

**UNIVERSITY OF KWAZULU-NATAL**

**FACTORS AFFECTING THE PERFORMANCE OF SMALL AND MEDIUM  
ENTERPRISES IN KWAZULU-NATAL**

**By**

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## Declaration

I Sharmilee Sitharam declare that:

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## Abstract

Small and Medium Enterprises (SMEs) have an important role to play in the development of the country. A strong SME sector contributes highly to the economy, contributing to the Gross Domestic Product, by reducing the level of unemployment, reduction in poverty levels and promotion of entrepreneurship activity. Even though SMEs make a contribution to the economic growth and are of significant importance, SMEs globally, and in South Africa especially, are still faced with many challenges. In South Africa, the growth of SMEs and prevalence of SMEs is significantly low. Therefore, the aim of the study was to identify the internal and external factors affecting the performance of SMEs in KwaZulu-Natal, and to make recommendations to overcome these factors to improve the performance of SMEs. This was cross-sectional survey conducted via online using anonymous questionnaire among the SMEs who were members of the Durban Chamber of Commerce. The results revealed technological advancement was a factor as 81.82% of the respondents, mentioned that would improve the performance of the business. With regards to challenge, 73.02% SME owners/managers viewed competition as a major challenge. Majority of the SME owners/managers, between 82.54% and 86.67% viewed all the macroeconomic factors studied as hindering factor. The factor crime and corruption was viewed by 88.89% as affecting business performance. However competition was the only factor, amongst the studied internal and external factors that revealed a significant association with the performance of SMEs in KwaZulu-Natal ( $p=0.011$ ). No other variable were found to be associated with the performance of SMEs in KwaZulu-Natal. SMEs in Kwa-Zulu Natal are faced with competition which is impacting the performance of the business negatively. SMEs are finding it difficult to maintain their market share and position, due to the competition from local competitors as well as international competitors. SMEs need to recognize they must prepare for both domestic and international competition. Collaboration between SMEs could be a way for SMEs to confront competition. By entering into joint ventures, the opportunity to combine strengths, information and technological capabilities to increase sales or to enhance their customer base exist.

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# CHAPTER ONE

## Introduction

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### 1.1 Introduction

By engineering the growth of the Small and Medium Enterprise (SME) sector, the growth objectives of the economy can be achieved. A strong SME sector contributes highly to the economy, contributing to the Gross Domestic Product, by reducing the level of unemployment, reduction in poverty levels and promotion of entrepreneurship activity. The role of SMEs in the development of the country is significant (Bayati and Taghavi, 2007).

SMEs in South Africa and across the globe still encounter many challenges, despite their importance and significance and their contribution to economic growth, SMEs globally and in South Africa, face many challenges that hinder business growth. Hurdles in the business success are far more than they were previously. The environments as well as some factors are very complex and dynamic. The concern to the entrepreneur is what can be done to survive in a competitive market.

SMEs have the ability of playing a dynamic role in the South African economy. By understanding and finding ways to address obstacles that hinder this dynamism, we would be ensuring that the drivers of growth are used optimally. The development of entrepreneurship and SMEs is important for addressing many challenges and problems in South Africa (O'Neill and Viljoen, 2001). Therefore, there is a potential to improve SME performance (Gunasekaran, Rai, and Griffin, 2011).

As part of this research study, information was obtained to understand the current factors that affect SMEs and to make a recommendation on how the performance of the SME sector can be improved.

The purpose of this chapter is to provide a synopsis of the study. A comprehensive discussion detailing the research problem and areas of focus will follow, which will provide clarity regarding the intent of this study, the objectives and the research question, and a brief description of the limitations that were experienced during the study.

## **1.2 Problem Statement**

SMEs have the ability to make a meaningful reduction in the high level of unemployment and contribute to the Gross domestic Product of the local economy. Besides assisting in curbing the high level of unemployment, SMEs can be used as a means of transforming the country, by redistributing the productive assets, amongst the previously disadvantaged. The failure rate of SMEs is high throughout the world (Fang, Yuli, and Hongzhi, 2009), with the situation being no different to South Africa.

Failure of SMEs in South Africa may be attributed to many factors and entrepreneurial culture. Given this state of SMEs in South Africa, the need exists to establish the hindering factors to improve/enhance South Africa's SME performance.

## **1.3 Objectives of the study**

The objectives created below have been designed with the purpose of identifying and understanding those factors that are responsible for affecting the performance of SMEs in KwaZulu-Natal.

- To identify the internal environmental factors affecting the performance of SMEs in KwaZulu-Natal (KZN);
- To identify the external environmental factors affecting the performance of

SMEs in KZN;

- To make recommendations to overcome these factors to improve the performance of SMEs.

#### **1.4 Research Questions**

- What are internal environmental factors affecting the performance of SMEs in KZN?
- What are the external environmental factors that affect the performance of SMEs in KZN?
- How can the performance of SMEs be improved?

#### **1.5 Motivation for the study**

In developing countries, the growth objectives can be attained by using the dynamic role of SMEs as engines to achieve this, as a strong SME sector contributes significantly to the economy. The SME sectors have the ability to create more employment opportunities, creating higher production volumes and increasing entrepreneurship activities.

A major constraint in KZN is the high levels of unemployment, contributing to high levels of poverty and income inequality, which deteriorates the overall quality of life of the people of the province (PGDP, 2013). Employment creation is one of the most significant challenges facing the South African economy today (Fourie, 2011). Part of the solution to South Africa's unemployment problem can be job creation by SMEs (Krugell, 2012). In countries like India and China 90% of the employment is absorbed

by SMEs, whilst in South Africa SMEs absorb only about 55% of the employment (Edge, 2013). The SME sector is considered to be underperforming. An environment conducive for the growth and sustainability of small businesses is necessary and this has stimulated an investigation into the factors hindering the growth or affecting the performance of small businesses in KZN.

## **1.6 Focus of the study**

The focus of this research was to make recommendations to SMEs after identifying the factors that are affecting the performance of SMEs in KZN. These factors included internal environmental factors such as access to finance, management competency and skills and technological capabilities, and further, external factors such as competition, globalisation, crime and corruption, infrastructure, macroeconomic factors and regulatory factors. The research thereafter focused on providing recommendations on how the performance of SMEs can be improved.

## **1.7 Significance of the study**

The struggle of SMEs in South Africa may be attributed to many factors and entrepreneurial culture. Given this state of SMEs in South Africa, the study seeks to investigate the factors that affect the performance of SMEs in KZN. SMEs are important in that they contribute significantly to economic growth through employment creation. With the South African economy being characterised by high rate of unemployment, part of the solution to this problem can be the promotion of SMEs to create jobs. It is therefore imperative that an enabling environment for the growth and development of SMEs be established to stimulate the country's economic growth rate which could lead to the creation of more employment opportunities. This study is of value to the owners and managers in the SME sector of KZN. The study will further reveal the challenges faced by SMEs in KwaZulu-Natal. Recommendations are made



to assist SMEs. The study will be of benefit to the Policy makers. Despite the assistance and support provided by Government, in recognition of SME importance, SME failure rate is still very high. Hence, the study will be of value in determining the level of assistance SMEs require to be sustainable. The contribution of this study would be of interest to anyone that maybe interested in entering the SME sector in KZN. The establishment of these factors will result in strategies and skills being adopted upfront to improve the chances of survival and growth of SMEs.

## **1.8 Chapter Summary**

SMEs have the ability of playing a dynamic role in the South African economy. Even though SMEs make a contribution to the economic growth and are of significant importance, SMEs globally, and in South Africa continue to face challenges that hinder business development and growth. What are we doing wrong? With this question in mind research into factors affecting the performance of SMEs in KZN was studied. We would be ensuring that the drivers of growth are used optimally, by identifying and addressing these obstacles that hinder this dynamism.

This chapter provided a synopsis of the study. A comprehensive discussion detailing the research problem and areas of focus, with clarity regarding the intent of this study, the objectives and the research question, and a brief description of the limitations that were experienced during the study was presented.

The next chapter (Chapter 2) will present the literature research that has been gathered to gain an insight into the factors affecting the performance of SMEs.

## **CHAPTER TWO**

### **Literature Review**

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#### **2.1 Introduction**

The South African economy needs the SME sector to develop and grow, as these SMEs have a fundamental role to play in economic growth and development and have the ability to make a meaningful reduction in the high level of unemployment. Besides assisting in curbing the high level of unemployment, SMEs can be used as a means of transforming the country. The support of SMEs, to economic growth and employment is gradually being recognized by government, however many SMEs continue to and many new SMEs fail within the first few years. In South Africa, the growth of SMEs and prevalence of SMEs is considerably low (Herrington, et al., 2008).

The economic growth and development of SME sector in South Africa continues to be affected by various challenging factors. Study by the Global Entrepreneurship Monitor (GEM) Reports (2001-2010), SME survival is one of the lowest in the world (Herrington, Kew and Kew, 2010). Growth rates of small businesses in South Africa are low, with an average of 50% of fail to grow, according to research by Ladzani and Van Vuuren (2002).

The long term performance and invariably the development and growth of small businesses are limited, because of the many obstacles that the small businesses face. Even though the contributions of SMEs are acknowledged, research has shown that the failure rate of small businesses in developing countries is higher than that of the developed countries (Arinaitwe, 2006).

As SMEs operate around the traditional lines, and a lot of factors increases their influence and causing a huge effect on the success of SME's no matter what the

location of SME's and how strong the market conditions are, influencing factor is always there for the small businessmen to anticipate these factors while doing the business.

The hurdles in the business success are far more than they were previously. The environments as well as some factors are very complex and dynamic. The factors discussed in the literature are access to finance, managerial competency and skill, technological capabilities, competition, macroeconomic factors, crime and corruption and globalisation.

The literature review will deal with aspects related to the study on the factors affecting SMEs. Definitions of SMEs will be addressed in the first section, followed by the Economic Climate in KwaZulu-Natal (KZN) and characteristics of SMEs in South Africa. This literature study then flows into the factors affecting SMEs. The factors will be dealt in detail, looking at factors from around the world and South Africa.

## **2.2 Definition of SME**

Defining an SME can be challenging, as the term includes a wide array of definitions globally. When defining SMEs, countries and businesses often use their own judgment, using the asset value of the company, number of people employed, annual turnover generated. This section provides an overview of a few of the definitions in South Africa with the objective of understanding the term SME.

The National Small Business Act 102 of 1996:17, defines SMME as, "small business" means a separate and distinct business entity, including cooperative enterprises and non-governmental organisations, managed by one owner or more which, including its branches or subsidiaries, if any, is predominantly carried on in any sector or subsector of the economy. In the South Africa, Small Medium and Micro Enterprise (SMME) and SME are terms used interchangeably.

The National Small Business Act 1966, No. 102 of 1966:17 provides a detailed classification of SMMEs per industrial sectors, size or class, number of employees, turnover and total asset value as highlighted in Table 2.1 below:

**Table 2.1: SMME's classification**

Sector or sub-sectors in accordance with the Standard Industrial Classification	Size or Class	Total full-time equivalent of paid employees	Total annual turnover (Rm) <i>Less than:</i>	Total gross asset value (fixed property excluded) <i>Less than:</i>
Agriculture	Medium Small Very small Micro	51- 100 11 - 50 6 - 10 0 - 5	R3.1 - R5.00 R0.51 - R3.00 R0.21 - 0.50 R0 - 0.20	R3.1 - R5.00 R0.51 - R3.00 R0.10 - R0.50 R0 - R0.10
Mining and Quarrying	Medium Small Very small Micro	51 - 200 21 - 50 6 - 20 0 - 5	R10.1 - R39.00 R4.1 - R10 R0.21 - R4.00 R0 - 0.20	R6.1 - R23.00 R2.1 - R6.00 R 0.11 - R2.00 R0 - R0.10
Manufacturing	Medium Small Very small Micro	51 - 200 21 - 50 6 - 20 0 - 5	R13.1 - R51.00 R5.1 - R13.00 R0.21- R5.00 R0 - 0.20	R5.1 - R19.00 R2.1 - R5.00 R0.11 - R2.00 R0 - R0.10
Electricity, Gas and Water	Medium Small Very small Micro	51 - 200 21 - 50 6 - 20 0 - 5	R13.1 - R51.00 R5.2 - R13.00 R0.21- R5.10 R0 - 0.20	R5.1 - R19.00 R1.91 - R5.00 R0.11 - R1.90 R0 - R0.10
Construction	Medium Small Very small Micro	51 - 200 21 - 50 6 - 20 0 - 5	R6.1 - R26.00 R3.1 - R6.00 R0.21 - R3.00 R0 - 0.20	R 1.1 - R5.00 R0.51 - R1.00 R 0.11 - R0.50 R0 - R0.10
Retail and Motor Trade and Repair Services	Medium Small Very small Micro	51- 100 11 - 50 6 - 10 0 - 5	R19.1 - R39.00 R4.1 - R19.00 R0.21 - R4.00 R0 - 0.20	R3.1 - R6.00 R0.61 - R3.00 R0.11 - R0.60 R0 - R0.10
Wholesale Trade, Commercial Agents and Allied Services	Medium Small Very small Micro	51- 100 11 - 50 6 - 10 0 - 5	R32.1 - R64.00 R6.1 - R32.00 R0.21 - R6.00 R0 - 0.20	R5.1 - R10.00 R0.61 - R5.00 R0.11 - R0.60 R0 - R0.10
Catering, Accommodation and other Trade	Medium Small Very small Micro	51- 100 11 - 50 6 - 10 0 - 5	R6.1 - R16.00 R5.2 - R6.00 R0.21 - R5.1 R0 - R0.20	R1.10 - R3.00 R1.91 - R1.00 R0.11 - R1.90 R0 - R0.10 m
Transport, Storage and	Medium	51- 100	R13.1 - R26.00	R3.1 - R6.00

Communications	Small Very small Micro	11 - 50 6 - 10 0 - 5	R3.1 - R13.00 R0.21 - R3.00 R0 - 0.20m	R0.61 - R3.00 R0.11 - R0.60 R0 - R0.10
Finance and Business Services	Medium Small Very small Micro	51- 100 11 - 50 6 - 10 0 - 5	R13.1 - R26.00 R3.1 - R13.00 R0.21 - R3.00 R0 - 0.20m	R3.10 - R5.00 R0.51 - R3.00 R0.11 - R0.50 R0 - R0.10
Community, Social and Personal Services	Medium Small Very small Micro	51- 100 11 - 50 6 - 10 0 - 5	R6.1 - R13.00 R1.1 - R6.00 R 0.21 - R1.00 R0 - 0.20	R3.1 - R6.00 R0.61 - R3.00 R0.11 - R0.60 R0 - R0.10

**Source: Adapted from National Small Business Act (102 of 1996) as amended in 2003 and 2004**

The National Small Business Act further subdivides small business as survivalist, micro, very small, small and medium enterprises (NCR, 2011).

**Survivalist enterprise:** The income generated is less than the minimum income standard or the poverty line. This category is considered pre-entrepreneurial, and includes hawkers, vendors and subsistence farmers. In practice, survivalist enterprises are often categorised as part of the micro-enterprise sector (NCR, 2011).

**Micro-enterprise:** The turnover is less than the value added tax (VAT) registration limit (that is, R150, 000 per year). These enterprises usually lack formality in terms of registration. They include, for example, spaza shops, minibus taxis and household industries. They employ no more than 5 people (NCR, 2011).

**Very small enterprise:** These are enterprises employing fewer than 10 paid employees, except for the mining, electricity, manufacturing and construction sectors, in which the figure is 20 employees. These enterprises operate in the formal market and have access to technology (NCR, 2011).

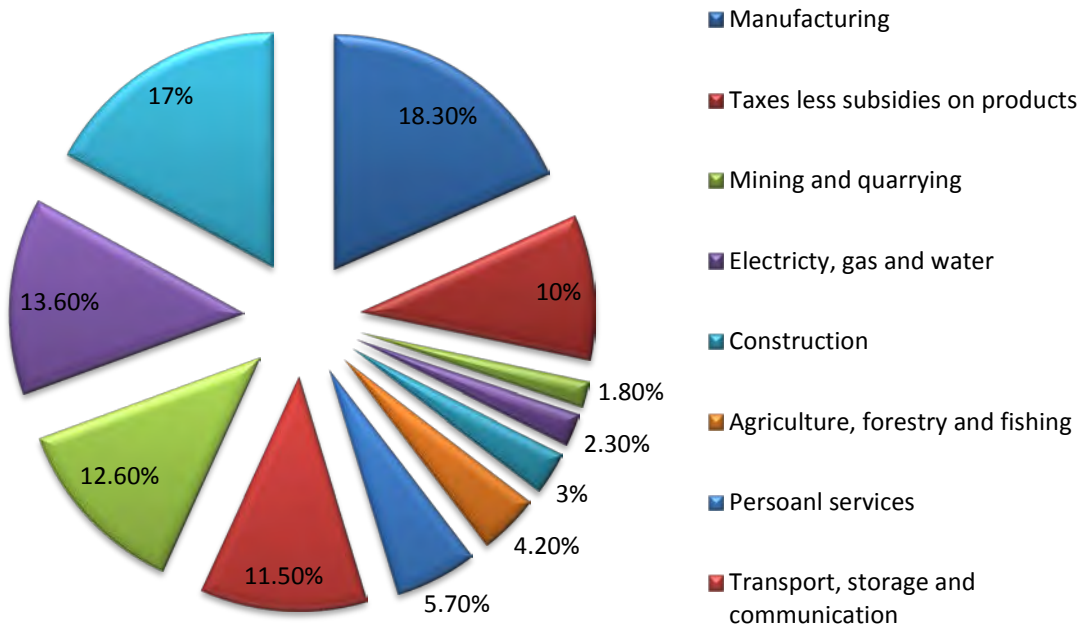
**Small enterprise:** The upper limit is 50 employees. Small enterprises are generally more established than very small enterprises and exhibit more complex business practices (NCR, 2011).

**Medium enterprise:** The maximum number of employees is 100 or 200 for the mining, electricity, manufacturing and construction sectors. These enterprises are often characterised by the decentralisation of power to an additional management layer (NCR, 2011).

**2.3 Economic Climate in KwaZulu-Natal**

KwaZulu-Natal (KZN) is the third smallest province in South Africa, but is the second largest contributor to the economy. KwaZulu-Natal makes a contribution of 15.7% to the national GDP, with trade and transport, manufacturing, finance and agriculture sectors are the key role players (Standard Bank, 2014).

Between 2007- 2011 the average percentage contribution by sector to the KwaZulu-Natal economy is shown in Figure 2.1.



**Figure 2.1 Average percentage contribution by sector to the KwaZulu-Natal economy (Adapted from Trade and Investment Kwa-Zulu Natal, 2013)**

The Quarterly Labour Force Survey for the first quarter of 2014 released by Statistics South Africa reveals that KZN experienced a year-on-year increase in the unemployment rate. The unemployment rate is currently 20.7%. Unemployment continues to pose challenges for the country, with almost 25% of the population without work. South Africa's largest social challenge is unemployment (Kumo Rieländer and Omilola, 2014).

## **2.4 SMEs in the South African Economy**

Our country is faced with low levels of entrepreneurship and growth in the SMME sector, even though SMEs have a fundamental role in dealing with challenges of our nation. SMEs globally have a high failure rate (Fang, et al., 2009), with the situation being no different to SMEs in South Africa. SME's in South Africa absorb only about 55% of the employment, compared to other countries like India and China, where 90% of the employment is absorbed by SMEs (EDGE, 2013).

Entrepreneurship is a precondition for any business. South Africa is lagging behind its peers, this according to report by the Global Entrepreneurship Monitor (GEM) (Turton and Herrington, 2012). The youth of South Africa and the youth of Angola, Botswana Ethiopia, Ghana, Malawi, Namibia, Nigeria, Uganda and Zambia were compared in a GEM survey in 2012, where the rate of perceived opportunities for South Africa came in at 39%, well below the average of 70% for sub-Saharan Africa. 39% was the lowest percentage overall. The survey also revealed that South Africa's rate of perceived capabilities for its youth is also the lowest at 40% compared to the sub-Saharan Africa, with an average of 76%. South Africa continues to feature below the sub-Saharan Africa average of 60% for pool of potential entrepreneurs for youth population at 20 % (Turton and Herrington, 2012).

The overall entrepreneurial climate for entrepreneurship development in South Africa appeared to be unfavourable when out of 54 countries, South Africa ranked 34, ranging in income levels and regions, in terms of total entrepreneurial activity, in 2010 (Herrington, Kew and Kew, 2010).

In South Africa, SMEs stretch across all sectors of the economy (Finscope, 2010). Majority (78.7%) small businesses in South Africa offered retail services, whilst only 21.3 % provided services to their clients.

According to Abor and Quartey (2010), 91% of the formal business entities are SMMEs, contributing significantly to GDP and absorbing a big percentage of the labour force. Majority of South African SMMEs remain in the early business phases, which is less than 3.5 years since startup, lacking growth. The performance in this sector is unsatisfactory and is evident from the high of liquidations inactive enterprises, which are registered. The evidence is further supported by the change in business focus within the first three years of enterprise being in operation (DTI, 2008).

According to the Finscope study (2010), the SME sector has an estimated 5.9 million small businesses operating in South Africa. In 2010, 11.605million employment opportunities were created by small business (Finscope 2010). SMEs registered with Companies and Intellectual Property Commission (CIPC) is only about 20%. A big proportion of SMEs are operating informally, without being registered. Most SMMEs are found in Gauteng, KZN, Western Cape and Eastern Cape (DTI, 2008).

Gauteng accommodates 22.9% of formal SMMEs nationally, it accounts for only a quarter of informal SMMEs. Gauteng is the leading province in the formal and informal sectors in terms of the number of SMMEs. The Eastern Cape is the second largest province as far as the number of formal SMMEs is concerned (19%). Provinces with large rural populations, such as KwaZulu-Natal (14%), Limpopo (14%) and Western Cape (13%), accommodate higher proportions of informal businesses (DTI, 2008).



## **2.5 Factors Affecting SMEs**

The study of factors affecting small business success or failure is critical in understanding the sustainability and growth of business to help and support the development of the economy within a country. Literature on SMEs globally has identified many variables as the cause of failures of SMEs. As the economy progresses negatively, there is a greater need for SMEs to contribute to economy. A number of studies provide evidence that SMEs are faced with many bottle necks, even though SMEs are seen as a fundamental element, and as a solution to problems, such as unemployment. In South Africa some of the challenges experienced are rooted in the history of the country. When majority of the population was excluded from economic activity, and were therefore unable to acquire assets (Gstraunthaler, 2011).

The business environment is defined as factors both inside and outside the organisation, influencing the continued and successful existence of the organisation. The business environment is considered to play a crucial role in the growth of SMEs (Delmar and Wiklund, 2008). Factors inside the business, is known as internal environment and factors outside the business is the external environment. According to Beck and Demirguc-Kurt (2006), the growth of both internal and external environment is important for SME growth. Growth of SMEs will be negatively or positively influenced by changes in the business environment (World Bank, 2006).

### **2.5.1 Internal Environment Factors**

The internal environment includes factors in the business environment that are largely controllable by the business (Fatoki, and Garwe, 2010). Challenges in the internal

environment of a business, includes management competency and skills, limited financial knowledge and a lack of business management training, technological capabilities. We will discuss the internal environment factors, which include various factors, namely; managerial competency and skill, access to finance and technological capabilities.

### **2.5.1.1 Managerial Competency and Skills**

Managerial competencies, have a positive influence on the performance of SMEs. Managerial experience, education, knowledge and start-up experience are used to measure managerial competencies (Hisrich and Drnovsek, 2002). In a research study where the importance of management competence in SMEs success was investigated, lack of managerial competency was found to be the main reason why SMEs fail (Martin and Staines, 2008).

In South Africa, there are very few people with business managing qualities, and therefore only a few small business entrepreneurs are successful, contributing to the poor performance of the South African economy (Radipere and Van Scheers, 2005). In South Africa, the reduced management capacity of new firms because of lack of education and training is the reason for high failure rates (Herrington and Wood, 2003). Evidences have shown that for any small scale enterprise to be successful, owner manager must have the necessary skills and abilities to run the business (Okpara and Wynn, 2007). Smit and Smit (2007) point out that there is a lack of skilled managers in South Africa.

The two primary cause of small business failure according to Peterson, Kozmetsky, and Ridgway (1983), appear to be lack of suitable management skills and insufficient capital. Radipere and Van Scheers (2007) in their research established that urgency exists to improve business skills in the SME sector, as the lack of managerial skills in the small business sector has a negative impact on the success and viability of these

businesses. It was found that there is a relationship between the success and viability of the SME sector and managerial skills.

Education was found to improve managerial competency (Blumberg, 2008). On the same theme researchers found that the performance of SMEs is positively affected by the high levels of education of the SME owners (Bowen, Morara, and Mureithi, 2009; Leitao and Franco, 2011). SME owners that are highly educated are able to attain and develop skills to start up a new business and to sustain the business. The European Commission findings on management capacity buildings, state that often lack of business management capabilities exist, in spite of many business owners being highly educated and experienced in their specialised field. Lack of business management capabilities constitutes a threat to their survival and is a major constraint and obstacle to their growth and development (European Commission, 2006).

While unaware of many crucial elements of running an enterprise, many entrepreneurs often start a new business. If they are to survive they must obtain the necessary skills (Shepard, Douglas, and Shanley, 2000). It is necessary for the entrepreneur to be knowledgeable about all the functional areas in business (Nieuwenhuizen and Kroon, 2002). The Organisation for Economic Co-operation and Development (OECD) (2010) mentions that start-up entrepreneurs lack skills in a number of relevant areas of small business management, such as business planning, but the major gap appears to be in the area of strategic skills associated with entrepreneurship.

Financial management is responsible for acquiring the necessary financial resources to ensure the most beneficial results over both the short and the long term and making sure that the business makes the best use of its financial resources (Nieman, Hough, and Nieuwenhuizen, 2006). According to Xu and Wang (2007) poor financial management is viewed as a cause of failure Kotze and Smith (2008), argued that in South Africa, the lack of knowledge of financial management is the reason for the low survival rate and high failure rate of SMEs.

Schwarze (2008) recommends that in order to survive, small business owners should first acquire financial management skills that assist in short-term decision making. However Nieman, Hough and Nieuwenhuizen (2006) argued that priority should be given to financial management training and particularly to cash flow management and that access to finance is not the solution to the problem.

Tushabomwe-Kazooba (2006) in his research found that major contributors to small business failure in Africa can be attributed to poor recordkeeping and a lack of basic business management skills. Most business owners end up losing track of their daily transactions and cannot account for their expenses and profits at the end of the month, because of lack of basic business management skills such as bookkeeping, inventory management, personnel management, and basic marketing. The predominant management problems have led to the closure of some businesses, thereby making it a concern for business success (Okpara and Kabongo, 2009)

In the SME environment today, the accounting function is seen to have an important role, but many SMEs experience difficulties with their accounting related tasks (Jayabalan, et al., 2009). For effective small business development, it is required that accounting skills, which contributes to entrepreneurial performance is possessed by owner managers. Small businesses have failed in the past for ignoring this important skill (Akande, 2011). Business stagnation and failure is as a result of SMEs not being able to differentiate between capital and profit. Some SMEs do not keep accounting records or reports (Okpar and Kabongo, 2009).

Abdel (2010) revealed that small business owner-managers have very basic understanding of financial and accounting information and have serious problems with financial planning literacy. Most of the small firm owner-managers have been found to have problems in reading financial language and understanding common terms and conventions used in financial reports. On the same theme it has been asserted that small and micro enterprises owner managers have little knowledge

about financial matters, and found out that those with little or limited financial planning skills do not even value the information extracted from financial statements (Alattar, Kouhy and Innes, 2009). They do not place value on the information provided by their external accountants.

Lack of managerial skills, experience and competences and the lack of planning and knowledge, failure of SMEs are imminent (Dyer and Ross, 2008). Outsourcing allows SMEs to gain the skills and capabilities they require from external service providers (Gilley, et al., 2004). Yahya and Susela (2011) claim that the main reasons small businesses outsource accounting functions are that they lack necessary resources and skills required to carry out accounting functions within the organisation, they lack the expertise and specialised knowledge of the professional accountant.

Van Scheers (2011) found that many SMEs struggle to employ marketing effectively. Dockel and Ligthelm (2002) have indicated that very little marketing is actually undertaken by SMEs in general hence the high failure rate in South Africa. Murphy (2006) states that small business owners exhibit inadequate marketing skills, create marketing problems in the small business sector. Marketing of an SME determines in the long term whether the business will succeed or go under. Lack of capability in functional areas such as marketing, human resources and financial knowledge and insufficient management skills are a major cause of SME failures (Brink and Cant, 2003).

Batley (1999) states that the performance of the South African economy is poor because only a few people succeed as small business owners in South Africa, as there are too few people with small business managing skills. Lack of business management skills and entrepreneurial knowledge often results in business failure (Scarborough and Zimmerer, 1996). Yenta (2001), expresses the view that influencing factors to the lack of capacity and poor business efficiencies among SMMEs are the low levels of education and training and poor business skills (Yenta, 2001).

SMEs are widely viewed as a crucial contributor to employment creation, poverty alleviation and general development in any country (Lots, 2007) thus for longevity, survival and success of business, it is vital that the entrepreneur be educated and knowledgeable about all functional areas of business. Failure to adhere to this may lead to business failure (Naidoo and Urban, 2010).

### **2.5.1.2 Access to Finance**

One of the major challenges pointed out as hindering the growth and survival of start-up SMEs in South Africa is access to finance, according to Mazani and Fatoki (2012). Herrington, et al. (2008) point out that not being able to access finance is one of the primary causes of the low firm creation and low survival rate of SMEs in South Africa.

SMEs are more constrained than large firms in their access to financial services. SMEs make up a large part of the emerging private sector in most countries therefore access to finance has become critical in many developing countries (Ayyagari, Beck, & Demirgüç-Kunt, 2007). This is particularly noticeable for businesses in emerging economies such as China, given that they face enormous challenges in securing external sources of finance (Berger and Udell, 2006).

Green (2003) argued that the size of small business, make them more vulnerable to market fluctuations and the mortality rates of small enterprises are relatively high. Therefore Commercial banks tend to impute a high risk to small enterprises and are therefore reluctant to extend credit to them

Developing countries SMEs face a financing gap that weakens economic prosperity, with nearly half of SMEs rating access to finance as a major constraint (Dalberg, 2011). SME development is severely constrained by the lack of adequate financial resources. Cook and Nixson (2000) observe that, notwithstanding the recognition of

the role of SMEs in the development process in many developing countries, SMEs development is always constrained by the limited availability of financial resources to meet a variety of operational and investment needs.

A critical element for the development of SMEs is viewed as the role of finance (Cook and Nixson, 2000). To enable SMEs to contribute to the economic development of the nation, and for the growth and success of SMEs, the role of access to finance is critical and needs to be adequate (Haron, et al., 2013).

The 2008 financial crisis and subsequent widespread economic downturn have had a huge impact on the availability of finance to SMEs. Financial institutions credit processing has become more complex, and the institutions have become more cautious, because of the financial crises, making it difficult for SMEs to understand the procedures and decisions when it comes to the loan processing (Haron, et al., 2013). Before the crisis, access to finance was already seen as a concern to SMEs in many developing countries, accessing the funding that they needed to grow and expand. Banks do not provide SMEs with adequate capital in many of these countries (Dalberg 2011).

SMEs, especially newly formed ones, have a very high failure rate. Beck (2007), in his study stated that in South Africa, 75% of newly created SMEs fail within the first two years of operation, non-availability of external finance is viewed as the main causes of SME failure. Pretorius and Shaw (2004), observe that a vast majority of SMEs rely on internal finance, such as, contribution from the owners, family and friends, which is often inadequate for SMEs to survive and grow. Therefore, access to external finance is necessary to reduce the impact of cash flow problems for SMEs.

According to Demirguc-Kunt and Beck (2006) business finance falls into two major groupings, namely equity finance and loan finance. Equity finance is money the owners of the unregistered business or the owners of the business invest in the business. Owner contribution could come from savings, family and friends. Loan

finance is money that is borrowed on behalf of the business. Banks continue to be the main source of finance for small business (Berry, et al., 2002). A frequently cited challenge for SMEs is access to bank debt. Access to bank finance is a struggle for SMEs in South Africa (Smorfitt, 2009).

The performance of SMEs and the capital structure, according to Majed, Alsharayri and Dandan (2010) are impacted on by the characteristics of the business and entrepreneurial characteristics. The age and size of the firm, the availability of collateral and business information are some of the factors included in the firm characteristics. Characteristics of the business can affect the performance of the firm, either positively or negatively. Securing bank loans are seen to be more difficult by small businesses as the interest rate is higher (Brau, 2002).

Small business credit scoring is a transactions technology based primarily on hard information about the SME's owner as well as the firm. The owner information is primarily personal consumer data obtained from consumer credit bureaus. This is combined with data on the SME collected by the financial institution and often from commercial credit bureaus (Berger and Udell, 2006).

Young businesses, less than 4 years old, tend to rely less on bank financing and more on informal financing and less on, according to Klapper (2010).Burkart and Ellingsen (2004) state that a business with more assets are likely to have better access to long-term debt, with the size of a firm playing an important role in the debt ratios. On the same theme, Honhyan (2009) finds that size can influence the probability of failure, as small business tend not to be diversified and often fail.

Many small enterprises have evolved in the informal economy, making it difficult for them to document their business history and demonstrate their economic potential. Additionally, small entrepreneurs in emerging economies are typically less skilled in book-keeping, marketing and management, adding to the risk perception with regard



to their projects. Financing SMEs is often regarded to be of higher risk due to the lack of transparency as compared to larger firms (Berger and Udell, 2006).

According to Kitindi, Magembe and Sethibe (2007), financial information provided by firms is used by banks and creditors to analyse the present performance and predict future performance of the business. Information obtained from the financial statements acts as an indicator of borrower's future prospects and ability to service a loan. Sarapaivanich and Kotey (2006) point out that the lack of adequate information leads to information asymmetry and credit rationing.

For SMEs to access finance, collateral is an important factor, as collateral is seen to reduce the risk of a loan. Collateral can take the form of tangible assets (Bougheas, et al., 2005). SMEs in South Africa have a high failure rate which is the main contributor to the risk perception of SMEs and therefore not unreasonable for financial institutions to be cautious when financing SMEs, especially SMEs whose credit history is non-existent or little, like start-ups. Financial institutions attempt to protect themselves against such risks, by increasing collateral requirements. Such collateral requirements work against potentially viable small business, because of lacking financial resources (Mazanai and Fatoki, 2012).

Increasing the collateral requirements is a way by which banks reduce the risk of lending to SMEs. Collateral is used as a screening device. Collateral serves to reduce the risk of the lender in case of default (Green, 2003). Small firms are at a disadvantage because they lack collateral to be used or required as security. This problem is further exasperated by the lack a proven credit track record. To secure loans, collateral is required which SMEs lack. Therefore borrowing money from a bank is difficult, which is the reason for lack of capital (Okpara and Kabongo, 2009).

A lack of awareness exists about the procedures on access to finance and high transaction costs involved in gaining finance. The South African banking system is still the main source of capital to start and grow businesses, despite the government agencies that have been put into place (Dalberg, 2012). Financial constraints hinder

enterprises ability to grow management capacity and staff base. The financial issue challenges are less a problem of availability of capital, and more to do with entrepreneur's lack of awareness of financing instruments and limited skills and knowledge on who to approach. Without support, the likelihood of these entrepreneurs creating competitive and sustainable businesses is slim (Finscope, 2010).

Lack of financial resources may be the immediate reason for a business failing to start or to progress. When a business is viewed as not being on sound footing, potential providers of finance are unlikely to commit funds to that business (Green, et al., 2002).

### **2.5.1.3 Technological Capabilities**

The primary reasons small businesses continue to face growth challenges in developing countries despite significant support from governments and other organizations is their technological capabilities or lack thereof, this according to research by Arinaitwe (2006). Small businesses are still hindered by their lack of technological implementation, despite great technological advancements globally. Without this technology, these small businesses find it difficult to neither compete, nor grow (Arinaitwe, 2006).

Technological positioning of small-scale businesses are much weaker, are not able to compete technologically with large-scale businesses. It is further stated that this is due to the resource constraint that hinders the advancement of their technological positioning. Because of these resource constraints, their access to information, training and development are restricted. Many small-scale businesses tend to be risk-averse because of the level of uncertainty that arises from the lack of finance, skill and expertise. Small businesses tend to then reduce their investments in technology (Romijin, 2001).

A major catalyst in the rapid growth of businesses is the advancement in business-application technology. Technology creates the possibility to trade from anywhere, in the world, with World Wide Web being one of the many important technological tools. Virtually every product sold in traditional retail outlets is now sold over the net. According to Longenecker and others profitability for small business today is often dependent on the commitment to technology. By ignoring technology small businesses are vulnerable to missing competitive moves that lower product costs or improve performance (Longenecker, et al., 2000).

Small businesses are unable to take advantage of economies of scale as effectively as larger organizations. For this reason, Romijin surmises that support to small-scale businesses is critical, which will allow the business to improve access to information, finance and suitable technologies. This is especially true in developing nations (Romijin, 2001).

SMEs in countries like in China and India face common challenges being upgrading technology and building product quality. China, with its abundance of cheap labour, has the comparative advantage in the labour-intensive, low cost industries. The operation of many of the Indian SMEs is low scale production which reduces their ability to reduce costs of products and engage in technological upgrades, which is a major obstacle (Singh, Garg, and Deshmukh, 2010).

Research on the application of information technology by Levey and Powell (2000) stated that the adoption of IT will assist an organization in storing information as well as communicating with customer, suppliers and business partners who will facilitate business transaction, and enhance the overall performance of SMEs. As a result, it will lead to a better performance in reducing the operating expenses as a whole (Levy and Powell, 2000).

## **2.5.2 External Environment Factors**

Factors such as economic variables and markets; crime and corruption, labour, infrastructure and regulations make up the external environment (Fatoki and Garwe, 2010). In a comparative research between Nigeria and UK, Ihua (2009), found that economic growth of Nigerian SMEs were hindered by externally related factors, like the poor economic conditions and infrastructural inadequacy.

When changes are taking place in the external environment, SMEs like other businesses need to be aware of these changes, which include changes in the economic, social, political, technological and international environment changes. South African SMEs are seen to be affected by the major variables which include interest and exchange rates, inflation, unemployment, crime, HIV/Aids, and government legislation (Brink and Cant, 2003).

### **2.5.2.1 Competition**

Businesses have to make decisions which deal not only with business survival opportunities but with business development in a changing environment under dynamic competitive conditions where each competitor tries to do impossible things to survive (Scarborough, et al., 2009).

The competitive standards change continuously due to consumers changing needs and expectations, technological developments and globalisation of markets. Over the years, competition among SMEs has increased radically. Competition and sustainability for SMEs involve factors such as changing market trends, changing technologies and emerging new management and organizational techniques. SME survival is increasingly dependent on a number of factors including resilience of

SMEs to refocus some of their strategies and technologies (Gunasekaran, Rai and Griffin, 2011).

These changes drive businesses to compete along different dimensions such as designing and developing new products, adopting smart approaches to manufacturing, implementing quick-to-market distribution, purchasing cutting-edge communication and developing appropriate marketing strategies (Singh, Garg and Deshmukh, 2010).

Majority of purely domestic SMEs, whose products and sales are extremely localized and segmented are confronted with global competition (Singh, Garg and Deshmukh, 2010). In the past few years, trade liberalisation and globalisation processes have significantly increased competition between companies and increased customer expectation. Global markets have begun offering an abundance of opportunities for SMEs (Karaev et al. 2007). SMEs have to increase their individual competitiveness to compete in the global market (Fassoula 2006). Underdeveloped markets are easily entered by well-established foreign entities because of trade liberalization. Local SMEs find it increasingly difficult to survive or even maintain their current business position in their respective markets against this development (Singh, Garg and Deshmukh, 2010). Strong competition is one of the challenges affecting SMEs globally. With the opening of free trade agreement, SME products are being challenged by the foreign imported products which have flooded the market (Siringoringo, Prihandoko, Tintri and Kowanda, 2009).

SMEs face tough and challenging times in improving performance, indicated by research on SMEs in China and India for the SMEs in both the countries. Developing new sales strategies, improving upon management styles, and using the latest marketing methods will also improve the competitiveness of SMEs in both countries SMEs must strive in cost effective manner to utilise communication technologies and information and to reach the right markets and to sustain a fair level of competitiveness in both the domestic and global markets. For the development and to

improve competitiveness, areas of improvement include factors of cost, quality, product range and delivery of services as important areas (Singh, Garg and Deshmukh, 2010).

Small businesses are unable to deal with natural market competition, and therefore according to the Finscope survey (2010), competition is ranked as the third greatest obstacle to growth for businesses.

### **2.5.2.2 Globalisation**

Small businesses can no longer consider themselves to be strictly domestic businesses in the competitive global environment. For businesses across the globe, going global is not a preference or a matter of choice, but rather a necessity. Failure to cultivate global markets can be a lethal mistake for modern businesses, whatever their size. To thrive in the twenty-first century, small businesses must take their place in the world market. To be successful, business as must consider themselves to be businesses without borders. Going global can put a tremendous strain on a small company (Scarborough, et al., 2009).

There was a time when national economies were isolated by trade and investment barriers, differences in language and culture, distinctive business practices and various government regulations. However, these dissimilarities are fading over time as market preferences converge, trade barriers fall, and national economies integrate to form a global economic system. This process is the essence of globalisation. Though the trend toward the convergence has been developing for some time, the pace seems to be quickening, creating global opportunities and competition that did not exist even a few years ago. With the astounding rate of economic growth in countries such as China and India, a small business owner would be unwise to ignore overseas opportunities (Longenecker, 2012).

New opportunities as well as challenges from trade liberalization and globalisation have been ushered in for SMEs. The majority of SMEs in developing countries have been unable to explore the advantages of globalization, while at the same time and to add to the situation are constantly burdened on the local or domestic markets from cheaper imports and foreign competition. Presently, only a small part of the SME sector is able to identify and exploit these opportunities and deal with the challenges. A major objective of work should be to equip SMEs to better meet the challenges of globalization and to benefit from its opportunities and promote the development of the SME sector (OECD, 2004).

### **2.5.2.3 Regulatory Factors**

The success of the small business sector is continuously threatened by poor allocation of resources and over-regulation (Chamberlain and Smith, 2006). All regulation is red tape, and regulation which sometimes becomes demanding on businesses. The cost incurred directly and indirectly can be significant, and can obstruct business success, with the costs of regulatory burden having a big effect more heavily on small business. Inefficiencies in the South African Revenue Services; mandatory regulations; labour laws and regulations; and Broad-Based Black Economic Empowerment (BBBEE) appear to be the major regulatory issues faced by SMEs according to the study conducted by the business environment specialist (SPB, 2013).

SMEs are a key indicator of the impact of regulation as smaller companies have less ability to absorb compliance costs than bigger firms (Christianson, 2003). In the past, small businesses or firms were exempted from a number of government regulations but things have changed to the degree that the regulations faced by bigger companies are now applicable to small business. Regulations governing establishment of businesses are extremely intricate and conflicting, which is why small businesses find it so complicated to conform to, as the South African

government has invented new methods of bureaucracy which are considered as the most important hindrance for small firms to conduct or establish business in South Africa (Small Business Project, 2003).

Mollentz (2002) argued that some SMMEs do not comply, because of some regulations being time-consuming and expensive. However, most SMMEs do not understand the laws that govern them, making it difficult to be compliant.

Abrie and Doussy (2006) found that tax requirements add to the administrative burden of small businesses and uses resources that could otherwise be used for managing such businesses more effectively. The most difficult areas for compliance have been singled out as income tax and VAT (Mollentz, 2002). Due to a lack of skills and time, a large proportion of SMMEs outsource their tax responsibilities. Tax compliance costs for SMMEs are viewed to have negative impacts on SMMEs (Venter and de Clercq, 2007).

A study by SBP shows that the inefficiencies within South African Revenue Services (SARS) and the demands they impose on SMEs are repeatedly raised, with the most frequently cited difficulties encountered being the tax clearance certificates. SARS is known to penalize firms for its own failures (SBP, 2012). An impediment for small businesses in South Africa has been identified as tax compliance requirements and high tax compliance (Abrie and Doussy, 2006).

In South Africa, to redress past economic imbalances Black Economic Empowerment (BEE) legislation was introduced (Correia, et al., 2008). Implementation of BEE remains a challenge for many small businesses and their potential contribution to economic growth threatened, even though policies and institutions have been aligned to better serve the needs of SMMEs within the transformation process. The implementation requirements were initially the same for businesses of all sizes. The smallest businesses, more especially family-owned ones struggled more. The biggest challenge experienced, was finding a suitable black partner and skilled black



managers to fulfill the ownership and management targets. SMMEs found it difficult to make use of the opportunities provided, while they struggled to comply with the economic and administrative costs. Although the scorecard brought with it some positive aspects, the negative impact on SMMEs cannot be ignored, with the growth potential being affected and their performance. Scorecard compliance translated into undesirable compliance and economic costs that were difficult to absorb and threatened their performance. Entrepreneurs were not clear on how to empower their businesses, and on how to get the accreditation for it, due to lack of information and knowledge that has characterized this process. The stability and potential for growth of businesses were affected due to unwanted costs and risks that were being incurred. The lack of information and understanding of the BEE requirements and possibilities became a major problem and weakened its reliability (Sanchez, 2006).

South Africa's SMEs owners are losing confidence that the country's rigid labour laws are conducive to business growth. This trend emerged in the SME Index by Business Partners (BPLSI) for the first quarter of 2013. With regards to government policy, the country rates among the worst in the world in terms of labour market efficiency. Labour regulations are currently ranked as one of the most restrictive factor for doing business in South Africa for businesses dependent on labour. South Africa has extremely restrictive labour policies and the new labour regulations being promulgated have been slated as being even more restrictive than the existing problematic policies in place (GEM 2010).

Small enterprises are always tempted to avoid registration and formal compliance with regulations because this requires time, effort and money in terms of fees and sometimes legal assistance. As noted on GEM (2009) report, a high proportion of entrepreneurs are short of the skills to abide by with the legal and tax requirements facing registered businesses. Entrepreneur has to act in accordance with a range of regulations, which includes attaining the necessary permits and licenses as well as complying with the health and safety inspections regulations. On the other hand, Chamberlain and Smith (2006) argued that reducing the burden of regulations is

unlikely to result in dramatic development of the SMME market in the short term, whilst issues of regulations are important for long-term development. Regulation is thus not considered as a driver of growth.

A study by SBP showed that in the South African economy, the regulatory environment discouraged business growth in the formal economy and that regulation creates significant efficiency costs for the economy, including SMME development (SBP, 2005). Compared to developed countries, South African regulatory compliance costs appear to be significantly higher, in an international comparative perspective (SBP, 2005). An enabling environment for small enterprises provided by policies, institutions and regulations can make a substantial contribution to employment creation (Mollentz, 2002).

#### **2.5.2.4 Macroeconomic Factors**

Van Eeden, Viviers and Venter (2003) found that macro-environmental issues such as inflation, interest rates and unemployment were the main factors negatively affecting the success of small businesses in four major urban areas in South Africa. Weak rand and high inflation rates are some of the characteristics of South African economic environment. Global economic downturn has been one of the reasons for the country's economic decline (Ehlers and Lazenby 2007). The rand has depreciated by about 5% to the dollar since the beginning of 2014 (Maswanganyi, 2014).

Business Partners Limited SME Index (BPLSI), the growth prospects for the first quarter for 2014 dampened when compared to the last quarter of 2013, because of the interest rates hike by 50 basis points in January, with the possibility of more hikes during the course of the year, increasing fuel costs and rising inflation. Peterson, Kozmetsky, and Ridgway (1983) found that macroeconomic factors are the number two and three perceived reasons for small business failure in the United States of America.

Macroeconomic variable inflation results in the increase of expenses which again reduces the profits of SMEs and diverts investment to ensure the growth and success of the business. Inflation not only affects SMEs but also their consumers as it increases the costs of goods and decreases their disposable income (Cant and Wiid, 2013).

The economic factors significantly affect all businesses in all sectors and have a direct impact on the consumption patterns of consumers. As with all businesses, SMEs also face challenges posed by the economic climate in a country (Fatoki and Garwe, 2010).

#### **2.5.2.5 Infrastructure**

The development and modernisation of infrastructure is critical to South Africa's future economic competitiveness and for South Africa to integrate into the global economy. Infrastructure development is a means of facilitating domestic, regional and international trade. Africa's long-term growth could be threatened by inadequate infrastructure, a message conveyed by the Public Enterprises Minister Malusi Gigaba (SAPA, 2013).

Since 1980's, the telecommunication sector around the world has been undergoing major transformation, which was when developed countries started to develop or sustain their development in telecommunication. After realizing the importance of telecommunication in economic development, developing countries also started to develop their telecommunication infrastructure only (Zahra, 2008). Lack of telecommunications infrastructure includes poor Internet connectivity, lack of fixed telephone lines for end user dial-up access, and the underdeveloped state of Internet Service Providers (Kapurubandara, 2007).

The role of services such as electricity, transportation, and water sanitation are critical in a country's development and are directly linked to small business success and economic growth. The production of goods and services are affected by power failure, where the ability of businesses to expand is limited and also the opportunity to generate profit in order to remain in business is also limited (Okpara and Kabongo, 2009). In Nigeria, the distribution of goods and services are affected by dilapidated bridges and inaccessible roads and increase transportation costs. Businesses may find it problematic to operate in rural areas that are not accessible, even though the rural areas may have high demand for their products. Power failure affects the production of goods and services. These are some of the poor infrastructure factors affecting SMEs (Okpara and Kabongo, 2009). In South Africa, the demand for electricity is greater than the supply leading to power cuts. The power cuts can affect the turnover of new SMEs and production (Kalra, 2009).

#### **2.5.2.6 Crime and Corruption**

In South Africa the corruption rate is high compared to developed countries (Transparency International, 2008) and the World Bank (2010) found that crime is one of the most frequently mentioned constraints among enterprises. Transparency International's (TI) 2013 annual global Corruption Perception Index (CPI) shows that South Africa has dropped 34 places since 2001, ranking 72 out of 175 countries, (Corruption Watch, 2013). According to the GEM report corruption is becoming more prevalent, impacting the enterprises ability to survive and grow in South Africa, while the high levels of crime are affecting all business (Turton and Herrington, 2012).

Small businesses are a big target for crime. Whatever the actual loss is, its effect is staggering. Small businesses often lack the sophistication to identify early on the illegal actions of employees or professional thieves and the processes to prevent theft and fraud. When a company has a small asset base, a loss from theft can be a crippling blow and can threaten its very existence (Scarborough, et al., 2009).

According to Corruption Watch, small businesses ability to grow and become job creating, and the chances of success are limited because small businesses pay more than twice as much of their earnings as larger companies. This has been particularly in developing economies and around the world. Corruption negates a company's growth because it takes up part of the SME's resources which could otherwise have been used to grow and expand activities and operations (Corruption Watch, 2013).

Gaviria (2002) argued that SMEs do not have the influence and the bargaining power to contest requests for unofficial payments. The problems with regulatory compliance and bureaucracy are the reason why SMEs engage in corruption.

In a survey of SMEs in Mexico, more than 50% of those interviewed saw their business severely negatively affected by corrupt practices (81% referred to rising operating costs, 83% to lost contracts, and 79% to limited access to public procurement (Unido, 2007). Potentially, SMEs face corrupt conduct in all their interactions with the public sector when dealing with bureaucratic institutions at regional and municipal level. Even though there are huge differences between countries and among industry sectors, the crucial areas for small businesses when dealing with the corrupt requests of public sector officials are customs, licences, taxation, court cases and public procurement (Unido, 2007).

## **2.6 Chapter Summary**

SMEs play a significant position in developing countries. They are seen as the key drivers for the reduction of unemployment, the growth and development of the economy, eradication of poverty as well as the improvement of the living standards of people. A strong SME sector contributes highly to the economy, contributing to the Gross Domestic Product, by reducing the level of unemployment.

Despite their significant importance and SME contribution to economic growth, SMEs across the whole world, and in SA, are still faced with numerous challenges that inhibit entrepreneurial growth, that limit their long term performance and invariably, their development and growth and survival.

Several factors were identified as hindering SME growth globally and in South Africa. The factors were subdivided as internal and external environmental factors. The internal environmental factors included access to finance, management competency and skill and technological capabilities. Factors such as crime and corruption, infrastructure, competition, globalization and regulatory factors were among the factors in the external environment. In the next chapter (Chapter three) research methodology will be outlined, discussing the methods used for this study and justifications for the type of methods chosen.

# CHAPTER THREE

## Research Methodology

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### 3.1 Introduction

This chapter provides an overview of the research methodology. Research design and survey design will be discussed in detail, with the focus on data collection, management and data analysis procedure. For this study, interest on the design and organisation of the questionnaires are articulated. This chapter also observed the diverse statistical tests that were used to analyse the data gathered, the reliability and legitimacy of the results including the limitations in data collection.

### 3.2 Aim and Objectives

#### 3.2.1 Aim

The aim of this study was to identify the factors affecting the performance of SMEs in KwaZulu-Natal by investigating the data collected from different businesses operating in this area as listed by the Durban Chamber.

#### 3.2.2 Objectives

The objectives listed below have been designed with the purpose of identifying and understanding those factors that are responsible for the affecting the performance of SMEs in KwaZulu-Natal:

- To identify the internal environment factors affecting SMEs in KwaZulu-Natal (KZN);
- To identify the external environment factors affecting SMEs in KwaZulu-Natal (KZN);
- To make recommendations to overcome these factors to improve the

performance of SMEs.

### **3.3 Research Methods**

#### **3.3.1 Research Design**

Research design deals with the structure involved in researching and bringing to realisation the aim and the objectives of the study. It is described by Sekaran and Bougie (2010), as the process of gathering and analysing the required data in line with the framework set out for the study. According to Kumar (2005) the research design must be broken into two functions. The first function relates to the identification and development of research procedures, while the second function relates to the importance of quality in these procedures to ensure validity, objectivity and accuracy. During research design, issues regarding the purpose of the study, location of the study, the population and sampling design, data collection methods, measurement of the data and analysis of the data are established. The objective of good research design should be to minimise bias and maximise the reliability of the data (Kothari, 2008).

#### **3.3.2 Materials, Apparatus and Instruments**

For the data collection a questionnaire was designed as a tool to facilitate the gathering of data and used as the survey instrument (Appendix 1). The questionnaire was developed based on the literature review, as well the researchers work experience. Online administration of questionnaires offer many benefits (Dornyei and Taguchi, 2010) :-

- Easier access to a wider geographical population.
- Timeous as the software is able to code and capture data that previously had to be administered personally.



- Cost savings as no postage is necessary if being sent via email and no human resource costs are incurred.
- More visually appealing questionnaire as graphics and colour can be included.
- It facilitates easier response actions, for example, drop down menus.
- More convincing assurance for the anonymity of respondents.
- The progress of the response rates can be monitored and multiple attempts can be made to contact respondents.

A key consideration in designing this research questionnaire was to ensure that all the research objectives were met. The questionnaire was accordingly divided into the following sections:

Section A: Socio - Demographic details of respondents (Questions 1 - 11).

Section B: The internal environment factors affecting the performance of SMEs KwaZulu-Natal (Questions 12 - 22).

Section C: The external environment factors affecting the performance of SMEs KwaZulu-Natal (Questions 23 - 28).

In designing the questionnaire, attention was placed on the length of the questionnaire. The questionnaire was kept as short as possible. The questions were short, simple and unambiguous. There open-ended questions were limited to one question only. A variety of measurement scales were used which included dichotomous questions and Likert questions. Majority of the questionnaire was based on Likert-scaling as this proved to be most appropriate for the study. As noted by Sekaran and Bougie (2010), Likert scaling is one of the most frequently used numerical scales to measure attributes and behaviours in an organizational research. Likert scaling hence proved to be vital in gathering validated data for this study. By

allowing the respondents to choose the appropriate options presented in the Likert scale format, this enabled less room for ambiguity and confusing data. Likert scale was used for several close-ended questions. For example: Access to finance is a major challenge that affects the growth of my business? (Please indicate to what extent you agree with the following statement). Using the Likert scale is an efficient technique for attaining reliable assessment responses and enables the participants to present responses that are a little more unreserved than a simple close-ended question (Parnaby, 2006).

### **3.3.3 Study Sample**

According to Sekaran and Bougie (2010), sampling begins with precisely defining the target population which is itself defined in terms of elements, geographical boundaries, and time.

Sampling is the process of selecting the right individuals, objects, events or representation for the population (Sekaran and Bougie, 2010). The sample identification and selection process is an integral process in research design and can be either probability or non-probability sampling (Sekaran and Bougie, 2013). When elements in the population have known, nonzero chance of being chosen as subjects in the sample, we resort to a probability sampling design. Probability sampling can be either unrestricted (simple random sampling) or restricted (complex probability sampling) in nature. Non-probability sampling is used when the elements do not have known or predetermined chance of being selected as subjects.

For the purposes of this study, the probability sampling method was used as this sampling method utilises some form of random selection. The population studied for the research study centered upon SMEs registered as members with the Durban Chamber of Commerce. There are some 2000 SMEs that are registered with the Durban Chamber of Commerce. The recommended sample size for this study was

obtained from the generalised scientific guideline for sample size decisions developed by Krejcie and Morgan (1970, as cited in Sekaran and Bougie, 2010). By applying this model to the total population of members which consisted of about 2000 members, a sample size of 325 was recommended. The 325 SMEs were chosen using a simple random sampling method. Computer generated random numbers are used to select the samples. If any numbers were repeated those numbers was not considered.

### **3.3.4 Data Collection Strategy**

The type of data required largely determines the collection method to be employed as primary data is obtained for the first time by the researcher and secondary data has already been collected by someone else and has passed through the statistical processes (Kothari, 2008). A researcher, when using survey research, may use quantitative methods, qualitative methods or combination thereof. The researcher, in this case, opted to use a quantitative method.

Quantitative research involves the measurement of quantity or amount after collecting and converting the data (Kothari, 2008). For example, in quantitative research, the data is gathered through structured questions in a questionnaire which can be measured and analysed. The research instrument for this study made use of a web based online survey software hosted by QuestionPro in order to gather primary research data.

Quantitative methodology was the preferred methodology, because of the advantages presented. One of the advantages was the ability to administer the questionnaires throughout KwaZulu-Natal. For this research study, the questionnaire (Appendix 1) was created on web based online survey software. This was a cross-sectional survey conducted via online using anonymous questionnaire, was done with ease and was inexpensive to use. The questionnaires were administered between 11 August 2014 and 11th of September 2014. Three reminders were sent, after a week to ensure that

proper follow-up on the responses were done. All the information that was obtained was measured and analysed to determine whether any relationships exist between the variables identified.

### **3.3.5 Analysis of data**

QuestionPro was used to integrate the online survey data for analysis. Sekaran and Bougie (2010) stated that the data obtained from the questionnaire need to be statistically coded in order to determine variation and this process involves assigning numbers to responses so that the data can be grouped into categories. QuestionPro automatically captured data as and when every respondent clicked on the survey link. The software program enabled a numerical code to be assigned to each variable which could then be exported to Microsoft excel and other programs, for example Statistical Package for Social Sciences (SPSS) or cross reference with another variable to determine any correlation relationships (QuestionPro, 2011).

This study used descriptive or inferential statistics to perform the analysis of data. Keller (2012) defined descriptive statistics as methods of organising, summarising, and presenting data in a convenient and informative way using graphical and numerical techniques. Inferential statistics is defined as methods used to draw conclusions or inferences about characteristics of a population based on sample data (Keller, 2012).

Graphical techniques are used as the descriptive analysis method. The data was presented in the form of graphs, pie charts and tables. Numerical techniques are used to present data in the form of percentages, proportions, frequencies and measures of central tendency and dispersion.

The researcher analysed whether any relationships exist between two variables or whether they are independent of each other. According to Keller (2009), this can be

statistically confirmed by the chi-square ( $\chi^2$ ) test, which indicates whether or not the observed pattern is due to chance and thereby establish whether any relationships exist. Any  $p$ -value less than 0.05, is an indication that a significant relationship exists between two variables and that it did not happen by chance.

### **3.3.6 Reliability and Validity**

Validity in quantitative research refers to whether the means of measurement are accurate and whether they are actually measuring what they are intended to measure (Joppe, 2000).

Pre-test according to Schindler and Cooper (2006) is described as a final step towards improving survey results. As noted by Sekaran and Bougie (2010), pre-testing has a number of advantages which includes identification of possible ethical problems, helps to determine if the research questions or hypotheses are appropriate and provides information on the feasibility and the appropriateness of the sampling method. The researcher used 2 MBA students to evaluate the appropriateness of questionnaires and a pre-test was conducted on 5 respondents who were not an element of this study. There were no major areas of concerns that were noted or experienced and the data received were reconciled with what it was planned to collect.

Reliability in quantitative research refers to whether the result is replicable, the extent to which results are consistent over time and an accurate representation of the total population under study. If the results of a study can be reproduced under a similar methodology, then the research instrument is considered to be reliable (Joppe, 2000). The method that is commonly used as a measure of reliability is Cronbach's alpha. The Cronbach's alpha measure was above 0.70 which is an acceptable measure of reliability.

### **3.3.7 Bias**

Bias is a systematic error that can prejudice your evaluation findings in some way. Bias can occur at any phase of research, including study design or data collection, as well as in the process of data analysis (Taylor-Powell, 2009).

Data analysis error is a form of bias, created when raw data is transformed into erroneous research findings. This can be done through inappropriate uses of statistical techniques, leading to the incorrect interpretation of the survey results (Penwarden, 2013). In the research study the data analysis error bias was minimized through the use of QuestionPro and SPSS system which analysed the data.

Sampling bias can occur any time your sample is not a random sample. If it is not random, some individuals are more likely than others to be chosen. In the research study the sampling bias was eliminated when the respondents were chosen randomly based on. For the purposes of this study, the probability sampling method was used as this sampling method utilises some form of random selection a simple random sampling technique.

### **3.4 Ethical considerations**

Various ethical actions were performed during this research study. Firstly, ethical clearance (Appendix 2) for the study was granted by the University of KwaZulu-Natal Humanities and Social Sciences Research Ethics Committee on the 09th June 2014 (Protocol Reference Number: HSS/0575/014M) from the University of KwaZulu-Natal's (UKZN) research office. Secondly a gatekeeper's letter (Appendix 3) was obtained from the Chief Executive Officer of the Durban Chamber of Commerce on the 23<sup>rd</sup> May 2014, where consent to conduct the study among the members was obtained.

### **3.5 Chapter Summary**

This chapter highlighted the research methodology, research design, sample method and data analysis techniques used for this study. A discussion was presented on the research instrument employed, an online self-administered questionnaire. The web based online survey software hosted by QuestionPro was used to administer the questionnaire and used to gather primary research data. The data analysis methodology was outlined. Validity, reliability and biases of the study were outlined, followed by the ethical clearance. The chapter to follow (Chapter four), will provide a detail presentation and discussion of the research results obtained from the questionnaires.

## CHAPTER FOUR

### Presentation and Discussion of Results

---

#### 4.1 Introduction

The focus of this chapter is to present, interpret and summarise the primary data that was collected from the online questionnaire. The collected data is presented through the use of descriptive statistics, presented in the form of bar charts and pie graph, which are deemed as effective illustrations of depicting relations and trends.

Firstly the Socio-demographic profile of the respondents is presented. Thereafter the presentation based on the findings of the internal factors affecting the performance of SMEs in KwaZulu-Natal, followed by the presentation of the external factors affecting the performance of SMEs in KwaZulu-Natal discussed. A total of 325 questionnaires were sent, and a response rate of 23% was achieved.

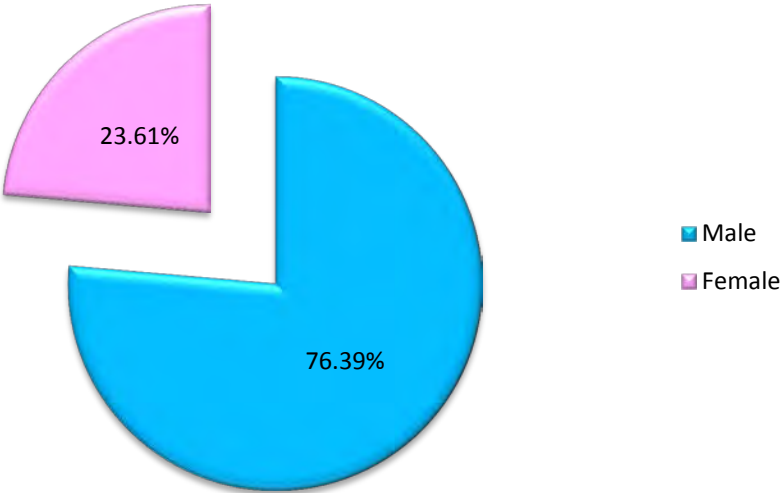
#### 4.2 Socio- Demographic Results

To attain essential information about the respondents, the demographic data is essential. Socio- Demographic Information allows for better analysis of results and also is a way for identifying differences in responses by subgroups such as ethnicity and educational background. Demographic factors of the respondents such as age, gender, ethnicity, education level, years of experience, location are discussed.

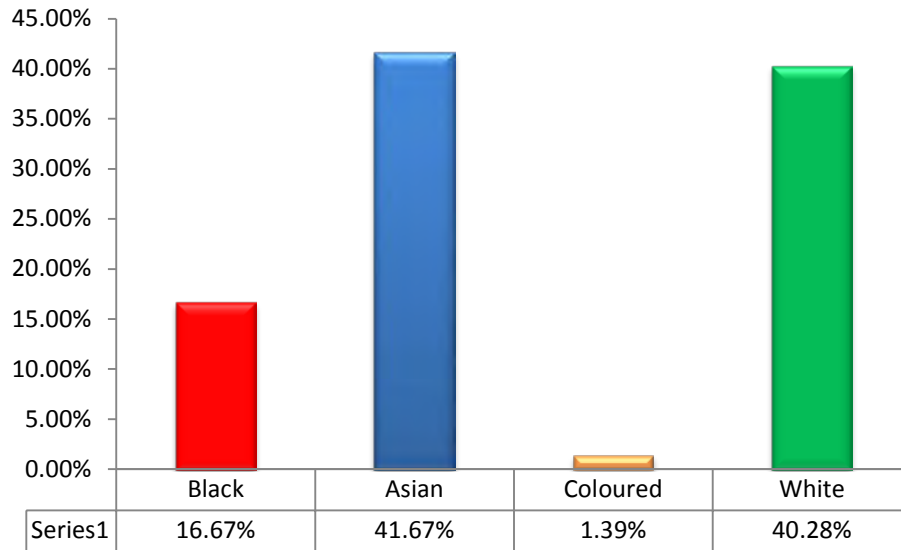
Questions 1 to 11 of the questionnaire dealt with the socio-demographic information of the respondents. Figure 4.1 to 4.10 present the socio-demographic information. The majority of the respondents (76.39%) were males (Figure 4.1). The respondents comprised mainly of Asians and Whites, together being 81.95% of the respondents (Figure 4.2). The average age of the respondents was 45 years.



Majority of the respondents are over the age of 60 (Table 4.1). Majority (90.28%) of the respondents were either the owners, managers or both owner and manager (Figure 4.3). Figure 4.4 reflects that more than half the participants holding a degree. From the legal status of the business provided, Close Corporations and Private Limited companies were chosen as the majority legal status, which together make up 86.11%. Partnership represented the smallest percentage (Figure 4.5). The top three industry sectors in which the business operates are Manufacturing, Construction and Mining and Business Services (Figure 4.6). Figure 4.7 reflects that there is a spread across the numbers of employees employed, with 30.2% being the highest employing between 5 and 20 people. More than half of the businesses have been in business for more than 15 years (Figure 4.8).



**Figure 4.1 Distribution of Gender (%)**



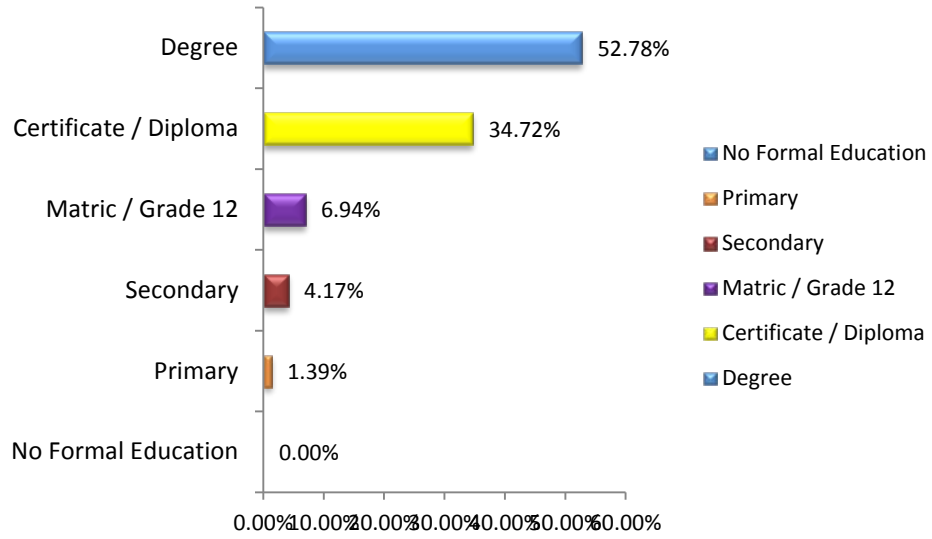
**Figure 4.2 Distribution of Race (%)**

**Table 4.1 Descriptive statistics for age (n=74)**

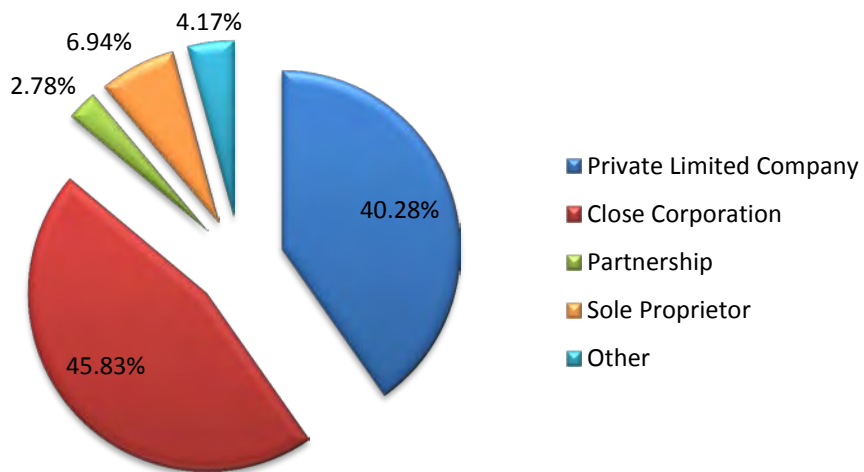
	N	Minimum	Maximum	Mean	Std Deviation
Age	74	20	68	45.6	11



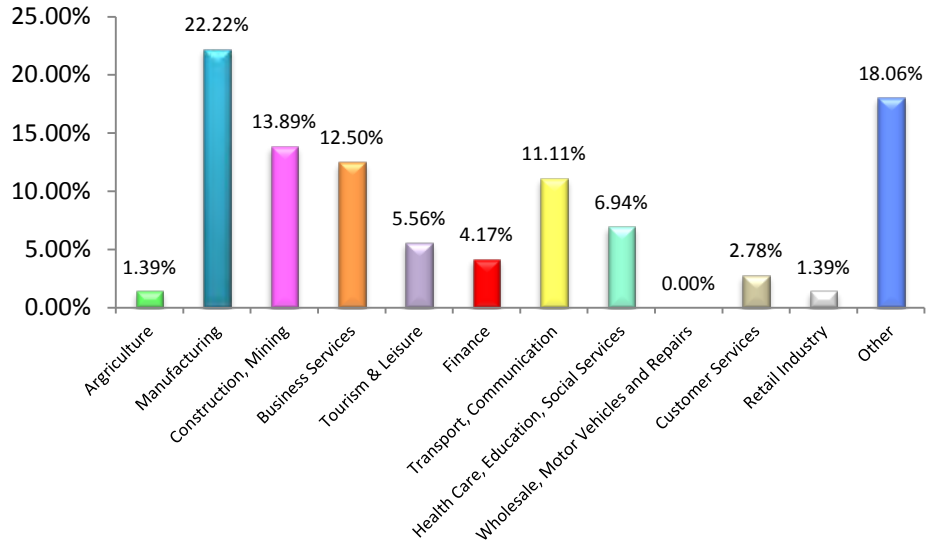
**Figure 4.3 Distribution of Role in the Business**



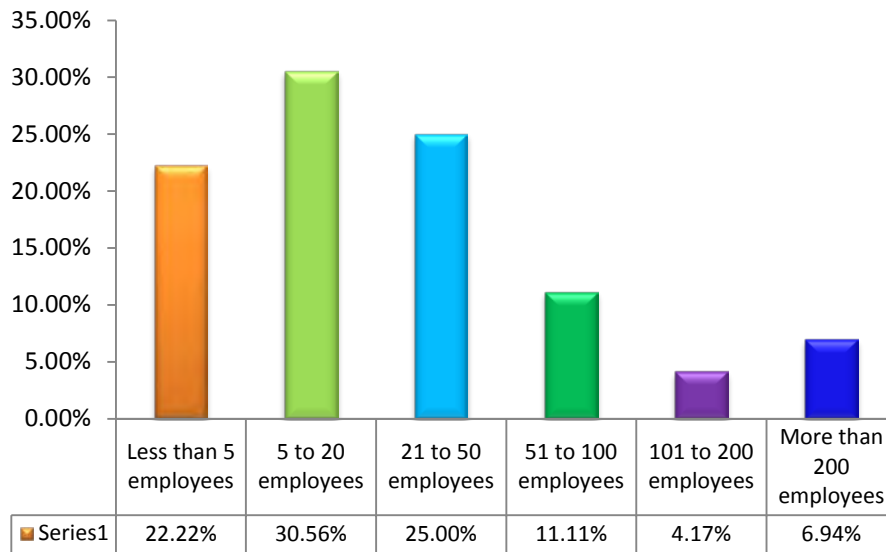
**Figure 4.4 Distribution of Education Level of Management team**



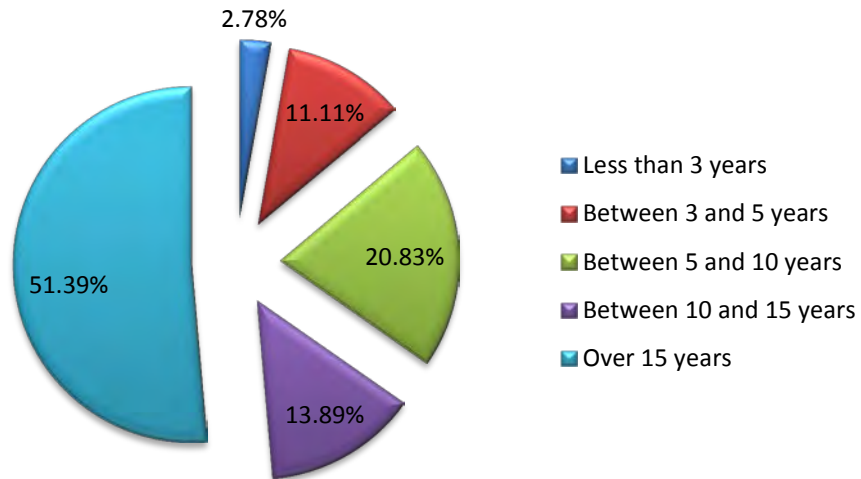
**Figure 4.5 Legal Status Distribution of the business**



**Figure 4.6 Distribution of Industry Sector**

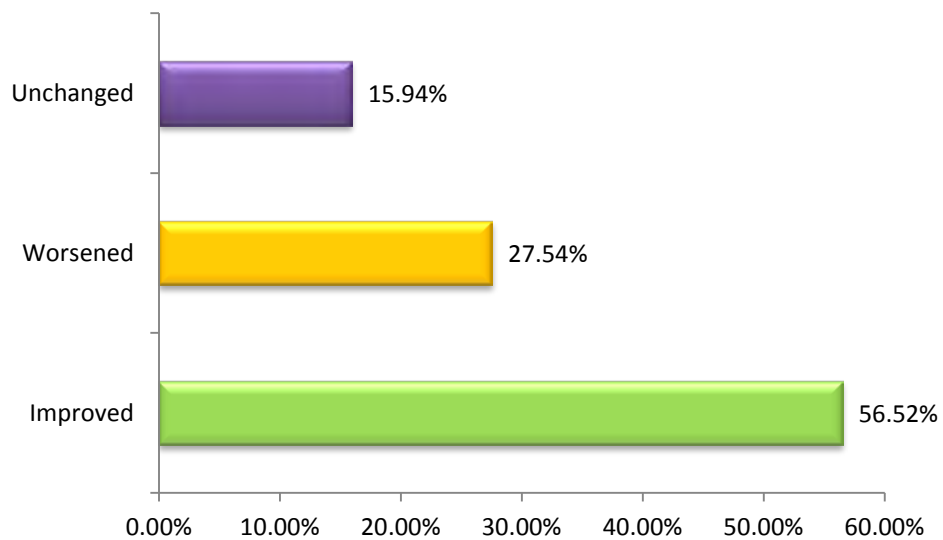


**Figure 4.7 Distribution of Number of employees**

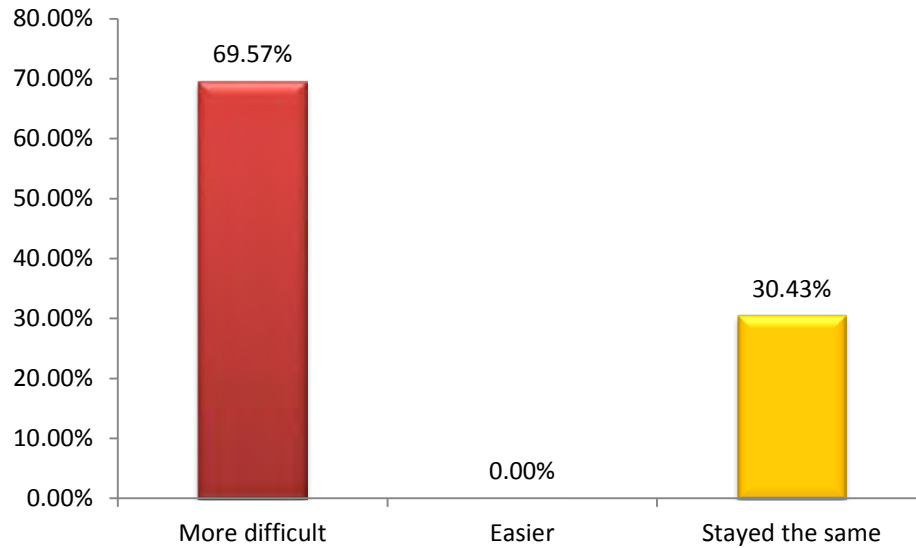


**Figure 4.8 Length of time in business**

It is found that more than half the respondents (56.52%) performance improved in the last year compared to the previous year (Figure 4.9). Whilst, 69.57% found that running an SME has become more difficult (Figure 4.8).



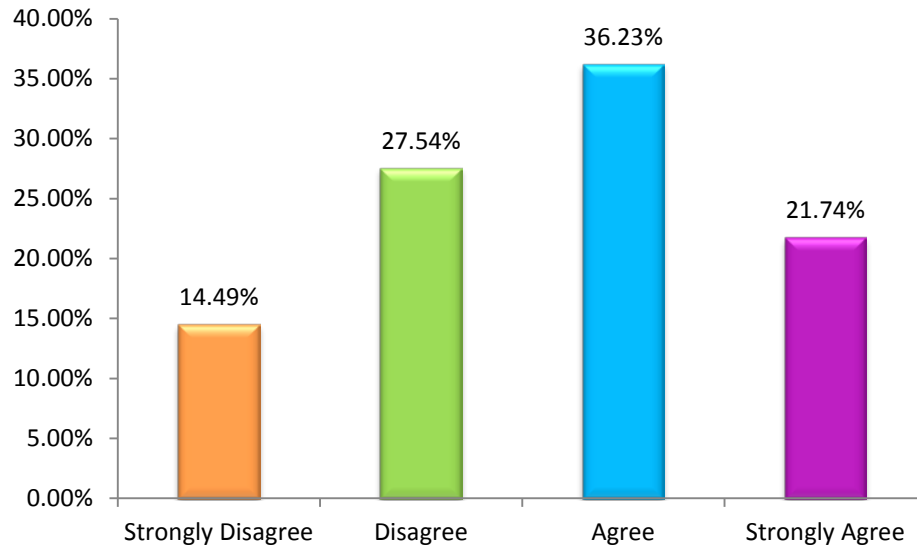
**Figure 4.9 Distribution of Performance over the past year**



**Figure 4.10 Distribution of Running an SME over the past year**

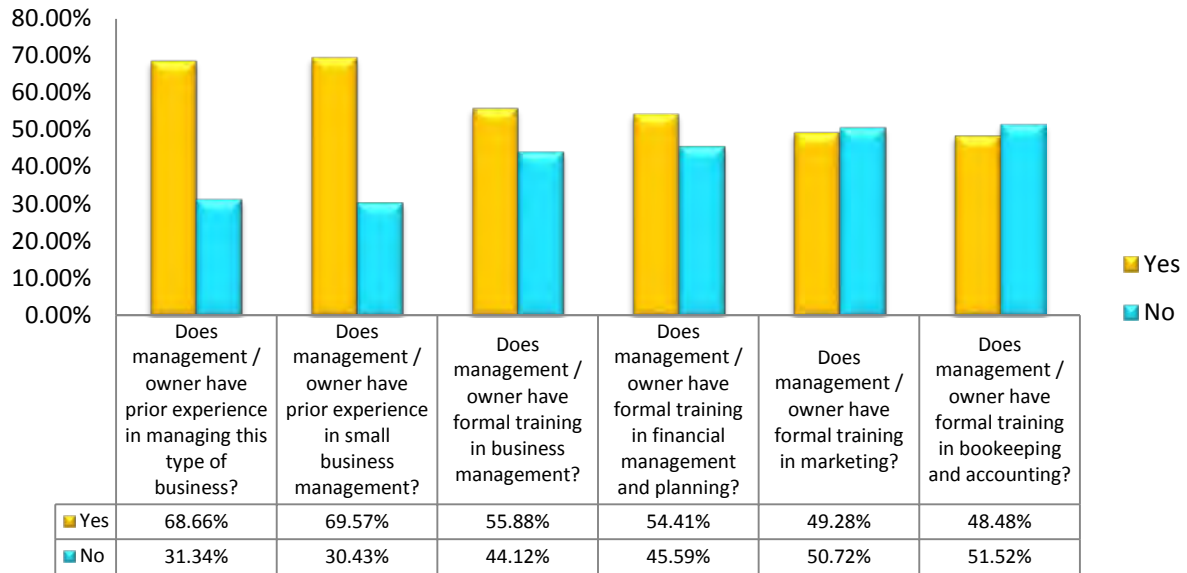
### **4.3 Internal Environment Factors**

Figures 4.11 to Figure 4.21 focused on the findings of the internal environment factors affecting the performance of SMEs. Managerial competency and skills shortage affects the business performance was agreed and strongly agreed by a more than half the of the respondents (57.97%) (Figure 4.11).



**Figure 4.11 Distribution of Managerial competency and skills shortage affects business performance**

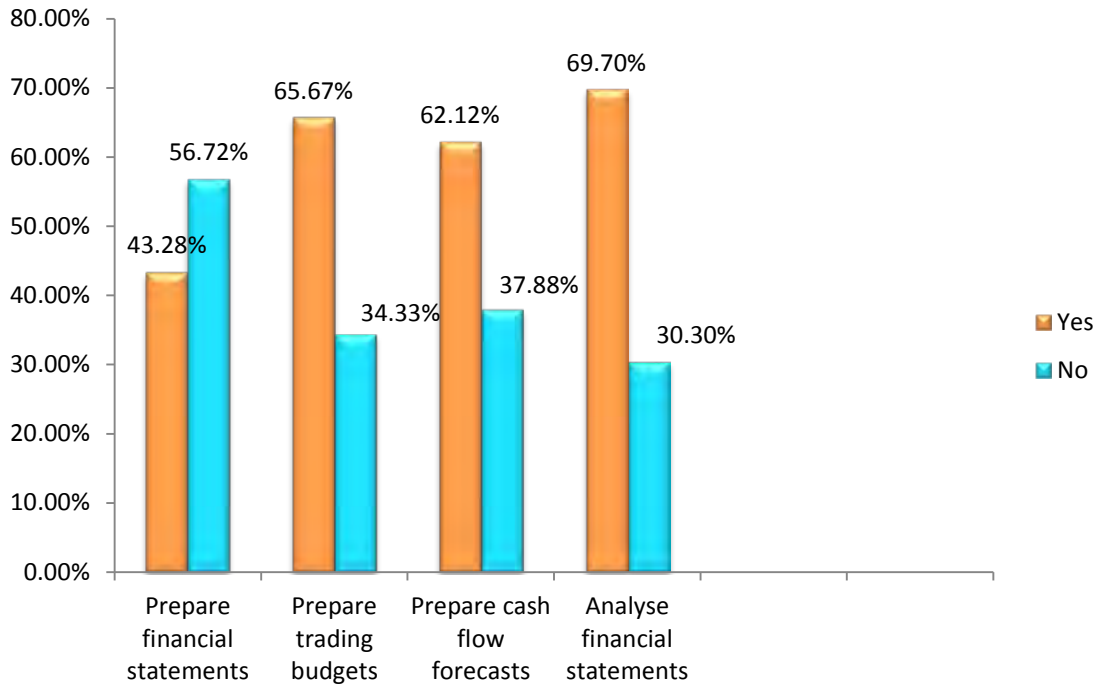
Results indicated that majority of the respondents (68.66%) had prior experience in managing the type of business and also have experience in small business management (Figure 4.12). It was also found that more than 50% of the respondents had formal training in business management and financial management and planning. Over 50% of the respondents did not have formal training in marketing and formal training in bookkeeping and accounting (Figure 4.12). A large number of respondents have the necessary skill to prepare trading budgets (65.67%), prepare cash flow forecasts (62.12%) and to analyse financial statements (69.70%).



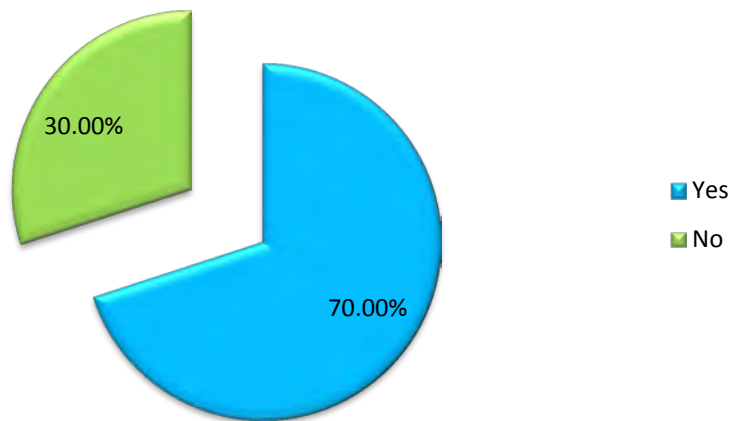
**Figure 4.12 Distribution of Management / Owner having experience and training**

The study found that very few respondents (56.72%) had the necessary skill to prepare financial statements (Figure 4.13). Only about a third of the respondents (30%) did not outsource business functions (Figure 4.14), with majority of the respondents outsourcing the accounting function, followed by IT (Figure 4.15).

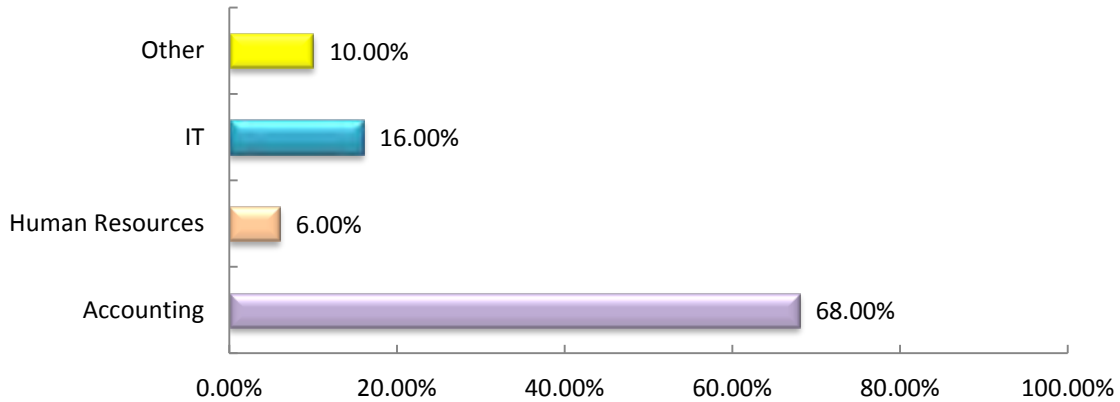




**Figure 4.13 Distribution of management / owner having the necessary skills**

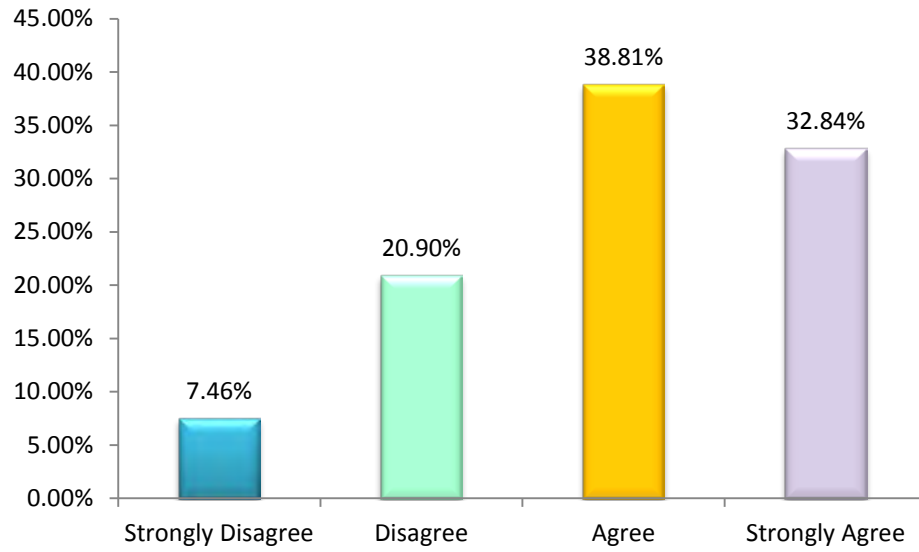


**Figure 4.14 Distributions of Outsourcing Business Functions**

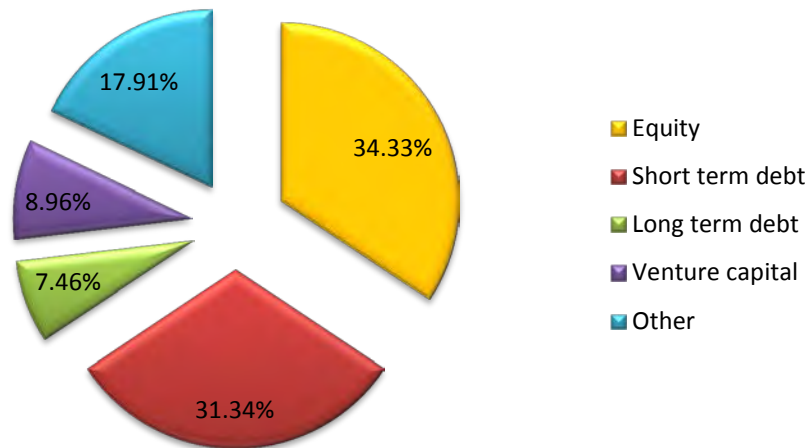


**Figure 4.15 Distribution of Functions Outsourced**

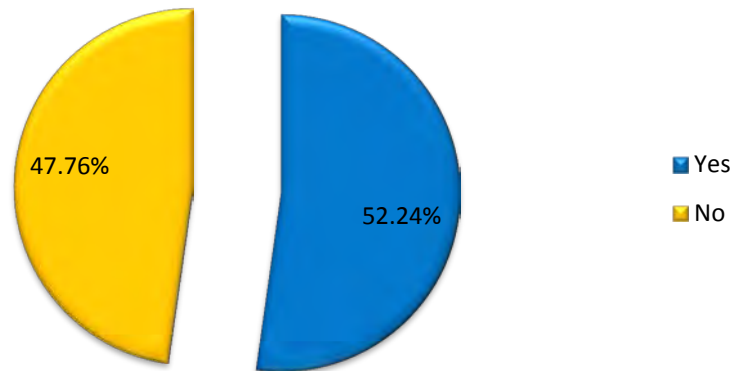
Access to finance is considered a challenge affecting growth of the business to 71.65% of the respondents (Figure 4.16). More than a third of the respondents indicated that their business is financed through equity (34.33%) and only (7.46%) relying on long term debt (Figure 4.17). More than half the respondents (52.24%) reported experience difficulties in accessing external finance (Figure 4.18). Lacks of collateral and high interest rate are presented as the biggest difficulties. A small percentage was due to age of the business, credit scoring, lack of awareness about financing and lack of experienced and skilled management (Figure 4.19). From Figure 4.20 it can be seen that 81.82% of the respondents see technological advancement to improve business performance. More than a third of the respondents see lack of financial resources as the hindering technological advancement (Figure 4.20).



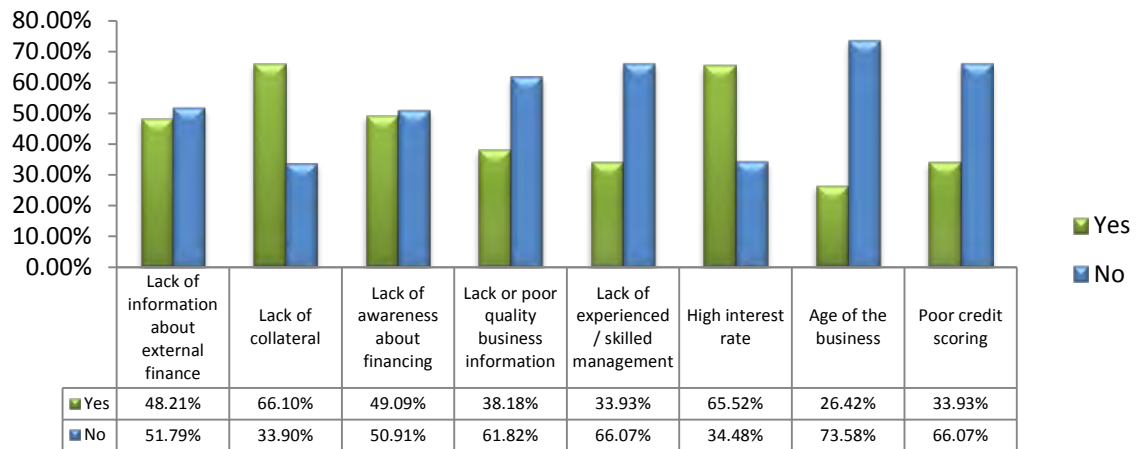
**Figure 4.16 Distribution of Access to Finance as a Major Challenge Affecting the Growth of Business**



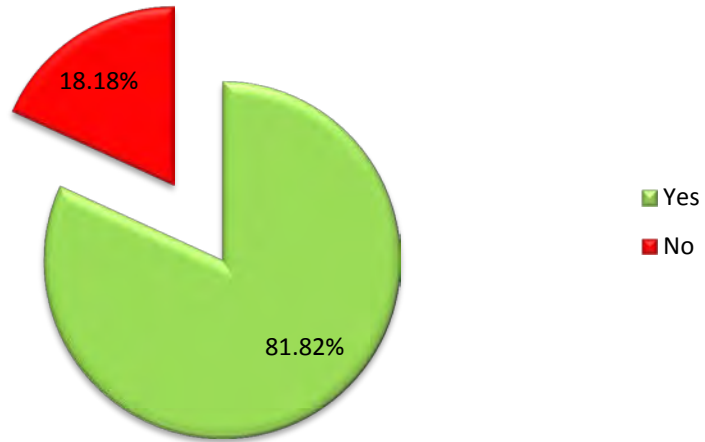
**Figure 4.17 Distribution of how the business is financed**



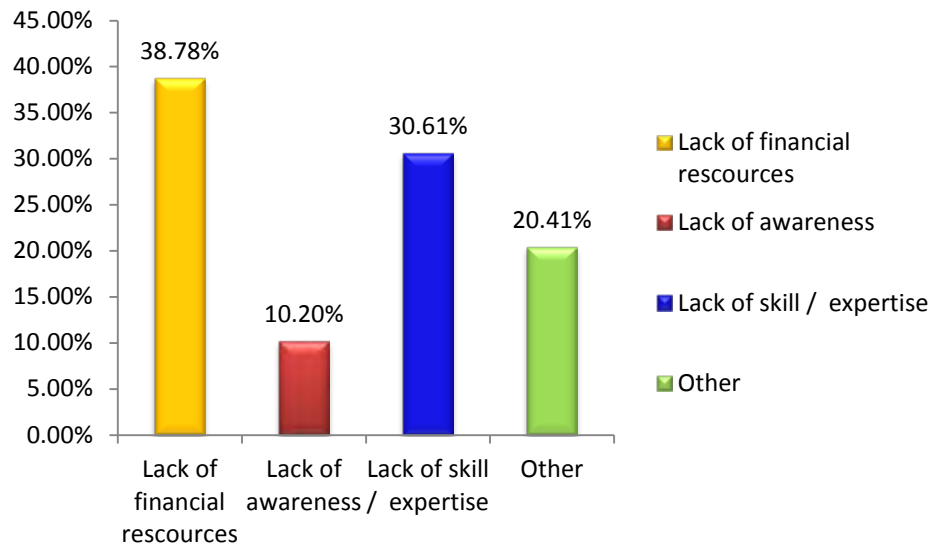
**Figure 4.18 Distribution of business experiencing difficulties in accessing external finance**



**Figure 4.19 Distribution on Difficulties in Accessing External Finance**



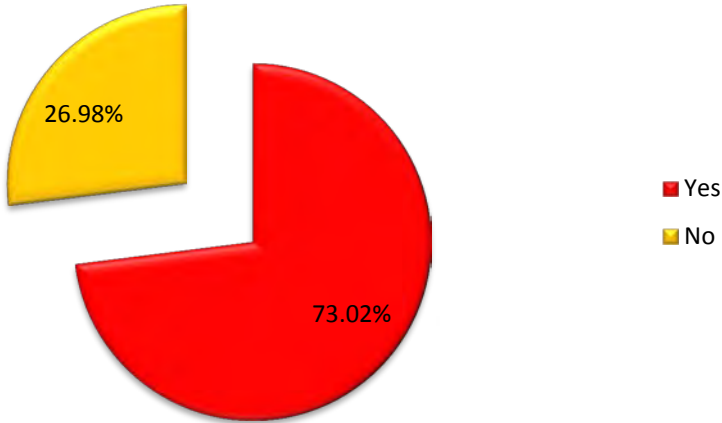
**Figure 4.20 Distribution on Technological Advancement to improve performance**



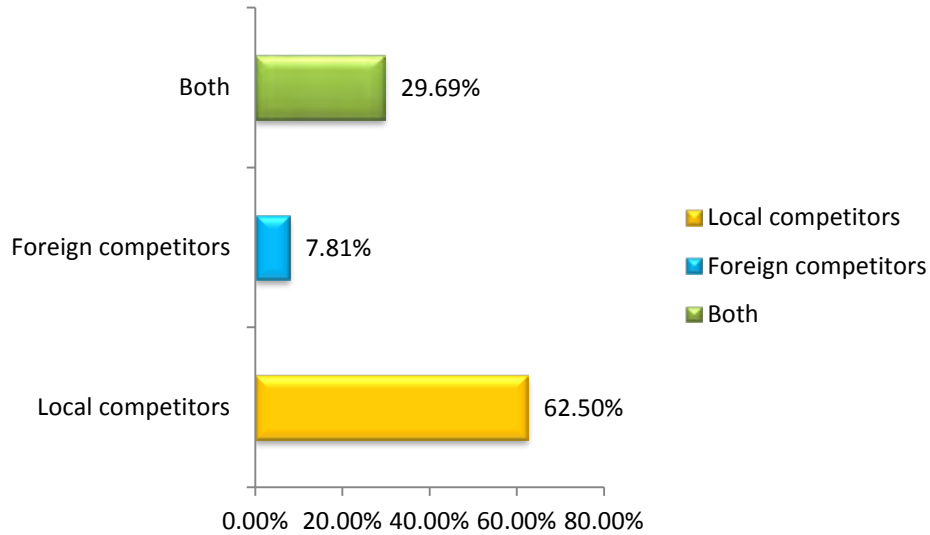
**Figure 4.21 Distribution on Factors affecting Technological Advancement**

**4.4 External Environment Factors**

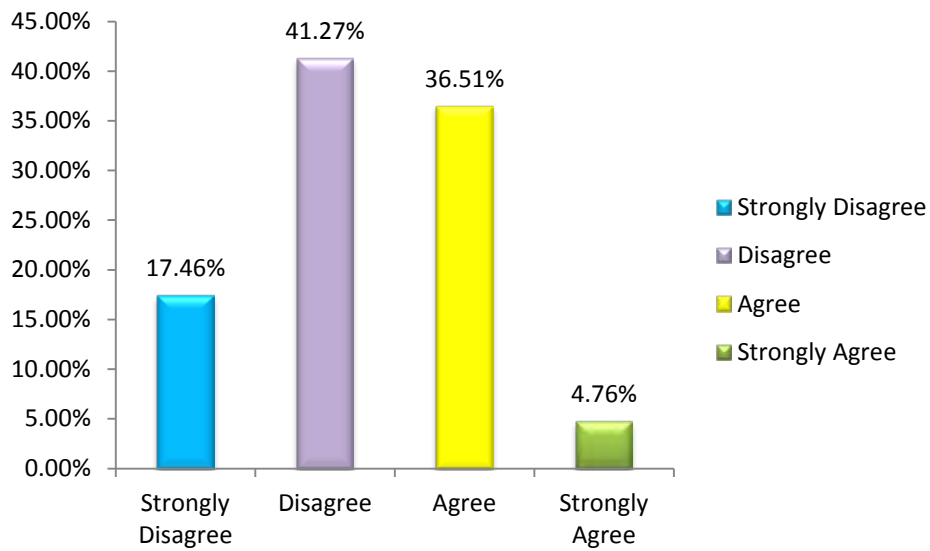
Figures 4.22 to Figure 4.35 will focus on the findings of the external factors affecting the performance of SMEs. Majority of the respondents (73.02%) viewed that competition as a major challenge (Figure 4.22). Local competitors was found to be to be a challenge by 62.5% of the respondents, while about a third of the respondents (29.69%) found both local and foreign competitors to be affecting the business performance (Figure 4.23). Globalisation was seen not to be a factor affecting the business by 58.73%of the respondents (Figure 4.24).



**Figure 4.22 Distribution on Competition as a Major Challenge**



**Figure 4.23 Distribution on Business Competitors**

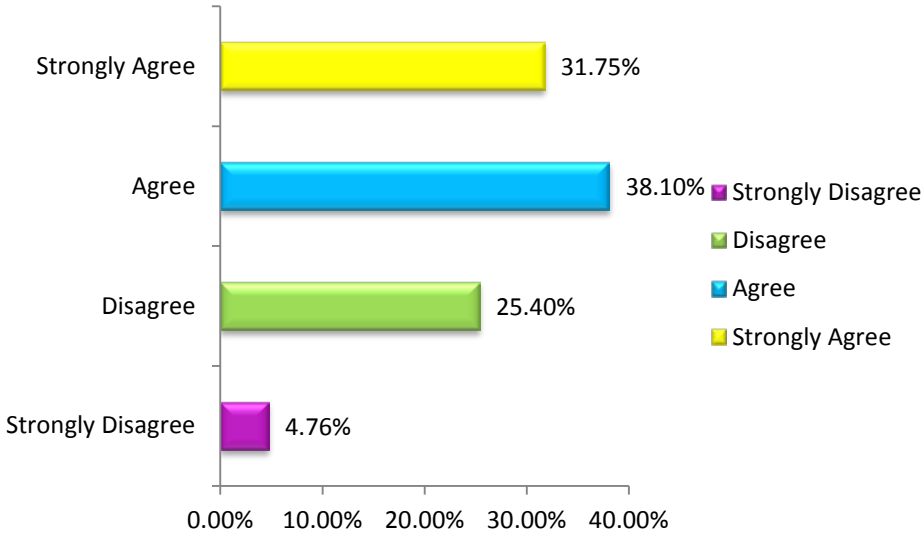


**Figure 4.24 Distribution on Globalisation affecting the business**

Figure 4.25 and Figure 4.26 illustrates that majority of the respondents found SA Labour laws and tax laws to be affecting the growth of the business with majority of the respondents selecting strongly agree and agree (67.74% - 69.85%). An equal percentage of the respondents agreed and disagreed that BEE laws affects the growth of the business (28.57%). About a third of the respondents (30.16%) strongly

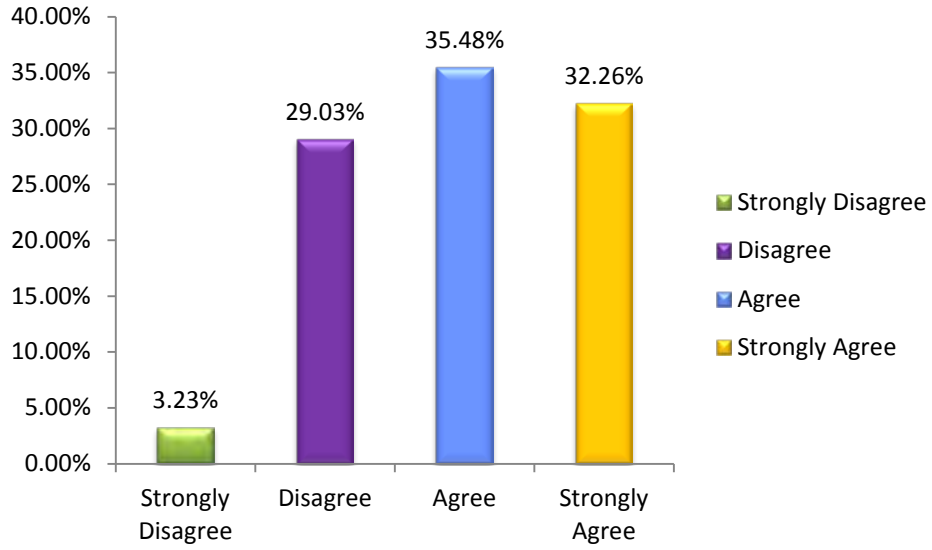
agreed that a BEE law was affecting growth (Figure 4.27). Government bureaucracy impacting growth was strongly agreed and agreed by 72.58% of the respondents (Figure 4.28). Majority of the respondents (82.54%) did think that the strength of the rand affects business performance (Figure 4.29). Inflation rate affecting business performance was also strongly disagreed and disagreed by the minority of the respondents (13.34%) (Figure 4.30). Figure 4.31 illustrates that majority of the respondents, 85.24%, note interest rate as affecting business performance.

Just over 50% the respondents did not view road conditions as affecting business performance (Figure 4.32) whereas majority reported power supply affecting the business performance (Figure 4.33). About half (43.55%) of the respondents strongly agree with telecommunication system affecting the business performance (Figure 4.34) and majority (88.89%) agreed and strongly agreed that crime and corruption is affecting the performance of the business (Figure 4.35).

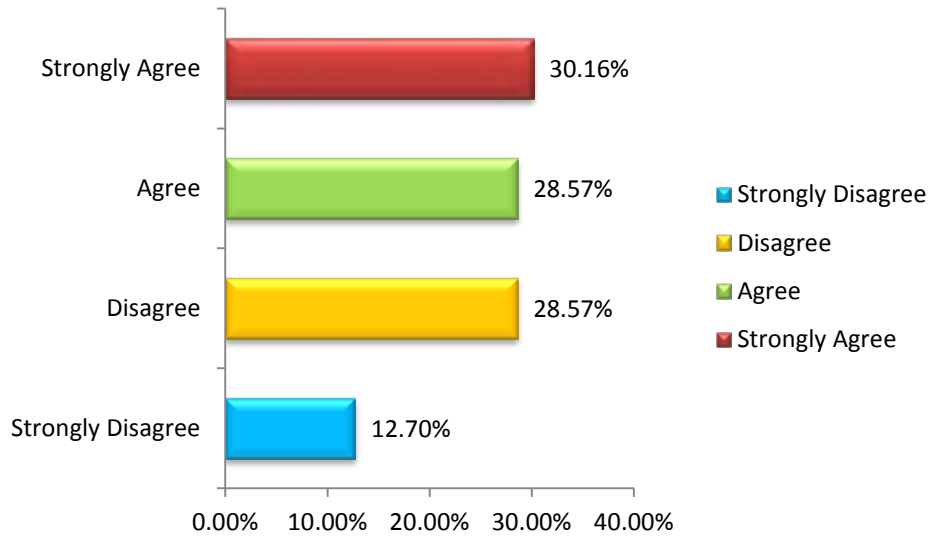


**Figure 4.25 Distribution on SA Labour Laws affecting the Growth of Business**

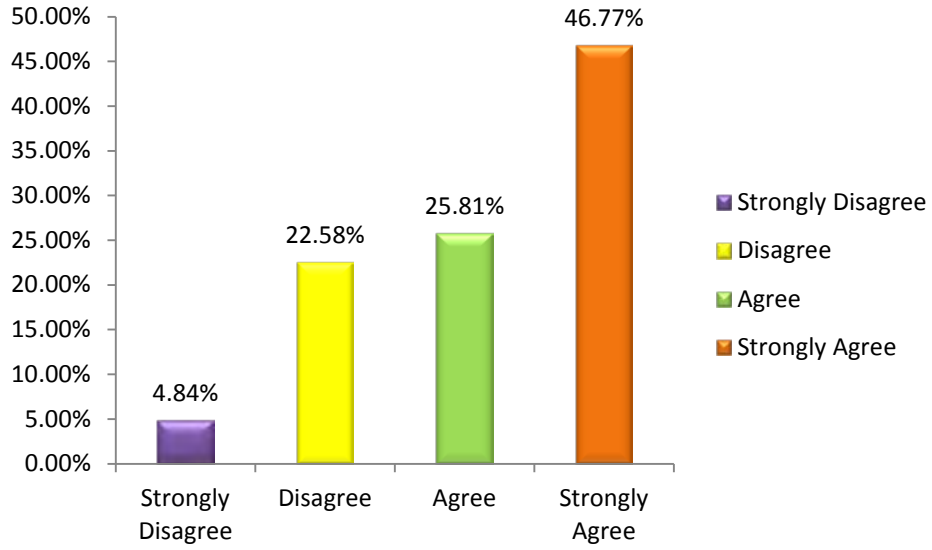




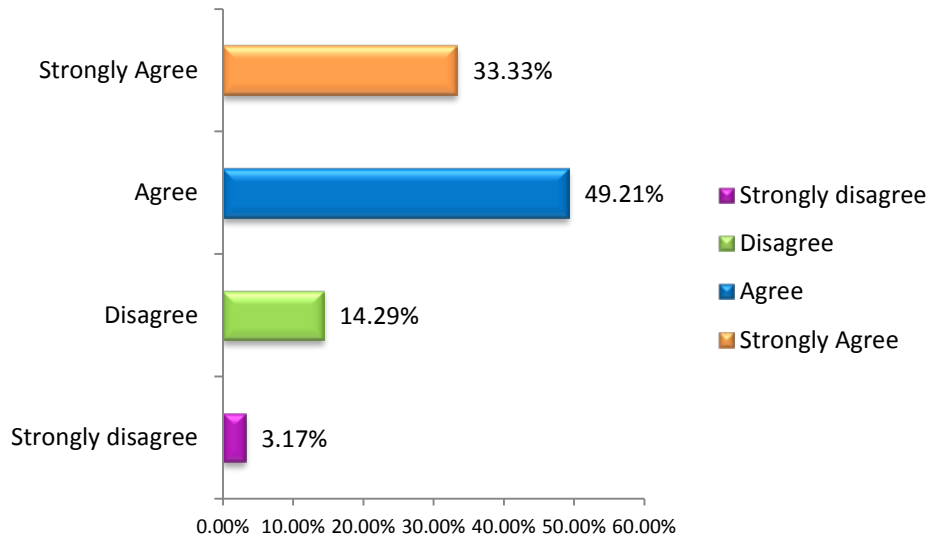
**Figure 4.26 Distribution on Tax Laws affecting Growth of Business**



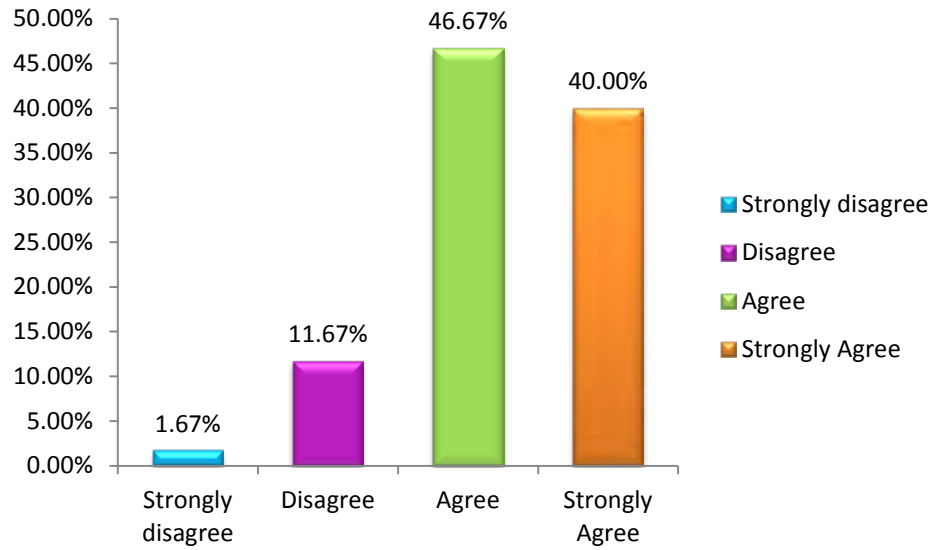
**Figure 4.27 Distribution on BEE Laws affecting Growth of Business**



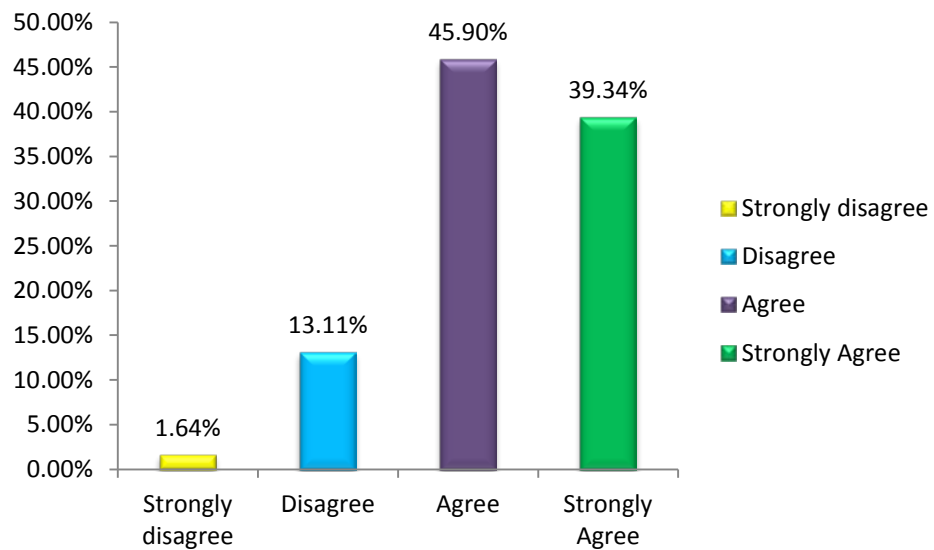
**Figure 4.28 Distribution on Government Bureaucracy Impacting Growth**



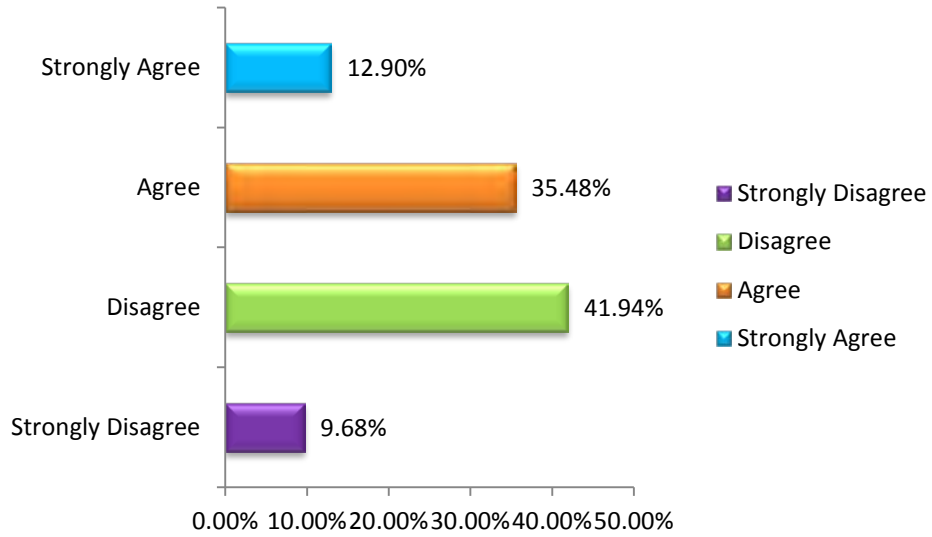
**Figure 4.29 Distribution on The Strength of The Rand affecting the Business Performance**



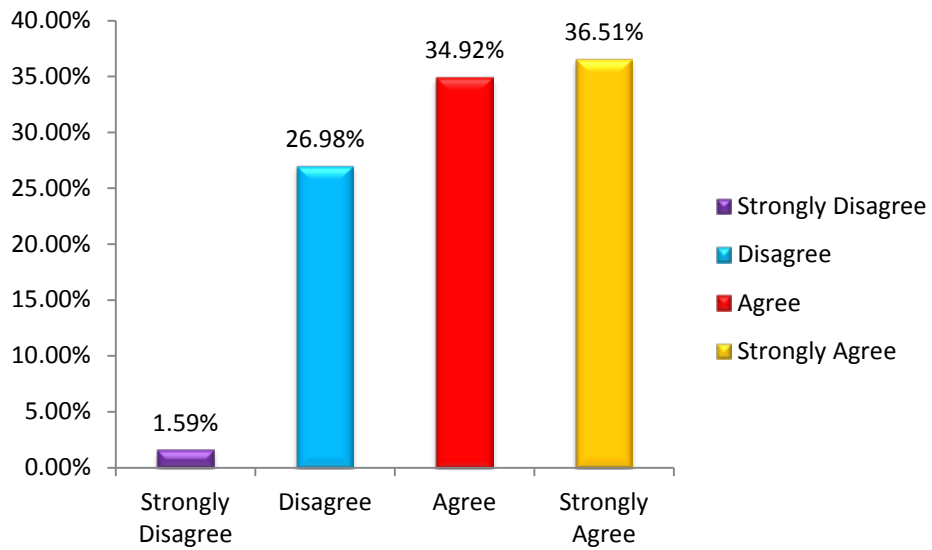
**Figure 4.30 Distribution on Inflation rate affecting the Business Performance**



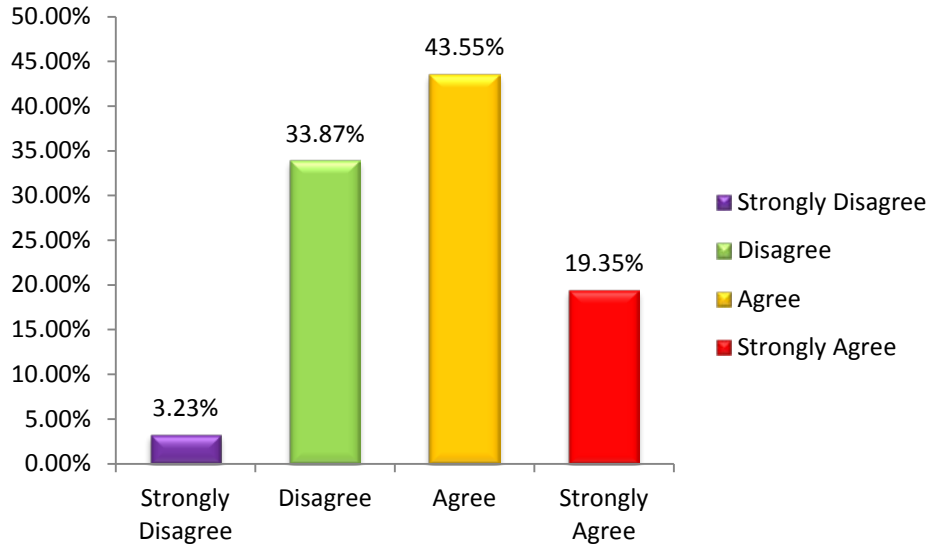
**Figure 4.31 Distribution on Interest rate affecting the Business Performance**



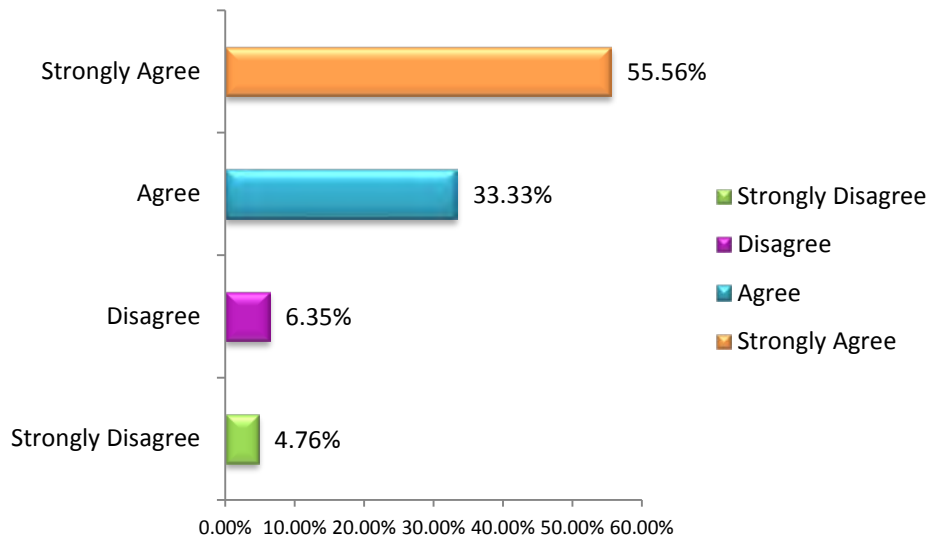
**Figure 4.32 Distribution on Road Conditions affecting the Business Performance**



**Figure 4.33 Distribution on Power Supply affecting the Business Performance**



**Figure 4.34 Distribution on Telecommunication system affecting the Business Performance**



**Figure 4.35 Distribution on Crime and Corruption affecting the Business Performance**

## 4.5 Results based on Bivariate Analysis

With use of Chi-squared test of association method, the significant association of the variables was found. Results indicated that there was a statistically significant association exist between competition and performance of the business ( $p = 0.011$ ). For example, those mentioned that competition is a major challenge, all (100%) of their business performance worsened in the past year.

**Table 4.2 Association between competition and business performance**

		Is competition a major challenge that confronts your business?			Chi-Squared Value	P value
		Yes	No	Row Totals		
How was your business performance in the past year in comparison to the previous year?	Improved	24	12	36	9.008	0.011
		66.67%	33.33%	56.25%		
	Worsened	17	0	17		
		100%	0%	26.56%		
	Unchanged	6	5	11		
		54.55%	45.45%	17.19%		
	<b>Column Total</b>	<b>47</b>	<b>17</b>	<b>64</b>		
	<b>Column Percent</b>	<b>73.44%</b>	<b>26.56%</b>	<b>100%</b>		

## 4.6 Chapter Summary

The chapter provided an overview of the socio-demographic information and the results of the internal factors and external factors affecting the performance of SMEs in Kwa-Zulu Natal. The socio-demographic factors presented an insight into the background of the participants in the survey. Detailed results of the internal and external factors were presented, reflecting that many of the factors presented are challenges for SMEs in Kwa-Zulu Natal. Using the Chi-squared test of association

method a bivariate analysis was done. The results revealed that there was a statistical association between competition and the performance of SMEs in Kwa-Zulu Natal. The next chapter (Chapter 5) will provide a discussion on the results and the link between the objectives of this study and the literature researched.

## **CHAPTER FIVE**

### **Discussion**

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#### **5.1 Introduction**

The purpose of this chapter is provide and state the interpretations and to explain the implications of the findings. The main function of the chapter is to answer the research questions posed in chapter 1, explain how the results support the answers and, how the answers fit in with the literature research of Chapter 2.

A brief overview of the research objectives will be discussed, followed by an in depth discussion of the research findings, which is then linked back to the literature study, to validate the research findings.

#### **5.2 Overview of Research Objectives**

The first objective of this study was to identify and understand the internal environmental factors that affect the performance of SMEs in KwaZulu-Natal. The second objective was to identify and understand the external factors that affect the performance of SMEs in KwaZulu-Natal. Finally the study will provide a recommendation on how the performance of SMEs can be improved.

#### **5.3 Discussion on the Socio-Demographic information**

Majority of the SME owners/managers were males, indicating that majority of the SMEs in KwaZulu-Natal are dominated by males. The demographic results of the study, reflects that the SME owners or managers were Whites (40.28%) and Asians (41.67%). While the SME sector is a one way of uplifting the previously disadvantaged, this would be difficult to achieve if Blacks and Coloureds continue to own or manage a small percentage of the SME sector.



The average age of the SME owners/managers was found to be 45.8 years. The oldest SME owner or manager was 68 years of age and the youngest was 20 years old, with a standard deviation of 11 years.

All of the SME owners/managers had some form of education and more than half of the respondents (52.78%) had a Degree. Leitao and Franco (2011) found that the performance of SMEs is positively affected by the high levels of education of the SME owners. SME owners that are highly educated are able to attain and develop skills to start up a new business and to sustain the business.

Most of the respondents were the SME owner or both, the manager and owner (69%). This is reflective of the fact that many SME owners perform many roles.

Close corporation (45.83%) and Private limited company (40.28%) were the popular choices for legal status of the business. In South Africa, SMEs stretch across all sectors of the economy (Finscope, 2010), while the survey results shows that the SMEs stretch across most of the sectors. All of the SMEs surveyed are registered business with a legal status. Literature on SMEs and their legal status indicate that a big proportion of SMEs operate informally, without being registered (DTI, 2008).

The results on the number of people employed shows that almost all of the respondents meet the definition of SMME or SME as stated by the National Small Business Act 1966, No. 102 of 1966:17. More than a third employ between 5 and 20 people.

The survey response reflects that majority (86.11%) of the SMEs have been in business for more than 5 years. Majority of South African SMMEs remain in the embryonic state and baby business phases, which is less than 3.5 years since startup, lacking growth (DTI, 2008).

#### **5.4 Managing and SME and Performance of SMEs over the past year**

More than half of the SME owners/managers (56.52%) have indicated that the performance of the business over the past year in comparison to the previous year has improved. Whilst the performance of the business may have improved, majority of the SME owners/managers found that running an SME was more difficult.

#### **5.5 Results of the Internal Environment Factors**

The first objective of the study was to identify which internal environment factors affect the performance of SMEs in KwaZulu-Natal. The factors discussed will be management competency and skills, access to finance and technological capabilities.

##### **5.5.1 Managerial competency and skills**

The study reveals that majority of the respondents view managerial competency and skills shortage as a factor that affects the performance of the business. This finding is supported by the Hisrich and Drnovsek (2002). In their study it was found that managerial competencies positively impact on the performance of SMEs and further pointed out by Martin and Staines (2008), SME failure are as a result of lack of managerial experience.

Experience, start-up experience, education and knowledge are all measures of management competencies. In establishing the management competencies and skills level of SME owners/managers the questionnaire dealt with experience and training. Managing this type of business, prior experience in small business management, formal training in financial management and planning, formal training in marketing and formal training in bookkeeping and accounting were the areas of focus to establish management competencies and skills of the SME owners/managers. While

Hisrich and Drnovsek (2002) stated that start up experience, managerial experience and knowledge of the business positively impact on the performance of SMEs. The research results found that SME owners/managers lack prior experience in managing this type of business (31.34%) and lack experience in small business management (30.43%) (Figure 4.12). If SMEs are to survive, they must obtain the necessary skill. Most entrepreneurs often start a new enterprise while ignorant of many key elements of running their own enterprises (Shepard, Douglas, and Shanley, 2000). With experience, entrepreneurs must be knowledgeable about all functional areas of business for survival and success (Lotz, 2007).

The performance of SMEs is positively affected by the high levels of education of the SME owners, as highly educated are able to attain and develop skills to start up a new business and to sustain the business (Bowen, Morara, and Mureithi, 2009; Leitao and Franco, 2011). Education was found to improve managerial competency (Blumberg, 2008). Almost half of the SME owners/managers were found to be without formal training in business management, financial management, marketing and bookkeeping and accounting. This finding is consistent with the findings of past research that (Batley, 1999) South Africa has too few people with small business managing qualities, leading to a situation where the South African economy performs poorly because only a few people succeed as small business owners. The lack of entrepreneurial knowledge and business management skills is the reason for business failure (Scarborough and Zimmerer, 1996).

While the importance of financial management accounting and bookkeeping and marketing is understood, with a large percentage of the SME owners/managers are without this skill, this could be threatening to the performance and survival of SMEs in KwaZulu-Natal.

With a very basic understanding of finance and accounting (Abdel, 2010), owners/managers may not be able to differentiate between business capital and profit. This leads to business stagnation and failure (Okapar, 2009). Small firm owner-

managers have been found to have problems in reading financial language and understanding common terms and conventions used in financial reports (Abdel, 2010). The study results did show majority of the respondents were found to have the necessary skill to analyse financial statements, prepare trading budgets, prepare cash flows and prepare financial statements. These results are surprising as it was discussed earlier that nearly half the respondents did not have formal training in financial management, or bookkeeping and accounting.

Most of SMEs has a tendency to fail because lack of planning, knowledge, absence of overall managerial skills, competencies and capabilities (Dyer and Ross, 2008). By relying on outsourcing, SMEs can obtain the capabilities and competences they require from external service providers (Gilley, et al., 2004). From the survey results we see that three quarter of the respondents (70%), outsource the business functions, with accountancy being the most outsourced function. The results on outsourcing does not support the literature, as we have seen earlier in the discussion that SMEs owners/managers were found to have the necessary skill to analyse financial statements, prepare trading budgets, prepare cash flows and prepare financial statements. While the literature claims that the main reasons small businesses outsource accounting functions are that they lack necessary resources and skills required to carry out accounting functions within the organisation, they lack the expertise and specialised knowledge of the professional accountant (Yahya and Susela, 2011).

### **5.5.2 Access to finance as major challenge affecting the growth of the business**

Accessibility to finance is a major factor affecting the growth and success of SMEs, (Haron et al, 2013), which can be attributed to many factors. In South Africa access to finance has been singled out as major constraint, impeding the survival and growth of start-up SMEs, according to Mazani and Fatoki (2012). Thus adequate access to

financing is critical to enable SMEs to contribute to the economic development of the nation. Three quarter of the SME owner/manager believe that access to finance is a major challenge affecting the growth of business.

Research states that access to external to finance is a struggle for SMEs in South Africa (Smorfitt, 2009), particularly salient for firms in emerging economies (Berger and Udell, 2006). However the results of the study on difficulties in accessing finance shows that only half the SME owners/managers (52.24%) experience difficulties in accessing finance.

According to Demirguc-Kunt and Beck (2006) business finance falls into two major groupings, namely equity finance and loan finance. With finance cited as a major constraint to SMEs growth and development, various sources ought to be explored by SMEs owners/managers to run their business. The survey results show that the main sources of funding is equity (34.33%) and loan finance, with short term debt (31.34%) and long term debt (7.46%).

The survey results indicate from all the factors considered to make access to finance difficult, lack of collateral (66.1%) and high interest rates (65.52%) appear to the main reasons. In South Africa, the risk perception on SMEs is associated to the high failure rates. Strict security requirements are one of the ways through which financial institutions attempt to shield themselves against such risks (Mazanai and Fatoki, 2012). As Okapar (2009) rightly pointed out one of the major reasons for the difficulty of borrowing money from the bank is because of lack of required collateral to be used as security against the borrowed funds. SMEs in KwaZulu-Natal experience difficulty in accessing to external finance due to the lack of collateral. Small firms are disadvantaged in this regard, due to the fact that they lack collateral security (Green, 2003). High interest rate is another reason why access to external finance is difficult for SMEs in Kwa-Zulu Natal. The high interest rate is supported by literature which states that smaller businesses are considered to have greater difficulty in securing bank loans and they pay higher interest than larger businesses (Brau, 2002). High interest rate makes their businesses unprofitable as the profits made are eroded by

the huge finance cost. This high interest rate demanded from the SME sector by the banks is due to the high risk nature of this sector, resulting from the high default rates associated with SMEs financing.

Many of the SME owners/managers do not view the difficulties on access to finance as attributable to lack of awareness about financing, lack of information about external finance, lack or poor quality information, age of the business, lack of experienced or skilled management or poor credit scoring. This finding does not support the literature research results.

### **5.5.3 Technological Advancement to improve performance**

Majority of the SME owners/managers (81.82%), believe that technological advancement will improve performance. This result is supported by studies carried out by Levey and Powell (2000), where it was stated that application of technology adoption of IT will assist an organization in storing information as well as communicating with customer, suppliers and business partner who will facilitate business transaction, and enhance the overall performance of SMEs, leading to a better performance in reducing the operating expenses as a whole. Arinaitwe (2006) stated that primary reasons small business continue to face growth challenges in developing countries despite significant support from governments and other organizations is their technological capabilities or lack thereof.

Lack of financial resources appears to be the main reason holding back the SMEs to advance or improve the technological capabilities, followed by lack of skill or expertise. This finding is consistent with the findings of Romijin (2001), who argued that the technological positioning of small-scale businesses is weak due to the resource constraint. Lack of finance is the biggest constraint for SMEs in Kwa-Zulu Natal, preventing them from taking advantage of the technological advancement

opportunities. Romjin (2001) states because of these resource constraints, their access to information, training and development are restricted.

## **5.6 Results of the External Environment Factors**

Businesses established in favorable environments where mortality rates are low tend to grow and prosper over time. This section will discuss the external environment factors, namely, competition, globalisation, regulatory factors, crime and corruption and macroeconomic factors.

### **5.6.1 Competition as major Challenge**

Competition is viewed as one of the major challenge affecting the performance of SMEs by most (81%) of the SME owners/managers. In Finscope survey (2010), competition ranked as the third greatest obstacle to growth for businesses.

Majority of the respondents see foreign competitors and local competitors as a challenging factor (92%). Over the years, competition among SMEs has increased radically (Gunasekaran, Rai and Griffin, 2011), which is the position on Kwa-Zulu Natal. Literature dealing with SMEs and competition states that global competition confronts the majority of purely domestic SMEs, whose products and sales are extremely localized. Local SMEs find it increasingly difficult to survive or even maintain their current business position in their respective markets (Singh, Garg and Deshmukh, 2010).

While competition is viewed as a major challenge, the results of the study indicated that there was a statistically significant association exist between competition and performance of the business ( $p = 0.011$ ). All of the SME owners / managers (100%) whose business performance worsened in the past year those mentioned that

completion is a major challenge. Majority of SME owners/managers (66.67%) who indicated that SME performance had improved compared to the previous year also indicated that competition was a major challenge. SMEs in Kwa-Zulu Natal are faced with competition which is impacting the performance of the business negatively. SMEs are finding it difficult to maintain their market share and position, due to the competition from local competitors as well as international competitors. SMEs in Kwa-Zulu Natal need to equip themselves and position themselves to deal both domestic and international competition.

### **5.6.2 Globalisation affecting the business**

Globalisation is not viewed as a major challenge affecting their business by a large proportion of the survey respondents. Literature on the other hand states that small businesses can no longer consider themselves to be strictly domestic businesses in the competitive global environment. For businesses across the globe, going global is not a preference or a matter of choice, but rather a necessity. Failure to cultivate global markets can be lethal mistake for modern businesses, whatever their size (Scarborough et al, 2009). With the astounding rate of economic growth in countries such as China and India, a small business owner would be unwise to ignore overseas opportunities (Longenecker, 2012). Globalization and trade liberalization have ushered in new opportunities as well as challenges for SMEs. Presently, only a small part of the SME sector is able to identify and exploit these opportunities and deal with the challenges (OECD, 2004). Only about 40% of SMEs in Kwa-Zulu Natal are affected by globalisation. This could mean the SMEs in Kwa-Zulu Natal may have not as yet identified the opportunities or challenges of globalisation. Presently, only a small part of the SME sector is able to identify and exploit these opportunities and deal with the challenges.



### **5.6.3 SA Labour Laws affecting the Growth of Business**

Almost three quarter of the survey respondents see SA labour laws as affecting the growth of the business. The literature on South Africa's labour law and labour regulations are currently ranked as one of the most restrictive factor for doing business in South Africa, for businesses dependent on labour. South Africa's labour policies are considered to be extremely restrictive and the new labour regulations being promulgated have been slated as being even more restrictive than the existing problematic policies that were in place (GEM 2010). Labor market regulations play a significant role in the cost structure of SMEs. Strict labor laws on the hiring and firing decisions of the firm can make it costly for the SMEs and encourage them to employ workers without proper registration.

### **5.6.4 Tax Laws affecting Growth of Business**

The survey results reveal that more than half of the SME owners/managers (67.74%) believe that tax laws are affecting the growth of the business. This is consistent with the findings of past research, where tax compliance costs for SMMEs are viewed to have negative impacts on SMMEs (Venter and de Clercq, 2007). The most difficult areas for compliance have been singled out as income tax and VAT (Mollentz, 2002). Tax requirements add to the administrative burden of small businesses and uses resources that could otherwise be used for managing such businesses more effectively (Abrie and Doussy, 2006). An impediment for SMEs in Kwa-Zulu Natal has been identified as law, affecting the growth of business.

### **5.6.5 BEE Laws affecting Growth of Business**

Literature on the BEE laws state that the biggest challenge became to find a suitable black partner and skilled black managers to fulfill the ownership and management targets. The lack of information and knowledge that has characterized this process, entrepreneurs were highly confused on how to empower their businesses, and on how to get the accreditation for it. The lack of information and understanding of the BEE demands and possibilities became a fundamental problem and undermined its credibility (Sanchez, 2006). The result of the survey reveals that more than half the respondents (58.73%) strongly agree that BEE laws are affecting the growth of the business. With more than 80% of the respondents being White or Asian, SMEs in Kwa-Zulu Natal maybe experiencing challenges in finding a suitable black partner or skilled black managers to fulfill the management goals.

### **5.6.6 Government Bureaucracy Impacting Growth**

Majority of the SME owners/managers (72.58%) believe that government bureaucracy have an impact on the growth of the business. This result is supported by studies where it was found that SMEs are a key indicator of the impact of regulation as smaller companies have less ability to absorb compliance costs than bigger firms (Christianson, 2003). In the past, small businesses or firms were exempted from a number of government regulations but things have changed to the degree that the regulations faced by bigger companies are now applicable to small business. Regulations governing establishment of businesses are extremely intricate and conflicting, which is why small businesses find it so complicated to conform to, as the South African government has invented new methods of bureaucracy which are considered as the most important hindrance for small firms to conduct or establish business in South Africa (Small Business Project, 2003). Government bureaucracy is affecting SMEs in Kwa-Zulu Natal, creating hindrances in their growth.

### **5.6.7 Macroeconomic factors affecting the Business Performance**

Macroeconomic factors according to Peterson, Kozmetsky, and Ridgway (1983) are viewed as the number two and three reasons for small business failure, while outside business conditions are the most mentioned reasons for business failing according to Sullivan et al. (1999). Majority of the SME owners/managers (more than 80%) to the survey reveal that the strength of the Rand, inflation rate and interest rate all affect the business performance. Macroeconomic factors are affecting the business performance (Figure 4.29 to Figure 4.31), which is consistent with the literature. The research results are aligned to characteristics associated with the South African economy. Weak rand and high inflation rates are some of the characteristics of South Africa economic environment (Ehlers and Lazenby 2007). The rand has depreciated by about 5% to the dollar since the beginning of 2014 (Maswanganyi, 2014). A weakening rand maybe harmful to business profits, for an SME that is involved in imports.

### **5.6.8 Infrastructure affecting the Business Performance**

Literature on SMEs has shown that infrastructure does impact the business. Okapar (2009) stated in his study that infrastructure factors such as power supply and access roads were major factors. However the research results show that the SME owners/managers see power supply and telecommunication infrastructure as affecting the business performance. Road conditions on the other hand do not appear to be a hindering infrastructure factor. The production of goods and services are affected by power failure, where the ability of businesses to expand is limited and also the opportunity to generate profit in order to remain in business is also limited (Okapar, 2009). A sufficiently functioning infrastructure in terms of providing services such as power is another factor that contributes to SME growth. SMEs cannot be expected to provide basic services privately unlike large enterprises because it would

be too expensive. The role of services such as electricity, transportation, and water sanitation are critical in a country's development and are directly linked to small business success and economic growth (Okpara and Kabongo, 2009). In Kwa-Zulu Natal, more than 70% of the SMEs find that power supply is affecting their performance. This means that the success and economic growth remains to be affected, while the province continues to struggle with the power supply.

#### **5.6.9 Crime and corruption affecting the Business Performance**

World Bank (2010) found that crime is one of the most frequently mentioned constraints among enterprises. Small businesses are a big target for crime, because small businesses often lack the ability to detect the illegal actions of employees or professional thieves and the processes to prevent theft and fraud. Any form of loss or theft can be damaging and threatening to its sustainability (Scarborough, et al., 2009). The survey results show that majority of the SME owners/managers (88.89%) view crime and corruption as a major factor affecting business performance. This result is consistent with past research. Corruption is becoming more prevalent, impacting the enterprises ability to survive and grow in South Africa, while the high levels of crime are affecting all businesses (GEM, 2012).

SMEs in Kwa-Zulu Natal are affected by the crime and corruption in the province. According to Corruption Watch the chances of SMEs ability to thrive and grow is limited because corruption uses the SMEs resources which could be used to grow the business. With crime and corruption affecting 89% of the SMEs in Kwa-Zulu Natal, their survival and growth and performance is threatened.

## 5.7 Chapter Summary

The findings in this study provided much awareness and understanding into the many factors affecting the performance of SMEs in KwaZulu-Natal. The research study and literature discussion have revealed several key findings. Many factors have been identified as factors affecting the performance of SMEs. The results revealed technological advancement was a factor as 81.82% of the respondents, mentioned that would improve the performance of the business. With regards to challenge, 73% SME owners/managers viewed competition as a major challenge. Majority of the SME owners/managers, between 82.54% and 86.67% viewed all the macroeconomic factors studied as hindering factor. The factor crime and corruption was viewed by 88.89% as affecting business performance.

However competition was the only factor, amongst the studied internal and external factors that revealed a significant association with the performance of SMEs in KwaZulu-Natal ( $p=0.011$ ). No other variable were found to be associated with the performance of SMEs in KwaZulu-Natal.

Based on these findings, the next chapter (Chapter Six) outlines the conclusions drawn and recommendations suggested.

## CHAPTER SIX

### Recommendations and Conclusions

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#### 6.1 Introduction

SMEs have a fundamental role to play in the South African economy and have the ability to make a meaningful reduction in the high level of unemployment. Even though SMEs make a contribution to the economic growth and are of significant importance, SMEs globally, and in South Africa, continue to struggle and face many challenges. In South Africa, the growth of SMEs and prevalence of SMEs is significantly low. Given this state of SME sector and entrepreneurship in South Africa, it is critical to establish the factors that hinder South Africa's SME performance. This has stimulated a study into the factors affecting the performance of SMEs in KwaZulu-Natal. This chapter will recap what the research problem was and establish if the research problem has been solved. The implications of the study in relation to SMEs in KwaZulu-Natal will then be outlined. This chapter focuses on the conclusions drawn from this study, recommendations based on the findings, the limitations identified, and recommendations for further research.

#### 6.2 Has the problem been solved?

The problem in this study related to identifying which internal environment factors and external environment factors that affect the performance of SMEs in KwaZulu-Natal. The research problem has been resolved since it has been established what are the significant internal environment factors and external environment factors that affect the performance of SMEs in KwaZulu-Natal. The previous chapter detailed the findings of the study. The findings will be outlined in the recommendations to follow.

### **6.3 Pivotal Outcome Of Research**

The aim of the research was to establish what internal environmental factors and external environmental factors, affect the performance of SMEs in KwaZulu-Natal. While the study highlighted several factors in the internal environment, such as technological capabilities, managerial competence and skills and access to finance, that are found to affect SMEs globally and in South Africa. The findings of the research revealed that there was no significant association between the performance of the SME and internal factors. This then translates into the fact that none of the internal factors studied were associated with the performance of the SMEs in KwaZulu-Natal.

The research also outlined various external factors, such as regulatory factors, macroeconomic factors, competition, globalisation, crime and corruption which are found to be a major challenge for SMEs in South Africa, Africa and globally. The findings of the research revealed that there was a significant association between the performance of SMEs in comparison to the previous year and competition. The external environmental factor competition can be viewed as a major challenge affecting the performance of SMEs in KwaZulu-Natal.

### **6.4 Implications of this Research**

The findings of this study are indeed concerning and have significant implications for SMEs in KwaZulu-Natal, impacting their performance. None of the internal factors studied were found to have an association with the performance of the SME. Of all the external environmental factors that were studied, competition was found to have a significant association with the performance of the SME. A statistically significant association exists between competition and performance of the business ( $p = 0.011$ ). Competition was found to be a major challenge for all SMEs

owners/managers (100%) where business performance worsened in the past year, compared to the previous year. The competitors that SMEs in KwaZulu-Natal are faced with are local competitors and foreign competitors. Strong competition is one of the challenges affecting SMEs globally, with KwaZulu-Natal being no different. SME products are being challenged by the imported products which have flooded the market. The nature of competitive standards change continuously due to globalization of markets, drive businesses to compete along different dimensions. The implication of this finding is that competition, an external factor affects the performance of SMEs in KwaZulu-Natal is impacted by the external factor competition. SMEs therefore have to empower themselves to deal with the factors that impact their performance and ultimately their survival.

## **6.5 Conclusions**

Even though SMEs make a contribution to the economic growth and are of significant importance, SMEs in South Africa and globally in particular, are still faced with many obstacles. In South Africa, the growth of SMEs and prevalence of SMEs is significantly low. Given this state of SME sector and entrepreneurship in South Africa, it is necessary to establish and understand the factors that hinder South Africa's SME performance. The aim in this study related to identifying which internal environmental factors and external environmental factors affect the performance of SMEs in KwaZulu-Natal. The study consisted of a survey which would elicit responses to determine which internal or external factors affected the performance of SMEs in KwaZulu-Natal. The descriptive analysis revealed that many of the factors were found to be affecting SMEs in KwaZulu-Natal. The findings of this study are indeed concerning and have significant implications for SMEs in KwaZulu-Natal. However, none of the internal environmental factors studied was found to have a significant association with the performance of SMEs in KwaZulu-Natal. Only competition, which is an external environmental factor, was found to have a significant association with the performance of the SME. SMEs in Kwa-Zulu Natal are faced with competition



which is impacting the performance of the business negatively. SMEs are finding it difficult to maintain their current business position in their respective markets, due to the competition from local competitors as well as international competitors. SMEs need to recognize they must prepare for both domestic and international and competition. Therefore, to compete and to remain relevant in the challenging and emerging economies SMEs need to transform, adopt and adapt.

## **6.6 Limitations of the Study**

The main constraint identified in this study was the poor response rate of the SMEs selected as the sample. Only 20.8% of the participants who received the online survey questionnaire completed it. This low completion rate could be due to time factor to complete the survey and some respondents might not be comfortable to share information via the internet.

This was a cross sectional study, therefore causality cannot be calculated.

Another limitation of the research was that it was only conducted in KwaZulu-Natal. However, with common business practice the results of the research may be used as a useful indicator for other provinces. High levels of unemployment and the low entrepreneurial activity that exists in KZN, is a common problem that exist across the country. The recommendations of the study could be utilised as a basis for national findings.

The sample chosen does not represent of the sample frame of all SMEs in KZN, but only a sample of SMEs registered with the Durban Chamber of Commerce. As such a database for all SMEs in KZN does not exist. This could be considered as a further limitation. Therefore the study findings should be interpreted accordingly.

Research material on the challenges with Black Economic Empowerment (BEE) was limited.

## **6.7 Recommendations to solve the research problem**

The findings revealed that a number of factors were affecting the performance of SMEs in KwaZulu-Natal. However competition was the only factor, amongst the studied internal and external factors that revealed a significant association with the performance of SMEs in KwaZulu-Natal. The recommendations below could be considered by SMEs in KwaZulu-Natal to overcome competition as a factor affecting their performance:

- To be able to confront competition, collaboration between SMEs can be considered. By entering into joint ventures, the opportunity to combine strengths, information and technological capabilities to increase sales or to enhance their customer base. While collaboration will also assist with the resource constraint that SMEs are faced, it could be seen as a dynamic tactic that helps to deal with competition and enhance business performance.
- SMEs need to continuously evaluate the environment that they operate in, understanding their competitors and their offerings/service. SME competitiveness depends largely on the speed with which new products can be brought to the market place.
- New SMEs should develop a competitive advantage after assessing the dynamics of competition in the industry they wish to enter.
- SMEs in KwaZulu-Natal to be able to confront competition from local and foreign competitors, from developed and emerging economies, need to look into the opportunities these economies will provide.

## **6.8 Recommendations for Future Studies**

The importance and significance of SME to the development of the economy cannot be over-emphasised. Future studies on SMEs could consider the following recommendations for future studies:-

- While this study identified various factors affecting the performance of SMEs in KwaZulu-Natal, the list of factors are by no means an exhaustive list and could be expanded upon for future studies.
- Future researches could perform an in-depth study on the external factor competition, addressing the impact on the performance of SMEs.
- Future studies could be extended to focus specifically on external factors as a challenge to SMEs.

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## **APPENDIX 1: Questionnaire**

### **FACTORS AFFECTING THE PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN KWAZULU-NATAL**

University of KwaZulu-Natal, Graduate School of Business and Leadership

Dear Sir/Madam MBA Research

Project Researcher: Sharmilee Sitharam (079 862 1495)

Supervisor: Muhammad Hoque (031-2608690)

Research Office: Miss P Ximba (031-2603587)

I, Sharmilee Sitharam, am a MBA student, at the Graduate School of Business and Leadership of the University of KwaZulu-Natal (UKZN). You are invited to participate in a research project entitled Factors affecting the performance of SMEs in KwaZulu-Natal.

The aim of the study:

1. To determine factors affecting SMEs in KwaZulu-Natal (KZN)
2. To investigate the crucial factors affecting the performance of SMEs in KZN
3. To make recommendations to overcome these factors to improve the performance of SMEs.

Through your participation I hope to understand the factors affecting the performance of SMEs, how these factors impact the growth of SMEs and how they can be overcome. Your participation in this project is voluntary. You may refuse to participate or withdraw from the project at any time with no negative consequences. There will be no monetary gain from participating in the survey.

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 fifteen to twenty (15-20) minutes to complete. I hope that you will take the time to complete this survey.

Sincerely Sharmilee Sitharam

1. What is your gender?

1. Male
2. Female

2. What is your age?

3. Please indicate your racial status

1. Black
2. Asian
3. Coloured
4. White

4. What is your role in the business?

1. Owner
2. Manager
3. Both
4. Other

5. Please indicate your level of education

1. No Formal Education
2. Primary
3. Secondary
4. Matric / Grade 12
5. Certificate / Diploma
6. Degree

6. Please indicate the legal status of your business

1. Private Limited Company
2. Close Corporation
3. Partnership
4. Sole Proprietor
5. Other

7. In which of the following sectors does your business trade in?

1. Agriculture
2. Manufacturing
3. Construction, Mining
4. Business Services
5. Tourism & Leisure
6. Finance
7. Transport, Communication
8. Health Care, Education, Social Services
9. Wholesale, Motor Vehicles and Repairs
10. Customer Services
11. Retail Industry
12. Other

8. How many people do you employ?

1. Less than 5 employees
2. 5 to 20 employees
3. 21 to 50 employees
4. 51 to 100 employees
5. 101 to 200 employees
6. More than 200 employees

9. How long has your company been in operation?

1. Less than 3 years

2. Between 3 and 5 years
3. Between 5 and 10 years
4. Between 10 and 15 years
5. Over 15 years

10. Please choose one of the following, regarding your business performance in the past year in comparison to the previous year?

1. Improved
2. Worsened
3. Unchanged

11. Please choose one of the following, regarding running an SME over the past year in comparison to the previous year?

1. More difficult
2. Easier
3. Stayed the same

12. Please indicate to what extent you agree with the following statement:

	Strongly Disagree	Disagree	Agree	Strongly Agree
Managerial competency and skills shortage affects the performance of my business	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

13. Does the Owner / Management have experience and training?

	Yes	No
Does management / owner have prior experience in managing this type of business?	<input type="checkbox"/>	<input type="checkbox"/>
Does management / owner have prior experience in small business management?	<input type="checkbox"/>	<input type="checkbox"/>



Does management / owner have formal training in business management?	<input type="checkbox"/>	<input type="checkbox"/>
Does management / owner have formal training in financial management and planning?	<input type="checkbox"/>	<input type="checkbox"/>
Does management / owner have formal training in marketing?	<input type="checkbox"/>	<input type="checkbox"/>
Does management / owner have formal training in bookkeeping and accounting?	<input type="checkbox"/>	<input type="checkbox"/>

14. Does management / owner of the business have the necessary skills to undertake the following?

	Yes	No
Prepare financial statements	<input type="checkbox"/>	<input type="checkbox"/>
Prepare trading budgets	<input type="checkbox"/>	<input type="checkbox"/>
Prepare cash flow forecasts	<input type="checkbox"/>	<input type="checkbox"/>
Analyse financial statements	<input type="checkbox"/>	<input type="checkbox"/>

15. Do you outsource any of the business functions?

1. Yes
2. No

16. If you have answered yes to the above question which of the following functions is outsourced?

1. Accounting
2. Human Resources
3. IT
4. Marketing
5. Other

17. Please indicate to what extent you agree with the following statement:

	Strongly Disagree	Disagree	Agree	Strongly Agree
Access to finance is a major challenge that affects the growth of my business	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

18. How is your business financed?

1. Equity
2. Short term debt
3. Long term debt
4. Venture capital
5. Other

19. Does your business experience difficulties in accessing external finance?

1. Yes
2. No

20. In your opinion, what are the difficulties with access to finance?

	Yes	No
Lack of information about external finance	<input type="checkbox"/>	<input type="checkbox"/>
Lack of collateral	<input type="checkbox"/>	<input type="checkbox"/>
Lack of awareness about financing	<input type="checkbox"/>	<input type="checkbox"/>
Lack or poor quality business information	<input type="checkbox"/>	<input type="checkbox"/>
Lack of experienced / skilled management	<input type="checkbox"/>	<input type="checkbox"/>
High interest rate	<input type="checkbox"/>	<input type="checkbox"/>
Age of the business	<input type="checkbox"/>	<input type="checkbox"/>
Poor credit scoring	<input type="checkbox"/>	<input type="checkbox"/>

21. Will technological advancement improve the performance of the business?

1. Yes
2. No

22. If you have answered yes to the above question, what is preventing the technological advancement of the business?

1. Lack of financial resources
2. Lack of awareness
3. Lack of skill / expertise
4. Other

23. Is competition a major challenge that confronts your business?

1. Yes
2. No

24. Please select one of the following regarding your business competitors?

1. Local competitors
2. Foreign competitors
3. Both

25. Please indicate to what extent you agree with the following statement:

	Strongly Disagree	Disagree	Agree	Strongly Agree
Globalisation affects the growth of my business	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
SA Labour laws affects the growth of my business	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Tax laws affects the growth of my business	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
BEE laws affects the growth of my business	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Government bureaucracy impacts the growth of my business	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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26. Please indicate whether you agree that the following macroeconomic factors affect the performance of the business:

	Strongly disagree	Disagree	Agree	Strongly Agree
The strength of the Rand	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Inflation rate	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interest rates	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

27. Please indicate whether you agree that the following infrastructure challenges affect the performance of the business:

	Strongly Disagree	Disagree	Agree	Strongly Agree
Roads Conditions	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Power supply	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Telecommunication system is an impediment	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

28. Please indicate to what extent you agree with the following statement:

	Strongly Disagree	Disagree	Agree	Strongly Agree
Crime and corruption affects the growth of the business	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

27 October 2014

Ms Sharmilee Sitharam (9147878)  
Graduate School of Business & Leadership  
Westville Campus

Protocol reference number: HSS/0575/014M

New project title: Factors affecting the performance of Small and Medium Enterprises within KwaZulu-Natal

Dear Ms Sitharam,

**Approval Notification – Amendment**

This letter serves to notify you that your request for an amendment received on 21 October 2014 has now been approved as follows:

- Change in Title

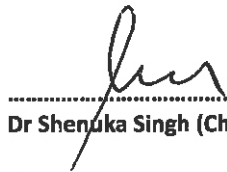
Any alterations to the approved research protocol i.e. Questionnaire/Interview Schedule, Informed Consent Form; Title of the Project, Location of the Study must be reviewed and approved through an amendment /modification prior to its implementation. In case you have further queries, please quote the above reference number.

**PLEASE NOTE:** Research data should be securely stored in the discipline/department for a period of 5 years.

The ethical clearance certificate is only valid for period of 3 years from the date of issue. Thereafter Recertification must be applied for on an annual basis.

Best wishes for the successful completion of your research protocol.

Yours faithfully



Dr Shenuka Singh (Chair)

/ms

Cc Supervisor: Mr Muhammad Hoque  
Cc Academic Leader Research: Dr E Munapo  
Cc School Administrator: Ms Zarina Bullyraj

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**Humanities & Social Sciences Research Ethics Committee**

**Dr Shenuka Singh (Chair)**

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Website: [www.ukzn.ac.za](http://www.ukzn.ac.za)



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TO WHOM IT MAY CONCERN

I, Andrew John Layman, the undersigned, hereby give permission for **Sharmilee Sitharam** to conduct research at the Durban Chamber of Commerce and Industry towards her dissertation entitled **Factors affecting the performance of Small and Medium Enterprises in KwaZulu-Natal**.

She may collect data from members of the Chamber provided that they agree to supply it and that it does not interfere with the normal operations of the Chamber's business.

I am aware that dissertations and subsequent academic papers based on this data will be available in the public domain and that the work may be published in the public domain provided that the identities of companies contributing data are regarded as protected and strictly confidential.

A.J. LAYMAN  
Chief Executive Officer

23 May 2014