepreneurs have a unique combination of energy, flair, originality and being astute.

2.4.2 Defining Small Businesses in the South African Context

Like other countries, the matter of what institute the size of enterprises is controversial in South Africa. Various researchers have expressed different explanations to this category of business. In practice, SMEs are defined in so many ways, commonly when taking

consideration of the number of employees or turnover.

Defining small businesses on the basis of their size is necessary, but not sufficient due to complexities and dynamism of the real world in which businesses operate. Small businesses in South Africa are categorised by the National Small Business Amendment Acts (NBS Act) into separate groups as; survivalist, micro, very small, small and medium. Therefore the NBS Act often uses of the term “SMME” to imply small, medium and micro-enterprises. Nevertheless, the terms „SMME“ and „SME“ are used interchangeably in SA. The SME definition is clear on its reference to the number of employees in the business unit, the annual turnover as well as gross assets discounting immovable property.

A summary of the definition is represented in Table 2.1.

Small business definition is different across different countries or institutions. Some definitions consider the number of employees while others look at the annual turnover of such small businesses. In certain instances a consideration of the definition is extended to the start-up capital of the ventures involved. The figure that follows illustrates some of the definitions of small businesses within the South African context (Figure 2.5). The definition of entrepreneurship varies from author to author. Shane (2008) cites in their definition the “process of the discovery, evaluation, and exploitation of opportunities that previously had not existed”. According to Minniti (2007), low innovation can be attributed to lack of entrepreneurial readiness.

Entrepreneurs need to steadily progress and generate so they do better product acquire a fortune, individual satisfaction and dominion. The FinScope Small Business Survey of (2010) defines small business owners are defined as individuals who are:

(1) 16 years or older; (2) perceive themselves as business owners and generating an income through small business activity; and (3) employ fewer than 200 employees. The FinScope Small Business Survey of (2010) further states that approximately 5,579,767 small business owners in South Africa are operating and in total own approximately 5,979,510 SMMEs.

On the other hand, Stats SA estimated that they were 2, 4 million small businesses in 2007. The study revealed that the ultimate viable level of small businesses hires 8.9 people per company on average.

Such companies, according to the FinScope, (2010) are more probable to be capable and prosperous without demanding support from government.

Enterprise Size	Number of Employees	Annual Turnover(S.A. Rand)	Gross Assets, Excluding Fixed Property
Medium	Fewer than 100 to 200, depending on Industry	Less than R4 million to R50 m depending upon Industry	Less than R2 m to R18 m depending on Industry
Small	Fewer than 50	Less than R2m to R25 m depending on Industry	Less than R2m to R4.5 m depending on Industry
Very Small	Fewer than 10 to 20 depending on Industry	Less than R200 000 to R500 000 depending on Industry	Less than R150 000 to R500 000 depending on Industry
Micro	Fewer than 5	Less than R150 000	Less than R100 000

Figure 2.7: Broad Definitions of SMMEs in the National Small Business Act

Source: Falkena, H. Abedian, I., Blottnitz, M., Coovadia, C., Davel, G. Madungandaba, J., Masilela, E. and Rees, S. (2001).

2.5 Entrepreneurship Pre-Requisites.

2.5.1 Antecedents and Requisites to Business Start Ups and Business Processes

New business start-up is an intricate process that has to be carried out through a series of phases (Thomson, 2003). The process involves; identifying opportunities and shaping them into concrete business concepts, carrying out a feasibility analysis and assessment, creating a business plan, sourcing for funding, growing the business and finally, exiting the business. The majority of business start-ups in South Africa, nonetheless, do not live to grow but often dwindle within the first two years. Research by the FNB CEO Davis (2012), indicates that, majority of new businesses are established out of necessity rather than opportunity. Their research states that small business owners in South Africa do not start up after recognising an opportunity and shaping it into a business, but they tend to plunge into business out of necessity. The majority of entrepreneurs, do not therefore, come up with innovative new opportunities such as new or underserved niche markets, new channels to market or new products or services.

They tend to copy from the pre-existing business models hence there is no uniqueness in approach or value addition to the customers. Long term survival of a business venture can only be guaranteed after thorough consideration of the given opportunity. The business should be able to have a substantial customer base, has a differentiation which is sustainable, be repeatable, scalable and have the capacity to fit into the existing supply chain or value chain.

2.5.2 Competences to Operate Sustainable Business

The GEM Report, (2010) states that the majority of necessity entrepreneurs also lack the core competencies that are critical to operate sustainable businesses. Compared to established or opportunity entrepreneurs, necessity entrepreneurs tend to lack the conceptual, technical and behavioral skills that are necessary for the success in the day to day business management. The Soweto study on the impact of shopping malls in townships by Benkele, (2010) shows that successful entrepreneurs must understand the business“ products and services and that they must know how they are produced and utilised.

They should also understand mitigating risks, cost savings, the processes by which more innovative and differentiated products and services can be developed, finance and marketing and the effective management of the enterprise“s various aspects such as customer expectations, team management and budget planning.

Necessity entrepreneurs also tend not to understand both the management processes that can drive both performance and the changing nature of business planning to achieve greater efficiencies within the context of current operations.

Necessity entrepreneurs also and either do not understand or just ignore the major external factors that often impact or that are critical in shaping the business strategy or operations

The majority do not comprehend the public policy initiatives and drivers and their relative impact on the cost of operation, the marketplace and the cost of doing businesses Hough, Nieman and Niewenhuizen (2007). Additionally, they are also unable to adapt effective financial reporting and tend to lack understanding of multi-cultural perspectives which define both business locations and are critical in increasing the enterprise“ customer base. More broadly, necessity entrepreneurs also lack greater knowledge on the management of

the business and the societal complexity and how the various societal aspects impacts businesses. Necessity entrepreneur have little aspirations for growth and are content as they would (Tahir, 2011) and they are also unable to recognise the importance of systems thinking and its application to business operations and goals.

Tahir, (2011) also highlights another key problem as the lack of knowledge on the creation and management of social networks and their relative impact to the enterprises objectives and processes. The success of new enterprises depends on their sustainability which is determined by the entrepreneurs' skills. Comparative to seasoned entrepreneurs, new business operators are unable to integrate both technical and behavioral factors so as to achieve an alignment both within the multiple internal and external business components and stakeholders. Such skills are often as a result of maturation and experience from various strategic implementations and day to day operations Todd A. Finkle and Michael L. Mallin (2011). South Africa has a high level of necessity entrepreneurs since the majority of workers who have been rationed out of the formal job sector are forced to start a business in the informal or unregistered sector GEM Report, (2010). Nonetheless, the underlying motivation for starting a business, whether through necessity or opportunity, has often been an important driver in terms of efficiency and structure of new business start-up.

Amin (2009) reports that, opportunity firms are nearly twice more efficient comparative to necessity firms. The World Bank Survey found that labour productivity, was much higher for opportunity firms comparative to necessity firms, Amin, (2009). Nonetheless, the differences could not be explained by observable factors such as the owner's education level and the size of the firm. Businesses identified through necessity rather than opportunities were likely to fail since, they tend to lack both opportunity and innovation which are key to long term growth and survival.

2.6 Characteristics of an Entrepreneur.

There are certain characteristics that an individual must have in order to differentiate himself or herself as an entrepreneur Nieman (2009).Nieman also highlights that, entrepreneurs are not necessarily born with these characteristics but they can be acquired

through life experience. In understanding the human factor as a key variable of SME expansion in emerging markets, the focus of researchers tends to be based on entrepreneur's characteristics. For this study, the following characteristics were identified.

2.6.1 Passion

One of these characteristics is passion or a strong commitment for business. Entrepreneurs typically need to possess four important characteristics including a passion for the business, a product and customer focus, tenacity despite failure, and execution intelligence (Barringer 2010).

As a result there are clearly no well-defined entrepreneurial profiles that exist. The same authors argue that entrepreneurs should be strong passionate about establishing a business. Being passionate helps individuals act more decisively to reach their goals. It shows willingness to pursue business activities for which they have a passion. The third perspective also identified by the Swedish Economic Review Report, (2011) is the individual characteristics of entrepreneurs, which often shape the outcome of entrepreneurship since they are shaped by psychological traits such as; individual need for achievement and attitudes towards risk outcome. In order to comprehensively understand what defines entrepreneurs in South Africa, multiple aspects have to be evaluated. These include; individual characteristics, education, intellectual and personality traits, skills, social networks, social origins, family background, individual perception with regards to the institutional, social and economic environment they face and values and beliefs. Racial factors also define individual success.

Prior to 1994, private entrepreneurship in most key economic hubs was largely restricted to the white community due to people of colour being restricted in terms of where they could own and rent property. Key factors determine the characteristics of individual entrepreneurs in South Africa.

A comparative study by Mitchell (2006) indicated that, family background and the environment significantly influenced entrepreneurial behaviour. For example, individuals whose childhood friends and relatives were entrepreneurs were more likely to be

entrepreneurs. Key individual characteristics that determined the success or failure among entrepreneurs in South Africa included; educational background and academic success, personal confidence, cognitive ability, willingness to take risk, personal confidence and greed.

Entrepreneurs in South Africa report to having multiple trials and tribulations hence success may not often be guaranteed. According to Muhana (2007), those who succeed in entrepreneurship within the country are the ones who strongly believe that they are capable of offering beneficial products and services to the general population.

Based on arguments put forth by (Muhana 2007), in order to succeed within the South African business environment, individuals must have unique knowledge and experiences so as to successfully pursue a specific opportunity. A downside of entrepreneurs in South Africa, is that they tend to suffer from the „me too“ mentality hence tend to copy or imitate other entrepreneurs rather than being innovative.

2.6.2 Locus of Control.

Entrepreneurs“ personality traits are perceived to impact on organisational performance Neill, (2006). Neill, (2006) contends that personality traits such as locus of control influence business success directly. According to Barringer (2010) entrepreneurs normally possess higher locus of control than non- entrepreneurs, meaning that they have higher levels of desire to assume responsibility and take control of their own destiny.

2.6.3 Need for Independence

Need for autonomy is associated with entrepreneurs“ avoidance of restrictive environments. They prefer to make decisions independent of supervisors. Entrepreneurs enjoy crafting their own strategies and develop their own plans of actions and to control goal achievements themselves Rauch and Frese, (2007). Entrepreneurs portray high need to be their own boss. Many of them leave their traditional jobs to become entrepreneurs (Nieman 2009).

2.6.4 Need for Achievement

Whilst owners of entities have numerous desires, the need for achievement and accomplishment is critical in determining the levels of performance of people.

The need for achievement motivates one to face challenges in order to attain success and excellence (Swedish Economic Review Report, 2011).

The need to achieve excellence, motivates individuals to confront and overcome obstacles using their experience. The need for achievement is the need to excel and to reach personal milestones, (Swedish Economic Review Report, (2011)).

2.6.5 Risk Propensity.

Risk taking, whether financial, social, or psychological, is part of the entrepreneurial process Caliendo et.al. (2009). All entrepreneurs face personal risks because they might lose valuable time with their families. According to (Caliendo et.al, 2009), risks are divided into five types, four of which are clearly relevant to any potential entrepreneur. They are (i) economic risk, (ii) risk in social relations, (iii) risk in career development plus (iv) psychological, and (v) health risks.

2.6.6 Creativity and Innovation

Creativity begins where the entrepreneur indicates his/her capability to create, bring into life, invent, adapt and produce new products. No entrepreneur or enterprise, however successful and large, can hold a place of leadership unless it recognizes that modern business operates in a world of change which in turn creates new problems, risks and opportunities all of which require the entrepreneur to mobilise resources to address each situation before the changes impact Okpara, (2007). Mihaly cited by Okpara (2007) supports this. Similarly, innovation is also considered to play an important role in enterprises. It is defined as adding something new to an existing product or process Okpara, (2007).

Kuratko and Hodgetts (2007) summarise the importance of innovation to private business in an economy stating that: “the continuous innovation as far as services, products,

processes and administrative issues influence businesses in the way that they strategise and perform". They went on to say that corporate entrepreneurship supports the firm's attempts to innovate and be competitive and that an entrepreneurial approach and flair is vital for firms to prosper.

Enterprises globally experience a business revolution: rising energy and material costs, fierce international competition, new technologies, increased use of automation and computers SABITA, (2010).

All these are major challenges, which demand a positive response from entrepreneurs and management if the enterprise is to survive and prosper. To succeed, an entrepreneur must have a strategy in order to know where the firm is, where s/he wishes it to be and how it will get there.

This requires creative and innovative minds and therefore entrepreneurs should relentlessly create new ideas or methods to surpass continuous changes that challenge the market.

2.7 Constraints of Private Business Growth

2.7.1 Firm's Innovativeness and Innovation Skills

Karlsen (2007) defines innovativeness as the firm's capacity to generate new ideas, products and services for markets and its determination to develop creative solution to challenges it faces. Karlsen (2007) further highlighted that increasing global competition and speed in development of new technologies has shortened product life cycles and innovation intensity.

Shortening of the Product Life Cycle (PLC) creates the need for large R&D and huge cost and reduces the potential payback period. Moreover, a short PLC increases the need for more innovation to variants or new products to cover the decline of original one and the innovation rate is related to globalisation rate, (Karlsen, 2007).

2.7.2 Education

Lack of education and skills can as well mean, or lead to lack of, financial management knowledge. In support of this notion, Fatoki and Garwe (2010) argued that lack of

knowledge and training are some of the reasons for the low level of entrepreneurial creation and the high failure rate of small businesses in South Africa.

In a research conducted by Hisrich (2008), it was concluded that there are seven factors that are responsible for entrepreneurial behaviour. They, stated that, there is a general perception that entrepreneurs are on average less educated in the environment of their population. Contrary, to this perception, some research findings claim this as not true. For them education is essential in the development of an entrepreneur as it offers individuals skills and opportunities. Hisrich, (2008), add that personal values in reference to attitudes on management processes and business in general, individualism and competitiveness are contributing factors. Hisrich (2008), expands that chronological age of an entrepreneur, and previous business experience are contributing factors.

Additionally, most CEOs and owner/ managers of SMEs are financially illiterate, which leads to mismanagement of business finances causing most enterprises to fail. Hisrich (2008) asserted that lack of education and training and development has reduced management capacity in new business ventures. Lack of education and skills can as well mean, or lead to lack of, financial management knowledge. In support of this notion, Fatoki and Garwe (2010) argued that lack of knowledge and training are some of the factors that contribute to low performance levels of new business creation and the high failure rate of small businesses in South Africa. One of the most important factors is the work experience which refers to technical and industry experience. Role models have great influence on entrepreneurial career choice and style. Educational background of entrepreneurs, particularly those with higher education, contributes to business performance in several ways. Deakins & Freel (2009) recommended that government should devise a strategy to ensure that children are provided with education. Minniti (2007) added that quality education enables traders with informed knowledge to exploit opportunities in a business environment. Higher education facilitates the acquisition of both technical knowledge and entrepreneurial vision for managing a business and marketing products and services. At the same time, completion of a university degree provides a credential that attests to the person's general ability to succeed in business, which then facilitates his or her access to financial and other services as well as to buyers and sellers. A university degree may enable access to a network of other business professionals that is useful for success of the business.

Ramachandran, Gelb and Shah (2009) find that indigenous African entrepreneurs with a university education tend to start their business as a larger enterprise and that these enterprises remain larger than those of owners without a university education. In addition to these two variables, several other factors need to be considered in analysing the performance gap between foreign and domestic enterprises in South Africa, one being capital intensity of production. The capital intensity of production is the measure of a firm's use of physical capital, such as machinery and equipment, relative to labour. More use of machinery and equipment per worker increases output per worker because machinery and equipment replace part of the manual labour of workers. Capital intensity also corresponds to the level of technology in production. Therefore, more intensive use of capital may also indicate that an enterprise is producing a higher-quality product.

Access to finance affects the investment patterns of enterprises and thus their ability to obtain physical capital (Herrington, 2006). Limited access to finance among micro and small enterprises in Africa constrains their investment in physical capital. In addition, market risks discourage them from investing in new assets Ehlers and Lazenby, (2007).

2.7.3 Access to Finance

According to Maas and Herrington (2006), a significant number of entrepreneurs are of the opinion that, sufficient funding is available in the financial institutions, but access to these funds remains difficult to obtain, especially for start-up SMEs. Many small businesses do not have access to adequate finance and appropriate forms of credit and equity or to financial services more generally Maas and Herrington, (2006). Even though the role of banks and other financial institutions is clear in the small business arena, lending to SMEs remains a laborious and daunting activity as many factors influence the sustainability of these ventures and their loan repayment behaviour. The main challenge is getting information about the business López, (2007). Furthermore, owners of SMEs lack accounting skills, leading to improper accounting procedures. Small business owners often mix their personal finances with business finances which complicates the assessment of affordability and is confusing to the assessor Tsaih, Liu, Liu & Lien, (2004).

Many new businesses owners receive initial support from informal investments, relatives, friends, business associates and personal contacts.

Access to finance is a priority issue for SME development and indispensable to run healthy SMME cash flows Nieman (2009). The ability of start-up SMEs to grow depends strongly on their potential to have fixed assets and working capital for operations. In addition, the equity and debt gaps and the causes thereof for start-up are examined. Failure to access and manage adequate working capital is a major cause of failure of start-up SMEs Garcial-Teruel and Martinez-Solano, (2007).

The International Trade Centre (2009) further asserts that businesses should manage their capital efficiently to ensure that they are able to continue operations and satisfy both maturing short-term debt and upcoming operational expenses

Capacity to manage a working capital refers to ability to meet daily cash flow needs, pay and salaries and wages when they are due, pay suppliers, pay taxes and pay providers of capital. This involves managing inventories, accounts receivable and accounts payable as well as cash. Padachi, Howorth, Narasimhan and Durbarry (2010) argue that working capital is a catalyst to a healthy business operation. Inefficient working capital management may lead to the down fall of the enterprise.

2.7.4 Access to Markets

Access to markets beyond local markets is another critical factor that facilitates higher productivity at the enterprise level, regardless of whether the larger market is national or international Hough, (2007). The authors argue that access to larger distant markets increases the volume of sales and, hence, raises productivity by creating economies of scale; it also provides incentives to expand production capacity.

According to Hough (2007) existence of barriers to business entry vary according to market demand. Barriers to growth may also be linked to the market environment in which firms are placed. Factors such as low demand for the product, access to raw materials, difficulties in exporting, public procurement rules and the late payment of bills by business customers and even the government can all obstruct the growth of firms.

2.7.5 Crime and Corruption.

The United Nations Office of Drugs and Crime (2012) identified South Africa as being one of the world's five most murderous nations. Presently, most criminals target businesses hence, business is the largest organised group that suffers from crime and violence, besides the effect on businesses is both alarming and growing. The South African Police Service Crime Statistics (2009) indicated that, business related crime continue to increase despite statistics indicating that other forms of crime have reduced compared to the previous year. In most cases, small business premises are targeted for robberies, besides, high crime rate has discouraged small and medium businesses owners not to aggressively pursue growth avenues for a substantial market share and to stay ahead of competitors. High crime rates have also made complex operational matters and greatly increased expenditures due to investments in security to minimise crime. According to the Serious Crime Report (2011) private businesses are vulnerable to robbery with aggravating circumstances.

Robbery with aggravating circumstances includes the following subcategories of robbery.

- Car and truck high jacking
- Robbery at residential premises (house robbery);
- Robbery at non-residential premises (business robbery);

2.7.6 Cash-in-Transit (CIT) Robbery;

The table below shows the most targeted businesses which include large supermarkets and businesses in shopping malls. The smaller, single-owner and emerging black businesses in the old CBD areas, townships and even suburbs still remain vulnerable to this kind of crime, which can have an impact on one of the primary job-creating sectors in the SA.

An analysis of 1 995 business robbery cases recorded on the Crime Administration System for the period January – March 2011 revealed that the following types of business were targeted:

Spaza/tuck shop	22,7%	Construction site/office	1,3%
Supermarket (all types)	13,1%	Motor vehicle dealer/car rental company	1,3%
General dealer	8,7%	Bar/pub	1,2%
Tavern	5,5%	Workshop/panel beaters	1,2%
Garage/petrol station	5,0%	Hotel/motel/guesthouse	1,2%
Clothing store	3,8%	Scrap metal dealer	1,1%
Fast food outlet	3,7%	Furniture shop	1,1%
Café	3,1%	Hairdresser/salon/cosmetics shop	1,1%
Liquor store	2,7%	Educational premises	1,0%
Cellular telephone shop/container	2,3%	Government institution	0,9%
Restaurant/coffee shop	1,7%	Warehouse/storage facility	0,9%
Butchery/dairy	1,7%	Plumbing/electrical services	0,8%
Medical institution (surgery, pharmacy, hospital)	1,5%	Hardware shop	0,8%
Factory	1,5%	Other (32 types)	7,7%
Office/office park	1,4%		

Table 2.1: South African Police Crime Report 2010/2011 - Businesses Targeted.

Source; Serious Crime in the RSA: 2010/2011

With regard to corruption in South Africa, Transparency International (2012) reported an increase in both private and public sectors.

In 2011, South Africa was ranked 41st in the corruption index, besides, SMEs engagement in corruption is often as a result of bureaucracy and regulatory compliance problems and their lack of collective bargaining power to influence or oppose requests for solicitations or unofficial payment.

2.7.7 Corrupt Environment

Corruption in government circles is a major obstacle to private business investment. When the environment is perceived to be corrupt, the costs of operating businesses surge. Corruption is viewed as a punitive tax subjectively imposed on traders. Examples of corruption include the expectation by officials of a bribe in order that legitimate work may be conducted or for some form of formal approval, influence peddling, embezzlement by people in senior positions, fraud and extortion, amongst others according to Klitgaard and Amundsen, (1999). An entrepreneur wishing to enter new markets, for example, may find people in positions of authority expect a bribe if export or import permits or

similar approvals have to be obtained. Firms have to compete against other businesses that may have gained an unfair competitive advantage due to corruption of some sort or another companies doing business with the public sector may use corrupt practices more often because public procurement is especially sensitive to corruption say Ateljević and Budak, (2010)

2.7.8 Late and Protracted Payments

Late and delayed payments made by large businesses, Government and State Owned Enterprises for goods provided and services rendered by small businesses, puts them under severe cash flow pressure and often results in the failure of otherwise sound businesses.

According to a 2012 “Entrepreneur Today Magazine” (September 2012), most of SMEs that provide goods and services to government and large companies usually find their cash flow affected by delayed and even non payments by these customers.

This problem has been confirmed in a study conducted by the South African Chamber of Commerce and Industry (SACCI) on late payment by government to service providers which found that the majority of providers had experienced a delay of 30 days or more.

However, not all providers experience this problem, there are providers who are paid in good time.

In response to government’s efforts to curb late payments, a survey undertaken among (SACCI) members in response to government’s efforts to curb these late payments, it was found that 60 percent of small businesses regularly supply goods or services to government.

The Minister of Trade and Industry, Rob Davis (2011) reports that in South Africa, small businesses or start-ups fail at the rate of nine out of every ten businesses within the first two years of operation. This is attributable to reasons such as lack of appropriate information, lack of awareness and protracted late payments by large corporations.

According to Nieman and Nieuwenhuizen (2009), it has been observed that despite all the initiatives implemented, both by the government and the private sector, small businesses

still continue to fail. The vast majority of SMEs fail during their first two years of take-off as a result of insufficient working capital, owners' lack of financial and operation management capabilities, and other factors .

2.8 Summary.

In this chapter, the focus was on identifying and understanding the consequences of the issues that lead to a slow pace of business growth and expansion. Like all organisations SMEs also operate in an environment dependent on the internal and external influences.

The internal environment is under the control of the owner/manager of the SME while the owner- manager has little, if any, control over the external environment. It is the factors from these environments that lead to the high failure rate amongst SME during the first two years of start-up. From the reviewed literature, the lack of management skills/abilities, lack of access to finance, late payments by customers, and , lack of coherent and clear economic policies, are major contributing factors to deterring private business expansion.

The outcomes of the review have provided foundation for the development of a suitable framework for the development, design and delivery of business development.

This literature highlighted the source where these management skills are to be found, namely, in the internal environment.

The link is established in terms of the control of these abilities. This chapter went further to highlight the adverse impact of bribery and corruption governance principles, stable macroeconomic environment and the effect of public policies.

The following chapter, Chapter Three, presents an overview of the research scope and methodology. A case is made for the basis on which the research was conducted. Fieldwork is discussed and the appropriateness and reliability of the research.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses the research methodology used to carry out this study. The chapter begins with the aim of the study, followed by research methodology, discussion of quantitative and qualitative researches, together with an explanation of triangulation.

In addition to this is an explanation of the adopted research approach, the population, sampling and sample size selection, questionnaire construction, pilot study, fieldwork and concludes with a summary.

3.2 Aim of the Study

A major objective of this study was to examine factors that deter private sector business expansion in South Africa. Such factors are perceived to be the reasons of the private sector slow growth as they impede business expansion.

3.3 Participants and Location of the Study

The study examined perceptions of CEOs and owner/managers of economically significant enterprises, which are currently doing business in South Africa and in Africa and those whose interest is to expand into Africa and, maybe globally. The study investigated factors deterring SMME/private business expansion in South Africa.

The study sample was drawn from two separate population lists. The first list was drawn from a consolidated data list of the Department of Trade and Industry's Business Frame, and the South African Chamber of Industries. A second list was drawn from the South African Local Government Association (SALGA) enterprise data. The Department of Trade and Industries (DTI) Business Frame is a database of all businesses in South Africa, most of which are affiliates of the South African Chamber of Commerce and Industries. Member trades and industries include Manufacturing Sector; Communications; Financial Services entities like Banks, Information Technology, Food and Beverages.

According to the Department of Trade and Industries' business data base, the population of SMMEs in Gauteng is estimated to be around 1,053,818 entities. In reality, there is no accurate and available data from any source in South Africa. The figure supplied by the Department of Trade and Industries' is perceived to be inflated given an unknown big number of "Shelf Companies" which in the register appear to be active whilst in a true sense are dormant. Furthermore, a press release dated May 2010, from TPN and Marlon Shevelew and Associates, (Cape Law Society), states that the Company and Intellectual Property Registration Office (CIPRO) deregistered 764,000 South African private businesses in 2010. However, such deregistration does not mean that these businesses no longer exist practically as reflected in the database. It only means they have just stopped paying annual returns yet they may be active.

The above scenario points to a fact that there are way below 1, 053, 818 registered and active small businesses in South Africa. In this situation and for the benefit of this research's statistical analysis, the researcher could not have access to an entire statistical population of interest. The population is not properly recorded is too large, and therefore cannot be measured. As a result, the decision was taken about a statistical population of 200, and on the basis, a relatively small amount of $n=32$ sample data. The sample was computed as a quantity called a statistic in order to estimate some characteristics of a population called a parameter. As a consequent of this view, this research used a conservative sample of 200 private businesses.

For all intents and purpose, this research has a small sample of $N=32$ which under normal circumstances may not be considered as an appropriate representative of all Gauteng SMMEs. The researcher believes that the results of the study are useful to illuminate specific obstacles to growth. The researcher has noted that the study is too small for the results to be generalised with real confidence. The researcher also cautions the use of this research in implementing the recommendations in a generalised scenario. Such use must be monitored to ensure that the implementation is successful and does not produce undesired results.

According to Sekaran (2003), descriptive studies are quite frequently undertaken in organizations in order to ascertain and be able to describe the characteristics of a group. Qualitative data obtained by interviewing individuals may help the understanding of

phenomena at the exploratory stages of a study. Quantitative data in terms of frequencies, or mean and standard deviations, become necessary for descriptive studies. Results of data analysis of descriptive studies do not only offer the researcher a profile of the variables of interest from an individual or organisational perspective but provides the manager with relevant information on which he or she might contemplate some future course of action (Sekaran, 2003). Minimalist recommends at least 30 to 50 respondents for a statistical analysis that a researcher may want to analyse (Nelson et al, 2000 & USAID, 2008).

A minimalist approach was adopted and it provided credible results.

The n=30 sampled small businesses actually exceed the sample minimum bracket of 30-50 respondents that Sekaran (2003) and other authors suggest as adequate for a minimum baseline of a study.

This research sample consisted of 108 informal businesses, being 54 percent of the sample and 92 formal registered businesses, representing 46 percent of the sample.

Business enterprise's records provided appropriate quotas for informal and formal enterprises, which showed a 54:46 informal to formal business ratio. In this type of research, which is indicative of a descriptive study, sample size is important because it affects how precise the observed means or proportions are expected to be. However, based on the interest of the study, the formal and informal SMMEs are homogeneous.

However, Sekaran notes that the study is too small for the results to be generalised with real confidence. The researcher also cautions the use of this research in implementing the recommendations in a generalised scenario. Such use must be monitored to ensure that the implementation is successful and does not produce undesired results.

The study concentrated on informal and formal enterprises in industries across the board. Included in the above categories are informal and formal registered SMEs as well as listed and unlisted companies from which thirty two (n=32) CEOs and owner/managers were selected from each entity through a non-probability sampling method. A quota sampling strategy as a non-probability sampling technique was used.

The rationale for the selection of non-probability sampling is that this sampling technique represents a valuable group of sampling techniques which can be used in a research that follows a qualitative, mixed methods and even quantitative research design.

In this study, a proportion approach of formal and informal enterprises in industries across the board was adopted. With proportional quota sampling, the aim is to end up with a sample where the stratum being studied is proportional to the population being studied.

Proportional sampling provides the researcher with ways to achieve even greater representativeness in the sample of the population. This was accomplished by selecting individuals at random from the subgroups in proportion to the actual size of the group in the total population. This proportional sampling approach was used in combination with stratified sampling.

Since the intention was to study perceptions from two different strata, namely, formal and informal enterprises, an appropriate choice of probability sampling technique would have been a stratified random sample. However, stratified random sampling method was not used as it was not possible to access a complete list of all SMEs from the official business register.

3.4 Research Approach.

To address the purpose and answer the research questions, a mixed methodology, incorporating qualitative and quantitative components in a complementary way, was chosen. This is known as triangulation method of research. The meaning of triangulation is taken to include the combined use of quantitative research and qualitative research to determine how far they arrive at convergent findings. Triangulation is defined by Denzin (2008) as a combination of both qualitative and quantitative methodologies in a study.

The rationale for this strategy is that the flaws of one method are often the strengths of another. According to Denzin (2008), by combining the research methods, the study can achieve the best of each while overcoming unique deficiencies. In support of this conclusion, Creswell and Plano, (2007), found that, combination of the two approaches also tend to create a more complete picture with regards to the problem rather than when each of the techniques stands alone.

The core strength of the triangulation method is its potential to expose unique differences or meaningful information that may have remained undiscovered with the use of only one approach or data collection technique in the study.

3.4.1 Quantitative Research Methodology.

Quantitative research aims at either supporting or contesting an existing hypothesis. The data is often numerical and measurable and the instruments such as questionnaires are used in the collection of data from a substantial number of individuals which are often representative of a larger population. Quantitative research analysis is also often numerical and is achieved through statistical procedures intended at either rejecting or failing to reject the hypotheses.

This study utilised two parts of questionnaires. The first part has the name of a respondent and the name of a company. This is followed by the sectors across the board. The second portion was the South African Business Development Questionnaire, comprised of 10 statements in which private business owner/ managers responded to. The questionnaire used a 5-point Likert-type scale (1 = strongly disagree to 5 = strongly agree) (Appendix 1). The second questionnaire contained semi-structured interview questions in which respondents were voluntarily able to express their own perceptions or opinions(Appendix 2).

3.4.2 Qualitative Methodology

Qualitative research is commonly used in exploratory research as it tends to give some general information on the subject that can lead to a more definitive research. According to Creswell (2009) qualitative research approach, being both exploratory and descriptive, focuses on the participants' own frame of reference and perspectives and derives its meaning from the source. Greater authenticity is achieved by utilising qualitative research. The qualitative approach also allows for in-depth responses. Conrad and Serlin (2006) argue that, an in-depth description is essential in establishing an awareness of the participant's within a research in addition to provoking action among

the participants. It, therefore, not only explains experiences, but their respective contexts, as well.

The qualitative component consists of semi-structured interviews (Appendix 2). In semi-structured interviews, research tools are more unstructured, flexible, and diagnostic, and aim at obtaining information from respondents in an indirect manner. The results that this approach yields are more descriptive, and such results are often utilised in exploratory research and are more appropriate for hypotheses generation. The use of semi-structured interviews also provide the opportunity for interviewees to receive feedback and personal assurance regarding the way in which the information supplied is to be used Mauthner and Doucet, (2003).

Semi-structured interviews were used to elicit valuable insight from the private business leaders and owner/ managers to determine potential strategies to hasten enterprise development. The advantage of such interviews is that they provide the researcher with a more accurate and clear picture of the respondents' behaviours or positions. This level of clarity was facilitated by open-ended questions and that respondents were free to answer according to their own thinking, as they were not constrained by being given pre-determined possible answers or alternatives Creswell and Plano, (2007). Qualitative analysis yields well grounded, rich descriptions and explanations of processes in identifiable contexts that quantitative, statistical analysis often lacks say Creswell and Plano, (2007).

3.4.3 Sampling

The study used a quota sampling strategy as a non-probability sampling technique. The rationale for the selection of non-probability sampling is that this sampling technique represents a valuable group of sampling techniques which can be used in a research that follows a qualitative, mixed methods, and even quantitative research design. In this study, a proportion approach of formal and informal enterprises in industries across the board was adopted.

With proportional quota sampling, the aim is to end up with a sample where the stratum being studied is proportional to the population being studied. Another reason for choosing a non-probability sampling is that it is often used because the procedures used to select units for inclusion in a sample are much easier, quicker and cheaper when compared with probability sampling. Proportional sampling provides the researcher with ways to achieve even greater representativeness in the sample of the population. This was accomplished by selecting individuals at random from the subgroups in proportion to the actual size of the group in the total population. This proportional sampling approach was used in combination with stratified sampling. Since the study focused on the perceptions from two different strata, namely, formal and informal enterprises, an appropriate choice of probability sampling technique would have been a stratified random sample. However, due to the non-availability of a complete list of all SMMEs from the official business registers, the study could not use a stratified random sampling method as a preferred choice. Although South Africa has a large number of formally registered SMMEs, there are an even larger number of small and medium enterprises not listed in the official business registers.

Without any other way of attaining a list of all businesses, a quota sampling method was used. Records from the business enterprises enabled provision of appropriate quotas for informal and formal enterprises, which showed a 54:46 informal to formal business ration. Based on subjective judgment and practicalities of cost and time, a sample size of 200 private businesses was selected. Therefore, 108 informal businesses, a representative of fifty four percent of the sample size of 200 businesses and ninety two formal businesses representing forty six percent of the sample size of 200 businesses were selected.

The study sample was drawn from two separate population lists. The first list was from the consolidated data list of the Department of Trade and Industry's (DTI) Business Frame and the South African Chamber of Commerce and Industry. A second list was drawn from the South African Local Government Association (SALGA) enterprise data. The (DTI) Business Frame is a database of all businesses in South Africa, most of which are members of the South African Chamber of Commerce and Industries. Members trade in industries such as manufacturing communications, Financial Services such as Banks and Information Technology, Commerce and Food and Beverages.

A sample is the segment of a population that is selected for investigation Bryman and Bell, (2007). A non-probability sampling method has been used. Bryman and Bell (2007) explain that non-probability sampling involves human judgment in the selection process of a sample. The specific non-probability technique that will be employed in this study will be purposive sampling. De Vos, Strydom, Fouche and Delport (2005) explain that this type of sample is entirely based on the judgment of the researcher in that a sample is composed of elements that contain the highest number of characteristic, representative or typical attributes of the population.

3.4.4 Procedure

The target population chosen for this study was composed of CEO's and Owner/Managers of SMEs in Gauteng. A pilot study of the questionnaire was developed and conducted with an objective to determine the legibility, clarity of the questions, reliability of measures and any other flaws that could be detected in the questionnaire. The pilot study questionnaires were distributed by email to eight respondents. Questionnaires were returned, with minor mistakes, after which corrections were made. The corrections were related to ambiguity, and leading questions. Corrections ensured that the questions were clear and to the point.

The primary data collection method employed involved conducting field research in the form of a questionnaire process where owners of small businesses were selected. To this end semi-structured interviews with the selected identified respondents were conducted. These interviews covered the key issues from the questionnaire without being leading in any way. Respondents were asked to sign an informed consent clause. A resolution was taken to undertake all fieldwork alone as this is a small scale study. Due to the qualitative nature of the semi-structured interviews undertaking the work without using a research team made sense.

Questionnaires were given to the respondents and each issue/topic and question was explained personally face-to-face to ensure clarity. Making appointments to see people with regard to interviewing them ensured that questionnaires were completed during the meeting. This resulted in an exceptionally good response rate.

3.4.5 Development of the Instrument

Two questionnaires, a qualitative and quantitative questionnaires were developed as instrument for the survey. The questionnaire comprised of structured questions which made it easy for the respondents to indicate their views.

The quantitative questionnaire had two parts, namely, a demographic portion and a questionnaire known as the “South African Business Development Questionnaire” . The qualitative component used semi-structured interviews, (Appendix 1).

The use of five-point Likert scale questions enabled respondents to indicate their opinion on various factors of the business environment that impact on the growth of new SMEs. Reliability and validity are undoubtedly the hallmarks of good measurements and the keys to assessing the trustworthiness of any research study. First the questionnaires were pre-tested in a pilot study. In addition, the reliability of the study was ensured by using the Cronbach’s alpha.

The South African Business Development Questionnaire comprised of ten statements, answered to a 5-point Likert-type scale, related to business expansion in South Africa. Respondents were asked to draw upon their own knowledge and experience to evaluate each statement in terms of the extent to which they agree or disagree, using the following scale: 1 strongly agree, 2 = agree, 3 = undecided, 4 = disagree, and 5 = strongly disagree (Appendix 2). Due to the fact that the African Business Development questionnaire is third party developed, its reliability was unknown. This presented a limitation to the generalisability of the findings obtained through the use of this questionnaire. The qualitative component also consisted of 10 semi-structured interview questions, which relate to business expansion in South Africa (Appendix 2). The rationale for the use of semi- structured interviews was discussed in detail in Chapter 1.

3.4.6 Pre-testing and Validation

For research to be meaningful, its findings must be reliable and valid. Reliability is the extent to which an instrument or procedure yields the same results on repeated trials Bryman and Bell (2007).

Reliability and validity are associated with the instruments used in a study. For example, for a questionnaire, reliability is how consistent the scores on the questionnaire are. Reliability is a necessary, but not sufficient, condition for validity. A study can be reliable but not valid, and it cannot be valid without first being reliable. Quantitative research uses extensive statistical analysis to demonstrate that a study is valid and reliable and that the sample studied is consistent with the population from which it was drawn to ensure that the findings can be applied to the whole population.

Qualitative research establishes authenticity and credibility through techniques such as triangulation and “rich, thick” description Creswell, (2006). Accuracy of the findings is typically discussed using the concepts presented below

3.4.7 Reliability

Internal consistency reliability estimates how consistently individuals respond to the items within the scale. It must be noted that measures of internal consistency are not tests of the uni-dimensionality of items in a scale. For example, if the first half of an instrument consists of educational items that correlate highly among themselves, and the second consists of political items that correlate highly among themselves, the instrument would have a high internal consistency reliability, even though two distinct dimensions were present (Creswell 2006).

Cronbach’s alpha measures the extent to which item responses obtained at the same time correlate highly with each other. It is the most common estimate of internal consistency of items in a scale. In this study, reliability for the quantitative questionnaires were determined statistically during data analysis, and the results were expressed through Cronbach’s alpha. Though widely interpreted as such, Cronbach’s alpha is not a measure of uni dimensionality. Rather, it is a measure of a level of mean inter- correlation weighted by variances, or a measure of mean inter-correlation for standardised data, stepped up for a number of items.

3.4.8 Validity

Validity deals with the appropriateness of the method to addressing the purpose of the study and its research questions. In the current research, validity refers to the extent to which a set of questions actually measures the variable it is supposed to measure. JCGM 100 (2008). It is thus suggested that validity be assessed by evaluating the results against some other measure or criteria JCGM 100 (2008) ,. In a social science research, there are four types of validity: (a) face, (b) content, (c) predictive, and (d) concurrent. Of these four, face and content are relevant to this study.

Face validity is the extent to which, on the surface, an instrument looks like it is measuring a particular characteristic. Face validity is often useful for ensuring the co-operation of people who are participating in a research study. However, because it relies entirely on subjective judgement, it is not, in and of itself, convincing evidence that an instrument is truly measuring what the researcher wants to measure JCGM 100 (2008). Content validity is the extent to which an instrument is a representative sample of the content area being measured. Content validity is often a consideration when a researcher wants to assess people's knowledge or achievements in some area. A measurement instrument has a high content validity if its items or questions reflect the various parts of the content domain in appropriate proportions and if it requires the particular behaviours and skills that are central to that domain JCGM 100 (2008). Content validity was determined by establishing the consensus of a panel of suitably qualified and experienced people, they were satisfied that it did. Because content validity is critical to all social research, researchers make an effort to develop valid measures. There are a variety of threats to validity, as well as reliability, but an important early consideration is to ensure that research has internal validity, which means that the research uses the most appropriate research design for what is being studied.

3.4.9. Quantitative Data Analysis

Quantitative data was handled through frequency distribution statistics. For the quantitative questionnaire, the data was analysed through descriptive statistics, including frequency distributions, means, and standard deviations. The quantitative

data was tabulated and summarised. Cross-tabulations referring to breaking down data by data sub-segments were performed. Given the exploratory nature of this study, the statistical analysis was limited to descriptive statistics. The quantitative results were graphically displayed through the use of tables.

3.4.10 Qualitative Data Analysis

The data from the semi-structured interviews was analysed through content analysis, in which the responses are examined for similarities of themes Bryman and Bell (2007) Coding was utilised, whereby the data was categorised by themes and a list of themes from the qualitative data was generated. Reliability was determined statistically.

3.11 Summary

Increasingly, social science research, including economic research, is employing both quantitative and qualitative methods in the quest for research designs best suited for assessing complex issues and concepts.

In this regard, integration of complementary methodologies enables the study: (a) to enhance confirmation or corroboration of varying methodologies via triangulation; (b) to elaborate or develop analysis, providing richer detail; and (c) to initiate new lines of thinking through attention to surprises or paradoxes Creswell and Plano, (2007).

The triangulation approach was considered appropriate to provide for the reliability, validity, and authenticity of the study. Accordingly, from a scholarly point of view, the design of this study has enabled the research and findings to make an original, reliable and useful contribution to the file of SMMEs development.

The following chapter focuses on the interpretation of the empirical research results by means of quantitative and qualitative analysis. The results are integrated with questions, objectives and concepts identified during the literature review to develop a structured approach to evaluate SME performance. Furthermore, it provides relevance of the development from the research about the framework and content for entrepreneurship and business expansion strategies. Tables and figures have been used to illustrate the findings

CHAPTER FOUR

RESEARCH FINDINGS

4.1 Introduction

This chapter presents, interprets and analyses the findings of the empirical research. The responses gathered from the respondents are first discussed and analysed. After the statistical analysis was completed, the extent to which the objectives of this study were met was indicated. The results of the research are presented and analysed by means of tables, and other descriptive statistics. The aim of this was to realise the primary and secondary research objectives, thereby resolving the research problem. In order to accomplish this, an analysis of the respondent profiles is provided in section 4.2. Section 4.3 then discusses the results followed by concluding remarks in section 5

4.2 Demographic Findings

The response rate was 100%. The study sample consisted of representatives from private enterprises operating in different sectors which are listed in table 4.1 below.

Sector Representation of Respondents	N
Energy (private enterprise)	5
Technology (private enterprise)	5
Automotive (private enterprise)	5
Food & Beverage (private enterprise)	5
Mining Resources	3
Engineering	1
Construction	1
Communications (private)	1
Pharmaceutical	1
Travel	1
Information Technology	2
Financial Services(Banks)	2
Total	32

Table 4.1

4.2.1 Results the South African Business Development Questionnaire.

The responses to the South African Business Development (SABD) questionnaire, and the interviews were analysed as means to address the research questions. In particular, the researcher was interested in identifying factors that impede business expansion. Questionnaires were analysed statistically. For the interviews, however, the themes related to growth and development, were focused on. It is important to note that some of the limitations noted earlier emerged during the course of the study. However, every attempt was made to address them or to make recommendations on how such limitations might be avoided in future research.

Most of the limitations to the study were identified earlier on, including the relatively small study sample and relatively unit-dimensional scope of inquiry. However, another limitation emerged right away during the first interview.

This limitation was that the interview questions were directed primarily at establishing the attitudes and opinions of the study participants on key issues, but not necessarily at how these issues affect or are manifested in their specific sectors. Nevertheless, this limitation was addressed from the first interview onward through the addition of an open ended question that asked participants how they believed sustainable economic growth is hindered and/or supported in their respective sectors.

It was also expected that the study participants would manifest some identifiable similarities in the way they scored each item in the questionnaire, especially among those operating in the same sector. The results of the survey confirmed this expectation, with respondents from one sector often scoring similarly on certain items and respondents from other sectors scoring similarly on other items. In several cases, the respondents scored similarly across sectors, which support the consistency of the study instrument. Although it is not as easy to establish consistency in the questions that were developed to guide the interviewing process, analyses of the data reveal identifiable themes, attitudes and ideas that demonstrate awareness of Africa's business concerns. Internal consistency of an instrument is often checked before its administration; however, such consistency was assumed during the development stage due to the relevance of each item to the topic (Friendly et al., 2003).

Cronbach's alpha was used to establish whether the items in the survey were consistent in measuring the position of the respondents concerning the topic.

Cronbach's alpha was calculated at .576, which indicates a weak level of generalisability.

This is a limitation to quality of the research. This was disturbing as it was assumed that the African Business Questionnaire, having been used in other research would have had a Cronbach alpha of 0.7 or higher. The responses generated by both the SABD questionnaire and the interviews (discussed in the following section) represent consensus, that the items were relevant to the research topic and familiar and understandable to the respondents. This supports both the face and content validity of the study instruments developed and administered in this study.

4.3 Research Findings Based on Stated Research Objectives

The results in this chapter will be presented according to the set research questions in chapter one.

Objective One: To determine which micro factors are important determinants of private business risk.

4.3.1 Question 1- Business Skills.

The literature discovered that compared to established or opportunity entrepreneurs, necessity entrepreneurs tend to lack the conceptual, technical and behavioral skills that are necessary for the success in the day to day business management. Business skill enables entrepreneurs to understand the business's actual products and services and how they are produced and utilised.

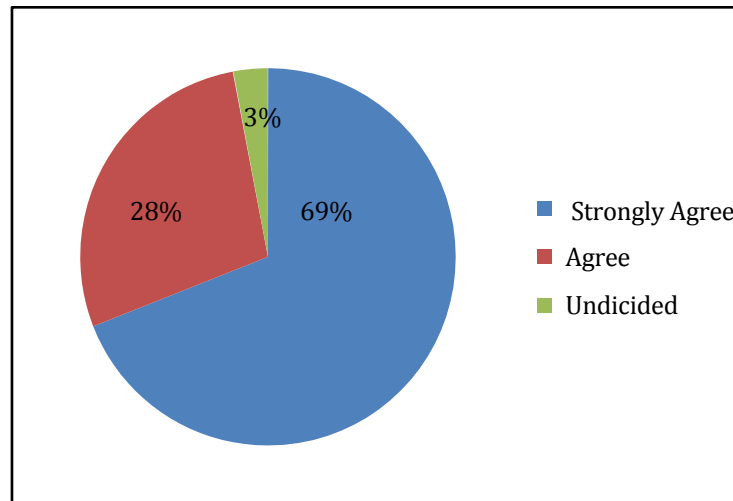


Figure 4.1: Business skill is generally considered an important determinant of business growth and a priority for entrepreneurs.

With regard to business skills, 69 percent strongly agreed, 28 percent agreed and 3 percent were undecided that business skill is generally considered an important determinant of business growth and a priority for entrepreneurs. There were no recorded disagreements to this statement.

		Skills			Total
		Strongly	Agree	Undecided	
Sector	Energy Sector	5	0	0	5
	Food & Beverage	0	4	1	5
	Automotive	4	1	0	5
	Technology	4	1	0	5
	Mining	4	0	0	4
	Financial	3	0	0	3
	Communications	1	2	0	3
	Construction	1	0	0	1
	Tourism	0	1	0	1
Total		(69%)22	(28%) 9	(3%)1	32

The table above shows that 69 percent of small businesses strongly agreed, 28 percent agreed and 3 percent were undecided that business skill is generally considered an important determinant of business growth and a priority for entrepreneurs. The energy sector and automotive, technology and mining were more strongly agreeing to this. This is not surprising given the technological requirements in this sector ranging from engineering and Information Technology.

4.3.2 Question 2 - Access to Finance

Access to finance affects the investment patterns of enterprises and thus their ability to obtain physical capital. Limited access to finance among micro and small enterprises in Africa constrains their investment in physical capital.

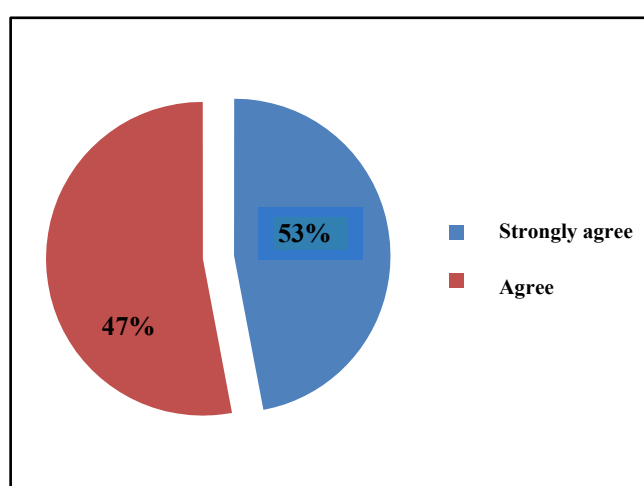


Figure 4.2: Access to internal and external finance is a major obstacle which deters business expansion.

The above figure shows that 47 percent of small businesses agreed and 53 percent strongly agreed that access to internal and external finance is a major obstacle which deters business expansion. There were no recorded undecided or disagreements to this statement.

Table 4.3: Access to internal and external finance is a major obstacle which deters business expansion.

		Finance		Total
		Strongly Agree	Agree	
Sector	Energy Sector	5	0	5
	Food & Beverage	0	5	5
	Automotive	0	5	5
	Technology	5	0	5
	Mining	3	1	4
	Financial	2	1	3
	Communications	0	3	3
	Construction	0	1	1
	Tourism	0	1	1
Total		(47%) 15	(53%) 17	32

All SME owners interviewed agreed that access to internal and external finance is a major obstacle which deters business expansion.

The energy and technology sectors strongly agreed to the fact that lack of finance is one of the main deterrents to business expansion. statement. This result was expected given the huge capital requirements to acquire infrastructure needed in these sectors.

4.3.3 Question 3 - Late Payments by Customers

The statistics indicate that although SME's tender at best prices, they nonetheless overlook the eventual cost of credit arising from late payments and extended payments. Late payments or defaults in payments have serious effects on businesses with SME's being more vulnerable due to limited cash reserves in nonpayment events.

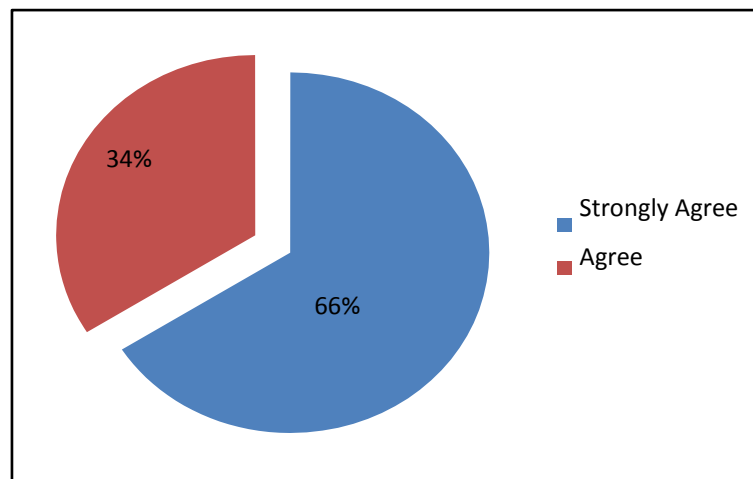


Figure 4.3: Late payments by customers and lack of information sharing create business credit risk resulting to business stagnation.

With regard to late payments and lack of information, 66 percent strongly agreed and 34 percent agreed that late payments by customers and lack of information sharing create business credit risk resulting to business stagnation. There were no disagreements to this statement. All SMEs interviewed agreed that late payments by customers and lack of information sharing create business credit risk resulting to business stagnation. Almost all sectors are evenly distributed agreeing to this statement.

The National Treasury is now forcing all public institutions to pay their suppliers within 30 days in order to alleviate the pressures this statement exerts on working capital of small businesses.

Table 4.4: Late payments by customers and lack of information sharing create business credit risk resulting to business stagnation

		Late Payments		Total
		Strongly Agree	Agree	
Sector	Energy Sector	4	1	5
	Food & Beverage	0	5	5
	Automotive	5	0	5
	Technology	4	1	5
	Mining	4	0	4
	Financial	1	2	3
	Communications	3	0	3
	Construction	0	1	1
	Tourism	0	1	1
Total		(66%) 21	(34%) 11	32

Objective Two: To ascertain the view of respondents concerning macro issues such as infrastructure ,public policy and support, stability of macro- economic regime and transparency as well as informal sector support.

4.3.4 Question 4 - Infrastructure

In South Africa a lack of adequate infrastructure is perceived in terms of transport, storage capacity, electricity supply, and water supply system. While these infrastructures are well spread in some areas, they are totally lacking in some especially rural areas and historically segregated areas.

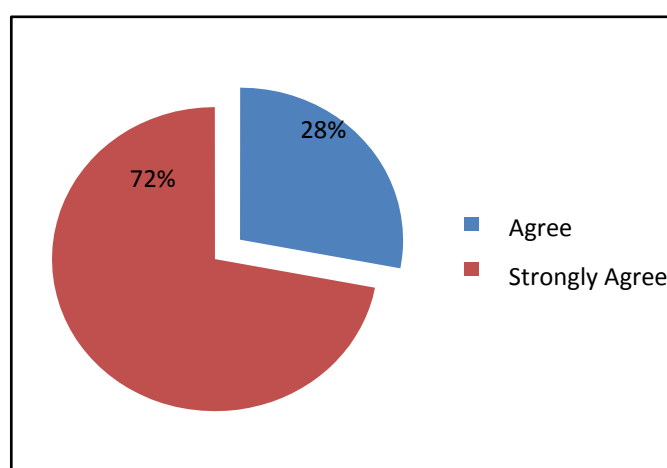


Figure4.4: Infrastructure development is generally considered an important determinant of business growth and a priority for public investment.

Infrastructure analysis shows that 72 percent strongly agreed and 28 percent agreed that infrastructure development is generally considered an important determinant of business growth and a priority for public investment. There were no disagreements to this statement.

Table 4.5: Infrastructure development is generally considered an important determinant of business growth and a priority for public investment.

		Infrastructure		Total
		Strongly Agree	Agree	
Sector	Energy Sector	4	1	5
	Food & Beverage	1	4	5
	Automotive	5	0	5
	Technology	4	1	5
	Mining	3	1	4
	Financial	2	2	3
	Communications	3	0	3
	Construction	1	0	1
	Tourism	1	0	1
Total		72% (23)	28% (9)	32

All SME owners interviewed agreed that infrastructure development is generally considered an important determinant of business growth and a priority for public investment. Food & Beverage sectors strongly agreed to the fact that infrastructure development is considered an important determinant of business growth and a priority for public investment. It is not surprising given the transport infrastructure required for this sector as well as energy and water infrastructure requirements. All other sectors are evenly distributed on this statement.

4.3.5 Question 5 – Public Policy

Response from 59 percent of the respondents expressed their desire to work in partnership with the government when it comes to economic development decision making processes, in which their views can be taken seriously by the government leaders. According to the respondent's views, the government should appreciate the fact that the country is being run down by rampant cases of poverty, crime, and corruption, which are derailing the process of economic growth. Stability in the political environment thus becomes imperative.

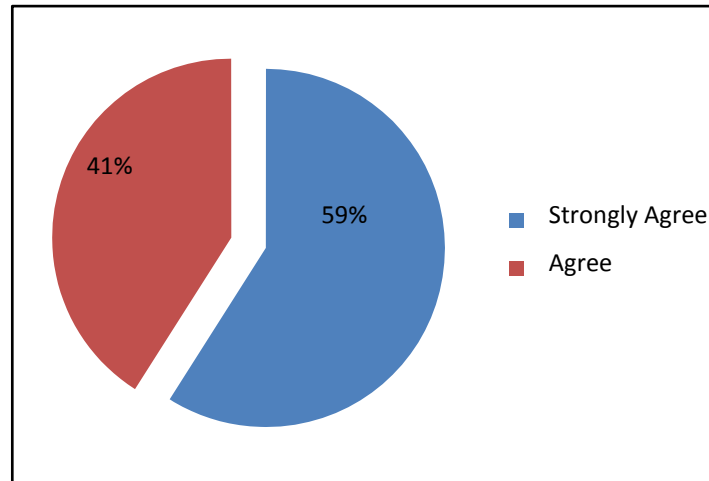


Figure 4.5: Revision and strengthening of effective public policies is fundamental for the effective use of domestic resource to business expansion.

With regard to the strengthening of public policies, 59 percent of respondents strongly agreed with the fact that effective public policies contribute positively to an enabling environment of business operations. However, the remaining 11 percent were undecided and were not really sure to which extent do public policies contribute to private business. The remaining 4 percent disagreed.

Table 4.6: Revision and strengthening of effective public policies is fundamental for the effective use of domestic resources to business expansion.

		Political Stability			Total
		Agree	Undecided	Disagree	
Sector	Energy Sector	2	3	0	5
	Food & Beverage	1	2	2	5
	Automotive	2	2	1	5
	Technology	3	1	1	5
	Mining	4	0	0	4
	Financial	2	1	0	3
	Communications	1	2	0	3
	Construction	1	0	0	1
	Tourism	1	0	0	1
Total		(53%) 17	(34%) 11	(13%) 4	32

Not all SME owners agreed that business development depends upon the achievement of political stability. It was also not anticipated that the statement would generate indecision and disagreement, as 34 percent and 13 percent out of 32 respondents were undecided and in disagreement respectively.

Critical evaluation of the aspect of public policy legislation should be considered to improve the likelihood of meeting increased and desired contribution of small enterprises to the growth of the South African economy.

4.3.6 Question 6 - Stable Macro –Economic Regime

Many small businesses also cannot stable macro economy to business success. It is often the prerogative of big business to do such analysis. For example, it is imperative to state here that the exchange rate has impact on small businesses. It is only that many small businesses are not able to identify a particular business risk to international transactions, but the implicit effect remains.

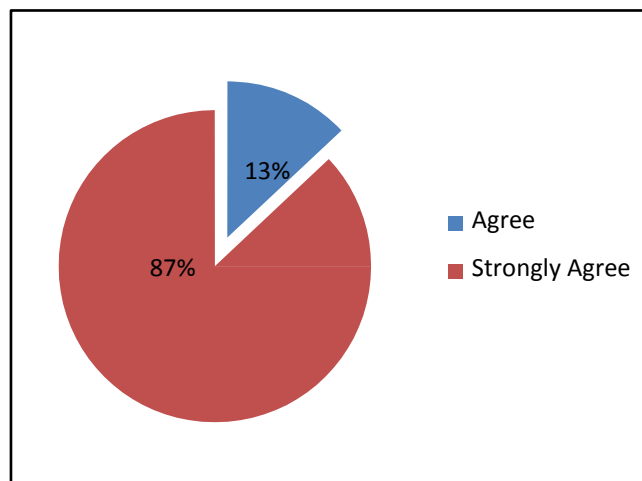


Figure 4.6: South Africa must have fairly stable macro-economic regimes, governed in a transparent manner, to keep interest and exchange rates stable.

With regard to the macroeconomic environment, 13 percent strongly agreed and 87 percent agreed that countries must have fairly stable macro-economic regimes, governed in a transparent manner, to keep interest and exchange rates stable. There were no recorded disagreements to this statement.

Table 4.7: South Africa must have fairly stable macro-economic regimes, governed in a transparent manner, to keep interest and exchange rates stable				
		Stable Macro-economy		Total
		Strongly Agree	Agree	
Sector	Energy Sector	2	3	5
	Food & Beverage	0	5	5
	Automotive	0	5	5
	Technology	0	5	5
	Mining	0	4	4
	Financial	1	2	3
	Communications	0	3	3
	Construction	1	0	1
	Tourism	0	1	1
Total		(13%) 4	(87%) 28	32

SMEs interviewed agreed that countries must have fairly stable macro-economic regimes, governed in a transparent manner, to keep interest and exchange rates stable.

The agreement with regard to interest rates can be linked to the government having kept the repo rate stable and even reducing it for a long time. However, some small business still view the interest rates as high compared to the offerings by other countries internationally especially in light of the recent global recession.

In many instances the exchange rate is not seen as a fundamental constrain by small business in the sense that very few of them have direct dealings with international clients. Many small businesses also cannot link exchange rate to local fluctuations in purchasing power. It is imperative to state here that the exchange rate has impact on small businesses. It is only that many small businesses are not able to identify a particular business risk to international transactions, but the implicit effect remains.

Objective Three: To evaluate the respondents perceptions of the impact of governance, political stability, and conversely the issues of crime and corruption on business growth.

4.3.7 Question 7 - Good Governance

Good governance is about equity, accountability, responsiveness and effectiveness and efficiency. Good governance is an ideal which is difficult to achieve in its totality.

Very few countries and societies have come close to achieving good governance in its totality, however to ensure sustainable development, actions must be taken to work towards this ideal with the aim of making it a reality.

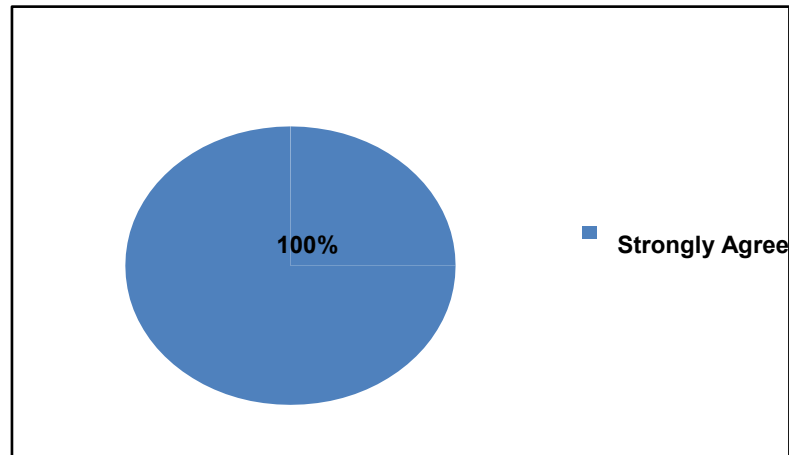


Figure 4.7: Good governance principles are of great importance in creating an attractive climate for investment.

All the small businesses interviewed strongly agreed that good governance principles are of great importance in creating an attractive climate for investment. There were no any other scored for this statement which resulted in a zero variance.

Table 4.8: Good governance principles are of great importance in creating an attractive climate for investment.		
	Good Governance Agree	Total
Energy Sector	5	5
Food & Beverage	5	5
Automotive	5	5
Technology	5	5
Mining	4	4
Financial	3	3
Communications	3	3
Construction	1	1
Tourism	1	1
Total	(100%) 32	(100%) 32

SME entrepreneurs interviewed agreed that good governance principles are of great importance in creating an attractive climate for investment in SA. There was no variation on this statement.

In South Africa good governance is not generally considered a problem and the nation is considered a constitutional democracy. However, the government need to protect the good work as business confidence can easily plunge on any suspicion of bad governance.

4.3.8 Question 8 – Political stability.

Political stability was quite within the comprehension of most of the SMEs in that public policy initiatives and drivers together with their relative impact on the cost of operation, a conducive marketplace and the cost of doing businesses.

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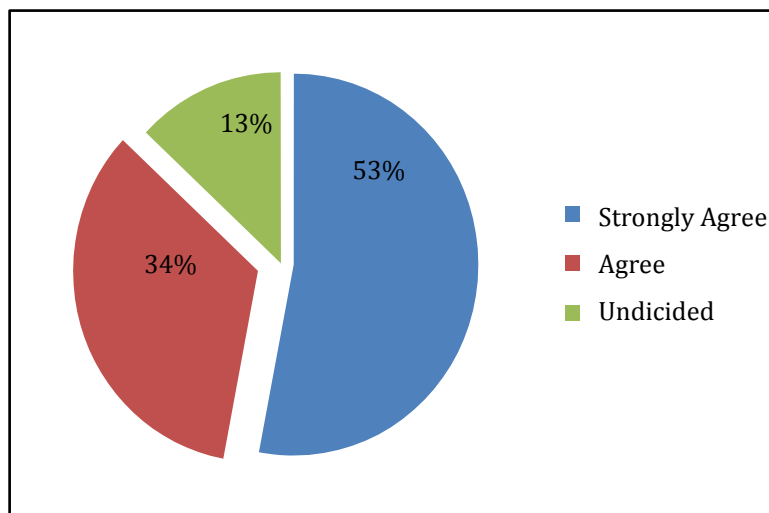


Figure 4.8: Business development depends upon the achievement of political stability

With regard to public policies, 59 percent strongly agreed and 41 percent agreed that revision and strengthening of effective public policies is fundamental for the effective use of domestic resources to business expansion. There were no recorded disagreements to this statement.

		Effective Public Policy		Total
		Strongly Agree	Agree	
Sector	Energy Sector	5	0	5
	Food & Beverage	1	4	5
	Automotive	0	5	5
	Technology	3	2	5
	Mining	4	0	4
	Financial	2	1	3
	Communications	3	0	3
	Construction	1	0	1
	Tourism	0	1	1
Total		(59%) 19	(41%) 13	(100%) 32

All SMEs agreed that revision and strengthening of effective public policies is fundamental for the effective use of domestic resources to business expansion. It is important to emphasise that public policy should be aimed at ensuring that the regulatory environment supports entrepreneurship.

4.3.9 Question 9 - Formalisation of Informal Sector

The importance of the informal sector as a source of new jobs is unmistakable. Data from Global Insight suggest that employment in the informal sector is approximately 12 percent of the total employment. The GEM 2010 report that Small and Medium Enterprises employ about 61 percent of South Africa's workforce, and business expansion is crucial for employment and growth.

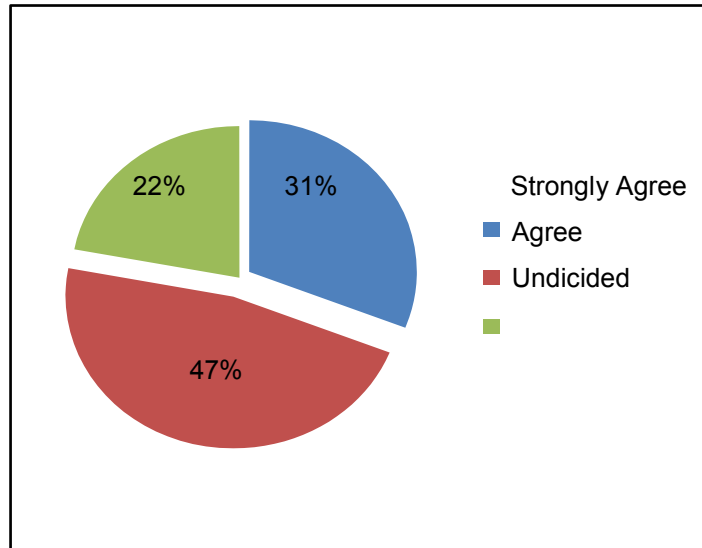


Figure 4.9: South Africa will manifest identifiable improvements in business growth if the informal sector is fully supported and transformed to the formal sector.

Some 31 percent strongly agreed, 47 percent agreed and 22 percent were undecided to the fact that South Africa will manifest identifiable improvements in business growth if the informal sector is fully supported and transformed to the formal sector.

Table 4.10: South Africa will manifest identifiable improvements in business growth if the informal sector is fully supported and transformed to the formal sector

		Formalise Informal			Total
		Strongly Agree	Agree	Undecided	
Sector	Energy Sector	0	3	2	5
	Food & Beverage	3	1	1	5
	Automotive	0	3	2	5
	Technology	1	2	2	5
	Mining	3	1	0	4
	Financial	1	2	0	3
	Communications	1	2	0	3
	Construction	0	1	0	1
	Tourism	1	0	0	1
Total		(31%) 10	(47%) 15	(22%) 7	32

The majority of SMEs interviewed had 31 percent strongly agreeing and 47 percent agreeing as well in that South Africa will manifest identifiable improvements in business growth if the informal sector is fully supported and transformed to the formal sector. However, 7 percent of the respondents were undecided.

Formalisation of informal sector comes with many benefits, for example, improved access to finance, access to business development support e.g. training & incubation from government, increased trust from clients, improved value chain linkages etc. The results were also shocking in the sense that 22 percent out of 32 small businesses were undecided. This could be a reflection of some small businesses that see opportunities of operating under the radar, as informal businesses. Some small businesses argue that there are huge opportunities for evading such things as tax and business regulation as well as opportunities for trading in illegal activities.

4.3.10 Question 10 - Crime & Corruption

Corruption is perceived to be a major hurdle when it comes to invest in private business. In a corrupt environment costs of doing business increase significantly in terms of resources needed to cope with expenses and risks

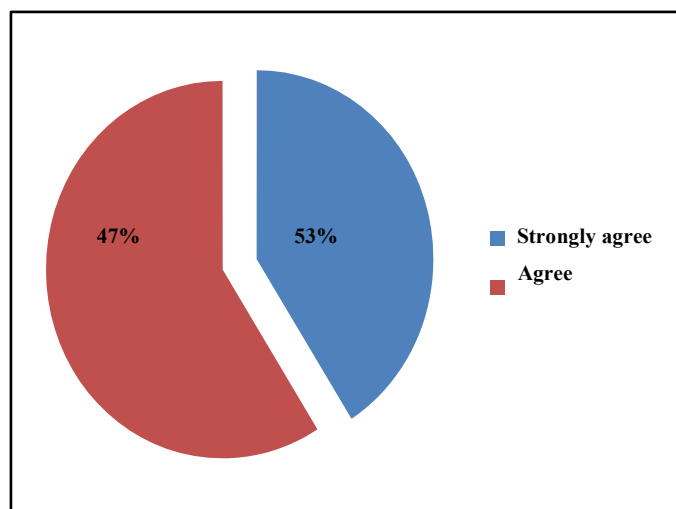


Figure 4.10: Crime and corruption are one of the biggest obstacles to business development and expansion.

Some 59 percent of respondents agreed that crime and corruption are one of the biggest obstacle to business development and expansion. There were no disagreements to this statement.

Table 4.11: Crime and corruption are one of the biggest obstacles to business development				
		Crime & Corruption		Total
		Strongly Agree	Agree	
Sector	Energy Sector	2	3	5
	Food & Beverage	1	4	5
	Automotive	4	1	5
	Technology	3	2	5
	Mining	3	1	4
	Financial	0	3	3
	Communications	0	3	3
	Construction	0	1	1
	Tourism	0	1	1
Total		(41%) 13	(59%) 19	32

All SMME owners interviewed agreed that crime and corruption are one of the biggest obstacles to business development and expansion. The automotive sector was more strongly agreeing to this statement followed by technology and mining.

Objective Four: Determining what factors respondents consider to be important to their survival and growth

4.3.11 Descriptive Analysis of Elements Affecting Business Expansion in South Africa

Below is the first stage descriptive analysis of elements that affect business development in South Africa. The descriptive elements shown in table 4.1 are further correlated and analysed together with frequencies of responses in the next section. The frequency analysis in the following section discusses how many respondents strongly agreed, agreed, undecided, disagreed and strongly disagreed with the statements relating to the business expansion constrains in South Africa.

Table 4.12: Descriptive Statistics business development in South Africa.

	N	Mean Score (from a scoring of 1 to 5)	Std. Deviation	Ranking
Business skill is generally considered an important determinant of business	32	1.34	.545	1
Access to internal and external finance is a major obstacle which deters business expansion	32	1.53	.507	3
Crime and corruption are one of the biggest obstacles to business development and expansion	32	1.59	.499	4
Infrastructure development is generally considered an important determinant of business growth and a priority for public	32	1.72	.457	5
Late payments by customers and lack of information sharing create business credit risk resulting to business stagnation	32	1.34	.483	1
Good governance principles are of great importance in creating an attractive climate for investment	32	2.00	.000	8
South Africa must have fairly stable macro-economic regimes, governed in a transparent manner, to keep interest and exchange rates	32	1.87	.336	6
South Africa will manifest identifiable improvements in business growth if the informal sector is fully supported and	32	1.91	.734	7
Revision and strengthening of effective public policies is fundamental for the effective use of domestic resources to	32	1.41	.499	2
Business development depends upon the achievement of political stability	32	2.59	.712	9
N	32			

The descriptive analysis indicated that the SMEs agreed that all the above factors impede their advancement in South Africa.

A ranking of constraints indicate that access to finance, a lack of business skills, effective public policies, late payments by customers and access to finance are the top priority for policy intervention.

The Treasury seems to have realised this that they promulgated the policy that the public sector should pay its suppliers within 30 days of securing their services. Political stability and good governance, while they are agreed as factors that constrain SMEs they are ranked comparatively lower. This is a reflection of the stable political environment in SA, which SMEs remain vigilant to and will respond adversely to any potential disruptions that may occur.

Further Investigation of Constraints Facing Private Businesses as they Attempt to Accelerate Growth and Expansion in South Africa

Below the individual constraints across all the interviewed 32 SMEs are analysed.

4.3.12 The Established Relationships Between Constraints that Impact on the Growth of Small Businesses in South Africa

The correlation matrix in the previous page attempts to establish the relationships between the elements already discussed in the descriptive analysis, which constrain the expansion of small businesses in South Africa.

A correlation matrix was run using SPSS in order to see any interdependence among the constraints of small businesses in SA. The correlation matrix above and the report that follow indicate the elements that constrain business development that were statistically significant at the 5% and 1% level. The results indicate that at least one of the variables (Good Governance) had zero variance and correlation coefficients could not be computed for all pairs of variables

- Access to finance is correlated to skills ($r = 0.885$) ($t = 0.005$). Highly skilled entrepreneurs are more likely to easily secure finance
- Access to finance is negatively correlated to late payments by the customers ($r = -0.717$) ($t = 0.004$). late payments by suppliers result in problems associated with access to finance as the financial outlook of those businesses becomes questionable

- Crime is negatively correlated with stable macroeconomic environment ($r = -0.617$) ($t = 0.003$). a stable macro economy is associated with low corruption as opportunities are opened up to wider small businesses
- Crime is negatively correlated with public policy ($r = - 0.793$) ($t = 0.061$). Good public policy results in low corruption.
- Public policy is positively correlated with stable macroeconomic environment ($r = 0.807$) ($t = 0.0025$) i.e. good Public policy results in stable macro economy.
- Infrastructure and political stability are positively correlated ($r = 0.673$) ($t = 0.052$) i.e. good political environment like SA is good enough for thriving infrastructure development.
- A weak positive correlation between Good public policy and the formalisation of informal sector ($r = 0.599$) ($t = 0.004$) i.e. good public policy somewhat has a positive bearing towards the drive to formalise the informal sector in South Africa.

4.4 Conclusion

The results for the SABD questionnaire demonstrated a consensus on the need for more focused economic policies in South Africa. The literature reviewed reveals that economic policies must be well established for business expansion. These common responses indicate that the private sector clearly depends on the public sector, including the government, policy makers, and public institutions, to carry the weight of fostering development, primarily through legislative and policy reform.

In this chapter, it has been identified that the private business sector is faced by a myriad of constraints. The following chapter, chapter five provides a discussion of the research findings.

CHAPTER FIVE

DISCUSSION OF THE FINDINGS

5.1 Introduction

In this chapter, the findings presented in the previous chapter, are discussed, by critically examining, summarising and providing interpretations in relation to the research question posed earlier. In South Africa, supporting small businesses is a panacea to creating jobs and alleviating poverty. The ripple effects of such interventions are enormous.

5.2 Challenges Facing Entrepreneurship in South Africa

A reasonable body of literature on factors deterring business expansion has been reviewed. Drawing on this literature the study identified a number of factors that relate to the current study. The most reviewed literature leads to the conclusion that entrepreneurship originates from the characteristics of an individual and business, the environment and the culture within which entrepreneurs operate, and finally, an exposure to business opportunities.

The literature points a lot out to entrepreneurs to possess specific personality traits as common factors to stimulate success, these are; a need for achievement, risk propensity, internal and external locus of control. However, Yolande Smit and Watkins J. A., (2012) argue that, the individual characteristics leading to an entrepreneurial success are only triggered when exposed to an enabling environment, in which an entrepreneurial opportunity is viewed as a viable option. Key areas addressed in the literature are factors which impede private business to grow. This is seen to arise from a combination of personal goals, organisational and business development skills, and external opportunity. The importance of training and business supports for entrepreneurs is also highlighted in the literature. Literature points to issues relating to the lack of business skills

Respondents report tax rates to be the most severe constraint followed by access to finance, electricity, macro instability and corruption. In South Asia, where financial sectors are more developed, electricity, corruption, tax rates and policy uncertainty are reported as more severe constraints than access to finance.

Literature revealed a gloomy picture of SA according to Census 2011 in terms of fighting unemployment (particularly youth unemployment) and reducing poverty, and increasing entrepreneurial rate is the only viable solution. Census 2011 quotes official unemployment rate in SA at 29.8 percent and the expanded definition at 40 percent. Youth unemployment remains a problem in South Africa above 35 percent. The highest unemployment rate is among black Africans - the expanded definition of unemployment rate for African women was 52.9 percent and for African men it was 39.8 percent. The unemployment rate among coloured women was 34.4 percent and among Indian women it was 23 percent. In contrast, the expanded unemployment rate among white men was 8.1 percent and 12.5 percent among white woman. These figures point to a losing battle for government if they don't make right their interventions and the coordination of available small business support.

South Africa experiences high numbers of small businesses that fail during their early years of operation Nieman, (2009). The majority of small businesses fail in the first two years of their existence. Although there are no precise figures, estimates show an alarming downward performance of the SME sector. These results are causing shock to the sector that the government has spent millions of Rands on to promote. In this research, it has been identified that the SME sector is faced myriad of constraints which will be discussed in the following sections.

The following section discuss the results obtained in the previous chapter and the author's argument is that if government is to turn around the above census figures to the better, it has to make right its policies towards promoting small business.

5.3 Findings from the Literature.

Objective One: To determine which micro-factors are important and could create business credit risk to business such as skills and experience, access to finance, late payments by customers and lack of information sharing

In much of the literature the study identified a set of factors inherent in business owners characteristics and behavior that appears to contribute to business failure.

A scan of the literature reveals that the characteristics and behaviors of the entrepreneurs or owner/managers bring to the business growth process appear to matter and are difficult to separate from the success or failure of the firm.

5.4. Business skills.

There is a growing body of literature attesting that the success or failure of small businesses is dependent on managerial competencies. It is widely accepted that lack of appropriate management skills is the primary cause for small business failure Herrington, Kew and Kew (2009). The distinctive feature of growth and failure is equated to education, training and experience of owners or managers. Problems experienced in businesses are experienced by the fact that most business owners have developed themselves with skills they are using in the daily running of their businesses. The current lack of an integrated and coordinated approach to skills development limits the potential of skills development to impact on private sector business development. Training on its own cannot solve the fundamental underlying problem of the lack of productive employment opportunities for the vulnerable SMEs.

5.5 Lack of Access to Finance

Access to finance was one of the major issues which came out as a critical factor in business expansion. It was revealed that a majority of the SME sector does not have access to adequate finance and appropriate forms of credit. The study indicates that, for SMEs with acceptable credit history and sufficient collateral, access to bank credit appears to have no problems. For start-ups, micro enterprises, entrepreneurs from the previously disadvantaged communities, SMEs have limited collaterals or weak credit history, and therefore their access is more limited.

5.6 Late payments

Large businesses play a pivotal role in fuelling the growth of SMEs, particularly, through guaranteeing revenue streams, which enhances development of their growth strategies.

Nevertheless, large businesses are also likely to be a significant hindrance on the growth of the SMEs as a result of late payments, capability to force cost reduction, as well as the requirement to adhere to strict procurement and audit practices.

On the other hand, the study revealed that even the same government which encourages an entrepreneurship culture was the worst when it comes to honour their payments in good time. This bad habit often affects financial planning with adverse and crucial impact on cash flow. A common trend is that payment of invoices often take six to twelve months to be honoured. In general, the inability of companies to be self-financing; having cash flow problems; or being dependent on borrowed money were all seen as significant barriers to growth.

Reports by Cape Business Times (July 2012) indicated that late payments by larger well established companies and government departments have played a leading role in limiting the businesses financial liquidity hence increasing the businesses credit risks Fin24, (2012). Coface operations director Jacqui Jooste. Although this is a dominant practice globally, multiple start-up businesses are suffering from the cost of extended credit. Statistically, the report revealed that the South African municipalities owed their creditors an estimated R1.4 billion by March 2012 compared to the 9.7 billion Rand at the end of the third quarter of 2011. The statistics indicate that although SME's tender at best prices, they nonetheless overlook the eventual cost of credit arising from late payments and extended payments. The First National Bank (FNB) report of 2011, also found that in South Africa, Small businesses or start-ups fail at the rate of nine out of every ten businesses within the first two years of operation, attributable to multiple reasons that include protracted payment by large corporations.

Objective Two: To ascertain the views of respondents concerning macroeconomic issues such as infrastructure, public policy and support, stability of macroeconomic environment and transparency, as well as informal sector support.

5.7 Infrastructure

Infrastructure impacts the geographic speed of economic activities, provides competitive inputs prices, skills, technology, and support to exports.

Though South Africa's infrastructure is considered to be highly developed by African standards, the country continues to lag behind in its infrastructure investment when compared with countries of similar development level. Inadequate investment, particularly in the area of electricity generation and transport is potentially serious given that these sectors have long been an integral part of the engine of growth and a central component of sustainable development in South Africa having been found to exert the largest and most robust impact on aggregate growth.

The reliability of power supply in South Africa is now being called into question given the performance of the electricity sector which has been below optimal in recent times. Also, the consequences of inadequate investment in the transport sector are manifest in bottleneck in ports and railway networks.

Thus one should expect that an increase in the efficiency of infrastructure should lead to a concomitant improvement in growth performance, service provision and development outcomes. Though currently requiring substantial investments to upgrade standards, South Africa's infrastructure is highly developed by African standards.

Akhalwaya, (2012) largely found that SA infrastructure spread is enigmatic, in that while it is among the most technologically advanced country in Africa, it is highly lacking in the same technology in some areas.

5.8 Public Policies

Poor formulation of regulations and unwanted bureaucratic burdens are businesses barriers, strict start up for enterprises and ongoing conduction of business environment result in

informality of the economy. Formulation of proper, transparent, well-communicated, and accountable regulations, including those that uphold environment and labor standards are good for society and market. These ensure boost complete competitiveness and formalization. Regulatory reformation and the eradication of constraints to business are not supposed to undermine the laid standards. A necessary, but not sufficient, condition for government intervention is evidence of market failure. Policy effectiveness is determined not only by the policy choices but by policy delivery. Conversely, the government should play a tremendous position in eliminating all the barriers that prevent fair competition in the SMME sector. Without a legal framework to enforce contracts, private business activities would not work.

Effective and formal legal framework guarantees all enterprises and citizens that contracts are upheld and honored. There is respect for the rule of law and security of property rights. This is a significant condition that not only acts in the attraction of investment, but also for the purposes of ensuring certainty, and establishment of fairness and trust in the society. Simple ownership should not define property. The extension of property rights is important in ensuring empowerment and has the ability of facilitating capital and credit. These also include the obligation for the compliance with the social established regulations and rules. SACCI noted that it has for long been concerned over the regulatory environment that confronted both large and small business activity. These regulations imposed compliance, administrative, and efficiency costs on business, and although it might be argued that these could be passed on to customers, few small businesses were in a position to shift the burden. These regulations included labour law compliance, various empowerment initiatives, financial intelligence compliance, levies and taxation. Access to funding poses a further impediment, and a lack of government incentives and appropriate support, particularly in the current economic climate, make it very difficult for entrepreneurs to take advantage of trade opportunities that may exist. With regard to ICT, SACCI stated that while an improved competitive telecommunications environment has emerged in recent times, the cost of telecoms remained uncompetitive in international terms. Mobile phones have changed the face of communications in South Africa, and must be regarded as a positive. The offset is the availability and cost of bandwidth that remains a drag on the business environment that strives to match first world requirements.

5.9 Stable macroeconomic environment

Stability of a macroeconomic environment is important for business and, therefore, is important for the overall competitiveness of a country. Although it is certainly true that macroeconomic stability alone cannot increase the productivity of a country, it is also recognized that macroeconomic instability harms the economy, as has happened in the previous years, notably in the European context.

Macroeconomic stability may deter investments by making future rewards more uncertain or may undermine the value of assets. Literature shows that the greater the level of instability, the lower the rate of private investment and growth. Instability also increases the risk of firms going bankrupt, suffering slower growth or contracting if political conflict ensues.

The macroeconomic environment faces South Africans through interest rates, exchange rates, inflation and credit conditions can be destabilized by those international shocks. The macroeconomic policy task is to provide a stable and predictable economic environment by offsetting such shocks as far as possible.

The South African monetary policy, designed to target inflation, is being conducted successfully by the South African Reserve Bank, achieving the current low rate of inflation and interest rates. Fiscal and monetary policy continue to work in partnership.

Monetary policy, operated by the Reserve Bank, continues to be focused on controlling inflation ensuring that fiscal policy is countercyclical within a sustainable long-term framework. Movements in the exchange rate affect different sectors of the economy in different ways, and present difficulties in macroeconomic policy for many countries.

Recognizing the impact of rand strength on the manufacturing industry, in particular, the government announced measures in October 2012 to moderate the potential effect of capital inflows. Foreign exchange regulations were amended to permit greater foreign investment by South African institutions.

Stepped up foreign exchange purchases by the Reserve Bank have partially offset upward pressures on the rand. As a result of these policy adjustments, and in line with shifts in investor sentiment globally, the rand depreciated from December 2010 to mid-February 2011 by about 19 percent against the US dollar, Euro and the British Sterling.

The literature reveals that a well-managed economy is characterised by a high level of predictability, particularly with regard to price movements due to inflation, interest rates and the availability of credit. This, results in better business planning, high levels of risk taking and superior risk management. Start-up businesses and SMEs in the expansion phase both require a high degree of predictability of the cost and the revenue side of their operations. In fact, the single most critical factor determining the risk premium attached to a small firm is the predictability of its revenue and expenses. Lack of predictability, in turn, translates into a higher cost of access to credit.

5.10 Formalisation of Informal Sector.

According to Doing Business (2012), countries with large informal economies find it hard to raise the revenue necessary for investment and the provision of public goods. South Africa has a very large informal business sector in terms of both number of operators and contribution to GDP. Despite the fact that this sector is operating outside the government laws, it adds great value to the human society. Informal sector provides a safety net for people who lose, retire, or are unable to find work in the formal economy, especially where population growth is outstripping the formal labor requirements and where basic skills, particularly numeracy and literacy, are lacking. In theory, informality is a ceiling on enterprise growth, because it denies entrepreneurs access to key services. It also denies them the ability to separate business and personal assets and thus increases risks and inhibits business growth.

Objective Three: To evaluate the respondent's perceptions on the impact of governance, political stability, and conversely, the issues of crime and corruption on business growth.

5.11 Good Governance Principles.

Good governance is acknowledged to be essential for the success of any organisation and is now more important than ever. Accountable private entities and public, democratic political outfits, transparency, responsible corporate relationship and efficacy in anti-corruption measures, are major preconditions the building of enterprises and market economies and ensuring good performance and will ensure responsibility to social values and uphold long-term strategies.

Members of boards, CEOs, and business Owner/Managers play a vital role in serving their causes and communities. They bring passion, commitment, skills and experience to the organisations they lead. They provide long term vision and protect the reputation and values of their organisations. To make a difference a board needs to have proper procedures and policies in place but it also needs to work well as a team and have good relationships within the organisation.

Governance is based on a set of principles that have developed over time to meet new challenges in areas such as, risk, finance, quality, probity, commerce and reputation. Understanding these principles helps those tasked with developing appropriate governance to apply sensible solutions.

According to the King 111 report (2009), the credit crunch, and the resulting crisis among leading financial institutions, is increasingly often presented as a crisis of corporate governance. However, although current problems are to an extent indicative of shortcomings in the global financial architecture, they should not be interpreted as reflecting dysfunction in the broader South African corporate governance models where value based principles are followed and governance is applied in substance and not only in form.

Good governance is essentially about effective leadership. Leaders need to define strategy, provide direction and establish the ethics and values that will influence and guide practices and behaviour with regard to sustainability performance.

5.12 Political stability

Political stability and peace are foundational requirements and preconditions for formation and the nurturing of sustainable enterprises while civil wars and conflicts deter investments and dwarf the development of the private sector.

It was noted that politicians need to reduce political squabbling and pay more thoughtfulness in providing for their constituents. The literature highlighted that public must be incorporated in both the political and developmental decision making processes, where their views are taken seriously by the government leaders. Thus, all communities in the country need to put their ethnic and political variances aside and work together toward consolidation capability building in South Africa.

5.13 Impact of Crime/Corruption.

In Finmark Trust (2006), the Finscope Gauteng Small Business Survey reported that approximately 25 percent of all SMEs were of the opinion that theft and crime were the leading challenges which they face. In addition, the South African Chamber of Commerce and Industry (SACCI) argue that SMEs are influenced by six core elements including labour, environment, corruption and crime, ICT, and lastly, the ease of doing business (Rau, 2009). Rau noted that during the first quarter of 2008, corruption and crime were the leading factors, followed by labor challenge, which affected most SMEs in the country. In its first quarterly review, SACCI reported that business robberies were increasing at an increasing rate. Besides, there was concern regarding the implications of the impacts of the reports of the media on corruption and white-collar crime. Particularly, these activities created a negative image of South Africa, causing unpleasant effects on trade and investment.

Corruption entails an unlawful agreement where two or more parties conspire to mutually benefit through exchanging favors and gains. Thus, corruption comprise of two crucial elements: demand side and supply side. When defining corruption, it is imperative to acknowledge that it is something that affecting various sectors of the society; particularly, both the private and public sectors, as well as the civil society sector. Due to the fact that corruption is most witnessed in commercial transactions, it does not mean that there is no corruption in other areas. In fact, corruption covers all areas, including accessing the various social services

5.14 Findings from the Research

Objective Four: Determining What Factors Respondents Consider to be important to Their Survival and Growth.

The biggest impeding factors for most participants were related to the difficulties encountered in lack of business skills, lack of access to finance, Late payments by contractors, lack of adequate infrastructure, public policy, stable macro economic environment, Governance principles, political stability, crime and corruption, formalization of informal sector accessing relevant information and advice, and to the costs involved in setting up a business, and lack of effective private business public policies.

SMEs have to deal with new sets of challenges that arguably threaten their ability to survive and prosper. Knowing how these issues affect businesses, and how they are coping, is essential.

Lack of business skills, access to finance and late payments by contractors were cited by most of the respondents as being the most biggest factors which they believed to be obstacle to growth.

It was important to note that most of the respondents were talking in general terms from their knowledge of the market and the experiences of other businesses, rather than necessarily talking about something which had affected them personally.

The most commonly reported reason cited to explain access to finance problems was banks not lending to businesses.

Corruption entails an unlawful agreement where two or more parties conspire to mutually benefit through exchanging favors and gains. Thus, corruption comprise of two crucial elements: demand side and supply side. When defining corruption, it is imperative to acknowledge that it is something that affecting various sectors of the society; particularly, both the private and public sectors, as well as the civil society sector. Due to the fact that corruption is most witnessed in commercial transactions, it does not mean that there is no corruption in other areas. In fact, corruption covers all areas, including accessing the various social services.

Access of information and advice, as well as training and development, many participants highlighted the difficulties they had initially experienced in identifying where and who to go to for support, what criteria was applied, and in participating in the application process. Many respondents quoted inability to get support from other entrepreneurs as they regard each other as competitors.

Late payments by big companies government constrain business growth. This causes entrepreneurs to live in on-going fear of bankruptcy accompanied by perceived difficulties in ever re-establishing themselves after a business failure. Form many entrepreneurs, what emerged most was significant cash flow problems, which create serious difficulties in turning their idea into a well-founded business.

5.14.1 Discussions, Conclusions and Recommendations Based on the Literature and Fieldwork

Factors that respondents report to be the most severe constraints to the growth of their businesses. The section identified and discusses ten dominant constraints.

Table 5.1: Analysis of quantitative Questions/Statements below illustrate the responses for each question and comment is made

Question	Strongly Agree	Agree	Undecided	Disagree	Strongly Disagree	Comments
Question 1 Business skill is generally considered an important determinant of business growth and a priority for entrepreneurs.	22	9	1	0	0	31 of the 32 respondents agreed that it is important to have business skills. The literature also supports this.
Question 2 Access to internal and external finance is a major obstacle which deters business expansion.	15	17	0	0	0	All respondents concurred. Weak financial and management skills make borrowers less attractive to the banks.
Question 3 Crime and corruption are one of the biggest obstacles to business development and expansion.	13	19	0	0	0	All 32 in agreement. Respondents identified corruption by government officials as a major cost to business and an impediment to growth.
Question 4 Infrastructure development is generally considered an important determinant of business growth and a priority for public investment.	9	23	0	0	0	All 32 respondents agreed. Literature sources support the need for good infrastructure and that it allows firms to become more productive, reduce costs and expand their businesses
Question 5 Late payments by customers and lack of information sharing create business credit risks resulting in business stagnation	21	11	0	0	0	All 32 respondents agreed. Clearly late payments by customers and lack of information sharing create problems for SME businesses.
Question 6 Good governance principles are of great importance in creating an attractive climate for investment	32	0	0	0	0	Good governance, including good financial accounting, is a necessary condition for financial investors in business.
Question 7 South Africa must have fairly stable macro-economic regimes, governed in a transparent manner, to keep interest and exchange rates stable	4	28	0	0	0	Macroeconomic instability is an important obstacle to access to finance particularly in the long-term decision making on long term loans.
Question 8 South Africa will manifest identifiable improvements in business growth if the informal sector is fully supported and transformed to the formal sector	10	15	7	0	0	25 respondents supported this statement though seven (22%) were uncertain. This appears to be driven by taxes that registered businesses have to pay and their perception that informal businesses do not.
Question 9 Revision and strengthening of effective public policies is fundamental for the effective use of domestic resources to business expansion.	19	13	0	0	0	All respondents concur that there is a need to monitor all relevant new regulations to assess their impact on SMEs, and minimise red tape
Question 10 Business development depends upon the achievement of political stability	17	11	4	0	0	The greater the level of instability, the lower the rate of private investment and growth. Only four respondents were uncertain, whilst 28 were in agreement.

5.15. Conclusion:

The fact that no respondents were in disagreement and a mere handful recorded their indecision indicates that the questionnaire does indeed cover issues that are pertinent to people in businesses and confirms the most binding constraints to trade growth. This table provides quantitative data confirming that items in the questionnaire are key issues concerning the constraints to business expansion. Chapter six presents concluding remarks based on findings and the development of knowledge in support of the objectives and outcomes of the research. The chapter presents recommendations for future areas of research in order to contribute more value to the outcomes of this research .

CHAPTER SIX

CONCLUSIONS AND RECOMMENDATIONS

6.1 Introduction.

This chapter evaluates the objectives of the study against the outcomes of the research findings. The objectives are stated and the results of the research are discussed, presenting correlations on whether there has been an achievement of the objectives in this study. On the basis of these findings the chapter expands to present benefits of the research, and recommendations on how to solve the research problem. Also included in the chapter are limitations associated with the study and recommendations to overcome such limitations. The chapter concludes with a summary of the discussions.

6.2 Data Findings.

It is evident from the literature review that quite a number of factors deter SME growth in South Africa. Based on the literature review and the analysis of the primary data which was collected in the survey, the study showed that there is quite some significant factors hampering the South African private business growth.

The study found that the major constraint is in the implementation of government support strategies for SMEs. The study identified lack of awareness and access to information amongst urban and rural communities with regard to these strategies. The findings indicate that there is a lag between enactment of framework policies and legislation at national level and their implementation through by-laws at local authority levels

The following key deterring factors were identified as challenges faced by SMEs in the country; Lack of adequate government support, Lack of entrepreneurial and financial management skills, problems to finance/credit access, crime and corruption, lack of infrastructure, instability of Macroeconomic environment, late payments by customers, formalization of informal sector, public policies perceived to impede the development of the sector, lack of governance principles and political stability.

These findings are confirmed by a study conducted by Rolfe, Woodward, Lighthelm and Guimaraes (2010), who endorsed that, the key factors mentioned above are regarded as negatively impacting on business development and expansion in South Africa.

It can be stated with a considerable degree of confidence that these constraints are the most critical deterrents of business expansion. Therefore, this section will present a summary of recommendations on these factors as obstacles to business growth.

6.3 Benefits of the Research

This research adds on to an ever increasing quest for knowledge on inhibiting factors in relation to conducting business in the country. The research therefore sets out an approach to evaluation that seeks to focus the attention of policy makers in this area with the intention of ensuring that policy is formulated and delivered in the interests of taxpayers, businesses and society more widely.

Lessons identified in this study would help business managers and entrepreneurial professionals to apply them in the training of workers in small and large organisations. The future policy making agencies will learn lessons to make meaningful plans and policies to prepare future generations for the future challenges of entrepreneurship. Government institutions can use the findings of this research in policy formulation and development of a framework to manage critical factors that affect business enterprises in the country. Other persons set to benefits from this research are academicians, educators, researchers and business community at large.

6.4 Recommendations Based on Research Objectives to Solve Business Problem.

Objective One: To determine which micro factors are important and could create business credit risk to business such as skills and experience, access to finance, late payments by customers and lack of information sharing.

In order to surmount the obstacles that deter growth of new SMEs in South Africa, key recommendations are presented. This study has led to quite a number of recommendations for both the entrepreneurs, government as well as civil society. Entrepreneurs with existing businesses and nascent entrepreneurs have to understand that, their businesses success is dependent on the effective application of competent plans and business innovation strategies. Private sector development relies on a partnership between the private and public sector.

6.5 Business Skills

Despite various support, programmes and structures that the South African government has implemented, the country still struggles to attract and increase the proportion of people who have confidence in their skills, knowledge and experience in starting and managing new enterprises to achieve business growth and economic sustainability.

The pronounced shortage of skilled Owner/Managers and skilled workers, especially financial experts is affecting the government's capacity to manage programme spending and social service delivery. Government should urgently implement intervention strategies as a corrective action to avoid factors that inhibit long-term economic growth in the country.

Skills around entrepreneurship and small business management need continuous nurturing focusing on financial management, marketing and pricing, human resources management, among others. The critical role-players in this regard are provincial and local municipalities, Sector Education Training Authorities (SETAs), NGOs and the private sectors. Training should focus on both the more generic as well as sector specific issues.

6.6 Access to Finance.

Among the key constraints to SME growth is the issue of inaccessibility to affordable financial terms. An improved environment and conditions for SME borrowing is critical for the future development of the sector. There is a government need to constantly formulate approaches that create a conducive environment for SME borrowing.

Government should achieve additional impact in short to medium and long terms by taking action specifically directed at facilitating financial market activity that helps improving access to finance. Loans provided to the new SMEs should have a capital with interest charges below market rates as an incentive. These funds can be in the form of credit- guarantee schemes and direct-credit funds through government-owned institutions.

6.7 Late Payments

Late payments in commercial transactions are still a widespread practice in South Africa. According to Gerrie van Biljon (2012), executive director at Business Partners, a specialist risk finance company for SMEs, late and protracted payments by government, large corporations and state agencies often exert increasing unnecessary pressure on a number of SMEs. Under these circumstances, this practice leads to a failure of many sound and viable businesses.

Many small businesses are reluctant in pressuring large clients for payment as they fear it could damage the relationship they have with such clients. One option is to outsource invoicing and collections to an outside supplier, who is able to chase late payment on the supplier's behalf." Adds van Biljon (2012).

Government departments should honour contractual obligations and prompt payments should be a primary mandate of the Chief Procurement Officers. All Government departments should be performance managed and should be audited on adherence to a 30-day rule and such assessments should be included in their annual reports.

The promptness of payment should become part of government leader's performance agreements. Government should establish an immediate system of referral to an independent Government Procurement Ombudsman where the government payments are in arrears of 60 days or more.

Objective Two: To ascertain the views of respondents concerning macro issues such as infrastructure, public policy and support, stability of macro- economic regime and transparency as well as informal sector support.

6.8 Infrastructure

Physical infrastructure in the form of business premises, offices, markets stalls, water and electricity are key ingredients to SMME development. Business premises should enjoy opportunities to be accessible to affordable electricity. Government and other players have a responsibility of ensuring that water, telecommunication, actual commercial and industrial parks are available for use by SMEs. This calls for an urgent intervention by government to review and address ,the problems of power shortage and transport bottlenecks which are expected to become acute in the coming years and could pose a serious threat to sustained economic growth and international competitiveness for the count.

The government has to support fundamental infrastructure such as roads, public transportation, water supply and electricity installation, hospitals, environment and community care, as well as the removal of tariffs and improving access to technology and information management systems. For example, with a good internet service and the availability of modern technology and information systems, as well as business management know-how, this can facilitate long distance communications among entrepreneurs and employees, their customers and other stakeholders. The government should improve transport and communication facilities so as to reduce the operational costs of SMEs. Researcher's indicate that the liberalisation of the telecommunications sector will allow for increased competition hence there is demand to reduce costs of telecommunication. Government should increase the reliability of power in both rural and urban areas.

6.9 Public Policy

Government should reform policies and amend laws and regulations which bias against SMEs. The regulatory and policy environment play a crucial role in encouraging growth within the SME sector. The study suggest, government's policies should facilitate and encourage business start-ups Policies should support the survival and growth of established businesses. These policies should support narrowing of historical inequalities in participation by previously disadvantaged Owner/ Managers including women in business. Regulations should not inhibit the growth of the sector, but should rather encourage movement from one class or size to the other, for example,. small enterprises growing to become medium sized enterprises. The government should eliminate certain expensive regulatory requirements and add flexibility in the implementation of regulations.

6.10 Stable Macroeconomic Policy.

Monetary, fiscal and exchange rate policies should guarantee stable and predictable economic conditions. Sound economic management should balance the twin objectives of creating more and better jobs with combating inflation and provide for policies and regulations that stimulate long-term productive investment.

Attention should also be given to increasing aggregate demand as a source of economic growth contingent on national conditions. In the case of developing and least developed countries, achieving sound macroeconomic conditions usually requires the decisive support of the international community through debt relief and official development assistance.

6.11 Formalisation of Informal Sector.

According to Doing Business (2012), countries with large informal economies find it hard to raise the revenue necessary for investment and the provision of public goods. Consequently, service delivery deteriorates, and to some extent causing a vicious circle, where business are unwilling to pay taxes.

Besides, a significantly large informal economy is associated with a weak environment for advocating policy, based on the argument that there are less economic actors to champion for reformation of policies. Both the business community and government should consider advocacy and presentation of the SMME sector to advocate for new programmes, strategies, policies, and other forms of support. Therefore, encouraging formalization promotes state stability as well as enhancing dynamic for reform.

The Government should undertake interventions to address the needs of the informal sector segments in the country. It is important to have a reliable data about the size and composition of a country's informal sector. This will enable government and other agencies to be able to implement effective macro- and micro-economic policies. Government should embark on a campaign to transfer informal businesses to a formal status. Measures to encourage the formalisation of enterprises should first address factors perceived to be hindering their growth, and discourage their participation in formal societal institutions.

Objective Three: To evaluate the respondents perceptions on the impact of governance, political stability, and conversely the issues of crime and corruption on business growth.

6.12 Good Governance.

Integrity is a basic need for conducting and implementation of business strategies to ensure success. This integrity is terms of business' financial performance and observation of ethical actions and decisions that look beyond legal provisions. Social discrimination, poor decision-making, corruption, and limited chances for holistic participation pose challenges to business enhancement amongst the South African societies.

There are community-based lobbies advocating for the implementation of an efficient, transparent, and democratic systems of governance dependent on strict observation of social justice and the rule of law. The higher learning institutions and various government bodies should take this responsibility up and introduce degree programmes that focus on training professionals in different community management fields.

These qualified professionals should be absorbed into governmental and political structures to ensure effective and efficient management practices.

It is the responsibility of a good and effective government to ensure advancement and implementation of total regulatory reformation for delivery of these regulations that ensure public policy aims will have positive results on the society and the economy. There is need for integration of these measures in a conclusive policy cycle where regulations are formulated, evaluated, assessed, modified, and implemented by governmental institutions, and draws support from the suitable organisations.

SMMEs should present relevant, reliable and audited financial statements as an important aspect of good governance principles. The public sector entities should prepare their own financial statements. The legislative auditor or other external auditor, as an independent, objective auditor, should provide assurance to the users through the expression of generally accepted accounting principles. Strengthening ethics and accountability is an organic process which requires an ongoing commitment by boards and staff members of individual organizations.

6.13 Political Stability

Political stability and peace are foundational requirements and preconditions for formation and the nurturing of sustainable enterprises while civil wars and conflicts deter investments and dwarf the development of the private sector. Provision of essential services, accountability and civic participations are the precursors for political stability in South Africa. SMMEs should be recognized, empowered and protected. Freedom of expression is a key ingredient of transparency and governance principles.

Government, and private sectors should avoid interfering with the independence and freedom of the media. This implies that the influence of both the government and politics should not affect the media. In addition, the government should also ensure that equality on information accessibility is enhanced. There should be no restrictions on formation of political parties, and their protection should be guaranteed.

6.14 Crime/Corruption

Crime and corruption in both the public and private sectors have adverse impact on new business start-ups, There is a need to increase efforts to deal with these two factors. To reduce crime of this nature the following measures need to be considered:

- Massive economic development and a growth in the informal sector to create jobs and eliminate unemployment as much as possible.
- The development of suitable human settlements in which people can live a meaningful life and develop a strong, positive self-esteem.
- Providing education to the youth that will develop their discipline, self-esteem, entrepreneurial skills and understanding of crime, as well as the dangers of being drawn into it.
- Policing projects geared to achieve the above strategies.

Corruption needs to be tackled from the central government point of view. Addressing corruption requires different participatory approaches. Government, citizens and all civil societies should play a role in ensuring that our communities are rid of crime and corruption. Government should improve the “Whistle Blowing Strategy to be more effective than it is now. Corruption hotlines alone are not enough to address this problem.

Objective Four: Determining What Factors Respondents Consider to be important to their Survival and Growth.

Other factors that impede business development in South Africa are discussed below.

6.15 Burden of Bank Charges for SMEs.

Inflated administrative and transaction costs of lending or investing small amounts do not make SME financing a profitable business.

In addition to other factors, the greatest limitation to accessing finance is the high cost of accessing SMMEs’ credit information. The SMME financing business is sometimes unviable, because of exaggerated transaction and administrative costs of lending. Thus, it is perceived that commercial banks favor corporate borrowers, irrespective of their catchy business plans, reliability in terms of financial information, high success chances and

viability for banks, as well as credit ratings. In the case of SMMEs, the high cost of accessing finances from banks is associated with the risk that the banks assume. The government has an advantage over the SMEs when borrowing from commercial banks, which explains why the public sector crowds out the private sector.

6.16 Meeting Needs for Formal Financing.

Presently, there exist discrepancies in matching between entrepreneur's eligibility and funding mandates. Entrepreneurs typically possess privileged information on their businesses that cannot be easily accessed by lenders. Lack of knowledge of clients and of information on client's credit profiles, lack of audited financial statements, and so, they cannot appraise risk properly. In order to counter these problems, government should introduce compulsory audit requirements that are subsidised.

This approach needs to be clearly spelt out in terms of its benefits and the reasons of such compliance thereof, so that the resistance can be minimized. All audited small businesses should then be loaded on the government database and government should transparently publish the benefits in terms of increased access to finance by the complying entrepreneurs.

6.17 Research and Development

Research and Development will support research for the benefit of SMMEs

The research and Development support will revolve around outsourcing research to research service providers including universities, research centres. Government should budget for funds to be allocated to support research on behalf of SMMEs. This will also help high-tech SMMEs with the requirement to outsource research to complement their main research capability.

6.18 Training and Development

The government should take an initiative of promoting small business owner's managerial skills, through building on the existing programmes as well as working on new strategies. In addition government should enhance efficiency in business and manufacturing, skills are also vital for the country.

As such, it is imperative to evaluate and identify factors that enhance efficiency and survival of SMMEs, which could be accepted as the standards of the upcoming SMMEs. This could be done starting with integrating important business skills such as communication, business systems, financial management, and computer literacy into SMEs' training programmes in the entrepreneurship process entirely. Government departments should take the responsibility of developing training interventions for all identified sets of skills. Furthermore, a training plan should be developed to cater for the upcoming entrepreneurs and school leavers. Perhaps, such plan should concentrate not only on the soft skills, but also on both management and technical skills, specific to particular sector of SMME operation. Existing SMEs should conduct skills audit and analyse their strengths and weaknesses in each of the skill's categories. They should also enroll themselves in outcome based skills development programmes that furnish them with competence in the identified key skill areas.

6.19 Technological Support

Business development studies recognise technology as engines of economic growth. In the context of South Africa, most national strategic plans should focus on the importance of developing technology and knowledge to sustain economic development, reduce poverty, promote and strengthen national innovation systems and ultimately increase economic growth. In most economies, competitiveness is dependent on the ability to incorporate new technology and management practices. Improved technology assists in the development of SMME competitiveness, particularly in the design of goods and services. A key role by SME development players is the identification and secondment of ICT companies that assist in developing the technology of SMME firms. Therefore, governments cannot afford to neglect any of the key drivers for technology if they wish to create a virtuous circle for technological development.

6.20 Improving Provision of Education Including Curriculum in Academic Institutions:

Academic institutions are vital stakeholders in developing and enhancing the capability of SME entrepreneurs. They should offer subjects relating to effective development of

entrepreneurs and business management from the Lower-Secondary School levels hence, students are assumed to require such knowledge at early stage levels of development. This study confirms that the moment is right for a significant evolution of entrepreneurship education in the South African universities. The reform of existing universities is influenced by high levels of interest in entrepreneurship for students, university faculties, university administrators and policy makers. South Africa has an opportunity to integrate the most relevant and high-quality entrepreneurial practices into higher education institutions. This should be a long-term commitment, however, not one that starts and then stops a few years later.

Sustainability is a key issue. This means the objectives of these programmes should be clear from the start and outcomes should be measured to ensure that the intended results are being delivered.

6.21 Labour Unrest

As a recommendation, the government should address the numerous labor unrests issues which have negative impacts on the South African business environment. The on-going, violent labour unrest in South Africa has greatly impacted on private sector businesses. The impact of the current labour unrest, despite being mainly in the mining and agricultural sectors, has gone beyond these sectors, straining private business in other sectors such as the manufacturing industry and moreover loss of business confidence levels of South Africa. Specifically, forced stoppages saw the South African mine industry lose an estimated \$543 million in October 2012, which in turn affected other sectors of the economy. Labour unrest tends to cripple the economy and tarnish the country's image globally besides causing enormous losses to the private business owners

In addition to the country and the specific industry affected losing its competitive edge, it discourages foreign investment. The major causes of labour unrests in South Africa remains low wages, irregularities in payment, mistreatment of workers by managers, absence of trade unionism, non-execution of trade laws and the unruly nature of workers.

The introduction of flexible employment contracts and making part time work more accessible in the South African labour market may be key to address unemployment menace. Since 2000, South Africa's temporary or part time workforce has grown by 11.9

percent per annum compared to an average annual decline of 1.5 percent in the permanent fulltime workforce. Normally population growth is an indication that more skilled workers will be available in the labour market. There are myriad reasons why people drop out of the labour market. Family responsibilities may be a reason that a person decides to leave the formal employment market.

6.22 Lack of Information

The studied literature has indicated that although some support policies are in place for the development of SMMEs, it serves no purpose if the key role players and the communities are not aware of this support. It is therefore highly recommended that all the key role players, including the local authority and the local business chambers, should equip themselves with the understanding of the government policies and the wide range of support available to their SMME sector development.

Access to information, advice, market and procurement opportunities SMMEs require information that is accessible within their localities and also easy to understand. Such information is not readily available in rural areas. The challenge is on how the different government agencies can make the accessibility and availability of such information easy.

Advice on business planning, marketing strategies, financing opportunities and franchising opportunities are needed most by the micro, survivalist and start-up ventures. To grow their businesses, SMMEs also require information on how to access both markets and government and procurement opportunities.

Government should establish dedicated one stop information desks domiciled within the municipalities in all nine provinces. The situation at the moment is that no desk at both provincial and local levels is dedicated to SMME development. Provincial desks should coordinate activities within the local municipalities, which should avail information on SMME support services. Equally important is the need for the desk to ensure cooperation among various support services and across sectors.

Equally important is the need for the desk to ensure cooperation among various support services and across sectors.

To some degree, the high SMME lending risk is attributed to the lender's poor understanding of their clients, and the information provided in the profiles of the clients and their histories. Ideally, lenders could easily avoid the high cost associated with viewing and monitoring clients, through establishing and using a credit bureau to provide information on the clients.

6.23 Limitation of the Study

Consequently, it is not clear how many small businesses there are, how many people they employ and what the sector contributes to GDP SBP, (2009b). Effective interventions for small businesses requires various fundamental principles, an understanding of this sector, as well as the explicit limitations facing SMEs and their ability to deal with the same (FinScope, 2010). In addition to other limitations, lack of enough and accurate information pose a big challenge for SA in creating effective policies as well as schemes that promotes the SMEs (Timms, 2011). Development initiatives of the SMEs must actually start from the actual level at which the SME operate, and should be targeted exclusively in the various sectors and value chains, as well as in the explicit localities to address the varied characteristics, constraints, needs, and opportunities of the SMEs (SBP, 2009). To increase tax revenue wages as well as the productivity of existing informal firms, it is important for these firms to be registered. Secondly, there is a limitation of empirical studies on challenges facing firms in registering and how these challenges vary across informal firms, hence this is another area that requires further research to improve this study. Registration challenges are less rigorous for opportunity compared with necessity entrepreneurs.

The problem of data has been identified in a number of forums and publications. Not only are the information sources poor, but can also be very difficult to access, including the official statistics SBP, (2009). Also to be encouraged is the consistent use of categories (preferably those defined by the Act) by all state agencies and private sector data bases and research studies to facilitate comparability SBP, (2009). The FinScope Small Business Survey undertaken in 2010 goes a long way in addressing some of the issues noted above. For the full benefits to be derived from this initiative, however, the definition of the SME sector should be agreed in consultation with relevant stakeholders and the survey

conducted at regular intervals to provide time series data and facilitate impact assessments of the various interventions over time.

6.24 SUGGESTION FOR FURTHER RESEARCH

Selecting just the Gauteng province may be considered a limiting factor. Additionally, the number of industry sectors represented may not be the same in other provinces and the support received by SMEs in different provinces may not be the same support enjoyed by each of the provinces in the country. However, due to time constraints, the Gauteng Province was a more manageable sample than looking at all nine provinces of the country.

Eventually, the research sample of informal SMMEs was obtained from a different data source; the South African Local Government Association (SALGA). The entire private business sector data base was therefore limiting. There was no comprehensive data base differentiated according to different sectors existed in the country at the time of this research. As a result, despite a strong trend of the private sector business research, many issues around SME characteristics, and SMME development, in South Africa remain relatively unclear.

The limitations of this study highlight a number of prospects for future research. Firstly, a comprehensive study could be conducted in the country on a province by province basis to determine if the barriers hindering SMME growth in Gauteng province are the same factors impeding SMMEs in other provinces.

Registration of informal firms is of critical importance in improving tax revenue, wages and productivity of the existing informal firms. Secondly, empirical studies on the obstacles which firms face in registering and how these obstacles vary across different types of informal firms is extremely limited and could be considered as another area for further research to beef up this study.

6.25 Summary.

In South Africa, small businesses encounter various challenges, which are well known for the failure of business. Nevertheless, it is imperative to note that the causes of failure are not uniform, but varied in nature. In this study, the various causes of business failure were highlighted. Some of the identified causes include, lack of enough capital, limitations in business skills, corruption and crime, poor infrastructure, poor governance, as well as poor public support policies. Based on the findings of the study, realistic actions were developed on how to triumph over these factors deterring business growth. The aim is to help the business owners to design business strategies that stimulate business growth. Undoubtedly, SMMEs play a pivotal role in national economies globally.

Thus, there is need to support them, in an attempt to enhance the growth of the economy, creation of employment opportunities, as well as social and economic cohesion. Many a time, SMMEs are considered one of the cornerstones of a sound economy, and their input in a competitive economy is recognisable.

Literature evidence has proven that supporting the human and institutional capacity of any society contributes to tremendous growth and development of the society.

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APPENDIX 1

Business Expansion Constraints Questions

Your name _____

(This, and all information, will be kept confidential)

Company name _____ Business sector (e.g.,
food & beverage, technology)

Manufacturing	Mining	Agriculture	Construction	Transport	Energy	Science & Technology	Food Processing	Service/Commerce	Other

South Africa Business Development Questionnaire

The questionnaire presents statements related to constraints faced by small businesses in their endeavour to grow. Drawing upon your own knowledge and experience, please evaluate each statement in terms of extent to which you agree or disagree, using the following scale:

(Strongly agree =1) (Agree =2)(Undecided = 3) (Disagree = 4)(Strongly disagree =5)

Question 1

Business skill is generally considered an important determinant of business growth and a priority for entrepreneurs.

(Strongly agree =1)	(Agree =2)	(Undecided = 3)	(Disagree =4)	(Strongly disagree =5)

Question 2

Access to internal and external finance is a major obstacle which deters business expansion.

(Strongly agree =1)	(Agree =2)	(Undecided = 3)	(Disagree =4)	(Strongly disagree =5)

Question 3

Late payments by customers and lack of information sharing create business credit risk resulting to business stagnation

(Strongly agree =1)	(Agree =2)	(Undecided = 3)	(Disagree =4)	(Strongly disagree =5)

Question 4

Infrastructure development is generally considered an important determinant of business growth and a priority for public investment.

(Strongly agree =1)	(Agree =2)	(Undecided = 3)	(Disagree =4)	(Strongly disagree =5)

Question 5

Revision and strengthening of effective public policies is fundamental for the effective use of domestic resources to business expansion.

(Strongly agree =1)	(Agree =2)	(Undecided = 3)	(Disagree =4)	(Strongly disagree =5)

Question 6

South Africa must have fairly stable macro-economic regimes, governed in a transparent manner, to keep interest and exchange rates stable.

(Strongly agree =1)	(Agree =2)	(Undecided = 3)	(Disagree =4)	(Strongly disagree =5)

Question 7

Good governance principles are of great importance in creating an attractive climate for investment

(Strongly agree =1)	(Agree =2)	(Undecided = 3)	(Disagree =4)	(Strongly disagree =5)

Question 8

Business development depends upon the achievement of political stability

(Strongly agree =1)	(Agree =2)	(Undecided = 3)	(Disagree =4)	(Strongly disagree =5)

Question 9

South Africa will manifest identifiable improvements in business growth if the informal sector is fully supported and transformed to the formal sector.

(Strongly agree =1)	(Agree =2)	(Undecided = 3)	(Disagree =4)	(Strongly disagree =5)

Question 10

Crime and corruption are one of the biggest obstacles to business development and expansion

(Strongly agree =1)	(Agree =2)	(Undecided = 3)	(Disagree =4)	(Strongly disagree =5)

Appendix 2

Semi-Structured Interview Questions

In your opinion, which government policies, and/or the way they are administered, serve as a hindrance to African businessmen in promoting African enterprises?.

What do you perceive to be the key drivers that will facilitate small business development in South Africa over the next ten years?

1. What do you perceive to be the key drivers that will facilitate small business development in South Africa over the next ten years?

2. What do you see as the likely impact of each of these key drivers on the objective of sustainable economic development in South Africa?

3. What do you perceive to be the major constraints to sustainable economic Development in South Africa?

4. What do you believe are the top three priorities that need to be addressed to support small business development activities in South Africa?

5. What type of legislation should be considered to improve the likelihood of achieving sustainable small business development objectives?

6. What do you think needs to be done by South African government to encourage investor protection, particularly among small businesses in the markets?

7. How do you think the political situation in South Africa is affecting economic growth?

8. What immediate economic development strategies can South Africa create enabling climate for small business expansion?

9. How do you believe sustainable economic growth is hindered and/or supported in the sector in which you work?

APPENDIX 3

Informed Consent Letter 3C

UNIVERSITY OF KWAZULU-NATAL

GRADUATE SCHOOL OF BUSINESS AND LEADERSHIP

Dear Respondent,

MBA Research Project

Researcher: Zulu Bunono Mafuya (012-9985831)

Supervisor: Alec Bozas(0823344477)

Research Office: Ms P Ximba 031-2603587

I, Zulu Bunono Mafuya an MBA student, at the Graduate School of Business and Leadership, of the University of Kwa-Zulu Natal. You are invited to participate in a research project entitled “ Factors Deterring Business Expansion in South Africa”.

The aim of the research is to establish sources of slow growth in the South African economy, with a view to making recommendations on how corrective actions of such constraints could be addressed.

Through your participation I hope to understand factors deterring SMME business expansion in South Africa. The results of the focus group are intended to contribute to the development and the implementation of effective economic policies that contribute to a sustainable economic development in South Africa.

Your participation in this project is voluntary. You may refuse to participate or withdraw from the project at any time with no negative consequence. There will be no monetary gain from participating in this survey/focus group. Confidentiality and anonymity of records identifying you as a participant will be maintained by the Graduate School of Business and Leadership, UKZN.

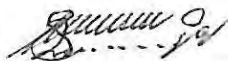
If you have any questions or concerns about completing the questionnaire or about participating in this study, you may contact me or my supervisor at the numbers listed above.

The survey should take you about 45 minutes to complete. I hope you will take the time to complete this survey.

Sincerely

Zulu Bunono Mafuya

Investigator’s signature.



_____ Date ; 31 May 2012. _____

This page is to be retained by participant

**UNIVERSITY OF KWAZULU-NATAL
GRADUATE SCHOOL OF BUSINESS AND LEADERSHIP**

MBA Research Project

Researcher: Zulu Bunono Mafuya (012-9985831)

Supervisor: Alec Bozas (0823344477)

Research Office: Ms P Ximba 031-2603587

CONSENT

I..... (full names of participant) hereby confirm that I understand the contents of this document and the nature of the research project, and I consent to participating in the research project.

I understand that I am at liberty to withdraw from the project at any time, should I so desire.

SIGNATURE OF PARTICIPANT

DATE

.....

This page is to be retained by researcher

Correlation Matrix of Factors that Constrain the Expansion of Small Businesses in South Africa

				Crime/ na		Late Na	Good na	Stable Macro Economy	Formalise	Public	Political
	Sig.(2- tailed)	na	na	na	na	Na	na				
	N	32	32	32	32	32	32				
Stable Macro Economy	Pearson Correlation	.242	.213	-.617**	.394*	-.323	0.32	1			
	Sig.(2- tailed)	.182	.242	.003	.026	.071	0.27				
	N	32	32	32	32	32	32	32			
Formalise Informal	Pearson Correlation	-.159	-.035	-.283	.111	-.179	. ^c	-.180	1		
	Sig.(2- tailed)	.386	.848	.116	.545	.326		.325			
	N	32	32	32	32	32	32	32	32		
Public Policy	Pearson Correlation	.419*	.522**	-.793**	.093	.205	. ^c	.313	.599**	1	
	Sig.(2- tailed)	.017	.002	.061	.613	.260		.081	.004		
	N	32	32	32	32	32	32	32	32	32	32
Political Stability	Pearson Correlation	.122	.260	-.207	.673**	.044	. ^c	.051	.110	.807**	1
	Sig.(2- tailed)	.506	.151	.255	.052	.811		.783	.549	.0025	
	N	32	32	32	32	32	32	32	32	32	32

** .Correlation is significant at the 0.01level (2-tailed).

* .Correlation is significant at the 0.05 level (2-tailed).

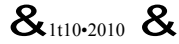
N/A Cannot is computed because at least one of the variables is constant.

Table

APPENDIX 5

Humanities & Social Science Research Ethics Committee

ccSupervisorAle<:BozascMsWendyOarke



100 YEARS OF ACADEMIC EXCELLENCE

Founding Campuses:

— Edgewood

— Howard College

Medical School

— Pietermaritzburg

— Westville

Turnitin Originality Report

Turnitin Originality Report z mafuya by Zulu Bunono Mafuya

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4

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[Submitted to University of KwaZulu-Natal on 2012-01-30](#)

Appendix 6.



Research Office, Govan Mbeki Centre
Westville Campus
Private Bag x54001
DURBAN, 4000
Tel No: +27 31 260 3587
Fax No: +27 31 260 4609
ximbap@ukzn.ac.za

1 June 2012

Mr Zulu Bunono Solly Mafuya 201512122
Graduate School of Business and Leadership

Dear Mr Mafuya

Protocol reference number: HSS/0239/012M
Project title: "Factors Deterring Business Expansion into Africa:

In response to your application dated 29 May 2012, the Humanities & Social Sciences Research Ethics Committee has considered the abovementioned application and the protocol has been granted **FULL APPROVAL**.

Any alteration/s to the approved research protocol i.e. Questionnaire/Interview Schedule, Informed Consent Form, Title of the Project, Location of the Study, Research Approach and Methods must be reviewed and approved through the amendment /modification prior to its implementation. In case you have further queries, please quote the above reference number. Please note: Research data should be securely stored in the school/department for a period of 5 years.

I take this opportunity of wishing you everything of the best with your study.

Yours faithfully

Professor Steven Collings (Chair)
Humanities & Social Science Research Ethics Committee

cc Supervisor Alec Bozas
cc Ms Wendy Clarke



Founding Campuses: ■ Edgewood ■ Howard College ■ Medical School ■ Pietermaritzburg ■ Westville