

UNIVERSITY OF KWAZULU-NATAL

**FACTORS LIMITING THE SUCCESS, GROWTH AND SUSTAINABILITY OF
SMMES IN LADYSMITH**

By

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DECLARATION

I Yaseer Haroon Tar Ally declare that:

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ABSTRACT

Small and medium enterprises (SMEs) play a critical role in developing the economy by creating employment and propelling growth. Their contribution is however stifled due to extremely low levels of entrepreneurial activity despite multiple government support initiatives for SMEs. Within their initial two years of operation 63% of businesses fail and above 70% of businesses fail within five years of inception. Consequently, this exploratory study endeavours to gain an elaborate understanding of the challenges that SMEs in Ladysmith experience, as well as the factors that limit their growth and promote the competitiveness and sustainability of SMEs based in Ladysmith. The conceptual framework for the study developed by performing an extensive synthesis of the literature pertaining to the challenges, growth limiting factors and critical success factors (CSFs). The interpretivist paradigm was chosen to comprehensively understand this phenomenon, which was based upon the perspective of SME managers or owners, as the literature was well developed. Data collection occurred via the means of semi-structured face-to-face interviews of eleven SME managers/owners based in Ladysmith. These participants were chosen using the maximum variation subset purposive sampling. The validity of the study was bettered by the use of data investigation triangulation and data triangulation. The most prominent challenge experienced by SMEs in Ladysmith are government regulation, access to finance, crime and corruption, infrastructure and access to markets. The most persistent growth bottlenecks to SMEs in Ladysmith are access to markets, access to finance and government regulation. The preponderant CSFs are entrepreneurial characteristics followed by managerial competency and SME characteristics (as passion, motivation, willingness to learn, risk-appetite and prior experience). It was recommended that SME managers/owners; engage in entrepreneurship or business-related studies as well as improving their leadership and interpersonal skills, engage in more business networking and jointly employ security to combat crime and dilute crime-related expenses, in order to enhance their competitiveness and sustainability. It was also recommended that government; develop entrepreneurs' skills/knowledge via mentorship programmes, facilitate access to finance for SMEs using incentives and simplify regulatory compliance to reduce the administrative cost burden on SMEs by moving regulatory processes online. The Alfred Duma Local Municipality was recommended to create an environment to spur growth and create employment via incentives to attract businesses to Ladysmith. The municipality should also prioritize unemployment by creating a database of suitably skilled jobseekers and refer them to SMEs that require these skills.

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CHAPTER 1: OVERVIEW OF THE STUDY

1.1 Introduction

The Small and Medium Enterprise (SME) sector significantly contributes to the local economy by reducing unemployment and stimulating growth. The importance of the SME sector is vastly recognised; hence government has allocated a portion of the national budget to implement a variety of support systems to assist SMEs. Despite government intervention the SME sector continues to perform dismally. This study aims to gain an elaborate understanding of the challenges that SMEs in Ladysmith experience, as well as the factors that limit their growth and promote the competitiveness and sustainability of SMEs based in Ladysmith. This chapter presents an overview of the study by providing context to the study via the problem statement. The core focus areas of this research, such as the research objectives, research questions, study motivation and research methodology, are presented to expound the on the intent of the research.

1.2 Problem statement

Small, Medium and Micro Enterprises (SMMEs) play a critical role in the South African economy as they are key drivers of job creation, innovation and economic growth (The Banking Association South Africa, 2018). SMME's are also critical in the stabilisation of the economy, increasing the competitiveness of local industries in the global marketplace, promoting innovation, market discipline and competitiveness. It has been estimated that SMME's in South Africa; employ approximately 60% of the labour force, form 91% of formal businesses and contribute approximately 52% to the domestic GDP (SME South Africa, 2017; The Banking Association South Africa, 2018). The Finscope (2006) survey shows that 90% of job creation between 1998 and 2005 were due to SMME's. The National Development Plan (NDP) expects by 2030 that SMME's will provide 90% of new jobs (Evan Jones, 2016).

Currently, South Africa suffers from slow economic growth and a persistently high unemployment rate of 26.7% with a youth unemployment exceeding 60% (Herrington and Kew, 2017). Government acknowledges the potential impact that SMME's have on the economy and have thus shown support to this sector by providing support through various initiatives, most notably the unveiling of the department of Small Business Development (in

2014) and the recent launch of a R2.1 billion fund for start-ups (National Youth Development Agency, 2018; SME South Africa, 2017). Despite government efforts new and existing SMME's continue to fail. The failure rate of new SMME's in South Africa is one of the highest with 70-80% of new businesses failing within their first year of operation (Friedrich, 2017). Nemaenzhe (2010) states that high failure rates of SMEs in SA result in vast amounts of money being lost to the economy, due to mistakes that could be avoided. The fundamental reasons of these alarming failure rates are unclear in the academic dominion, and a detailed analysis of such failures is necessary (Cardon et al., 2011). Nemaenzhe (2010) states that the implementation of policies will be uneconomical without a sufficient understanding of the factors limiting the success of SMME's. The GEM South Africa report reveals that almost half of South Africa's formal SMME's operate in Gauteng and that SMME's in different regions experience different challenges. This implies that these factors vary spatially (Herrington et al., 2016).

Considering the alarming failure rate of South African SMME's despite government intervention and due to a lack of information regarding the failure of SMME's in Ladysmith, a need exists to determine the factors limiting the success, growth and sustainability of these SMME's in Ladysmith.

1.3 Study objectives

- 1) To identify the challenges that cause SMME's to fail in Ladysmith
- 2) To determine the factors that limit the growth of SMME's in Ladysmith
- 3) To examine the critical success factors of SMME's in Ladysmith
- 4) To provide recommendations that promote the success, growth and sustainability of SMME's in Ladysmith

1.4 Research Questions

- 1) What are the challenges that cause SMME's to fail in Ladysmith?
- 2) What are the factors that limit the growth of SMME's in Ladysmith?
- 3) What are the critical success factors of SMME's in Ladysmith?
- 4) What actions can be implemented by SMME's in Ladysmith to improve their success, growth and sustainability?

1.5 Motivation for the study

With South Africa being part of the developing countries, having slow economic growth and a persistently high unemployment rate SMME's are essential to improving the state of the economy. Local SMME's have the potential to create employment, increase entrepreneurial activities and create higher production volumes. However due to the high failure rate of South African SMME's, their contribution to the economy is less significant.

The results of this study will be of assistance to the government institutions, such as; the Department of Trade and Industry (DTI) which bears the responsibility of implementation of policy that concerns SMME's, the Alfred Duma Municipality which oversees the Ladysmith region and Trade and Industry Kwa Zulu-Natal (TIKZN) which is a trade and investment promotion agency that assists local companies in accessing international markets. Similarly, policy makers can use these results to redesign policy and its implementation to improve the effectiveness of government efforts in supporting SMME's. Academic institutions and organizations that offer corporate training to entrepreneurs will also benefit by using this study to develop coursework that ensures the sustainability of businesses by highlighting common causes of business failure. Business managers and owners can attain benefit from this study by understanding; the common factors that limit the growth and sustainability of business and by pre-emptively addressing them to ensure success, the forms of government support that exist for SMME's. The research would also benefit financial institutions, investors and venture capitalists which could use the study as a measure of prospective SMME investments.

Due to the underperforming SMME sector and its high failure rates despite government interventions a study into the factors limiting the success, growth and sustainability of SMMEs in Ladysmith is critical in creating a conducive environment for SMME success.

1.6 Focus of the study

The focus of this study is to clearly identify the factors that limit the success, growth and sustainability of SME's in Ladysmith. These factors include; external factors that include government regulation, poor infrastructure, crime, onerous labour, corruption, competition, globalisation and other macro-economic factors and internal environmental factors that include management skills and competency and access to finance and credit. After these factors have been identified the research will yield a set of principles in the form of recommendations that can be applied to avoid/reduce the failure of SME's.

1.7 Study Methodology

The interpretivist paradigm was chosen to comprehensively understand the phenomenon as the literature was well developed. This study utilised a qualitative research design. Qualitative research was selected as it allows for the researcher to obtain the lived-experiences of SME owners and managers. Data collection occurred via the means of semi-structured face-to-face interviews of eleven SME managers/owners based in Ladysmith. These participants were chosen using the maximum variation subset purposive sampling. The validity of the study was bettered data investigation triangulation and data triangulation.

1.8 Chapter Summary

The contribution of the SME sector is essential in achieving macro-economic objectives. Regardless of the various forms of government support systems for SMEs, the SME sector is still plagued with inferior performance. It was therefore necessary to obtain a detailed understanding of the challenges that SMEs in Ladysmith experience, as well as the factors that limit their growth and promote their competitiveness and sustainability.

This chapter presented the study objectives, research objectives and a motivation for the study. Chapter two provides a thorough synthesis of the relevant topics that relate to the research objectives.

CHAPTER 2: LITERATURE REVIEW

2.1 Introduction

The purpose of this chapter is to place this study in the context of the current research and theory, by thoroughly synthesising the literature that is pertinent to this study. This chapter primarily focusses on defining SMEs in both the local and international context as well as exploring and identifying uniformities between the following subject matter; the challenges that SMEs experience, the factors that limit their growth and their CSFs. The resultant of this literature synthesis, where certain concepts and areas that are likely to arise in the findings were identified, is a basis for the selection of the research methodology (Chapter 3).

2.2 Definition of SMMEs

Despite the critical contribution of SMME's in the economies of developing and developed countries, there is an absence of a universally accepted definition (Abor and Quartey, 2010; Dlova, 2017a). Various countries use different terminology to address the enterprises that do not fall under the large enterprises category. Some countries categorise them as "small businesses" while organisations such as the World Bank, United Nations (UN), European Union (EU) and World Trade Organisations (WTO) categorise them as 'small and medium enterprises' (SMEs). Other countries including South Africa call them Small Micro and Medium Enterprises (SMMEs).

The EU defines SMEs as enterprises that have an annual turnover that does not exceed 50 million Euros and not more than 250 employees. The EU distinguishes between small enterprises, which have less than 50 employees and an annual turnover below 10 million Euros, and micro enterprises, which have less than 10 employees and an annual turnover below 2 million Euros (Mulhern, 1995; Lukács, 2005). The World Bank defines SMEs as enterprises that have an annual turnover that does not exceed 15 million US dollars and not more than 300 employees. The World Bank distinguishes between small enterprises, which have less than 50 employees and an annual turnover below 3 million US Dollars, and micro enterprises, which have less than 10 employees and an annual turnover below 100 thousand US dollars (Mulhern, 1995; Lukács, 2005).

The UK Companies Act (2006) categorises SMEs into “small companies” and “medium-sized companies”. Small companies are described as those that have an annual turnover that does not exceed 5.6 million sterling, a balance sheet total of not more than 2.8 million sterling and less than 50 employees. Medium-sized companies are defined as those that have an annual turnover that does not exceed 22.8 million sterling, a balance sheet total of not more than 11.4 million sterling and less than 250 employees (Ahmed and Chowdhury, 2009; Lukács, 2005; Berisha and Shiroka Pula, 2015).

The Small Business Administration unit within the US government defines small businesses. These small businesses must not dominate the industry and should be independently operated and owned. The US sets size standards for each industry instead of a simplistic definition (as set by The UK and EU) that can be applied to all industries (Ahmed and Chowdhury, 2009; Olusegun, 2012).

Industry Canada defines small businesses as those that have less than 50 employees (for service-based businesses) and less than 100 employees (for goods producing-business). Medium sized businesses are those that employee less than 500 employees (Ahmed and Chowdhury, 2009; Olusegun, 2012; Berisha and Shiroka Pula, 2015).

2.2.1 SMEs In South Africa

South Africa has a standard definition for an SMME formulated by government and set out by the National Small Business Act (NSB) 102 of 1996. This definition considers 2 aspects; the turnover of the enterprise excluding its fixed assets and the number of employees. Both these factors are industry-sector specific. By defining SMMEs using size only is insufficient when trying to understand dynamic industry sectors that are not composite. The NSB Act of 1996 defines a small business as “... *a separate and distinct business entity, including co-operative enterprises and nongovernmental organisations, managed by one owner or more which, including its branches or subsidiaries, if any, is predominantly carried on in any sector or sub sector of the economy mentioned in Column I of the Schedule 14...*” (South Africa, 1996, p 2).

These small businesses are further categorised by the NSB Act into medium, small, very small, micro and survivalist enterprises, hence the usage of the term “SMME” for small, medium and micro-enterprises. The terms SME and SMME are used interchangeably in South Africa. The SMME definition uses three parameters for each enterprise size category, namely; number of employees, annual turnover and gross assets excluding fixed assets (Table 2.1).

Table 2.1: Classification of SMEs in South Africa (South Africa, 1996)

Sector or sub-sectors in accordance with the Standard Industrial Classification	Size Class	Total full-time equivalent of paid employees	Total annual turnover (Rm) <i>Less than:</i>	Total gross asset value (fixed property excluded) (Rm) <i>Less than</i>
Agriculture	Medium	51-100	3.10-5.00	3.10-5.00
	Small	11-50	0.51-3.00	0.51-3.00
	Very Small	6-10	0.21-0.50	0.10-0.50
	Micro	0-5	0.00-0.20	0.00-0.10
Mining and Quarrying	Medium	51-200	10.10-39.00	6.10-23.00
	Small	21-50	4.10-10.00	2.10-6.00
	Very Small	6-20	0.21-4.00	0.11-2.00
	Micro	0-5	0.00-0.20	0.00-0.10
Manufacturing	Medium	51-100	13.10-51.00	5.10-19.00
	Small	11-50	5.10-13.00	2.10-5.00
	Very Small	6-10	0.21-5.00	0.11-2.00
	Micro	0-5	0.00-0.20	0.00-0.10
Electricity, Gas and Water	Medium	51-100	13.10-51.00	5.10-19.00
	Small	11-50	5.20-13.00	1.91-5.00
	Very Small	6-10	0.21-5.10	0.11-1.90
	Micro	0-5	0.00-0.20	0.00-0.10
Construction	Medium	51-100	6.10-26.00	1.10-5.00
	Small	11-50	3.10-6.00	0.51-1.00
	Very Small	6-10	0.21-3.00	0.11-0.50
	Micro	0-5	0.00-0.20	0.00-0.10
Retail and Motor Trade and Repair Services	Medium	51-100	19.10-39.00	3.10-6.00
	Small	11-50	4.10-19.00	0.61-3.00
	Very Small	6-10	0.21-4.00	0.11-0.60
	Micro	0-5	0.00-0.20	0.00-0.10
Wholesale Trade, Commercial Agents and Allied Services	Medium	51-100	32.10-64.00	5.10-10.00
	Small	11-50	6.10-32.00	0.61-5.00
	Very Small	6-10	0.21-6.00	0.11-1.90
	Micro	0-5	0.00-0.20	0.00-0.10
Catering, Accommodation and other Trade	Medium	51-100	6.10-16.00	3.10-6.00
	Small	11-50	5.2-6.00	0.61-3.00
	Very Small	6-10	0.21-5.10	0.11-0.60

	Micro	0-5	0.00-0.20	0.00-0.10
Transport, Storage and Communications	Medium	51-100	13.10-26.00	3.10-5.00
	Small	11-50	3.10-13.00	0.51-3.00
	Very Small	6-10	0.21-3.00	0.10-0.50
	Micro	0-5	0.00-0.20	0.00-0.10
Finance and Business Service	Medium	51-100	13.10-26.00	3.10-5.00
	Small	11-50	3.10-13.00	0.51-3.00
	Very Small	6-10	0.21-3.00	0.10-0.50
	Micro	0-5	0.00-0.20	0.00-0.10
Community, Social and Personal Service	Medium	51-100	6.10-13.00	3.10-5.00
	Small	11-50	1.10-6.00	0.61-3.00
	Very Small	6-10	0.21-1.00	0.10-0.60
	Micro	0-5	0.00-0.20	0.00-0.10

- i) Medium enterprises: host a maximum number of 100 or 200 employees for the manufacturing, construction, mining and electricity sectors. Medium enterprises commonly have characteristics where there exists the decentralisation of power by a central layer of management.
- ii) Small enterprises: have a maximum of 50 employees and are generally have more complex businesses practices and more established than very small enterprises.
- iii) Very small enterprises: employee a maximum of 20 employees in the manufacturing, construction, mining and electricity sectors and less than 10 employees for other sectors.
- iv) Micro-enterprise have an annual turnover below R150 000, are not usually registered and employ a maximum of 5 employees. Micro-enterprises usually include: household industries, spaza shops and mini-bus taxis.
- v) Survivalist enterprises generate an income less than the poverty line. These enterprises are considered as pre-entrepreneurial and include; subsistence farmers, hawkers and vendors. Survivalist enterprises generally form part of the micro-enterprise category.

South Africa's definition of SMMEs is unique (correlates) to its economic climate in that it includes survivalist and micro-enterprises that form a majority of the SMME sector in South Africa. Unlike many developed nations.

2.3 The economic climate of KwaZulu-Natal

Although the South Africa province of KwaZulu-Natal (KZN) has the third smallest land mass with the second largest population, it is the second major contributor to the country's Gross Domestic Product (GDP). KZN contributes for 13% of the South African construction sector, 13.4% of finance sector, 17.8% of wholesale and retail trade and 21.6% of manufacturing output. The manufacturing, finance, trade and transport sectors are key contributors to the province's economy. The manufacturing sector contributes 17.1% to the provinces economy, this proportion is higher than any other province in the country (Botha, 2014). Since 1997, the economic growth achieved by KZN exceeds the growth of South Africa as a whole. The unemployment rate of KZN is the third lowest in country with the Western Cape and Limpopo ahead at 19.5% and 19.6% respectively. The unemployment rate and expanded unemployment rate of KZN improved from 24.1% and 41%, in the last quarter of 2017 to 22.3% and 40.6% in the first quarter of 2018, respectively (Stats SA, 2018).

Ladysmith is a small town within KZN with a population of 656 986 and a land coverage of 11 000 square kilometres. Ladysmith is the primary commercial centre for the surrounding farming district and neighbouring towns such as; Colenso, Estcourt, Dundee and Bergville. Ladysmith has a diverse and strong manufacturing base with several industrial areas. Hosted in these industrial areas are tyre, textile, electrical, electronic and food processing facilities. The town has an industrial incentive scheme that addresses water, refuse and rates (Alfred Duma Local Municipality, 2016).

2.4 Challenges experienced by SMEs

Governments across the globe have acknowledged the importance of SMEs by developing initiatives to stimulate the SME sector. Despite these initiatives improving the performance of some SMEs, the majority of SMEs experience challenges that inhibit their success, growth and sustainability (SEDA, 2016). Although literature groups the concepts of sustainability and growth of SME's, they are technically different concepts, where sustainability refers to the continued profitability of a business and growth denotes a sustained increase in the material wealth of a business. These concepts are grouped as the challenges as they revolve around common subject matter. A clear identification of these factors has the ability to ensure the growth of this sector by reducing the failures of SMEs.

2.4.1 Lack of management competencies and skills

There is consensus among researchers that the failure of SMEs is due to a multitude of factors that include managerial competencies. Studies that focus on the challenges facing SMEs in South Africa conclude that the primary cause of failure is a lack of managerial skills (Sitharam and Hoque, 2016; Radipere and Van Scheers, 2005). Managerial incompetence is also ranked by Dlova (2017) as the principal cause of SME failure in South Africa. One of the underlying causes are the desolate quality of the South African education system. Of the 140 surveyed countries, South Africa is ranked 138th for its overall education quality and the worst (140th) in terms of the quality of education, making it very difficult for South Africa to survive in a knowledge-based economy (Bosma et al., 2016).

Managerial competencies are described as sets of skills, knowledge, attitudes and behaviours that contribute to the effectiveness of an individual (Hellriegel et al., 2004). The following characteristics are used to measure managerial competencies; managerial experience, start-up experience, knowledge and education (Hisrich and Drnovsek, 2002). A study by Smallbone and Welter (2001) concluded that managerial skills such as industry-specific knowledge, education and experience significantly improve the performance and success rate of SME's. Related results were concluded from a study performed in the Eastern Cape by Oyelana and Fiseha (2014). This study also identified a critical skills shortage of managerial skills such as financial management, marketing management and human resource management. A study by Radipere and Van Scheers (2005) concludes that a proportional relationship exists between small business failure in South Africa and lack of managerial skills. The results of this study indicate that small businesses lack managerial skills (which include; human-resource management, marketing and financial skills) which are essential in the successful operation of their businesses. This study also concludes that the managerial skills possessed by respondents (small business owners) are not congruent with those skills required to successfully manage a business.

The 2013 survey of employers and self-employed individuals (SESE) performed by Stats SA revealed that; only 8.6% of non-VAT registered business owners have a tertiary education, while only 19.1% have achieved a primary school qualification, a further 44.4% did not complete the secondary level of education and just 27.1% have completed primary school. The study also reveals that only 11.9% of these businesses possess simple informal records while 75.7% do not keep any form of auditing or accounting records. This is as a result of 40.1% of these business owners assuming their businesses are too small, while the other 40% deem

records to be unnecessary and the remaining 14.1% admit to a lack of record keeping skills (Stats Sa, 2013).

Ndege (2015) states that the primary cause of the failure of South African SMEs is due to a lack of cash flow management skills. This study also reveals that managers and owners of SMEs in South Africa generally under-educated and lack professionalism which is critical in achieving; a reliable customer base, service excellence, market credibility and a good business reputation. Chapman (2000) concluded that the common factors causing new businesses to fail within 3 years are; poor entrepreneurship skills, a lack of credibility and a bad business reputation. Lynn (2013) contended that one of the most prevalent issues in the sustainability of SMEs in developing countries is the extreme deviation from the approved budgetary allowances set out in the business plan. Similar conclusions were reached by McGrath and MacMillan (2000) which noted that the sustainability of SMEs is dependant of critical skills such as auditing and financial management skills. This study also concludes that start-ups commonly fail due to overspending, reckless use of resources, resistance to constructive suggestions and poor planning and stock keeping.

2.4.2 Access to finance

Financial resources are essential in order for SMEs to begin trading and fund growth. Lack of availability and access hinder SME growth. SMEs are financed either from informal sources such as friends or family or from formal sources such as banks, private equity firms, venture capitalist. One of the most familiar challenges that affect the survival and growth of SMEs locally and globally is access to finance. With regards to the availability of finance for SMEs, South Africa is on par with the global averages (Herrington et al). A variety of studies have focused specifically on the impacts, causes and mitigation strategies to access to finance. In South Africa, the low firm creation and survival rate of SMEs are due to a lack of access to finance (Sitharam and Hoque, 2016).

Although there are several challenges hindering the growth and survival of SMEs in developing countries, lack of access to finance remains the most difficult to resolve and the primary concern for SMEs in developing countries (Schwab and Martin; Mutezo, 2005). A study performed by Macpherson and Holt (2007) concluded that the primary reason for the failure of Sub-Saharan African SMEs is lack of access to finance. Accessing credit is ranked, in a study performed by Olawale and Garwe (2010), as the second greatest inhibitor of failure and new firm creation. The GEM Report highlights an increase in business failure resulting from a lack

of access to finance. All of this in the face of multiple support schemes by non-profit institutions and government to expedite access to credit for SMEs (Bosma et al., 2016).

Businesses that are small are more susceptible to market changers, especially in the external environment, and the mortality rates of these businesses are relatively high in comparison with large businesses. (Hlatswayo, 2012b) supports this by reporting that the small asset portfolios and the high mortality rates, makes these small businesses high risk and hence unattractive as potential debtors, however Timmons and Spinelli (1994) highlights that the availability of financial resources have a great impact on the growth rate and prospects of SMEs. Commercial banks being conservative in nature and risk averse are therefore reluctant to provide them with credit. Lenders and South African banks are more prone to provide resources to small businesses that are in their later stages of development and are less inclined to lend start-up SMEs. These inclinations vary spatially. The Finscope Small Business Survey revealed that SMEs in the North West and Gauteng provinces have superior access to finance, while those in the Northern Cape and Mpumalanga find accessing finance difficult (Grundling and Kaseke, 2010). The Finscope South Africa Report showed that only two percent of new South African SMEs can access finance from lending organisations while 75% of bank credit applications are rejected. Outcomes from the survey of employers and self-employed individuals (SESE), showed that 76% of informal business owners were unable to obtain external finances to commence business, and 74% of those that accessed external finance resorted to lending from friends or family (Statistics South Africa, 2017). The SEDA 2012 report describes the financing received from these informal sources as being inadequate for the survival and growth of SMEs (Musara and Gwaindepi, 2014b; Maas and Herrington, 2006; SEDA, 2012).

Typical inhibitors to small businesses obtaining finance include; absence of viable business ideas, absence of access to growing markets, poor market research, inability to produce adequate business plans, lack of credit history and inadequate collateral (Monitor Global Entrepreneurship, 2017; Ndege, 2015; Sitharam and Hoque, 2016). Lending institutions are often reluctant to finance small business ventures as the costs involved (administration and transactions) render it infeasible. When SMEs are to access finance, it is often on terms that are discordant with the operations of small businesses and at exorbitant interest rates (Ndege, 2015).

2.4.3 Poor infrastructure

Infrastructure is a key enabler for the development of SMEs (GEM 2014). The lack of access to infrastructure; impedes SME growth, limits the operations, increases their operating costs and restricts access to raw materials and markets. The ease of access to infrastructure such as; transport and utilities, communication infrastructure, space or land at affordable prices are critical in supporting new businesses. Infrastructure also includes professional and commercial infrastructure which alludes to commercial, legal and accounting services and institutions. These services are essential in promoting the emergence of new SMEs and the sustenance of new SMEs (Fatoki, 2014a).

Services such as electricity, water sanitation and transportation are essential in the development of a country which positively influences economic growth and the success of SMEs. In South Africa the demand for electricity exceeds the supply resulting in power outages. Such power failures limit the; ability for expansion, profitability, throughput, production efficiency and turnover of most industries. SMEs based in rural areas that are difficult to access due to the absence of roads also have difficulties in doing business (Fatoki, 2014a). Grant Thornton's International Business Report for 2016 states that 61% of businesses in South Africa have been adversely affected by regulatory requirements or government service delivery issues. Of the 61% of affected businesses, 60% have declared that the increase in service related costs such as water, electricity, rates and taxes, eTolls and taxes. 56% have stated that the disruption of utilities have negatively impacted their businesses (Pettersen, 2016). The modernisation and development of infrastructure is essential in South Africa achieving economic competitiveness in the future and integration in the global economy. According to the G20 Global Infrastructure Hub (GI Hub) report South Africa needs to invest R6 trillion by 2040 in the electricity and water sectors in order to address the population and economic growth and close the infrastructure investment gap. South Africa's population is estimated to increase by just 16% while its gross domestic product (GDP) increases by 40% (Jordaan, 2017).

2.4.4 Access to markets

In doing business it is crucial for SMEs to provide services and goods to their customers by reaching the international and local markets. In accessing mentorship and finance at the initial stages of business, credit providers require access to markets as being critical. The lack of access to markets have been identified as one of the major factors threatening the growth, sustainability and longevity of SMEs (Van Scheers (2011) & Musara and Gwaindepi (2014a).

The primary reasons that limit access to markets are lack of compliance to international and national regulatory authorities and inferior quality products or services. Both of which originate from technological and financial issues (SEDA, 2012). Other impediments to market access include competition from multinational and larger businesses that provide similar services and goods as small SMEs.

2.4.5 Elevated levels of crime and corruption

A study done by the United Nations Office on Drugs and Crime (2013) classifies South Africa amidst the five most unsafe countries worldwide. Elevated crime levels are a prevalent issue in South Africa that affects both the informal and formal SMEs. The 2015 OECD economic survey of South Africa (SA) discovered that elevated crime levels force SMEs to increase spending on security resulting in an increase in the overall cost of doing business. The GEM (2014) reports emphasized that the business cost of violence and crime is one of the main drags on investment confidence in SA. Entrepreneurs within the SME sector view crime as a major threat regarding the success and sustainability of their businesses (Leboea, 2017). This crime prevalence in SA has a detrimental financial impact on uninsured SMEs and it reduces the intentions of entrepreneurs to grow their businesses. As a result SMEs become negative regarding the level of investment, business success, sales and the general business operating costs (Anga, 2014; Leboea, 2017). A survey sponsored by Fujitsu Siemens and Standard Bank (2009) found that SME owners are not consistently pursuing avenues to remain ahead of competitors and grow their market share (Olawale and Garwe, 2010). Instead, they are focused on operational side of business due to elevated crime levels. The 2010 Finscope survey revealed that the majority of SMEs in SA are uninsured forcing them to cover up for losses by either dispensing savings or selling assets (Grundling and Kaseke, 2010).

Corruption in both the private and public sectors in South Africa is on the rise (Olawale and Garwe, 2010). The corruption perceptions index ranked South Africa 71st of the 180 countries, in terms of least to most corrupt. Transparency International also gave South Africa a score of 43 out of a hundred, where 0 is highly corrupt and 100 being no corruption (Transparency International, 2017). Problems with bureaucracy and regulatory compliance are among the reasons why SMEs participate in corruption. Corruption affects the entire SME sector by adversely impacting competitiveness and increasing operational costs, both ultimately resulting in decreased sales (Olawale and Garwe, 2010).

2.4.6 Government Laws, policies and regulations

The SME regulatory business environment is essential to the survival and creation of SMEs which is of great concern to South African SME owners (Musara and Gwaindepi, 2014a).

The SME Growth Index formulated by SBP has on multiple occasions in their publications identified regulatory burdens as being a key burden affecting South African SMEs. The SBP further outlined the primary contributors to the heavy regulatory burden burdening South African medium and small businesses, which are; frequent variations in the regulatory environment, poor communication, lack of access to information, administration incompetence in municipalities and government departments and the necessity to keep up to date regarding overlapping and contradictory regulatory requirements across multiple levels of government and departments. The Gem 2016 report expertly rates the following parts of the South African business ecosystem as strongly negative; licence and permit acquisition, bureaucratic red tape, policies regarding government procurement and tax burdens (Herrington et al., 2016/2017).

These regulatory burdens result in owners/managers of SMEs spending disproportionate amounts of time on matters related to regulatory compliance. The SBP created SME growth index indicates that SMEs spend on average 8 working days monthly on matters regarding regulatory compliance. This results in less time being spent by SMEs on income generating activities resulting in a loss of income (SBP, 2014).

The Davis Tax Committee Small and Medium Enterprises Interim Report on Small Business found that the median costs that businesses experience to comply with tax requirements is R20 500 (Davis Tax Committee, 2014). SBP approximates the cost of regulatory compliance to SMEs using the an average time of 75 hours monthly as R18 000 monthly (SBP, 2014).

Generally, most SMEs feel that they are incapable in dealing with government requirement. A study of the South African regulatory business environment concluded that 81% of SME owners/managers involved in promising business activities considered the regulatory business environment and corruption as the worst inhibitors to new and existing SMEs (Musara and Gwaindepi, 2014a). The costs associated with legislative compliance is a threat to the SME sector due to the high cost associated with it (Leboea, 2017; Olawale and Garwe, 2010). The GEM 2017 report notes that it takes 7 procedures and an average of 43 days to start a business in South Africa which is significantly longer and more complicated than the Sub-Saharan average of 8 procedures and 27 days and that of Mauritius average of 6 procedures and 6.5 days (Monitor Global Entrepreneurship, 2017).

2.4.7 Macro-environmental factors:

The performance of new and existing SMEs worldwide is influenced by firm specific and systematic factors such as; the macro-environment, social factors (ethics, corruption and crime), informational and contractual framework, the regulatory environment and technology. The macro-environment influences the revenue, sales, expansion plans and market potential of new and existing businesses. The macro economic factors affecting the South Africa include; interest rate hikes, deteriorating value of the Rand, high inflation and low growth rates (resulting in decreased consumption). Businesses in South Africa have been experiencing reduced sales due to a decrease in investor consumption and consumer consumption (Nemaenzhe, 2010).

The macro-environment cannot be controlled by businesses rather their success depends on the manner in which these businesses adapt to the constantly changing macro-environment. Some macro-environmental factors will be briefly described below:

2.4.7.1 Economic factors

The success and progress of South African SMEs, especially those in their infancy stage, are heavily dependent on the state of the local economy. These economic factors impact the consumption patterns in the economy and the attractiveness of different strategies. The following economic variables effect the demand for goods and services and hence the sustainability and growth of SMEs; governments monetary and fiscal policies, foreign exchange rates, interest rates and inflation.

2.4.7.1.1 Enterprise density

The number of businesses per 100 people in a population at a specific period of time is the enterprise density (Lowrey, 2005). South Africa's enterprise density fluctuates yearly with the enterprise densities of 5.5 and 10.22 being recorded for 2011 and 2016 respectively (The World Bank, 2016). These low enterprise densities are a deterrent for firms to exit the market.

2.4.7.1.2 Inflation

The inflation rate impacts the success and growth of SMEs. Currently, the inflation rate is 4.4% (South African Reserve Bank, 2018), which implies a devaluation in the wealth of the consumer. The resultant is reduced consumer spending power and increased cost of doing business which limits the growth prospects for SMEs.

2.4.7.1.3 Interest rates

Interest rates influence the ability of SMEs to access finance. The prime interest rate in South Africa as of June 2018 is 10%. Increased interest rates can affect SMEs in the following ways (BBC, 2016).

- 1) Firms that have used external financing incur higher costs as they have to pay more interest resulting in higher loan repayments which limits their ability to raise more capital.
- 2) Customers that have debts have less disposable income as they are paying more interest to lenders. This results in decreased sales and hence limited growth for SMEs.

2.4.7.1.4 Unemployment

The unemployment rate has an impact on SMEs (Cant and Ligthelm, 2002). South Africa has a high unemployment rate of 26.7% (in the first quarter of 2018) (Stats SA, 2018). Such a high unemployment rate affects SMEs in South Africa in the following ways (Gleeson, 2018; Lara, 2012; Bolden-Barrett, 2018):

- Decreased consumer spending resulting in a decreased demand for products that are income-elastic
- An increase in the demand for inferior goods with lower price and quality
- The workforce becomes insecure due to unemployment, which decreases their morale and motivation
- Social problems linked to high unemployment, such as rising crime, negatively impacts business
- Recruitment become easier as there are more applicants for vacancies
- Decreased staff turnover as employees are less likely to find alternate jobs
- As a matter of survival many individuals will be forced to start SMEs becoming self employed

2.4.7.1.5 Exchange Rates

Exchange rates are key factor influencing SMEs (Cant and Ligthelm, 2002). The weakening of the South African Rand has the following implications:

- Exports cheaper: A devaluation of the exchange rate will make exports more competitive and appear cheaper to foreigners. This will increase the demand for

exports. Also, after a currency devaluation, SA assets become more attractive; for example, a devaluation in the Rand can make SA property appear cheaper to foreigners.

- Imports more expensive: A devaluation means imports, such as petrol, food and raw materials will become more expensive. This will reduce demand for imports. As a result, SMEs will experience increased costs in doing business.

2.4.7.1.6 Taxation

One of the primary inhibitors to the sustainability and growth of SMEs is tax. High tax rates for SMEs result in reduced profit incentives for SME owners. In South Africa, the costs linked to corporate tax and VAT is one of the highest worldwide. The tax system is complex resulting in SMEs consulting with experts to submit tax returns, increasing business expenses (Viviers, 2001; Cape Business News, 2018; Cant and Ligthelm, 2002).

2.5 Growth of SMEs

Growth has been defined as increases in aspects that are part of the key goals for the entrepreneur, such as return and sale (Loewe et al., 2013). A more comprehensive definition that includes aspects of design and sustainability was coined by Rose (2003) as “The planned increase that is achieved in the number of items sold in a trading year (while maintaining or increasing the net profit per item) when compared to the preceding trading year, by pursuing courses of action that seem likely to promise continued growth over the next five trading years”.

The growth of SMEs is commonly measured using markers such as annual turnover and number of employees (Racic et al., 2008). SMEs that obtain sustained and rapid increases in number of employees or annual turnover are termed as high-growth SMEs (McMahon et al., 1993). Olawale and Garwe (2010) prefer the use of financial indicators as a measure of growth. They note that these financial indicators are usually readily available as they are recorded for businesses reasons and that this characteristic ought to be prioritized by SME owners/managers (Olawale and Garwe, 2010). Racic et al. (2008) states that an increase in the amount of employees as a growth indicator, is more reliable as profits and revenues of businesses are commonly distorted by; interventions that reduce tax such as depreciation of assets and the addition of private expenditure of proprietors. The number of employees according to Racic et al. (2008) is a better indicator of growth as it fluctuates either to an projected change in volume or in the event of productivity variations.

The term upgrading has been defined as innovations that are successful that bring about an increase in a target variable such as number of employees, sales, assets or company returns.

This definition considers innovation as being qualitative while growth as being measurable and quantitative. The literature examines the effect of a range of factors on growth patterns and growth capacity from 2 different perspectives. From a macroscopic perspective which is the general state of growth within a specific region and from a microscopic perspective where the growth of individual SMEs is examined. These factors can be categorised into the following groups:

- **Business environment:**
The business environment primarily consists of macroeconomic factors such as; the trade and tax policy, access to finance, compliance and regulatory complexity, infrastructure development levels, business development support and political instability.
- **Inter-firm linkages:**
Inter-firm linkages refer to the integration level of a business into its value chain. This level of integration determines the corporation that these SMEs receive from business associations.
- **Entrepreneur characteristics:**
Entrepreneurial characteristics include family background, gender, entrepreneurial orientation, personality and psychological factors relating to the entrepreneur.
- **Firm characteristics:**
Firm characteristics include the strategy, product portfolio, employee characteristics, size, location, registration status and sector of the SME.

Six determinant factors that affect SME growth were found in a study performed in Egypt, these are (Loewe et al., 2013):

- i) Access to finance
- ii) Risk appetite and motivation
- iii) Market research adequacy
- iv) Human resource development (HRD) investment
- v) Human capital in the form of international exposure work experience and education.

This study by Loewe et al. (2013) also identified the following important factors that influence growth:

- i. Access to land
- ii. Corruption
- iii. Corporate governance
- iv. The business development services of the state
- v. Infrastructure

Another study performed found the following variables to have a great influence on growth (Barringer et al., 2005):

- i. Characteristics of the founder: These characteristics include industry experience, level of education and prior entrepreneurial experience. Founder characteristics is deemed to be a major factor of growth, where owners of high growth businesses have been found to have a higher level of education and prior industry experience.
- ii. HRM practices: HRM practices include the following; training, employee empowerment and development, selectivity in hiring, stock options and financial and non-financial incentives. High growth firms have been found to use financial incentives and stock option plans more than slow-growth firms.
- iii. Business practices: Business practices include filling a niche, creating unique value and customer knowledge. Rapid growth firms have been found to attribute qualities of value creation, where the firm helps customers reduce costs and maximise utility while increasing organisational effectiveness uniquely. Rapid growth firms also have a better understanding of customer needs and desires than slow-growth firms.
- iv. Firm attributes: Firm attributes include mission statements, commitment to growth, goal setting, emphasis on planning and participation in interorganisational relationships. It has been found that a lack of motivation and commitment to growth are major causes of growth deficiencies.

2.5.1 Barriers to growth

Barriers to growth have been defined as “*any factor or combination of factors, internal or external, that acts in such a way as to prevent an organisation from achieving its planned business growth*” (Rose, 2003, p 5). Barriers to growth are of two types, internal barriers and external barriers. Internal barriers are those barriers that SMEs can remedy which could eliminate the barrier resulting in increased survival, profitability and growth prospects of the

SME. External barriers are those barriers that, in the short term, cannot be directly affected by SMEs but rather the SME should adapt to these barriers. External factors include; changes in the interest rate, employment legislation and recession of the economy etc. The fishbone diagram in Figure 2.1 provides the barriers to SME growth, while Table 2.2 summarises the obstacles to the growth and sustainability of SMEs.

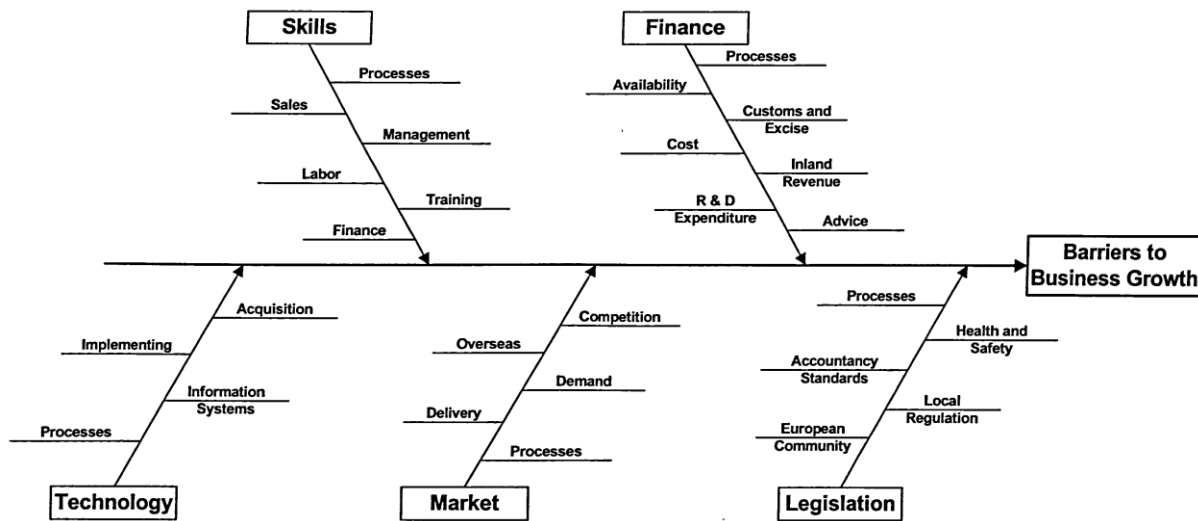


Figure 2.1: Fishbone illustration of the barriers to SME growth (Rose, 2003).

Table 2.2: Obstacles to the growth and sustainability of SMEs

Obstacles to SME growth and sustainability	Authors
Access to finance	(Gree and Thurnik, 2003; Grundling and Kaseke, 2010; Levy, 1993; Ndege, 2015; Olawale and Garwe, 2010; Pissarides et al., 2003; SEDA, 2012; The World Bank, 2007; Van Tonder and Van Scheers, 2011; Worku, 2016)
Excessive costs of inputs	(Levy, 1993)
High taxes	(Levy, 1993)
Coordination and supplier issues	(Pissarides et al., 2003)
Access to land	(Pissarides et al., 2003; Worku, 2016)
Production related issues	(Pissarides et al., 2003)
Management skills	(Gree and Thurnik, 2003)
Location	(Gree and Thurnik, 2003)
Access to technology	(Gree and Thurnik, 2003; Grundling and Kaseke, 2010)
Burdensome and complex regulation	(Gree and Thurnik, 2003; Grundling and Kaseke, 2010; SEDA, 2012; The World Bank, 2007)
Crime and corruption	(Gree and Thurnik, 2003; Olawale and Garwe, 2010; The World Bank, 2007)

Infrastructure	(Pissarides et al., 2003; The World Bank, 2007)
Poorly educated workforce	(The World Bank, 2007; Van Tonder and Van Scheers, 2011)
Informal status and business licencing	(The World Bank, 2007)
Access to transportation and land	(The World Bank, 2007)
Insufficient owner's equity contribution	(Olawale and Garwe, 2010)
A lack of market research and marketing capability	(Grundling and Kaseke, 2010; Ndege, 2015; Olawale and Garwe, 2010; Worku, 2016)
Lack of access to markets and market penetration	(Grundling and Kaseke, 2010; Van Tonder and Van Scheers, 2011)
Cash flow and financial planning issues	(Grundling and Kaseke, 2010)
Access to information	(Van Tonder and Van Scheers, 2011)

2.6 SME Critical Success Factors (CSFs)

Critical success factors are defined as the performance factors that are essential for management to continuously address for the organisation to remain competitive (Rockart, 1979). It has also been noted that CSFs can in the form of actions, conditions, circumstances, events, benchmarks, processes or business components (Green and Katz, 2017; Dickinson et al., 1984). The identification the CSFs of a particular business, which has strategic value and contributes to achieving strategic outcomes, aids in the decision-making process as it provides an understanding of an organisations integral features and the early identification of threats and vulnerabilities (Baccarini and Collins, 2003; Rockart, 1979). CSFs have been found to be common among a multitude of SMEs operating in different industries however, CSFs do vary across departments, industries and enterprises (Olszak and Ziemba, 2012; Zwikael and Globerson, 2006; Van Tonder and Van Scheers, 2011). Due to the importance that SMEs have on the economy, and with the purpose of assisting SMEs to grow and become sustainable, CSFs have been researched across the globe. However, the majority of research on CSFs for SMEs and entrepreneurs are either unactionable or inconclusive (Lee, 2016b).

It has been postulated in early literature that four primary factors influence business success; modernity of business methods, access to finance, management ability and offering-market congruence. Modernity of business methods includes the implementation of business processes that have increased efficiency using recent technology or by other means. Access to finance includes the interaction between growth ambitions, equity capital and finance while offering market congruence includes financial-management and human capital (Kuratko and Welsch, 2004). Another model from early literature, known as the 15-factor predictive model, claimed to precisely predict the success or failure of businesses (Lussier, 1995). This model was then adapted to focus on factors that are non-financial, the outcome of which was that human resources, professional advice, education and planning are part of the most critical factors in determining business success or failure (Lussier and Pfeifer, 2000). The accuracy of this particular model was then appraised by applying it to businesses in Chili, the results of which were positive and indicated that strategic planning is vital to business success or failure (Lussier and Halabi, 2010). The model was further updated to remove factors that are obsolete and include relevant factors such as the internet (Halabi and Lussier, 2014). Regardless of the success of Luissers (2014) model and its

strong foundational basis, it has been criticised for a lack of generalisability (Shonesey and Gulbro (1998).

CSFs can be classified into demographic, strategic and owner characteristics (Shonesey and Gulbro (1998). A study was performed that tested the contribution of a variety of factors to the success of businesses and yielded that during business infancy start-up capital and human capital management were pivotal. This study also revealed that current success and growth of businesses are strongly affected to internal and external factors respectively (Rogoff et al., 2004). A study performed in the USA revealed that the following factors are essential for new SMEs; skills availability, market penetration capability, macroeconomic stability and skills availability (Monahan et al., 2011). A study performed in Tukey revealed that the following CSFs (which are part of the local culture) are essential for the success of local businesses; customer service, friendliness, social skills and honesty (Benzing et al., 2009). Table 2.3 shows a wide range of the common CSFs compiled from the literature.

Table 2.3: Common SME CSFs (Olszak and Ziemba, 2012; Zwikael and Globerson, 2006; Lee, 2016a)

	SMME features	<ul style="list-style-type: none"> - Age - Location - Size
	Entrepreneur feature	<p>Socio-demographic Characteristics:</p> <ul style="list-style-type: none"> - Age - Gender - Race <p>Background characteristics:</p> <ul style="list-style-type: none"> - Educational background - Industry experience - Personality characteristics: <ul style="list-style-type: none"> o Need for achievement o Passion o Hard working o Dedication o Adaptable and flexible o Locus of control o Empathetic o Optimistic o Appetite for risk o Self-esteem o Independence o Responsible o Proactivity and passion o Persuasive o Innovativeness and tenacity o Interpersonal skills o Motivation level o collaboration
Internal Features	Entrepreneurial business acumen or	

External Factors

- o Systems-oriented
- o Ambition
- o decisiveness
- o Ability and willingness to learn
- o Networking
- o Creative thinking
- o Ability to communicate effectively

Macroenvironmental features

Economic Factors:

- Enterprise density
- Access to finance
- Taxation levels
- Inflation
- Interest rates
- Unemployment rate
- Exchange rates

Microenvironmental features

Technological and support factors:

- Access to infrastructure
- Access to technology
- Access to information

Politico-legal factors:

- Government support levels
- Government policies
- Regulatory environment

Socio-cultural factors:

- Networking ability
 - Customer and supplier relationship management
 - Marketing competence
 - Strategic orientation and level of goal orientation
-

2.6.1 CSFs in the South African context:

After explaining the factors that limit the success, growth and sustainability of SMEs, it can be observed that the majority of CSFs are closely related to these factors. Hence, a variety of studies have repeatedly concluded that the following factors are critical to the success of South African SMEs; skill level, level of education and experience of SME managers or owners (Baccarini and Collins, 2003; Chawla et al., 2010; Dickinson et al., 1984; Lee, 2016b; Temtime and Pansiri, 2004; Tshikhudo et al., 2015). This has also been confirmed by a study performed in the Western Cape (Chiliya and Roberts-Lombard, 2012). Another study carried out in Bangladesh concludes that personal characteristics such as; gender, age, managerial competency, financial skills and social skills are critical to the performance of SMEs. Van Tonder and Van Scheers (2011) have concluded in their study that the following factors are crucial to the success and sustainability of SMEs; financial management, business management and marketing skills.

2.7 Sustainability of South African SMEs

Business sustainability, considering the context of this study, is defined as the continued resilience of a business as time progresses, where a business is able to; manage both internal and external shocks, mitigate risks and overcome challenges. This definition focusses on the ability of a business to avoid failure and on the robustness of a business. It also focuses on SME critical success factors and the factors that limit the success, growth and sustainability. This definition of sustainability moves away from common convention of the triple bottom line and environmental responsibility, which are inconsistent with the purpose and objectives of this study.

2.7.1 Factors that affect the sustainability of South African SMEs

It has been found that the growth of SMEs is strongly related to wealth creation, which is achieved through businesses creating and maintaining a competitive advantage. This wealth creation develops growth which results in further wealth creation and this occurrence continues in a cyclic manner (Ireland et al., 2003). A study performed regarding SME sustainability in South Africa concluded that entrepreneurial proficiency in business processes can significantly improve service excellence, efficiency and profitability. This entrepreneurial proficiency affects business strategy execution (Urban and Naidoo, 2012). Only after 5 years of experience is the level of entrepreneurial skill adequate for achieving sustainability (Urban and Naidoo, 2012)

It has been found that business networks directly affect the sustainability of SMEs. By continuously partaking in business networks the following deficiencies that occur in SMEs can be resolved; lack of managerial and business acumen, resource restrictions, skills shortages, high employee turnover and the way in which markets are targeted. Participation in business networks are where SMEs can gain beneficial knowledge from industry partners and improve operations, all of which improves sustainability (Jämsä et al., 2011; Urban and Naidoo, 2012). A critical determinant of the sustainability and growth of SMEs is a loyal customer base. The most healthy and successful SMEs are able to attain and maintain a loyal customer base as they persevere in the following aspects; high service standards, high quality, increased customer satisfaction and persistent research and development (Porter and Tanner, 2012). Persistent research and innovation has the ability to result in increased levels of creativity and innovation, which is critical in achieving sustainability in industries that change rapidly. Creativity and innovation form the core of robust businesses that have the ability to thrive in highly competitive environments and during slow economic climates (Dülger et al., 2011).

Succession planning has also been found to impact the sustainability of SMEs, where various SMEs have failed due to the lack of succession planning. This phenomenon is common in owner-operated businesses that experience a lack of management capacity and skills shortages as a result of the retirement or death of the owner (Garg and Van Weele, 2012).

The sustainability of SMEs is threatened by a lack of a working capital management which is the resultant of overtrading. These SMEs concentrate on increasing sales by obtaining more credit and ignoring the financial positions and its consequence on liquidity (Sunday, 2011).

2.8 Chapter Summary

The SME sector is key in achieving macroeconomic objectives by spurring growth and decreasing unemployment. Government, having realized the importance of the SME sector, have implemented a variety of support structures for SMEs. Despite these government support schemes, SMEs still experience many challenges resulting in a dismally performing SME sector.

The leading challenges that SMEs in South Africa experience are a lack of management competencies and skills, access to finance, poor infrastructure, access to markets, elevated levels of crime and corruption, government regulation and macroeconomic factors. The factors that limit

the growth of SMEs are aligned to the aforementioned challenges. Critical success factors are bipartite and split into external and internal factors that include; microenvironmental and macroenvironmental factors, SME features and entrepreneur characteristics. This synthesis of literature forms the basis of the research methodology (Chapter 3).

CHAPTER 3: RESEARCH METHODOLOGY

3.1 Introduction

Research is defined as being solution centred where one must collect and interpret data to attain this solution (Saunders et al., 2015). A more comprehensive definition defines research as being systematic, organised, objective, critical investigation into an explicit problem that is conducted with the aim of finding solutions to this problem (Sekaran, 2006). The research design provides a basis for the research methodology and data collection and data analysis (Leedy and Omrod, 2005). Research design is defined as the blueprint of a research project that utilises suitable tools and methods (Babbie and Mouton, 2001).

3.2 Research Aim

This study intends to identify and examine the factors that limit the success, growth and sustainability of SMEs in Ladysmith by identifying the critical success factors. The outcomes of the study can be used to further stimulate the SME sector by informing governmental or non-governmental initiatives.

3.3 Research design and methods

The research design prepares the process of assembling and analysing data that is specific to the research objectives and in harmony with the theoretical foundation of the research (Sekaran and Bougie, 2016). Concepts regarding the research design methods such as; theoretical perspectives, epistemologies and methodologies have often been vaguely defined. These concepts are defined below:

- 1) Ontology and epistemology is the selection and implementation of a philosophical viewpoint regarding the nature of knowledge and reality
- 2) The research paradigm deals with the theoretical views of the study that is formulated depending on the Epistemology chosen
- 3) The methodological selection depends on the research paradigm

4) The methods employed depends upon the methodology that is adopted

With the aim of guiding the research design process, many models have been developed, like the research onion (Figure 3.1) and the framework developed by Doran (2014) (Figure 3.2). The research design will be based on the research onion model and reinforced by the model developed by Doran (2014) to make the study more rigorous.

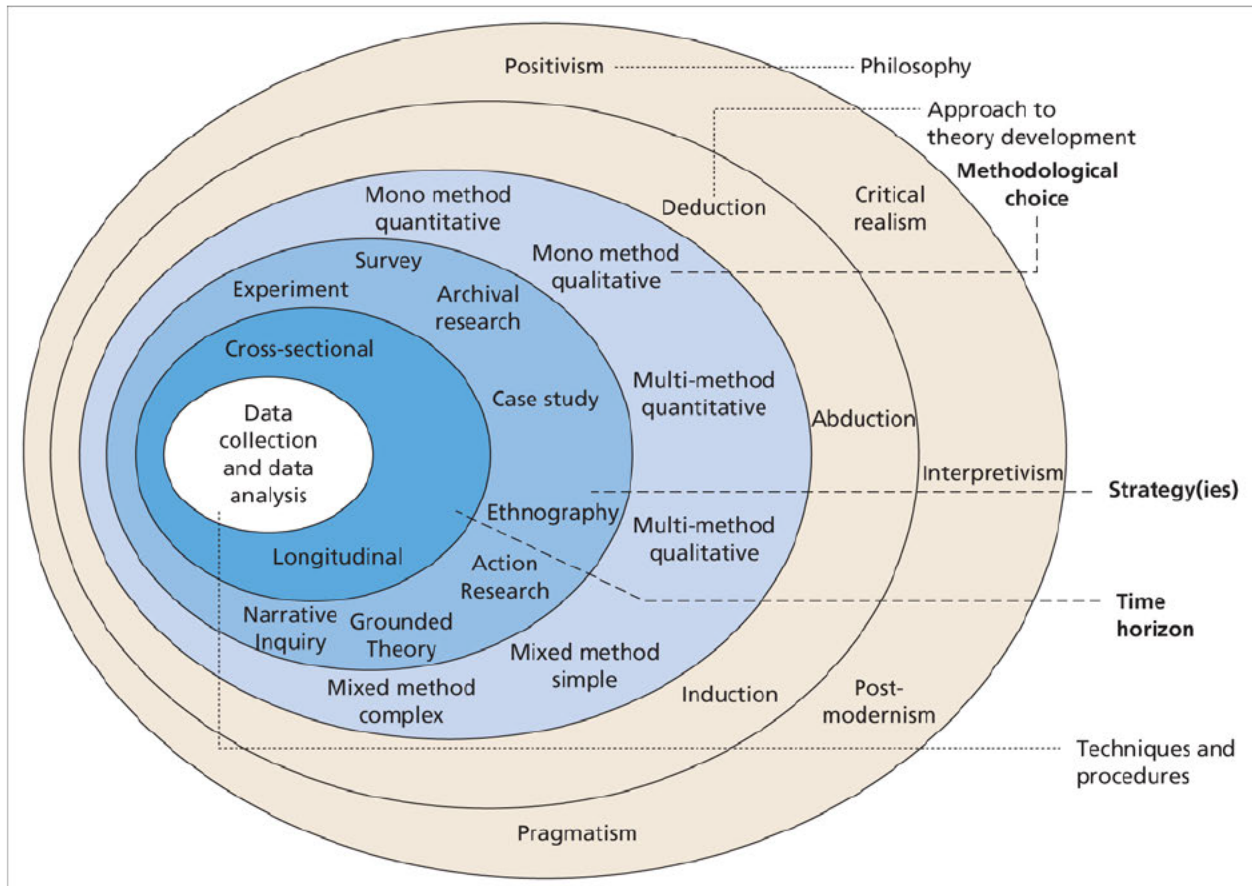


Figure 3.1: The research onion (Saunders et al., 2015)

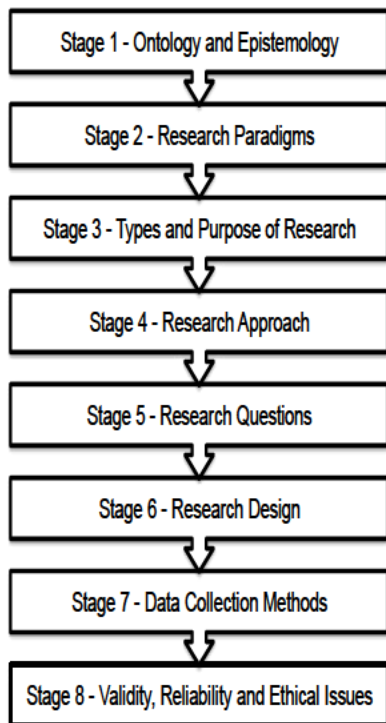


Figure 3.2: The research procedure (Doran, 2014)

3.3.1 Research philosophy

The basis of the research methods is the research philosophy which determines all downstream decisions and research positions such as the research and data collection methods (Easterby-Smith et al., 2012; Saunders et al., 2015). Prior to the developing the research design framework a clear understanding of the ontology and epistemology is mandatory (Flick, 2009; Saunders et al., 2015). The validity of a study governs its contribution to knowledge and by rigorously linking the data to theory through philosophical perspectives can increase the study's' validity (Easterby-Smith et al., 2012; Thietart, 2001).

3.3.1.1 Epistemology and ontology

There is an intricate relationship between the concepts of epistemology and ontology but there are also mutually independent. Epistemology concerns itself with the connection between the researcher and reality, while Ontology deals with the nature of reality.

Epistemology is described as the assumptions regarding knowledge and what establishes it as valid, acceptable and legitimate knowledge, and how this knowledge can be transmitted to other people (Saunders et al., 2015). It has also been defined as “*the nature of the relationship between the knower or would-be knower and what can be known*” (Guba and Lincoln, 1994, p 4). More simply epistemology is described as the “theory of knowledge”.

Ontology is described as the science of being and incorporates philosophical principles about the “nature of reality” (Saunders et al., 2015, p 127). Ontological views span from **realism** to **internal realism** to **relativism** to **nominalism**. Realism also known as objectivism, contends that reality is an existence that is completely free from perceptions, contexts of social actors or actions and that it is possible for reality to be understood by comprehending these facts (Saunders et al., 2015; Sekaran and Bougie, 2016). Internal realism developed by Hilary Putnam aims at reconciling realist and antirealist views about the truth and nature of reality. Internal realism postulates that in order to gain insight into the nature of reality, indirect indications should be utilised (Putnam, 1987). Relativism posits the presence of many truths that are formed by the observer's perspective (Collins, 2017). Subjectivism, also known as nominalism, is an extension of relativism and the direct opposite of realism. Nominalism theorizes that reality is a social construct that is framed as a result of the language, perception and discourse of the observer (Cunliffe, 2001).

This study will adopt the relativism ontological perspective as it looks at the reality that SME owners experience which is a phenomenon that is socially constructed.

3.3.2 Research paradigms

Research paradigms have been described as, the practices and beliefs that determine the manner in which researchers select the questions they are researching and the methods used in the research (Morgan, 2007). Classically, there are 2 conflicting paradigms, interpretivism and positivism but later authors included various other paradigms.

3.3.2.1 Interpretivism

Interpretivism posits that reality is a social construct that is subjective and as a means of inquiry depends on the perspective of the human (Collis and Hussey, 2013; Remenyi et al., 1998). Interpretivism acknowledges that it is impossible to separate facts from beliefs and values, as the understanding of these facts is dependent on the event and the individual (Cousin, 2005; Creswell, 2003; Doran, 2014). It has been stated by Saunders et al. (2015) that the aim of interpretivist research is to establish richer, new interpretations and understanding of the social contexts and worlds. Interpretivism recognizes that the researcher cannot be an objective observer as they assign meaning to the world they live in (Farquhar, 2012).

3.3.2.2 Positivism

Positivism is of the view that a only one reality exists and that this reality is completely independent of the observer and that this reality is to be pursued by developing theories grounded in observation and experimentation (Collis and Hussey, 2013). Positivism has been described as, a view that supposes that objective scientific methods can be utilised to study social world properties (Huczynski and Buchanan, 2007). This paradigm has been criticised for its rigidity and rationalism and it has been observed that results emerging from experiments frequently result in inconclusive, unexpected or conflicting results (Huczynski and Buchanan, 2007). A summary of the differences between the interpretivism and positivism paradigms are shown in Table 3.1.

Table 3.1: Differences between the interpretivism and positivism paradigms (Doran, 2014; Saunders et al., 2015)

	Positivism paradigm	Interpretivism paradigm
Ontological orientation (theory of the nature of social entities)	Objectivism – the researcher and reality are separate	Constructivism - the researcher and reality are inseparable
Epistemology	Objective reality exists beyond the human mind	Knowledge of the world is intentionally constituted through a person’s lived experience
Principle correlation to the role of theory in relation to research	Deductive (testing of theory)	Inductive (generation of theory)
Type of research methods	Quantitative research	Qualitative research
Sampling requirements	Large numbers selected randomly	Small number of cases
Validity	Certainty: data measures reality	Defensible knowledge
Reliability	Replicability: research results can be reproduced	Interpretive awareness: researchers recognise and address implications of their subjectivity

The interpretivist perspective is perfect for business and management research as business situation are deeply complex and unique which “*reflect a particular set of circumstances and interactions involving individuals coming together at a specific time*” (Saunders et al., 2015, p 141).

After considering the explanation above and based upon the relativism ontological perspective, the philosophical outlook of the researcher is more suited to the interpretivism paradigm. This is as the researcher holds the belief that reality is a social construct and that the subjects’ perspective ought to be considered in the exploration and explanation of events. The interpretivism paradigm has been selected for the purposes of this study as it considers the perspectives, cultural backgrounds and past experiences which will be present in the subjects’ responses. The factors

limiting the success, growth and the sustainability of SMEs and the CSFs are pursued from the experiences and perceptions of SME owners. According to Saunders et al. (2015) by taking this position, it follows that the data collection approach will be qualitative.

3.3.3 Theory development approach

The research approach is a crucial part of the research process that is guided by the aims and objectives of the study (Maylor et al., 2016). There are two research approaches, inductive and deductive. The inductive approach entails the collection and analysis of data, by the researcher, to develop a theory. It is where patterns and trends in data are sought to develop new theories and is more suited for research areas that are less developed. The deductive approach necessitates the formulation of a theoretical foundation, by the researcher, to test a hypothesis or theory. Deductive research is more suitable for research areas that are mature (Antonius, 2003; Maylor et al., 2016; Saunders et al., 2015). The critical differences between the inductive and deductive approaches are shown in Table 3.2.

For the purposes of this study the deductive approach will be used, as the literature regarding the factors limiting the success, growth and sustainability of SMEs and their CSFs are well developed, hence the relevance of such theory should be tested on SMEs in Ladysmith. The outcomes of this study are expected to be in line with the literature.

Table 3.2: Critical differences between the inductive and deductive approaches (Doran, 2014; Saunders et al., 2015)

Deductive Approach	Inductive Approach
Scientific principles	Gaining an understanding of the meaning humans attach to events
Moving from theory to data	A closer understanding of the research context
The need to explain causal relationships among variables	A more flexible structure to permit changes of research emphasis as the research progresses

The collection of quantitative data	The collection of qualitative data
The application of controls to ensure the validity of data	A realisation that the researcher is part of the research being undertaken.
The operationalism of concepts to ensure clarity of definition	Less concern with the need to generalise.
A highly structured approach	
Researcher is independent of what is being researched	
The necessity to select samples of a sufficient size in order to generate a conclusion	

3.3.4 Research methodology

Quantitative research is defined as research that is reliant on numerical or hard data, such as frequency responses that are commonly used in business research to measure perceptions or attitudes (Saunders et al., 2015). Qualitative research is not dependant on data that is non-numeric and highlights the importance of the social context in understanding the world. Qualitative research requires the ability to use a diverse range resources, skills and approaches. Generally, when the underlying philosophy is positivism and the research approach is deductive the resultant is the quantitative research (Saunders et al., 2015). The inductive research approach usually results in the adoption of qualitative research. Qualitative research examines, the relationships and meanings between participants by utilising analytical procedures and multiple data collection methods, in order to generate a conceptual framework (Saunders et al., 2015, p 168; Cooper et al., 2006).

Hence, the qualitative approach was chosen based on the selected philosophical position. Qualitative research permits a deeper understanding of the research area and the research tools to be refined and adapted based on the preliminary analysis. It also caters for responses that are open-ended which is a source of unexpected information and lets the researcher further investigate focal areas that are of importance to the research (Cassell and Symon, 1994; Cooper et al., 2006; Neuman, 2003; Saunders et al., 2015). If this study were to adopt the quantitative research method,

a reduced understanding of, the consequences and degrees of challenges faced by SMEs and the importance of a particular CSF would result, diminishing the value of the study. As a result, the study will become obsolete as many studies have identified the challenges and CSFs relating to SMEs, but none have examined these concepts from the perspective of SME owners in Ladysmith.

3.3.5 Research purpose

The nature of the research can be clarified by the careful analysis of the research questions and objectives. Research is classified as descriptive, explanatory, exploratory and evaluative.

Descriptive research offer an in-depth understanding of phenomena by aiming to portray an accurate profile of people, situations or events (Robson, 2002; Sekaran and Bougie, 2016). Descriptive research is also sometimes a precursor or pre-requisite for explanatory or exploratory research, respectively. This is as a clear understanding is required before the research design and collection processes (Saunders et al., 2015).

Explanatory research aims at determining the causal relationships between certain variables while providing an explanation of the nature of relationships. Evaluative research aims at determining the degree to which something works. Evaluative studies, especially in business research, appear in the form of assessments of implementation of interventions or strategies (Creswell and Creswell, 2017; Saunders et al., 2015).

Exploratory research aims at detecting new insights and evaluating varying perspectives of a phenomena (Robson, 2002). Exploratory research is commonly conducted by synthesizing the literature, conducting individual or unstructured interview or focus group interviews. It is described as a valuable means to gain understanding of a particular topic. Exploratory research is a method of inquiry that is adaptive and flexible which begins with a broad focus which is restructured by the information obtained as the study progresses (Creswell and Creswell, 2017; Saunders et al., 2015; Yin, 2009; Cooper et al., 2006).

Since the qualitative data collection method was selected, the exploratory mode of research will be adopted as this study aims at gaining insight into a combination of factors affecting SMEs in Ladysmith.

3.3.6 Research strategy

Since the qualitative research method was selected with the study being exploratory based on the interpretivism paradigm, the subsequent research strategies can be considered:

3.3.6.1 Case study

Case study research is most suited to remarkable, uncharacteristic or rare cases and involves the in-depth study of a minor sample to produce a description of a social construct (Eriksson and Kovalainen, 2008; McCutcheon and Meredith, 1993). It is also described as form of inquiry that is detailed and occurs in a natural setting where the case subject determines the scope of research and could be an event, individual, process, association or organisation (Yin, 2009).

The case study method was not selected for the following reasons:

- i. In using the case study method, excessive detail is involved which limits the sample size and introduces bias.
- ii. This study is broadly defined, does not seek to comprehend temporal or dynamic processes.

3.3.6.2 Focus groups

Focus groups are open group interviews that capitalises on interaction and communication between research participants to generate data (Kitzinger, 1995).

Focus groups were not used in this study for the following reasons:

- 1) Participants (SME owners) might withhold information in the presence of other participants as they might view them as potential competitors.
- 2) The researcher lacks training on managing group dynamics and the balancing of power (Saunders et al., 2015).
- 3) Influencing participants to attend the session could be a challenge.
- 4) Focus groups do not allow for total anonymity.

3.3.6.3 Action research

Action research intends to bring about change to existing problem situation and it is where the subjects are active participants in the research (Tharenou et al., 2007). Action research has been described as “*an emergent and iterative process of inquiry that is designed to develop solutions to real organisational problems through a participative and collaborative approach, which uses different forms of knowledge, and which will have implications for participants and the organisation beyond the research project*” (Saunders et al., 2015, p 189).

Action research was not used in this study for the following reasons:

- i. Action research necessitates an increased level of access, which cannot be obtained as the researcher is not part of any of the SMEs in the sample.
- ii. This research project does not entail instituting positive change, in a direct manner, on subjects.

3.3.6.4 Ethnography

Ethnography requires the researcher to immerse themselves in the social world of the subject group to study their culture or social world (Saunders et al., 2015). Realist ethnography utilises an objective positivistic stance to report detailed realities while interpretive ethnography is more subjective (Tharenou et al., 2007). Critical ethnography intends to explain and explore the effect that power has on the subject. Social interactions or culture are not part of this research project, rendering ethnography discordant with the outcomes of this study.

3.3.6.5 Grounded theory

Grounded theory is a highly flexible method that aims to develop theory inductively that is grounded in the data, which is derived from meaning attributed to the world by social actors. Based on the data gathered by the researcher, it is adapted constantly.

Grounded theory was not used in this study for the following reasons:

- i. Grounded theory is a method that is time intensive in nature
- ii. A significant amount of literature exists that enables the researcher to accomplish the objectives of the study using an inductive process which is less time intensive

3.3.6.6 Interviews

Interviews aim to understand the social actuality through “*exploration via personal experience of prevailing cultural understandings*”, thus revealing “*the personal construction of the individual’s world*” (Gray, 2013, p 21). This method primarily utilises unstructured, semi-structured and in-depth interviews to collect copious amounts of data that consist of the experiences of participants in their natural environment. Interviews allow for the emergence of factors and meanings that were not a part of the primary focus of the research (Saunders et al., 2015).

The interview research strategy was selected as the data collection technique for the following reasons:

- 1) Interviews are better suited to this research project in terms of time and resource constraints. Methods like the grounded theory are time intensive making them unsuitable.
- 2) This study aims to comprehend the lived experiences of the participants (SME owners) and interviews allow for the usage of a small sample size.
- 3) The subject matter, in nature, is not sensitive therefore it is improbable that any barriers will form which could inhibit honest and open responses

3.3.7 Time Horizon

The study’s time horizon can be longitudinal or cross-sectional where longitudinal is a representation of a subject over a period, while the latter is the representation of a subject at a certain instant of time. The cross-sectional time horizon has been chosen due to the time constraints and the objectives of this study. Also the study of temporal variations is not necessary in this study.

3.3.8 Sample design

Sampling is a selection process that aims to select the appropriate elements of a population to participate in the study so that the research objectives can be achieved (Sekaran, 2006). Three primary constraints bring about the need for sampling; resource constraints, time constraints and practicality (Saunders et al., 2015). Sampling is begun with the clear recognition of the population in terms of the time, geographical boundaries and elements (Sekaran, 2006).

3.3.8.1 Population

The population is defined as all the objects under study that the researcher intends to determine some characteristics about. For the purposes of this study the population is all the SMEs in Ladysmith.

A sampling frame is “*a complete list of all the cases in the target population from which a sample will be drawn*” (Saunders et al., 2015, p 277). Attaining a sampling frame will not be possible as there are numerous SMEs in Ladysmith making it difficult to count and many SMEs are informal and unregistered.

3.3.8.1.1 Sampling procedure

A sample is the chosen group of individual units from a population that a researcher selects and generalises it to the population (Brink et al., 2006; Neuman, 2003). Sampling methods are grouped as either non-probability or probability sampling. Probability sampling is where the choice of elements in a population are done in a manner where every element has an equal opportunity in being selected. Probability sampling is used where statistical estimation regarding the population is of importance. A sampling frame is a pre-requisite for probability sampling. Non-probability sampling where the selection of elements in a population are done in a manner where the opportunity of every element being selected is unknown (Saunders et al., 2015).

This study adopts non-probability sampling as the selected research methodology requires that qualitative data be acquired from a population of unknown size (absence of a sampling frame). There are various non-probability sampling techniques such as; purposive, quota sampling, volunteer sampling and haphazard sampling.

The purposive sampling technique entails the selection of the sample on the basis of what is necessary to achieve the research objectives. This technique focusses on the selection of information cases that are information rich, rather than the samples statistical representation. Purposive sampling has been selected as the sample is to be an SME owner or manager and must have experienced operating an SME. There are many subsets of purposive sampling such as; extreme case sampling, homogeneous sampling, critical case sampling, typical case sampling and maximum variation sampling.

For the purposes of this study, maximum variation sampling was selected as it allows for maximum variation in the data collected, hence promoting the attainment of a wide variety of viewpoints resulting in the identification and exploration of the most prevalent challenges faced by SMEs and their CSFs.

3.3.9 Sample size

As a result of the adoption of the qualitative research method, there is no fixed sample size rather it is steered by the theoretical content of the study (Saunders et al., 2015). The sample size is determined by the achievement of research objectives, available resources and credibility (Creswell and Creswell, 2017). Theoretical saturation is when strands of theory or themes have been advanced to the extent where further sampling serves no purpose or when no new data of substance is added via subsequent collection of data (Saunders et al., 2015). For semi-structured interviews a sample size of between 5 and 25 is suggested (Saunders et al., 2015). Hence a sample size of 8 was selected with the possibility of increase depending on whether theoretical saturation has been achieved.

3.3.10 Interviews as a method of data collection

Interviews are defined as, a dialog between two or more than two people where the interviewer has to; develop a relationship with the interviewee, ask questions that are unambiguous and succinct and listen intently (Saunders et al., 2015, p 388). There are three types of interviews; structured interviews, unstructured interview and semi structured interviews. Semi-structured interviews are a qualitative data collection method that is flexible but not standard and is used when the researcher needs to obtain a deep understanding of the topic. It uses an interview guide with the questions, topics that are essential to cover and probes to ensure that the correct material is covered by the researcher. Semi-structured interviews do not consist of closed questions. The order in which the questions are asked are left at the discretion of the interviewer, however the questions are standardised. Note taking could distract the researcher making audio recording a necessity to capture the data (Creswell and Creswell, 2017; Saunders et al., 2015).

This study has a well-defined research topic and the literature review identified its key themes, hence semi-structured interviews were selected to collect data. The interview schedule serves the purpose of guiding the interview process according to the themes identified. The usage of

unstructured-interviews could result redundant digression which could compromise the study's validity.

3.3.10.1 Research instrument

The following aspects were taken into consideration when designing the interview schedule:

- I. Background information: The relevant literature on the subject was analysed and synthesised in the form of the literature to provide the researcher with the required background information. Similar research instruments with similar objects were used to crosscheck the research instrument. There is a possibility that as data collection progresses new information will emerge, hence post piloting provisions have been made to alter the research instrument for its improvement. The researchers interview technique was improved by studying appropriate literature by Kvale and Brinkmann (2014) and seeking advice from experienced researchers.
- II. As the basis of the interview schedule, open ended questions were utilised with probing questions which to cover or mature themes if required. Double-barrelled questions, leading questions and loaded questions were not included in the interview schedule.
- III. Themes were established based upon the literature review, research questions and research objectives. A week prior to the interview, the interview schedule was provided to the participants allowing them to grasp the research focus which increases the reliability and validity of the study (Saunders et al., 2015).

3.3.10.2 Transcription and recording

With the permission of participants, audio recording was used to transcribe the interviews. Audio recording also allows the researcher to concentrate on non-verbal cues during the interviews and the recordings can be stored and reviewed. Video recording has the possibility of being perceived as intrusive which could affect the responses of participant hence it was not used.

3.3.11 Pilot study

To improve and test the research instrument, a pilot study was done by interviewing two SME owners in Ladysmith. A pilot study is defined as “*A preliminary study on a small sample that helps to identify potential problems with the design, particularly the research instrument*” (Blanche et al., 2006, p 388). The pilot interviews were recorded for review purposes to ensure that all the

mandatory subject matter has been addressed and the flow of the interview is appropriate. the interviews were then transcribed and reviewed by experienced researched to ensure that they were conducted acceptably. Themes and codes for thematic analysis were then derived from the findings of these interviews to ensure that the research questions had been addressed satisfactorily. The probing questions in the research instrument were then improved using the thematic analysis.

3.3.12 Data analysis

Data analysis is the process of deriving meaning, patterns and trends from data. Thematic analysis will be used as the method of data analysis as it is the most commonly used method for the analysis of qualitative data. Thematic analysis was implemented using Saunders et al. (2015) four step approach:

1. Getting familiar with the data: This involves the transcription of the interviews and writing self-reflective memos. These transcripts were then read with the purpose of finding common themes and patterns.
2. Data coding: involves the allocation of codes to each data extract according to the meaning of the extract, to make the data amenable for analysis. Based on the recurring patterns and themes and according to the literature, categories of meaning were formulated. Relevant information was then allotted to a relevant category using a code. This forms a data unit.
3. Theme identification and relating data: This involves the minimisation of the lists of code into a brief list of codes by gathering the codes produced in the last step with the aim of identifying themes and relating the data.
4. The refining of themes and testing of propositions: every theme generated was tested to ensure the appropriateness of the codes within each theme and to ensure that the set of themes are meaningful and coherent. Similar themes were combined, while themes that are less-represented were removed and themes that were broad were divided into various themes.

3.3.13 Verification of data

Data verification is a procedure where data is evaluated, inspected and approved in order to create and maintain the validity and reliability of the study (Phellas and Punch, 2006). The reliability and

validity of a qualitative study is a function of credibility, dependability, confirmability and transferability (Saunders et al., 2015).

3.3.13.1 Credibility

The degree of similarity between the social construct of reality and the findings of the study is referred to as the credibility (Shenton, 2004). Credibility is essential in ensuring that the research is trustworthy (Shenton, 2004). To increase the credibility of the study, the following provisions were made:

- i. Based on similar qualitative studies with reliable results, established methods were used throughout the study.
- ii. Maximum variation sampling was used to accomplish data triangulation
- iii. Participants were assured that their participation was voluntary using informed consent, assurance of no harm notices to participants and voluntary participation.
- iv. The design and structure of the study was guided by conducting literature review that was extensive. Additionally, the findings of this study were cross-checked with the findings of other similar research studies.
- v. To improve the interview skills of the researcher; peers, experienced researchers and the literature were conducted. Pilot interviews were reviewed with senior researchers to ensure that the research instrument suits the study objectives. Each participant was consulted with their respective data collection and analysis to ensure accuracy.

3.3.13.2 Dependability

Dependability has the purpose of proving that comparable results can be achieved from the study if; the work was repeated, in the same context, using the same participants and the same methods. In qualitative studies the research structure changes continuously making it difficult in assuring its reliability. The credibility of a study is critical in ensuring its dependability. To ensure the dependability of this study the following was done which in accordance with the literature (Shenton, 2004):

- i. The research design was chosen and described in detail
- ii. All the particulars of the fieldwork were discussed
- iii. Reflective assessment of the research was performed

3.3.13.3 Confirmability

Confirmability ensures that the findings and interpretations of a study are a true representation of the participants perspective instead of the researcher's beliefs. In mitigating confirmability concerns triangulation was performed and all research decisions were clearly justified (Section 3.3.13.1). The judgements and feelings, suitable to the research findings, were recorded as memos and before the data was analysed and interpreted, the transcripts were reviewed with senior researchers.

3.3.13.4 Transferability

Transferability deals with the reader gaining an understanding of the context and background information which enables judgement concerning the transferability of the findings to other situations (Saunders et al., 2015). Qualitative studies are focused on providing adequate information to the readers instead of being preoccupied with obtaining results that are generalisable. This study uses a small sample of 10 SMEs and the results are not anticipated to be generalisable to the whole of South Africa, nevertheless satisfactory background information and context were provided with detailed descriptions of all interpretations and findings.

3.3.14 Bias

Bias is described as described as a divergence in the truth in the following phases; data collection, data analysis and interpretation of results; which can result in incorrect conclusions established from the data, due to presuppositions or other hinderances to objective analyses (Saunders et al., 2015). Regarding semi-structured interviews bias is classified into three categories:

1. Participation bias: This bias occurs when participants agree to partake in the interview. Those participants willing and those unwilling are suggestive of a bias that ought to be considered.
2. Response Bias: Is the bias that results from the interviewees' perception of the interviewer. The cause of response bias could be an intrusive interview process causing a reluctance to provide information. This form of bias was mitigated by:
 - a. Emphasizing that participation is voluntary
 - b. Clearly explaining the significance of the study so that honest responses could be obtained

- c. Assuring all participants that all data collected is confidential and private
3. Interviewer bias: Is the bias of the participant in response to the questions which stems from the interviewer imposing attitudes and beliefs on the participant or during the interpretation of the data. To circumvent interviewer bias the following was done:
- a. The researcher subdued All cultural or personal beliefs pertaining to the content of the interview.
 - b. All preconceived notions were overlooked by the researcher.
 - c. The researcher ensured that the participant adequately understood all interview questions.
 - d. All interview questions were formulated in a simple manner to facilitate easy understanding.
 - e. An interview schedule was given to each participant which assisted them in clearly understanding the purpose of the interview.

3.3.15 Ethical considerations

Research ethics refers to a well-recognised set of moral principles that describe the expectations of ideal conduct towards those that participate in the research (De Vos, 2011). The following ethical considerations were accounted for in this study:

3.3.15.1 Confidentiality, privacy and anonymity

De Vos (2011) notes that anonymity must be guaranteed and maintained so that participants are divulge information without worrying about privacy, confidentiality and prejudice. The researcher used pseudonyms to guarantee privacy and all research participants were assured of total anonymity. The researcher also assured participants that their confidentiality will be protected.

3.3.15.2 Voluntary participation

Before the interviews were conducted the researcher clearly informed participants that their participation is voluntary with the right to withdraw without needing to justify.

3.3.15.3 Benefits

Regarding the research outcomes or participation, the researcher did not imply any idealistic benefits. The researcher also made it clear that no financial rewards will be given for participation.

3.3.15.4 Deceiving of subjects

In all aspects of the study the researcher remained honest and transparent to avoid misleading participants. The researcher did not deceive participants in any way to obtain information for this study.

3.4 Chapter summary

The research philosophy and its implications on the development of the research strategy and methodology were described in this chapter. The following aspects, in accordance with the objectives of the study, were justified and described:

- Selection and adoption of research strategies
- Data collection
- Data analysis techniques

Based on the philosophical underpinnings, research objectives and methodological foundations of this research project the sampling technique was chosen. This chapter also explained the measures used to decrease bias and sustain the validity-related and ethical integrity of the research project. The design considerations of the research instrument (semi-structured interview schedule) were outlined alongside the piloting process which served the purpose of improving the flow and quality of the research instrument. Chapter 3 is the design plan of the data analysis and collection phase. This chapters' findings will be explained in Chapter 4.

CHAPTER 4: RESULTS, DISCUSSION AND FINDINGS

4.1 Introduction

Within this chapter a comprehensive overview of the findings of this study, including the discussion and analysis of these findings will be presented. These findings stem from the data obtained from the eleven semi-structured face-to-face interviews which is in accord with the synthesis of literature (Chapter 2). The literature review; provides familiarity of important themes that relate to the objectives of the study, is a motivation for the study and provides a background for the study that relates to earlier studies and existing theory.

Due to the mature nature of the literature, the discussion of the findings mainly follows the deductive approach. The codes generated primarily conform to the themes identified in the synthesis of the literature, however provisions have been made for codes that inductively emerge.

It has been clearly recognized within the literature and by government that SMEs are of strategic importance to the growth of the economy (Friedman et al., 2000; Nieman, 2001; The World Bank, 2017; Zheng et al., 2009). The SME sector is critical in achieving the reduction of poverty and achieving the growth aspirations of the economy. SMEs in developed countries differ greatly from SMEs in developing countries which limits the generalizability of similar studies, hence the need of an understanding of issues regarding SMEs (Nieman, 2006). The failure or success of SMEs result from a combination of factors that include growth constrains, CSFs and growth factors (Botha et al., 2007; Herrington and Kew, 2017; Nieman, 2006). The alarmingly high failure rate of SMEs in South Africa despite government intervention stresses the necessity of actionable research (Lee, 2016b).

The following research questions were addressed in this study:

- 1) To identify the challenges that SMEs experience in Ladysmith
- 2) To determine the factors that limit the growth of SME's in Ladysmith
- 3) To examine the critical success factors of SME's in Ladysmith

- 4) To provide recommendations that promote the success, growth and sustainability of SMME's in Ladysmith

4.2 Thematic analysis of data

The research aimed at understanding the perspective of SME owners who have lived the experience regarding the growth constraints, challenges and critical success factors for SMEs in Ladysmith. Thematic analysis was selected as the data analysis method to achieve this aim. Thematic analysis encompasses the identification of themes and concepts that are present in the qualitative data. The codes and categories are made up of preterminal or emerging themes (from literature), researcher perspectives and professional definitions.

This study is closely affiliated with deductive thematic analysis where all themes are present in the literature. In ensuring the coding process was concise and to avoid codes that overlap, multiple revisions were performed at various stages in the coding process.

4.2.1 Details of participant and interview

A detailed description of the participants and the SMEs their own or manage are provided in Table 4.1.

Table 4.1: Participant and interview details

Participant	Position	Industry	Number of employees	Business Age	Industry Experience	Entrepreneurial experience	Entrepreneurial Category	Level of education	Growth rate (% y/y)	Growth Aspirations	SMME Classification	Interview Length	Word Count
1	CEO	Retail and construction	190	54 years	28 years	28 years	Value	Secondary	100	High	Medium	70 mins	12 212
2	Owner Manager	Curtains and blinds	8	5 years	5 years	5 years	Value	Tertiary	70	High	Very small	29 mins	4 175
3	CEO	Retail and construction	60	20 years	35 years	35 years	Value	Tertiary	20	High	Medium	72 mins	12 761
4	Owner Manger	Retail	93	20 years	20 years	20 years	Value	Tertiary	30	High	Medium	25 mins	3 372
5	CEO	Manufacturing	60	25 years	3 years	3 years	Value	Tertiary	17	Medium	Medium	33 mins	5 560
6	Owner-manager	Transport	60	15 years	27 years	27 years	Necessity	Matric	13	High	Medium	31 mins	4 412
7	Owner manager	Construction	0	6 year	6 years	6 year	Value	Tertiary	55	High	Micro	21 mins	3 483
8	CEO	Manufacturing	98	61	46	46	Value	Tertiary	30	High	Medium	42	6 604
9	Owner manager	Finance and business services	2	18 years	21 years	18 years	Value	Tertiary	25	Low	Micro	22 mins	2 839
10	Owner-manager	Manufacturing tire moulds	96	40 years	44 years	42 years	Value	Primary	5	High	Medium	38 mins	4 389
11	Owner manager	Retail	27	32 years	37 years	32 years	Value	Tertiary	15	Medium	Small	25 mins	3 962

4.3 Research objective 1: Identification of the challenges experienced by SMEs in Ladysmith

The main themes that originated from the responses of participants are detailed in Table 4.2 and shown graphically in Figure 4.1.

Table 4.2: Summary of the challenges experienced by SMEs in Ladysmith

		Number of sources	Number of references	Participant numbers	Ranking
1	Access to finance	11	57	1,2,3,4,5,6,7,8,9,10,11	2
2	Government regulation	11	61	1,2,3,4,5,6,7,8,9,10,11	1
3	Crime and corruption	10	39	1,2,3,4,5,6,8,9,10,11	3
4	Access to markets	8	11	2,4,6,8,9,10	5
5	Infrastructure	10	23	1,2,3,4,6,7,8,9,10,11	4

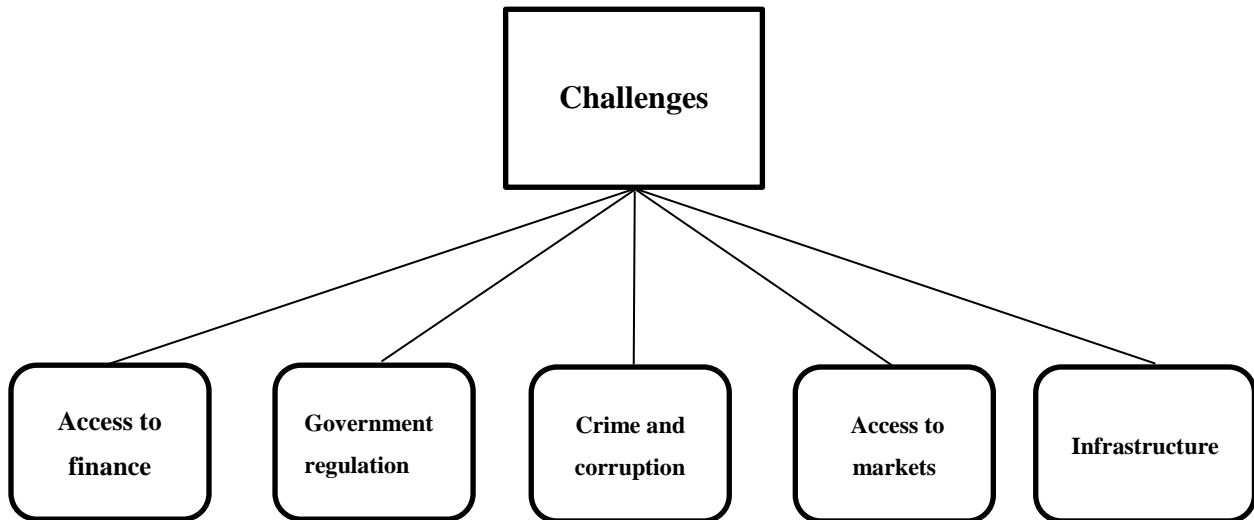


Figure 4.1 Graphical representation of the challenges experienced by SMEs in Ladysmith

4.3.1 Access to finance:

Access to finance has been extensively investigated and identified as one of the major challenges affecting SMEs, both locally and internationally. It has also been noted to be extremely complex and difficult to solve (Mutezo, 2005).

During the in-depth face to face interviews, access to finance as a theme emerged many times, where many participants found access to finance to be a threat to businesses. The bulk of participants noted that financial institutions, particularly commercial banks, have extremely strict criteria when funding SMEs. With regards to this, Participant 6 who is the owner of a medium growth transport company says:

I would say (getting finance) when I was starting out was very difficult because if you want to borrow a million rand then you must have virtually a million-rand guarantee; they don't want to take a chance with you. They don't care about the paperwork or your intention and they don't want to take that risk with you as a person.

This statement shows that the commercial banks are reluctant to fund start-up companies regardless of whether the supporting documents (such as the business plan, surety and registration) have been completed appropriately. Start-ups, at the existence stage of the business cycle, encounter numerous expenses in the form of domain and business registration, rental, technical, stationary and further expenses. Findings in the literature also support this by concluding that 75% of finance applications submitted by promising South African SMEs are rejected (Foxcroft et al., 2002; Naudé and Havenga, 2005). Another study conducted by Statistics South Africa showed that just two percent of start-up SMEs succeeded in achieving finance from lending organizations (Statistics South Africa, 2014). On the contrary, from the viewpoint of the lending organization, research shows that the following factors makes SMEs high risk which impacts their ability to obtain finance; an asset base that is small and the high failure rate of SMEs in South Africa (Hlatswayo, 2012a; Agwa-Ejon and Mbohwa, 2015). Another study has also stated that the following factors hinder the ability of SMEs to obtain finance; incompetence in presenting proposals and business plans and deficiency of credit history (Ndege, 2015). Regarding these finance requirements, Participant 10, the CEO of a manufacturing company states:

At the moment (it is) very difficult and also to get finance in this country we are talking about between 10 and 12 % interest rate. The people that do business in Europe and outside

of this country, they are talking about between 3 and 4%, we have already got a problem there. Secondly, we don't we don't really have the proper financial structure, skill or employees to warrant the bank giving us the support. We do not have employees or skill that can complete all the complicated requirements required to access finance. We have to hire people or companies to apply for finance for us which is costly.

Participant 10 notes that some SMEs are excluded from obtaining finance due to its complex process and requirements and that this function (applying for finance) needs to be outsourced, which is costly. This claim is supported by the literature which concludes that finance criteria affects SMEs, disqualifying eligible and needy SMEs from obtaining finance, due to a lack of financial and human resources (Kongolo, 2010). Another study shows that the challenge of access to finance is severe during the growth and start-up phases, which is reinforced by the opinions of views Participants 1, 5, 8 and 10 (Ramukumba, 2014). The restriction to access to finance in the start-up and growth phases has been supported by findings in the 2010 Finscope survey of SMEs in South Africa (Grundling and Kaseke, 2010). Regarding this Participant 8 states:

We used the banks and we used IDC. Recently, after our company has grown, finance has not been a problem as we have; a good track record of success, an established asset base and a strong and experienced management team.

Participant 1 is of the same opinion and stated the following:

I also feel that after our business has grown and matured it is easier to obtain finance from the banks.

Despite start-up funding being essential to many participants, two participants noted that start-up funding was not required due to the nature of their businesses. Participant 7 operates within the construction industry and is the owner of an architectural firm and stated the following:

Not really, no need to access finance because we charge our clients for almost everything. When starting this business, the only thing I needed was my computer, which was already in my possession from university, and architectural software which is costly, but I was able to use my savings to purchase it.

Participant 9 is an attorney and conveyancer operating in the service industry and stated the following:

Accessing finance, there wasn't need for me. Remember the only capital you need is paper and the other expenses such as software that we use; staff, these are fixed costs and other administration costs, telephones... the usual staff. When starting my own practice, I funded the business with the savings generated from my previous job.

Both Participants noted that their businesses were self-funded at its beginning due minimally capital-intensive nature of their businesses. Therefore, the intensity of an SME needing external finance and the level that challenges in accessing finance affects a business, is dependent on the nature of the business, where service-based industries are able to self-finance the SME during inception. At the other end of the spectrum, businesses with high volumes and low profit margins such as those operating within the construction and wholesale industries require extensive funding to start a business, without which inception cannot occur. Regarding the capital-intensive nature of businesses within different sectors, Participant 1 notes:

See finance is always an issue. I must admit today you can you know, I may say you have a pot of gold, it's never enough in business, especially in the property businesses, because you always look at opportunities.

In situations where external finance is unobtainable, start-up SMEs have to either self-fund their business or seek some form of external finance. Research indicates that external sources of finance such as family members or friends are grossly insufficient for SMEs to grow or survive (SEDA, 2012). Participants that self-funded their start-ups found that starting their businesses even though in a small way allowed them to obtain finance at a later stage, while Participant 3 and Participant 10 were of the opinion that a lack of access to finance limited the success of their businesses.

When there is a lack of capital reserves or assistance from acquaintances or family members, many SME owners are forced to resort to alternate ways of obtaining finance, which are commonly associated with exorbitant interest rates or restrictive conditions leading to an overall aversion in accessing finance (SEDA, 2012). Regarding this, Participant 10 notes:

Because we weren't eligible for big financials like we asked from commercial banks, we paid a premium price of about 6% above prime when borrowing from a consortium.

Numerous participants (Participants 1,2,3,4,5,7,8,9 and 11) displayed a distaste to obtaining finance from lending organisations due to the exorbitant interest rates, with Participant 1 describing lending institutions as “mafias”. Literature concludes that aversions like these impede entrepreneurial activities and weaken the contribution of the SME sector towards the development of the economy (Ndege, 2015).

Access to finance is a complex challenge that affects various functions within SMEs. Access to finance, being temporal in nature, tends to adversely impact SMEs in their existence phase while its effects are severe, but generally less felt by larger businesses. Access to finance as a challenge also depends on the nature of the business in terms of the capital intensity of the business. The burdensome costs (such as high interest rates) associated with obtaining finance and reduced business capitalisation disadvantage SMEs decreasing their profitability and efficiency.

4.3.2 Regulatory environment

Consensus by experts ranks the regulatory environment as the greatest challenge to SMEs in South Africa (Herrington and Kew, 2017). The SESE in 2013 concluded that 21.5% of participants believed government regulation inhibits business activities. The regulatory environment takes many forms, including general regulation which is the most common and encompasses registration, formation and tax returns. Furthermore, industry specific regulation affects SMEs depending on their characteristics.

Most participants believed attaining compliance with business regulation is relatively simple while some participants noted that these regulations lack in being entrepreneur friendly. Participants found that regulatory processes were tedious and long but appreciated processes based on online platforms. Most participants indicated that the expenses associated with compliance are excessive due to fees associated with compliance or the additional labour cost accompanying obtaining compliance. Regarding this, Participant 11 states:

To fulfil regulatory requirements, we have outsourced this to an accounting firm that keeps track on our tax submissions and liaises with SARS and so forth. This is expensive and reduces the profitability of our business.

Participant 5 also shares similar sentiments by stating:

The unions, yah. That is also a big problem for us. We can't deal with these unions as they are unreasonable. To deal with them we hire a labour attorney who is pretty expensive, but we have no option.

Participant 7 states:

South African council for architecture professionals, there has been a hell lot of legislation and what you call it, at the council themselves where we submit plans, fees have gone up and so clients are finding it hard to pay us

The majority of participants have to either outsource or hire employees to fulfil regulatory compliance. A study conducted by (Abor and Quartey, 2010) states that SMEs in South Africa are hampered by excessive administration costs which could be ascribed to the highly complex nature of the regulatory environment. Similarly, Ferreira (2007) finds that South African SMEs are challenged with complex compliance and tax regulations which increases labour costs and restricts their ability to conduct business. Herrington and Kew (2017) conclude that the regulatory environment with regards to permits, tax burdens, license acquisition and bureaucratic red tape is not beneficial for the growth and survival of SMEs. Only Participant 8 employed staff to deal with regulatory requirements while all other participants outsourced this function. The overarching feeling towards the regulatory environment is that it is unescapable and essential but a less significant challenge in comparison to other challenges faced by SMEs. Many participants complained regarding the inefficiency of government departments especially regarding their slow responses, which resulted in additional frustrations related to compliance.

Participant 7 states:

And then municipal departments (council) have been using a lot of our plans, like one plan sitting with the council from 2015, we still have one unapproved without a reason even after contacting them repeatedly. So obviously the client hasn't paid us for now, 3 years.

So, like if your plans don't specifically say what they want it to say they will kick it out of the system. So even if the plan is drawn up almost 100% as we used to in the past, now if one word is wrong, they kick it out of the system. This is because government officials passing plans are uneducated and don't know the requirements and what is pertinent in an architectural plan.

SMEs with more employees faced greater regulatory challenges regarding labour regulations and labour unions. 5 Participants faced burdensome regulation regarding the department of Labour. Regarding this Participant 5 states:

The unions, yah. That is also a big problem for us. We can't deal with these unions as they are unreasonable.

The overwhelming view on industry specific regulation is that it is a necessity but burdensome on SMEs. All participants agreed that regulation was necessary due the nature of their business. Some participants viewed industry specific regulation in a positive light by viewing it as a barrier to entry, decreasing competition. Regarding this Participant 9 states:

On the flip side, this regulation limits the amount of people that perform conveyancing activities as only qualified and certified individuals can do what we do like transfer properties etc.

Regarding the burdensome nature of industry specific regulation and the increase in overhead costs associated with it, Participant 9 states:

We are also regulated by the industry so it's an added burden to the practice. The administration, meeting requirements, additional costs, paying subscriptions, being forced to audit our trust accounts by law, that's an additional cost; things like that.

The regulatory environment remains a concern for SMEs, however measures to facilitate compliance have been put into place. Despite this, participants find additional cost burdens placed on their businesses due to inefficiencies within government departments and intricate administration required for compliance. Industry specific regulation has been unanimously viewed as a necessary evil. It has also been viewed in a positive light, as a barrier to entry and negatively, increasing operating costs of the business.

4.3.3 Crime and corruption

Research has shown that crime and corruption is a major challenge to SMEs in South Africa (United Nations Office on Drugs and Crime, 2013; The World Bank, 2005; The Presidency, 2008). Congruent to the literature, all participants experienced some form of crime or corruption that affected their business activities.

Crime has been a challenge for all participants where losses have been experienced by crimes committed in a non-violent manner by staff members. In this regard, 7 Participants experienced major losses due to pilferages committed by staff members. Regarding this Participant 4 states:

Very much so, especially recently, because the levels of pilfering by staff and crime have just escalated and it's becoming exorbitantly expensive to absorb the costs, the cost of insurance is becoming far too expensive, ...and it's becoming ridiculous.

We do have a security company that we hire, which is expensive, but yet, there's still a lot of pilferages.

Participant 6 states regarding theft by employees:

Like a lot. Diesel theft, you can control diesel for a certain percentage. Once a truck leaves here you can put all the technology in the trucks they always come with a better plan. You have already invested in it, and then you invest in R100 000, R200 000 in all the trucks, putting anti siphons and all that and they will come with a better idea and they open the drain plug for example or they open the tank pipe on the diesel.

6 Participants experienced losses due to crimes committed by external agents in a violent matter such as burglaries, looting and theft. With regards to this Participant 6 states

Also, there is no safety in the road, they park overnight the driver sleeps and when he wakes up the next morning the whole set of tyres are gone. And then with these protests it's bad, it's more like stealing, they loot the stuff that we are transporting for customers.

A study performed by Fatoki (2014b) posits that the pervasiveness of crime and corruption within South Africa reduces the growth ambitions of SME managers or owners. In contrast to this, none of the participants considered crime to be extreme enough to alter the manner in which their business functions, discontinue business or relocate their business operations. To combat crime, participants chose to alter business processes such as incentivising credit card payments instead of

cash payments. Peek-Asa et al. (2006) notes that the prevalence of crime and corruption increases capital and operating expenses of SMEs, as crime necessitates security system upgrades and corruption requires certain parties to be compensated.

Within the SME sector, corruption is rife especially within regulatory and government bodies. Five participants complained of prevalent corruption at prominent levels. With regards to this all participants were of the view that corruption is an unethical practice that hampers their ability to do business. Regarding this Participant 10 states:

Yes. Corruption, very much. In a way that you are faced with a situation that you want to sell your product to a company, but they are looking more on what they can put in the pocket than what quality they are buying. We refuse to do business on those bases.

Participants 1,3 and 11 noted that elevated corruption levels within the governments tender process, result in the disqualification of their business in the tender process as they do not participate in such unethical practices. These participants have also noted that unqualified incompetent individuals are unfairly awarded the tenders. This is congruent with the findings of the GAN business anti-corruption portal that reports elevated levels of corruption within the public procurement process as well as bribery at the central government level (GAN Business anti-corruption portal, 2018). Regarding this Participant 11 states:

It has affected our contracting business and also the wholesale side in a very big way. Corruption, especially corruption because, as far as government contracts go, we no more get government jobs, because it all depends on who you pay. There is no, you know? Correct way of getting a job, or the honest way of getting a job. It's always somebody needs a kick-back.

On the wholesale, it's the same, in the sense that, the departments that we quote for, we don't get the order, because of corruption, where prices are given, and someone comes in at a lower price, and in many instances, we have quoted or tendered a price, and the same goods are bought from us at a higher price.

It is thus noted that crime and corruption hinder business activities, largely due to the impact of costs associated with the increase of crime prevention systems and security levels. Despite all participants being exposed to crime or corruption in some form, which affected them, it was not

viewed as a threat that is existential. Corruption is a persistent challenge that affects the majority of participants and restricts SMEs from partaking in larger business activities.

4.3.4 Access to markets

Access to markets is a diversified challenge to SMEs which spans marketing, competition and technological capabilities. Numerous research studies have concluded that an absence of marketing capabilities exist within South African SMEs. The survey of employers and self-employed individuals (SESE) conducted in 2013 states that 40.5% of participants required marketing assistance.

A lack of marketing knowledge is displayed whereby all participants that owned micro and very small SMEs, during the interview process, equated marketing and direct advertising. This showed that participants failed to understand the integrated and strategic nature of marketing. However small and medium enterprises, that host a larger staff compliments, demonstrated a broader understanding of marketing that is strategically aligned.

For marketing we are putting up billboards, pamphlets and all that. It is a challenge for us because its expensive and we have no knowledge about marketing, so we don't know what works.

Participant 2 demonstrates a major challenge to SMEs in South Africa, which is a deficiency in knowledge regarding marketing, predominantly those with less entrepreneurial experience and lower levels of education.

Five participants experienced severe limitations in accessing markets due to competition from bigger and well-established competitors. This is also congruent with literature which concludes that increased levels of competition from national and multinational businesses, which are more powerful and organised, restricts the access to markets for firms that are smaller with similar offerings (Dlova, 2017b). Regarding this, participants found that a lack of reputation and credibility compared to larger competitors restricted their ability accessing markets. This is shown in research done by Chapman (2000), which found that a lack of credibility and a poor reputation considerably hinders SMEs. To combat this, SMEs reduce prices in order to increase their customer base which reduces their profitability. Regarding this, Participant 4 states:

To do this we purchase cash to lower our cost price and improve service. This increases capital input and makes our operation less profitable, but we have no choice.

Another concern among participants is market saturation. This is where smaller competitors, who are often non-compliant and unregistered, crowd the market. These competitors experience lower operating costs and generate higher profits from illegal activities and as a result exert pressure that decreases the price point of goods and service that are provided by SMEs, therefore effecting the sustainability and growth of SMEs. Participant 11 states:

We are experiencing a lot of illegal electrical products, that the Pakistani and the Chinese shops are selling. Illegal in the sense that it's not certified and sells at a small percentage of the price. It's illegal, and even with other products, like circuit breakers, plugs, switches.

It is thus noted that access to markets is a major challenge affecting SMEs that results from; a lack of marketing knowledge and capabilities, competition from larger competitors and market saturation. Only a basic understanding of marketing and its link to strategy was displayed by most participants. Competition from larger well-established competitors places SMEs at a disadvantage. The ramification of competition from these larger competitors is more disadvantageous to SMEs than the market saturation by other SMEs. Competitors that are regulatory non-compliant pose a major challenge to SMEs due to their cost-advantage that is obtained by being non-compliant.

4.3.5 Infrastructure

Infrastructure is key to the success of SMEs and remains a major impediment for SMEs in South Africa (SEDA, 2016). Infrastructure includes transport and utilities, communication infrastructure, electricity, water and sanitation. In line with the literature the overwhelming majority of participants experienced some sort of infrastructure challenge that affected their businesses.

A study by Leboea (2017) finds that electricity, telecommunications and transportation are in unacceptable conditions within South Africa. Power failures, being a common occurrence in South Africa due to demand exceeding supply, has affected 72% of participants. Regarding this Participant 1 states:

So simple but costly thing what we've done, we've actually went, we invested like four (4) million rand in generators in all our places due to electricity cuts.

Participant 4 states:

Especially, particularly the costs of electricity is prohibited. I had to close my bakery because I used to make a lot of bread. And the more bread we baked, the higher the cost of electricity, and it was so expensive that we had to close our bakery down.

It can be seen that these power failures limit the; efficiency, profitability and turnover of SMEs while increasing their capital requirements. These drawbacks could even result in SMEs failing, as experienced by Participant 4.

Faulty telecommunication systems have also impeded business activities, where five Participants reported disruptions in business activities caused by troublesome telecommunication systems.

Participant 11 states:

More the telecommunication system where their response time to fix faults, etc. This results in a loss of sales and decreases our level of customer service which affects our business profitability and client base.

Transportation routes have impacted the sustainability of businesses whereby seven participants noted issues with the quality of roads, specifically potholes and sinkholes. These issues have resulted in an increase in operating expenses, a loss of sales and decreased sustainability.

Regarding this Participant 6 states:

Yah, the roads are terrible, I see they are doing the 11 section now; power, not so much we communicate with our phones and emails and such. It affects it because the tyres, the roads are slide, the potholes, the tires get damaged and then sometimes a lot of potholes the drivers have to avoid an all that, the goods fall off costing us money to repack, sometimes goods become damaged beyond repair.

Participant 2 states, regarding loss in sales due to sinkholes:

Yah. There was a sink hole near the shop, huge disadvantage. For like 6 months, then we moved stores. So, there was a sinkhole on that road and then your customers...We decreased a lot, like by 30% turnover. They didn't, because before they could park cars outside now they were supposed to park a kilometre away and walk.

It can thus be noted that a lack of infrastructure such as; power, telecommunication and transportation routes, is a challenge to SMEs in Ladysmith. Power outages, faulty telecommunication systems and inferior quality roads result in; a loss of sales, increased operating and capital costs resulting in decreased sustainability of SMEs.

4.4 Factors Limiting the growth of SMEs in Ladysmith

The practical limitations to the growth of SMEs were investigated using, the same framework that was used to investigate the challenges that SMEs experience. The critical difference between the growth limitations and the challenges were the outcome of the factor on the premeditated escalation in SME growth, as defined by Rose (2003). The principal themes that emerged from participant responses are listed in Table 4.3 and displayed graphically in Figure 4.2.

Table 4.3: Summary of the factors that limit the growth of SMEs in Ladysmith

	Growth Constraints	Number sources	of Number of references	Participant numbers	Ranking
1	Access to markets - competition	5	20	3,4,7,10,11	1
3	Access to finance	4	11	2,5,6,10	3
4	Government regulation	7	17	3,4,5,7,9,10	2

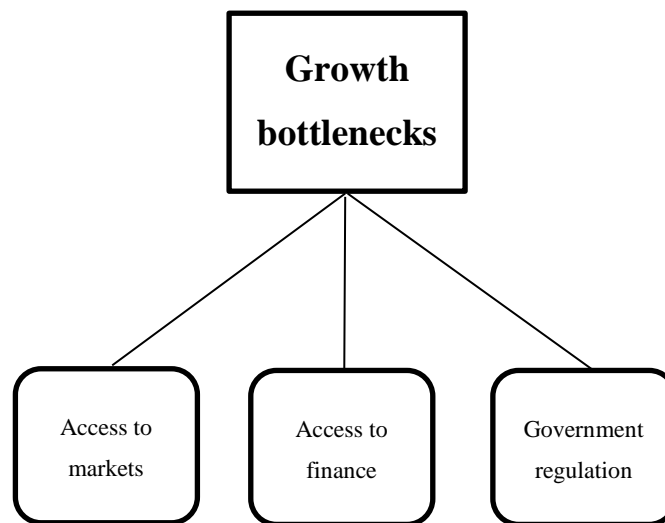


Figure 4.2: Graphical representation of the factors that limit the growth of SMEs in Ladysmith

4.4.1 Access to markets – competition

Increased levels of competition (Section 2.4.4) adversely influenced the growth plans of numerous participants. The key challenge stemmed from larger competitors that are well-positioned and dominate the market. This market domination results from the following aspects; better financial and human resources, an established reputation and credibility, brand equity and a loyal customer base (Beaver and Jennings, 2005). Participant 3 states that the primary reason he is unable to grow his business is because of larger competitors that operate via online platforms. Participant 4 makes similar observations by stating that:

It's definitely disadvantaged us. It is very, very, South African's FMCG business is in the hands of three (3) or four (4) giant chains. And any individual supermaketer will tell you that it's, it's very, very difficult, to be able to challenge them.

Participant 4 also complains of landlords providing exclusivity to larger competitors (such as multinationals) as anchor tenants in busy areas. This participant also expressed concerns of larger competitors securing supplier agreements which ensure more competitive pricing and exclusivity of their products, restricting market access, making it difficult for SMEs to compete. This participant also noted that aggressive price-oriented promotions were essential in securing customers.

The access to markets growth limitation, is similar to the challenge in that it is bipartite where marketing inabilities and increased competition levels directly affected the intentional growth of participants, mainly due to disadvantages that are size-related.

4.4.2 Access to finance

Access to finance inhibits business growth via two mechanisms; restrictions in working capital and as an inhibitor to business activity. Working capital restrictions involve the inability of SMEs to serve other markets due to a lack of finance. Regarding this, Participant 2 expressed concerns that due to a lack of finances, he is unable to keep a variety of stock to meet the needs of a wider variety of consumers and is unable to provide credit facilities to clients, which excludes his business from servicing large consumers and government departments. The lack of working capital has also forced SMEs to resort to alternate sources of finance that usually charge exorbitant interest

rates, as per the findings of Ndege (2015). These exorbitant interest rates increase operating expenses and hence limit their growth. Regarding the impact of the lack of working capital, Participant 10 states:

To finance raw materials or trading stock we use bridging finance from private lending institutions which charge very high interest rates, but we have to do it to meet our commitments.

Access to finance as an inhibitor of business activity encompasses the limitation of growth that can be mitigated by obtaining added finance. Participant 10 stated that “*more finances are required for equipment and machinery*”, complaining that due to the advancement of technology the latest equipment is essential in growing the business.

Participant 7 and Participant 9 noted that finance was not an inhibitor to growth, as their businesses are not capital intensive, which enabled them to self-fund growth.

It can thus be concluded that access to finance inhibits the growth of SMEs through two primary means, an inhibitor to business activity and restrictions in working capital. This is congruent with findings relative to access to finance as a challenge that SMEs experience (Section 4.3.1).

4.4.3 Government regulation

Government regulation has been identified in several studies as being a major growth impediment to SMEs in South Africa (SBP, 2014). Government regulation is primarily concerned with incompetence in government departments and the regulations imposed on SMEs by government, as outlined by SBP (2014). Regarding the role that government departments have in creating an environment of growth, Participant 3 states:

Ladysmith is a poor growth area. You look at it, nothing's happening around. And I blame the municipality, the government departments for not creating that environment. They create an environment where the only thing that will uplift, not shopping centres, the only thing that will uplift an area is governments bringing in infrastructure, bringing in factories, bringing....to who people to create jobs. Once you create jobs, people earn more, they spend more. It's a no-brainer in terms of what government should do.

Participant 4 expresses similar sentiments by emphasizing, the lack of support shown by the local municipality despite the critical importance of job creation on the economy. Government departments have also been criticized, by Participant 7, as being too inefficient and unresponsive, thus directly hampering growth.

Government regulation primarily incorporates unions. The primary challenge experienced by participants, was the existence of unions which was found to be a major growth impediment. Regarding this Participant 11 states:

We had plans to go into manufacturing certain electrical products, etc. but all that has been shelved, because of, more of, government hindrance to it, let's put it that way. In regulations, especially to deal with unions, etc. Any manufacturing thing that you need to do, you have to go through the unions. And that's a big detriment to us. We don't want to be dealing with unions and having people toy-toying outside our premises, so ...you rather do a smaller business and carry on as you are.

Similar concerns were expressed by Participant 5 that decided to halt growth plans, as these plans necessitated interaction with unions, which they were resistant to. This resistance to unions displayed by Participant 5 was due to past interactions with trade unions which resulted in a two-month standstill of their manufacturing facility and caused irreparable financial and reputational losses.

Government regulation can thus be seen as an inhibitor to the growth of SMEs either through inefficiencies and incompetence within government departments, or through the regulations that government requires SMEs to comply with. Many participants feel that Ladysmith is a low growth area because the local municipality is not creating an environment for growth. Another major concern is the inefficiencies within government departments and trade unions which are also growth inhibitors.

4.5 Critical success factors of SMEs in Ladysmith

Critical success factors (CSFs) are defined by Rockart (1979) as, those performance related aspects that are essential in ensuring the continuing competitiveness of a business. Literature lists a variety of CSFs which are characterised as, external and internal factors. External factors refer to the micro-environment and macro-environment of SMEs. Internal factors relate to the characteristics of the entrepreneur or the SME itself, and the degree of business acumen within the SME. The study of CSFs is complex due to the large heterogeneity that exists in the sector (Beaver and Jennings, 2005). To evaluate the CSFs for SMEs in Ladysmith, participants were questioned regarding the sustainability and competitiveness of their SMEs, the results of which are shown in Table 4.4 and graphically in Figure 4.3.

Table 4.4: Summary of the critical success factors for SMEs in Ladysmith

		Number of participants	of Number of references	Participant numbers	Ranking
1	Managerial competency	11	44	1,2,3,4,5,7,8,9,10,11	2
2	Entrepreneur characteristics	11	159	1,2,3,4,5,7,8,9,10,11	1
3	SME characteristics	8	37	1,2,3,4,5,6,8,9	3

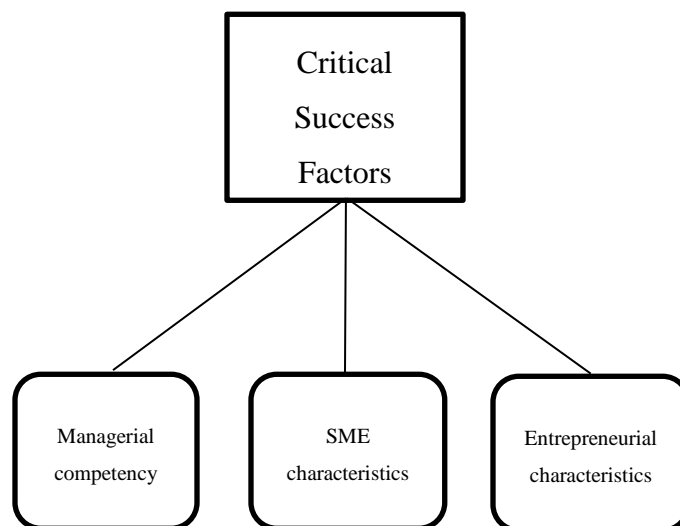


Figure 4.3: Graphical representation of the critical success factors for SMEs in Ladysmith

4.5.1 Managerial competence

Literature has recurrently identified managerial competence as a crucial determinant of the success of SMEs (Lee, 2016b; Olszak and Ziemia, 2012). Studies converge on the critical importance of managerial competency as well as its scarcity in South Africa (Dlova, 2017b).

Interpersonal skills, which is a subset of managerial skills and human resource management (HRM), was recognised by participants as a CSF. Participant 6 noted that HRM capabilities are key in any business especially within the transport industry, as HRM affects the level of employee performance hence the productivity and quality of their work. Participant 6 further states that by assisting the immediate family members of his truck drivers, whom are mostly away from their homes, these employees were more; motivated, loyal, honest and hard-working; increasing the productivity and quality of their work. This resulted in improved service to customers creating a competitive advantage. Concerning this, Participant 10 states regarding the reason his business is competitive and sustainable:

To learn to treat the staff with more respect, like we are doing at the moment because our success depends on the staff.

Participant 1 notes that leadership is a CSF which is critical in managing a business and affects many facets of his business, such as; his ability concentrate on work and delegate duties, customer relationship management (CRM), and productivity. Research has also showed that the following contribute to the accomplishment of SME goals; the ability to motivate staff and the ability to assign and classify tasks (Mkhungo et al., 2018). Regarding this Participant 10 states:

It is of utmost importance to get the correct combination of people to lead the business, like I said we need someone with a finance background.

Managerial competence, including interpersonal and leadership skills, are essential in creating and maintaining a competitive advantage by enhancing employee performance.

4.5.2 Entrepreneur characteristics

All participants noted entrepreneurial characteristics in some form as a CSF for SMEs. Many research studies have also recognised the place of entrepreneur characteristics as a CSF and as a cause of the failure of SMEs (Nieman, 2006; Van Vuuren and Dhliwayo, 2007). The importance of entrepreneur characteristics is emphasised by Participant 3, in his statement below:

The success of a business ultimately depends on the characteristics of the entrepreneur.

4.5.2.1 Passion, motivation and appetite for risk

The leading entrepreneur characteristic found as key to the success of SMEs in Ladysmith is passion. Four participants believed that the passion, which drives motivation, is a CSF. Participant 9 states that he enjoys his business activities and describes them as his “hobby”. Participant 8, the owner of an SME in the manufacturing sector states:

Look, the first thing entrepreneurs need is the ability, the passion and the drive.

Research has shown that an entrepreneurs outlook and resilience is determined by motivation (Neneh, 2012).

Risk taking has been identified as an important facet of SME success and a positive correlation between business success and entrepreneurial risk tolerance has been found (Neneh, 2012; Nieuwenhuizen and Kroon, 2002). Three participants deemed risk taking as CSF. Participant 3 noted that his appetite for risk allowed for his success, where he developed a shopping complex despite negative outlook from financial institutions. Regarding this, Participant 7 states:

We are taking a lot of risks, we have dived into many projects too quickly, in the end we did get paid for it and we have dived into big projects which other firms won't want to put a thing into it. This has led to our success.

Participant 1 cautioned against business owners taking big risks, by stating:

You know, the problem is when you start growing, when you start, you only looking at the dollar signs up there. And not realising the risk in-between. It's a problem. You can put everything that, you can put the entire business at risk, for one little signature. Don't bite off more than you can chew.

Similarly, studies have found that extreme risk taking has a negative correlation to business success (Rauch and Frese, 2000). Hence, a moderate appetite for risk is an entrepreneurial characteristic that contributes to business success.

4.5.2.2 Willingness to learn

Willingness to learn has been recognised as an entrepreneur characteristic that is key to the success of SMEs in Ladysmith. This is in agreement with the literature which elucidates that an entrepreneur's willingness to learn and flexibility are vital to the sustainability of small businesses (Zhou, 2016). Zhou (2016) further states that the entrepreneur and the business should evolve simultaneously. Regarding this, Participant 8 states:

“one has to keep up with the pace of change”.

Participant 8 also notes that as his business grew, his business acumen also grew because of the continuous learning personality trait that he possesses. The growth mindset has been defined as the belief that personal abilities and skills can be enhanced (Dweck, 2008). This growth mindset, as a CSF, is described by Participant 3:

I study the industry including competitors, for personal gain, so that I can improve and it really had a positive effect on the success of my business. What I've found interesting is travel, and travel I'm talking, business travel, if you go and see other operators or competitors, others in the industry, you learn a lot in terms of what can be done and what can't be done.

Participant 3 shows, which is congruent with the findings of Spinosa et al. (1999), that a willingness to learn and make improvements in business caters for the new business opportunities to be exposed, thus creating a competitive advantage.

McGrath and MacMillan (2000) conclude that the failure of small businesses is partially as a result of a resistance to constructive recommendations. Regarding this Participant 1 displays his openness to suggestions by stating:

I always hear our management staff or management team take everyone's opinion. Make people part of it, because people, everyone has got a leadership trait in them. Even if you

take the opinion of your sweeper or your cleaner, or your person assisting on a day today, your filing clerk.

Participant 8 explains that a continuous-learning mindset allowed for, the creation of a competitive advantage via the development of many facets of his business, such as; product and process improvements, better efficiency, technology adoption and increased profitability. A study by Morris et al. (2010) shows that these gains stem from the ability to replace outdated, traditional business knowledge with current relevant principles.

It can thus be noted that willingness to learn, as an entrepreneurial characteristic, can be appraised as a CSF for SMEs in Ladysmith. A willingness to learn has the potential to lower operating costs, spur growth and hence increase the profitability and competitiveness of businesses.

4.5.2.3 Prior experience

Research has shown that business experience and industry-specific experience are extremely reliable indicators of business success (Neneh, 2012; Singer, 1995). Four participants considered industry-specific and business experience as a CSF. Participant 4 noted that business and industry experience endorse success by; avoiding making costly mistakes, better management of staff and finances and by the formation of business networks. Participant 8 noted that experience promoted growth and more efficient business processes, by stating:

Over time and being in business for so long we were able to fine tune processes, by optimizing the necessary and eliminating the unnecessary.

Prior experience, as an entrepreneurial characteristic, is hence considered as a critical success factor for SMEs in Ladysmith.

4.5.3 SME characteristics

Six participants noted that SME characteristics such as; location, age and size affected their business competitiveness in some way. A study conducted in Nigeria on small businesses found that the location and age of the business strongly influences its success (Alkali et al., 2012).

4.5.3.1 Location

All participants in the retail sector (5 Participants) noted that location is critical to the success of their businesses. This is as the location governed the amount of passing trade and access to suppliers and customers, which are critical to their success. Regarding this Participant 2 states:

For us location is key critical, if we are in a busier area then we get more business and make more money.

Participant 3 shares similar sentiments by stating:

It's location...location...location. Fundamentally if your location is right, it drives sales.

Location as an SME characteristic can thus be considered a CSF for SMEs in Ladysmith, where the business location is strongly associated with the branding and other SME strategies.

4.5.3.2 Age

Business age has also been considered by five participants as a contributor to business success. This is in agreement with literature which shows that business age is one of the determining factors of business success (Storey, 2016). Participant 2 believed that the age of the business gave credibility to the business and contributed to business success, by stating:

So, they are scared to give you a deposit unless you are in the business for 20 years and you are not going to run away with the money.

Participant 1 noted that marketing activities were supported by the age of the business and stated:

It's a long term, it's a reputation that goes with it. Our reputation as a family business and the length of time the business is in operation has helped our turnover and ability to get new customers.

Business age can hence be classified as a CSF for SMEs in Ladysmith, where business age has an effect on the credibility of the business and supports marketing activities.

4.5.3.3 Size

SME size has also been identified as a CSF by a few participants which is in agreement with the findings of Wincent (2005). Participant 4 notes that due to the scale of his business he is able to beat competitors and states:

With us, right, being private, and having grown a lot, we see how much money we got in the bank and we buy accordingly. So we get things cheaper than competitors.

Participant 8 also noted that bigger businesses tend to get better market access and achieve economies of scale which aids business growth. Participant 2 shares similar sentiments by noting that the size of the business impacted marketing capabilities, by stating:

We, because our business is small, we don't get the big jobs, they don't think we have the capacity to do the work.

This is known as size-based disadvantage, where SMEs are at a disadvantaged resulting in inferior performance due to the size of their business (Nemaenzhe, 2010). These SMEs lack efficiency due to managerial incompetence and are denied finance due to a high-risk status and lack of creditworthiness (Nemaenzhe, 2010). Research has shown that an increase of a single percentage point in business size increases the survival prospects by 7% (Stokes et al., 2010).

It can thus be noted that the size of SMEs contributes to its success, where bigger SMEs are more capable of achieving enhanced efficiencies and exploiting market opportunities.

4.6 Chapter Summary

By using a deductive research approach and thematic analysis, the findings that emerged from the semi-structured face-to-face interviews were explained in accordance with literature. The affinity between these research findings and the research questions were determined. The most prominent challenge experienced by SMEs in Ladysmith are government regulation, access to finance, crime and corruption, infrastructure and access to markets. The most persistent growth bottlenecks to SMEs in Ladysmith are access to markets, access to finance and government regulation. The preponderant CSFs are entrepreneurial characteristics followed by managerial competency and SME characteristics (as passion, motivation, willingness to learn, risk-appetite and prior experience).

CHAPTER 5: CONCLUSIONS

5.1 Introduction

Research has shown that; 70% to 80% of businesses fail within their first five years, 63% of businesses fail within their first two years and just 1% of businesses that commence with under five employees grow to employ in excess of ten people (Friedrich, 2016). Despite a wide variety of government support initiatives for SMEs, South Africa is plagued with extremely low levels of entrepreneurial activity (Herrington et al., 2016). The critical role of SMEs in the local economy, as contributing towards the creation of employment and driving growth, is therefore stifled. It is hence crucial to gain a comprehensive understanding of the challenges that SMEs experience and limit their growth, while discerning the factors that enable successful SMEs to overcome these challenges and thrive. This study aimed to (1) identify the challenges that SMEs experience in Ladysmith, (2) determine the factors that limit the growth of SMEs in Ladysmith, (3) to examine the critical success factors of SMME's in Ladysmith and (4) to provide recommendations that promote the success, growth and sustainability of SMME's in Ladysmith.

This chapter outlines the research objectives and the way they were accomplished. This entails concluding the study, presenting findings-based recommendations and offering recommendations for further research.

5.2 Research objective 1: Challenges SMEs experience in Ladysmith

The regulatory environment has been identified as the primary challenge affecting SMEs in Ladysmith. This is mainly due to the elevated costs related with compliance. Regulation is not viewed as being complicated, rather the process is long and tedious partially due to lags caused by inefficiencies with government departments. This imposes an administrative burden on SMEs which requires outsourcing or a dedicated employee to fulfil regulatory requirements. Industry regulation is considered a necessary evil that is burdensome but also in a positive light, where it decreases competition due to increasing barriers to entry.

Access to finance, another major challenge for SMEs in Ladysmith, stems from the inability to acquire finance, or obtaining finance at exorbitant interest rates and other inimical conditions. This challenge mostly affects start-up SMEs, while better established SMEs are not exempt from it. Smaller less established SMEs are usually coerced into using finance at high interest rates or the use of short-term finance as a substitute for long term financing. This effects the profitability and efficiency of the SME, making access to finance an empirical threat to Ladysmith based SMEs.

Crime and corruption affects SMEs in Ladysmith and impedes business activities by; losses caused by crime that affect profitability and increased capital and operational expenditure for crime prevention. Corruption is a pervasive challenge that prevents SMEs from engaging in business with government.

Local infrastructure, an impediment for SMEs in Ladysmith, originates primarily from faults in power, telecommunications systems and transport routes. The poor state of the local infrastructure impedes business activities and reduces the revenue and profitability of SMEs, by necessitating increased capital and operating expenses to invest in solutions that mitigate these infrastructural deficiencies.

Access to markets, an existential challenge to Ladysmith based SMEs, emanates from marketing incompetence and increased competition. The competitive advantage from larger competitors stem from age and size-related advantages while those of smaller competitors originate from the avoidance of compliance related expenses.

5.3 Research objective 2: Factors that limit the growth of SMEs in Ladysmith

The primary growth constraints to SMEs in Ladysmith are access to markets, access to finance and government regulation. These growth constraints differ from the challenges investigated (in research objective 1) as they have real effects on an SMEs growth strategy. Access to finance directly hinders growth specifically where the markets are saturated or larger competitors with size-related advantage. Access to finance inhibits the growth of SMEs through two primary means, restrictions in working capital and as an inhibitor to business activity. Government regulation is another inhibitor to the growth of SMEs either through inefficiencies in government departments or through government regulations pertaining to SMEs. Ladysmith is viewed as a low growth area

because the local municipality is not creating an environment for growth. The minimum wage law and trade unions are also considered growth inhibitors.

5.4 Research objective 3: CSF for SMEs in Ladysmith

The most prominent CSF for Ladysmith based SMEs is entrepreneur characteristics followed by managerial competency and SME characteristics. Entrepreneur characteristics such as passion, motivation, willingness to learn, risk-appetite and prior experience are part of the main determining factors for SMEs in Ladysmith. Managerial competencies (another CSF) and entrepreneurial characteristics are interconnected, in that most SME owners manage their businesses. Interpersonal and leadership skills are considered to improve the performance of SMEs resulting in a reliable, dependable, competent workforce yielding improved productivity and quality. SME characteristics, particularly, SME location, age and size are also found to be CSFs for SMEs in Ladysmith. SME location has a strong association with market presence as well as branding and other SME strategies. Business age affects the credibility of a business. Both SME location and age are intermediaries to marketing effectiveness. SME size corresponds to market advantages namely, better bargaining power, greater financial resources and economies of scale.

5.5 Research Implications

The aim of the study is to raise awareness around the factors that SMEs in Ladysmith experience which limit their growth and sustainability, hence adversely affecting the economy. Macroeconomic issues such as low-growth and unemployment can be improved with a healthy SME sector (Harris et al., 2005). This research would interest; the Alfred Duma Local Municipality, Ladysmith Chamber of Commerce & Industry, The Department of Trade and Industry (DTI) and its subsidiaries that are assigned with implementing government policies regarding SMEs. Trade and Industry KZN (TIKZN) that functions to promote trade and investment in KZN will also benefit similarly. The findings from this study can be used by policy makers within government to improve the efficacy of government support for SMEs.

This research would also be of value to public and private academic institutions and other organisations that provide business incubation or training to managers or entrepreneurs. These institutions can use the results of this study to develop or improve the syllabi for entrepreneurs or managers by focusing on common shortfalls in business and addressing educational gaps. SME

managers or owners could also benefit by exploring the research to comprehend the business environment and to take precautions against the common factors that hinder the growth and sustainability of businesses resembling theirs. The research will also provide recommendations to avoid failure and spur growth.

The research would also benefit financial institutions, investors and venture capitalists which could use the study as a measure of prospective SME investments. Likewise, the research would be of interest to businesses that have SMEs in their supply chain, as the conservation of the members of their supply chain affects the sustainability of their organisation.

The outcomes of this study would be valued by researchers as the study is conducted in a specific location (Ladysmith) and it provides a detailed understanding of the business environment in which SMEs function in Ladysmith. This perspective has the potential to lead to innovative insights and can be used as a basis for extended research into the spatial variation of the challenges that SMEs experience, as well as policies that can be used to alleviate these challenges and improve the SME sector.

5.6 Limitations

- By doing face-to-face interviews of SME owners and managers, there is a possibility that loss of memory may influence the responses regarding historical matters.
- There is a possibility that bias may affect honesty of responses as the research is concerned with missed opportunities.
- The study targets SMEs in Ladysmith and there are spatial variations in the factors regarding SMEs. Hence, this might affect the generalisability of the study.
- Eleven SMEs were studied in detail hence limitations regarding the sample size may be of concern. Some themes reached theoretical saturation, however a bigger sample could have produced better insights and further development of themes during the data collection phase.
- The data analysis and interpretation phases of a qualitative study is subjective in nature which could reflect the researcher's views. To combat this, triangulation was performed on the data analysis and interpretation phases by letting third parties independently perform these processes to compare results.

5.7 Delimitations

The research process is guided by many interconnected decisions, some of these are explained below:

- The study's geographical scope was limited to SMEs in Ladysmith due to resource and time constraints. This was also required to limit the variation that could arise and to that themes would be sufficiently developed.
- It was not possible to identify SMEs that failed, hence these SMEs did not form part of the sample. Some participants, historically, did experience failure of their business.

5.8 Recommendations

- Owners and manager of SMEs should engage in studies that focus on entrepreneurship or business to improve their management and marketing capabilities, and their ability to formally document their business structure, business objectives and growth allowing for increased profitability and growth. This would also facilitate their ability to access finance. Such studies would also increase their professionalism, formality and business processes hence enhancing competitiveness.
- To combat crime SME owners should jointly employ security that patrol the area within which their business premises is located. This will permit crime-related expenses to shared amongst businesses resulting in decreased operating costs.
- The Alfred Duma Local Municipality should create an environment to spur growth in the area by providing incentives that are administrative service related and rates and charges related. Administrative service related provides rebates or discounts on fees for the development approval process. Rates and charges related incentives allow businesses to obtain discounts on service charges and taxes to lower start-up costs.
- The Alfred Duma Local Municipality should prioritise unemployment by creating a database of skilled job seekers that have been profiled and screened. These candidates should then be referred to SMEs that need these skills.
- Government should offer courses or mentorship programmes with the aim of improving entrepreneur characteristics, which are a CSF and promotes growth of SMEs.

- Access to finance for SMEs should receive government facilitation by incentivising investments into start-ups and SMEs. This can be achieved by government permitting tax breaks to investors and lending organisations that support entrepreneurial endeavours.
- Government should enable simpler compliance by moving all processes online and by allowing real-time feedback for all business-related transactions such as applications. This would reduce the cost and administrative burden caused by regulatory compliance.
- SME managers and owners should engage in business networking with the aim of improving the performance of their businesses. Market based disadvantages that result from SME size can be overcome by forming buying groups to gain greater bargaining power.
- SME owners and managers should focus on improving their interpersonal and leadership skills to enhance employee performance and to gain a loyal customer base that is not price-sensitive. This will result in the formation of a competitive advantage which is essential in competing with larger competitors.

5.9 Recommendations for further studies

- The validity of the study could be improved by conducting a similar qualitative study with a larger sample. This may yield additional findings.
- Since the phenomenon under study varies spatially, an equivalent study can be performed in alternate locations within South Africa to more accurately assist in the execution of government support systems regarding SMEs.
- To decisively comprehend the causes of failure of SMEs, a similar study can be conducted on SMEs that have failed.

5.10 Chapter summary

Since the South African SME sector is critical in the health of the economy and is performing extremely poorly, research into the challenges, growth bottlenecks and critical success factors, which provide a detailed understanding of SMEs, is of prime importance. This study involved the analysis of incongruent literature to yield the most relevant challenges, growth bottlenecks, critical success factors and ways to surmount these issues. A qualitative approach with semi-structured face-to-face interviews was utilized to obtain the lived-experiences of SME owners and managers. The most prominent challenge experienced by SMEs in Ladysmith are government regulation, access to finance, crime and corruption, infrastructure and access to markets. The most persistent growth bottlenecks to SMEs in Ladysmith are access to markets, access to finance and government regulation. The preponderant CSFs are entrepreneurial characteristics followed by managerial competency and SME characteristics (as passion, motivation, willingness to learn, risk-appetite and prior experience). The outcomes of this study can be used to inform the implementation of government policies and support initiatives regarding SMEs. SME managers and owners can benefit from the study by pre-emptively addressing the prevalent challenges and growth bottlenecks, while improving on the CSFs which are critical in achieving sustainable, high growth competitive businesses.

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APPENDIX A: INFORMED CONSENT

Dear Participant,

My name is Yaseer Haroon Tar Ally and I am a Masters candidate studying at the University of KwaZulu-Natal, Westville Campus. The title of my research is: Factors limiting the success, growth and sustainability of SMMEs in Ladysmith. The aim of the study is to identify the challenges that cause SMME's to fail in Ladysmith to: determine the factors that limit the growth of SMME's in Ladysmith; examine the critical success factors of SMME's in Ladysmith; provide recommendations that promote the success, growth and sustainability of SMME's in Ladysmith. I am interested in interviewing you to share your experiences and observations on the subject matter.

Please note that:

- The information that you provide will be used for scholarly research only.
- Your participation is entirely voluntary. You have a choice to participate, not to participate or stop participating in the research. You will not be penalized for taking such an action.
- Your views in this interview will be presented anonymously. Neither your name nor identity will be disclosed in any form in the study.
- The interview will take about 60 minutes.
- The record as well as other items associated with the interview will be held in a password-protected file accessible only to myself and my supervisors. After a period of 5 years, in line with the rules of the university, it will be disposed by shredding and burning.
- If you agree to participate please sign the declaration attached to this statement (a separate sheet will be provided for signatures)

I can be contacted at 295 Murchison Street, Ladysmith.

Email: 210506956@stu.ukzn.ac.za

Cell: 0820786801

My supervisor is Prof. Muhammad Hoque, who is located at the Graduate School of Business, Westville Campus of the University of KwaZulu-Natal.

Contact details:

email hoque@ukzn.ac.za.

Phone number: 031 260 8690

Thank you for your contribution to this research.

DECLARATION

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

I understand that I am at liberty to withdraw from the project at any time, should I so desire.
I understand the intention of the research. I hereby agree to participate.

I consent / do not consent to have this interview recorded (if applicable)

SIGNATURE OF PARTICIPANT

DATE

.....

APPENDIX B: ETHICAL CLEARANCE APPROVAL



08 August 2018

Mr Yaseer Haroon Tar Ally (210506956)
Graduate School of Business & Leadership
Westville Campus

Dear Mr Ally,

Protocol reference number: HSS/0865/018M

Project Title: Factors limiting the success, growth and sustainability of SMMEs in Ladysmith

Approval Notification – Expedited Application

In response to your application received 06 July 2018, the Humanities & Social Sciences Research Ethics Committee has considered the abovementioned application and the protocol has been granted **FULL APPROVAL**.

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

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

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

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

Yours faithfully



.....
Professor Shenuka Singh (Chair)

/ms

Cc Supervisor: Professor Muhammad Hoque
Cc Academic Leader Research: Dr Emmanuel Mutambara
Cc School Administrator: Ms Zarina Bullyraj

Humanities & Social Sciences Research Ethics Committee

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Founding Campuses: Edgewood Howard College Mediocal School Pietermaritzburg Westville

APPENDIX C: INTERVIEW SCHEDULE

PARTICIPANT PROFILE

Name:

Organisation name:

Designation:

Number of Years occupying position:

Date:

Time started:

Time finished:

Name of interviewer:

Location of interview:

The study will focus primarily on the following aspects

- 1- Challenges facing SMEs
- 2- Factors that inhibit the growth of SMEs
- 3- Critical success factors for SMEs

Thank the interviewee for his/her participation

Thank you for taking out the time to participate in the survey. Your anonymity will be preserved.

SEMI-STRUCTURED INTERVIEW SCHEDULE

Background information

1. Please provide me with details about your business (What type of business and the service/products that you provide) - (if inadequately addressed, probe the following :)
 - a. Primary products/service
 - b. Number of employees
 - c. Growth VS Business age
 - d. Legal status of your business (Close corporation, Private limited company, partnership, sole proprietor)
 - e. The length of time your business is in operation
2. Please provide me with your business-related background? (if not adequately addressed, probe the following:)
 - a. Level of education and future plans or skillset?
 - b. Prior experience?
 - c. Founder or family business?
 - d. Reasons for starting the business
 - e. Start-up characteristics
 - f. Entrepreneurial background – other businesses, exposure to business environment when growing up
3. Has your business performance improved/deteriorated in the past year in comparison to previous years?
4. Has it become easier or more difficult to run an SME in the past year compared to previous years

Challenges that SMEs experience

5. As an SME owner what challenges do you experience in running the business? (if not adequately addressed, probe the following:)
 - a. Access to finance
 - i. How much finance is required and what is the finance going to be used for?
 - iii. What sources of finance have been applied for?

- iv. How is your business financed (equity, short/long term debt, venture capital etc.)?
 - v. Has your business experienced difficulties in obtaining finance and if so, what are these difficulties ?
- b. Entrepreneurial skills, managerial competency
- i. Is there any relationship between your entrepreneurial and managerial skills and the success of your business, if so explain?
 - ii. Is there any relationship between the skills and level of education of your employees and the success of your business, if so explain?
 - iii. Do you feel that entrepreneurial, managerial, or general skills affect your business in any way?
- c. Other factors
- i. Has the access to technology advantaged or disadvantaged your business?
 - j. Are there any factors preventing the technological advancement of your business?
 - ii. Has the access to markets has advantaged or disadvantaged your business?
 - iii. Has crime and corruption has affected your business?
 - iv. Has your business benefitted from crime or corruption previously?
 - v. Do you feel that access to information has advantaged or disadvantaged your business?
 - vi. Has the regulatory environment impeded on your business activities and in what way?
 - vii. Has any macroeconomic factors (exchange rate, inflation and interest rate) affected your businesses performance?
 - viii. Has the local infrastructure (power, roads or telecommunication systems) affected your businesses performance?
 - ix. Does the owner/manager/employee have the required skills to fulfil government regulation (tax returns etc.)
6. How have you overcome challenges to your business?
7. Have you ever utilised incubators or governmental support systems?

8. Which of these challenges would you class as an existential threat to your business, if any? (if not adequately addressed, probe the following:)
 - a. Have you experienced or witnessed the failure of an SME as a direct result of any of these challenges?
 - b. What is the greatest challenge to SMMEs in Ladysmith?

Growth Bottlenecks of SMEs

9. Has your business grown since it started and if so how much?
10. What do you attribute this growth to?
11. What are your growth aspirations?
12. What do you fell is necessary to achieve this growth?
13. As an SME owner have you or are experiencing any growth bottlenecks? (if not adequately addressed, probe the following:)
 - a. Barriers
 - i. Lack of management skills and competencies
 - ii. Access to finance
 - iii. Poor infrastructure
 - iv. Staff skills and experience
 - v. Entrepreneurial and business education
 - vi. Marketing skill
 - vii. Information or technology access
 - viii. Burdensome government laws, policies and regulations
 - ix. Competition

Critical success factors for SMMEs

10. What do you feel is absolutely essential in creating and maintaining a sustainable competitive advantage (if not adequately addressed, probe the following:)?
 - a. The following factors from literature can be explored to evaluate their relative importance (Morris et al., 2010; Lee, 2016a).

	SMME features	<ul style="list-style-type: none"> - Age - Location - Size
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<p>Internal Features</p>	<p>Entrepreneur feature</p>	<p>Socio-demographic Characteristics:</p> <ul style="list-style-type: none"> - Age - Gender - Race
	<p>Entrepreneurial or business acumen</p>	<p>Background characteristics:</p> <ul style="list-style-type: none"> - Educational background - Industry experience - Personality characteristics: <ul style="list-style-type: none"> o Need for achievement o Passion o Hard working o Dedication o Adaptable and flexible o Locus of control o Empathetic o Optimistic o Appetite for risk o Self-esteem o Independence o Responsible o Proactivity and passion o Persuasive o Innovativeness and tenacity o Interpersonal skills o Motivation level o collaboration o Systems-oriented o Ambition o decisiveness o Ability and willingness to learn o Networking o Creative thinking o Ability to communicate effectively

External Factors	Macroenvironmental features	Economic Factors: <ul style="list-style-type: none"> - Enterprise density - Access to finance - Taxation levels - Inflation - Interest rates - Unemployment rate - Exchange rates
	Microenvironmental features	Technological and support factors: <ul style="list-style-type: none"> - Access to infrastructure - Access to technology - Access to information Politico-legal factors: <ul style="list-style-type: none"> - Government support levels - Government policies - Regulatory environment Socio-cultural factors: <ul style="list-style-type: none"> - Networking ability - Customer and supplier relationship management - Marketing competence - Strategic orientation and level of goal orientation

11. What has enabled you to surpass your competitors? Or caused competitors to surpass you?
What are the factors that are critical in ensuring the success of your business?
12. Can these critical success factors be modified/enhanced to improve your business, and how so?