

**UNIVERSITY OF KWAZULU-NATAL**

**CHALLENGES FACING SMALL AND MEDIUM ENTERPRISES IN MANZINI,  
SWAZILAND**

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## DECLARATION

I Patience Lungile Hlatshwako declare that:

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## **Abstract**

The economic environment is rapidly changing worldwide. Large corporations are downsizing and big enterprises are outsourcing. This has made the existence of Small and medium enterprises (SMEs), to be of critical importance to many nations. These enterprises play a vital role in the economic growth of their communities through job creation, innovation, poverty reduction and improving the general welfare of citizens.

Although SMEs play a crucial role, there are a number of challenges that hinder them from performing up to their full potential. It is disturbing to note that a number of small and medium businesses are struggling to survive and those that are not struggling, are also not growing to become big well established enterprises. This suggests that a better understanding of how to improve performance may be necessary hence a review of the underlying factors affecting their development and performance of SMEs is required.

This study was undertaken to explore the challenges facing SMEs in the Manzini region of Swaziland. The main aim was to investigate factors that contribute to the success or failure of these enterprises. The research was conducted in the Manzini city centre and a sample of 25 SMEs was selected. The qualitative approach was used for the collection of data because this study sought to gain better understanding of small businesses from the participants' point of view. Semi-structured interviews were used to collect data and an interview schedule was used to guide the interviews.

The findings of the study reveal that lack of access to financial resources, competition and high operating costs were found to be the major challenges faced by SMEs. The findings also indicate that the SMEs are not getting enough support from the government and other development agencies.

It is believed that this study will benefit the policy makers, development agencies, and service providers by information that will assist in identifying the challenges facing SMEs in Manzini. It is recommended that the government play a leading role in creating an enabling environment for the development of successful SMEs.

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# CHAPTER ONE

## OVERVIEW OF THE STUDY

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### 1.1 Introduction

The development of Small and Medium Enterprises (SMEs) is of fundamental importance for the prosperity of nations across the globe. SMEs make remarkable contributions to employment, social stability and economic welfare. They foster economic growth and job creation which results in the reduction of poverty (Ayyagari, 2007).

In many countries, SMEs dominate the economy especially in developing countries. Swaziland is a developing country and its economy is in part dependent on the SME sector because SMEs provide employment and to a great extent promote the standards of living of rural communities. Swaziland as a country has a majority of its people living in rural areas. It is therefore, necessary to study the current situation of the small business sector in Swaziland in order to be able to develop strategies that would assist in improving the success rate of this sector and hence improve the economy of the country as a whole.

This report will focus mainly on small and medium-enterprises and the acronym 'SMEs' is thus used throughout, but it is intended to also include categories commonly referred to as "micro-enterprises". The phrase 'small business sector' will also be used interchangeably with this acronym.

### 1.2 Motivation for the Study

This study was motivated by the realization that the small business sector is an important base for economic development, especially in developing countries, therefore their development is important for long-term economic growth.

It is disturbing to note that a number of small and medium enterprises are struggling to survive and those that are not struggling, are also not growing to

become big successful enterprises. This suggests that a better understanding of how to improve performance may be necessary hence a review of the underlying factors affecting the development and performance of SMEs is required (Tahir, Mohamad & Hasan, 2011).

This study was conducted to investigate the challenges faced by SMEs in Manzini in an attempt to identify factors that may lead to the development of successful SMEs. The findings will help in identifying the issues that need to be addressed in order to create an environment that will be more conducive for the development of successful SMEs.

There is a lack of literature and research on the challenges faced by SMEs in developing countries, Swaziland, in particular. In most cases, reliance has been on literature from developed countries. The results of this study will provide the required information that will enable stakeholders to advance the development of SMEs in Swaziland.

The following stakeholders will benefit from this study:

- The government and policymakers will have a better understanding of the situation on the ground hence they will be able make informed policy decisions.
- The SME sector and interested parties will gain a better understanding of the current situation that SMEs operate in.
- Development agencies to understand better, the needs of SMEs and then identify areas that need to be improved upon.
- Service providers will be informed on the expectations of SMEs and therefore, be able to provide products and facilities that will benefit the SMEs.
- Potential entrepreneurs will be better prepared by understanding the business environment and the challenges they are likely to encounter.

### **1.3 Focus of the Study**

This study focused on SMEs that are operating in the Manzini urban area. The idea was to obtain a deeper understanding of the environment in which these businesses operate. Manzini is the industrial capital city of Swaziland with most economic activities happening in it. This city is centrally located at the heart of the country.

There are some business activities that happen only in this city. These include the international trade fare that is held annually. There are also flea markets held every week whereby traders from all over the country, even from outside the country, come to sell their wares. This makes Manzini to be the busiest city in the country. Thus choosing SMEs who run their businesses in this city was considered to be in a good position to provide a good picture of the operations of the small business sector.

### **1.4 Problem Statement**

It has been acknowledged worldwide that SMEs are the backbone of economic development in their economies. As such their development is of major importance if the economy of a nation is to improve. In view of this, as is the case with most countries, the Swazi government has come up with some strategies that are aimed at developing the small business sector. In spite of these attempts SMEs are still faced with challenges and other factors that make it difficult for SMEs to reach their full potential.

It is apparent, therefore, that there is a need to investigate the underlying factors that constrain the development of SMEs. Thus the main objective of this study was to obtain a deeper understanding of the challenges faced by SMEs and the key factors that contribute to their success or failure. It is believed that if these can be identified, it would then be possible to come up with strategies that can be implemented to foster the development of highly successful SMEs.

## **1.5 Research Question/s**

This research seeks to answer the following critical questions:

- What are the challenges facing SMEs in Manzini?
- How do these businesses address these challenges?
- What are the key success factors that ensure growth in the SME sector?
- What is the contribution of SMEs to the economy of the country?
- Are these SMEs benefiting from current development strategies that exist in the country?

## **1.6 Objectives**

Despite various government interventions to assist SMEs, there still exist some challenges that hinder their growth and maximum performance. The aim of this study was to identify these challenges and hence the objectives of the study were:

- To identify the challenges faced by SMEs;
- To determine the key success factors of SMEs;
- To determine the contribution of SMEs to the economic development of the country;
- To ascertain the effectiveness of current development strategies.

The researcher is satisfied that these objectives were achieved and the research questions were answered. This is shown in chapter four where the findings of the study are presented and discussed.

## **1.7 Limitations of the Study**

The limitations that were encountered during this study were:

- Since the study was conducted using the qualitative approach, a non-probability sampling framework was used and a small sample was selected. This means that the elements of the population did not have an equal chance of being selected. The effect of this is that the results may not be generalized to the whole population. However, the results of this study can

be used as a starting point for further research.

- There was no database available that contains all the SMEs in Manzini hence there was no sampling frame available as a result it could not be ensured that all categories of SMEs were included in the sample.
- There was not enough time for the researcher to exhaust all the issues that had been identified in the interview schedule as the respondents had limited time to spend in an interview.

## **1.8 Outline of the study**

The study has been presented in five chapters that flow as follows:

- Chapter One provides a background to the topic as well as the motivation of the study. The area of focus is given and the objectives that were set out to be achieved are highlighted, whilst the limitations are also identified.
- Chapter Two presents a literature review, which was based on both local and international literature on small and medium enterprises. Entrepreneurship as it relates to SMEs were discussed as well as the SME Environment. Focus was given to SME challenges, Key success factors and the Role of SMEs in the economy. SME development in Swaziland was also addressed.
- Chapter Three deals with the research methodology that was applied in this study. The research approach and data collection techniques are discussed as well as the rationale used in choosing which method to use for this study. A discussion of the data analysis process is also given.
- Chapter Four presents the data collected for this study and tables and graphs were used to illustrate the findings. The results were interpreted and then discussed, bearing in mind the objectives of the study.
- Chapter Five is a concluding overview of the study. It presents the conclusions drawn from this study and recommendations are made that would address the research problem. Limitations encountered are presented as well as recommendations for future studies.



## **1.9 Summary**

This chapter elaborated on the background to the topic as well as the motivation for this study. The objectives that were set out to be achieved are highlighted and the area of focus is given. The research questions and limitations of the study were also stated. Chapter two contains a literature review that was carried out in order to find out what is happening within the broader area of knowledge in this field of study.

## **CHAPTER TWO**

### **Review of Literature**

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#### **2.1 Introduction**

Small and Medium Enterprises (SMEs) make a remarkable contribution to national economies. The small business sector makes a huge contribution to employment, social stability and economic welfare. In many countries, SMEs dominate the economy and their contribution to the national economy is being acknowledged worldwide. Small businesses foster economic growth and job creation which results in the reduction of poverty (Ayyagari, 2007).

Stokes and Wilson (2010), state that the small business sector and entrepreneurship are recognized today as key elements in national economic growth. There is a fundamental gap between high and low income groups. Small business and entrepreneurship development serve as a facilitator in filling these gaps. As such this study will consider these two elements in order to gain a deeper insight on the issues facing SMEs.

Over the years there has been a wide recognition of the important role played by SMEs. This has resulted in the introduction of various initiatives with the intention of developing and improving their performance. Even though these programs do enhance the performance of SMEs to a certain extent, there are still a number of challenges that are faced by many of them (Tahir et al., 2011). It is therefore, apparent that there is a need to explore the environment in which these SMEs operate in order to get a better understanding of the underlying factors that affect their performance and growth.

It is necessary to study the current situation of the small business sector in Swaziland in order to be able to develop strategies that would assist in improving the success rate of this sector and hence improve the economy as a whole. Swaziland is a developing country and its economy is in part dependent on the SME sector because SMEs provide employment and to a great extent promote the

standards of living of the rural communities. It is, therefore, necessary to develop knowledge on the nature of this sector so that any assistance provided to them is based on an understanding of their environment and the challenges they are exposed to.

This study intends to identify the challenges faced by SMEs in Manzini with a view to identifying the critical factors that influence the success or failure of these businesses. Topics that will be considered include: Entrepreneurship, defining SMEs, SME Environment, SME challenges, Key success factors, the Role of SMEs in the economy and SME development in Swaziland.

There is a lack of literature and research on the challenges faced by SMEs in developing countries, Swaziland in particular. In most cases, reliance has been on literature from developed countries. The lack of research on a secondary level has put a strain on this study. As a result this study has had to use available literature from other countries, especially neighbouring and other developing countries.

## **2.2 Entrepreneurship**

Entrepreneurship may be defined as a process that results in the establishment and growing of new businesses. It brings with it innovations and new venture creations thus causing changes in the economic system. This results in the creation of value for the entrepreneurs and the society at large (Deakins, 2006). According to Timmons and Spinelli entrepreneurship is “a way of thinking, reasoning, and acting that is opportunity obsessed, holistic in approach, and leadership balanced for the purpose of value creation and capture” (2009: 101).

Nieman and Nieuwenhuizen define an entrepreneur as “a person who sees an opportunity in the market gathers resources and creates and grows a business venture to meet these needs. He or she bears the risk of the venture and is rewarded with profit if it succeeds” (2010: 9).

The Global Entrepreneurship Monitor (GEM), is an annual report that assesses the current state of entrepreneurship in different countries from a global perspective.

According to the GEM (2011), entrepreneurs are job creators and drivers of innovation. Entrepreneurship thus embraces the emergence and growth of new businesses.

Entrepreneurship is a crucial element in the society's development and well-being. It fosters the growth of the economy as well as the nations' competitiveness. Economies that are suffering from high levels of unemployment and less developed countries benefit a lot from self-employment that results from necessity driven entrepreneurial activities (GEM, 2011). Swaziland is a developing country and its economy is in part dependent on SMEs because they provide employment and to a great extent promote the standards of living of the rural communities.

Entrepreneurs have a potential to make major contributions to the empowerment of the societies they live in. Entrepreneurship calls for a strange, sometimes conflicting mixture of qualities but they are all essential for the success of the business. Entrepreneurs tend to have unique characteristics that distinguish them from other individuals. This has led to researchers trying to analyze their personalities, skills attitudes and the conditions that foster their development (Green, 2005).

Timmons and Spinelli (2009), concur with this view, and they state that successful entrepreneurs possess a combination of traits, attitudes and behaviors. Studies have shown that there are certain characteristics that are common to a majority of successful entrepreneurs. The following are some of them:

- Commitment
- Determination
- Ambition
- Confidence
- Persistence
- Risk taker
- Innovation
- Motivation to excel
- Locus of control

It is important for entrepreneurs to analyse themselves so that they can identify where their strengths and weaknesses lie. This will help them to capitalise on their strengths while working on improving their weak points (Moore et al., 2008).

### **2.2.1 Entrepreneurship as a driving force behind small business.**

Nieman and Nieuwenhuizen (2010), argue that entrepreneurship is strongly linked to small, medium and micro enterprises and most entrepreneurial activity takes place in these enterprises. SMEs act as a medium for the promotion of entrepreneurship. This is made possible by the close proximity that small businesses have with their customers and the hands-on approach by the owner-managers. SMEs are more flexible thus they can quickly adjust to changes in the business environment. They are therefore in a better position to embrace and promote entrepreneurship (Sha, 2006).

It is worth noting that there is a distinction between entrepreneurship and small business management. Nieman and Nieuwenhuizen (2010), state that a small business is one whose ownership and operation is independent and it is not a major player in its industry. For small business owners, growth may not necessarily be a key objective as is the case with entrepreneurial ventures. They just see themselves as successful when their businesses are making profits.

### **2.2.2 Entrepreneurship as a catalyst for economic activity.**

Nieman and Nieuwenhuizen (2010), state that the combination of all businesses from small to big, determines the state of the economy. Research by the Global Entrepreneurship Monitor reveals that there is a direct relationship between the level of entrepreneurship and the stage of development of an economy. This suggests that the economic development of a country is highly dependant on the level of entrepreneurial activity therein.

In many countries entrepreneurs are seen as the drivers of economic growth. Their contribution to the economy is mostly seen in the creation, establishment and growth of new businesses. They introduce important innovations by entering

markets with new products and new production processes (GEM, 2011).

Entrepreneurship is a complex and chaotic activity with entrepreneurs operating in increasingly uncertain and sometimes negative environments. Entrepreneurs are always faced with the uncertainty of the economic climate. Responding to the significant changes occurring as they manifest in financial crises, technological advances and speed of telecommunications, entrepreneurs launch new ventures to create social, economic and personal value (Deakins, 2006).

### **2.2.3 Entrepreneurship addresses the problem of unemployment.**

Unemployment is one of the major problems in many countries, including Swaziland. Its consequences such as high levels of crime and poverty have an impact on every society. The formal sector has not been able to provide enough employment to alleviate the many challenges caused by lack of job opportunities. SMEs fill this gap because a lot of employees get their first jobs and basic job training from small firms. (Ayyagari, 2007).

Studies have shown that high levels of entrepreneurship result in the reduction of unemployment. Corporate entities, the world over, are struggling to remain in business hence they are adopting survival strategies such as merging, restructuring and downsizing. This has resulted in many retrenched and unemployed people establishing their small businesses and becoming self-employed (GEM, 2010).

## **2.3 SME Definition**

The term SME is used to describe a certain group of enterprises and the way in which they are operated. These enterprises have certain characteristics and structures that distinguish them from other organisations. Social structures and relationships coupled with the levels of resources available make the management of small businesses to be different from management in larger enterprises (Stokes, 2010).

### **2.3.1 SME Definition - Internationally**

The Definition of small business is different for different countries and various criteria are used as a basis for defining SMEs. Criteria that are widely used include turnover, number of employees and value of assets (SEDA, 2010). According to Ayyagari, Beck and Demirguc-Kunt (2007), employment is the most common basis for definition. They add that most definitions state that an SME is an enterprise which has up to 250 employees.

In the European Union a definition which came into effect in 2005 defines micro, small and medium enterprises as being those with less than 250 employees, with an annual turnover that is less than or equal to 50 million euro, and/or an annual balance sheet total of less than or equal to 43 million euro (Stokes, 2010).

According to the University of Strathclyde Library, “in the UK, the Companies Act of 2006 states that for the purpose of accounting requirements a small company is one that has a turnover of not more than £6.5 million, a balance sheet total of not more than £3.26 million and not more than 50 employees. A medium-sized enterprise is one with a turnover of not more than £25.9 million, a balance sheet total of not more than £12.9 million and not more than 250 employees.”

The Small Enterprise Development Agency (SEDA) states that in South Africa, a framework that is mostly used to define SMEs is the one given by the National Small Business Act of 1996, as revised by the National Small Business Amendment Bill of 2003.

Table 2.1 shows five categories of small businesses as defined by the Small Business ACT.

**Table 2.1: Definitions of SMEs**

<b>Enterprise Size</b>	<b>Number of Employees</b>	<b>Annual Turnover</b>	<b>Gross Assets excluding fixed property</b>
<b>Medium</b>	Fewer than 100 to 200, depending on industry	Less than R4 million to R50 million, depending on industry	Less than R2 million to R18 million, depending on industry.
<b>Small</b>	Fewer than 50	Less than R2 million to R25 million, depending on industry	Less than R2 million to R4.5 million, depending on industry.
<b>Very Small</b>	Fewer than 10 to 20 depending on industry.	Less than R200 000 to R500 000, depending on industry.	Less than R150 000 to R500 000, depending on industry.
<b>Micro</b>	Fewer than 5	Less than R150,000	Less than R100,000.

Adapted from the Small Enterprise Development Agency (SEDA), 2010.

### **2.3.2 SME Definition in Swaziland**

Swaziland is a small country and its population is just over one million (SIPA, 2011). It has been stated above that different countries have different definitions of SMEs. As such Swaziland has its own definition of SME. The SME sector in Swaziland ranges from rural women working on their own in a limited part time capacity through to successful entrepreneurs with influence throughout the region and beyond (SME Policy, 2006). This definition is summarised in table 2.2.



**Table 2.2: Defining SMEs in Swaziland**

	<b>Micro</b>	<b>Small</b>	<b>Medium</b>
Value of assets	Under R50 000	R50 001 to R2 million	R2 million to R5 million
Staff Employed	1 to 3	4 to 10	11 to 50
Turnover	Up to R60 000	Up to R3 million	Up to R8 million

Adapted from the Swaziland SME policy, 2006.

#### **2.4 The Swazi economy and its key contributors.**

The Central Bank of Swaziland (CBS) annual report of 2011 states that, Swaziland is a small, landlocked country and the size of the country has meant that it had to take up membership in a number of regional economic and monetary groupings to have access to larger and lucrative markets. Due to the small domestic market, the Swazi economy is export oriented (CBS, 2011).

According to the Swaziland Investment Authority (SIPA), the economy of Swaziland is closely linked to the economy of South Africa. The country imports above 87% of its products from South Africa and it also exports about 70% of its products to that country. Other key trading partners of Swaziland are the United States (US) and the European Union (EU). The country has received preferential trade terms for apparel exports to the US, and for sugar exports to the EU. With a limited domestic market, export-oriented industries are the backbone of Swaziland's economy. About 50% of the country's products, including sugar, coal and citrus are sold internationally. More than 50% of Swaziland's exports are to South Africa since it provides a diverse consumer profile, a high-potential market and geographic proximity, all of which make it a natural target for Swaziland (SIPA, 2012).

The economy of Swaziland is fairly diversified with the Government being a significant player in the economy. Government spending plays an important role because of the structure of the economy. The largest contribution of government to GDP is through consumption. Agriculture contributed 8.4 percent of GDP in 2009. Manufacturing, which accounts for 28.3 per cent of GDP is concentrated on value-added goods based on sugar. This sector has been driven by foreign direct investment and export oriented products. Construction which is largely influenced by government spending stands at 3 per cent of GDP. This sector is liberalized and characteristic of an extensive value chain which incorporates small businesses. Services contribute approximately 60 per cent of GDP with public administration being the lead sector (FSE&CC, 2011).

## **2.5 The Importance of SMEs to the Economy**

The contribution of small businesses to the economy is remarkable. According to Scarborough, Wilson and Zimmerer (2009), small firms play a vital role by introducing new products and providing much needed skills to a lot of employees. Globally this contribution by SMEs has made their economies to flourish.

Stefanovic (2010), adds that SMEs are the main developing force for the developed market economies. In most developed countries, the percentage of SMEs in total number of enterprises is higher than 95%, while 60% of available workforce is employed in those firms. According to Nieman and Nieuwenhuizen (2010), about 97.5 per cent of all businesses in South Africa are SMEs and this sector employs 55 per cent of all formal private sector employees. It also generates 35 per cent of the gross domestic product (GDP) of the country.

The above analysis is supported by Scarborough, Wilson and Zimmerer (2009), who state that in the United States, approximately 99% of all businesses can be considered as small and they employ 52% of the nation's private sector workforce. This sector produces 51 per cent of the gross domestic product in the U. S. Small businesses are not restricted by large hierarchical structures, firm strategies and entrenched organisational culture that limit their flexibility and productivity. The

owners of small firms are often managers hence they have the authority to make decisions regarding the operations of the enterprise, this in turn encourages innovation and it increases efficiency in the production of goods and services (Moore *et al.*, 2008).

Stokes and Wilson (2010), state that the role played by SMEs can be summarised as follows:

- The formal sector has not been able to provide enough employment resulting in the need to find means of improving social and economic well being.
- SME's use mainly local resources and therefore promote local development while creating wealth for the citizens.
- SMEs provide employment to poverty stricken and low income employees. They often employ poor and low-income workers. Further, self-employment may be the only source of income for many of the poor. This poverty reduction is specifically relevant to developing countries where poverty is most severe (Monks,2010).
- They become specialist suppliers or subcontractors to large companies thus aiding the big businesses. This is because some functions can be efficiently and effectively performed by small businesses.
- They provide breeding ground for new industries. They also provide a 'nursery' or a seedbed from which larger companies will grow, providing entry points for entrepreneurial opportunities.
- Smaller firms are more flexible thus they are able to quickly adapt to the ever-changing market forces. This makes them to be able to fill gaps which are left by bigger companies.

According to Nieman and Nieuwenhuizen (2010), a well-functioning small business sector exerts a positive influence on the economies of all countries. They contribute significantly to the social and economic development in their countries.

A study by Ayyagari, Beck, Demircuc-Kunt and Maksimovic (2007), supports the observations made above. This study had the following findings:

- In many countries SMEs make a large contribution to employment. This is especially true mostly in low-income countries.
- Across country income groups, small firms not only employ the most people, they also generate the most new jobs.
- Small firms and young firms have the highest employment growth rates.

This shows that SMEs are critical to the economy as an engine for economic and social development.

## **2.6 The Role of SMEs in Swaziland**

SMEs dominate the economy in many countries, and they make a special contribution to the national economy. As in the rest of the world, Swaziland's SMEs play an important role in job creation, poverty alleviation and the economic growth of the country. The important role played by SMEs is manifest by the amount they contribute to the GDP of the country and to employment. The researcher was interested in finding quantitative data that would highlight this contribution but this information could not be obtained. The ministry of commerce industry and trade through the statistics office is still in the process of compiling a data bank of all SMEs in the country.

Joubert (2004), states that in Swaziland, SMEs create jobs and they create an environment that improves the entrepreneurial abilities of quite a number of women. The rural areas in particular have the majority of informal enterprises operating in industries such as sewing, farming, handicraft, and others. These act as a valuable source of income and personal development, for the otherwise unemployed.

The government of Swaziland realised that there was a need to provide greater opportunity for the economic advancement of SMEs. It then came up with a National Policy (SME policy) which was aimed at assisting the government in creating conditions and an environment conducive for the advancement of SMEs. This document identified the following key roles played by SMEs in Swaziland:

- ❖ Most new jobs are created by SMEs, not the government or big businesses;
- ❖ SMEs offer people with no source of income, the potential to develop one; In rural areas, informal businesses are a very critical vehicle for the generation of income for the otherwise unemployed.
- ❖ They provide a route where the Swazi nation can own a larger percentage of the economy;
- ❖ They offer a way in which a larger manufacturing base can be established in Swaziland.

By having more successful SMEs, more wealth generated in Swaziland will stay in the country. SMEs satisfy the local needs by making differentiated products and this ensures that raw material producers will find local markets for their products.

The ministry of commerce industry and trade conducted the first SMME census in the country during the year 2010. The objective was to develop a database of all Small, Micro and Medium enterprises in the country. This was to be used in assessing the magnitude, composition and performance of these enterprises. The results of the census showed that the small business sector does play a fundamental role with regards to job creation. The findings indicated that a majority of the enterprises are micro in nature with a staff compliment of between one and three employees.

The classification of the SMMEs in the country based on number of employees showed that 82% were micro, 17% were small and 1% were medium sized enterprises (Ministry of Commerce, Industry and Trade, 2010). The report from the study, however, indicates that its major limitation was that it could not cover all SMEs mainly because the census was done on a sample basis. It was then recommended that a more comprehensive census be carried out.

## **2.7 Key Success factors of SMEs**

There are different criteria used to determine whether a business is successful or not. This can include elements such as financial performance, lifestyle and social factors. For a small business to be successful, its mere survival and continued

transaction is a crucial factor. Growth is a critical factor necessary in maintaining a business and therefore creating its 'success' (Tahir et al., 2011).

Durand (2005), recognizes the difficulties in defining small business success and states that success in itself is an on-going process. This writer states that there are three fundamental considerations that any small business should meet in order to become successful:

- Firstly, a business needs to break even. This is the turning point between operating at a loss and making a profit;
- The second important requirement is that it covers its labour cost by being able provide wages for those labouring in its daily operations;
- The third element is that the business needs to make a profit. A profit is not just being able to cover expenses, but it is the surplus income that will constitute a basis for growth. This is vital for maintaining a stable financial atmosphere necessary for long term wealth accumulation.

The establishment of proper controls is another component that is vital to the long term survival and growth of the small business. Besides monitoring financial performance successful small business owners capitalize in constantly monitoring the quality of the products and services they offer. The need to meet the customers' satisfaction usually gives the small business the ability to anticipate and predict trend developments (Scarborough et al., 2009).

Another good measure of a successful SME, is the degree of pride in the quality of the products and services provided. The conviction of the usefulness, added value and delivery of the promised benefits to customers are the intangible factors that make many entrepreneurs feel highly successful (Durand, 2005).

According to Pasanen et al (in Tahir, Mohamad & Hasan 2011), successful SMEs can be categorised into three groups:

- a) Those that are stable and are content with their current market share and are not looking at expanding;
- b) Innovative SMEs that operate in growing markets and aspire to continue growing;

c) Fast growing SMEs that are experiencing rapid growth in their industry.

This classification shows that the success of SMEs is not dependant on a particular set of factors. Instead, different factors determine success in the different categories of SMEs.

### **2.7.1 Competitive Advantage**

Competitive advantage has a major impact on the success of any business. This is because success often requires practices that go beyond the ordinary. Goldman and Nieuwenhuizen define competitive advantage as “the ability of a business to do something better than its rivals. Whatever it does better, cannot be duplicated by its competitors, and translates to something that has value to its customers” (2006: 38).

Thompson, Gamble and Strickland (2006), add that, what gives a company’s strategy competitive edge is the ability of management to craft an image which makes the business to be distinctive. This should give its customers a reason to prefer the company’s products over those of rivals.

There are several strategies that can be used by a business to create its competitive advantage. Michael Porter identified three types of strategies which have been commonly used in building, defending and sustaining competitive advantage. These are; cost leadership, differentiation and focus strategies (Goldman, 2006). It is therefore critical for a firm to identify which one of these strategies would set it apart from its competitors and then implement practices that will exploit these differences.

The fast changing economic environment is continually forcing businesses to take additional measures to gain and sustain a competitive edge in the market. This has added pressure on businesses to adopt more effective practices to ensure efficient business functioning thus ensuring success and growth of the enterprises. (Barnard, 2011).

## **2.8 SME Challenges**

SMEs are becoming increasingly important due to the contribution they make to national economies. Most governments have recognised this importance and have thus come up with initiatives aimed at stimulating the development and growth of SMEs. Although these initiatives may assist the performance of these SMEs, many of them still face some challenges that hinder their growth and success (Saleh & Ndubisi, 2006). Identifying these challenges will help to gain insight into the critical factors that need to be addressed to ensure long term growth and survival of SMEs.

Salleh and Sidek (2011), in their study identified the following as critical challenges that constrain the growth of rural micro enterprises:

- Lack of Entrepreneurial discipline. Since some SME enterprises are operated to supplement income, the attitude towards the business usually lacks the enterprise culture that is required to influence development.
- The small size of most local markets also creates a challenge to SMEs.
- Poor infrastructure, particularly in rural areas is a major constraint for SME's which need such infrastructure to get their products to markets.

There is a high possibility that the above challenges could also be relevant to the SMEs in Swaziland as a large part of the country is rural.

### **2.8.1 Access to Finance**

Access to finance is one of the main challenges facing most businesses especially SMEs. Obtaining financial resources is a difficult task for a lot of small businesses, particularly during the startup stages. A number of studies have shown that access to capital is a major challenge as SME's are generally faced with difficulties in obtaining credit or equity. Mutezo (2005), states that, of all the challenges facing the SME sector, the ones which are most difficult to solve are the ones involving access to finance.

Financial resources often determine the rate of growth of SME's. As such access to finance enables SME's to acquire the necessary resources that would enable the business to perform profitably and to expand. This results in improved



competitiveness and development (Timmons and Spinelli, 2009).

According to Monks (2010), some of the reasons that are highlighted as causes of the difficulty in access to finance for SMEs, are:

- Creditors and investors regard SME's as high-risk borrowers because they have high mortality rates and insufficient assets;
- Additional uncertainty is introduced due to SME's not having or only having a limited credit history;
- The business plans or proposals presented to investors are inadequate in portraying a convincing picture on the creditworthiness of the business;
- The administrative and transaction costs involved in funding small investments, makes the financing of SMEs to be unprofitable.

In most cases when an SME is able to secure finance, the terms for the finance are not aligned with the business model that the SME's use to run their businesses thus making it difficult to benefit from the funding (Monks 2010).

### **2.8.2 Lack of Business Management Training**

A number of small businesses do not succeed due to lack of training on the part of the owner managers, on how to effectively manage a business. Without proper training these managers would not have the skills necessary to run a successful business. Thus they have limited ability to manage human and financial resources and they tend to have a lot of informal and subjective managerial control. They also rely largely on previous experiences and gut feel in guiding the direction of the business. (Mbonyan, 2006).

### **2.8.3 High Risk of Failure**

Timmons and Spinelli (2009) state that one of the paradoxes of entrepreneurship is that "to succeed one has to experience failure" (2009:104). In many cases newly established small businesses usually fail. Globally, studies have shown that start-ups are usually at a higher risk of failure during the first few years of operation.

Small businesses are most vulnerable in their early years. According to Stokes and Wilson (2010), research suggests that almost half of them cease trading

within the first three years. In light of the high failure rate of new small enterprises, whereas they make a very important contribution to national economies, it is imperative that their challenges be analyzed in order to come up with strategies to overcome them.

SMEs also face other challenges that hinder their development and growth. These include poor planning, high employee turnover, lack of customer relationship management, lack of relevant technology, poor choice of location and low barriers to entry (Barnard, 2011).

## **2.9 Challenges faced by SMEs in Swaziland**

Although SMEs contribute remarkably to the economy of Swaziland, there are some challenges that constrain their growth and development, thus hindering them from performing to their full potential. When SMEs become more aware of existing and potential challenges, they together with other stakeholders could come up with strategies that will help in controlling or even avoiding these challenges (Petrus, 2009). Most of the challenges discussed above are also relevant to SMEs in Swaziland. This section focuses on the challenges identified as being prevalent to the small business sector in Swaziland.

Swaziland has faced significant economic challenges in the last two decades. The relocation of foreign direct investors to South Africa and Mozambique following the end of the political turmoil in these countries, had a major impact on the economy of the country. This, followed in later years by prolonged drought, high oil prices, exchange rate volatility and declining export receipts, resulted in sluggish economic growth (UNDP, 2009).

In their country analysis of 2010, the United Nations Development Assistance Framework (UNDAF), identified the following challenges which constrain sustainable growth in Swaziland:

- As a landlocked country, Swaziland faces some inherent challenges in relation to ease of doing business, and in creating infrastructure and practices to foster business.

- In the past few years, exports have been seriously threatened by changes in global trade and regional trade liberalization.
- The country has been adversely affected by sharply rising international food and energy prices and shrinking demand for exports.
- The impact of HIV and AIDS affects the economy at numerous levels, including reduced workforce productivity.
- The country fails to maximise opportunities for regional and global trade. It suffers from poor linkages to markets and to the value chain. Rural roads are not maintained making it difficult for SMEs to access markets for their products and to obtain the required inputs.

In addition to the above challenges, the following challenges are highlighted in the National Policy on the development of SMEs:

- Access to Finance: As is the case in most countries SMEs find it difficult to secure funding for their businesses. The lack of collateral and security consistently disqualifies SMEs from the criteria set by financial institutions.
- Access to markets: SMEs usually find it difficult to secure markets for their products. In the rare instances that markets are secured, issues of timely supply and poor quality of the products or services result in lack of confidence from the intended market.
- Poor management due to lack of management and entrepreneurial skills and other factors necessary for the effective management of a successful business. SMEs frequently have excellent products or services, yet lack the marketing and sales skills to generate adequate revenue over time.
- High dependency on external suppliers. Most of the inputs and inventory are sourced from neighbouring countries (mainly South Africa) and the SMEs have no control over the high costs of importing these products. This results in escalating input costs which have a negative impact on profitability.

The World Bank report provides an assessment that aims to determine the ease of doing business in participating countries. When ranked on how easy it is for an entrepreneur to start business among 183 participating economies, Swaziland

stood at position 161 (The World Bank, 2012). The Challenges faced by SMEs in starting and growing their businesses contributes a lot to the country being ranked so low.

## **2.10 SME Development**

It is clear from literature that SME's contribute significantly to their national economies. Since SMEs are an important base for economic development in most countries, therefore their development is important for long-term economic growth. Having recognized the importance of SMEs to the economy, governments and other bodies have implemented various initiatives in an attempt to improve their performance (Tahir *et al.*, 2011).

The Small Business Administration in the United States of America, was established to serve the needs of small firms. There are also small business development centres that exist countrywide. In Germany, there are laws and institutions that have been put in place to serve SMEs at federal, provincial and local levels. Brazil, has a programme for nurturing small-scale industries. In Africa, several countries have established small-business programmes and/or regulatory frameworks for SMEs. In the Third World, SMEs probably outnumber large firms by far, hence their prosperity is considerably very crucial to a developing state (Petrus, 2009).

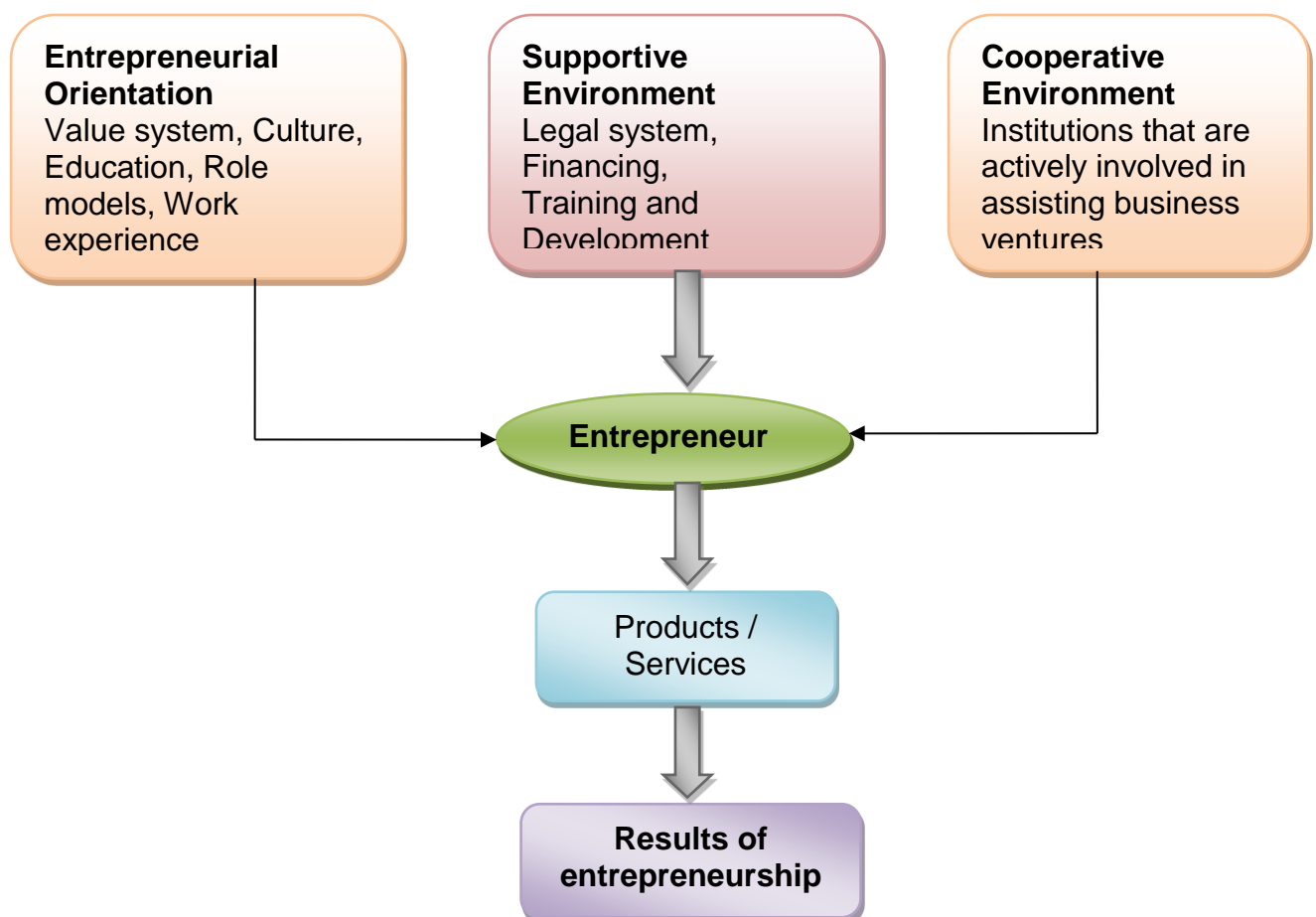
### **2.10.1 Model of Entrepreneurship Development**

Entrepreneurship is about identifying opportunities and finding ways to pursue them. It involves scanning the environment in order to identify opportunities and be able to adapt to the ever-changing economic forces. It is critical for small business owners to understand their industry environment. This helps to identify the key players such as suppliers, competitors and customers and producers of substitute products. Examining each of these players is crucial in determining competition and bargaining power (Ong *et al.*, 2010). Analysing the industry also helps to understand why profitability has been low in some industries and high in others. This then enables the entrepreneur to forecast future profitability in that industry

and to position the enterprise in relation to the competitive forces faced by that industry (Grant, 2010).

Nieman and Nieuwenhuizen (2010), have developed what they call “a Model for Entrepreneurial Development.” This model attempts to demonstrate the external variables that affect entrepreneurship in any given country. This model demonstrates that it is critically important to analyze the business environment so as to understand the elements that influence the success or failure of SMEs. This is done by evaluating the influence of the business environment on entrepreneurial activities. The three important elements of this model are: entrepreneurial orientation, supportive environment and cooperative environment. These are shown in figure 2.1 below.

**Figure 2.1 The Model for Entrepreneurial Development**



Adapted from Nieman and Nieuwenhuizen (2010)

### **2.10.1.1 Entrepreneurial Orientation**

This process is critical for the survival and growth of businesses and the economy as a whole. A unique combination of factors is required to foster entrepreneurial development. Factors such as education, culture, family, role models, education, work experience and personal orientation are key to the process of entrepreneurial development (Nieman and Nieuwenhuizen, 2010).

The GEM report of 2010 supports the above argument as it states that entrepreneurship attitudes and perceptions contribute significantly in creating an entrepreneurial culture. The report further states that South Africa scores below average for all indicators of entrepreneurial attitudes and intentions. This means, therefore, that there is still a long way to go in terms of stimulating favourable attitude towards entrepreneurship among the population. A similar assumption can be made with regards to entrepreneurial orientation in Swaziland.

In some cultures such as the United States, entrepreneurship is seen as a desirable career choice and entrepreneurs are recognized and celebrated. Role models are visible and there is no stigma attached to failure of a business.

### **2.10.1.2 Supportive Environment**

Nieman and Nieuwenhuizen (2010), state that the environment should create a favourable climate for businesses to be a success. The infrastructure such as roads, electricity, water and telecommunication services should be available before there can be any economic activity at an advanced level. There should be easy access to physical resources and their price should not cause discrimination against starting, small or growing enterprises (GEM, 2010). In addition, there should be a wide range of business development services such as mentoring, finance, incubators and training and development programs.

There are also potentially negative factors such as restrictions of free trade areas, too many legal regulations and rules which may discourage entrepreneurs from exploiting business opportunities (Nieman and Nieuwenhuizen, 2010).

Stokes and Wilson (2010), add that it is a combination of some controllable internal factors together with less controllable external factors that determine the likelihood of a new venture starting up, and its chances of survival. The environment is therefore a critical factor if the business is to succeed and continue to grow.

### **2.10.1.3 Cooperative Environment**

Over and above having a supportive environment, it is necessary to have structures that actively participate in promoting entrepreneurship. Educational institutions and other agencies should build capacity through formal programs that encourage and develop entrepreneurial orientation (Rogerson,2008).

The GEM report states that the main factors that constrain entrepreneurial capacity in South Africa, are government policies, training and development, and entrepreneurship education. This suggests that there is a need to create an environment conducive enough to encourage people to see entrepreneurship as a possible career option (GEM, 2010). Similar sentiments were made by The World Bank with regards to the economic environment in Swaziland as discussed in 2.8 above.

## **2.11 Development of SMEs in Swaziland**

In response to the need to develop the small business sector, the Swaziland government, has come up with some initiatives aimed at developing SMEs in the country. This was done by establishing a number of agencies with main ones being: The Small & Medium Enterprise (SME) unit, Swaziland Investment Promotion Authority (SIPA), The Small Enterprise Development Company (SEDCO) and Swaziland Development Finance Corporation (FINCORP).

### **2.11.1 Small and Medium Enterprise Unit**

An SME unit was created within the ministry of commerce. Its main objective is to

advise government on policy issues and to stimulate indigenous enterprises through creating an enabling environment for business. An enabling environment in this case, is defined as a trading environment in which a business can go about its daily activities confident that the government has done what it can to keep licensing and other regulations to a minimum (SME unit, 2006).

The vision of the SME Unit is to be a vibrant player in the economic development of Swaziland through an enabling environment that encourages activities of SMEs in the creation of productive rural families and other communities by creating jobs at home and competitiveness in the international markets. The unit's mandate is to promote and stimulate the creation of SME development and growth through effective service provision and establishment of legal and institutional framework.

Through the SME unit, the Government of Swaziland, has adopted the SME policy in order to maximize the performance of SMEs thus increasing their contribution to the economy of the country. The Objectives of the policy are to:

- Foster economic growth and development;
- Increase employment opportunities;
- Alleviate poverty by creating access to sustainable livelihoods;
- Increase levels of ownership in the economy for indigenous Swazis.

The SME Unit has the overall responsibility of coordinating the implementation of the SME Policy.

### **2.11.2 The Swaziland Investment Promotion Authority (SIPA)**

SIPA is a Public Enterprise whose mandate is to: "Promote, coordinate and facilitate foreign direct and local investment in Swaziland, with the objective of creating the wealth necessary to enhance the Social and Economic Development of the Kingdom and its people." Some of the services offered by SIPA include: co coordinating investment activities, providing information on business opportunities, the cost of doing business and the economic climate in Swaziland (SIPA, 2012).



### **2.11.3 The Small Enterprise Development Company (SEDCO)**

SEDCO is a public company which was created by the government with the sole purpose of supporting and promoting the small business sector in Swaziland. Its mandate is to ensure the promotion and development of SME's. This is done by facilitating the creation of a supportive and cooperative environment that will enhance the performance of SMEs (SEDCO, 2012).

As part of its objective to create a vibrant SME sector, SEDCO offers a wide variety of services which are tailor made to promote the entrepreneurial talent of small and medium businesses. The main service offered is the provision of premises at very low rental in all the cities and towns in the country (SEDCO, 2012).

### **2.11.4 Swaziland Development Finance Corporation (FINCORP).**

The Corporation was launched by His Majesty King Mswati III with the aim of empowering the nation economically and at grassroots level. This is done by providing financial resources in an attempt to combat the challenge of lack of access to finance as discussed above. The major objectives of FINCORP include: providing funding; promoting the development of Swazi-owned Enterprises by providing business advisory services; and supporting the provision of, training, monitoring, and development of other products and services for SMEs (FINCORP, 2009).

### **2.11.5 The Federation of Swaziland Employers and Chamber of Commerce (FSE & CC).**

The FSE & CC is Swaziland's Apex private sector body that represents about 80% of businesses in the country. It serves as an umbrella body for all businesses in Swaziland and its membership cuts across all sectors of the economy. Its mandate is to work with government in ensuring that a conducive environment in Swaziland

is created and enhanced for business to thrive and prosper. This is achieved by forging a working relationship with government and key policy makers, collaborating with key stakeholders and by promoting social dialogue and partnership.

## **2.12 Summary**

Entrepreneurship is a vital element in any economy. It provides a solution to the problems of unemployment, low economic growth and unsatisfactory levels of poverty in many developing countries (Lee, 2009). Entrepreneurial activity is a necessary component of a country's capacity to sustain economic growth (GEM 2010).

This study has reviewed the literature available on the challenges facing SMEs and the factors that influence the success or failure of SMEs. There has not been a lot of research on the challenges faced by SMEs in Swaziland. Reliance has in most cases been on literature from developed countries. This literature review reveals that there has not been much published about SMEs in Swaziland. It is therefore believed that this study will make a valuable contribution to the literature about the challenges facing SMEs in Swaziland.

The following chapter will discuss the research methodology used in conducting this research.

## **CHAPTER THREE**

### **Research Methodology**

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#### **3.1 Introduction**

Research is an important exercise because it helps to inform action. Business research is concerned mainly with understanding the business environment and the nature of organizations. This involves gathering information, analysing it and interpreting the findings so that decision makers can use it to make informed decisions. The research findings can be used to recommend solutions to specific problems for a specific company or industry (Bryman and Bell, 2007).

Research helps businesses and organizations by providing relevant information which then helps in improving performance. Businesses get an opportunity to update themselves on current market trends thus they are able to formulate strategies that will help them to stay competitive and successful in the marketplace (Hair et al, 2011). It is against this background that this study was conducted with the hope that it will contribute to the body of knowledge in this field.

This chapter will provide an outline of the research methodology within which this research has been conducted. Aspects of research methodology to be covered in the chapter include sampling and data collection techniques applied in the research.

#### **3.2 Aim of the Study**

It has been acknowledged that SMEs foster economic growth of a country. There is, therefore, a need to support the development of SMEs hence various government initiatives have been introduced with the aim of developing SMEs and improving their performance. Despite these various government interventions to assist SMEs, there still exist some challenges that hinder their growth. Thus the aim of this study is to identify the challenges faced by SMEs in the Manzini region,

with a view to identifying factors that may lead to the development of successful SMEs.

### **3.3 Participants and Location of the Study**

The participants in this study were owners of micro, small and medium enterprises. This is because in the majority of cases a business in this sector is run and operated by the owner or owner-manager. These participants were the ideal respondents for this study because they are the ones who had the information required in this research. The profile of the SMEs targeted varied from service based businesses to retailing micro, small and medium businesses such as salons, street vendors, dressmakers, clothing shops, catering services etc.

The location for this study was the Manzini City Centre. Manzini is the oldest, largest and fastest growing city in Swaziland. It is located at the centre of the country and it is the central economic node, where most economic activity is happening. As a result this city is commonly referred to as the 'Hub of the country' (Sihlongonyane, 2003).

### **3.4 Research Approach**

Lancaster (2005), states that the researcher needs to have a good understanding of the alternative research methodologies and techniques, and the criteria to use in selecting between them for a particular research project. This requires understanding the characteristics, uses, advantages and disadvantages of the alternative methodologies and techniques.

There are two major research approaches that are used worldwide namely: qualitative research and quantitative research. Data collection and analysis can be done using either a quantitative or qualitative method, or the mixture of both methods. This means that these methods are not mutually exclusive. It all depends on the nature of the research problem and the research questions that are to be answered (Onwuegbuzie, 2010).

### **3.4.1 Quantitative Approach**

The quantitative approach focuses on numbers and frequencies and it uses numerical data to obtain information about something. It emphasizes measuring and analyzing causal relationships between variables (Wilson, 2010). In this approach a large quantity of data is collected and numbers are used to establish patterns that can be statistically interpreted and analyzed. It focuses on numbers and frequencies rather than providing an in-depth description of meanings and experiences.

The quantitative approach quantifies the data collected and the results from a sample are generalized to the population of interest. It uses large samples and structured techniques such as the questionnaire. Since quantitative data is in the form of numbers, this approach emphasizes quantification in the collection and analysis of data and this is done by using statistical techniques. Findings from the analysis are regarded as conclusive and they can be used to recommend a final cause of action (Cavana, 2001).

Quantitative data is often thought of as being more objective and scientific than qualitative data. It is also more efficient and able to test hypothesis as it seeks precise measurement and analysis of target concepts. This involves testing to determine whether or not the data support the hypotheses that was developed after a careful study of the problem being investigated (Sekaran and Bougie, 2010).

### **3.4.2 Qualitative Approach**

The Qualitative approach uses analysis of data such as words, pictures or objects in order to gain understanding of underlying reasons and motivations. This method is used for research problems that focus on uncovering people's experiences, behavior and gaining better understanding on a phenomenon about which little is known (Ghauri and Gronhaug, 2002). This means that the researcher would study objects in their natural setting and then interpret the phenomena in terms and meanings that people bring to them.

In Qualitative research richer and holistic data is collected due to small samples which allow for several aspects of the problem to be analyzed thus giving a detailed description of observations (Ghauri and Gronhaug, 2002). This approach is best to use when there is a problem or an issue that needs to be explored. The results from the exploratory research can then be used as a basis for subsequent quantitative research. Hair et al (2011), state that exploratory research is a method that is used to develop a better understanding of a concept where there are few or no earlier studies to refer to.

The focus in Qualitative research is on gaining insights and familiarity on the problem or concept being studied. As such this approach is more common in the social sciences. This is because in this field, much of what the researcher is concerned to measure is qualitative in nature, therefore, qualitative techniques are more appropriate (Lancaster, 2005).

Based on the research problem, focus and the purpose of this particular study, the Qualitative approach is a more appropriate method to use given its qualities as discussed in paragraphs above. This is because hypothesis testing was not the essence of the study, but rather a comprehensive understanding of the problem being investigated. This approach is more appropriate for this study also because it involved engaging with an observable social reality as it sought to gain better understanding of the challenges facing small businesses, from the participants' point of view. As such the researcher needed to gather and analyze detailed data that cannot be statistically interpreted and analyzed such as attitudes, feelings and opinions.

It was observed when the literature review was done that there was insufficient literature about small and medium enterprises in Swaziland. This indicates that there is a lack of research in this regard hence it is a phenomena about which is known in the context of the country. This then prompted the researcher to use the qualitative approach in order to gain an in depth understanding of the small business environment.

### **3.5 Sampling**

Sekaran & Bougie (2010), define Sampling as the process of selecting the right individuals, objects or events that would be representative of the entire population that the researcher would like to investigate. Due to cost and time constraints, sampling is done in order to examine the sample instead of the whole population. The findings are then used to draw conclusions and in most cases the conclusions can be generalized back to the population. There are two broad categories of sampling procedures, namely; probability and non-probability procedures.

#### **3.5.1 Probability sampling**

In probability sampling all the units in the population have an equal chance of being selected. This method is typically used in quantitative research and where it is important for the sample to be representative in the interest of wider generalizability. Probability sampling methods produce results that are easy to summarize, compare, and generalize to the population with a specified degree of accuracy (Hair et al, 2011).

According to Sekaran (2010), probability sampling can either be unrestricted, commonly referred to as simple random, or it can be restricted, also known as complex probability sampling. A random sample is selected in such a way that every unit has the same chance of being chosen. This design has the lowest bias and results can be highly generalized. The downside of it is that it can become very cumbersome and costly.

The restricted probability sampling has the following most common designs:

- Systematic sampling,
- Stratified random
- Cluster sampling,
- Area sampling and
- Double sampling.

### 3.5.2 Non Probability sampling

This is a type of sampling where the elements have an unequal chance of being selected. Here judgment is used to select the sample depending on the research problem. The results from the sample would then be used to describe or discover the phenomena. Although the results can sometimes be generalized to the population, this cannot be done with a specific degree of accuracy. This type of sampling is often used in qualitative research (Creswell, 2007).

Hair et al (2011), state that the following are the types of non-probability sampling that are commonly used:

- Convenience sampling. Here the sample is selected in such a way that it comprises elements of the population who are conveniently available to provide the information that is required.
- Purposive sampling. Sampling here is limited to certain target groups who possess the desired information. It is divided into two major types:
  - Judgment sampling whereby the elements are chosen because they are in the best position to provide the information needed in the study. Here the units which are believed to be representative of the population are selected.
  - Quota sampling is a method used where a quota is assigned in such a way that particular groups are represented in approximately the same proportions as they are represented in the population.

A number of theoretical and practical issues are taken into consideration when deciding on which type of sampling method to use. These include the nature of the study, its objectives and practical issues such as time and cost (Creswell, 2007). Based on this premise this study has used the Purposive sampling technique because it was found to be the most appropriate technique for this research.

Purposive sampling involves using the researcher's judgment to select elements in



the sample for a specific purpose. In this approach the sample comprises a particular group of people who are considered to possess the desired information. The researcher chooses the sample elements based on the belief that they form a suitable sample, even though they may not necessarily be representative of the target population (Hair Jr. *et al.*, 2011).

There is no database that contains all the SMEs in Manzini thus there is no sampling frame available that could be used for this study. As a result the researcher has used Judgment sampling, after taking the above discussion into consideration. It is estimated that there are over 2000 Small and Medium businesses registered with the city council of Manzini. For the purpose of this research, a sample of thirty, (30) SMEs located in the Manzini urban area, were selected. Due to cost and time constraints, this sample has been considered sufficient for this study.

### **3.6 Data Collection**

The research objectives and the nature of the study determine the type and amount of data that will be collected (Hair Jr. *et al.*, 2011). The collection of data can be done by using either primary sources or secondary ones. Primary data comprise data that was collected first-hand by the researcher as part of the study being carried out. Secondary data refers to data that was not collected by the researcher but it was obtained from sources that already exist such as publications, company reports and the internet (Sekaran and Bougie, 2010).

Bryan and Bell (2007), state that the most commonly used methods of collecting primary data are interviews, questionnaires and observation. Observation and interviews are the two broad approaches commonly used for collecting data in qualitative studies. Since this study is of a qualitative nature, the next section will consider these two approaches. The interview will be discussed in more detail because it was found to be the most appropriate technique for this study.

### **3.6.1 Observation**

Observational data can be obtained by use of human, electronic or mechanical observation. The observation includes taking note of behaviors, movements, facial expressions and other habits over and above the usual activities performed by the elements being studied. This approach results in either narrative or numerical data (Hair Jr. *et al.*, 2011).

### **3.6.2 Interviews**

Keller (2009), states that many researchers are of the opinion that using a personal interview provides the best way to conduct a survey. This involves soliciting information from respondents by asking questions. Hair et al (2011), add that interviews can vary from being highly structured or highly unstructured, and they can be conducted using online resources, by telephone or face to face.

#### **3.6.2.1 Advantages of interviews**

Interviews provide rich data by giving an in depth description of issues of interest. They offer the opportunity to gain deeper insight of the issues being investigated, thus enhancing the research findings (Cavana, 2001). By conducting interviews the possibility of getting incorrect responses is minimized. If the respondents do not understand the question, the interviewer is available to clarify. However, the interviewer must be careful not to explain too much or else the responses may be influenced (Hair Jr. *et al.*, 2011).

Sekaran and Bougie add the following advantages of interviews:

- The response rate for interviews is higher than other data collection techniques;
- The use of open ended questions makes it possible for participants to explain their opinion clearly;
- The researcher can read nonverbal cues;

- Rich data can be obtained;
- Visual aids can be used to clarify points.

### **3.6.2.2 Disadvantages of interviews**

- Interviews are costly, both in terms of time and financially (Creswell, 2007).
- Open ended questions require a lot of time to summarize and they are not easy to analyze.
- Respondents can terminate the interview at any time.
- More costly when a wide geographic region is covered.

### **3.6.3 Developing of the instrument**

Having considered all the above, the semi-structured interview was chosen as the instrument to be used for collecting data in this study. This technique was believed to be the one that would suit the participants best, because it allowed them the freedom to respond easily and in a relaxed atmosphere. The face to face interview method was used, in order to achieve the objectives of the research. This made it possible for the researcher to make sure that respondents understand the issues being discussed and thus they were able to provide the information being sought. A few telephone interviews were conducted in cases where the respondents were not available for a face to face interview.

An interview schedule was prepared and it contained questions that were to be asked with the aim of getting an in-depth understanding of the SME sector and obtain the views and perceptions of the small business owners. The questions were drafted in such a way that they addressed the objectives of the study. Each objective had specific questions relevant to it. Below is a sample of the interview schedule that was used.

### 3.6.3.1 The Interview Schedule

---

#### **SECTION A:** Demographic Information:

1. Gender (male/ female)
2. What is your age?
3. What is your educational background?

#### **SECTION B:** Challenges:

4. For how long have you been running this business?
5. How many years of experience did you have before starting your own business?
6. Do you have any training in running a business?
7. Is the business fully registered?
8. How cumbersome or easy was the process of registration?
9. During formation: how was the business financed; and what challenges were faced during this stage?
10. How conducive is Swaziland's legislation on business owners?
11. What is the size of your market and how is the access to it?
12. What is the affordability of potential buyers?

#### **SECTION C:** Success Factors:

13. How would you define success of small business?
14. Would you say that your business is successful?
15. What are the factors that are primary to the success of your business?
16. Do you have a future plan to implement strategies that will make your business more successful?

#### **SECTION D:** SME Contribution:

17. How many people do you support through the proceeds of your business?
18. Do you keep any records for your business; and if you do which ones?
19. Who are your suppliers, are they inside/outside of Swaziland?
20. How many employees do you have? (permanent or casual).
21. What is the annual revenue for your business?
22. Do you pay tax?

#### **SECTION E:** SME Development:

23. Are you aware of current development strategies aimed at developing SMEs?

24. Have you benefited from any of them?

25. What do you feel about government's support towards SMEs

26. How should the government and other agencies intervene to improve the support of SMEs?

---

The interview schedule proved to be a useful tool as in some cases the researcher would send it before the interview so that respondents could prepare themselves. In some cases the respondents would request that the interview be rescheduled to a more convenient time when they would be able to participate more fully since as small business owner-managers, they are always busy with the daily operations of the business.

### **3.7 Pre-testing and Validation**

Due to time constraints it was not possible for the researcher to conduct a pilot study for this research. However it was believed that the nature of the study was such that the absence of a pilot study would not have a major negative impact on the final data collection.

The interviews were recorded so as to capture all the information provided thus ensuring that the raw data is accurately captured in order to produce results that would be valid and reliable. This was done after gaining permission from the respondent.

Welman et al (in Petrus, 2009) warn the researcher to guard against manipulation of respondents and advises treating them in a humane and dignified manner. Bearing this in mind, effort was made to create an atmosphere that would make the respondents willing to participate. The respondents were also assured about the confidentiality of the interviews. An informed consent letter was given to the respondents which emphasized this aspect. This letter also explained the aim of the study and it was discussed with the respondents before the start of the interview.

### **3.8 Analysis of the Data**

According to Ghauri and Gronhaug (2002), the overall purpose of analyzing qualitative data is to obtain a better understanding of the phenomenon being studied. Interpretation plays an important role at this stage, especially in qualitative research because interpretations are needed to arrive at an understanding of the findings. This involves identifying themes, patterns or trends in the collected data and these will provide the desired understanding of the problem being investigated (Cavana, Delahaye and Sekaran, 2001).

Wilson (2010), states that there are numerous approaches to qualitative data analysis. As such there is no definitive series of steps applicable for qualitative data analysis. This writer provides the following outline to be used when analyzing qualitative data:

- Transcribe the data,
- Read and generate categories, themes and patterns,
- Interpret the results,
- Draw conclusions.

The above outline was used as a guide for the data analysis in this study. The data was coded by reducing it into meaningful segments, combining these segments into broader categories or themes and then displaying the data by the use of graphs, charts and tables. The recurring themes that emerged from all the interviews were identified and they were used in categorizing the discussion of the findings.

### **3.9 Summary**

Business research involves collecting information to improve decision making. It also helps in implementing the right course of action. The aim is to obtain a better understanding of a phenomenon and to find answers or solutions to a specific problem.

This chapter discussed the process that guided the researcher during this study. Essential elements of the research design were discussed with much emphasis on the substantive grounds for following the chosen research approach. Due to the qualitative nature of the research study, special attention has been given to the qualitative methods of data collection and analysis. The results that were obtained during the data collection and the discussion of the findings will be presented in the next chapter.

## CHAPTER FOUR

### Presentation and Discussion of Results

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#### 4.1 Introduction

The previous chapter outlined the research process that was followed in conducting this study. It was stated that the research instrument used was a semi-structured interview. The interview facilitated an in-depth understanding of the participants' experiences, knowledge and the business environment within which they operate. An interview schedule was used to guide these interviews and this schedule was divided into sections to ensure that all the objectives of the study were addressed.

In this chapter the results and discussion of the findings obtained during the research, are presented. The interview dynamics are presented before the discussion and interpretation of the results. The recurring themes and patterns that emerged from all interviews have been discussed in accordance with the objectives of the study. As such the results have been generally conceptualized using the objectives of the study which were:

- To identify the challenges faced by SMEs in Manzini;
- To determine the key success factors of SMEs;
- To determine the contribution of SMEs to the economic development of the country;
- To ascertain the effectiveness of current development strategies.

The steps that will be used in analyzing the findings in this study were presented in chapter three. Creswell, 2007 states that the central steps in qualitative data analysis are: coding the data by reducing it into meaningful segments, combining these segments into broader categories or themes and then displaying the data by the use of graphs, charts and tables. This is the approach that is preferred for this study. The recurring themes that emerged from all the interviews are discussed in the sections that follow.



## **4.2 Interview Dynamics**

The researcher conducted 25 interviews. Initially a sample of 30 SMEs had been identified. Three of these had agreed to be interviewed but there were unfortunately indisposed during the data collection period. One respondent declined to be interviewed and another one asked to be given the interview schedule and promised to call the researcher to set up a convenient time but when a follow up was made, the responded was not available.

All the interviews were conducted at the convenience of the respondents. In some cases interviews were conducted on site but in a secluded place thus ensuring a relaxed and warm atmosphere in order to gain full participation from the interviewees. Some respondents were interviewed in the comfort of their homes because that was the most conducive place for them.

Developing a rapport between the researcher and the participants was a critical part of the initial stages of the interview process. The researcher had to gain the trust of the respondents before they could be free to disclose the required information about their businesses. The respondents were allowed to flow freely during the interviews, but the researcher ensured that focus around the prepared questions was maintained. This was to enable the data analysis to go beyond simply reporting what the respondents disclosed, as suggested by Mathews, (in Petrus, 2009).

As much as the interviews generally focused on specific issues, yielding some common and similar experiences, each individual was found to be unique. This means that, although at face value their responses seemed to be similar, underlying complex differences were evident. These differences could not have been captured using any other research method other than an interview.

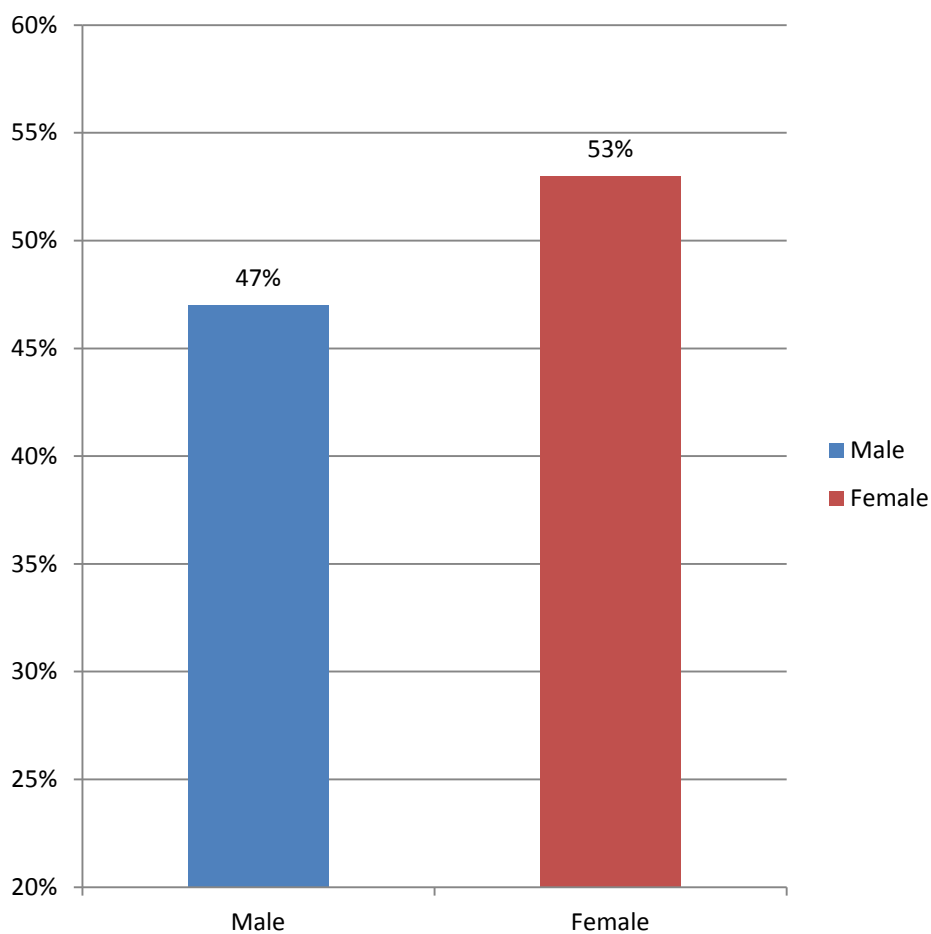
## **4.3 Demographic Information**

Section A of the interview represents the biographical details of the respondents. The respondents' demographics in terms of gender, age, and educational

background are presented. It is believed that the demographic profile could influence the responses hence such information provides a deeper understanding of the results.

### 4.3.1 Gender

Figure 4.1 provides details of the respondents' gender profile. From this table it can be seen that there were 47% male respondents and 53% female respondents, which signifies a difference of 6% more female than male respondents.



**Figure 4.1 Gender of respondents**

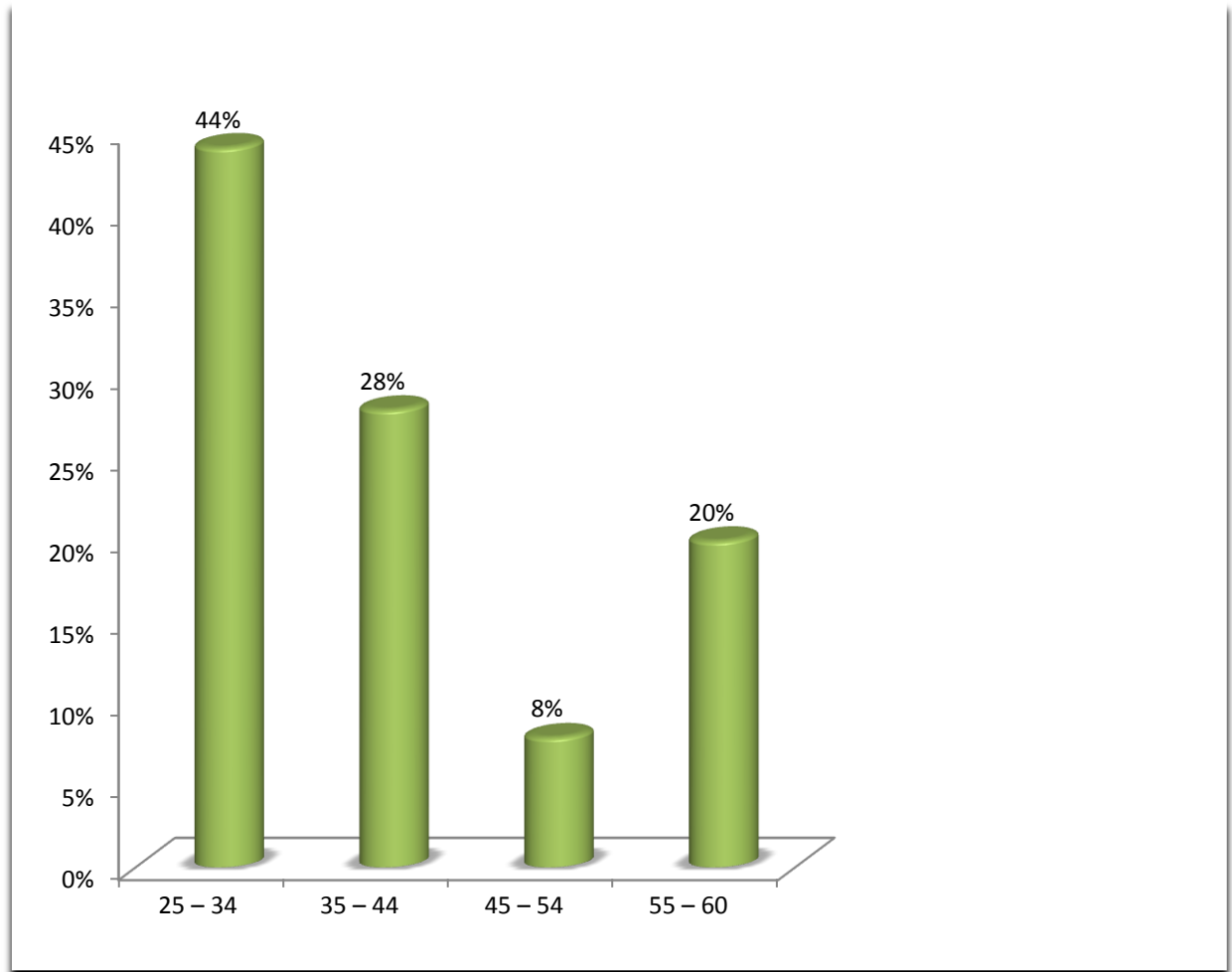
There were more female respondents than male. This could be because of the sector that the study concentrated on. Most of the respondents were in the micro and very small business category. This is where most women business owners are found as this category comprises mainly salons, street vendors, and other

businesses such as dressmakers. For instance it was noted that one of the most dominant type of micro businesses in the Manzini city was hair dressing salons. In all the shopping centres, big and small, one finds a minimum of two salons. In some buildings a whole floor will just be full of salons and very few other types of businesses.

This was confirmed by one respondent who is a salon owner. She stated that this is because salons are very easy to start and they have proven to be a business that is not heavily affected by changes in the economic climate. She added that going to the salon has become a part of a lot of people's lifestyles such that whether there is a recession or not, people still want to look good.

#### **4.3.2 Age of respondents**

The age distribution indicates that respondents between the ages of 25 and 34 years represented the largest portion of the sample with 44 per cent. Respondents between the ages of 35 and 44 years represented 28 per cent, while respondents between the ages of 45 and 54 years represented 8 per cent and ages 55 to 60 years were 20 per cent of the total sample.



**Figure 4.2 Age profile of respondents**

From the results it shows that the majority of the respondents fall within 25-34 years, with the next majority being between 35 and 40 years of age. These are people who can be said to be relatively young and energetic thus giving hope that their businesses stand a better chance of being successful and being in existence for a long time.

Age can play a significant role in the success or failure of a business because with it comes experience and maturity. It was observed during the research that the older participants tend to understand that in business there will always be ups and downs. The younger people are more likely to be influenced by pressure and they expect the business to be an overnight success hence they need to be careful how they manage their businesses. This includes being able to handle success and

rapid growth.

### **4.3.3 Educational background**

This part of the interview sought to establish the educational level of respondents in order to determine if education plays an important role in the way they operate their businesses. The educational backgrounds of the respondents were very diverse. Some were highly educated with tertiary qualifications while others just ended at lower secondary school.

The researcher is of the opinion that most of the respondents' level of education was sufficient for the type of business that they owned. This is because all the respondents had a good understanding of the business environment they were in and their businesses were either successful or just surviving. One responded, however, showed outstanding performance in running a business yet she only had lower secondary level of education. This supports the school of thought that says that some entrepreneurs are born and not just made (Deakins, 2006).

Another observation that was made with regard to educational background was that the respondents with higher levels of education were more cooperative than the ones with less education. It was easier for the researcher to develop a rapport with these respondents as they did not need a lot of explanation before they could acknowledge the purpose of the interviews. They were also forthcoming with the information sometimes even answering questions before the interviewer would ask them.

### **4.3.4 Prior Work Experience**

The respondents were asked about the number of years of work experience that they had before venturing into business. The aim of this question was to ascertain whether having a lot of experience influenced the chances of starting and running a successful business. Table 4.2 shows the responses to this question.

No of years experience	No of respondents
No experience	20
1 – 5 years	1
6 – 10 years	3
More than 10 years	1

**Table 4.1 Prior Work Experience**

The findings indicate that an overwhelming majority of the respondents had no prior experience related to the business that they operate. However those who did have experience highlighted that having prior work experience puts one in a better position to run a successful business.

#### **4.3.5 Business Sector**

This section presents the various business sectors that the respondents belong to. These include: Retail, services, catering, direct selling, communication, manufacturing and hospitality industry. Table 4.3 below illustrates the number of respondents in each sector.

Business Sector	No of respondents
Retail	9
Services	7
Communication	2
Direct selling	4
Manufacturing	2
Hospitality	1

**Table 4.2 Business sectors represented.**

The table above shows that the sample represented a wide range of sectors where SMEs operate their businesses.

#### **4.3.6 Number of years of Business**

As part of the demographic profile, the researcher wanted to know how old the businesses were. This was because it is reported in literature that most small and medium businesses struggle a lot during the first five years of existence. It was stated in chapter two that studies have shown that a large number of businesses in the SME category do not survive beyond three years of operation (GEM 2011). The life spans of the businesses in this study are outlined in table 4.3.

No of years business in existence	No of businesses
Less than 1 year	3
1 – 5 years	11
6 – 10 years	7
10 – 15 years	3
More than 15 years	1

**Table 4.3 Life span of businesses**

The table above shows that the life span of the businesses ranges from less than one year to more than 15 years. In fact the oldest business was found to have been in operation for more than 30 years. The majority of the businesses fall within the one to five years category and this is the period that is said to be very critical for small and medium enterprises. Seven of the businesses are between six and ten years old and it can be assumed that they have passed the period of high mortality.

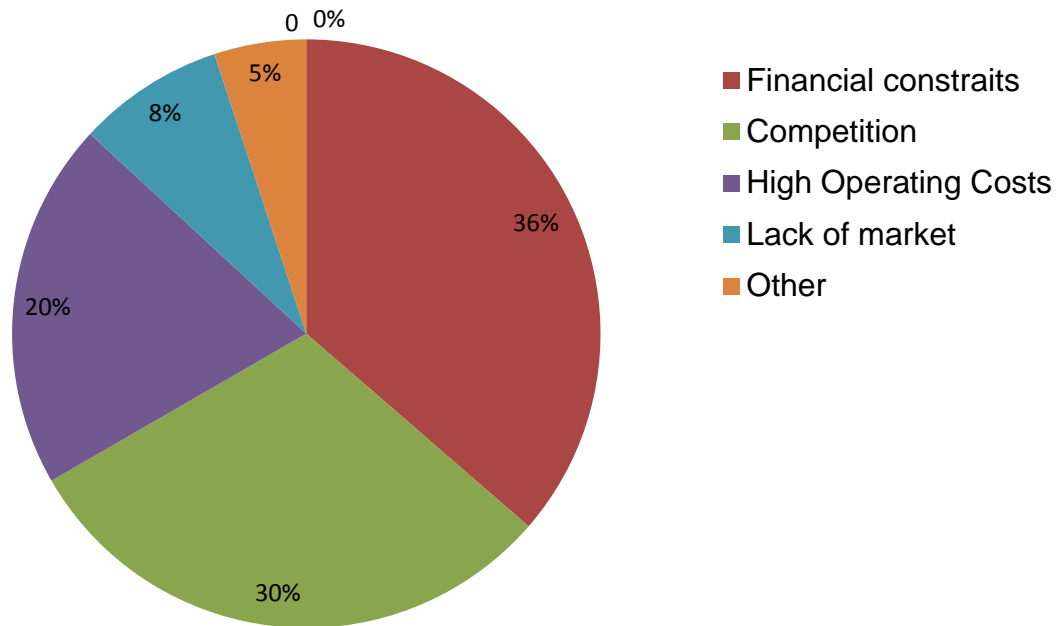
#### **4.4 Challenges faced by the SMEs**

When asked about the challenges that they face in their businesses, the respondents cited different challenges. A careful analysis of the responses to this issue identified the following themes that were common to most of the respondents:

- Financial constraints;
- Competition;
- High operating costs;
- Lack of markets for products;
- Other.



Figure 4.2 displays the percentage of respondents in each theme.



**Figure 4.3. Main Challenges facing SMEs**

The chart above depicts the themes that were identified as major challenges facing SMEs in Manzini. Financial constraints were cited as the number one challenge accounting for 36%, followed by competition with 30%, high operating costs 20%, lack of markets 8% and other challenges 5%.

#### **4.4.1 Financial Constraints**

The majority of the respondents cited financial constraints as the main challenge they are faced with. This challenge features prominently whenever challenges facing SMEs are being discussed. This is supported by literature as discussed in chapter two. Studies have shown that a lot of small businesses struggle to survive with some eventually collapsing due to lack of funds. This sector is normally faced with difficulties when trying to secure funds for operation and expansion (Mutezo, 2005).

Most of the respondents feel that there is lack of access to financial resources to either start or develop their businesses. They highlighted that financial institutions are not willing to help them, citing that they are high risk business. They also complain that they do not have the collateral that banks would normally require before giving them loans. The general feeling among respondents was that there is no readily available access to financial assistance for SMEs in the country.

It was cited by some respondents that the Swaziland government is currently experiencing some financial difficulties. This has a major impact on most businesses especially the small and medium ones. These businesses are either directly or indirectly affected by this economic situation. The directly affected ones are those that sell to the government as it takes a very long time before they receive payment and this cripples their businesses' cashflow. The government had all along been known to be as very slow payer, but in the past two years the situation had become very severe. It was noted that some businesses have had to close shop as a result of the financial crisis faced by the government.

Other businesses are indirectly affected, for instance those SMEs that supply inputs to businesses who rely on government tenders would not be paid on time as their debtors have to wait for government to pay before they can also pay their suppliers. On the other hand, a majority of the SMEs' customers are civil servants. So with no salary increments in the past two years, these customers have less disposable income to spend.

#### **4.4.2 Competition**

Competition was cited as the next major challenge faced by the respondents. Competition is so rife such that a lot of businesses are struggling to survive. It was stated that some of the respondents' businesses were faced with competition from big and well established companies. This makes it difficult for them to compete as the bigger businesses benefit from economies of scale which makes it possible for them to charge lower prices. The big businesses also stand a better chance of winning tenders from government and other big companies thus making it difficult for the SMEs to compete.

The researcher also noted that the competition is made worse by the fact that there is lack of innovation on the part of the business owners. Most of them are just emulating what the rest are doing in that particular industry without making an effort to offer something different that will make the business to stand out. This confirms what literature had said about competitive advantage being an important driving force behind the success of a business. It also explains why most of these enterprises remain small for a long time because without innovation it is highly unlikely for them to grow.

#### **4.4.3 High Operating Costs**

Most of the respondents stated that they obtain their inputs or stock from neighboring South Africa. This results in high costs mainly due to transportation and custom duties that are paid at the border posts.

Another element that makes operating costs to be high is the recently introduced Value Added Tax (VAT). The payment of this type of tax had not been practiced in the past, it was introduced in 2011. The respondents mentioned that their expenses have been increased by the VAT amount. These expenses include rent and utilities such as electricity. The respondents stated that the unfortunate thing about this is that they were not given enough notice about the coming into effect of the VAT hence when it started it was not budgeted for and it had a negative impact of their businesses' cashflow.

#### **4.4.4 Lack of Markets for products**

Some respondents highlighted that there is a serious lack of markets for their products. This is mainly due to the fact that Swaziland is a small country hence the industries easily get saturated. Another contributing factor is the lack of barriers to entry. For instance anyone who wants to start a salon can easily do so even if there are already a lot of salons in that particular area.

Globalization has also affected the SMEs in a big way because instead of them

being able to sell their products internationally, there is a lot products coming from Asian countries which flood the markets making it very difficult for Swazi SMEs to even consider exporting theirs. Worse still, the products come a much cheaper prices that the locally produced ones.

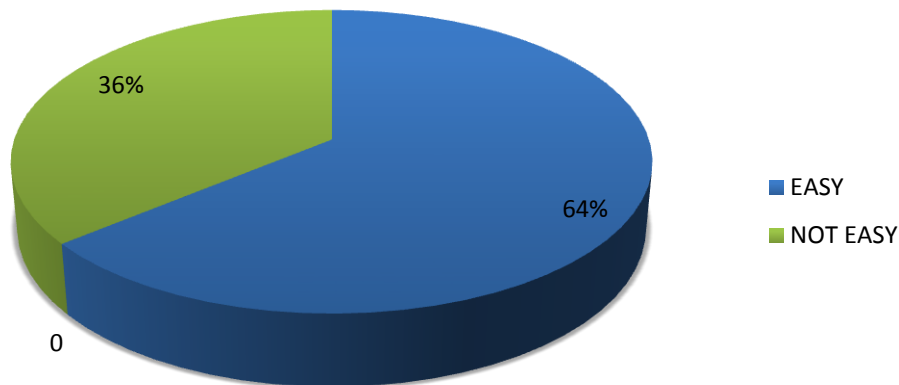
#### **4.4.5 Other challenges**

The respondents cited a lot of other challenges which were not necessarily categorized into particular themes. These included the following:

- Lack of management skills to properly manage their businesses. Financial management was found to be the key skill lacking for some of the respondents. This finding is in line with what was stated in paragraph 2.8.2, that with a lack of management training business owners would not have the required skills to run successful businesses.
- Bad economic climate in the country. Respondents highlighted that they were experiencing difficulty in collecting payments from debtors including the government.
- Importing products from South Africa has some challenges relating to the procedures that have to be followed. This includes obtaining import permits that expire quickly and the process of declaring goods at the border post is very cumbersome and frustrating.
- Lack of entrepreneurial culture among business owners. Most owner managers treat the business as a personal project thus they use the proceeds anyhow they wish. The entrepreneurial model discussed in chapter two is confirmed by this finding in that it reveals that the respondents were not oriented for success in the way they conducted their businesses.
- Physical limitations such as poor infrastructure. Poor transportation and communication facilities make it difficult for SMEs to receive inputs and make deliveries on time.

Whilst still discussing challenges with the respondents, they were asked whether the process of registering a business was cumbersome or not and the responses

were as shown in figure 4.3 below.



**Figure 4.4 Ease of starting an SME.**

More than 50 percent of the respondents said it was easy and not cumbersome. The respondents also mentioned that the business environment in Swaziland is conducive in terms of legislation and the ease of starting a business. Some respondents though mentioned that for some types of businesses, it is a lengthy process to obtain a trading license. An example of such a business is that of a guest house. Other respondents preferred to hire agents to do the registration for them as they argue that they do not have the time to be queuing in different offices for long hours for a number of days. This shows that though the process may be easy but it is time consuming.

#### **4.5 Success Factors**

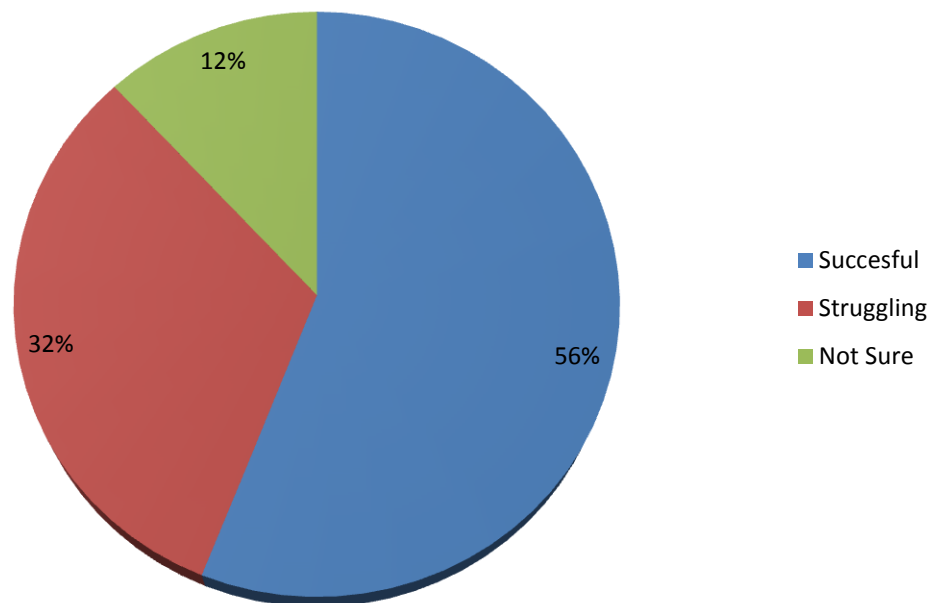
One of the objectives of the study was to determine the factors that contribute to the success of small business. The researcher was interested in finding out what were the chances of these SMEs to grow and become big enterprises as opposed to always remaining small or medium.

The respondents were asked how they define success and what factors they considered key to the success of their businesses. For most of the respondents

asking them to define success was like a trick question as they needed the researcher to explain what exactly was being asked. The researcher then explained and then requested the respondents to concentrate on the following three questions:

- Would you say that your business is successful?
- What are the factors that are primary to the success of your business?
- Do you have a future plan to implement strategies that will make your business more successful?

The figure below shows how the respondents responded to the first question.



**Figure 4.5 Business success**

In answering the question on whether they considered their businesses as successful, 56 percent of the respondents said their businesses were successful, 32 percent said they were struggling and the other 12 percent said it was too early to say because they had recently started the businesses with less than one year of operation.

The second question obtained very similar responses from the respondents. Their responses showed that they consider the following to be the key success factors for their businesses:

- Making a profit;
- Being able to meet the needs of customers;
- Being able to pay fixed costs such as rent and salaries;
- Survival by being still in business even during a recession.

Discussion with the respondents revealed that most of them were either lifestyle entrepreneurs or survivalists. Their answers to the third question revealed that for most of them future growth was not the objective. They are just comfortable if their businesses can afford to support their lifestyles by putting food on the table, educating their children and basically supporting the daily needs of the family. This confirms what was discussed in chapter two, that small business may differ with entrepreneurship in that SMEs may not necessarily continue to be entrepreneurial when they get to a certain stage of their growth (Moore *et al.*, 2008).

#### **4.6 SME Contribution:**

In an attempt to determine the contribution of these SMEs to the economy and to the social welfare of Swazi citizens, the respondents were asked how many people they support through the proceeds of their business. Most of the respondents found it difficult to give a precise number of beneficiaries of the business. This is mainly because of extended families hence the business owner finds that the business will support other people over and above close family members.

The respondents were then asked how many full time employees were working in their businesses. The answers to this question are presented in table 4.4 below.

<b>Respondent</b>	<b>No of full time employees</b>
Respondent 1	4
Respondent 2	6
Respondent 3	1
Respondent 4	8
Respondent 5	1
Respondent 6	3
Respondent 7	6
Respondent 8	4
Respondent 9	2
Respondent 10	2
Respondent 11	2
Respondent 12	4
Respondent 13	2
Respondent 14	13
Respondent 15	1
Respondent 16	3
Respondent 17	2
Respondent 18	1
Respondent 19	1
Respondent 20	1
Respondent 21	1
Respondent 22	2



Respondent 23	3
Respondent 24	1
Respondent 25	24
<b>TOTAL</b>	<b>98</b>

**Table 4.4 Number of employees**

These results show that a majority of the respondents had less than 10 full time employees. Of these respondents, 68% can be classified as micro when using just the number of employees as a basis. Some of the respondents indicated that they also engage casual employees every now and then as the need arises. An example of such businesses includes the ones in catering, hospitality and one who is in fruit and vegetables on a wholesale basis.

These numbers give a glimpse of the contribution made by these enterprises to the creation of job opportunities to the otherwise unemployed. Considering the high rate of unemployment currently prevailing in the country, the contribution made by SMEs in the fight against unemployment is quite remarkable. This shows that this sector has a potential to create more jobs if the businesses are successful.

#### **4.6.1 Record Keeping**

When asked whether they kept any records for their businesses, a majority of the respondents stated that they do not keep proper accounting records. They only keep a cash book which records all income and expenditure. Some do not keep anything at all. The main reason for this was that these were owner managers who are involved in the daily running of the business hence they felt they do not need to record every transaction taking place. Another reason cited was that they are too busy to have time to do records and yet their businesses cannot afford to obtain the services of a professional book keeper.

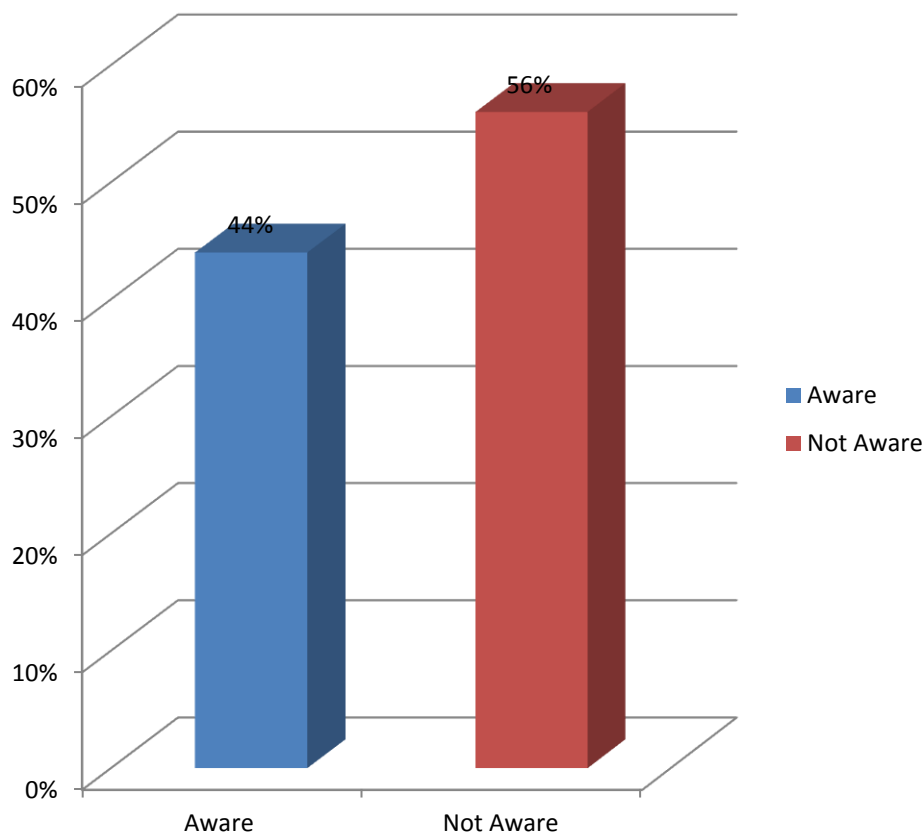
Only 32 percent of the respondents reported that they keep proper records of the business. These were found to be the ones who have been in business for more than two years and their businesses were falling under the medium size category. This shows that the small and micro business owners do not appreciate the importance of keeping proper records for their businesses. This could also be because they do not have the proper know-how on how to keep records.

Since most of the respondents do not keep proper records of their income and expenditure, it would be very difficult to estimate their contribution to the economy in monetary value. During the compilation of the literature review in chapter, the researcher also had a serious difficulty in trying to obtain information from literature about the contribution of SMEs to the economy of the country as a whole. After the data collection exercise, it became apparent to the researcher that the majority of small business owners do not keep records of their business transactions. Then surely it would be very difficult to get a true picture of the contribution of SMEs to the economy.

The respondents were asked whether they paid tax for their businesses. A majority of them said they do pay tax. In fact all the businesses that fall under formal trade said they do pay. They added that there is no way they could avoid paying tax because proof of payment is always required when they renew their licenses. So since licenses are renewed annually they also have to pay the tax annually, as required. Only those operating under informal trade, reported that they do not pay tax and these are the ones who fall under micro enterprises hence their annual revenue is minimal for tax purposes.

#### **4.7 SME Development**

The respondents were asked whether they were aware of any development strategies available in the country that are aimed at developing SMEs. Their responses are shown in figure 4.4 below.



**Figure 4.6 Respondents' awareness of development strategies**

Those who were aware of current development strategies were further asked if they had benefited from any of them. Only 2 respondents confirmed that they had benefitted. One of these was a young respondent who benefitted seed capital from a competition where aspiring entrepreneurs were required to submit viable business proposals that they were either intending to start or had started and wanted to expand them.

#### **4.7.1 Feelings about government support towards SMEs**

Findings from the interviews reveal that the majority of the respondents feel that the government does not support SMEs. The general feeling among the respondents was that the government is not doing enough to foster the development of SMEs. This was evident in that 76 percent of them flatly declared that there was no support from government for small businesses.

Some of the respondents felt that instead of supporting them, the government was actually contributing a lot towards the poor performance in their businesses. This was because the government was a very slow payer. So for those of them who sell to the government they would time and again run into cashflow problems due to non payment or very late payment by the government. Even those who do not sell directly to the government, were also affected in one way or another. An example is a respondent who supplies products to schools. The school will only get to pay this creditor when the government has released money to the school and this normally takes a very long time. This situation has been made worse by the introduction of free primary education in the country which has resulted in a bigger chunk of the fees being paid by the state instead of parents.

Another point made by respondents was that the government may have development programs but most of them are only in paper. There are no efforts to ensure that such programs are being implemented as intended. There are also agencies that were tasked with the responsibility of developing small and medium enterprises. It was noted by some respondents that the problem with such agencies is that the people employed to work there are not entrepreneurial themselves. This makes it naturally less effective to assign them the task of developing SMEs.

One of the agencies whose main role is to develop SMEs is the Small Enterprise Development Company (SEDCO) which was introduced in chapter two. This company's main vehicle for assisting small businesses is by providing premises such as shop space and warehouses at designated areas in the cities and towns. The rental for these premises is very minimal so as to ensure that even the smallest business can afford it. According to the respondents, the biggest problem about this noble initiative is the location of these warehouses. The ones for the Manzini city for instance, (where this study was conducted), is very far from the city centre where the hive of business activity is happening. This then defeats the whole purpose of helping SMEs because they get very little customers compared to the businesses situated at the city centre.

The ill feelings from most of the respondents about the lack of support from the government indicate that a lot still needs to be done if the small business sector is to be developed. The government needs to ensure that what is on paper is implemented and that established programs achieve what they were intended to achieve.

#### **4.7.2 Intervention strategies that can be used to support SMEs**

The last part of the interview required the respondents to state how they believe the government, private sector and other agencies could intervene to improve the support of SMEs. The respondents came up with the following suggestions:

- The government should have a way of being continuously in touch with business owners at the grassroots level. This will ensure that there is feedback and a two-way communication between all stakeholders. Policies and programs can then be tailor made to be in line with current economic trends. The feeling was that the government is not visible as the officers are just stationed at their offices instead of going out to be in touch with what is happening on the ground.
- Awareness campaigns that promote existing programs for SMEs should be run on an on-going basis. Some SMEs lose out on the available facilities and programs simply because they are not aware of their existence.
- Mentorship programs should be initiated with big and established businesses. This will promote the transferring of skills to small businesses and it can serve as inspiration to young and up-coming entrepreneurs.
- Financial institutions should assist by making it easier for SMEs to obtain financial resources. They should not treat them as big businesses because their circumstances are different.
- Both the government and the private sector need to revise their procurement policies so as to accommodate SMEs. The requirements for obtaining tenders should not be such that they immediately exclude SMEs and suite large companies.
- The government should take more seriously the issue of corruption by implementing tough and harsh disciplinary action against those found to

have committed corrupt practices. It has become an open secret that there is a high level of corruption in the business sector, such as obtaining kick-backs, but little is being done to combat this practice.

The respondents were of the opinion that if the above recommendations were implemented, the small business sector can be revitalized and the performance of SMEs would be improved.

#### **4.8 Summary**

The results from the interviews conducted were presented in this chapter and the findings were discussed in accordance with the objectives of the study. Primary data was collected by means of semi-structured interviews. The data was analyzed by first being coded and then segmented into themes that emerged from the interviews.

The results reveal that there are a number of challenges faced by SMEs in Manzini. Most of the businesses are facing some constraints that hinder their growth and development. The next chapter will discuss conclusions from this study, recommendations, limitations of the study and recommendations for further research.

## **CHAPTER FIVE**

### **Recommendations and Conclusions**

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#### **5.1 Introduction**

The previous chapter presented research results and these were analysed in an attempt to address the objectives of this study. The responses and opinions of the respondents were stated as far as possible in order to give a summary of the understanding obtained. This chapter outlines the conclusions drawn from the findings of the research. The researcher makes certain recommendations to the relevant stakeholders and various role players as identified in this study. Recommendations for further research are also presented.

This study focused on SMEs, that are operating in the Manzini urban area. The main objective was to obtain a deeper understanding of challenges faced by SMEs and the key factors that contribute to their success or failure.

#### **5.2 Conclusions drawn from this research.**

The following conclusions can be made from the findings of this study:

- Respondents who have a higher level of education were found to be running their businesses in a more professional manner. They keep the relevant records of the business and their transactions are well planned and well managed. This shows that there is a need for those who do not have business management skills to obtain some training in order for them to be more effective in their management approach thus improving the success rate of their businesses.
- Prior work experience is an important element which helps people in managing their businesses. The participants who have been exposed to business skills and routines such as planning and control are more likely to be successful than those with no experience (Petrus, 2009). The

experienced participants were found to be implementing policies and procedures that result in better business management than the ones with no experience. This is because their businesses are based on better planning, organising and control practices as opposed to doing this on a trial and error basis.

- The study has revealed that most of the participants do not attend formal training on how to run a business. They just rely on their academic qualifications which, in some cases, are not necessarily business oriented. This indicates that academic training alone is not enough for one to be able to operate a successful business. There is need for continued empowerment through the acquisition of business management skills (Scarborough et al., 2009).
- It can be concluded that there are some business sectors that have too many businesses that are similar to each other. An example is the salon and fruit and vegetable street vending. This shows that there is lack of innovation as new businesses just emulate what the others are already doing. This leads to high levels of competition and less profits for their businesses as these industries are already saturated.
- The findings of this study have also revealed that there are a lot of challenges facing SMEs. The first challenge cited by most of the respondents was lack of access to financial resources. It is evident that current sources of funding for SMEs are not producing the desired results as they seem to be not easily accessible to the intended recipients. This confirms what was mentioned in a lot of literature. In paragraph 2.8.1, it was stated that access to finance was often cited as a major challenge facing SMEs
- Another challenge linked to financial constraints is the bad economic climate in Swaziland. The government was already known for being a slow payer but the current situation has made matters worse. This is because the government is a key player in the entrepreneurial activities happening in the SME sector. With the government experiencing financial difficulties, SMEs are seriously affected by late payments. Small businesses cannot survive without timely payment. Delayed payments by debtors such as the state cause severe cash flow problems for SMEs as their ability to buy



stock and pay workers is very limited. This results in their businesses being crippled with some eventually having to close down.

- Competition was cited as another major challenge for the SMEs who participated in the study. It is acknowledged that competition is healthy for business in general. However the SMEs feel that they are exposed to unfair competition by bigger companies and sometimes even government owned companies. This would suggest that something needs to be done in order to level the playing field and to empower the SMEs to be able to compete effectively.
- Since most of the raw materials and stock is imported from neighbouring countries, especially South Africa, SMEs find themselves faced with high operating costs. This suggests that the country is not doing enough to produce those products that it is capable of producing. Instead, most products are imported as opposed to being produced locally. An example is the fruits and vegetables industry. The country has a lot of idle arable land and weather conditions are such that there are products that can be produced locally.
- The study also revealed that SMEs are faced with a challenge of lack of markets for their products. With Swaziland being a small country it is necessary for businesses to exploit markets in the global economy. SMEs need to be able to participate in the global market in order for them to survive.
- A majority of the respondents perceive their businesses as being successful. The study reveals that there is potential for SMEs to succeed as long if the owners are committed and they run their businesses in a professional manner. This is done by ensuring that all aspects of the business operations are done properly and finances are well managed. The use of business management skills and good planning and control procedures are all elements that result in success for the business (Durand, 2005).
- It was discovered in this study that most of the small businesses do not keep proper records of their transactions. As a result it would be difficult to ascertain with accuracy, the contribution of these SMEs to the economy. It

would be a daunting exercise to try and determine their contribution in monetary terms.

- A majority of the respondents are of the opinion that the government is not doing enough to support them. The study reveals that more is expected from the government than the private sector or other agencies. This implies that the strategies currently in place are not serving their intended purpose. From the respondents' point of view, the government is not seen to be doing much in supporting the development of SMEs. There is also a lack of awareness on even the existing development strategies currently being implemented. This shows that knowledge about these does not filter down to the grassroots levels.

The findings of this study show that what is experienced by SMEs in Manzini is not really different from other areas. This is because the results were in line with most of what was obtained from literature on the operations of small and medium enterprises. It can be concluded, therefore that the findings confirm what literature had said, especially on the challenges faced by small and medium enterprises.

### **5.3 Implications of this Research**

It was stated in chapter two that there is a lack of literature and research on the challenges faced by SMEs in developing countries, Swaziland in particular. In most cases, reliance has been on literature from developed countries. This study will provide the required information that will enable stakeholders to advance the development of SMEs in Swaziland. The findings will help in identifying the issues that need to be addressed in order to create an environment that will be more conducive for the development of successful SMEs. The recommendations made in this study are practical and their implementation can result in a vibrant and successful SME sector.

The following stakeholders will benefit from this study:

- The government and policymakers will have a better understanding of the situation on the ground hence they will be able make informed policy decisions. They will be in a position to put in place strategies that will be

relevant for the SMEs because these would be tailor made based on current information. Improving the working environment for SMEs will result in successful small businesses which will create more jobs and generate more revenue. The government will benefit through increased taxes and a reduction in reliance on government grants.

- The SME sector and interested parties will gain a better understanding of the current situation that SMEs operate in. Once the owner-managers have identified the critical factors that influence the success or failure of their businesses, they will be in a better position to overcome the challenges that are within their control. The recommendations that are provided could enhance the growth of these enterprises.
- The study has identified the main factors that constrain the growth of SMEs. This will help development agencies to understand better, the needs of SMEs and they will be able to then identify areas that need to be improved upon. These agencies will also be in a position to devise strategies that are relevant to the situation in Swaziland as opposed to using models that have worked elsewhere yet they may not be relevant in this case.
- Service providers will be informed on the expectations of SMEs and therefore, be able to provide products and facilities that will benefit the SMEs. This study has revealed that poor infrastructure is one of the factors contributing to the failure of businesses. This suggests that those responsible for the provision of facilities such as proper roads have a major task of ensuring that this situation is addressed.
- Potential entrepreneurs will be better prepared by understanding the business environment and the challenges they are likely to encounter when they venture into business.

## **5.4 Recommendations**

Based on the findings of the study the following recommendations are made:

### **5.4.1 Recommendations to the government and policy makers.**

It is in the interest of the government to implement workable strategies that will

ensure the success of all businesses, SMEs in particular because of their valuable contribution to the economy and the lives of the Swazi citizens. When a business employs people, the problems of unemployment, poverty and crime are reduced. The taxes collected by the government will increase both from the businesses and the employees. In view of this, it is recommended that:

- The government should implement some control measures that will ensure that the existing programs achieve the desired objective of creating an enabling environment for the development of successful SMEs. This should be done by having well monitored programs that aim at developing SMEs. Strategies such as those reflected in the SME policy should not just end in paper but there should be controls put in place to ensure that they are being implemented. There should be constant monitoring and evaluation of these programs so that relevant adjustments can be made as and when necessary. The implementation of an evaluation system is necessary to ensure the effectiveness of these development strategies.
- It is recommended that qualified and competent personnel should be employed to drive these development programs. These officials employed to drive the programs should be committed to the development of and growth of SMEs. They need to be well trained and experienced in order for them to offer the necessary guidance and advice to business owners.
- The government needs to develop policies that are relevant and specific to the challenges facing SMEs. In order to do this, there should be a data collection exercise whereby the government will collect as much information as possible about the challenges facing SMEs. This study has already identified some of the critical challenges that can be used as a starting point. Further studies can be done so that there is a pool of information that will be used to craft the relevant policies.
- The government should come up with strategies that will address the issue of access to financial resources. This study has proven that this is the most critical challenge faced by SMEs in the country. Businesses typically need funds at all stages of their development and their success relies heavily on the access to financial resources. The government can intervene by having policies that will ensure that banks and financial institutions are not too strict on SMEs. They should offer financial products customised to suite the small

business sector and the funding criteria need to be reviewed in the light of the specific needs of the SMEs.

- A culture of zero-tolerance to corruption should be entrenched on government officials who collude with business owners and perform corrupt activities such as kick-backs. Strict disciplinary action should be taken on those found to be involved in corruption.
- There should be a broader implementation of entrepreneurship education and training in primary and higher education institutions. Self-employment should be included as a viable alternative within the career guidance structures. Research has shown that there is a positive relationship between education/training and the ability to operate successful businesses (GEM, 2010).
- The government should address the issues that make it difficult for businesses to start up and to transact effectively (UNDP, 2009). It is well and good that there is a policy in place, but its implementation is not quite evidenced at the grassroots level. Thus to stimulate a vibrant SMEs sector, the government needs to create an environment that is really conducive enough for entrepreneurs to run successful businesses.
- The government and all relevant stakeholders should make use of the reports produced by international bodies such as The World Bank, International Monetary Fund (IMF) and the United Nations Development Program (UNDP). These reports contain practical recommendations that can benefit the country if they are implemented.

#### **5.4.2 Recommendations to the owner-managers:**

- Owner-managers need to empower themselves by obtaining business management skills. This could be done by attending short courses offered by development agencies such as SEDCO.
- The business owners should not put too much reliance on their accountants who are at times outsourced for purposes of filling tax returns. Financial acumen is vital for the continued existence of the business thus the owners should also have basic understanding of the books of accounts so that they can easily interpret the financial statements and be able to take corrective

action where necessary, before it is too late.

- They should aim to be as innovative as possible so that their businesses would stand out and offer something unique as opposed to doing what everyone else in the industry is doing. This will give them competitive advantage which will ensure their sustainable development.
- Business owners need to understand the significance of strategic management. They should have a strategic plan for their businesses which will clearly set out the way forward. The plan should cover areas such as, human resource management, supply chain and customer relationship management. A thorough understanding of these areas will have a positive impact on their businesses.
- The owner-managers should form alliances with other businesses. This would help in developing a strong supply chain which will in turn benefit the businesses through economies of scale.

#### **5.4.3 Recommendations to development agencies:**

- Development agencies should put more effort on creating awareness of their services to SMEs.
- There should be more strategies aimed at creating and rewarding an entrepreneurial culture among the citizens. Activities such as the annual entrepreneur of the year award should be well advertised and marketed so that a majority of business people are aware and are encouraged to participate.
- More focus should be directed to the entrepreneurs in rural areas. There is a lot of potential that could be unveiled if more awareness can be created on the available development strategies.
- Development agencies should also assist SMEs in getting markets for their products.
- There should be an accessible directory of small businesses operating in the country so that it is easy to locate them through search engines such as Google.
- There should be collaboration with big companies and organisations so that they are involved in supporting the development of the SME sector, as part

of their corporate social responsibility. Partnerships between the public and private sector should be encouraged as these will create a platform for SMEs to draw lessons from successful businesses.

- There should be incentives to encourage entrepreneurs to start new businesses and companies to invest in small businesses. This could be done through internships and apprenticeships. An incentive system will facilitate investment in entrepreneurship by creating an environment that rewards the risks taken by entrepreneurs and investors.
- Any development strategies that are being planned for SMEs should be based on some needs assessment which will have the input from the relevant stakeholders. This will ensure that relevant and practical strategies which will have a buy-in from the SMEs, are implemented.

If these recommendations are implemented as policies, small businesses would have a higher success rate. The more successful the SMEs will be the more the economic growth for the country. The unemployment rate would be reduced hence the welfare of Swazi citizens will improve and poverty will be alleviated.

## **5.5 Recommendations for Future Studies**

There are certain problems that were identified when conducting this study. These have been highlighted in chapter one under limitations of the study. In view of this, the following are recommendations for further research:

- There is limited literature on SMEs in Swaziland and there is not much that is documented on the challenges facing SMEs and the factors that have an impact on their success. This suggests that there is a need for more research to be done in this area.
- This study was confined to SMEs operating in the Manzini city. A sample of thirty was deemed sufficient for the purposes of this study. However, the findings obtained may not be generalized to the whole population of SMEs in the Manzini region or the whole country. It is recommended that a study be conducted that would include all the different sectors in the region. Also all the areas must be covered so as to include the wider population that is in the rural places.

- The sample selected in this study had a majority of the respondents falling under the Micro, and Small businesses. As such some of the findings may not necessarily be relevant for the medium sized enterprises. Future studies should focus on each category so as to obtain information that is directly relevant to Micro, Small or Medium enterprises.
- The study did not consider the levels of growth of the businesses studied. Businesses encounter different challenges at the different levels of their life cycle, hence it would be better to conduct a study that will look at specific stages such as start-up, initial growth, growth stage and mature stage.
- Due to time constraints the researcher was not able to dig deeper on the issues and challenges facing SMEs. Most of the participants were not able to expand as much as possible because they are quite busy hence the interviews had to stick to the agreed time frame of about thirty minutes. A similar research could be done where more time would be spent with the participants in order to get richer data.
- There is need to conduct research on the factors that make it difficult for SMEs to access financial resources.

## **5.6 Summary**

This chapter drew conclusions from the research findings obtained from this study and recommendations that emerged from the study were made. The findings of this study suggest that the overriding challenge faced by SMEs is the lack of access to financial resources and this confirms what literature had said. There is also a general feeling that the government is not doing enough as it should to support the development of successful SMEs. To unleash the growth of SMEs could just be the solution that the country needs in order to address the economic crisis and the high unemployment rate currently prevailing. It is hoped that this study will contribute towards the development of successful SMEs.



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## Appendix 1

### INTERVIEW SCHEDULE

#### **SECTION A: Demographic Information:**

1. Gender (male/ female)
2. What is your age?
3. What is your educational background?

#### **SECTION B: Challenges:**

4. For how long have you been running this business?
5. How many years of experience did you have before starting your own business?
6. Do you have any training in running a business?
7. Is the business fully registered?
8. How cumbersome or easy was the process of registration?
9. During formation -how was the business financed; and what challenges were faced during this stage?
10. How conducive is Swaziland's legislation on business owners?
11. What is the size of your market and how is the access to it?
12. What is the affordability of potential buyers?

#### **SECTION C: Success Factors:**

13. How would you define success of small business?
14. Would you say that your business is successful?
15. What are the factors that are primary to the success of your business?
16. Do you have a future plan to implement strategies that will make your business successful?

#### **SECTION D: SME Contribution:**

17. How many people do you support through the proceeds of your business ?
18. Do you keep any records for your business; and if you do which ones?
19. Who are you suppliers, are they inside/outside of Swaziland?
20. How many employees do you have? (permanent or casual).
21. What is the annual revenue for your business?
22. Do you pay tax?

**SECTION E: SME Development:**

23. Are you aware of current development strategies aimed at developing SMEs?
24. Have you benefited from any of them?
25. What do you feel about government's support towards SMEs
26. How should the government and other agencies intervene to improve the support of SMEs?

## Appendix II

<b>Informed Consent Letter</b>
--------------------------------

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

Dear Respondent,

**MBA Research Project**

**Researcher:** Patience Hlatshwako (073 160 7478)

**Supervisor:** Steven Msomi (231-260 7927)

**Research Office:** Ms P Ximba 031-2603587

I, **Patience L. Hlatshwako** am an MBA student, at the Graduate School of Business and Leadership, of the University of KwaZulu Natal. You are invited to participate in a research project entitled **CHALLENGES FACING SMEs IN MANZINI**. The aim of this study is to: **Determine the challenges facing SMEs in Manzini.**

Through your participation I hope to understand **these challenges**. The results of this study are intended to contribute to **finding ways of how to overcome the challenges facing SMEs.**

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

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

The interview should take you about **30** minutes to complete. I hope you will take the time to complete this interview.

Sincerely

Investigator's signature \_\_\_\_\_ Date \_\_\_\_\_

**This page is to be retained by participant**

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

**MBA Research Project**  
**Researcher:** Patience Hlatshwako (073 160 7478)  
**Supervisor:** Steven Msomi (231-260 7927)  
**Research Office:** Ms P Ximba 031-2603587

**CONSENT**

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

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

SIGNATURE OF PARTICIPANT

DATE

.....

**This page is to be retained by researcher**



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16 May 2012

Mrs PL Hlatshwako (210509119)  
Graduate School of Business and Leadership

Dear Mrs Hlatshwako

**PROTOCOL REFERENCE NUMBER: HSS/0142/012M**  
**PROJECT TITLE: Challenges facing small and medium enterprises in Manzini, Swaziland**

In response to your application dated 30 March 2012, the Humanities & Social Sciences Research Ethics Committee has considered the abovementioned application and the protocol has been granted **FULL APPROVAL**.

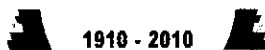
**Any alteration/s to the approved research protocol i.e. Questionnaire/Interview Schedule, Informed Consent Form, Title of the Project, Location of the Study, Research Approach and Methods must be reviewed and approved through the amendment /modification prior to its implementation. In case you have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

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

Yours faithfully

.....  
**Professor Steven Collings (Chair)**  
**HUMANITIES & SOCIAL SCIENCES RESEARCH ETHICS COMMITTEE**

cc. Mr Steven Msomi  
cc. Wendy Clarke



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