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Sailing from red oceans to blue oceans: competitive advantage strategies for small, medium and micro enterprises in South Africa.

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Abstract

For the continued success of and in order for failure rates of SMMEs to decrease, all internal and external factors, as well as vital strategies employed by SMMEs, must be carefully monitored and analysed by the owner-managers of these small businesses including all relevant stakeholders such as the government and supporting institutions. The aim of this study was to analyse the factors and strategies that impact on the competitiveness of SMMEs in the Umzumbe Local Municipality. A further aim was to determine the competitive strategies used by SMMEs for continued success, as well as the extent to which competition impacts on their success, leading to the short lifespans of these SMMEs. A quantitative approach was used and one hundred and eight (108) out of the target population of 150 respondents were selected as the sample size for the quantitative study. Simple random sampling was employed for this quantitative research. Data collected was analysed using the Statistical Package for Social Science (SPSS). Data was presented in tabular form, followed by the researcher's interpretation and observations regarding the findings. The study found that several factors such as technological capabilities, managerial competence and skills and access to finance affect SMMEs globally and in South Africa. SMME owner-managers engage in strategic planning even though the frequency in business planning is rather low, as well as advertising efforts which are regarded as cost-bearing routines due to insufficient funds, therefore resulting to a loss of customers to well-established corporates, thus resulting to escalating competitive environment in the SMME sector. Among the factors that the researcher found to impact on business growth are market share, investment in technology, high taxes and high competition. This study concludes by suggesting that SMMEs should work together to overcome their challenges and use each other's strengths for business growth benefit. The study recommends that the government should financially support SMMEs to further encourage growth and development of these enterprises as they are key to sustained job creation and poverty reduction.

Key Words: Business Strategy; Blue Oceans; Competitiveness; SMME; Red Oceans.

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List of Acronyms

ADB: African Development Bank

BCF: Better Cheaper Faster

BTI: Bertelsmann Stiftung's Transformation Index

CAI: Consultancy Africa Intelligence

EDGE: Economic Development and Growth in eThekwini

FDI: Foreign Direct Investment

FIAS: Foreign Investment Advisory Service

GDP: Gross Domestic Product

GNI: Gross National Income

IRIN: Integrated Regional Information Networks

NGOs: Non-Governmental Organizations

OBFC: One-Stop Business Facilitation Centre

RSA: Republic of South Africa

RUSCGS: Rural Savings and Credit Cooperatives

SACCOS: Savings and Credit Cooperatives

SMMEs: Small, Medium and Micro Enterprises

UN: United Nations

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CHAPTER ONE: OVERVIEW OF THE STUDY

1.1   Introduction

Small, Medium and Micro Enterprises (SMMEs) face numerous challenges in the business environment with some failing in within a short period from inception. By adopting strategic management, SMMES can overcome some of the challenges and operate competitively and sustainably. The SMME sector is valued for its contribution towards the development of a country in terms of employment creation, poverty alleviation, promotion of entrepreneurship activity and economic growth. In as much as SMMEs are the drivers of economic growth globally and locally, specifically in South Africa, there are challenges that prevent SMMEs from growing which often leads to business halt within early years of operation. These challenges are categorised as internal and external environmental challenges. The internal environment challenges include characteristics of entrepreneurs, management skills, technological capacities, access to markets, management of resources and poor cash management. External factors are comprised of government regulations, access to finance, high competition, high taxes, cost of production and investment in technology (Abdel, 2015).

This study seeks to examine ways and means to promote competitiveness and growth in SMMEs, as well as the environmental factors and strategies that impact on the competitiveness of small, medium and micro enterprises in the Umzumbe Local Municipality. Sustainability and growth of SMMEs have the potential to create more job opportunities, improve the country's economy and the welfare of the citizens of the country. More than anything else, all the challenges raised above affect the competitiveness of SMMEs. Given the significance of SMMEs in any economy, it therefore becomes more important to device mechanism to address the challenges already identified as contributing factors to their unsuccessfulness.

1.2 Background of the Study

Small, Medium and Micro Enterprises play an important role in any economy as they are seen as engines of growth and contribute to job creation. SMMEs are said to be the primary source of job creation contributing 67% of formal employment and economic growth contributing between 51-57% of the GDP (Abrie & Doussy, 2016). In addition to this, SMMEs play an important role in economic development of many

countries across the world as they account for 90% of formal business entities, contributing 51 to 57 % of the total GDP and 60% of employment (Abdel, 2015). Critical as they are to economic development, majority of SMMEs close down few years after inception. This is largely due to factors that include but are not limited to lack of finance and access to bank credit; lack of management skills; poor access to markets; inadequate technology; low production capacity; lack of recognition by big companies, and long government bureaucratic processes (Abdel, 2015).

In developing countries, the growth objectives can be attained by using the dynamic role of SMMEs as engines to achieve this, as a strong SMME sector contributes significantly to the economy. The SMME sectors have the ability to create more employment opportunities, creating higher production volumes and increasing entrepreneurship activities. A major constraint in the Umzumbe Local Municipality 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. Part of the solution to South Africa's unemployment problem can be job creation by SMMEs (Krugell, 2012). In countries like India and China 90% of the employment is absorbed by SMEs, whilst in South Africa SMMEs absorb only about 55% of the employment. The SMME sector is considered to be underperforming. According to Economic Development and Growth in eThekwini (EDGE) 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 the Umzumbe Local Municipality (EDGE, 2014).

According to Abrie and Doussy (2016) SMMEs are extremely limited in their capabilities to adapt vital strategies to their business environment and thus continue using their past strategies despite environmental changes. Reports show that there is continued failure of small businesses in economies, mostly in developing countries. According to Abor and Quartey (2010), small business failure is usually associated with both internal and external risk factors, whereby half of all small businesses, usually those with insufficient start-up capital, fail to operate for more than five years, while 80% of these businesses fail within the first five years. The environment consists of internal, market and external forces that influence the way in which the company

expands and sustains exchanges that are satisfactory with the target market. Abor and Quartey (2010) further states that knowing and understanding the environment allows a business to be able to harness opportunities and strengths, and to avoid threats of the market and weaknesses of the company. According to Reynoso, Beck and Demirgu¨c -Kunt (2017) the behaviour of SMMEs results from miscellaneous factors that determine their responses to environmental incentives. The factors differ from those that affect large corporations as they affect SMMEs differently and with unpredictable impact (Reynoso *et al.*, 2017).

Small, Medium and Micro Enterprises have dominated economies for many decades in recent history. Their widespread existence leaves unanswered questions as to why most people tend to engage in small businesses which frequently experience failure and loss of invested capital. Enterprises within the Small, Medium and Micro Enterprises' sector participate in different strategies as the size of the business may allow, but it is without a doubt that there are commonly existing strategies that all enterprises have to engage in so as to increase income generation, growth and development.

In developing countries in Sub-Saharan Africa, SMMEs form part of the largest sector that increases the employment rate since growth in the formal sector, which for years has been the backbone of these countries' economies, seems to have slacked due to population increase. According to Akande (2017), the share of employment in the SMME sector has steadily increased, with micro enterprises' share of employment being 30%, small enterprises at 20%, medium enterprises at 10%, while 50% accounts for large enterprises. However, SMMEs' share in Sub-Saharan economies accounts for 99.5%, leaving the large enterprises' market shares at 0.5% (Longenecker, Petty, Hoy & Palich, 2012).

Based on these noteworthy findings, it is of importance to investigate the factors that lead to the dominance of these small businesses, which are at a high risk of failure, as well as the strategies that they must follow for continued success. Chapter one presents the background, research problem, research questions, research objectives and the structure of the study.

1.3 The Research Problem

According to Singer, et. al., (2018), South Africa witnessed a decline in entrepreneurship activities between 2016 and 2017. Singer, et. al., (2018) state that South African entrepreneurs are four-times likely not to contribute to employment opportunities. Most importantly, Singer, et. al., (2018) mention that the South African entrepreneurial failure rate continues to increase falling from 3.89% in 2015 to 4.9% in 2016 (Singer, et. al., 2018). The failure rate of SMMEs in South Africa has shown minimal positive progress over the years. In a study conducted by Musabayana (2013), the researcher found that South African SMMEs fail within the early stage of existence. A study conducted by Chimucheka (2013) shows that SMMEs' continue to face the failure in their early stage of existence.

A fairly recent study by Singer et. al. (2018), showed an increase in the failure rate of SMMEs with 62% of business closure in 2018. Though a decline in the failure rate was recorded between 2015 and 2016, according to Singer et. al., (2018), the progress was meagre and showed little impact on the business environment. The trend of failure rate however continued between 2016 and 2017. Similarly, Singer et. al. (2018), note that 70% – 80% of South African small businesses fail within one year of existence. It is based on this background that the researcher feels the need to investigate the underlying factors that constrain the growth and competitiveness of SMMEs.

This study was mainly aimed at obtaining a deeper understanding of the factors faced by SMMEs in Umzumbe Local Municipality. The researcher is of the view that if these factors can be identified, it will be possible to generate solutions to the challenges faced by SMMEs. This study, therefore, addresses how SMME owner-managers in Umzumbe Municipality perceive the influence of the internal and external environment to the growth of their business.

1.4 Aim of the Study

The aim of this study was to analyse the SMMEs and apply the concept of sailing from Red Oceans to Blue Oceans by exploring the factors and strategies that influence on the competitiveness of SMMEs in the Umzumbe Local Municipality.

1.5 Objectives of the Study

- To determine the internal environmental factors hindering the growth of SMMEs in Umzumbe Local Municipality.
- To determine external environmental factors hindering the growth of SMMEs in Umzumbe Local Municipality.
- To determine the extent to which SMMEs develop and practice strategic plans.
- To ascertain the level of awareness from SMMEs regarding government support structures.
- To determine the extent to which competition impacts on the success of SMMEs.

1.6 Research Questions

- What are the internal environmental factors hindering the growth of SMMEs in Umzumbe Local Municipality?
- What are external environmental factors hindering the growth of SMMEs in Umzumbe Local Municipality?
- To what extent do SMMEs develop and practice strategic plans?
- What is the level of awareness from SMMEs regarding government support structures?
- To what extent does competition impact on the success of SMMEs?

1.7 Significance of the Study

The struggle of SMMEs in South Africa may be attributed to many factors and entrepreneurial culture. Given this state of SMMEs in South Africa, the study seeks to investigate the factors that affect the competitiveness of SMMEs in the Umzumbe Local Municipality. 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 SMMEs to create jobs. It is therefore imperative that an enabling environment for the growth and development of SMMEs 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 SMME sector of the Umzumbe Local Municipality. The study will further reveal the challenges faced by SMMEs in Umzumbe Local Municipality. Recommendations are made to assist SMMEs. The study will be of benefit to the Policy makers. Despite the assistance and support provided by Government, in recognition of SMME importance, SMME failure rate is still very high. Hence, the study will be of value in determining the level of assistance SMMEs require to be sustainable. The contribution of this study would be of interest to anyone that maybe interested in entering the SMME sector in the Umzumbe Local Municipality. The establishment of these factors will result in strategies and skills being adopted upfront to improve the chances of survival and growth of SMMEs.

1.8 Limitations of the study

The limitations of the study are the following:

- Time and resource constraints limited the sample size selected for this study.
- The fieldwork for this research was self-funded and was conducted on meagre resources which limited the amount of research that could be undertaken.
- Another limitation of the study is that some participants were too busy to dedicate ample time to the required responses of this study.

1.9 Organisation of the Study

The study is presented in five chapters briefly described below:

Chapter One – Introduction

This chapter introduces the study by providing background to the study followed by problem statement, research objectives and questions, research aims, significance of the study and the overall study structure.

Chapter Two – Literature Review

This chapter reviews literature related to the study. In particular, the literature commences by defining key concepts in the context of SMMEs, origin of SMMEs, their importance and various research studies conducted in various countries. The chapter identifies existing gaps in the literature between previous studies and this study.

Secondary data was collected from journal articles mostly from accredited publishers, textbooks, government publications and online sources.

Chapter Three – Research Methodology

This chapter provides the research design for the study.   Key sections discussed in this chapter includes the research design, methods, sampling and sampling strategy, research instrument, pilot study, validity and reliability and ethical considerations

Chapter Four - Presentation of results, discussion and interpretation

This chapter will present results of the study as well as analysis and interpretation with literature linked to the findings

Chapter Five - Conclusions and Recommendations

 This chapter will provide the conclusions and recommendations for the study.

1.10   Summary

The chapter outlined the introduction to the study, background thereto, research problem against the objective and the significance of the study. The chapter ends by outlining the structure of this thesis. The next chapter focuses on review of literature relevant to this quantitative study.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter presents the existing literature on the topic of study. The discussion will be guided by the objectives of the research, hence focus will be on the ways to improve on the competitive advantage strategies for SMMEs in South Africa. The chapter provides an overview of previous studies that have addressed the numerous strategies SMMEs use in the dynamic environments in which they operate. The chapter begins with a definition of SMMEs and a consideration of the different enterprises encompassed by the term. Thereafter, the importance of SMMEs to economies and the General Systems Theory within which SMMEs can be understood is discussed. Subsequently, the environment in which SMME's operate, as well as the strategies they follow to ensure continuous operations and success is examined.

2.2 Definition of SMMEs

According to Longenecker et al. (2012) there is an increasing body of literature that addresses various differences between large enterprises and SMMEs. In most cases they are distinguished by the number of employees each class of these enterprises has, such that SMMEs in the US are defined as enterprises with fewer than 500 employees and in the European Union as those with fewer than 250 employees. However, Longenecker et al. (2012) argue that this classification and definition of SMMEs is not an ideal one. This is due to the fact that the number of employees per enterprise is a measure that is regarded as rather unimportant by SMME owner-managers relative to the disclosure of confidential information on financial measures, as this confidential information is rarely given. Thus, researchers are left with measures that these owner-managers are prepared to provide, which is with regard to the number of their employees and this has been the key criterion that prevails in defining SMMEs. Research by Reynoso et al. (2017) shows that there is a general economic standard used by the Bolton Committee to define SMMEs, which includes: small businesses that own a moderately small market share; owners who are fully or at least partly involved as shareholders; daily operations that are conducted in a personalized manner; and no formal business structure.

Defining an SMME can be challenging, as the term includes a wide array of definitions globally. When defining SMMEs, 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 SMME. 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 SMME 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) *Less than:*	Total gross asset value (fixed property excluded) *Less than:*
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	51- 100 11 - 50 6 - 10	R19.1 - R39.00 R4.1 - R19.00 R0.21 - R4.00	R3.1 - R6.00 R0.61 - R3.00 R0.11 - R0.60

	Micro	0 - 5	R0 - 0.20	R0 - R0.10
Wholesale Trade, Commercial Agents and Allied Services	Medium	51- 100	R32.1 - R64.00	R5.1 - R10.00
	Small	11 - 50	R6.1 - R32.00	R0.61 - R5.00
	Very small	6 - 10	R0.21 - R6.00	R0.11 - R0.60
	Micro	0 - 5	R0 - 0.20	R0 - R0.10
Catering, Accommodation and other Trade	Medium	51- 100	R6.1 - R16.00	R1.10 - R3.00
	Small	11 - 50	R5.2 - R6.00	R1.91 - R1.00
	Very small	6 - 10	R0.21 - R5.1	R0.11 - R1.90
	Micro	0 - 5	R0 - R0.20	R0 - R0.10 m
Transport, Storage and Communications	Medium	51- 100	R13.1 - R26.00	R3.1 - R6.00
	Small	11-50	R3.1 - R13.00	R0.61 - R3.00
	Very small	6 - 10	R0.21 - R3.00	R0.11 - R0.60
	Micro	0 - 5	R0 - 0.20m	R0 - R0.10
Finance and Business Services	Medium	51- 100	R13.1 - R26.00	R3.10 - R5.00
	Small	11-50	R3.1 - R13.00	R0.51 - R3.00
	Very small	6 - 10	R0.21 - R3.00	R0.11 - R0.50
	Micro	0 - 5	R0 - 0.20m	R0 - R0.10
Community, Social and Personal Services	Medium	51- 100	R6.1 - R13.00	R3.1 - R6.00
	Small	11-50	R1.1 - R6.00	R0.61 - R3.00
	Very small	6 - 10	R 0.21 - R1.00	R0.11 - R0.60
	Micro	0 - 5	R0 - 0.20	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 (PGDP, 2013).

2.2.1 Survivalist enterprise

Survivalist enterprises are primarily for people who are unable to find paid jobs or to get in the economic sector of their choice. Often classified under micro enterprises, a survivalist enterprise is defined as a business with no formal employees, generating income below poverty line. The main reason for such a business is to provide income for the owner and their family as a means for survival, with little capital invested and there is also a lack of training and minimal opportunity for growth and development (Gunasekaran, Griffin and Rai, 2011).

2.2.2 Micro enterprises

A micro enterprise is a business which lacks formality in terms of registration. According to (Bowen, Morara & Mureithi, 2019) micro enterprises are associated with characteristics such as small scale of operation and market share, low income generation, unproductivity and high informality. The informality of these enterprises

has led many to believe that micro enterprises assist in generating sustainable income for the owners, by avoiding government incentives such as tax. However, (Gunasekaran et al., 2011) argue that formality of a business entity is an important factor when it comes to growth and development since it enables such businesses to gain access to institutions that assist with capital, guaranteed property rights, as well as administering contracts for the enterprises. 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 (PGDP, 2013).

2.2.3 Small enterprises

These enterprises are more established as compared to micro-enterprises. According to Dockel and Ligthelm (2015), small businesses are usually owner managed or family managed businesses that operate in business or industrial areas and they are usually registered and meet other fundamental registration requirements. Ownership and management structure in these enterprises is more complex as there is usually decentralisation of power and division of labour that helps to differentiate them from micro-enterprises. 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).

2.2.4 Medium enterprises

These enterprises are said to be well developed and have a high success rate because of their ease of access to external assistance. Micro enterprises already have technological know-how, they possess managerial skills and can easily gain access to capital as compared to micro and small enterprises (Gunasekaran et al., 2011). 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).

However, all the above definitions of SMMEs fall short of the South African context in the sense that they are too general and not contextualised to the South African set up. Accordingly, this study adopted the definition of SMMEs by the South African Small

Business Amendment Act No 26 of 2003, which divided SMME environment into three sets of enterprises: the survivalist enterprises mainly found in the informal sector; micro-enterprise which include the owner, family members, and at most four employees; and found in the formal sector of the economy (South African Small Business Amendment Act No 26 of 2003).

2.3 SMMEs in the South African Economy

Our country is faced with low levels of entrepreneurship and growth in the SMME sector, even though SMMEs have a fundamental role in dealing with challenges of our nation. SMMEs globally have a high failure rate (Fang, Yuli & Hongzhi, 2009), with the situation being no different to SMMEs in South Africa. SMME'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 SMMEs (EDGE, 2014).

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, 2015).

In South Africa, SMMEs 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 start-up, 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, 2018).

According to the Finscope study (2010), the SMME 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). SMMEs registered with Companies and Intellectual Property Commission (CIPC) is only about 20%. A big proportion of SMMEs are operating informally, without being registered. Most SMMEs are found in Gauteng, KZN, Western Cape and Eastern Cape (DTI, 2018).

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, 2018).

2.4 The Red-Blue Ocean Concept

The metaphor of red and blue oceans describes the market universe. Red oceans are all the industries in existence today - the known market space. In the red oceans, industry boundaries are defined and accepted, and the competitive rules of the game are known. Here companies try to outperform their rivals to grab a greater share of product or service demand. As the market space gets crowded, prospects for profits and growth are reduced. Products become commodities or niche, and cutthroat competition turns the ocean bloody. Hence, the term red oceans (Kim & Mauborgne, 2018).

Blue oceans, in contrast, denote all the industries not in existence today - the unknown market space, untainted by competition. In blue oceans, demand is created rather than fought over. There is ample opportunity for growth that is both profitable and rapid. In blue oceans, competition is irrelevant because the rules of the game are waiting to be set. Blue ocean is an analogy to describe the wider, deeper potential of market space

that is not yet explored. The cornerstone of Blue Ocean Strategy is 'Value Innovation'. A blue ocean is created when a company achieves value innovation that creates value simultaneously for both the buyer and the company. The innovation (in product, service, or delivery) must raise and create value for the market, while simultaneously reducing or eliminating features or services that are less valued by the current or future market. The authors criticize Michael Porter's idea that successful businesses are either low-cost providers or niche-players. Instead, they propose finding value that crosses conventional market segmentation and offering value and lower cost (Burke & Van Stel, 2009).

Blue ocean strategy provides a theoretical framework and a practical roadmap for companies to break away from the cutthroat competition in existing industries and create new market space of profitable growth. Whereas competitive strategy stresses the importance of choosing a distinctive position of either differentiation or cost leadership under structural constraint, blue ocean strategy aims at breaking the trade-off between value and cost through cognitive reconstruction of market elements across industry boundaries. On the basis of a reconstructionist view of strategy, blue ocean strategy argues that industry structure can be changed endogenously by the strategic actions of micro-level actors. This, in turn, requires the alignment of the value, profit, and people propositions of a strategy in support of pursuing both differentiation and low cost (Burke & Van Stel, 2009).

SMMEs searching for a new approach, and still thinking about issues of strategy, execution and culture, should therefore return to Blue Ocean Strategy where they must stop competing on terms set by others. Realizing the dominance of well-established and large corporates in the industry, SMMEs should resolve to pursue a different approach and start to think about their own situation from a blue ocean perspective.

2.5 Importance of the SMME Sector

According to Abdel (2015) SMMEs are best known to enhance a country's economy, generating employment opportunities to ameliorate the ever-increasing unemployment crisis that countries face, alleviating poverty in developing countries and contributing to GDPs. SMMEs contribute to a country's national product that is manufactured then offered to consumers and other enterprises, both locally and internationally. Gunasekaran et al. (2011) argue that SMMEs are the driving force for

exploitation of individual talents and entrepreneurship especially in rural areas where agriculture is common. In this regard, SMMEs are without doubt providers of an excellent starting point for the deployment of villagers' talents as entrepreneurs, promoting entrepreneurial skills and abilities.

Hisrich and Drnovsek (2012) shows that the reasons SMMEs have attracted much attention in terms of obtaining assistance to further their growth in developing countries is because they provide a high level of employment to local citizens, mostly in the manufacturing sector. Micro enterprises mostly engage in manufacturing activities, as is the case with Maseru citizens who sew garments and are experts in basic handicrafts and pottery. (Gunasekaran et al., 2011) state that even though such enterprises generate low labour activities and are fewer contributors to the manufacturing value added, they still attract large enterprises and income rise to the economy of a country as a whole and as a result, their markets are taken over by small and medium enterprises and at a later stage by large enterprises.

In the case where SMMEs are said to be reducing poverty, Vandenberg (2006) adds that these enterprises create employment for poor people through the establishment of new enterprises or the expansion of existing enterprises. He further explains that the poor people benefiting from SMMEs are classified under five categories:

(i) Owners of micro enterprises who mostly establish their businesses for survival;

(ii) The employed poor people working in the small businesses;

(iii)People who depend on these poor workers and owners of small businesses, families and friends;

(iv) The unemployed sector of poor people who might get employed in these businesses and;

(v) The poor people who purchase from these small businesses because of convenience and low costs.

2.6 Factors Affecting SMMEs

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 SMMEs globally has

identified many variables as the cause of failures of SMMEs. As the economy progresses negatively, there is a greater need for SMMEs to contribute to economy. A number of studies provide evidence that SMMEs are faced with many bottle necks, even though SMMEs 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 (World Bank, 2016).

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 SMMEs (Delmar & Wiklund, 2018). Factors inside the business, is known as internal environment and factors outside the business is the external environment. According to Beck and Demirguc-Kurt (2016), the growth of both internal and external environment is important for SMME growth. Growth of SMMEs will be negatively or positively influenced by changes in the business environment (World Bank, 2016).

2.6.1 Internal Environment Factors

The internal environment includes factors in the business environment that are largely controllable by the business (Fatoki & 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.

2.6.1.1 Managerial Competency and Skills

Managerial competencies have a positive influence on the performance of SMMEs Managerial experience, education, knowledge and start-up experience are used to measure managerial competencies (Hisrich and Drnovsek, 2012). In a research study where the importance of management competence in SMMEs success was investigated, lack of managerial competency was found to be the main reason why SMMEs fail (Martin and Staines, 2018).

In South Africa, there are very few people with business managing qualities, and therefore only a few a few small business entrepreneurs are successful, contributing to the poor performance of the South African economy (Radipere and Van Scheers, 2015). In South Africa, the reduced management capacity of new firms because of lack of education and training is the reason for high failure rates. 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, 2017).

According to Honhyan (2013), the two primary causes of small business failure appear to be lack of suitable management skills and insufficient capital. Radipere and Van Scheers (2015) in their research established that urgency exists to improve business skills in the SMME 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 SMME sector and managerial skills.

Education was found to improve managerial competency (Blumberg, 2018). On the same theme researchers found that the performance of SMMEs is positively affected by the high levels of education of the SMME owners (Bowen et al., 2019). SMME 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 (Leitao and Franco, 2011).

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, 2015). It is necessary for the entrepreneur to be knowledgeable about all the functional areas in business. The Organisation for Economic Co-operation and Development (OECD) 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 (OECD, 2014).

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 (Dockel & Ligthelm, 2015). According to Schwarze (2018) poor financial management is viewed as a cause of failure. The authors 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 SMMEs.

Schwarze (2018) recommends that in order to survive, small business owners should first acquire financial management skills that assist in short-term decision making. However, Dockel and Ligthelm (2015) 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.

Schwarze (2018) 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 & Kabongo, 2009)

In the SMME environment today, the accounting function is seen to have an important role, but many SMMEs experience difficulties with their accounting related tasks (Fassoulsa, 2016). 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, 2017). Business stagnation and failure is as a result of SMMEs not being able to differentiate between capital and profit. Some SMMEs do not keep accounting records or reports (Okpar & Kabongo, 2009).

Abdel (2015) 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, 2019). 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 SMMEs is imminent (Dyer & Ross, 2018). Outsourcing allows SMMEs to gain the skills and capabilities they require from external service providers (Gilley, Greer & Rasheed, 2014). Yahya and Susela (2014) 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 SMMEs struggle to employ marketing effectively. Dockel and Ligthelm (2015) have indicated that very little marketing is actually undertaken by SMMEs 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 SMME 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 SMME failures (Yahya & Susela, 2014).

Batley (2017) 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. 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.

SMMEs are widely viewed as a crucial contributor to employment creation, poverty alleviation and general development in any country. 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, 2012).

2.6.1.2 Access to Finance

One of the major challenges pointed out as hindering the growth and survival of start-up SMMEs in South Africa is access to finance (Dyer & Ross, 2018). Herrington, et al. (2015) 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 SMMEs in South Africa.

SMMEs are more constrained than large firms in their access to financial services. SMMEs 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, & Demirgu¨c-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 & Udell, 2016).

Green (2017) 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 SMMEs face a financing gap that weakens economic prosperity, with nearly half of SMMEs rating access to finance as a major constraint (Dalberg, 2011). SMME development is severely constrained by the lack of adequate financial resources. Cook and Nixson (2000) observe that, notwithstanding the recognition of the role of SMMEs in the development process in many developing countries, SMMEs 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 SMMEs is viewed as the role of finance (Cook and Nixson, 2000). To enable SMMEs to contribute to the economic development of the nation, and for the growth and success of SMMEs, the role of access to finance is critical and needs to be adequate (Haron, Said, Jayaraman & Ismail, 2013).

The 2008 financial crisis and subsequent widespread economic downturn have had a huge impact on the availability of finance to SMMEs. Financial institutions credit processing has become more complex, and the institutions have become more

cautious, because of the financial crises, making it difficult for SMMEs 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 SMMEs in many developing countries, accessing the funding that they needed to grow and expand. Banks do not provide SMMEs with adequate capital in many of these countries (Dalberg 2011).

SMMEs, especially newly formed ones, have a very high failure rate. Beck (2016), in his study stated that in South Africa, 75% of newly created SMMEs fail within the first two years of operation, non-availability of external finance is viewed as the main causes of SMME failure. Pretorius and Shaw (2014), observe that a vast majority of SMMEs rely on internal finance, such as, contribution from the owners, family and friends, which is often inadequate for SMMEs to survive and grow. Therefore, access to external finance is necessary to reduce the impact of cash flow problems for SMMEs.

According to Beck (2016) 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., 2012). A frequently cited challenge for SMMEs is access to bank debt. Access to bank finance is a struggle for SMMEs in South Africa (Berry, et al., 2012).

According to Majed, Alsharayri and Dandan (2010), the performance of SMMEs and the capital structure, 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, 2012).

Small business credit scoring is a transactions technology based primarily on hard information about the SMME'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 SMME collected by the financial institution and often from commercial credit bureaus (Berger & Udell, 2016).

Young businesses, less than 4 years old, tend to rely less on bank financing and more on informal financing. Kapurubandara and Lawson (2017) 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, size can influence the probability of failure, as small businesses 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 SMMEs is often regarded to be of higher risk due to the lack of transparency as compared to larger firms (Berger & Udell, 2016).

According to Kitindi, Magembe and Sethibe (2017), 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 (2016) point out that the lack of adequate information leads to information asymmetry and credit rationing.

For SMMEs 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, Mizen & Yalcin, 2015). SMMEs in South Africa have a high failure rate which is the main contributor to the risk perception of SMMEs and therefore not unreasonable for financial institutions to be cautious when financing SMMEs, especially SMMEs 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 (Bougheas et al., 2015).

Increasing the collateral requirements is a way by which banks reduce the risk of lending to SMMEs. Collateral is used as a screening device. Collateral serves to reduce the risk of the lender in case of default (Green, 2017). 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 SMMEs lack. Therefore, borrowing money from a bank is difficult, which is the reason for lack of capital (Okpara & 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, 2017).

2.6.1.3 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 (2016). 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, 2016).

Technological positioning of small-scale businesses is 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, 2014).

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 Longnecker 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., 2012).

Small businesses are unable to take advantage of economies of scale as effectively as larger organizations. For this reason, 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, 2014).

SMMEs 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 SMMEs 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 SMMEs. As a result, it will lead to a better performance in reducing the operating expenses as a whole (Levy & Powell, 2015).

2.6.1.4 Resources

Levy and Powell (2015) states that an enterprise's resources comprise of anything that it owns, such as capital, equipment, liabilities and experience. The authors add that resources refer to the financial support, human resources, attention and time essential for the successful implementation of knowledge. Romijin (2014) further explains that financial support is needed for investing in a technological system if necessary, human resources are necessary to organize and manage the implementation process, and time and attention to employees is also vital to ensure

they perform essential business activities such as sharing of knowledge with their counterparts. SMMEs are frequently faced with limited resources due to their small size and lack of adequate financing. A study by Shepherd and Patzelt (2011) found that even though resources are deemed to be crucial to SMMEs, the amount of accessible resources appears to have both negative and positive effects with regard to opportunity identification by entrepreneurs. (Bradley *et al.*, 2011) explain that ample resources allow experimentation with new ideas and more innovation whereas limited resources can surface necessity-driven creativity by identifying feasible opportunities. Patzelt and Shepherd (2011) show that inadequate financial and human resources results in limited enterprise innovation as there is unaffordability in developing technologies or experimenting with new ideas, with missing precise competences resulting from qualified staff deficiency, which also diminishes innovativeness as these enterprises are unable to employ qualified staff.

Burg *et al.* (2012) suggest that limited resources can play a positive role in SMMEs such that entrepreneurs can identify opportunities that are related to their resource constraints. Fiore *et al.* (2013) add that managing and pulling in resources needs limited use of money and other assets but involves exploiting the skills and knowledge of employees to build collaboration that will enable the emergence of creative and innovative thinking, which will offer guidance for strategic decision-making. Small business owner-managers must find new ways to develop and manage resources and must also exploit the existing resources innovatively (Fiore *et al.*, 2013). According to Halme and Korpela (2013), SMMEs can find ways to compensate for resource deficiencies as prior research by Fiore *et al.* (2013) shows that resource insufficiency may be valuable for innovation. However, there seem to be knowledge gaps and inconsistent findings about how SMMEs could take advantage of resource constraints to identify promising opportunities.

2.6.1.5 Leadership

Leadership in small businesses involves capabilities needed to organise the human and social capital. O'Regan *et al.* (2006) define leadership as a process of transforming an enterprise from what it currently is to what the leader of the enterprise wants it to become, which is to a substantial level of innovation. A strong entrepreneurial leader in small to medium-sized enterprises must be able to influence

the behaviour of other individuals so that there is collective collaboration in the workplace (Soriano and Comeche Martinez, 2007). According to Thorpe *et al.* (2009), it is vital for SMME leaders to understand and familiarise themselves with both the external forces and internal drives that will assist in the development of the enterprises. Leitch *et al.* (2009) suggest that leadership development for SMME owners and managers should build upon their existing skills and must create a path for the development of future leaders rather than teaching only the current SMME owners how to lead.

Thorpe *et al.* (2009) recommend that specific prominence should be placed on crucial skills such as delegation, strategic thinking and time management, which should all be offered to SMME owners through a flexible approach. A flexible approach to leadership development should be realistic enough to merge with the operating environment of SMMEs (Leitch *et al.*, 2009). According to Wang and Poutziouris (2010), besides the establishment, growth and sustainability of a business, SMME owner-managers must balance enterprise goals and managerial significances with ownership control propensities and family values in a consistent way that can secure all business stakeholders. A leader alone is the carrier of change in an organization and has substantial impact on generating and maintaining organizational culture (Dzikowski, 2012).

2.6.1.6 Employees

Previous studies have focused more on the success of SMMEs and not on the driving forces behind the success. Moore and Read (2006) state that employee voice and representation has been given less attention, and even though SMMEs are small enterprises with few employees, a majority of them do not belong to any trade unions. Employees are the most important assets to the business. SMME owners must continuously train employees for better enterprise performance. Kotey and Folker (2007) state that training of employees in SMMEs is usually an informal, unplanned, responsive and short-term orientation which is more often on-the-job with limited or no establishment for employee development. According to Nartisa (2012) SMMEs must learn to depend on training and recruitment of human capital as that determines the success or failure of an enterprise in the market. A shortage of opportunities for

qualified and highly skilled employees to become the driving force behind the practise of successful strategies is one of the factors that contribute to SMMEs' failure.

Further research by Newman and Sheikh (2012) shows that for SMMEs to remain competitive in the long-term, it is vital for the owner-managers to reduce employee turnover and to improve their performance by developing high levels of employee commitment to the enterprises. Nartisa (2012) explains that the satisfaction of employees in terms of rewards, which are in the form of benefits depending on their organisational membership, assist in further increasing their commitment towards the organisation. However, Fiore *et al.* (2013) argue that not all employees are motivated to greater levels by these rewards, which are instead too costly to SMMEs given their inadequate financial resources.

2.6.1.7 Task environment

SMMEs are also encouraged to focus on elements of the market environment for positioning strategies. These strategies help SMME owners to outperform competitors, to accomplish better positioning in customers' minds and to create long-term relationships with customers.

2.6.1.8 Competition

According to Gunasekaran *et al.* (2011) it is essential for each enterprise to study the competition that they directly and indirectly face, so as to create ways to try to outperform competitors. The SMME sector is the most competitive sector and it needs active and well strategized individuals to survive. Delmar and Wiklund (2018) state that social capital networks in which information, innovative ideas and business skills are shared amongst employees in an enterprise help SMMEs to gain competitive advantage. SMME owner-managers are expected to be strongly aware of the competitive pressure around them, even if it is not intense. This is to ensure that they know the risk of emerging competitors surrounding them. Storey (2010) shows that large enterprises honestly possess adequate finance that enables them to fight competition, whereas small enterprises have limited finance to permit them to outperform competitors as any emerging competition could certainly be threatening. Abor and Quartey (2010) add that it is important for SMMEs to study the weaknesses and strengths of their competitors so as to engage in strategies that competitors fail to use. SMMEs have substantial advantages with regard to high capability of innovation

which is determined by competition. Nartisa (2012) states that the establishment and growth of small, medium and micro enterprises is necessary for creating a normal economic environment, promotes manufacturing goods and a good basis for 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, Wilson & Zimmerer, 2015). The competitive standards change continuously due to consumers changing needs and expectations, technological developments and globalisation of markets. Over the years, competition among SMMEs has increased radically. Competition and sustainability for SMMEs involve factors such as changing market trends, changing technologies and emerging new management and organizational techniques. SMME survival is increasingly dependent on a number of factors including resilience of SMMEs 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 et al., 2010).

Majority of purely domestic SMMEs, whose products and sales are extremely localized and segmented are confronted with global competition (Singh et al., 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 SMMEs (Karaev, Koh & Szamosi, 2017). SMMEs have to increase their individual competitiveness to compete in the global market (Fassoula, 2016). Underdeveloped markets are easily entered by well-established foreign entities because of trade liberalization. Local SMMEs find it increasingly difficult to survive or even maintain their current business position in their respective markets against this development (Singh et al., 2010). Strong competition is one of the challenges affecting SMMEs globally. With the opening of free trade agreement, SMME products are being challenged by the foreign imported products which have flooded the market (Siringoringo, Prihandoko, Tintri & Kowanda, 2009).

SMMEs face tough and challenging times in improving performance, indicated by research on SMMEs in China and India for the SMMEs in both the countries. Developing new sales strategies, improving upon management styles, and using the latest marketing methods will also improve the competitiveness of SMMEs in both countries. SMMEs must strive in cost effective manner to utilise communication technologies and information, and to reach the right markets as well as sustaining 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 et al., 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.

2.6.1.9 Customers

According to Singh et al. (2010), SMMEs have to direct their efforts to meet customers' needs and wants as these customers are now becoming well organised, informed and more demanding. Small businesses often fail to focus on the customers and markets they serve. Delmar and Wiklund (2018) states that a business enterprise cannot succeed without the existence of customers. SMME owners must also take into account the preferences, lifestyles and needs of their customers. SMMEs' advertising is closely linked with close relationships with customers in comparison to larger enterprises that have formal structures which therefore makes it difficult to embed close customer relationships in their organizational culture. Correia, Flynn, Uliana and Wormald (2018) add that SMMEs narrow and confine their customer base which creates a much shorter communication line between the enterprise and its customers, where personal relationships are formed and maintained. This results in increased customer loyalty and high levels of customer satisfaction. Long-term relationships with customers are augmented by a quick response to their needs as SMMEs are acknowledged for their flexibility and ability to respond to customers' needs instantly (Correia et al., 2018).

SMME owner-managers must be customer-driven, that is, they must put effort into focusing on new and creative ways to build and maintain relationships with customers. Fiore *et al.* (2013) state that small business owners must build emotional relationships with customers and must aggressively engage in new ways of networking by using existing customers to explore new markets. Delmar and Wiklund (2018) suggest that more focus should be placed on the emotional level of customer relationships and development strategies of an enterprise rather than traditional marketing approaches. According to Navickas *et al.* (2014) SMMEs need to find unique features that must appeal to their customers, since fostering the trust of customers can enable an enterprise to build a strong background for value creation and competitive gain. This is because trust is a substantial contributor to customer satisfaction and loyalty. In fact, Reynoso *et al.* (2017) point out that: trust is the pioneering method to gain a competitive advantage and strong customer base.

2.6.1.10 Suppliers

Based on managing strategic relationships with suppliers, Pressey et al. (2007) state that, firms must engage in strategic purchasing orientation that will encourage and maintain closer relationships with key suppliers. Firms should also create long-term planning strategies in supply chain management. Victoria and Jesus (2009) suggest that small and medium-sized enterprises must create resourceful systems of communication, collaborating and establishing long-term relationships with suppliers and this helps the suppliers to familiarize themselves with their clients' needs and also allows the enterprises to identify the capabilities of the suppliers and achieve better results. However, Cambra-Fierro and Polo-Redondo (2008) argue that not all suppliers wish to develop and maintain close relationships with buyers.

According to Victoria and Jesús (2009), an enterprise must go beyond supply chain relationships by identifying the existing weak supply relationships and creating measures of detecting and dealing with the problem early and immediately. This helps the enterprise in identifying suppliers who bring valuable resources, and also helps to create awareness for suppliers in terms of increasing their performance. The more strategic the relationship is between the supplier and the buyer, the more likely it is that both parties will have an interest in developing and maintaining the relationship (Victoria and Jesús, 2009). Mishra (2011) shows that the relationship between buyers

and suppliers is crucial for all business enterprises regardless of the operation. SMMEs must build buyer-supplier relationships where trust, collaboration and appropriate flow of information acts as pillars to reinforce the relationship for maintainable relationships. Without cautious monitoring of suppliers and their performances, SMMEs will find it difficult to precisely evaluate whether the current suppliers meet their business needs.

2.6.2 External Environment Factors

This entails all the forces that are outside the organisation which SMME owner-managers cannot control but come to terms with. These factors are: political and legal factors; economic factors; socio-demographic and cultural factors; as well as technological factors. According to Tshabalala and Rankhumise (2011), the short-term efficiency and long-term survival of an enterprise is determined by the actions it takes with regard to the external environment.

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

When changes are taking place in the external environment, SMMEs 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 SMMEs are seen to be affected by the major variables which include interest and exchange rates, inflation, unemployment, crime, HIV/Aids, and government legislation (Yahya & Susela, 2014).

2.6.2.1 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., 2015).

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 *et al.,* 2012).

New opportunities as well as challenges from trade liberalization and globalisation have been ushered in for SMMEs. The majority of SMMEs 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 SMME sector is able to identify and exploit these opportunities and deal with the challenges. A major objective of work should be to equip SMMEs to better meet the challenges of globalization and to benefit from its opportunities and promote the development of the SMME sector (OECD, 2014).

2.6.2.2 Regulatory Factors

The success of the small business sector is continuously threatened by poor allocation of resources and over-regulation (Chamberlain & Smith, 2016). 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 SMMEs according to the study conducted by the business environment specialist (SPB, 2013).

SMMEs 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, 2013).

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 (2016) 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 SMMEs 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, 2015). An impediment for small businesses in South Africa has been identified as tax compliance requirements and high tax compliance (Abrie and Doussy, 2016).

In South Africa, to redress past economic imbalances Black Economic Empowerment (BEE) legislation was introduced (Correia et al., 2018). 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 fulfil 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, 2016).

South Africa's SMMEs owners are losing confidence that the country's rigid labour laws are conducive to business growth. This trend emerged in the SMME 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 factors 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 (Herrington et al, 2015).

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. Herrington et al. (2015) 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 (2016) 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, 2015). Compared to developed countries, South African regulatory compliance costs appear to be significantly higher, in an international comparative perspective (SBP, 2015). An enabling environment for small enterprises provided by policies, institutions and regulations can make a substantial contribution to employment creation (Mollentz, 2002).

2.6.2.3 Political and Legal factors

Soontiens (2002) maintains that the number of SMMEs that operate globally is not satisfactory due to country-specific policies that protect domestic SMMEs from outside competition. Hence Soontiens (2002) asserts that governments must assist in the negotiation of export requirements with the affected countries to allow SMMEs easy access to global competitive markets. The political and legal framework allows free trade and opens new markets to national companies. In line with the aforementioned point, Jeppesen (2005) suggests that assistance from the government in terms of policies for SMMEs must be determined by the size of an enterprise and the type of an enterprise. The MTICM *White Paper* (2012) states that improvement of SMMEs' access to government contracts will represent a substantial effort, to incorporate them into local supply chains and to enhance their capabilities to fulfil policy requirements, such as procurement requirements. Reynoso *et al.* (2017) propose that government policies must promote SMMEs by providing support for small and micro enterprises, since they are usually owner-managed and their behaviours are determined by the owners' decisions who have less interest in competing in the marketplace. SMME owners usually lack the skills necessary for growth and development strategies for their enterprises, which would be vital to ensure an increase in their market share.

2.6.2.4 Economic factors

Economic factors have a direct impact on the prospective attractiveness of different strategies and consumption patterns in the economy. According to Olawale and Garwe (2010), economic factors include interest rates, inflation, foreign exchange rates and

government fiscal and monetary policies, and do affect the demand for products and services and therefore the growth of SMMEs. High interest and inflation rates, low growth rates and declining exchange rates are currently experienced in developing countries. The economic recession that results from these factors and the global economic meltdown causes decline in sales, incomes and market potential for SMMEs (The Economist, 2009). The economic meltdown locally and internationally results in many small businesses struggling to make ends meet since consumers are faced with inadequate income to purchase, as well as high interest rates that also negatively impact these businesses. Due to such challenges, Olawale and Garwe (2010) suggest that SMME owner-managers must have the ability to assess and interpret environmental changes to sustain their enterprises' capability and performance. Tshabalala and Rankhumise (2011) argue that economic situations affect SMMEs to a greater extent than large enterprises because SMMEs are less responsive due to inadequate funds. This exacerbates the challenges faced by SMMEs in sustaining their survival as most of these small businesses operate in a dynamic, changing environment and are therefore more vulnerable to change.

2.6.2.5 Social factors

Changes in social trends impact on the demands by consumers for products and services. The average level of education possessed by consumers affects their attitudes and interests with regard to products and services offered by SMMEs (Riddell, 2006). With low levels of education found in most developing countries, Riddell (2006) suggests that SMMEs must include more detailed, graphic and clarified information when advertising and promoting their products and services, as the spoken language of the community is a significant factor with regard to advertising and promotions of products and services. However, Thornton *et al.* (2011) contend that SMME activities are clearly understood by consumers because owner-managers have to carefully consider the social environment that their small business operates in, since entrepreneurial activities are social phenomena. SMMEs need to adapt their marketing and sales strategies to correspond with the needs of their demographic population as well as the social trends of these target populations. Abor and Quartey (2010) states that, an enterprise is established on the basis of resolving a social problem or to address the market failure. Much emphasis with regard to the values of the enterprises must be on the communities they serve, as these communities serve as a crucial part

of the stakeholder group, and their attitudes and opinions are based on their satisfaction with the type of products and services offered.

2.6.2.6 Technological factors

Due to technological improvements in organizations, small businesses are now able to communicate awareness of their organizations, products and service offerings to a large part of potential and existing customers, both globally and internationally. However, a study by Keh and Shieh (2001) found that SMMEs are not usually involved in the technological development of their products and services, which can assist in differentiating them from those of competitors. Kyobe (2004) states that such challenges can arise from complex internet formats that may seem too difficult for emerging enterprises with low capital to adapt to. Further obstacles may include a loss of focus in continuous communication of the products and services to customers, and cultural inflexibility by potential customers which may arise as customers may be likely to reject the e-tailing and opt for the traditional way of purchasing. Phan *et al.* (2005) add that SMMEs tend to abandon their prevailing competitive advantages like strong positioning for the disposition of technological developments which is not a wise move. According to Al-Qirim (2008), a majority of small businesses prefer and continue to use traditional ways of producing and selling their products to customers. This is due to their inaccessibility to equipment which makes them lack quality in their product standardisation. Factors such as the aforementioned lack of quality control and standardisation of products cause SMMEs' products to become less competitive in local and international markets. SMME owner-managers need to consider the challenges they are likely to face regarding technological developments as most small businesses in developing countries are localised.

2.6.2.7 Macroeconomic Factors

Van Eeden, Viviers and Venter (2013) 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 & Lazenby, 2017). The rand has depreciated by about 5% to the dollar since the beginning of 2014 (Maswanganyi, 2014).

Business Partners Limited SMME 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. Honhyan (2013) 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 SMMEs and diverts investment to ensure the growth and success of the business. Inflation not only affects SMMEs but also their consumers as it increases the costs of goods and decreases their disposable income (Abdel, 2015).

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, SMMEs also face challenges posed by the economic climate in a country (Fatoki & Garwe, 2010).

2.6.2.8 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. 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 & Lawson, 2017).

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 & 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 SMMEs (Okpara & 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 SMMEs and production (Kalra, 2009).

2.6.2.9 Crime and Corruption

In South Africa the corruption rate is high compared to developed countries (Transparency International, 2008) and the World Bank (2016) 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 crippling blow and can threaten its very existence (Scarborough, et al., 2015). According to Corruption Watch (2013), 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 SMME's resources which could otherwise have been used to grow and expand activities and operations (Corruption Watch, 2013).

Gaviria (2012), argued that SMMEs 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 SMMEs engage in corruption.

In a survey of SMMEs 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, 2017). Potentially, SMMEs 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, 2017).

2.7 Chapter Summary

SMMEs 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 SMME sector contributes highly to the economy, contributing to the Gross Domestic Product, by reducing the level of unemployment. Despite their significant importance and SMME contribution to economic growth, SMMEs 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 SMME 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.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

The previous chapter presented literature related to the study. The literature review was guided by the objectives of the study developed in chapter one. In this chapter the overall research design is presented. Given that no research can ever be more accurate or reliable than the data upon which it is based, it is fundamentally important that the data used in any research be collected by accurate methods from reliable sources and also that it should be precise and detailed as is possible. Accordingly, the chapter sets out the methodology used for the gathering and analysis of data.

3.2 The Research Design

Sekaran and Bougie (2016) define research design as a blueprint for the collection, measurement, and analysis of data, based on the research questions of the study. There are different types of research designs that are used to conduct a research study, and these includes, exploratory research design, explanatory research design and descriptive research design (Babbie, 2016). Thakkar, Kurup, and Laba (2016) explains that an exploratory research design is conducted about a research problem when there are few or no earlier studies to refer to or rely upon to predict an outcome. The focus of exploratory research is on gaining insights into, and familiarity of research problem. Besides, the goals of exploratory research are intended to produce insights on the basic details, settings, and concerns of the research problem under study (Kothari, 2016).

Explanatory research design, sometimes referred to as analytical study, mainly aims to identify any causal links between the factors or variables that pertain to the research problem and is usually structured in nature. This study therefore adopted explanatory research design because the methodology assesses the competitive advantage strategies for SMMEs in South Africa.

3.3 The Research Philosophy

There are three types of research methodologies namely, qualitative, quantitative and mixed methods. This study adopted the quantitative methods research methodology. Leedy and Ormond (2015), defines quantitative research as a research that emphasizes the objective collection and measurement of variables and numerical data collection through polls, surveys or questionnaires. Variables are measured on instruments in order for analyses of the numbered data to be done using the statistical procedures (Creswell, 2016). A quantitative research approach essentially measures the variables related with the knowledge and opinions (Thakkar et al., 2016). This research utilised a quantitative research approach because it uses numerical data to answer to the research questions.

Qualitative research is defined as a research that involves collecting and analyzing of data that are of descriptive in nature (Saunders, Lewis & Thornhill, 2017). Qualitative approach is used when a researcher is trying to get an in-depth understanding about a certain experience and processes. This type of research methodology is very useful when a research seeks to study the feelings of the people, their opinions and the reasons of the practices thereto performed. In addition, the approach is suitable when studying the attitudes and behaviours of people (Leedy & Ormond, 2015).

Mixed methods research is a methodology for conducting research that involves collecting, analyzing, and integrating (or mixing) quantitative and qualitative research (and data) in a single study (Creswell, 2016). The purpose of this form of research is that both qualitative and quantitative research, in combination, provide a better understanding of a research problem or issue than either research approach alone (Alvesson & Sandberg, 2016).

3.4 Research Strategies

The research made use of the survey strategy. A survey was preferred because of its dependability. Sekaran and Bougie (2016) points out that the anonymity of surveys allows respondents to answer with more candid and valid answers. The authors further assert that the most accurate data is obtainable if respondents are given room to be as open and honest as possible with their answers. Surveys conducted anonymously

provide an avenue for more honest and unambiguous responses than other types of research methodologies, especially if it is clearly stated that survey answers will remain completely confidential (Bryman & Belle, 2015).

3.5 Target Population

Population, in the research context, is usually defined a whole from which representative elements are going to be chosen. These subsets are then used for an inquiry after which the inferences reached at will represent the position of the bigger set. Creswell (2016) defined a population as a full set of objects or people of a particular type under study, a full set of cases from which a sample is extracted. One hundred and fifty (150) owners of SMMEs under the Umzumbe Local Municipality were used as the target population.

3.6 Sampling

According Leedy and Ormond (2015), sampling is a systematic way of setting aside a subset from the main set, with the view of investigating certain trends and/or behaviours from that representative so that a conclusion can be reached at. Probability and nonprobability are the broader forms of sampling, with probability commonly applied in quantitative researches and non-probability in qualitative approaches. However, there are instances where these sampling methods can be applicable either way (Komati, 2015).

Non-probability sampling is defined as a sampling design in which the elements in the population do not have a known or predetermined chance of being selected as sample subjects (Sekaran & Bougie, 2016). Non-probability sampling has eight type of sampling methods, namely convenience, quota, purposive, snowball, deviant case, sequential, theoretical and adaptive sampling.

Since this study is of quantitative nature, probability sampling was made use of. Probability sampling is known as the gold standard for creating a representative sample (Saunders et al., 2017). Sekaran and Bougie (2016) define this type of sampling as a sampling design that allows equal chance of every element in the population to be selected as a sample subject. According to Thakkar et al. (2016),

probability sampling has five types of sampling methods, namely simple random sampling, systematic, stratified random, cluster and double sampling.

The method employed for sampling in this study was simple random sampling whereby respondents were segregated before being randomly selected from each stratum (Thakkar et al., 2016).

3.6.1 Sample Size

One hundred and eight (108) out of the target population of 150 respondents were selected as the sample size for the quantitative the study. The sample size was arrived at after making use of the Sekeran and Bougie's list for selecting a sample size from a given population size (Sekaran and Bougie, 2016).

3.7 The Research Instrument

There are different types of data collection instruments that can be used when collecting information for research purposes. For this particular quantitative study, a questionnaire was used. Cooper and Schindler (2014), asserts that a questionnaire comprises of a list of research questions that the researcher use to ask the respondents designed to extract specific information based on the main research questions. The authors further highlight that questionnaires are used to collect appropriate data, make data comparable and amenable to analysis, minimize bias in formulating and asking questions, and to make questions engaging and varied.

The questionnaires were preferred as suitable for this study because it allowed the research to collect data at a minimal cost. The other advantage of using a questionnaire is that it reduces the variability of responses, less costly to administer and can be easily administered and analysed (Komati, 2015).

However, while there are many positives to questionnaires, disadvantages also exist. Dishonesty can be an issue as respondents may not be completely truthful with their answers (Kothari, 2016). This can happen for a variety of reasons, including social desirability bias and attempting to protect privacy. Nonetheless, dishonesty in its tracks was minimized by assuring respondents that their privacy was valued and that the process prevents personal identification. Another challenge of questionnaires is that a person who is not the targeted respondent can complete questionnaires. This in turn

poses the threat of misinterpretation as explanation would have been given only to the intended responded trouble with not presenting questions to users face-to-face is that each may have different interpretations of your questions (Saunders et al., 2017).

3.8 Questionnaire Construction

The research made use the structured questionnaire containing closed-ended questions. Each question contained a set of answers that the respondents selected the perceived response. This allows the respondents to make a quick decision (Struwig & Stead, 2013).

The questions were arranged in the order of categories of the objectives of the study as follows:

Section A: Demographics of Respondents

Section B: Internal environmental factors hindering the growth of SMMEs;

Section C: External environmental factors hindering the growth of SMMEs;

Section D: The extent to which SMMEs develop and practice strategic plans;

Section E: The level of awareness from SMMEs regarding government support structures.

The type of questions used were both dichotomous and Likert response scale. Dichotomous question aims to respond two possible answers and are preferred because they are used for clear distinction of qualities, experiences or respondent's opinions (Cooper & Schindler, 2014). Likert scale is a psychometric response scale for obtaining the participant's interval of agreeing with a set of statements. Likert scales were preferred in this research because they are easy to interpret since they are non-comparative scaling technique and only measure a particular trait in nature (Saunders et al., 2017)

3.9 Pilot Study

Dross (2015), postulates that a pilot study is a mini-research study conducted before the intended actual larger scale study. In other words, pilot studies are a preview assimilation of the actual research undertaking. The reasons for this exercise include assessing whether there are any foreseeable logistical problems that need to be addressed before it gets too late (Thakkar et al., 2016). Ten respondents were used

to conduct a pre-test of the questionnaire for avoidable inconveniences on the actual survey.

With the help of a Pilot Survey which produced good rapport with most respondents, the sequence of the structured questions was changed (Babbie, 2016). After a pre-test to determine the suitability of the questionnaire, the questions were improved it in terms of question content, wording, sequence, form and layout, question difficulty and instructions. The wording of questions was made simpler and plain for understandability by respondents.

3.10 Administration of Questionnaire

The questionnaires were self- administered by the respondents. This was done because a majority of the correspondences is adequately literate. All of the questionnaires were hand delivered to the respondents. This method was preferred because it is assumed that the respondents would be able to complete the questionnaire without assistance. The approach also reduced the costs of the data collection exercise (Kish, 2018). When delivering the questionnaires, the study explained to ascertain whether the respondents would be able to complete the questionnaires without complications. The research ensured that questionnaires were self-administered during data collection in order to establish rapport and motivate respondents (Kothari, 2016). This helped with getting a high response rate.

Every administrator hopes for conscientious responses, but there is no way to know if the respondent has really thought the question through before answering (Creswell, 2016). At times, answers will be chosen before fully reading the question or the potential answers. Sometimes respondents will skip through questions, or split-second choices may be made, affecting the validity of your data (Alvesson & Sandberg, 2016). This drawback was dealt with by making the survey short and questions simple to get the most accurate responses.

3.11 Collection of Questionnaire

To avoid wastage of time, the researcher personally collected the questionnaires from the respondents. After collection, the questionnaires were locked up in a cabinet for safekeeping before and after analysis. Sekaran and Bougie (2016), suggests that

unintended users of the raw data must always keep survey instruments under key and lock to avoid accessibility.

3.12 Data Analysis

Data analysis entails a close examination of data collected in order to deduce sense out of patterns and behaviors (Creswell, 2016). The processing of data includes all operations undertaken from when a set of data is collected until it is ready to be analysed either manually or by a computer. Data processing in quantitative studies starts with data editing, which is 'cleaning' the data. The coding of data, which entails developing a codebook, pre-testing it, coding per se and verifying the coded data, follows this. Once the questionnaires were completed, the researcher and the supervisor cross-checked them for correctness and completeness. A statistician assisted in precoding of the questionnaire during the drafting of the questionnaire. The questionnaires retrieved by the researcher were coded and captured on the Statistical Package for the Social Sciences (SPSS) version 24. Data were interpreted using both descriptive and inferential statistics. The descriptive statistics produced tendencies and locations. The inferential statistics made use of Principal Component Analysis (PCA), *T*-tests, Analysis of Variance (ANOVA) and Correlation analysis. Inferential statistics help to create the relationship between variables and come up with conclusions (Sekaran & Bougie, 2016). Descriptive statistics is described as the statistics that provide descriptive information about a set of data. Graphs and charts were used to present the data findings.

3.13 Validity and Reliability

To address data quality control issues in the instrument used, the study used reliability and validity of instruments since the research is for a quantitative discourse.

3.13.1 Validity

Alvesson and Sandberg (2016), defines validity as accuracy of representation of features of the phenomena that it is intended to describe, explain or theorize. Any research can be affected by different kinds of factors which, while extraneous to the concerns of the research, can invalidate the findings (Kish, 2018). There are three types of validity in quantitative research:

- **Face and content validity-** The judgement that an instrument is measuring what it is supposed to is primarily based upon the logical link between the questions and the objectives of the study. Hence, one of the main advantages of this type of validity is that it is easy to apply (Dross, 2015). Each question or item on the research instrument must have a logical link with an objective. Establishment of this link is called face validity. It is equally important that the items and questions cover the full range of the issue or attitude being measured. Assessment of the items of an instrument in this respect is called content validity. In addition, the coverage of the issue or attitude should be balanced; that is, each aspect should have similar and adequate representation in the questions or items (Thakkar et al., 2016). Content validity is also judged on the basis of the extent to which statements or questions represent the issue they are supposed to measure, as judged by the researcher and experts in the field;

- **Concurrent and predictive validity-** In situations where a scale is developed as an indicator of some observable criterion, the scale's validity can be investigated by seeing how good an indicator it is (Wegner, 2015). If an instrument to determine the suitability of applicants for a profession is developed, the instrument's validity might be determined by comparing it with another assessment or with a future observation of how well these applicants have done in the job. If both assessments are similar, the instrument used to make the assessment at the time of selection is assumed to have higher validity.

These types of comparisons establish two types of validity: predictive validity and concurrent validity (Leong, Snyder & Ward, 2018). Predictive validity is judged by the degree to which an instrument can forecast an outcome. Concurrent validity is judged by how well an instrument compares with a second assessment concurrently done. It is usually possible to express predictive validity in terms of the correlation coefficient between the predicted status and the criterion. Such a coefficient is called a validity coefficient (Wegner, 2015); and

- **Construct validity-** Construct validity is a more sophisticated technique for establishing the validity of an instrument (Leong et al., 2018). It is based upon

statistical procedures. Construct validity is determined by ascertaining the contribution of each construct to the total variance observed in a phenomenon. One of the main disadvantages of construct validity is the need to know about the required statistical procedures.

Content validity was conducted in order to ensure validity in this research. Content validity is defined as a test that measures if every single element of the construct is represented. Subject-matter experts were provided with access to the questionnaire and asked to provide feedback on how well each question measured and interrogated the construct in question, respectively (Creswell, 2016). Feedback was analysed and used to inform decisions about the effectiveness of each question; and

3.13.2 Reliability

According to Serakan and Bougie (2013) reliability is defined as a test that ensures that measuring instrument produces stable and consistent results. In other words, reliability is an agreement between two efforts to measure the same thing with the same methods. Therefore, reliability is the degree of accuracy or precision in the measurements made by a research instrument. The lower the degree of 'error' in an instrument, the higher the reliability. The following are some of the types of reliability:

- **Test/retest** – This is a commonly used method for establishing the reliability of a research tool. In the test/retest (repeatability test), an instrument is administered once, and then again, under the same or similar conditions (Saunders et al., 2017). The ratio between the test and retest scores is an indication of the reliability of the instrument – the greater the value of the ratio, the higher the reliability of the instrument. The main advantage of the test/retest procedure is that it permits the instrument to be compared with itself, thus avoiding the sort of problems that could arise with the use of another instrument.

- The main disadvantage of this method is that a respondent may recall the responses that s/he gave in the first round, which in turn may affect the reliability of the instrument (Leong et al., 2018). Where an instrument is reactive in nature (when an instrument educates the respondent with respect to what the researcher is trying to find out) this method will not provide an accurate assessment of its reliability. One of the ways of overcoming this problem is to

increase the time span between the two tests, but this may affect reliability for other reasons, such as the maturation of respondents and the impossibility of achieving conditions similar to those under which the questionnaire was first administered (Leong et al., 2018).

- **Parallel forms of the same test** – In this procedure two instruments that are

intended to measure the same phenomenon are constructed. The two instruments are then administered to two similar populations. The results obtained from one test are compared with those obtained from the other. If they are similar, the instrument is assumed reliable. The main advantage of this procedure is that there is no suffering from the problem of recall found in the test/retest procedure. In addition, a time lapse between the two tests is not required (Kish, 2018). The disadvantage is that there is need to construct two instruments instead of one. Moreover, it is extremely difficult to construct two instruments that are comparable in their measurement of a phenomenon. It is equally difficult to achieve comparability in the two population groups and in the two conditions under which the tests are administered.

- **The split-half technique** – This technique is designed to correlate half of the items with the other half and is appropriate for instruments that are designed to measure attitudes towards an issue or phenomenon (Kish, 2018). The questions or statements are divided in half in such a way that any two questions or statements intended to measure the same aspect fall into different halves. The scores obtained by administering the two halves are correlated. Reliability is calculated by using the product moment correlation (a statistical procedure) between scores obtained from the two halves. Because the product moment correlation is calculated on the basis of only half the instrument, it needs to be corrected to assess reliability for the whole (Leedy & Ormond, 2015). To ensure reliability the research carried out the pre-test of questionnaire on ten participants randomly selected from the target population. This assisted in testing the reliability of the questionnaire before study commenced.

To ensure the reliability of the study, the researcher used Cronbach's Alpha (coefficient) statistics to ensure that all variables contained in the questionnaire are reliable. This study used Cronbach's Alpha to find the level of reliability for the information in the questionnaire, given that the average correlation of variables found

in a test was standardised. A pilot study was used to assess how consistent the results are or if there was a need to increase the sample. The reliability results for this study were 0.946. According to Kothari (2008), a Cronbach's Alpha of 0.7 to 0.8 is acceptable reliability.

Dimension	Number of Items	Cronbach's Coefficient Alpha
Demographics of Respondents	5	0.912
Internal environmental factors hindering the growth of SMMEs	7	0.790
External environmental factors hindering the growth of SMMEs	7	0.737
The extent to which SMMEs develop and practice strategic plans	7	0.870
The level of awareness from SMMEs regarding government support structures	5	0.613
Total	**31**	**0.946**

3.14 Elimination of Bias

To ensure elimination of bias and constant objectivity throughout the study, the researcher kept focus on;

- **Non-use of gender aligned words**

Gender-neutral language is a form of linguistic prescriptivism that aims to eliminate (or neutralise) reference to gender in terms that describe people (Komati, 2015). The research has maintained non-use of gender-specific job titles and any other terms which would expose the gender of research participants. In addition, gender-neutral pronouns for either female or male participants were used in an effort to remove the alleged subconscious effects of language in reinforcing gender and gender stereotypes;

- **Avoidance of Identifying people by race or ethnic group**

Leong et al., (2018) argues that the more central a given identity is to one's self-definition, the more an individual should be motivated to maintain and enhance the identity. In fact, social identity theory argues that individuals are driven to maintain and enhance collective self-esteem just as in personal self-esteem. In turn, people's valued social identities are important sources of self-esteem (Leong et al., 2018). To get rid of the inferiority or superiority of ethnicity and race, language identifying people on this background was avoided throughout this study;

- **Refraining from language that suggests evaluation or reinforces stereotypes**

According to Struwig and Stead (2013), interest in prejudice, stereotyping, and discrimination is currently shared by allied disciplines such as sociology and political science, and disciplines such as health and commerce. To address this challenge, the study avoided use of language that suggests evaluation or reinforces stereotypes; and

- **Abstinence from making assumptions about various age groups**

Assumptions about particular age groups might prejudice what could be relevant information for any good research (Leedy & Ormond, 2015). To avoid the assumption about various age groups, the survey instrument ranged from the South African minimum legal age of adulthood (18 years) to as high as beyond the age of sixty years.

3.15 Ethical Considerations

- **Ensuring participants have given informed consent**

Bryman and Belle (2015), asserts that getting people to participate without knowing the reasons for the research can be regarded as deception. Since deceiving people is unethical, the participants were given adequate information about the study and their role in the study in order to make an informed decision about being a part of the study. The researcher upheld anonymity, confidentiality and privacy of the participants;

- **Ensuring no harm comes to participants**

Babbie (2016), further states that it must be ensured that no harm is done to participants. The ethical approval for this study was obtained from the UKZN Ethics Research Committee and a gatekeeper's letter from the Human Resources Manager

of the Department of Health concerned. Ethical approval was sought to ensure that the human dignity is upheld and no implications are leveled against participants;

- **Ensuring confidentiality and anonymity**

Saunders et al. (2017), clarify that the clearest concern in guarding subjects' interests and well-being is the protection of their identity, especially in survey research. Confidentiality and anonymity were ensured by keeping the anonymous raw data accessible only by the researcher. Use of real names was avoided during research data collection to ensure anonymity. In addition, findings of the study were reported aggregately in representation of a collective view of all the participants using acronyms to enhance anonymity; and

- **Ensuring that permission is obtained**

Addressing voluntary participation as an ethical issue, Babbie (2016), suggests that consent should be sought in order to ensure unforced participation by research subjects. Informed consent forms were drafted for each of the research participants to agree on before responding to the questionnaire.

3.16 Summary

The selected methodology served the important purpose of restricting the study to investigating only relevant matters and maintaining coherence in the study. The questionnaire method was sufficient to obtain the required information from the sample population. The following chapter presents the research findings, analysis of results, and discussion of findings.

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 SMMEs in Umzumbe Local Municipality, followed by the presentation of the external factors affecting the performance of SMMEs in Umzumbe Local Municipality discussed. A total of 108 questionnaires were sent out to respondents and ninety-six (96) were successfully completed, giving a response rate of 88.89%.

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 and years of experience are discussed.

Questions 1 to 5 of the questionnaire dealt with the socio-demographic information of the respondents. Figure 4.1 to 4.5 present the socio-demographic information. The majority of the respondents (76%) were males (Figure 4.1). The respondents compromised mainly of Africans and Asians, together being 82% of the respondents (Figure 4.3).

Majority (91%) of the respondents were either the owners, managers or both owner and manager (Figure 4.4). Figure 4.2 reflects that more than half the participants holding matric. 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%. Partnership represented the smallest percentage (Figure 4.5). The top three industry sectors in which the business operates are retailing, agriculture and construction. 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).

4.2.1: Gender
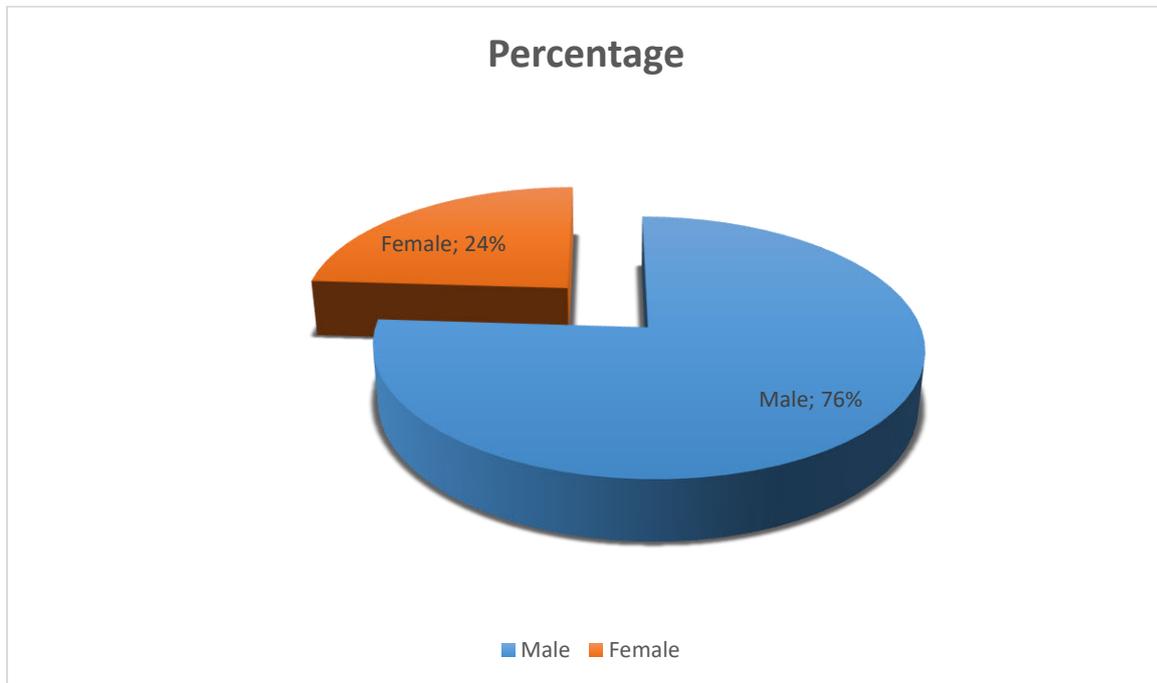
Figure 4.1 Gender distribution of the sample

Figure 4.1 above shows that male respondents constituted 76%, whilst the other 24% represented the women. This could suggest that most of the registered SMMEs under the Umzumbe Local Municipality are male dominated.

4.2.2 Age of Respondents

Table 4.2 Ages of Respondents

Age Groups	Frequency	Percent (%)
18-30	25	26.04
31-40	27	28.13
41-50	22	22.92
51-60	19	19.79
61-70	4	4.17
Total	**96**	**100**

Table 4.1 presents that most of the respondents (28.13%) were between the ages 31-40 years, followed by ages 18 to 30 with 26.04% whereas ages 41 to 50 years had a population of 22.92%. Age ranges 51 to 60 and 61-70 had 19.79% and 4.17% respectively. The results imply that the most owners or managers of SMMEs are in the age group 31-40 years, followed by age group 18-30 years.

4.2.3: Level of education

	Post Grad	Degree	Diploma	Certificate	Matric
.	0%	2%	14%	22%	62%
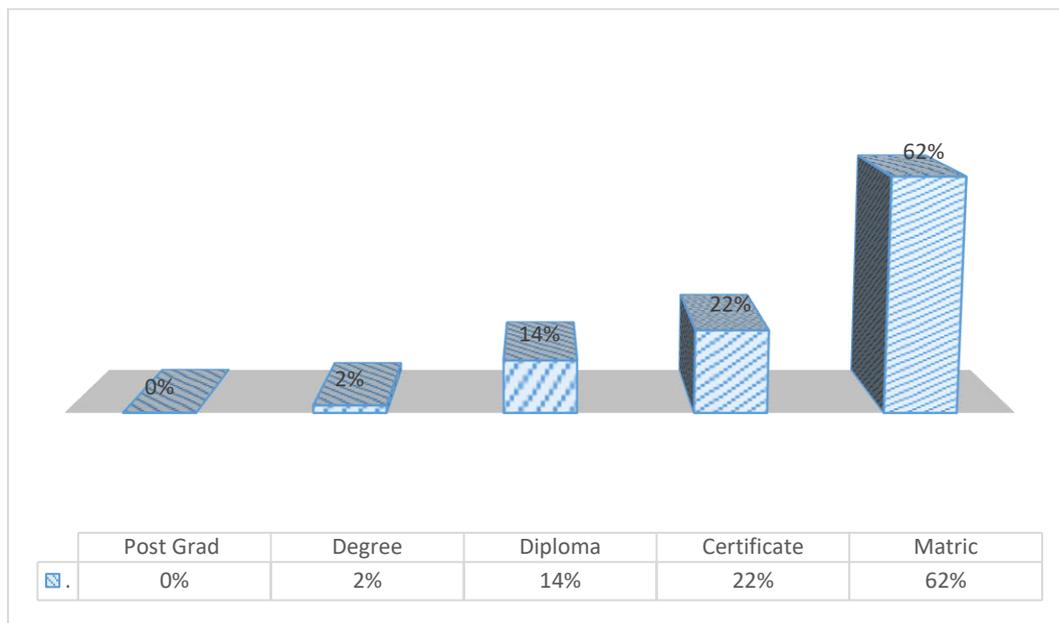
Figure 4.2 Level of education of the sample

Figure 4.2 above shows the composition of qualifications held by SMME owners who participated in this research. Most respondents have reached some kind of educational level. A total of 62% have matric, 22% are holders of a certificate level qualification, 14% hold diplomas, as the remaining 2% are degree holders. This outcome implies that most respondents are at least literate enough to read and write on their own.

4.2.4: Race

	White	Asian	Black	Coloured	
▨ .	15%	40%	42%	3%	
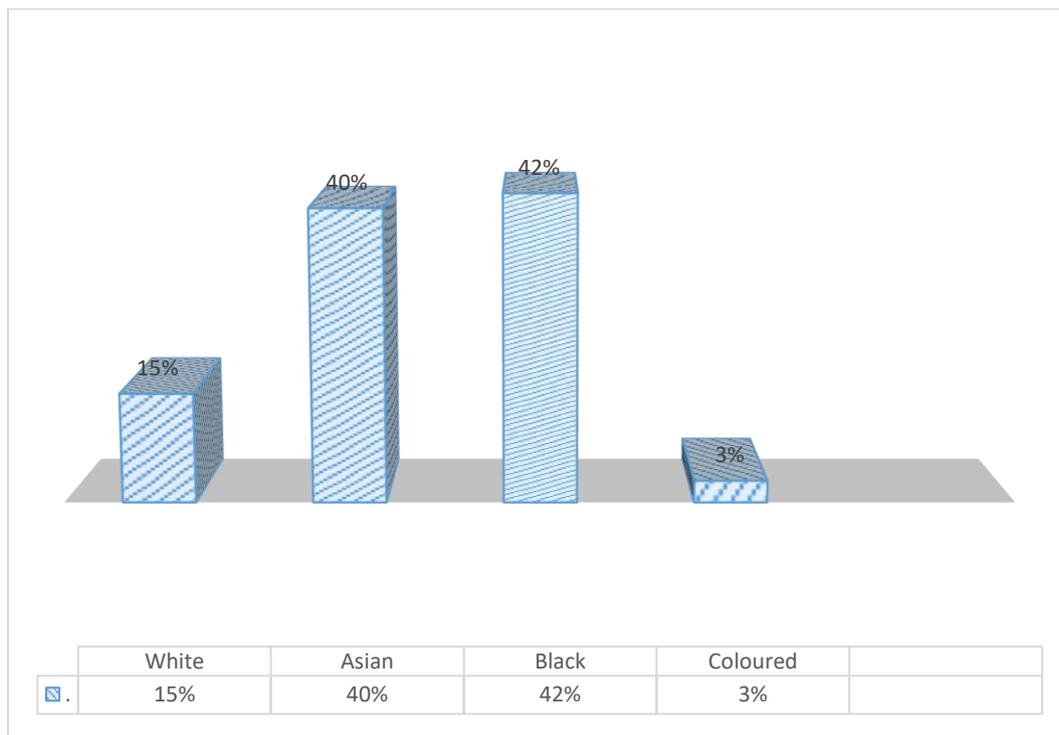
Figure 4.3 Race

Figure 4.3 above depicts that the statistics of registered SMMEs under the Umzumbe Local Municipality with regards to race has 15% as whites, 40% Asian, 42% blacks and 3% people of the colour. This implies that blacks have the highest percentage, followed by Asians, then whites before the coloureds.

4.2.5: Distribution of Role in the Business

	Owner	Manager	Both	Other	
.	39%	21%	31%	9%	
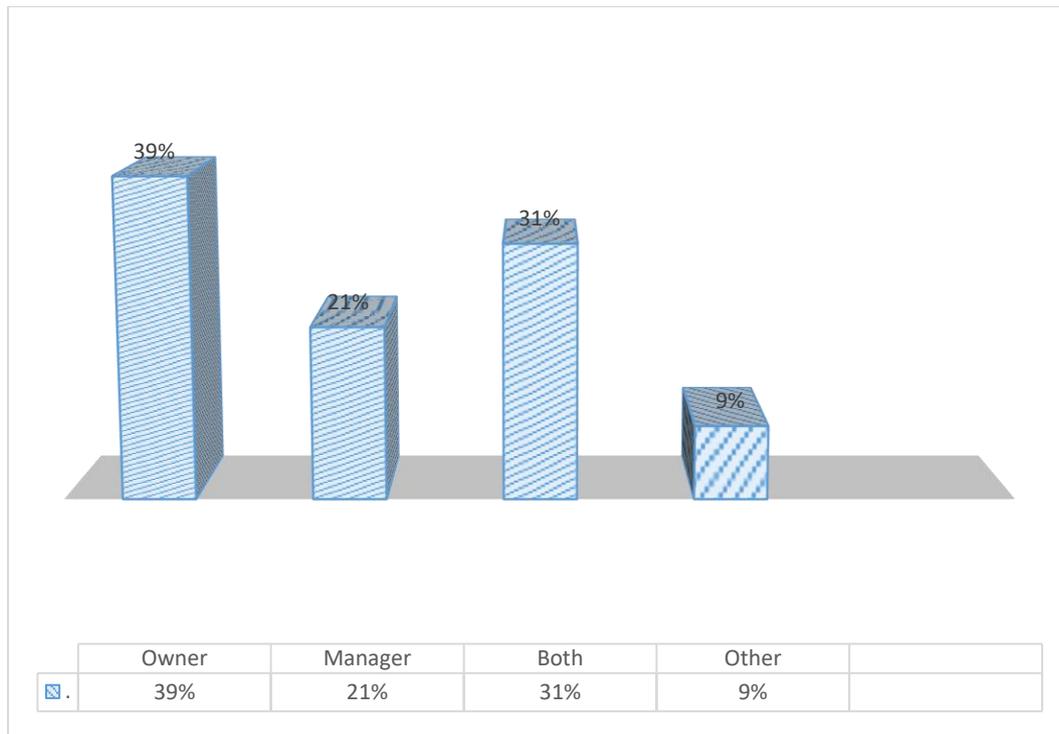
Figure 4.4 Distribution of Role in the Business

Figure 4.4 above represents 39% of respondents being owners, 21% managers, 31% being both owner and manager. The remaining 9% were other than either owner, manager or both owner and manager.

4.2.6: Legal Status Distribution of the business

	Pvt Ltd Company	Close corporation	Partnership	Sole Propriator	Other
▨ .	46%	40%	3%	7%	4%
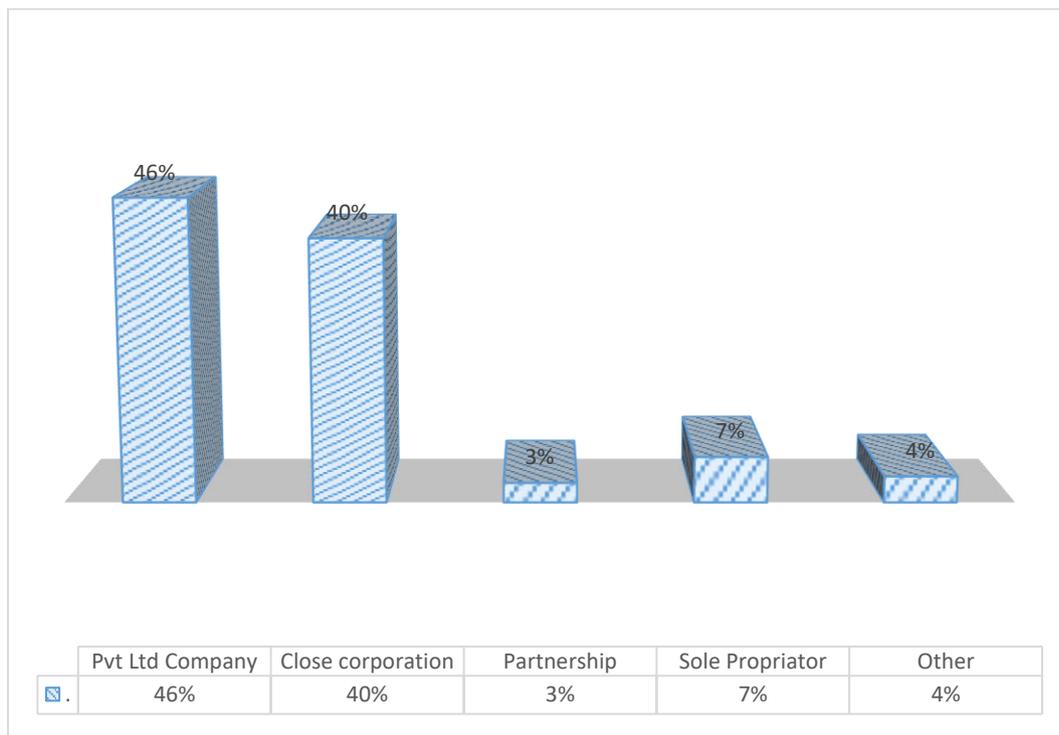
Figure 4.5 Legal Status Distribution of the business

From the legal status of the business provided, Private Limited companies (46%) and Close Corporations (40%) were chosen as the majority legal status, which together make up 86%. Partnership represented the smallest percentage of 3% as sole proprietor and other had 7% and 4% respectively (Figure 4.5).

4.2.7: Sector Distribution of the business

	Retailing	Agriculture	Manufacturing	Mining	Construction	Hospitality	Consultancy
.	22%	18%	13%	12%	15%	10%	10%
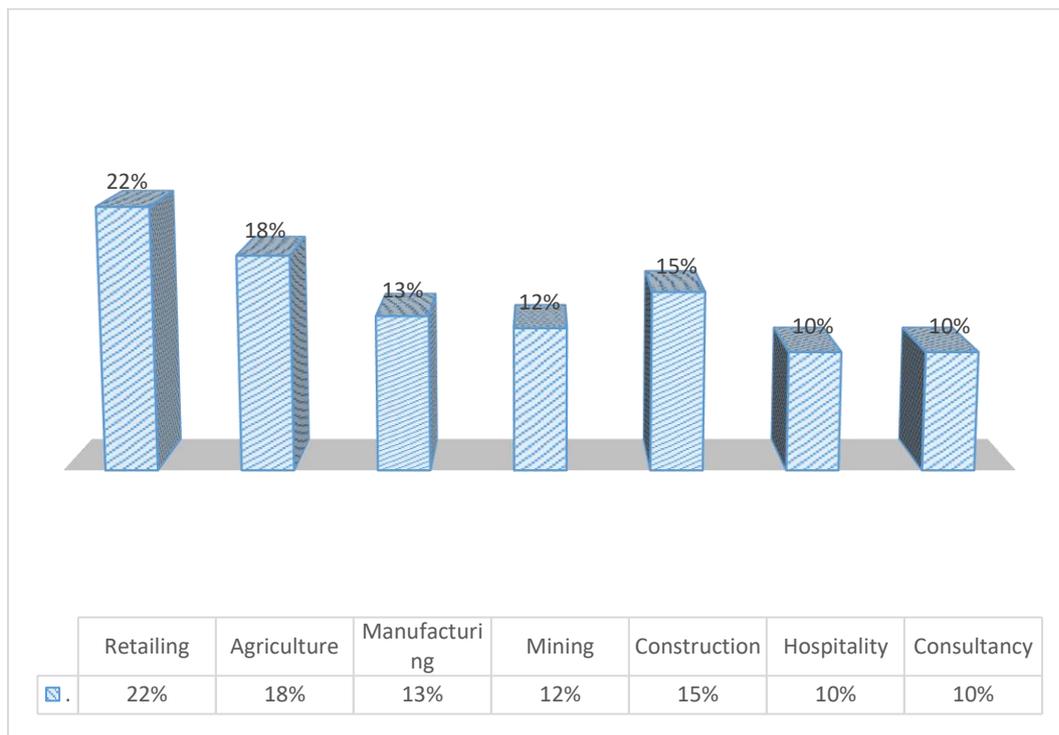
Figure 4.6 Sector Distribution of the business

The top three industry sectors in which the business operates are retailing (22%), ICT (18%), Construction (15%), followed by agriculture (14%). Manufacturing and Hospitality and consultancy had a representation of 13%, 10% and 10% respectively (Figure 4.6).

4.2.8: Distribution of Number of employees

	Less than 5 employees	5 to 20 employees	21 to 50 employees	51 to 100 employees	101 to 200 employees	More than 200 employees
■Series1	22.22%	30.56%	25.00%	11.11%	4.17%	6.94%
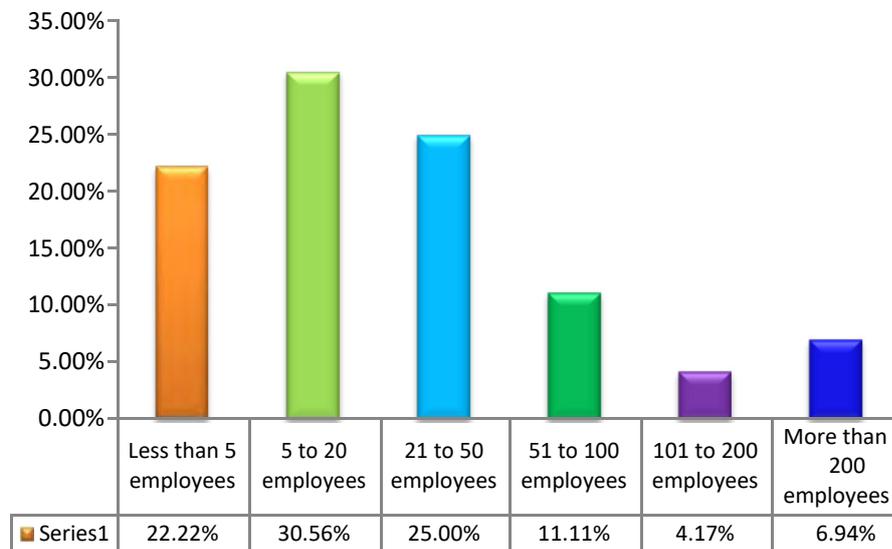
Figure 4.7 Distribution of Number of employees

Figure 4.7 reflects that there is a spread across the numbers of employees employed, with 30.52% being the highest employing between 5 and 20 people, followed by 22.22% for less than five employees, as 25% had 21 to 50 employees. The SMMEs which employed 51 to 100 employees constituted 11.11% as those above 100 but less than 200 constituted 4.17. The remaining 6.94% was for those SMMEs which employees more than 200 employees.

4.3 Results of the Internal Environment Factors

The first objective of the study was to identify which internal environment factors affect the performance of SMMEs in Umzumbe Local Municipality. The factors discussed will be management competency and skills, access to finance and technological capabilities.

4.3.1 Distribution of Management / Owner having experience and training

|	Does management / owner have prior experience in managing this type of business?	Does management / owner have prior experience in small business management?	Does management / owner have formal training in business management?	Does management / owner have formal training in financial management and planning?	Does management / owner have formal training in marketing?	Does management / owner have formal training in bookkeeping and accounting?
■ Yes	68.66%	69.57%	55.88%	54.41%	49.28%	48.48%
■ No	31.34%	30.43%	44.12%	45.59%	50.72%	51.52%

Figure 4.8 Distribution of Management / Owner having experience and training

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 (2012). In their study it was found that managerial competencies positively impact on the performance of SMMEs. Martin and Staines (2018), further pointed out that SMME failures 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 SMME 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 SMME owners/managers. While Hisrich and Drnovsek (2012) stated that start up experience, managerial experience and knowledge of the business positively impact on the performance of SMMEs. The research results found that SMME owners/managers lack prior experience in managing this type of business (31.34%) and lack experience in small business management (30.43%). If SMMEs 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 et al., 2015). With experience, entrepreneurs must be knowledgeable about all functional areas of business for survival and success (Lotz & Marais, 2017).

The performance of SMMEs is positively affected by the high levels of education of the SMME owners, as highly educated are able to attain and develop skills to start up a new business and to sustain the business (Bowen et al., 2019; Leitao and Franco, 2011). Education was found to improve managerial competency (Blumberg, 2018). Almost half of the SMME owners/mangers were found to be without formal training in business management, financial management, marketing and bookeeping and accounting. This finding is consistent with the findings of past research that 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 (Batley, 2017). The lack of entrepreneurial knowledge and business management skills is the reason for business failure.

While the importance of financial management accounting and bookkeeping and marketing is understood, with a large percentage of the SMME owners/managers are without this skill, this could be threatening to the performance and survival of SMMEs in Umzumbe Local Municipality.

With a very basic understanding of finance and accounting (Abdel, 2015), owners/mangers may not be able to differentiate between business capital and profit. This leads to business stagnation and failure (Batley, 2017). 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, 2015). 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 SMMEs tends to fail because lack of planning, knowledge, absence of overall managerial skills, competencies and capabilities (Dyer & Ross, 2018). By relying on outsourcing, SMMEs can obtain the capabilities and competences they require from

external service providers (Gilley, et al., 2014). 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 SMMEs 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 & Susela, 2014).

4.3.2 Technological Advancement to improve performance

|	Lack of Financial Resources	Lack of Awareness	Lack of Skill/Expertise	Other	
.	39%	10%	31%	20%	
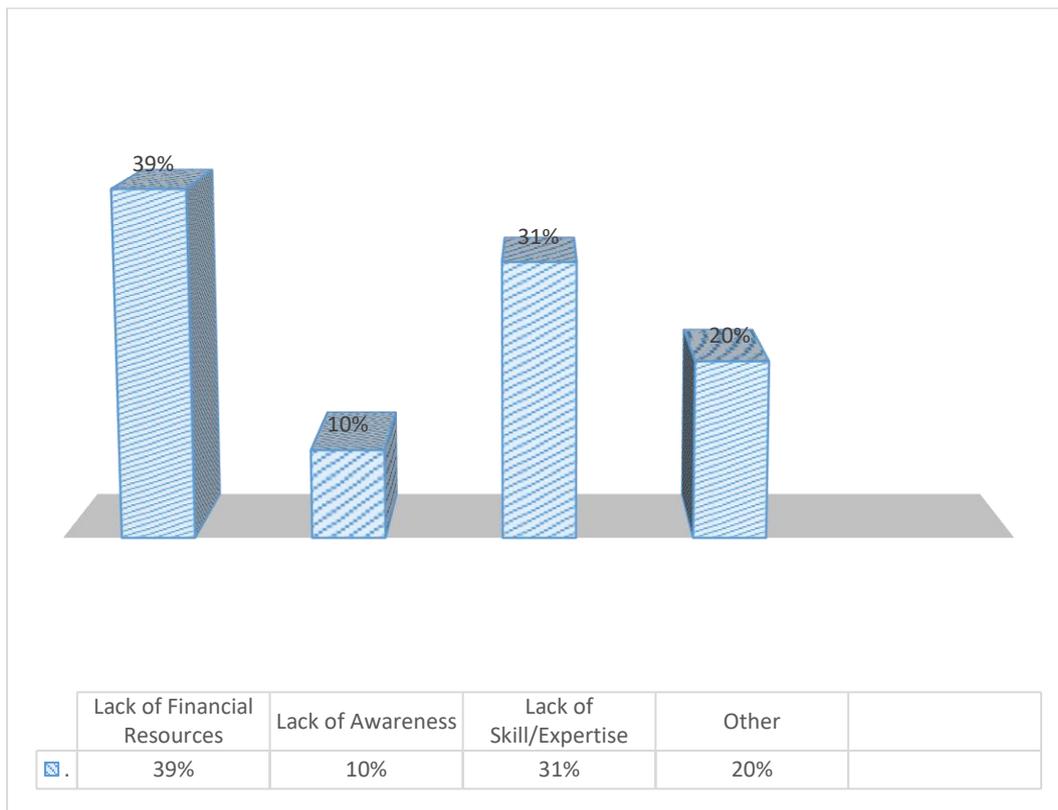
Figure 4.9 Distribution on Factors affecting Technological Advancement

Majority of the SMME 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 SMMEs, leading to a better performance in reducing the operating expenses as a whole. Arinaitwe (2016) stated that 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.

Lack of financial resources appears to be the main reason holding back the SMMEs to advance or improve the technological capabilities, followed by lack of skill or expertise. This finding is consistent with the findings of Romijin (2014), 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 SMMEs in the Umzumbe Local Municipality, 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.

4.3.3 Distribution of how the business is financed

|	Equity	Shrt-term debt	Long-term Debt	Venture Capital	Other
▨ .	34%	32%	7%	9%	18%
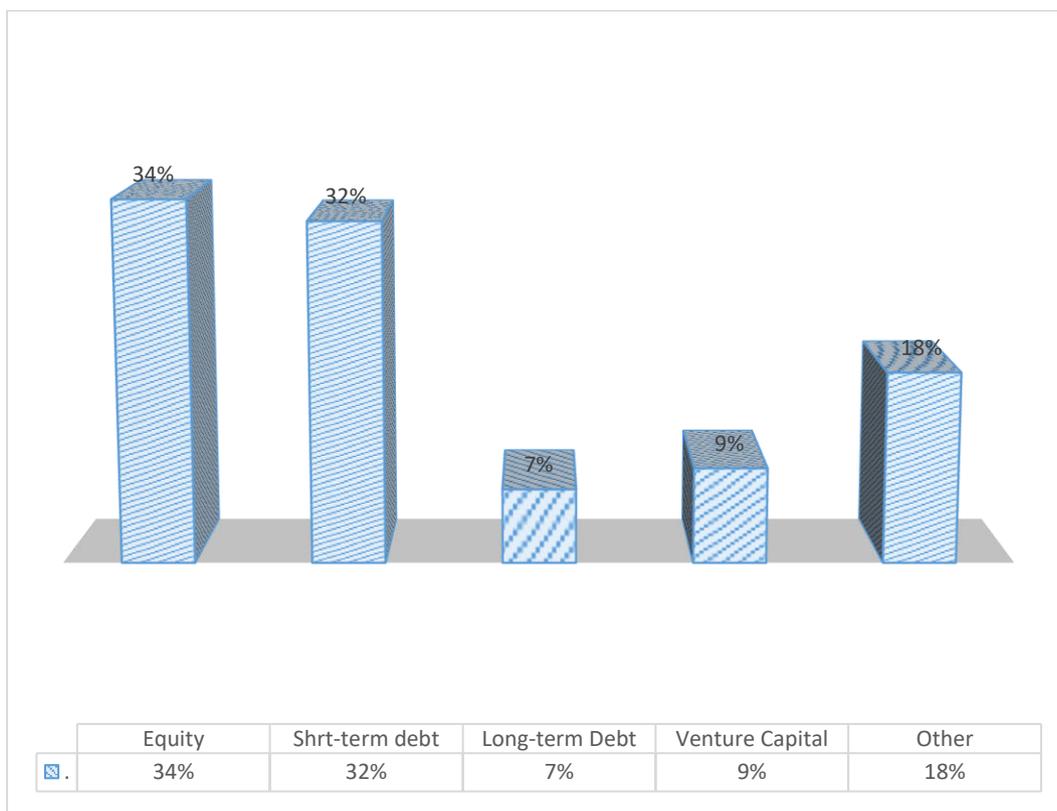
Figure 4.10 Distribution of how the business is financed

According to Beck (2016) business finance falls into two major groupings, namely equity finance and loan finance. With finance cited as a major constraint to SMMEs growth and development, various sources ought to be explored by SMMEs owners/managers to run their business. The survey results show that the main sources of funding are equity (34%) and loan finance, with short term debt (31%) and long-term debt (7%).

4.3.4 Distribution on Difficulties in Accessing External Finance

|	Lack of Information about External Finance	Lack of Collateral Security	Lack of Awareness about Finances	Lack of Quality business Information	Lack of Experienced/Skilled Management	High Interest Rate	Poor Credit Scoring	Length of Business Existance
■ Yes	48%	66%	49%	38%	34%	66%	34%	26%
■ No	52%	44%	51%	62%	66%	34%	66%	74%
■ .								
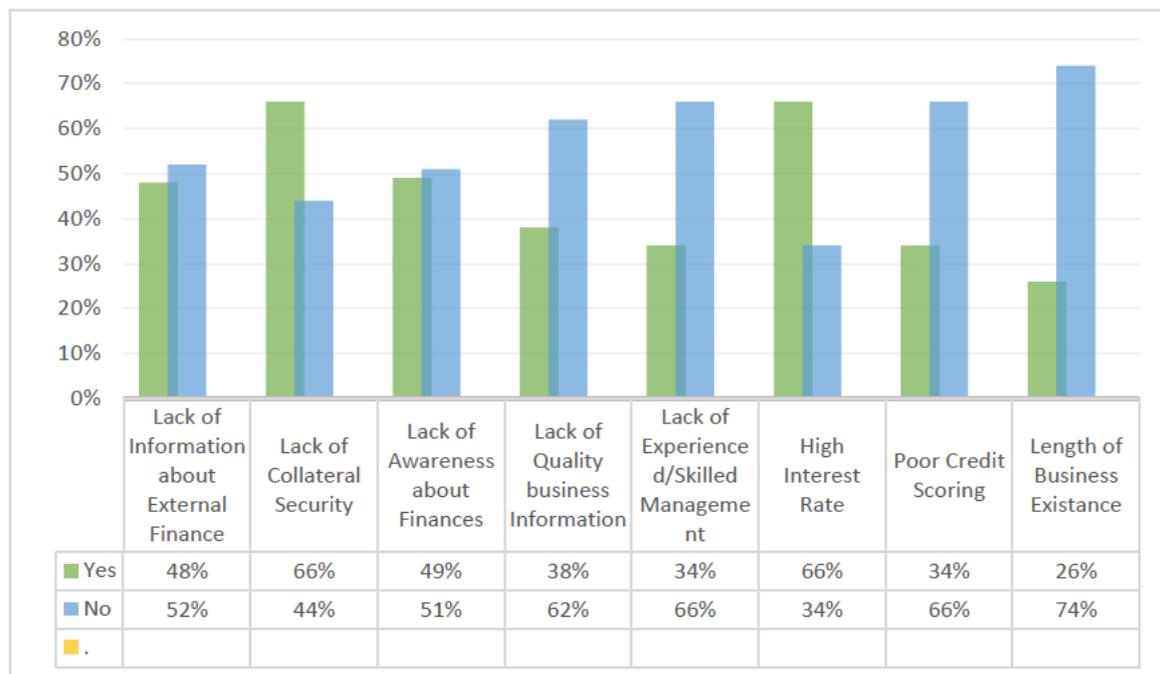
Figure 4.11 Distribution on Difficulties in Accessing External Finance

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 SMMEs in 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 (Bougheas et al., 2015). As Batley (2017) 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. SMMEs in Umzumbe Local Municipality 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, 2017). High interest rate is another reason why access to external finance is

difficult for SMMEs in the Umzumbe Local Municipality. 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, 2012). 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 SMME sector by the banks is due to the high-risk nature of this sector, resulting from the high default rates associated with SMMEs financing.

Many of the SMME 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.

4.3.5 Distribution of Access to Finance as a Major Challenge Affecting the Growth of Business

|	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
.	33%	39%	2%	21%	5%
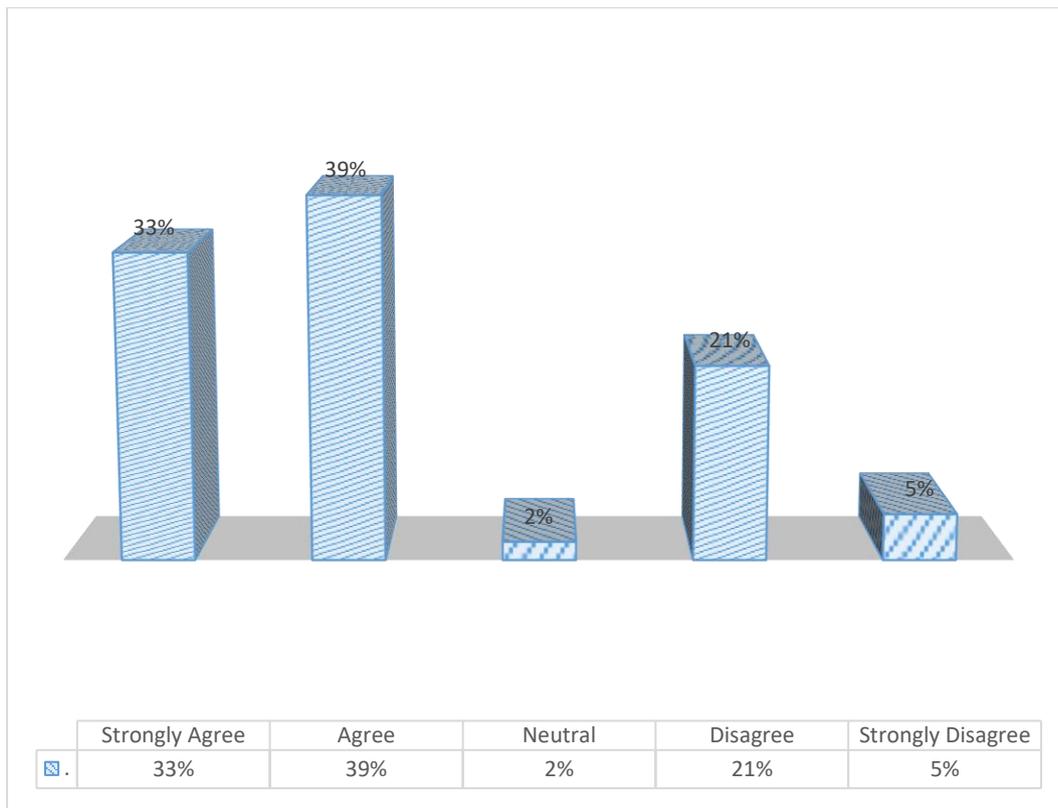
Figure 4.12 Distribution of Access to Finance as a Major Challenge Affecting the Growth of Business

Accessibility to finance is a major factor affecting the growth and success of SMMEs, (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 SMMEs (Dyer & Ross, 2018). Thus, adequate access to financing is critical to enable SMMEs to contribute to the economic development of the nation. Three quarter of the SMME 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 SMMEs in South Africa, particularly salient for firms in emerging economies (Berger & Udell, 2016). However, the results of the study on difficulties in accessing finance shows that more than half the SMME owners/managers (72%) experience difficulties in accessing finance.

4.3.6 Distribution on Globalisation affecting the business

|	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
▨ .	5%	37%	0%	41%	17%
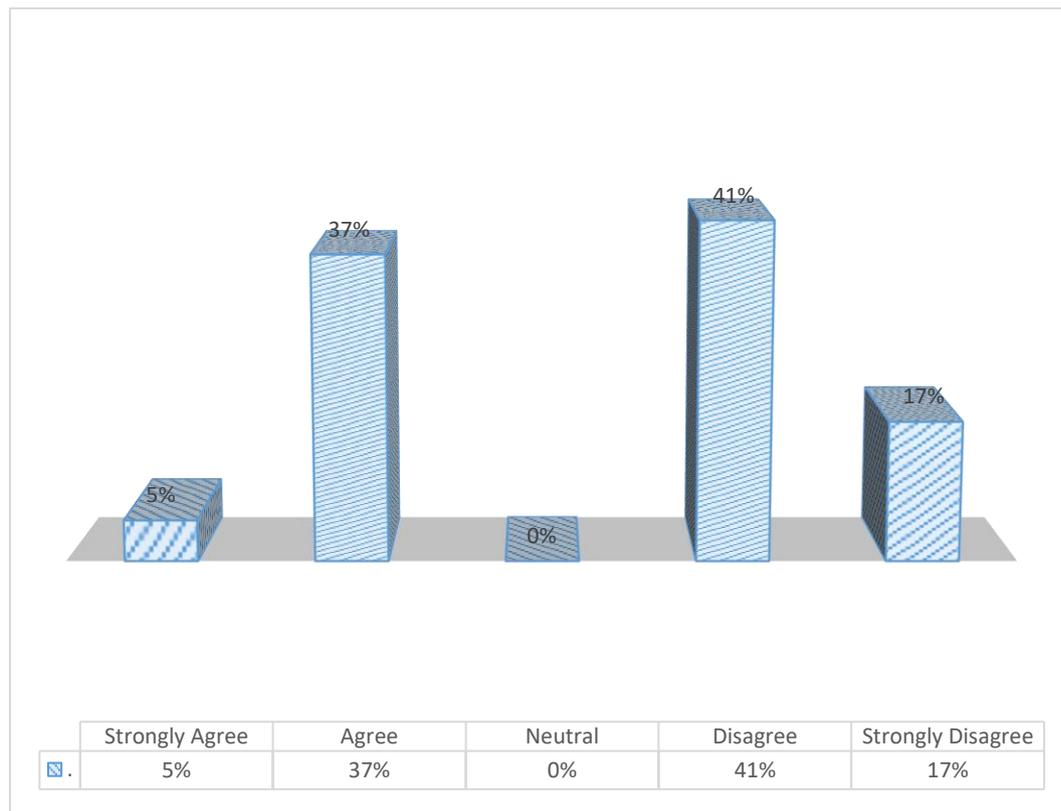
Figure 4.13 Distribution on Globalisation affecting the business

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, 2015). 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 *et al.*, 2012). Globalization and trade liberalization have ushered in new opportunities as well as challenges for SMMEs. Presently, only a small part of the SMME sector is able to identify and exploit these opportunities and deal with the challenges (OECD, 2014). Only about 42% of SMMEs in the Umzumbe Local Municipality are affected by globalisation. This could mean the SMMEs in the Umzumbe Local Municipality may have not as yet identified the opportunities or challenges of globalisation. Presently, only a small part of the SMME sector is able to identify and exploit these opportunities and deal with the challenges.

4.3.7 Distribution on Power Supply affecting the Business Performance

|	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
.	37%	35%	3%	23%	2%
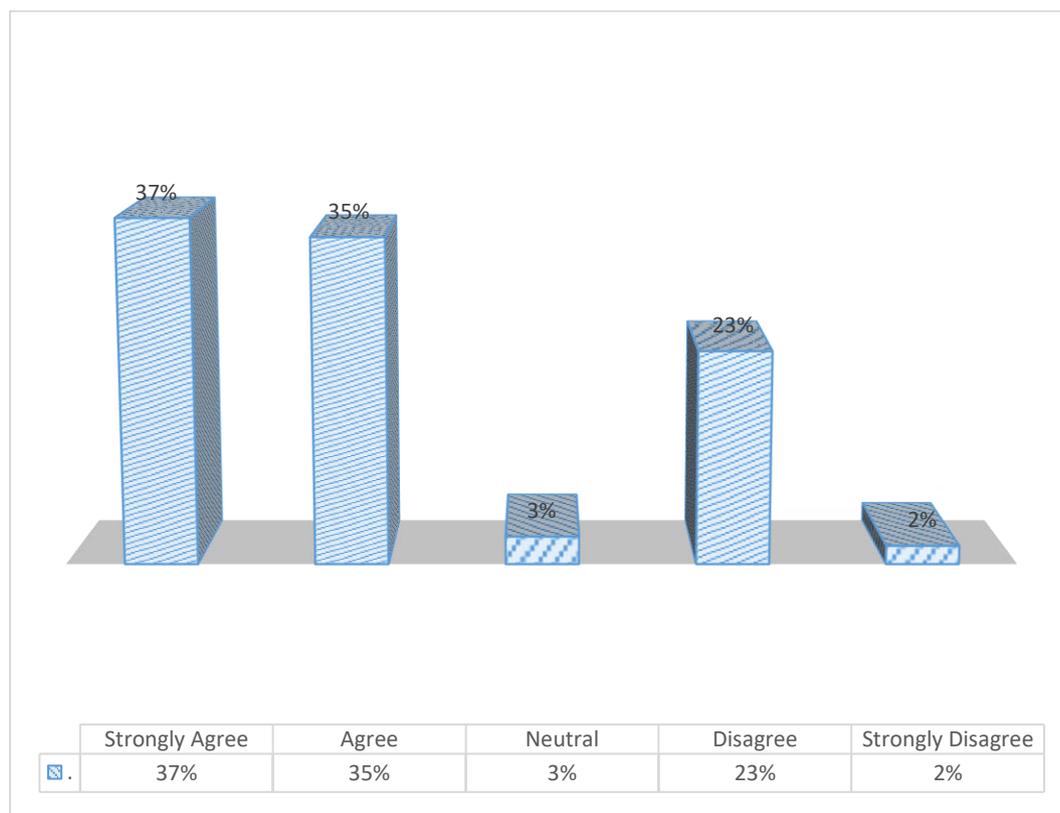
Figure 4.14 Distribution on Power Supply affecting the Business Performance

Figure 4.14 above indicates that 37% strongly agreed, 35% agreed, 3% were neutral, 23%disagreed and 2% strongly disagreed to the fact that distribution on power supply

is affecting the business performance to SMMEs in the Umzumbe Local Municipality. This therefore implies that distribution on power supply is affecting the business performance to SMMEs in the Umzumbe Local Municipality as a total of 72% agreed with the statement.

4.3.8 SA Labour laws affects the growth of my business

|	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
▨ .	32%	38%	0%	25%	5%
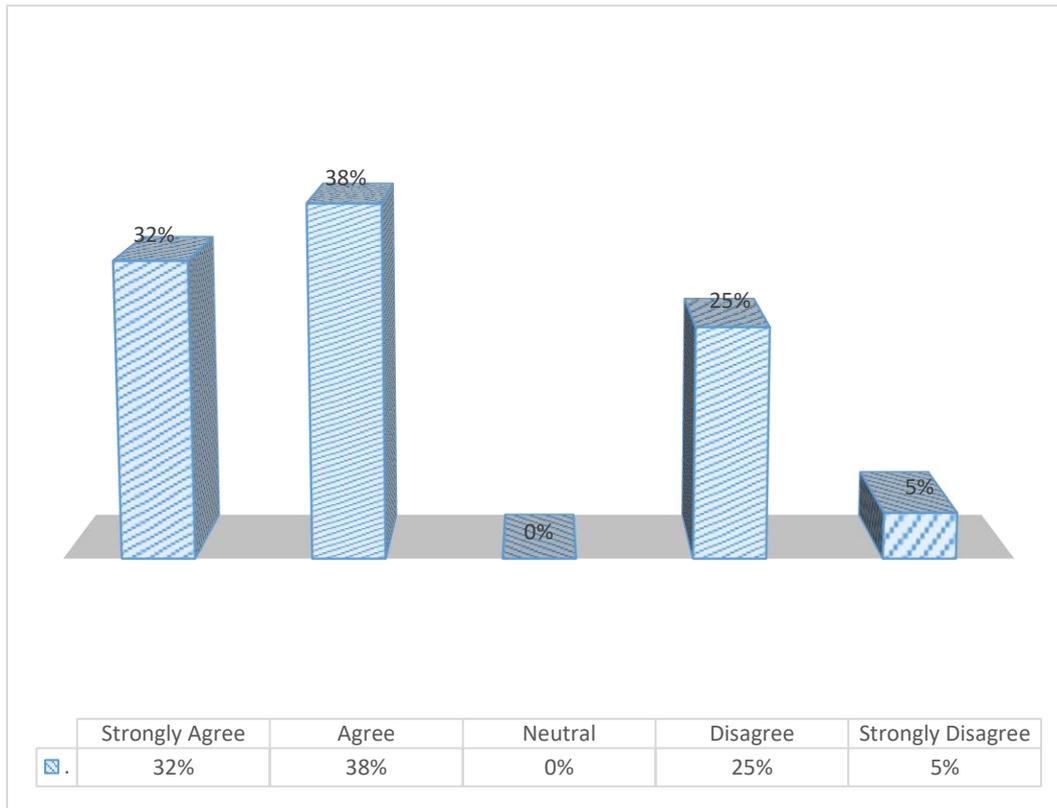
Figure 4.15 SA Labour laws affects the growth of my business

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 factors 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 (Herrington et al., 2015). Labour market regulations play a significant role in the cost structure of SMMEs. Strict labour laws on the hiring and firing decisions of the firm can make it costly for the SMMEs and encourage them to employ workers without proper registration.

4.3.9 Tax laws affects the growth of my business

|	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
⊠.	32%	35%	3%	25%	5%
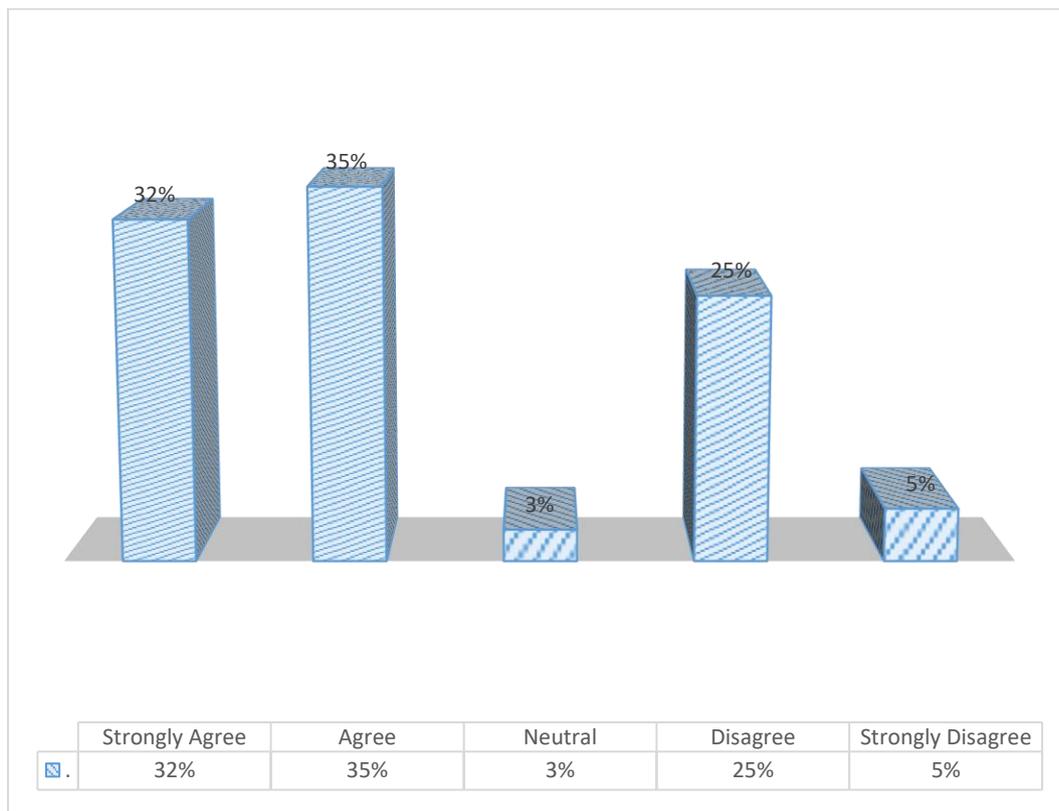
Figure 4.16 Tax laws affects the growth of my business

The survey results reveal that more than half of the SMME 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, 2017). 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, 2016). An impediment for SMMEs in the Umzumbe Local Municipality has been identified as law, affecting the growth of business.

4.3.10 BEE laws affect the growth of my business

|	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
▨.	30%	29%	6%	29%	6%
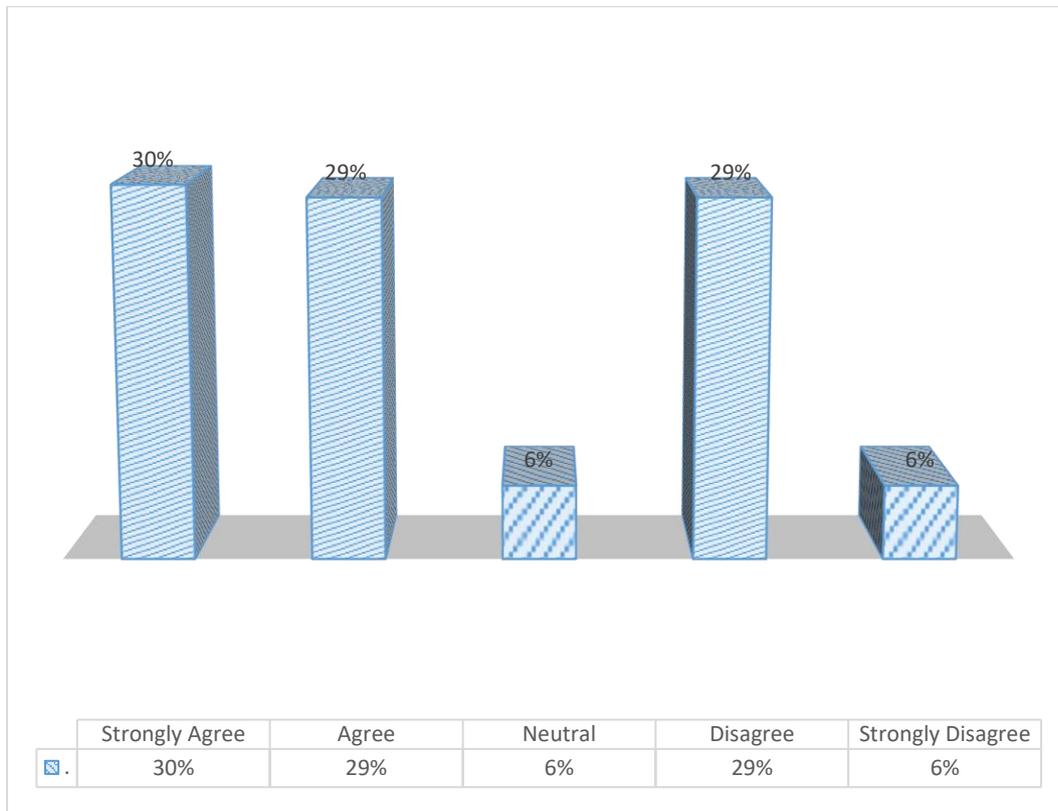
Figure 4.17 BEE laws affect the growth of my business

Literature on the BEE laws state that the biggest challenge became to find a suitable black partner and skilled black managers to fulfil 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, 2016). 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, SMMEs in the Umzumbe Local Municipality maybe experiencing challenges in finding a suitable black partner or skilled black managers to fulfil the management goals.

4.3.11 Government bureaucracy impacts the growth of my business

|	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
.	47%	26%	4%	23%	0%
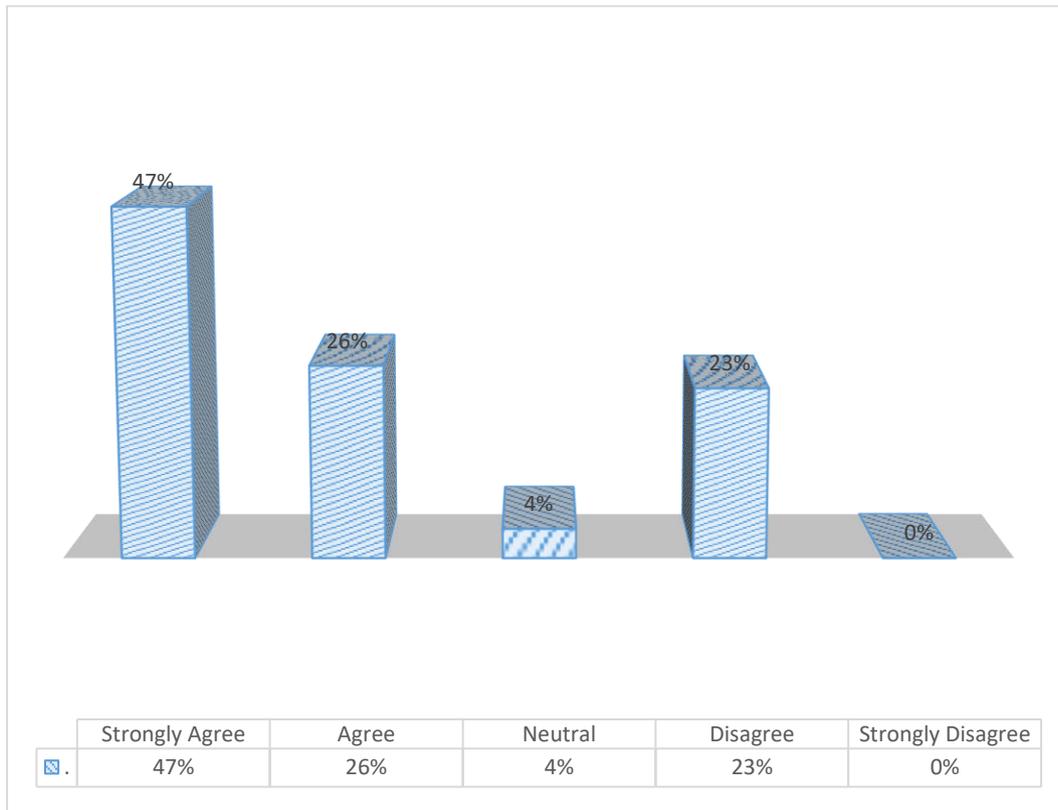
Figure 4.18 Government bureaucracy impacts the growth of my business

Majority of the SMME owners/managers (73%) believe that government bureaucracy has an impact on the growth of the business. This result is supported by studies where it was found that SMMEs 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, 2013). Government bureaucracy is affecting SMMEs in the Umzumbe Local Municipality, creating hindrances in their growth.

4.4 Results of the External Environment Factors

Businesses established in favourable 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.

4.4.1 Competition as major Challenge

Competition is viewed as one of the major challenges affecting the performance of SMMEs by most (81%) of the SMME 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 SMMEs has increased radically (Gunasekaran, Rai and Griffin, 2011), which is the position on the Umzumbe Local Municipality. Literature dealing with SMMEs and competition states that global competition confronts the majority of purely domestic SMMEs, whose products and sales are extremely localized. Local SMMEs find it increasingly difficult to survive or even maintain their current business position in their respective markets (Singh et al., 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 SMME owners / managers (100%) whose business performance worsened in the past year those mentioned that completion is a major challenge. Majority of SMME owners/managers (66.67%) who indicated that SMME performance had improved compared to the previous year also indicated that competition was a major challenge. SMMEs in the Umzumbe Local Municipality are faced with competition which is impacting the performance of the business negatively. SMMEs are finding it difficult to maintain their market share and position, due to the competition from local competitors as well as international competitors. SMMEs in the Umzumbe Local Municipality need to equip themselves and position themselves to deal both domestic and international competition.

4.4.2 Infrastructure affecting the Business Performance

Literature on SMMEs has shown that infrastructure does impact the business. Batley (2017) stated in his study that infrastructure factors such as power supply and access roads were major factors. However, the research results show that the SMME 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 (Batley, 2017). A sufficiently functioning infrastructure in terms of providing services such as power is another factor that contributes to SMME growth. SMMEs cannot be expected to provide basic services privately unlike large enterprises because it would

4.4.3 Crime and corruption affecting the Business Performance

World Bank (2016) 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., 2015). The survey results show that majority of the SMME 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 (Herrington et al., 2015).

SMMEs in the Umzumbe Local Municipality are affected by the crime and corruption in the province. According to Corruption Watch (2013), the chances of SMMEs ability to thrive and grow is limited because corruption uses the SMMEs resources which could be used to grow the business. With crime and corruption affecting 89% of the SMMEs in the Umzumbe Local Municipality, their survival and growth and performance is threatened.

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%		
	Column Total	47	17	64		
	Column Percent	73.44%	26.56%	100%		

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 competitiveness and performance of SMMEs in the Umzumbe Local Municipality. Detailed results of the study were presented, reflecting that many of the factors presented are challenges for SMMEs in the Umzumbe Local Municipality. 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 SMMEs in the Umzumbe Local Municipality. 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: CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

SMMEs 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 SMMEs make a contribution to the economic growth and are of significant importance, SMMEs globally, and in South Africa, continue to struggle and face many challenges. In South Africa, the growth of SMMEs and prevalence of SMMEs is significantly low. Given this state of SMME sector and entrepreneurship in South Africa, it is critical to establish the factors that hinder South Africa's SMME performance. This has stimulated a study into the factors affecting the performance of SMMEs in Umzumbe Local Municipality. 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 SMMEs in Umzumbe Local Municipality 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.

5.2 Conclusions

The aim of the research was to establish the factors and strategies that impact on the competitiveness of SMMEs in the Umzumbe Local Municipality. 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 SMMEs globally and in South Africa. The findings of the research revealed that there was no significant association between the competitiveness of the SMMEs and internal factors. This then translates into the fact that none of the internal factors studied were associated with the competitiveness of the SMMEs in Umzumbe Local Municipality.

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 SMMEs in South Africa, Africa and globally. The findings of the research revealed that there was a significant association between the

performance of SMMEs in comparison to the previous year and competition. The external environmental factor competition can be viewed as a major challenge affecting the performance of SMMEs in Umzumbe Local Municipality.

Even though SMMEs make a contribution to the economic growth and are of significant importance, SMMEs globally and South Africa and in particular, are still faced with many obstacles. In South Africa, the growth of SMMEs and prevalence of SMMEs is significantly low. Given this state of SMME sector and entrepreneurship in South Africa, it is necessary to establish and understand the factors that hinder South Africa's SMME performance. The aim in this study related to analysis of the factors and strategies that impact on the competitiveness of SMMEs in the Umzumbe Local Municipality. The study consisted of a survey which would elicit responses to determine which internal or external factors affected the performance and competitiveness of SMMEs in Umzumbe Local Municipality.

The descriptive analysis revealed that many of the factors were found to be affecting SMMEs in Umzumbe Local Municipality. This study was mainly aimed at establishing the internal and external environmental factors hindering the growth of SMMEs in Umzumbe Municipality. The findings of the study showed that there was a positive relationship between management skills, entrepreneurial characteristics, good cash management records, market share and business growth. There was no significant relationship between the growth of SMMEs and the internal factors. The study also examined different factors within the external environment that can influence business growth and competitiveness. The factors that tested positive when correlated with business growth are taxes, technology and financial access.

The findings of the current study show that some respondents' businesses are failing to grow due to business competition. When a sector is over-saturated, businesses who sell similar products are affected within that sector, hence profit margins decrease. Business competition involves SMMEs being exposed to or having to rival larger companies and sometimes even government owned companies. This calls for action to be taken to level the playing field and favours the SMME sector to compete. One of the challenges that the study raised as limiting business growth, is access to finance. The literature reviewed also highlighted finance as one of the challenges of business

growth. This adversely affects the SMME sector. The findings of this study are indeed concerning and have significant implications for SMMEs in Umzumbe Local Municipality.

SMMEs in the Umzumbe Local Municipality are faced with competition which is impacting the performance of the business negatively. SMMEs 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. SMMEs need to recognize that they must prepare for both domestic and international competition. Therefore, to compete and to remain relevant in the challenging and emerging economies, SMMEs need to transform, adopt and adapt.

5.3 Implications of this Research

The findings of this study are indeed concerning and have significant implications for SMMEs in Umzumbe Local Municipality, impacting their performance. None of the internal factors studied were found to have an association with the performance of the SMME. Of all the external environmental factors that were studied, competition was found to have a significant association with the performance of the SMME. 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 SMMEs owners/managers (100%) where business performance worsened in the past year, compared to the previous year.

Another factor revealed by the study is that SMMEs face the challenge of market access for goods and services. SMMEs in Umzumbe Local Municipality should explore other markets to grow their businesses. Despite the challenges that the respondents have raised, the majority of SMMEs who formed part of this study mentioned that their businesses are growing. This study found that the government provides financial support, hence owner-managers who applied for financial support, were granted. The study also shows that respondents are aware of government support but have not always made use of it. This raises a need for the government to run more outreach programmes, so that the intended users of the programmes are aware of their programmes and can make use of them. The findings of this study are not much different from those of other places outside of the Umzumbe Local Municipality. This

is because the findings of this study support most of the findings from studies conducted beyond the Umzumbe Local Municipality.

The competitors that SMMEs in Umzumbe Local Municipality are faced with are local competitors and foreign competitors. Strong competition is one of the challenges affecting SMMEs globally, with Umzumbe Local Municipality being no different. SMME products are being challenged by the imported products which have flooded the market. The nature of competitive standards changes continuously due to globalization of markets, and drive businesses to compete along different dimensions. The implication of this finding is that competition, an external factor affects the performance of SMMEs in Umzumbe Local Municipality. SMMEs therefore have to empower themselves to deal with the factors that impact their performance and ultimately their survival.

5.4 Limitations of the Study

There are several limitations to the present analysis. The main constraint identified in this study was the poor response rate of the SMMEs selected as the sample. Not all 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 Umzumbe Local Municipality. 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 the Umzumbe Local Municipality, 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 the sample frame of all SMMEs in the Umzumbe Local Municipality, but only a sample of SMMEs registered. As such a database for all SMMEs in the Umzumbe Local Municipality does not exist. This could

be considered as a further limitation. Therefore, the study findings should be interpreted accordingly.

5.5 Recommendations to Solve the Research Problem

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

- To be able to confront competition, collaboration between SMMEs 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 SMMEs are faced, it could be seen as a dynamic tactic that helps to deal with competition and enhance business performance.

- SMMEs need to continuously evaluate the environment that they operate in, understanding their competitors and their offerings/service. SMME competitiveness depends largely on the speed with which new products can be brought to the marketplace.

- New SMMEs should develop a competitive advantage after assessing the dynamics of competition in the industry they wish to enter.

- SMMEs in Umzumbe Local Municipality 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.

5.6 Recommendations for Future Studies

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

- While this study identified various factors affecting the performance of SMMEs in Umzumbe Local Municipality, the list of factors is 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 SMMEs.

- Future studies could be extended to focus specifically on external factors as a challenge to SMMEs.

5.7 Summary

This chapter mainly presented findings and recommendations based on the gaps between theory (Chapter 2) and practice (Chapter 4). The problem in this study related to identifying which internal environment factors and external environment factors that affect the performance of SMMEs in Umzumbe Local Municipality. 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 SMMEs in Umzumbe Local Municipality.

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Appendix A: Letter to the Participants

Date:

Greetings:

My name is Mahlatse Prince Phosa (student number 218081210) from University of Kwa-Zulu Natal, Graduate School of Business Science, e-mail address: 218081210@stu.ukzn.ac.za.

You are being invited to consider participating in a study that involves research on the "Sailing from Red Oceans to Blue Oceans: Competitive Advantage Strategies for SMMEs in South Africa". The aim of this study was to analyse the factors and strategies that impact on the competitiveness of SMMEs in the Umzumbe Local Municipality. This study aimed to determine the extent to which SMMEs depend on assistance from financial institutions, with regard to the extent to which the government of South Africa's intervention supports or hampers SMMEs' endeavours to obtain financial assistance.

This study has been ethically reviewed and approved by the UKZN Humanities and Social Sciences Research Ethics Committee.

In the event of any problems or concerns/questions you may contact the researcher at 218081210@stu.ukzn.ac.za or the UKZN Humanities and Social Sciences Research Ethics Committee, contact details as follows:

HUMANITIES & SOCIAL SCIENCES RESEARCH ETHICS ADMINISTRATION
Research Office, Westville Campus
Govan Mbeki Building
Private Bag X 54001
Durban
4000
KwaZulu-Natal, SOUTH AFRICA
Tel: 27 31 2604557 - Fax: 27 31 2604609
Email: HSSREC@ukzn.ac.za

Appendix B: Consent Letter

I _____(OPTIONAL) have been informed about the study entitled "Sailing from Red Oceans to Blue Oceans: Competitive Advantage Strategies for SMMEs in South Africa".

I understand the purpose and procedures of the study.

I have been given an opportunity to answer questions about the study and have had answers to my satisfaction.

I declare that my participation in this study is entirely voluntary and that I may withdraw at any time without affecting any of the benefits that I usually am entitled to.

I have been informed about any available compensation or medical treatment if injury occurs to me as a result of study-related procedures.

If I have any further questions/concerns or queries related to the study I understand that I may contact the researcher at 218081210@stu.ukzn.ac.za or phone on 083 379 2959.

If I have any questions or concerns about my rights as a study participant, or if I am concerned about an aspect of the study or the researchers then I may contact:

HUMANITIES & SOCIAL SCIENCES RESEARCH ETHICS ADMINISTRATION
Research Office, Westville Campus
Govan Mbeki Building
Private Bag X 54001
Durban
4000
KwaZulu-Natal, SOUTH AFRICA
Tel: 27 31 2604557 - Fax: 27 31 2604609
Email: HSSREC@ukzn.ac.za

I hereby provide consent to:

Audio-record my interview / focus group discussion   YES / NO

_____   _____
Signature of Participant   **Date**

_____   _____
Signature of Witness   **Date**
(Where applicable)

_____   _____
Signature of Translator   **Date**
(Where applicable)

Appendix C: Questionnaire

Put an 'X' on the most appropriate answer

Section A: Demographic data	
1. Age	
18-30	
31-40	
41-50	
51-60	
61-70	
2. What is your race?	
African	
Coloured	
Asian	
White	
Other	
3. How long you been operating	
1-5 years	
6-10 years	
11-20 years	
20+ years	
4. Indicate your highest level of education	
Below Matric	
Matric	
Certificate	
Diploma	

Post graduate Diploma					
Degree qualification					
Above degree qualification					
5. Gender					
Male					
Female					

Section B: To ascertain the extent to which SMMEs are dependent on assistance from institutions.
Please indicate the extent to which you agree with the following statements

	Strongly Agree (5)	Agree (4)	Neutral (3)	Disagree (2)	Strongly Disagree (1)
5. Lack of information about external finance contributes to difficulties with access to finance					
6. Lack of collateral contributes to difficulties with access to finance					
7. Lack of awareness about financing contributes to difficulties with access to finance					
8. Lack or poor-quality business information contributes to difficulties with access to finance					

	Strongly Agree (5)	Agree (4)	Neutral (3)	Disagree (2)	Strongly Disagree (1)
9. Lack of experienced/ skilled management contributes to difficulties with access to finance					
Age of the business contributes to difficulties with access to finance					
High interest rate contributes to difficulties with access to finance					
Poor credit scoring contributes to difficulties with access to finance					

Section C: To establish if all SMMEs have adequate training and development.

Please indicate the extent to which you agree with the following statements

	Strongly Agree (5)	Agree (4)	Neutral (3)	Disagree (2)	Strongly Disagree (1)
10. Globalisation affects the growth of my business					
11. SA Labour laws affects the growth of my business					
12. Tax laws affects the growth of my business					
13. BEE laws affects the growth of my business					
14. Government bureaucracy impacts the growth of my business					

15. Distribution on Power Supply affecting the Business Performance	

Section D: To determine the extent to which SMMEs develop and practice strategic plans. Please indicate the extent to which you agree with the following statements					
	Strongly Agree (5)	Agree (4)	Neutral (3)	Disagree (2)	Strongly Disagree (1)
16.Management/owner have prior experience in managing this type of business					
17.Management/owner have prior experience in small business management					
18.Management/owner have formal training in business management?					
19.Management/owner have formal training in financial management and planning					
20.Management/owner have formal training in marketing					
21.Management/owner have formal training in bookkeeping and accounting					

UNIVERSITY OF
KWAZULU-NATAL

RYYUVESI
YAKWAZULU-NATALI

07 October 2019

Mr Mahlatse Prince Phosa (218081210)
Grad School Of Bus &Leadership
Westville Campus

Dear Mr Phosa,

Protocol reference number: HSSREC/00000482/2019
Project title: Sailing from Red Oceans to Blue Oceans: Competitive Advantage Strategies for SMMEs in South Africa.

Full Approval – Expedited Application

This letter serves to notify you that your application received on 11 September 2019 in connection with the above, was reviewed by the Humanities and Social Sciences Research Ethics Committee (HSSREC) and the protocol has been granted **FULL APPROVAL**

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

This approval is valid for one year from 07 October 2019.
To ensure uninterrupted approval of this study beyond the approval expiry date, a progress report must be submitted to the Research Office on the appropriate form 2 - 3 months before the expiry date. A close-out report to be s███████████hen study is finished.

Yours sincerel█

Dr Rosemary Sibanda (Chair)

/dd

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

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