

# **TITLE**

A critical analysis of current  
approaches to SMME development and  
support within the eThekweni  
Municipal Area

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University of KwaZulu Natal, Durban, 2009

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## DECLARATION

The Registrar Academic  
University of KwaZulu-Natal  
Howard College  
Durban  
KwaZulu Natal

Dear Sir/ Madam

I, Anneline Chetty, Registration Number 961113383, hereby declare that this PhD thesis entitled:

**A critical analysis of current approaches to SMME development and support within the eThekweni Municipal Area**

represents original work by myself and has not been submitted in part or full for any degree or to any other university. Where use has been made of the work of others, it has been duly acknowledged and referenced in the text. The findings presented and the conclusions arrived at in this PhD are entirely those of the author.

The research for this thesis was performed under the supervision of Professor Urmilla Bob, of the Discipline of Geography, School of Environmental Sciences, University of KwaZulu Natal, Durban.

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**Anneline Chetty**

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**Date**

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**Prof Urmilla Bob (Supervisor)**

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**Date**

## **DEDICATION**

To the late **Ruth Chetty**, my grandmother, whose initial investment in my education has led me to this destination. Thank you for all you have meant to me, your memory will live on in me forever.

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## **Abstract**

Small, Medium and Micro Enterprises (SMMEs) are considered to be the engines of growth of any economy. In the light of recent economic events and the recession that is surging rapidly across the globe, more and more attention is being focused on SMME development and support. Whilst there are a number of organisations (both public and private) which provide support to SMMEs within the eThekweni Municipality Area (EMA), the overall impacts of these initiatives on SMME growth and development is minimal and there is a dearth of studies that critically examine business support services for SMMEs which the public and private sectors provided. One of the major reasons for this minimal impact is the lack of communication and coordination between various service providers which often results in fragmentation and duplication of services. This study analyses the support measures offered to SMMEs not only from the perspective of the SMMEs themselves but also examines the perspectives of service providers from both the public and private sectors. This study is also placed within a multi-disciplinary conceptual framework which includes the political economy approach, neoliberalism, the public-private-sector debate and empowerment theories with specific reference to the South African context. This study is unique in that it analyses SMME development and support within the EMA from various perspectives within a single study.

The objectives of this study were to investigate the awareness and experiences of SMMEs with regards to their support and development and also to critically examine the attitudes and perceptions of service providers (both public and private) towards SMME development and support. In addition, this study sought to assess the capacity of both the private and public sectors to provide effective support and development to SMMEs. An additional objective of this study was to determine the value placed on support measures by determining SMMEs' willingness to pay for services provided, but more importantly to determine the attitudes of the public and private sectors towards the payment for services offered. Both qualitative and quantitative methods were adopted. In terms of the latter, quantitative surveys were conducted with 250 SMMEs who attended various fairs and conferences held across the EMA. Semi-structured interviews (qualitative approach) were conducted with representatives from the private and public sectors that provide support or services to the SMMEs in the EMA. In this regard, 53 representatives from the public sector and 50 from the private sector were interviewed. The analysis was undertaken thematically and, where relevant, findings pertaining to the different stakeholders interviewed were compared and discussed.

Some of the key findings indicate that SMME respondents were more aware of local government and the services they provide than any other tier of government. Furthermore, SMME respondents within the study did not fully grasp the concept of Business Development Services (BDS) and the associated benefits for their business. SMMEs rely heavily on government to provide services free of charge. The main finding is that private sector service providers are better qualified, positioned and trained to provide BDS than the public sector whose main roles should be that of regulator, facilitator and promoter. Whilst government has been a strong proponent of SMME development and support since 1994, this study presents a strong case for the increased role of the private sector. In addition, this study also motivates that local government through their Municipalities can play a significant role in SMME development and support in partnership with the private sector.

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## **List of Abbreviations**

ABSA:	Amalgamated Bank of South Africa
ASGISA:	Accelerated and Shared Growth Initiative of South African
BDS:	Business Development Services
BBBEE:	Broad-based Black Economic Empowerment
BEE:	Black Economic Empowerment
BPCC:	Best Practices City Commission
CIDA:	Canadian Investment Development Agency
CLR:	Commercial Lending Review
COSBI:	Coalition of Small Business Initiatives
CSIR:	Centre for Social and Institutional Research
DEDS:	Draft Economic Development Strategy
DMC:	Durban Metro Council
DTI:	Department of Trade and Industry
EAP:	Economically Active Population (EAP)
EDD:	Economic Development Department
EMA	eThekweni Municipal Area
EM	eThekweni Municipality
EPPA:	Enterprise Policy Performance Assessment
ESKOM:	Electricity Supply Commission
EU:	European Union
FSB:	Financial Services Board
GEAR:	Growth Employment and Redistribution
GEM:	Global Entrepreneurship Monitor
GGP:	Gross Geographic Product
GoA:	Government of Albania
GoS:	Government of Serbia
GTC:	German Technical Cooperation
ICT:	Information and Communication Technology
INK:	Inanda Ntuzuma KwaMashu
ISBDS:	Integrated Small Business Development Strategy

LBSC	Local Business Support Centres
LED:	Local Economic Development
LIP:	Local Industrial Parks
MAC:	Manufacturing Advice Centres
MDA:	Market Development Approach
MFRC:	Micro Finance Regulatory Council (MFRC)
NPI:	National Productivity Institute
NRC:	National Research Council
OECD:	Organisation for Economic Co-operation and Development
OSS:	One-Stop-Shops
PDI:	Previously Disadvantaged Individuals
PMSPPO:	Prime Ministry State Planning Organisation
RDP:	Reconstruction and Development Programme
RFI:	Retail Financial Intermediaries
RSA:	Republic of South Africa
SAB:	South African Brewery
SACN:	South African Cities Network
SARS:	South African Revenue Services
SARB:	South African Reserve Bank
SBP:	Strategic Business Partnership
SEDA:	Small Enterprise Development Agency
SEED:	Southeast Europe Enterprise Development
SMME:	Small, medium and micro enterprise
SPSS:	Statistical Package for Social Sciences
TBDC:	Thekwini Business Development Centre
TEO:	The Enterprise Organisation
UK:	United Kingdom
UNIDO:	United Nations Industrial Development Organisation
UNDP:	United Nations Development Programme
US:	United States
USAID:	United States Agency for International Development

# **CHAPTER ONE**

## **Introduction and Context**

### **1.1. Introduction**

One of the most important challenges facing the South African government is that of promoting economic development and job creation. The last two decades have seen increasing attention being paid to the role of the small, medium and micro-enterprise (SMME) sector in economic development. Berry, von Blottnitz, Cassim, Kesper, Rajaratnam, van Seventer (2002) and Kesper (2002) maintained that in order to attain the objectives of economic growth through competitiveness on the one hand, and employment generation and income redistribution on the other, increased policy attention had focused on the promotion of the country's SMMEs. Hallberg (1999) indicated that in common with the experience of many developing countries, post-apartheid South Africa has been at the forefront of the development and implementation of a set of pro-SMME policies. One such policy which was devised by the Government of National Unity was the National Small Business Strategy whose objective it was to promote small business development in South Africa. This strategy, according to McGrath (2005), presented an optimistic vision of the potential of SMMEs as a means to address a range of South Africa's developmental goals, including equity and redress, Black economic empowerment, economic competitiveness, employment creation and poverty reduction.

South Africa has placed emphasis on SMME development for the purposes of achieving some of its developmental goals. Both the public and private sectors play a significant role in trying to provide services to SMMEs. The purpose of this thesis was to evaluate the effectiveness of the approaches which were used by the public and private sectors to have met the needs of SMMEs and to have made recommendations in that regard. This chapter introduced the thesis which explained the motivation for the study. In addition, it discussed the aims and objectives of the study before presenting the chapter sequence of the thesis.

## **1.2. Motivation for the study**

The Department of Trade and Industry (DTI) (1996) developed the National Small Business Act (Act 102 of 1996) which provides definitions for various SMME categories. These are underpinned by the fact that the enterprises must be a separate and distinct business entity, and must be owner/s managed. According to the DTI (1996), an SMME can be defined as an enterprise, which is owner operated and functions with the primary focus of providing a livelihood for the owner and the immediate employees. An SMME distinguishes itself from 'big business' as it typically has a smaller turnover, marginal asset value, smaller number of employees, simpler organisational structures, generally lower barriers to entry and, less onerous legal obligations and regulative compliance issues (DTI, 1996). A further distinguishing element of an SMME, when compared to 'big business', according to the DTI (1996), is that often the growth, development and ultimate survival of the SMME hinges on the skills level, morality, innovation and resources applied by its owner. While the researcher recognises the wide range of definitions that do exist for SMMEs, for the purposes of this thesis the focus will be on the small and micro-enterprises (SMEs) and excludes street traders. This will be discussed later in the thesis.

At the same time that the National Small Business Strategy was being promulgated, perceptions about the developmental role of local government had undergone a transformation, specifically in terms of local government being viewed as a crucial agent of economic development (Rogerson, 2002). Thus, development initiatives placed increasing importance on the SMME sector and how to strengthen it; and SMME support increasingly became a local (rather than national, regional or parastatal) issue. Rogerson (2002) argued that government support was often in the form of subsidies to ensure the delivery of support services of various kinds which included credit training, business management skills training, technical training, and assistance with identifying and accessing new markets. A tremendous responsibility is also placed on the private sector which, according to the National Small Business Strategy, has an important role to play through the supply of commercialised services for small enterprises, cooperation and subcontracting between small and bigger enterprises, partnerships, joint ventures and franchises as well as social responsibility commitments of the corporate sector related to small business development (DTI, 1995: 1).

In his 2006 State of the Nation Address, President Thabo Mbeki spoke on the Accelerated Shared Growth Initiative of South African (ASGISA) (RSA, 2006). ASGISA is essentially the micro-economic reforms within the Growth Employment and Redistribution (GEAR) macroeconomic framework. According to the President of South Africa, ASGISA is about the efficiency of the State, better conditions for business, closing the skills gap in the short and long-term, linking the first and second economy, clearing up on governance and red-tape and ensuring that accelerated growth is shared by all South African citizens (RSA, 2006). ASGISA consists of a set of interventions that are intended to serve as a catalyst to the accelerated and shared growth and development initiative. The main objectives of ASGISA are to reduce poverty and unemployment by 50% by the Year 2014, and enable South Africa to achieve and sustain average growth rates of 4.5% between 2005 and 2009 and 6% between 2010 and 2014 (RSA, 2006: 4). The constraints that ASGISA identified included:

- Unnecessary regulatory obstacles to growth and employment which result in limiting the growth of SMMEs;
- Deficiencies in State organisations;
- Lack of capacity and strategic leadership, with the greatest impact felt at local government level;
- Lack of sector development strategies and barriers to entry in some sectors of the economy;
- The cost and efficiency of the national logistics system and capacity of infrastructure and bottlenecks;
- Shortage of appropriately skilled labour at suitable costs;
- Disjointed spatial settlement patterns which contribute to labour costs; and
- Relative volatility of the currency.

(RSA, 2006)

ASGISA has also identified practical and substantial strategies to address these issues. These strategies are expected to optimise public expenditure, improve an environment to do business in South Africa and remove bottlenecks within government.

These systematic initiatives will:

- Have a significant improvement in monitoring and evaluation of all policy implementation by all members of the executive and the Presidency;
- Encourage partnerships between government, State-owned enterprises, private sector and civil society ensuring better coordination and integration of agreed programmes;
- Focus on outcomes and timely interventions; and
- Target women and youth ensuring that they have access to finance across the board, fast-tracking them out of the Second Economy, ensuring their significant participation beyond SMMEs and improve their access to basic services and their participation in the Public Works Programme.

(RSA, 2006)

There are currently a number of organisations that provide support to SMMEs within the eThekweni Municipal Area (EMA), however, the overall impact of these initiatives on SMME growth and development, from the researcher's observation is minimal. One of the major reasons for this minimal impact is the lack of coordination between service providers. This often, according to Karungu, Marabwa and Stettler (2000), results in duplication and fragmentation of services. The researcher has worked in the eThekweni Municipalities Business Support Unit (BSU) since it has been established in 2001. The BSU is responsible for developing and implementing strategies to encourage the development of and support existing SMMEs, in the EMA. It is also responsible for coordinating SMME initiatives with the public and private sector partners.

From the researcher's work with various organisations and government departments, a number of organisations which offer support to SMMEs within the EMA were identified, apart from BSU. An entity in the form of the Thekwini Business Development Centre (TBDC) which had been established by the erstwhile Durban Metropolitan Council has also been charged with the responsibility of providing support services to SMMEs. It should be noted that this entity is in fact a DTI initiative and has been reconstituted to form the Small Enterprise Development Agency (SEDA) which incorporates the Manufacturing Advice Centres (MACs) and the Local Business Support Centres (LBSCs). At a provincial level, the Department of Economic

Development and Finance provides targeted support to SMMEs within the EMA. At a National level, services are offered to SMMEs within the EMA through the regional offices of the DTI. There are also a host of other organisations along this continuum which provide support services to SMMEs such as the Durban Chamber of Commerce through the SMME Desk, and the University of KwaZulu-Natal through an organisation called the Coalition of Small Business Initiatives (COSBI). Within the private sector, there are also a host of banks and training providers which provide support services to SMMEs within the EMA.

While a number of studies such as Bernstein (2004), Hallberg (1999) and Rogerson (2004b) have assessed the contribution of government initiatives to SMME development in South Africa, the overall impact of several approaches to SMME development within the EMA has not been analysed. Bernstein (2004) also indicates a need to assess the private sector contribution to entrepreneurial support. Hence this thesis analyses both the public and private sector approaches towards the provision of Business Development Services (BDS) to SMMEs within the EMA.

### **1.3. Aims and objectives**

#### **1.3.1. Aim**

The aim of this study is to critically analyse current approaches towards SMME development and support within the EMA.

#### **1.3.2. Objectives**

The research objectives of this study are to:

1. Ascertain the business and socio-economic profile of SMMEs.
2. Assess SMMEs' awareness of, and attitudes towards, business development service providers and services and the extent and frequency to which they make use of such services.
3. Critically examine the attitudes and perceptions of the public and private sectors towards SMME support and development within the EMA and their capacity to provide effective BDS to SMMEs.
4. Determine the attitudes of SMMEs, public and private sectors towards payment for BDS provided.

In order to respond to the above objectives, the research methodology of the study comprises a multi-faceted approach made up of both secondary and primary research methods. In this study both qualitative and quantitative research methods were employed in the collection of relevant data, aiding in the provision of a comprehensive understanding of SMME development and support in the EMA. Literature on evaluation and applied research techniques tend to support the combined use of qualitative and quantitative methods to achieve the most accurate results (Bernard and Renz, 1998). A qualitative approach is deemed to be the most appropriate method to be used when dealing with people's attitudes, perceptions and opinions. In terms of a quantitative approach, the researcher made use of questionnaires as a tool to gather data. The Statistical Package for Social Sciences (SPSS) was used to analyse the data. In terms of a qualitative approach, the researcher made use of semi-structured interviews to gather data from officials from both the public and private sectors.

This study cannot be framed within a single, 'grand theory'. However, this thesis draws on elements of the political economy approach which in itself is multi-dimensional and will provide a framework in understanding the current approaches to SMME support and development within the EMA. Political economy was the original term for the study of production, the acts of buying and selling, and their relationships to laws, customs and government (Merchant, 1992). In the present context, political economy refers to a variety of different, but related, approaches to studying economic and political structures (Stiglitz, 1988). The key role players who provide support to SMMEs are those who exist along a continuum ranging from the public to the private sectors that sometimes come together and create partnerships on certain initiatives. The public-private sector dilemma has been debated extensively at a global level and to date that debate goes on. The public-private sector dilemma in the provision of services has its roots in neo-liberalism policies that nation states developed and adopted. The term neoliberalism is a recent concept and is used to describe a political-economic philosophy that had major implications for government policies. It began in the 1970s and became increasingly prominent since the 1980s because it de-emphasises or rejects positive government intervention in the economy (Cerny, 2004). Privatisation has its foundation in the arguments underpinning the neo-liberal paradigm. Neo-liberalism is a set of economic policies that became widespread during the last thirty years. "Liberalism" refers to the new wave of thinking or re-emergence of ideas in economics, politics

and religious thought. The addition of the prefix “neo” implies that this is a new kind of liberalism. The main thrust of neoliberalism includes the rule of the market, that is, the liberation of private enterprise from any restrictive regulations imposed by the State. The fundamental belief is that an unregulated market is the best way to increase economic growth, ultimately filtering through to benefit everyone (Quiggin, 1997).

The whole public-private sector debate, while being widely debated on a global scale, has not reached conclusive evidence as to which has been the better model to use in the delivery of services. The Public Choice theory is another approach within which the whole public-private sector debate can be located and explained. According to Buchanan (1990), Public Choice theory demonstrates why looking to governments to fix things can often lead to more harm than good. This theory makes a strong case for private sector provision of services as opposed to the public sector since it is premised on the notion that if public servants do not act from selflessness and benevolence, privatisation may thus be a more logical path to pursue. Another important approach is the whole notion of empowerment. Empowerment is a process that enhances the ability of disadvantaged individuals or groups to challenge existing power relations that place them in subordinate economic, social and political positions (Anderson, 1990). An economic empowerment approach is particularly relevant since SMME development in South Africa is strongly linked to, and associated with, Black Economic Empowerment (BEE). In South Africa, the economic empowerment approach has focussed on improving the capacity of Black people to become more economically self-sufficient (that is, earn an income, own assets and manage their own finances).

#### **1.4. Chapter sequence**

Chapter one, is the introductory chapter which broadly outlined the context for the thesis. Chapter one also served to provide a motivation for the present study and sets out the aims and objectives of the research. It also looked briefly at the study area which is discussed in more detail in Chapters three and five.

Chapter two presents a conceptual framework for the understanding of SMME development and the public and private sector approaches. Chapter three provides the foundation for the

background to the case study area the eThekweni Municipal area, the research methodology and describes the methods and techniques used in the study. Chapter four provides a review of the literature which focuses on SMMEs and entrepreneurship. It looks at the definitions of these concepts. In addition, it identifies the various challenges that are faced by SMMEs before suggesting strategies to deal with such challenges. It also looks at the roles of the public and private sectors in SMME development and support. Chapter five represents a continuation of the review of SMMEs but within international, national and local contexts.

Chapter six provides a discussion and analysis of the primary data. This chapter focuses on the analysis of questionnaires which were administered to SMMEs. This is done against the backdrop of similar studies conducted. Chapter seven analyses and discusses the findings derived from semi-structured interviews that were conducted with officials from the various departments representing the three spheres of government. Chapter eight provides an analysis and discussion of the semi-structured interviews that were conducted with officials from the private sector.

Chapter nine amalgamates the research data, theoretical concepts and understandings to present key findings, produce recommendations around appropriate roles for the public and private sectors as well as possible programmes that will advance the support offerings to SMMEs within the EMA.

## **1.5. Conclusion**

The need to critically examine the current approaches to SMME development in South Africa, and in the case of this thesis, in the EMA in particular, cannot be over-emphasised. This study attempts to broaden the scope of understanding the roles of the public and private sectors in as far as SMME development and support is concerned. In spite of the fact that government has injected increased resources into the SMME sector, there has been minimal impact. It is now time for government to reconsider its approach to SMME development. The researcher expects, through this thesis, to improve the understanding of SMMEs expectations and perceptions towards business development service providers from both the public and private sector. The body of knowledge which this thesis contributes to is the public-private sector debate for SMME development at a Municipal level. The interrogation of the attitudes and perceptions of the public

and private sectors contributes a deeper understanding of the approaches these sectors used in SMME development.

## CHAPTER TWO

### Conceptual and theoretical framework

#### 2.1. Introduction

The processes of economies in transition and SMME development have been a popular research topic over the past decade. Yet, the question of possible theoretical approaches to capture the essence of the change processes has remained a key challenge. The conducting of research is an exploratory process and the researcher, whilst, having certain objectives in mind, does not know exactly what might be discovered in his/her findings. This seems to be particularly true when doing research on economies in transition as is the case of the economy of the eThekweni Municipality (EM). There is no single theory that can be used as a framework for conducting research on SMMEs.

This thesis is located within the broader field of Geography. According to the National Research Council (NRC - 1997), Geography is a comparatively small but lively and challenging academic discipline providing a distinctive approach to many of today's societal problems and issues: economic and social inequality; cost and quality of health care delivery systems; urban and suburban growth; efficient transport systems; patterns of food supply and hunger; health and disease; education and child labour; environmental and pollution problems; economic impacts of natural catastrophies (floods, earthquakes); appropriate utilisation of water and energy resources; local and locational repercussions of new communications technologies; the activities and behaviours of transnational corporations; and many more.

The subject of SMME development and support is located within the areas of Economic and Business Geography. According to NRC (1997), a broad definition of this sub-discipline would include a reference to the way in which individuals and enterprises organise their economic activities in space and the extent to which society recognises the socio-economic impacts of such activities across space and uses its institutions to influence these interdependencies and impacts.

Such emphases lead almost naturally to three different perspectives of the spatial structure of economic activities, namely:

- the perspective of location and spatial distribution of economic activities, including questions of "place", "locality", "site and situation" and land use;
- the perspective of spatial interaction and economic dependence and interdependence (exchange, trade, transportation, migration, information and capital flows, communication networks and the economic geography of the internet); and
- the perspective of economic change in a spatial context (regional growth or decline, technological innovation, processes of structural change [that is, long-run compositional and interdependence changes in the economy] regional economic development, etc.).

(NRC, 1997)

The NRC (1997) asserted that it therefore becomes necessary to draw not only from geographic theory, explanatory frameworks and analytical methods, but also from economics, political economics, business administration and other disciplines. Furthermore, this sub-discipline, as well as this thesis, is interested in practical problems and 'real world' issues in the private and public sectors and tries to connect these problems and issues to established and emerging bodies of theories and methodologies in order to enhance our understanding and the bases for potential intervention (NRC, 1997).

In addition to many remaining similarities, Economic and Business Geography looked quite different from what it was just a few years ago. According to NRC (1997), a much increased emphasis is now placed on societal and economic facets such as:

- Communications-related transactions in the space economy, from face-to-face communication via paper-and-pen to digital, GIS and internet-based presentations and exchange of information.
- The differentiation, turbulence and rapid restructuring in the service sector.
- How to run your own small business?

- The breakdown of traditional boundaries and the surge of boundary-spanning economic activities and transactions, manifested by international economic flows, inter-organisational strategic alliances, and collaboration and teamwork at all levels covering highly differentiated spatial realms.
- The many changes in the nature of jobs and work.

This particular study on SMMEs and entrepreneurship, which is conducted in a transition economy such as that of the EMA, cannot be framed within a single, over-arching theory. This thesis therefore adopts a multi-conceptual framework in understanding the current approaches to SMME support and development within the EMA. This thesis, while being located within the broad field of Geography, and more specifically in the sub-disciplines of Economic Geography or Business Geography, is conceptualised within different theories, a political economy approach which in itself is multi-dimensional, public choice theory and the empowerment theory. In analysing both the public and private sectors, it then becomes necessary to debate the issues of privatisation and anti-privatisation. This chapter also embraces the concept of neo-liberalism in as far as it is relevant to the public-private sector debate. Over and above the political economy approach, this chapter also discusses the public choice theory and it's relevant to the provision of services by the public and private sectors. Finally, this chapter looks at the empowerment theory and in particular focuses on the Black Economic Empowerment (BEE) strategy within South Africa and its relevance to SMME development and support.

## **2.2. Political economy approach**

Political economy focused on the patterns of uneven development within a capitalist system and their differential economic and social effects of a global market economy that has been emerging since the 16<sup>th</sup> century (Merchant, 1992). According to Merchant (1992), political economy was the original term for the study of production, the acts of buying and selling, and their relationships to laws, customs and government. Stiglitz (1988) posited that political economy refers to a variety of different, but related, approaches to studying economic behaviour, which range from combining economics with other fields, to using different fundamental assumptions which challenge those of

orthodox economics. He further asserted that political economy is most commonly used to refer to interdisciplinary studies that draw on economics, law and political science in order to understand how political institutions and the political environment influence market behaviour (Stiglitz, 1988). Within political science, according to Stiglitz (1988), the term referred to modern liberal, realist Marxian and constructivist theories concerning the relationship between economic and political power among States.

According to Ricardo (1973, cited in Williams, 2004: 571):

The principal problem in political economy is to determine the laws which regulate the distribution of the produce of the earth all that is derived from its surface by the united application of labour, machinery and capital among the three great classes of the community, namely, the proprietor of the land, the owner of the stock or capital necessary for its cultivation, and the labourers by whose industry it is cultivated.

Williams (2004) argued that one of the most elementary questions of political economy relates to the way in which disparity arises. He notes that the increasing discrepancy in the prosperity of nations and among the diverse classes created an abstract formulation of welfare problems based in neo-classical economics. He further argued that political economy has hence become very popular among writers, with a principal focus on Marxian-economics. Karl Marx, following Friedrich Engels (Williams, 2004: 571), indicated that political economy starts with alien labour and for him capital is not an object but a social relation between people who can be mediated through things.

According to Marx (1967), while classical economics views capital as a production function, it should be understood as an adjective present in a relation, such as surplus labour, surplus value, but never as a noun such as the surplus. Marx (1967) sets out the relations that make up capitalist production. Marx (1967: 74) intended to resolve the mystery of labour in relation to the source of value and asked the relevant question: “If labour is the source of value, and labour is paid at its value, how would capitalists come out with a profit?” Williams (2004) argued that labour produces the surplus value, which is appropriated by the capitalists and landowners in the form of profits and rent. He further argued that as “Man makes God in his own image and subjects himself to the product of his own imagination, so do workers produce capital, to which they become

subordinate and on which they came to depend for their livelihoods” (Williams, 2004: 571).

Marx (1967) posited that in the social production of their being, man (or woman) inexorably enters into definite relations, which are autonomous of their will, namely relations of production apposite to a given stage in the development of their material forces of production. He further posited that the entirety of these relations of production comprise the economic structure of society, the real foundation on which appears a legal and political superstructure and to which correspond definite forms of social consciousness. According to Marx (1967), the method of production of material life conditions the general process of social, political and intellectual life and it is not the consciousness of man that determines their existence, but their social existence that determines their consciousness. Marx (1967) argued that at a certain stage of development, the material productive forces of society come into conflict with the existing relations of production or – this merely expresses the same thing in legal terms – with the property relations within the framework of which they have operated hitherto and it is from these forms of development of productive forces that relations turn into problems. This therefore leads to an era of social revolution. The changes in the economic foundation lead sooner or later to the transformation of the whole immense superstructure (Marx, 1967).

According to Wiseman (1989), political economy also concedes that economic decisions are not taken remotely but influenced by a range of social decisions. He observes that government is a significant player in the economy and makes decisions not only on the basis of economic analysis but are also informed by social and political factors. He therefore pointed to the deliberation of social and political circumstances and its impact on economic thought. Thus, while conservative economics is preoccupied with the study of individual choice-through-markets, political economy studies decisions and choice-situations and particularly those commonly referred to as political, or administrative/bureaucratic, which also influence the relevant outcomes (Wiseman, 1989). According to Wiseman (1989), these decisions transpire directly from the politico-bureaucratic process with economic behaviour as normally construed influencing outcomes less directly.

### **2.2.1. Political economy of South Africa**

According to Venter (2001), the political economy of a country is the way in which the production, distribution and consumption of wealth are organised within that society. Venter (2001) pointed out that the State has the authority and the power, through its powers of legislation and its legitimate control of force, to make and implement laws, rules, regulations and policies. He further indicated that a State's economic policy is referred to as a macro-economic policy and is formulated and implemented by the State no matter what form of government it has (democratic or authoritarian). The State therefore provides leadership and coordination for economic growth and development. In the case of democratic governments, macro-economic policy formulation and implementation are usually open processes, conforming broadly to liberal economic principles underlying the free-market system and indicating a limited role for the State on the economy (Venter, 2001). In authoritarian States, according to Venter (2001), governments may or may not subscribe to free market principles. All States play a role in the national economy, although the nature and the size of this role differ. Venter (2001) believed that State intervention is therefore a given and one of the reasons why we use the term "political economy". He further believes that despite the oft-cited principle that "the State must not intervene in the economy", there is no State that is or can be fully separated from its domestic economic environment (Venter, 2001: 191). The mixture of intervention and free market application may differ from State to State, but as Venter (2001) remarked it has become an article of public faith and a widespread expectation that that in addition to security, governments' main tasks are to provide their citizens with social services and promote economic growth and efficiency, and these tasks generally enhance or sustain public welfare.

In South Africa, according to Venter (2001), the transition to majority rule in 1994 brought with it expectations and demands by the voting public for education, jobs, houses and improved social services in the fields of health, welfare and other social amenities. He added that in order to provide these services, the government formulated two broad macro-economic policies. The first of these programmes is the Reconstruction and Development Programme (RDP) which focuses on the demand side of the economy. This

particular programme did not prove to be very effective. Subsequent to this, the second programme introduced is referred to as Growth, Employment and Redistribution (GEAR) strategy and it deals with the supply side of the economy. GEAR is intended to stimulate the growth necessary to provide the services envisaged in the RDP. Both programmes represent a mixed economy. The mix of State intervention and free market principles gives rise to many debates and South Africa is no exception (Venter, 2001).

According to Venter (2001), the most salient aspects of the South African political economy is inequality in terms of the distribution of wealth and, at least up to the late 1980s, inequalities relating to opportunities for participation in the economy. In South Africa, Venter (2001) posited, the political economy has three major characteristics: the first of which is a profound and racially skewed distribution of wealth; the second one being a typical developing economy with the usual problems of poverty; and finally, an oversupply of unskilled labour within a diversified economic base.

Venter (2001) pointed out that it is in relation to these characteristics that one can identify the main political and economic challenges facing the country in the late 1990s. He further pointed out that the first and overarching challenge is two-fold. South Africa will have to decide on a definition of development; it will also have to critically analyse the extent to which current economic policies and programmes, such as the RDP and GEAR, are compatible with development objectives. South Africa also has to examine how viable these objectives are within the context of the South Africa's position in and dependence on the global economy. Venter (2001) posited that at the theoretical level, it is important to distinguish between the policy instruments and objectives, as confusion between the two may inhibit economic growth for development, an example of which is privatisation. He questions whether privatisation is in fact an objective or a policy instrument. Venter (2001) argued that if it is an objective, then if the distribution of wealth created by implementing a privatisation strategy is not necessarily taken into account, there is no guarantee that such wealth will trickle down to benefit the broad population or those previously excluded from full access to the market. He further argued that if it is a policy instrument then it means that privatisation is linked to specific

objectives and the way in which such a strategy is implemented offers a potential for redistribution through access to possible wealth creation.

According to Venter (2001), the main characteristic of the South African political economy is the high inequality in living standards between rich and poor where these inequalities are race-related, with the vast majority of the poor being Black and the majority of the rich being White. Big business is owned mainly by a small group of White companies. Venter (2001) argued that although South Africa has now disposed of apartheid, the more equal distribution of political power within the population if measured in terms of franchise does not mean that economic power and benefits have been redistributed. He adds that the economy is classified as an open economy, meaning that it is deeply influenced by and dependent on changes in the international economy. Venter (2001: 193) added that that economic globalisation supported by the altitude of the free-thinking creed “to the level of a doctrine” in the last quarter of the 20<sup>th</sup> Century significantly impacts national economic policies and the extent to which States can determine their domestic socio-economic policies. Venter (2001) argued that this does not mean that the economic role of the State is necessarily reduced, rather that it is changing. In South Africa, with its apartheid legacy of deeply entrenched inequality and its dependence on international trade and investment to eradicate this gap and to deepen and broaden economic growth, the role of the State is crucial.

Although the role of the State and the exact mix between State intervention and market freedom, according to Venter (2001), is a continuing focus of political and economic debates, the participation of the socio-economically disenfranchised sector of the population in these debates and deliberations is still minor. It was political and economic dissatisfaction with and opposition to apartheid that brought about the demise of apartheid and transition to democratic rule in South Africa. However, Venter (2001) contended that continued and growing poverty, deprivation and unemployment may in the long run undermine societal cohesion, political stability, the moral fibre of society, confidence in the country and the legitimacy of the government. He further contends that it is for political reasons that economic growth and development would seem to be the

only way in which to thwart a decline into the global perimeter. The challenge to the South African economy, according to Venter (2001), is therefore one of moral and normative dimensions to reduce the high level of absolute poverty in which the population finds itself

### **2.2.2. The public–private sector debate of the provision of services**

According to Kesper (2000), following the elections of April 1994, the issues of Black economic empowerment and a more equal income distribution have been placed high on the agenda of the new government of South Africa. Nonetheless, Kesper (2000) argued that there is the need to take the South African economy onto a higher road, that is, a diversified economy in which productivity and international competitiveness are enhanced, wage levels are high, investment is stimulated and entrepreneurship flourishes. In the National SMME Strategy the government assigns the SMME sector a key role in South Africa’s socio-economic transition. In particular, SMMEs are seen as a vehicle to accomplish a number of initiatives with the most significant being alleviating high unemployment levels in South Africa as they have a high labour-absorptive capacity (DTI, 1995: 10).

According to Kesper (2000), the South African government suggested that the SMME sector with the help of government support is capable of fulfilling these objectives and has introduced a number of supply-side measures to promote the formerly neglected sector. The government ultimately strives to “to create an enabling environment” and “to level the playing field” (DTI, 1995: 10) in terms of national, regional and local policy frameworks for SMME development. Kesper (2000: 11) added that policy measures are aimed at “addressing the obstacles and constraints that SMMEs face to promote (faster) growth; enhancing their capacity to comply with the challenges of globalisation and an internationally competitive economy; and, strengthening their cohesion to increase the leverage of policy”.

According to Torrrpa (2006), around the world, small-scale enterprises are seen as an important vehicle for addressing the challenges of poverty reduction through private

sector development. Torrpa (2006) argued that it is recorded that small and medium size enterprises are often the biggest employers in an economy. He further states that given often the lower barriers of entry into the markets, small and medium size enterprises are considered to be the main engines of job creation, growth and innovation. Economic growth engendered by small-scale enterprises is seen to have greater societal benefits than big business driven growth which in general is capital intensive and thus creates less jobs. According to Beck (2003), however, while there is a commonly accepted consensus on this, empirical research in fact suggests that even if there is a strong link between the prevalence of SMMEs and economic growth, there seems to be no evidence that SMME growth has an effect on poverty reduction. Hallberg (1999) argued that a realistic strategy should work on both sides, encouraging the development of private markets for SMME services, and rationalising public expenditure on SMME assistance programmes to reduce their distortionary effect. Rationalisation, argued Hallberg (1999), could include gradual increases in cost recovery, using the private sector to deliver publicly-funded services, conditioning budget allocations on the achievement of impact, improving the targeting of interventions, and privatising service providers while ensuring financial sustainability.

The key role players who provide support to SMMEs are those who exist along a continuum ranging from the public to the private sectors which sometime comes together to create partnerships on certain initiatives. The public-private sector dilemma has been debated extensively at a global level and to date that debate goes on. In economic terms, according to Quiggin (1997), the dominant policy trend of the 20<sup>th</sup> century was that of nationalisation in countries such as the United States of America and the United Kingdom. Quiggin (1997) argued that in almost all countries and on almost all measures the range of economic activities undertaken by governments was substantially larger at the end of the 20<sup>th</sup> Century than at the beginning. He further contends that during the past 20 years there were sustained and to some extent successful attempts to reduce the role of governments. According to Quiggin (1997), centrally planned economies collapsed and thus began a transition towards a market-oriented model. Private sector participation, according to Gomez-Echeveris (1997), emerged due to the failure or inability of the State

to deliver basic services and that advocates of privatisation deem private market actors to be able to deliver many goods or services more efficiently than government due to free market competition. In general, Gomez-Echeveris (1997) argued that over time this will lead to lower prices, improved quality, more choices, less corruption, less red tape, and quicker delivery. He further argued that while many advocates do not propose that everything should be privatised the reality of problems such as market failures and natural monopolies may restrict this. However, a small minority thinks that everything can be privatised, including the State itself.

The basic economic argument given for privatisation, according to Gomez-Echeveris (1997), is that governments have few incentives to ensure that the enterprises they own are well run. Gomez-Echeveris (1997) indicated that one problem is the lack of competitiveness in State monopolies and that it is problematic to know in advance if an enterprise is competent or not without contenders to compare against. He further indicated that another problem is that the central government administration, and the voters who elect them, have difficulty in assessing the efficiency of numerous and divergent enterprises. In addition to the above, a private owner, often specialising and gaining great knowledge about a certain industrial sector, can evaluate and then reward or punish the management in much fewer enterprises much more efficiently.

Faulkner (1997) argued that if there are both private and State-owned enterprises competing against each other, then the State-owned enterprise may borrow money more cheaply from the debt markets than private enterprises, since the State-owned enterprises are ultimately backed by the taxation and printing press power of the State, gaining an unfair advantage. He further argued that privatising a non profitable company which was State-owned may force the company to raise prices in order to become profitable. However, on the other hand this would remove the need for the State to provide tax money in order to cover the losses.

According to Pessoa (2006), opponents of privatisation dispute the claims concerning the alleged lack of incentive for governments to ensure that the enterprises they own are well run, on the basis of the idea that governments are proxy owners answerable to the people.

Pessoa (2006) argued that a government which runs nationalised enterprises poorly will lose public support and votes, while a government which runs those enterprises well will gain public support and votes. Thus, democratic governments do have an incentive to maximise efficiency in nationalised companies, due to the pressure of future elections.

Letwin (1998) conceded that opponents of certain forms of privatisation believe that certain parts of the social terrain should remain closed to market forces in order to protect them from the unpredictability and ruthlessness of the market (such as private prisons, basic health care and basic education). Another view, according to Letwin (1998), is that some of the utilities which government provides benefit society at large and are indirect and difficult to measure or unable to produce a profit, such as defence. Still another is that national monopolies are, by definition, not subject to competition and better administrated by the State (Letwin, 1998).

The dominant ethical issue, according to Letwin (1998), in the anti-privatisation perspective is the need for responsible stewardship of social support missions. Letwin (1998) asserted that market connections are all directed by egocentricity, and successful actors in a healthy market must be dedicated to charging the maximum price that the market will bear. He further asserted that privatisation opponents deem this model to be incompatible with government missions for social support, whose prime objective is delivering affordability and quality of service to society. According to Lane (1985), many privatisation opponents also warned against the practice's intrinsic inclination toward corruption as many areas which the government could provide are essentially profitless, the only way private companies could, to any degree, operate them would be through contracts or block payments. Lane (1985) argued that in these cases, the private firm's performance in a particular project would be removed from the equation, and misappropriation and perilous cost cutting measures might be taken to exploit profits.

Letwin (1998) also indicated that privatising certain functions of government might impede coordination, and charge firms with specialised and limited capabilities to perform functions for which they are not suited. He further pointed out that in rebuilding a war torn nation's infrastructure, for example, a private firm would, in order to provide

security, either have to hire security, which would be both necessarily limited and complicate their functions, or coordinate with government, which, due to a lack of command structure shared between firm and government, might be difficult. Letwin (1998) asserted that a government agency, on the other hand, would have the entire military of a nation to draw upon for security, whose chain of command is clearly defined. According to Letwin (1998), opponents may have argued that this is a false assertion since numerous books refer to poor organisation between government departments.

Lane (1985) asserted that in sectors that are natural monopolies or public services, the results of privatisation are much more mixed, as a private monopoly behaves much the same as a public one in liberal economic theory. In general, according to Lane (1985), if the operation of an existing public sector is sufficiently inferior, privatisation (or threat thereof) has been known to enhance the situation. However, changes improved lucidity and responsibility of management, improved internal controls, regulatory systems, and better financing, rather than privatisation itself.

According to Clifton, Comy and Dyaz (2006), the privatisation literature is divided into two main paradigms: the British paradigm, and the European paradigm. The British paradigm, argued Clifton *et al.* (2006), emphasised the British privatisation experience by accentuating characteristics such as an ideological partiality for market solutions, individual ownership and an aversion to State intervention. They further argued that this is often associated with the right-wing ideology of Margaret Thatcher and that many authors who adopt the British paradigm also adopt a pro-privatisation position themselves, and hold that all countries should welcome the wisdom of privatisation if they are to be incorporated in the modern global market economy. Clifton *et al.* (2006) contended that although there have been diverse routes chosen to privatisation across the world, in terms of timing, motivation, rationale, scale and scope; this perspective interprets privatisation as a single, homogeneous process that can be implemented in diverse countries and yet have the same kinds of results.

Vickers and Yarrow (1991) criticise the pro-privatisation approach, observing that it contained an inherent belief in the supremacy of private ownership, that is, that profit-maximising behaviour of new owners would, in itself, ensure competency and sufficient social provision of services, disregarding other concerns such as reinforcing competition, public service responsibility and reregulation (cited in Clifton *et al.*, 2006). Clifton *et al.* (2006) also highlight that the second approach to privatisation is the European paradigm where there was widespread agreement that Europe, located in a dynamic global context from the 1970s, pigeon-holed by economic crises, technological change and an emerging network society, is an important force for policy reform, including deregulation and privatisation. They further highlighted that this paradigm includes a diversity of approaches including “neofunctionalist and intergovernmentalist approaches” to integration, as well as the newly emerging body of literature on Europeanisation (Clifton *et al.*, 2006: 5). Some of the most significant contributions were those who emphasised the role of the European Commission (EC) which implements market reforms at a global juncture amidst economic, political and technological change. Clifton *et al.* (2006) contended that in Europe, a dogmatic State was replacing a constructive State. Privatisation was a key part of this new dogmatic, regulatory State, along with the formation of autonomous regulatory agencies and new rules putting an end to public domination. They further contended that this was leading to changes in State functions focusing on correcting market failures and promoting competition via rule-making rather than budgetary allocations. There was thus a general trend across Europe, with cross-national variations, which would require further analysis.

Alternative economic paradigms, according to Marangos (2002), gave rise to alternative models of transition, which in turn gave rise to alternative privatisation processes for transition economies. Marangos (2002) maintained that this is because the economic paradigm determines the assumptions and value judgements with regard to economic behaviour, how the economy functions and what is desirable, acceptable and feasible. He further maintains that each transition model that followed is associated with a unique privatisation process compatible with the predetermined assumptions and value judgements of the paradigm in question. One such process, according to Marangos

(2002), the shock therapy privatisation process, required the immediate transition of the economic system to a compatible market environment. As such, he believed that effective ownership structure could only be the result of a free market process unfettered by the privatisation method and the initial distribution of property. Another process Marangos (2002) highlighted is the neoclassical gradualist approach to privatisation, which was consistent with the goal of achieving a competitive market system progressively, effectively postponed the privatisation of State enterprises until the necessary institutional structure was in place and restructuring was complete. A further process Marangos (2002) identified is the post-Keynesian method which utilised a variety of privatisation methods consistent with their ambition of accomplishing a social democratic capitalist system: restitution, distribution of free shares to people and workers, and the transfer of State property to financial intermediates or to workers. According to Marangos (2002), the pluralistic market socialists suggested the preservation of State ownership of large enterprises, creating labour-managed firms for medium enterprises and privatising small enterprises. Marangos (2002) argued that it is obvious that the method of privatisation is directly linked with the value judgements associated with the economic system, which was desirable, acceptable and feasible by the economic paradigm in question.

According to Parker and Kirkpatrick (2005), assessing the impact of privatisation is difficult due to a number of methodological problems. Firstly, he argued that to gauge the effect of a policy change such as privatisation, we need a counterfactual policy which would inevitably challenge privatisation. Knowing what would have happened to an economy or an industry in the absence of privatisation is usually very uncertain. They further argued that the variables to measure when assessing performance may not be obvious. Privatisation therefore may be found to have enhanced performance, or not, depending upon the intent of the privatisation and the performance measure used. Parker and Kirkpatrick (2005) contended that assessing modifications in profitability will tend to pay tribute to privatisation if under State ownership; non-profit goals were deliberately pursued, for example, higher employment or lower prices. They further contend that privatisation can be expected to produce relative price changes affecting both output and input markets with overflows into other sectors of the economy.

Parker and Kirkpatrick (2005) suggested that policy should focus on the following changes involving capacity-building if privatisation is not to disillusion. The first such change is that privatisation objectives need to be articulated to include not only improved economic efficiency (for example, higher productivity) but poverty reduction and long-term economic development. Parker and Kirkpatrick (2005) highlighted the second change to be institutional capacity which needs to be measured to ensure that the scale, coverage and sequencing of privatisation are consistent with the available resources in terms of capital provision and management competence to provide the best chance of privatisation succeeding. The third change highlighted by them is that administrative competence and reliability need to be secured to ensure that the privatisation process is fair, transparent and efficient (Parker and Kirkpatrick, 2005). Too often in the past privatisation has been donor agency promoted without proper consideration of the legitimacy of the process and its likely outcome in terms of social welfare. Finally, according to Parker and Kirkpatrick (2005), if privatisation was to improve operation over the longer term it needs to be complemented by policies that elevate competition and regulatory capacity. It had been argued that privatisation can improve economic performance, but performance improvement relies also on other structural reforms.

Watts (1998) argued that while the private delivery of services had been frequently associated with industrial or service-oriented enterprises, such as mining, manufacturing or power generation, it could also apply to any asset such as land, roads, or even rights to water. While in theory, private delivery of services helps establish a free market, in practice its supporters argue that it gives the public greater choice at a competitive price. Watts (1998) contended that while socialists view such practices negatively, arguing that entrusting private businesses with control of essential services reduces the public's control over them and leads to excessive cost cutting in order to achieve profit and a resulting poor quality of service. According to Watts (1998), market economies may be practical, but they also rest upon the fundamental principle of individual freedom: freedom as a consumer to choose among competing products and services; freedom as a producer to start or expand a business and share its risks and rewards; and freedom as a worker to choose a job or career, join a labour union, or change employers. It is this

assertion of freedom, according to Watts (1998), of risk and opportunity that joins together modern market economies and political democracy. Finally, Watts (1998) asserted that market economies are not without their inequities and abuses but it is also undeniable that modern private enterprise and the entrepreneurial spirit, coupled with political democracy, offers the best prospect for preserving freedom and providing the widest avenues for economic growth and prosperity for all.

#### **2.2.2.1. Public–private sector debate and neo-liberalism**

The public-private sector dilemma in the provision of services has its roots in the neo-liberal policies that are developed and adopted by nation states. According to Cerny (2004), the term neo-liberalism is a recent concept and is used to describe a political-economic philosophy that had major implications for government policies beginning in the 1970s and increasingly prominent since the 1980s that de-emphasises or rejects positive government intervention in the economy. According to Martinez and Garcia (2000), neo-liberalism is a set of economic policies that have become widespread in the last 25 years.

"Neo" means we are talking about a new kind of liberalism. So what was the old kind? According to Shah (2007), the liberal school of economics became famous in Europe when Adam Smith, an English economist, published a book in 1776 called *The "Wealth of Nations"* which advocated the abolition of government intervention in economic matters: no restrictions on manufacturing, no barriers to commerce, no tariffs and free trade was the best way for a nation's economy to develop. Shah (2007) argued that such ideas were "liberal" in the sense of no controls and this application of individualism encouraged "free" enterprise," "free" competition, which came to mean, free for the capitalists to make huge profits as they wished.

Cerny (2004) maintained that the superseding policy goal has several component parts. In the first place it is necessary to formulate and establish institutions and practices that are market-based and market-led. Secondly, Cerny (2004: 7) maintained that it is important to "inculcate a culture of individualistic, market-oriented behaviour in people of all social

classes, counteracting the dependency culture of the Keynesian welfare State that was blamed for the slump of the 1970s by ending welfare as we know it and deregulating the labour market". Thirdly, he further maintains that governments themselves and international institutions should be imbued with market-friendly attitudes and practices whether reinventing government, privatising social and public services, promoting international competitiveness, or deregulating and liberalising specific markets or sectors.

According to Harvey (2006), neo-liberalism is in the first instance a theory of political economic practices which recommends that human well-being can best be developed by the exploitation of entrepreneurial freedom within an institutional framework characterised by private property rights, individual liberty, free markets and free trade. Harvey (2006) argued that the role of the State is to create and preserve an institutional framework appropriate to such practices. He further argued that the State has to be concerned, for example, with the quality and integrity of money. It must also set up those military defence, police and juridical functions required to secure private property rights and to support freely functioning markets. Furthermore, Harvey (2006) asserted that if markets do not exist (in areas such as education, health care, social security or environmental pollution) then they must be created, by State action if necessary; however the State should not attempt to extend its role beyond this. He further asserts that State interventions in markets must be kept to a minimum because the State cannot possess sufficient information to question market signals (prices), and because powerful interests will inevitably distort and bias State interventions (particularly in democracies) for their own benefit. The actual practices of neo-liberalism frequently diverge from this template for a variety of reasons.

Harris (2006) referred to neo-liberal governance as governing through freedom. She focuses her attention on cultural change where individuals are to become more enterprising, active and self-directive. The State's role, according to Harris (2006), is to create the preconditions for this cultural change. She suggests that to achieve this outcome, the State has adopted a culture of competition, individualisation and authoritarianism where new forms of social control are being implemented to ensure

compliance with the new culture. She articulated apprehension about the impact of these developments on the nature of social life and our relationships with each other: competitive and individualist rather than collegiate and common relations; market value rather than public good; and assessing citizens rather than honouring their intrinsic worth (Harris, 2006).

Eddy (2006) focused on the modification of democratic practice arising out of neo-liberal governance systems. She contended that for over a century, collectivist democratic practices have reinforced liberal democracy, as unions, welfare lobbies, citizens' action groups and others from civil society have collectively marshalled towards better welfare outcomes. She further contended that neo-liberalism governance is reconfiguring collectivist practice to one of individualism, based on consumer choice in the market-place rather than citizenship rights. With collectivist political formations under threat, she expresses concerns about welfare outcomes for the marginalised, expressing similar concerns to those Harris (2006) raised.

Harvey (2006) argued that there is little doubt that 20<sup>th</sup> century liberal governance was faltering in many ways and that towards the end of the century, governments were encumbered, regulatory frameworks convoluted and paradoxical, and domestic economies volatile. He further argued that concerns had been expressed from across the political spectrum about a number of issues including welfare dependency, unemployment and environmental change, and it was therefore not surprising that in Australia and elsewhere, new approaches to governance have been often unreservedly embraced by governments across the supposed left-right divide and by public sector managers seeking superior methods of governing. According to Harvey (2006), this involves essential changes in governance that resonate in all sectors, at all levels of society, and right into the hearts and minds of all citizens and how they live their lives. Moreover, Harvey (2006) argued that the emergence of neo-liberal approaches to governance has international impetus dedicated to introducing and implementing a culture of change in response to the apparent failures of liberal governance and that in

recent years, good governance has been a priority for western governments and international governance bodies such as the World Bank and the OECD.

According to Harvey (2006), there are enormous external pressures on domestic governments to conform to an international agenda of good governance. Harvey (2006) posits that there are also extensive internal pressures as overburdened and economically precarious governments grapple with steering the nation. He further posits that change is inevitable and even desirable; however, it must be subject to public scrutiny and contestation. The remaining question, however, is where to now? Harvey (2006) indicated that the precise developments in neo-liberal governance that are being experienced today are not inescapable and are likely to change again, similarly to the pendulum swing between liberalism and mercantilism in the 18<sup>th</sup> and 19<sup>th</sup> Centuries. He further indicated that such changes arise out of human agency, through decisions and actions taken, in an environment of debate and dispute about the future. The challenge at hand is to understand what is happening and why, in order to be part of shaping the future.

According to Magubane (2004: 1), it is perhaps a symptom of our postmodern times, wherein the “accelerative thrust in the larger society” gives rise to an obsession with “the values and virtues of instantaneity ... and disposability”, that a mere decade is considered enough time to make a reasoned and critical assessment of the past and future of democratic rule in South Africa. Magubane (2004) argued that in considering South Africa’s achievements since 1994 and the nature of the transformations he is reminded of a letter Karl Marx wrote to Friedrich Engels on April 9, 1863. In the letter, according to Magubane (2004: 3), Marx mused on the nature of historical change and makes the following observation: “In such great developments twenty years are but as one day—and there may come days which are the concentrated essence of twenty years!” He believed that the same could be applied to South Africa. Magubane (2004: 1) argued that the triumph of the African National Congress (ANC) “may be seen as one of the last and, arguably, one of the most dramatic and moving transfers of power within a country which

had formerly been among the most prosperous, controversial, valued and bitterly contested within the British Empire and Commonwealth”.

The last ten years, according to Magubane (2004: 2), have thus witnessed dramatic highs and lows and lucidly exemplify the truth of Marx’s claim that “men make their history, but they do not make it just as they please; they do not make it under circumstances chosen by themselves, but under circumstances directly encountered, given and transmitted from the past”. Magubane (2004) argued that it is thus important to understand that all political revolutions, to one degree or another, fail to deliver all they promised. He further argues that very few people, aside from zealous ideologists perhaps, would disagree that the government has made mistakes. Magubane (2004: 2) argued that Thabo Mbeki himself has admitted that “compromise is an inherent part of the process of arriving at what we have described as a regime of mutually beneficial coexistence of the different interests put on the agenda by different players”. Magubane (2004: 2) contended that the obvious question that remains, however, is whether or not the economic policies pursued by the ANC over the past decade “are instances of deliberate manoeuvring and temporary retreat or indicators of an insightful, calculated, and more permanent betrayal”. Magubane (2004) argued that while the term neo-liberalism does, in many ways, capture the essence of contemporary capitalist practices and policies, it is also in some important respects a problematic term. In particular, it encourages the view that a wide range of policy options simultaneously exist under capitalism, with neo-liberalism being just one of the possibilities. Magubane (2004) further argued that the State could reject neo-liberalism, if it wanted, and implement more social democratic or interventionist policies, similar to those employed in the 1960s and 1970s. The “freeing of economic activity that is generally identified with neo-liberalism is not so much a bad policy choice as it is a forced structural response on the part of many Third World States to capitalist generated tensions and contradictions” (Magubane, 2004: 14). Phrased in another way, according to Magubane (2004), it is capitalism (as a dynamic and exploitative system), rather than neo-liberalism (as a set of policies), that must be challenged and overcome.

According to Magubane (2004), the neo-liberal interpretation of the new democratic State indicates that it had no choice but to accept a series of historic compromises, such as neo-liberal policies that favoured big business, foreign investors, deregulation, privatisation and, at best, a “trickle” to the majority who were effectively shut out of the economy. It is possibly due to these reasons that the State introduced the BBBEE frameworks and their Affirmative Procurement policies (discussed later on). Through these policies, they were hoping to reach out to the majority of people (Blacks and SMMEs) that were previously excluded from engaging meaningfully in the economy. From the perspective of the neo-liberalist, decentralisation or empowerment is a way of reducing the role of the State, and getting rid of the interventionist and over-extended regulatory and predatory State (Bardhan, 1997, cited in Magubane, 2004). This view is largely evident within the organised White business sector in South Africa. What unites the neo-liberalists, according to Magubane (2004), is their reliance on markets and the private sector to empower the poor. They believe that more power should be transferred away from the State and given to the private sector and the markets. This shifting of power, adds Magubane (2004), is seen as one way of empowering the market to offer opportunities to the poor. He further adds, however, that neo-liberalism has come under intense attack from various constituencies, especially the organised trade union movement and civil society organisations. From the neo-liberal perspective, empowerment, too, involves decentralisation, that is, extraction of the State from areas of social life and from the economy, especially from labour market regulation (Magubane, 2004).

According to Shutt (1998: 230), critics rejected the neo-liberal interpretation of empowerment as incapable of resolving the Third World catastrophe, which is characterised by increasing poverty and inequality, unserviceable debt, monetary collapse and capital flight, the rise of parallel markets, degeneration of the public sector, environmental decay, rising lawlessness, revolution and secession in some countries. Shutt (1998: 229-230), in his critical analysis of the failure of global capitalism, contends that empowerment does not adequately challenge neo-liberalism, which coincides in several countries with the “emasculatation of the State” and a “financial holocaust”. Although celebrated by Friedmann (1992), local action is severely constrained by global

economic forces and structures of unequal wealth. Moreover, Friedman (1992) argued that the constraints on the poor are structural in that the power relations that sustain capitalist production also keep the poor disempowered. It is therefore necessary to look at how the poor can gain access to such benefits and also how SMME could be empowered.

### **2.3. Public choice theory**

Alesina, Persson and Tabellini (2006) highlighted an older and more established tradition in the positive analysis of economic policy, public choice, which goes back to the Buchanan and Tullock's (1962) contribution. This school focused on public governance, trade policy, and regulatory policy. Alesina *et al.* (2006) posited that the agency problem between the government and citizens at large has always held the focal point in this line of research and that the public-choice school underscored many ideas that are still extremely relevant in today's research on economic policy-making. They further posited that one of these is the critical significance of interest groups, especially the significance of organised interest groups lobbying and the pervasiveness of rent-seeking activities. Another enduring contribution, according to Alesina *et al.* (2006), is the idea that many agency problems in politics stem from the public being incorrectly informed about the details of specific policy programmes.

According to Buchanan (1990), public choice theory demonstrates why looking to governments to fix things can often lead to more harm than good. This theory makes a strong case for private sector provision of services as opposed to the public sector since it premises itself on the notion that if public servants do not act from altruism and generosity, privatisation may thus be a more logical path to pursue. Niskanen (1973) argued that the behaviour of public sector bureaucrats is placed at the heart of public choice theory. While bureaucrats are expected to work in the public interest, putting into practice the policies of government as resourcefully and successfully as possible, public choice theorists see them as egocentric utility maximisers motivated by such factors as: "salary, prerequisites of office, public reputation, power and patronage" (Niskanen, 1973: 5).

While some contend that the provision of business development services to SMMEs should be government's responsibility since they have the interests of the people at heart, public choice theory, and Buchanan (1990) in particular, argued that State officials are just as likely as private managers to maximise their status. Buchanan (1990) added that while it is the role of politicians to monitor State officials, they, in turn, are self-interested and often motivated by the objective of maintaining power. Therefore, it appears that the government, according to this theory, is not necessarily the best provider of business development services since it is no different from the private sector in terms of motive. Each of these sectors should be measured in terms of the efficiency in which they provide such services.

According to Felkins (2001: 9), "public choice is ill-named because the only choices it recognises are essentially private, and public choice is both a branch of microeconomics and an ideologically-laden view of democratic politics". Felkins (2001) argued that analysts of this school of thinking applied the logic of microeconomics to politics and generally find that whereas self-interest leads to benign results in the market place; it generates nothing but pathology in political decisions. These pathological patterns, according to Felkins (2001: 96), represented different kinds of "free-riding and rent-seeking by voters, bureaucrats, politicians, and recipients of public funds". He further argued that this school depicts coalitions of voters seeking special benefits from the State who join together to get favourable legislation enacted. According to Felkins (2001), rather than being particularly deprived, these groups are likely to be those whose big stake in a benefit provokes them to more effective action than the taxpayers at large had taken over whom the expenditure is spread. In general, Felkins (2001: 97) posited that "individuals with concentrated interests in increased expenditure take a free ride on those with diffuse interests in lower taxes". Similarly, Felkins (2001: 97) believed that the managers of the 'bureaucratic firms' seek to maximise budgets, and thereby to obtain greater power, larger salaries, and other perquisites.

According to Downs (1967), at the heart of all public choice theories then is the notion that an official at any level, be it in the public or private sector, acts at least partly in his/her own self-interest, and some officials are motivated solely by their own self-

interest. For Downs (1967), broader incentives such as pride in performance, allegiance to a programme, department or government, and a desire to best serve their fellow citizens may also affect a bureaucrat's behaviour, and the level to which self-interest plays a role in decisions is different for each of five bureaucratic personality types that he identifies.

Pessoa (2006) argued that it is widely acknowledged that the role of government in formerly developed countries started from the very restricted scope of Adam Smith's cheap government that provides only defence and the administration of justice. He further argued that it is broadly recognised that the relative share of government's activities tended to increase steadily in the national economy towards a greater government. This simply means that government was willing to provide services to the people over and above what they were required to do. While Pessoa (2006) contended that economics teach that the pricing mechanism of the market secures an optimal allocation of resources if certain conditions are met for private goods, these conditions are satisfied reasonably well over wide areas in the so-called market economy. He further contended that while in these areas, the government itself does not normally have to get involved with matters of resource allocation, there are, however, a number of conditions where the market forces cannot secure optimal results. In this case we are faced with the problem of how government can interfere to obtain a more economical resource allocation.

According to public economics literature, we can distinguish between public goods and private goods. According to Pessoa (2006), pure public goods are best thought of as a good that is non-rival in consumption and, concurrently, has a zero degree of exclusion. In the actual economy, goods that are nearer this concept are defence and administration of justice. By contrast, he indicates that a pure private good is a supposed good whose benefits are rival in utilisation and has simultaneously a perfect degree of exclusion. So, depending upon the degree of each characteristic, goods and services are classified from the pure public good on one extreme to a pure private good on the other (Pessoa, 2006). While there is a general agreement that the key role of government is providing pure public goods, according to Pessoa (2006: 73), "there is no doubt that there are a diverse range of transitional areas between two extreme cases in relation to various degrees of

non-rivalness and exclusion”. Pessoa (2006: 73) pointed out that we may call relevant goods provided in these areas “impure public goods” and as a result, both private sector and government have an overlapping zone from which impure public goods are provided to the national population.

Pessoa (2006) argued that inefficiencies arise in the provision of private goods through the market process and that whenever such is the case, we could say that an element of public good is involved with certain social value. However, Pessoa (2006) contended that while theoretically an indisputable line can be drawn between two types of goods (private goods provided for by the market and public goods provided through the government action); in practice we need to consider circumstances where government remedial action is required to acquire an allocation of resources that consumers prefer. Certain goods are satisfied by the market, subject to the exclusion principle, within the limits of effective demands. He further contended that if they are considered so meritorious that their satisfaction ought to be provided for through the government over and above what is supplied by the market and paid for by private buyers, they become a sort of public good. Pessoa (2006) indicated that the second type of public good is usually referred to as merit goods and typical examples include such services as free education, free health services and subsidised low-cost housing. He further pointed out that although both are so-called public goods in that the government provides them, different principles are applied. Public goods in general constitute a special problem caused by market failures. However, the provision of merit goods involves interference with consumer preferences and falls within the scope of consumer autonomy (Pessoa, 2006).

In terms of local public goods provision, according to Oates (1999), influence costs arise because individuals in different jurisdictions consume different local public goods and expend resources to affect their provision and funding. Oates (1999) proposed that the principle that the provision of public goods should be located at the lowest level of government, encompassing the relevant benefits and costs, is the basic principle of fiscal decentralisation. Local public goods tend to be provided in a smaller quantity when decisions are decentralised than when centralised. He further suggested that with an

efficient social choice mechanism and facilitative policy instruments, a centralised government could improve upon the allocation local governments working independently. Pessoa (2006) asserted that some goods that the government is now providing may fall on the frontier between private and public sectors where exclusion can be applied to part of the benefits gained but not to all. Public provision for free educational or free health services are typical cases in point. Such services are of direct benefit to the residents, but apart from this, everybody enjoys from living in a more educated or healthier community (Pessoa, 2006).

The public–private sector debate, while being widely contested on a global scale, has not reached conclusive evidence as to which has been the better model to use in the delivery of services. According to Lane (1985), while the private delivery of services in developed countries had been frequently associated with industrial or service-oriented enterprises, such as mining, manufacturing or power generation, it could also apply to any asset such as land, roads, or even rights to water. Lane (1985) argued that government services have also been targeted for privatisation in many countries. In theory, “private delivery of services helps establish a free market, as well as fosters capitalist competition, which its supporters argue give the public greater choice at a competitive price” (Lane, 1985: 83). Lane (1985) indicated that conversely socialists view such practices negatively, arguing that entrusting private businesses with control of essential services reduces the public’s control over them and leads to excessive cost cutting in order to achieve profit and a resulting poor quality of service. Business development services are subtractable and rival since their use is restricted to individual use and it is definitely aimed at a specific target market. Business development services are not defined as public goods since its provision does not lead to the benefit of all, it should therefore not necessarily be public sector provided. It is most certainly a service that could be obtained at a price.

According to Lowery (2002), there are three pillars that traditionally provided intellectual support for reliance on the public choice theory. The first of these, according to Lowery (2006: 32), “justified reliance on progressive reform institutions by referring to the theory as the corrupt spoils regimes of urban bosses”. Lowery (2002: 32) argued that this pillar

was founded on “the poisonous atmosphere of city government, the crooked secrets of State administration, the confusion and corruption over and again discovered in the bureaux at Washington”. Thus, Lowery (2002: 32) asserted that the central political theory contributing to early urban reform efforts was simply an appraisal of what progressives hoped to restore but there was not much in the way of ideas about what should replace politics beyond the vagueness of “beliefs in progress, science, reason, and technological advancement for all”.

The second pillar supporting progressive reform institutions was provided by public administration. Lowery (2002: 33) stated that beneath this pillar is “an enthusiastic progressive faith in an administrator’s capacity to preside with a principled realisation, and to solve problems more efficiently than others”. He further asserted that the reformers pictured a government agency that would be nearly the opposite of the Jacksonian standard, for example, where Jacksonian bureaucracy had been comprised of proletarians, they would hire professional experts; where the Jacksonian bureaucracy had been unceremonious and political, they would impose administration by official, written rules; and where the Jacksonian bureaucracy had been dispersed to geographic wards, they would require a federal hierarchy. It should, however, be recognised that this was peculiar to the United States of America (USA) and may not necessarily apply within South Africa. In South Africa the appointment of leadership is entirely politically driven.

The third pillar Lowery (2002) described as the theory of market failure. This was the last pillar and had little direct relationship with the other two pillars. Lowery (2002) highlighted the fact that determining what government can and should do would be determined by what the market could not do. He further highlighted that justifying public action entailed showing that markets failed. Lowery (2002) argued that where they fail, governments should step in and that while the theory of market failure had little immediate influence on public administration thought, this type of rationale has been fully incorporated into contemporary justifications of progressive reform institutions in urban government.

Lowery's (2002) three pillars discussed above have relevance in the South African context. Issues of corruption and government effectiveness to respond to SMMEs remain significant challenges as indicated in the literature. The roles of public and private sector involvement continue to be debated with different models and approaches being implemented depending on locality specific dynamics and contexts. Included in this debate is the role of experts. Finally, as highlighted in the literature review, accessing and retaining markets is a key challenge facing the SMME sectors.

Alesina *et al* (2006) professed not to understand why researchers who claim to belong to the public choice tradition try to distinguish themselves from the rest of economics. Nor do they understand why such researchers view scientific progress as a conflict between competing schools of thought, as if progress reflects negatively on their work. Alesina *et al.* (2006) argued that to them, political economics is a branch of economics which studies government behaviour and the interaction between economics and politics. They further argued that it should be acclaimed that the way in which political economics unfolds in one country will differ significantly from the way in which it will unfold in the next. In South Africa, for example, the political economy environment was and is very different from the United States. It is therefore necessary to examine the theory of political economy within the South African context.

#### **2.4. Empowerment Theory**

Empowerment is a process that enhances the ability of disadvantaged individuals or groups to challenge existing power relations that place them in subordinate economic social and political positions (Anderson, 1990). Empowerment has come to mean different things to different people. According to Frankl (2004), one way of understanding empowerment is to see it in terms of the ability to make choices. Empowerment, she argues is the expansion in people's ability to make strategic life choices in a context where this ability was previously denied to them. Frankl (2004) argued that these strategic life choices should be distinguished from other less consequential choices which may be important for the quality of life but do not constitute its defining parameters. She further contends that there are three levels of empowerment:

the immediate level (individual resources, agency and achievements), the intermediate level (institutional rules and resources) and the 'deeper' level (hidden, structural relations of class, caste and gender which shape the distribution of resources and power in a society and reproduce it over time). According to Frankl (2004), meaningful and sustainable empowerment must reflect changes at all these different levels as changes in one level only is not enough.

Friedmann (1992) distinguished the concept in terms of social, psychological and political empowerment. According to Friedmann (1992), social empowerment is about access to certain bases of household reproduction, such as supportive life space, surplus time, knowledge and skills, social organisation, social networks, instruments of work and livelihood, and financial resources. Friedmann (1992) considered poverty as a state of disempowerment, as poor households lack the social power to improve the condition of their lives. Friedmann (1992) indicated that psychological empowerment is about the individual's sense of potency, which is largely a result of successful action in the social and political domains. Political empowerment, according to Friedmann (1997), is about access of individuals and household members to the process by which decisions, particularly those affecting their own future, are made. Friedmann (1997) does not see political empowerment as the power to vote only, but also the power of voice and of collective action. A political economic empowerment approach is particularly relevant since SMME development in South Africa is strongly linked to, and associated with, BEE.

Frankl (2004) argued that when the term is used in development activities it is often a generic term under which one can distinguish between economic empowerment through microcredit programmes, empowerment through sexual and reproductive rights and health, as well as empowerment through political participation. Friedmann (1992) stressed the importance of political empowerment and argues that if an alternative form of development is to advocate the social empowerment of the poor, it must also advocate their political empowerment. He further stressed that when it comes to women's political empowerment, it is often used as a way of describing the importance of the participation

of women in formal politics. This includes work with women in government at national and local level, party politics as well as supporting women's involvement in NGOs and women's movements. Frankl (2004) argued that there is a range of possible ways to increase women's participation: reform of political parties; quotas or other forms of affirmative action; training to develop women's skills and gender sensitivity; work with women's sections of political parties; and the development of women's political organisations.

Friedmann (1992) maintained that the time when people turned confidently to the State to remedy their problems has gone since they have learned that the State is neither omnipotent nor greatly disturbed with the challenges that life throws at them. He further maintained that empowerment seeks a change in the existing national strategies through a politics of inclusive democracy, appropriate economic growth, gender equality, and sustainability or intergenerational equity. Friedmann (1992) emphatically stated that this approach recognises the existing system of global capitalist accumulation and concedes that recent transformation in the organisation of capitalism have caused the implicit elimination of vast numbers of the world's underprivileged from meaningful economic and political involvement.

In South Africa, the government has facilitated economic empowerment through both its BEE policy and its Affirmative Procurement policy. The government has also developed a policy framework for assisting SMMEs which are also dominated by historically disadvantaged communities (Houston and Muthien, 1998). In South Africa, the economic empowerment approach has focussed on improving the capacity of Black people to become more economically self-sufficient (that is, earn an income, own assets and manage their own finances). According to DTI (2007), the BEE strategy is a government intervention to tackle the legacy of apartheid's systematic exclusion of the majority of South Africans from full participation in the economy.

The starting point for this strategy – formally known as Broad-based Black Economic Empowerment (BBBEE) – is that the country requires an economy that can meet the

needs of its entire people in a sustainable manner (DTI, 2007). This implied an economy that builds on the full potential of all persons and communities across South Africa's length and breadth. This, of course, is exactly what apartheid prevented. For decades, the majority of South Africans were purposefully restricted from meaningful participation in the economy, while the creation of wealth was confined to a racial minority and underdevelopment was imposed on Black communities (DTI, 2007).

According to Southall (2006), the period since 1994, when the first democratic government was elected, has seen the South African economy undergo profound restructuring. Despite the successes of the past decade (such as ten years of consistent growth and the broadening of access to social services), Southall (2006) believed that overcoming the legacy of inequalities will still take years. Southall (2006) argued that in common terms, BEE has come to mean the empowerment of Blacks within the private sector of the economy. He questioned the extent to which Black ownership of the formal economy is increasing as well as the extent to which Blacks have become increasingly mobile within South African corporate capitalism. However, while BEE has assisted in the creation of the Black elite, Southall (2006) disputed that this approach has assisted in the overall advancement of Blacks.

Southall (2006) indicated that it needs to be acknowledged that involvement in the market in South Africa has for well over a century been politically and racially structured. He further indicated that BEE demonstrates robust elements of stability with, as well as disjuncture from, the past. Critiques of the current restructuring of the South African capital market, according to Southall (2006), need to be historically and sociologically conscious, concerned with a quest for an appropriate combination of authenticity (racial redress) and efficiency (does it inhibit or promote economic growth?). Against this background, Southall (2006) argued that the Black capitalist class being promoted by BEE is highly dependent upon State policies, protection and preferences, and functions lengthily through political networks associated with the African National Congress (ANC). He further argued that this does not denote that all Black capitalists and corporate managers are paid up members of political elite since there are significant streams which have emerged from other routes, be it through a professional and

educational route to expertise, or through direct recruitment and training by established corporations. Southall (2006) then contended that the Black capitalist class operates within a sphere of capital accumulation which is advanced and cared for by close connections with the State. Lamprecht (2007) declared that BEE and SMME policies are unintentionally working in opposite directions, because in line with the government's policy, the private sector prefers to score points by procuring from empowerment companies, not SMMEs, since SMME procurement does not add to empowerment points in most procurement transactions. Therefore, in spite of contributing towards the development of SMMEs, this policy has served to work against them.

## **2.5. Conclusion**

In this chapter a multi-conceptual framework was adopted towards understanding the current approaches to SMME support and development within the EMA. This chapter located this thesis within the broad field of Geography. The various elements of the political economy approach were presented within the context of SMME development. According to Stiglitz (1988), political economy pointed to a variety of diverse, but related, approaches to examining economic behaviour. It is important to recognise that political economy as an approach unfolds in different ways in different contexts and this chapter therefore presented the political economy approach within the South African context. It is particularly important to do so since South Africa views its SMMEs in a particular manner given its historical context. The chapter then analysed the public and private sector debate and looked specifically at the concept of neo-liberalism in as far as it is relevant to the debate. In addition, this chapter also looked at the public choice theory which demonstrated why turning to governments to fix things can often lead to more harm than good. According to Buchanan (1990), this theory makes a persuasive case for private sector provision of services as opposed to the public sector since it bases itself on the notion that if public servants do not act from a platform of self-sacrifice and kindness therefore privatisation may be a more logical path to pursue. Finally, this chapter looks at the empowerment theory and in particular focuses on the BEE strategy within South Africa and its relevance to SMME development and support.

The issue of SMMEs development in South Africa is complex in that there various issues and factors, namely, social, political and economic that impact on them. It is certainly the combination of these issues and factors which provides the researcher with an appropriate framework to conduct this study. It should, however, be recognised that the theories and concepts discussed here are not all encompassing. In terms of SMME development, different studies or aspects of SMMEs could require alternative theories and concepts being studied, hence the need to use the political economy framework, the public choice theory and the empowerment theory.

## CHAPTER THREE

### Background to study area and methodology

#### 3.1. Introduction

The research methodology of the study comprises a multi-faceted approach made up of various techniques for purposes of answering the research questions. This study advocates a number of ways in which usage of different research methods can be truly complementary. Moodley (2002) posited that these methods are deliberate, logical and aim to be value-neutral. He further posited that this implies that good research methods must be cautiously created and purposely engaged in a way that is designed to capitalise on the precision of the results. This section provides a background to the study area and illustrates the methods that have been utilised in the collation and analysis of data in the selected study area.

This study included both secondary and primary methods to collect data. In addition, both qualitative and quantitative research methods were employed in the collection of relevant data, aiding in the provision of a comprehensive understanding of SMME development and support in South Africa. According to Bernard and Renz (1998), literature on evaluation and applied research techniques tends to support the combined use of qualitative and quantitative methods to achieve the most accurate results. A qualitative approach is deemed to be the most appropriate method to be used when dealing with people's attitudes, perceptions and opinions. The research techniques were employed with the intention of responding to the aims and objectives of the study.

#### 3.2. The study area: eThekweni Municipal Area (EMA)

The eThekweni Municipality is the largest port and city on the east coast of Africa. Figure 3.1 is an indication of the vast area covered by the eThekweni Municipality Area. It has a population of over 3 million people with a growth rate of 2.3%, and is South Africa's second largest city (EM, 2005: 9). The Municipality is responsible for an area of over 2 297 square kilometres, including 98 kilometres of coastline. It is also Africa's premier port (EM, 2005: 9). While the total of the EMA is only 1.4% of the total area of the province, it contains just over a third of the population of KwaZulu-Natal and 60% of its economic activity (EM, 2002a: 1).

According to EM (2002a: 1), the newly demarcated boundary for the EMA increased the boundary of the previous Durban Metropolitan Area (DMA) by 68% whilst increasing the population by 9%. Whilst the EMA has a wide diversity of land uses, according to the EM (2002a: 1), only 35% of its area is predominantly urban in character, with over 80% of the population living in these areas. The majority of the densely populated informal housing is also located within this area (EM, 2002a: 1). According to the IDP, the spatial configuration of the Municipality is reflective of an apartheid city, which is fractured along the lines of past race categorisation (EM, 2002a: 1). Despite this, the EM (2005) posits that a level of integration has occurred in selected areas in the post apartheid period primarily by upwardly mobile non White citizens locating in formerly White group areas. In addition to this, according to the DMC (2001a), the Municipality is dominated by undulating terrain, which has made development relatively more costly while adding a unique character to the Municipality. The DEEDS highlighted the fact that the Municipality has significant sporting assets and has hosted the All Africa Games as well as tournaments in a number of sporting codes at an international level (EM, 2005). While the Municipality had previously been promoted by Durban Africa (the Municipality's marketing agency) as the "Playground of South Africa" (EM, 2002a), it is now deemed to be South Africa's "Sport and Events capital" as displayed on the local advertising billboards.

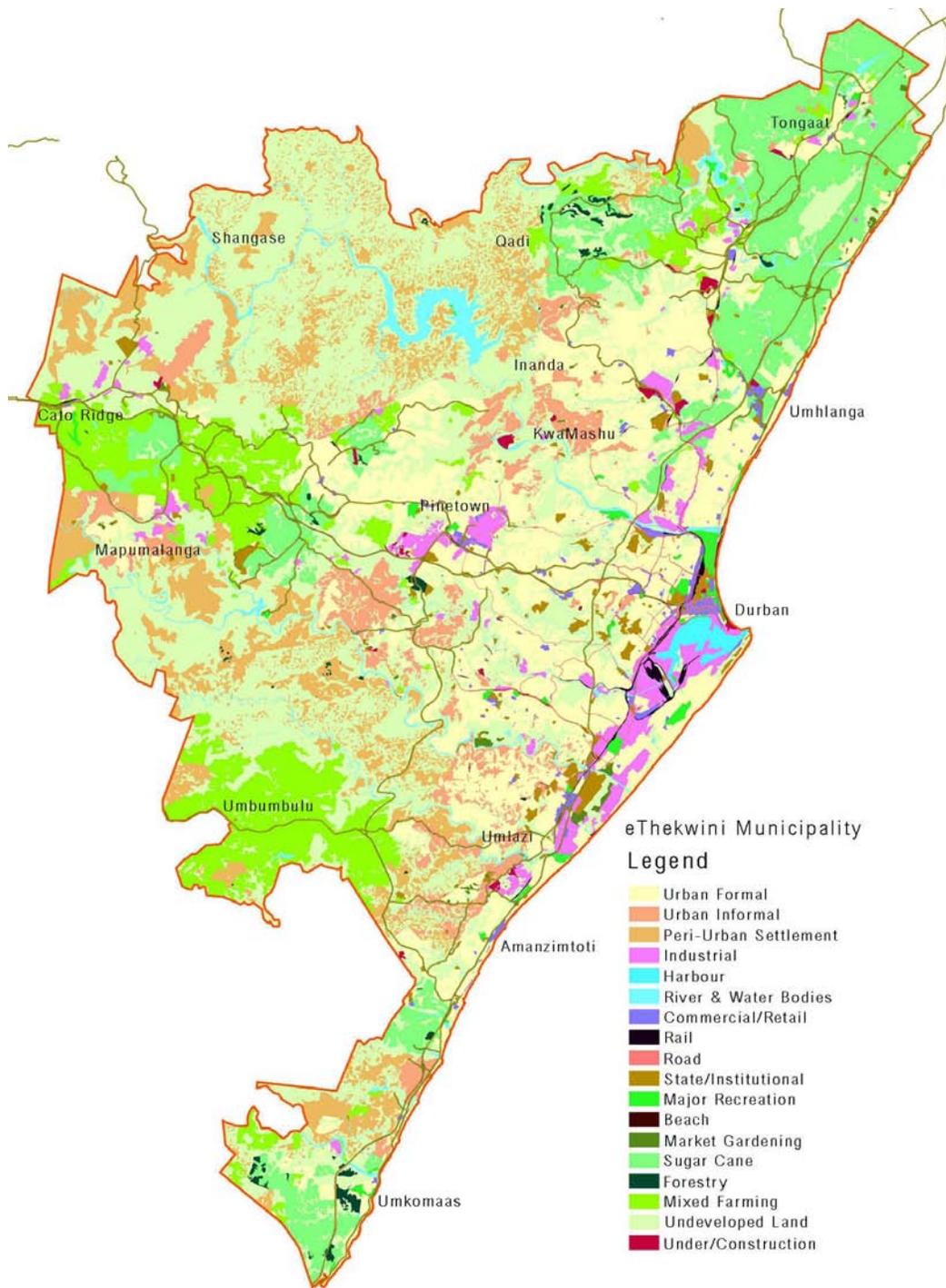


Figure 3.1: eThekweni Municipality Area

Source: eThekweni Municipality (EM) (2002a). Integrated Development Plan 2003 – 2007.

### 3.2.1. Demographic profile of the EMA

The EMA is an amalgamation of racial and cultural diversity, with its African, Asian and European influences creating a vibrant cosmopolitan society. The EMA currently has an estimated population of just over 3 million, with a HIV/AIDS scenario projecting that the 2020 figure will also be 3 million (EM, 2002a: 1). The African community makes up the largest sector (65%) of the population followed by the Asian community (21%). The age profile reveals that although the working age group comprises 68% of the population, there is a relatively large youthful population, with 38% under the age of 19 years (EM, 2002a: 1).

According to the Municipality's quality of life survey, conducted in 2002/03, 41% of residents indicated that they were satisfied with their lives (EM, 2002a). This marked an increase of 6% life satisfaction from the previous year. According to this survey, life satisfaction is intensely linked to employment levels. In view of the fact that these surveys began in 1998, employment and life satisfaction appeared to have deteriorated until 2002 (EM, 2002a) as indicated in Figure 3.2. The 2003 survey indicated that there was an increase in employment whereas there appeared to be a downward trend in life satisfaction since 1999 until 2002, as can be seen in the figure below.

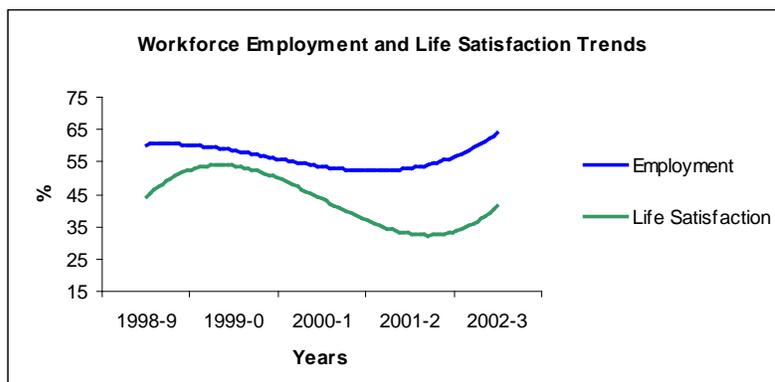


Figure 3.2: Workforce Employment and Life Satisfaction Trends

Source: Quality of Life (2002/3) (eThekweni Municipality (EM) (2002a). Integrated Development Plan 2003 - 2007.

Further, according to this survey, levels of life satisfaction contrast considerably between racial groups, as can be seen in the Table 3.1. The increase in life satisfaction between 2002 and 2003 is most prominent within the African section of the population. On average, according to the EM (2002a: 8), there was a decline in life satisfaction in all the other race groups. There are large life satisfaction discrepancies between the racial groups, in 2002/3 most of the Africans and Coloureds were below the population average of 41%, Asian/ Indians were more satisfied than average while the White population was the most satisfied (EM, 2002a: 8).

Satisfaction with life by race			
	% people satisfied with life		
	1998/9	2001/02	2002/03
Black/African	29	22	33
Asian/Indian	60	57	49
Coloured	42	43	36
White	75	84	79

Table 3.1: Perception of Satisfaction of Life according to race in the EMA

Source: eThekweni Municipality (EM) (2002a). Integrated Development Plan 2003 - 2007).

### 3.2.2. The economy of the EMA

According to the Integrated Development Plan (IDP) (EM, 2002a: 10), the Municipality's vision is that by the Year 2020 it:

Will enjoy the reputation as Africa's most caring and liveable city, where all citizens live in harmony. This vision will be achieved by growing its economy and meeting people's needs so that all citizens enjoy a high quality of life with equal opportunities, in a city that they are truly proud of.

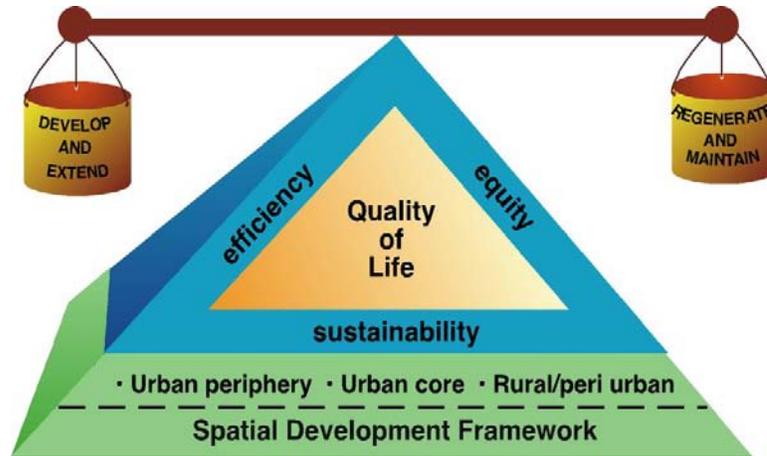


Figure 3.3: Quality of Life Triangle

Source: eThekweni Municipality (EM) (2002a). Integrated Development Plan 2003 - 2007.

According to the EM (2002a), there needs to be a balance between efficiency, equity and sustainability as indicated in Figure 3.3. This balance will ensure that a high quality of life is achieved for people who live on the urban periphery, in the urban core and the rural and peri-urban population. The Municipality's mission is stated below (EM, 2002a: 10):

Is to facilitate and ensure the provision of infrastructure, services and support, thereby creating an enabling environment for all citizens to utilise their full potential and access opportunities, which enable them to contribute towards a vibrant and sustainable economy with full employment, and thus create a better quality of life for all.

According to the eThekweni Municipality's DEDS (EM, 2005), this Municipality is recognised as the epitome of management success in local government in South Africa, having won many awards. According to the City Manager's eThekweni newsletter, (Sutcliffe in EM, 2007a: 1), it was reported that towards the latter end of 2006 the Municipality won the VUNA award for the best metropolitan city in South Africa. He added that in January 2007 the African National Congress (ANC) awarded the municipality its ZK Mathews Award recognising them for their achievements. Also, in 2007 it had won the United Nations Public Service award for its water policy and provision. In addition to this, on the 24th of May 2007 this Municipality was awarded the Proudly SA home grown best municipality in South Africa award. This award for the best municipality in South Africa focused in particular on its use of South African talent, skills, knowledge and resources in order to fulfil its mandate of service delivery and

sustainable development. To cap off these achievements, the Municipality was then awarded the Afriglobe award for the best municipality in Africa.

According to Sutcliffe (in EM, 2007a: 1), these awards judged the Municipality on the following elements:

- Quality of service delivery such as refuse removal, sanitation, electricity and clean water
- Infrastructure development in support of sustainable development
- Stimulating job creation, strategic partnerships with the business sector and stakeholders to develop opportunities for job creation
- Promoting fair labour practices for its employees and within its supplier base
- Ensuring the environment is not detrimentally affected by its operations
- Managing stakeholder relations - youth, religious leaders and organised business
- The economic empowerment of SMMEs and people who were historically disadvantaged

The Municipality has made significant strides in achieving noteworthy service delivery success following the first democratic election of 1994. However, together with these acknowledgments, a significant number of challenges have surfaced (EM, 2005). These challenges have proven intimidating although not overwhelming. Externally, the effects of fluctuations of the local currency, a depressed global economic climate as well as risk-aversion post the 9/11 calamity have had damaging consequences on the Municipality (EM, 2005). However, there were also local benefits associated with the above factors and these include an international tourism market that increasingly saw South Africa as a safer retreat from terrorist activities. However, it is the competitive edge of Durban's sister cities (Johannesburg and Cape Town) that seemed to have taken up the more significant share of this growth (EM, 2005). This has been conceivably due to various factors, including the inability of the local airport to accommodate larger long-haul flights, and the Airports Company of South Africa's (ACSA's) "hub and spoke" strategy, which has relegated the Durban International Airport to being a local carrier only (EM, 2005: 21). At a more minute level, eThekweni has seen a swift increase in HIV/AIDS-related cases, job losses, considerable brain drain due to a lack of opportunities, and head-office exodus of businesses to Johannesburg (EM, 2005). The latter two reasons seem to have a domino effect on the economy. Whilst the Municipality has supported young

graduates through its tertiary education programmes, these graduates have transferred to Johannesburg in search of greater monetary rewards (EM, 2005).

The eThekweni Municipality is the newly structured local authority in the greater Durban region, charged with creating a stable economic development platform for the city (EM, 2005). A strong economic platform motivated by decisive and ingenious strategy will ignite the local economy thereby bringing increased industrial growth, employment and entrepreneurship; while concurrently achieving an enhanced quality of life for the community of the Municipality (EM, 2005). The challenge for the Municipality is to traverse the complications of rapid urbanisation, high unemployment rate, safety and security issues, low levels of investment and struggling business sectors across a multicultural landscape of excessive levels of inequality. The strategies of any guiding local policies must be fully in line with the municipality's IDP (EM, 2005).

eThekweni's Gross Geographic Product (GGP) income per person per year has been recorded as being higher than South Africa as a whole (EM, 2005). However, according to Monitor Company Incorporated (2000a), the city has had a slow economic growth rate of 1.8% per annum and it is imperative to increase this to 7.5% to tackle the high levels of unemployment (EM, 2005: 23). The key strengths of the Municipality, according to the DEEDS is its location, world-class infrastructure, manufacturing sectors, tourism potential, the financial stability and innovation of local government (EM, 2005). Other factors are its potentially strong civil society, largely untapped multiculturalism and its natural resources (EM, 2005).

The historical effects of apartheid have resulted in a colossal shortage in skills and human resource development. Only 16% of all adults are functionally literate in the EMA, 38% of the adult population has completed secondary schooling and only 8% has a tertiary education (EM, 2005: 23). These social deficits have made safety and security a vital issue within the Municipality, as crime statistics are fairly high in comparison with most of the other provinces. Even though the safety of eThekweni is a priority for the Municipality, to the extent that the City established the Safer Cities Project, crime has still impacted negatively on investment,

tourism and on Durban as a brand. This further has a recurring impact on economic development and employment opportunities for its citizens (EM, 2005).

Table 3.2 highlights the key sectors operative in the eThekweni environment and recognises that significant employment-intensive sectors of the eThekweni economy are in decline. These sectors, according to the DEEDS (EM, 2005), have not responded well to South Africa's integration into the world economy. The textile, footwear and clothing (TFC) industry faces notable challenges and strategic action is essential to circumvent further job losses and to support this sector to reposition itself. The TFC sector's future in economic terms is uncertain, and its inability to invest in research and development exacerbates the negative situation.

<b>SECTOR</b>	<b>JOBS</b>
Agriculture, hunting, forestry and fishing	13784
Mining and quarrying	1330
Manufacturing	157833
Electricity, gas and water supply	5356
Construction	40053
Wholesale and retail trade	133033
Transport, storage and communication	50547
Financial services	87004
Community, social and personnel services	148584
Others	121
Undetermined	77049

Table 3.2: Number of jobs per economic sector in the EMA

Source: eThekweni Municipality (EM) (2005). The Draft Economic Development Strategy (DEEDS), unpublished document prepared by the Economic Development Unit.

Table 3.2 indicates that the manufacturing sector is the chief employer, followed by the community, social and personnel service, wholesale and retail, and financial services. Whilst it may appear that sectors like transport, storage and communication do not appear significantly in terms of employment, they have a substantial impact on other sectors like manufacturing.

Three facilitative outcomes are outlined which take cognisance of the above scenario. The first of which, according to the DEEDS (EM, 2005), is an economic environment supportive of job creation with a particular focus on those areas that generate the bulk of growth opportunities, and those areas most excluded from mainstream economic processes. Secondly, the draft strategy accentuates the need for feasible and high quality built environments that support social and economic needs of citizens and firms. In addition, it further emphasises sustained improvements to the quality of life of citizens supported by income and employment growth (EM, 2005).

Whilst all of these points are emphasised by the IDP (EM, 2002a: 19) as well, the critical challenge facing the Municipality remains “economic growth and equity”. These challenges can be further broken down into the following objectives (EM, 2005):

- Job creation
- Income enhancement
- Poverty alleviation
- Improved quality of life

It should be acknowledged that encouraging job creation within the vibrant sectors of the local economy by itself will not tackle the huge unemployment problem that confronts the Municipality (EM, 2005). The unemployment rate is obtained by expressing the number of people who are willing and able to work but do not have jobs as a percentage of the total number of people who are willing and able to work (EM, 2005). The number of people who are willing and able to work is called the labour force or economically active population (EAP) (EM, 2005). The EAP consists of workers in the formal sector of the economy plus self-employed persons and employers plus informal sector workers plus unemployed persons.



Figure 3.4: Key challenges faced by the eThekweni Municipality

**Source:** eThekweni Municipality (EM) (2002a). Integrated Development Plan 2003 - 2007.

Figure 3.4 demonstrates that the strengthening of the economy, meeting of basic needs and building people's skills and technology are all essential for improving the quality of life. The challenges facing the Municipality can be summed up as the following (EM, 2005: 39):

- **The Affluence Challenge:** The Municipality must arrest the deterioration in affluence which has occurred over the last decade. Prosperity has declined by  $-0.34\%$  over the past decade, according to the DEEDS, meaning that on average, the people in Durban are worse off now than ten years ago.
- **The Expansion Challenge:** The Municipality needs to drastically improve on its present expansion rate of  $1.8\%$  to the required rate of  $7.5\%$  to arrest the decline in prosperity.
- **The Service Delivery Challenge:** The Municipality still has a long way to go towards improving service delivery since there are a number of households who require basic services. Currently, according to the DEEDS, one in four areas still require services. The required growth rate of  $7.5\%$  will be able to deliver the required infrastructure and services to meet the quality of life goals that have been set.

- **Sustainable Jobs Challenge:** The major sectors in the City which include automotive, pulp and paper, chemical, and food and beverage have the potential to grow employment. According to the DEEDS, only one in three people are employed in the formal sector at present with 50% of manufacturing jobs in the declining industries such as textiles. To fulfil its vision, two in three active people need to be employed in a healthy growing formal sector.
- **The Skills Challenge:** The mass exodus of skilled graduates from Durban to Johannesburg imposes further challenges on the skills base of the Municipality. It is imperative for this Municipality to begin investing in the upgrading of the skills base in order to annul such a trend.
- **The Distribution Challenge:** Poverty alleviation remains a critical challenge for the Municipality and it is therefore necessary to ensure that the income within the EMA is redistributed.
- **The Empowerment Challenge:** Within the Municipal region, a significant portion of the African population appears to be the most disadvantaged and usually endures the burden of these challenges. The Black segments of the population also have a higher concentration of unemployment and poverty with low skill levels. The Municipality needs to facilitate the empowerment of this segment of the population.

The DEEDS proposed for the Municipality therefore faces significant challenges and must achieve the following (EM, 2005: 40):

- Increase per capita income to at least R33 000 per annum as per 2004 levels
- Create 650 000 jobs in the most sustainable sectors in the economy in the next 20 years
- Increase its growth rate to over 7.5% per annum
- Improve the standard of living of the poorest 50% of its population
- Empower the African population to own an increasing share of assets
- Improve income distribution
- Deliver improved services to all

- Increase the contribution of SMMEs to the Gross Domestic Product
- Ensure across the board literacy and entrepreneurial skills, and to align skills to sector needs

The demographic profile of the Municipality reveals that women make up about 51% of the Municipality's population, and therefore in addressing any of the challenges identified, the Municipality's programmes need to ensure the empowerment of its women (EM, 2005: 43). Women comprise the majority of the population below the poverty line and are often in situations of extreme poverty. The National Policy for the Empowerment of Women (DTI, 2000) stated that women constitute the poorest group in South Africa and are more likely to be unemployed or underemployed. The challenge is to ensure that South Africa's macro-economic strategy promotes economic growth and sufficiently addresses the differential impact of macro-economic policy on various groups of people depending on class, race, age, gender, location and disability (EM, 2005). The Municipality therefore attempts to ensure improved implementation of programmes, which are already women empowerment-orientated with special targets for women. The DEDS (EM, 2005) emphasised that their contribution to socio-economic development as producers and workers will be recognised in the formal and informal sectors (including home-based workers) and appropriate policies relating to employment and working conditions will be drawn up.

The researcher took cognisance of the various factors and uniqueness of this municipal area in the selection of the appropriate methods of data collection for this study. The section that follows will focus on the types of methods used in this study to collect primary and secondary data to address the objectives of this study.

### **3.3. Primary data collection**

The primary data collection for this study entailed the use of both quantitative and qualitative components. The research methodologies used in this study are guided by triangulation which encourages the utilisation of multiple approaches and methods. This is also in keeping with human geography approaches that promote the use of a variety of methods and encourage politically relevant research (Gumede, 2005). Neuman (2000) asserted that objectivity can only

be reached through experimentation and statistical manipulations, in other words through quantitative approaches. Unlike the quantitative approach, the qualitative approach offers the opportunity to study human interaction, historical processes and social reality in an in-depth way in order to obtain valid and detailed data (Bailey, 1994). The different approaches focus on different aspects. It is for this reason why both qualitative and quantitative research procedures are sometimes used in one case study (Bailey, 1994). Both the quantitative and qualitative approaches adopted in this study are discussed next.

### **3.3.1. Quantitative component**

The quantitative approach, according to Mugenda and Mugenda (1999), had typically been deemed to be the scientific approach and was considered the conservative means of investigation in research and analysis. Mugenda and Mugenda (1999) believed that theorists view the dispute between quantitative and qualitative techniques not only as a divergence over advantages and disadvantages but also as a tussle between methodological approaches. Each technique, according to this perspective, is connected to a distinct and unique approach that is in conflict. According to Maxwell (1998), quantitative methods result in numeric information which in this study it is captured in the form of percentages which is usually machine readable and can be analysed by accepted statistical tests and models. Maxwell (1998) indicated that quantitative information is usually gathered by asking the same set of questions to a specific sample of a reference population, with answers recorded in numeric codes or actual numbers.

The advantages of using the quantitative method, according to Matveev (2002), are as follows:

- Stating the research problem in precise and fixed terms;
- Clearly and accurately spelling out both the independent and the dependent variables under examination;
- Following resolutely the original set of research objectives, reaching more objective conclusions, testing hypotheses, determining the issues of causality;
- Accomplishing high levels of reliability of collected data as a result of controlled observations, laboratory experiments, mass surveys, or other forms of research manipulations;

- Reducing subjectivity of judgment; and
- Allowing for longitudinal measures of subsequent performance of research subjects.

The weaknesses of the quantitative method, according to Matveev (2002), include:

- Failure to provide the researcher with information on the context of the situation where the studied phenomenon occurs which is eliminated in the case of some qualitative methods such as participant observation;
- Lack of ability to control the environment where the respondents offer the answers to the questions in the survey; and
- Limited end results to only those outlined in the original research proposal due to type of questions and the structured format.

### **3.3.1.1. The Questionnaire**

The primary research undertaken in this project consisted of a questionnaire administered to SMMEs. A questionnaire, according to Haralambos (1985), consists of a list of preset questions to which respondents are asked to supply answers. The questionnaire consisted of both open and close-ended questions with a specific purpose of achieving a comprehensive response in terms of both quantitative and qualitative information.

According to Robinson (2007), questionnaires are easier to analyse. Robinson (2007) indicated that data entry and tabulation for nearly all surveys can be easily done with many computer software packages. He further indicated that in most instances questionnaires are familiar to most people and nearly everyone has had some experience completing questionnaires and they generally do not make people apprehensive. Questionnaires reduce bias since there is uniform question presentation and no middle person bias. The researcher's own opinions will not influence the respondent to answer questions in a certain manner since there are no verbal or visual clues to influence the respondent (Robinson, 2007).

Robinson (2007) argued that mail-in questionnaires are less intrusive than telephone or face-to-face surveys. Unlike other survey implementation methods, Robinson (2007) believed that the respondent, in this instance is not interrupted by the research instrument (questionnaire). When a respondent receives a questionnaire in the mail, he/she is free to complete the questionnaire

at his/her own convenience. In this study, the researcher dropped off questionnaires with respondents and left a forwarding address for completed questionnaires to be returned.

One major disadvantage, according to Haralambos (1985), of written questionnaires is the possibility of low response rates. However, in this study the researcher administered approximately 600 questionnaires targeting SMMEs who participated at various conferences and fairs. At the end of the study, 250 questionnaires were collected and analysed which is a high response rate of 50%. Further disadvantages Haralambos (1985) cited include the inability to probe responses since the respondent is not necessarily in front of the researcher. As questionnaires are structured instruments, Haralambos (1985) believed that they allow little flexibility to the respondent with respect to response format. In essence, he argued that they often lose the “flavour of the response” (Haralambos, 1985: 198). He further believed that by allowing frequent space for comments, the researcher can partially overcome this disadvantage. Such open-ended comments are among the most helpful of all the information on the questionnaire, and they usually provide insightful information that would have otherwise been lost (Haralambos, 1985). In this study the researcher also inserted spaces for respondents to add their own comments and suggestions, however, in instances where the researcher was looking for open-ended responses to specific questions, such as identification of problems or looking for solutions in order to provide creative information that would add value to the study, such lines were left blank. It is important to note, that very few interviewees provided responses for these open-ended questions or comments when given a chance to do so. However, blank responses could also point to a lack of understanding on the subject matter.

According to Burgess (2001: 12), nearly 90% of all communication is visual; therefore gestures and other visual cues are not available with written questionnaires. The lack of personal contact, according to Burgess (2001), will have different effects depending on the type of information being requested. A questionnaire therefore requesting factual information will probably not be affected by the lack of personal contact and probing sensitive issues or attitudes may be severely affected (Burgess, 2001). Burgess (2001) believed that questionnaires are simply not suited for some people, for example, a written survey to a group of poorly educated people might not work because of weak reading skills. In the case of the

sample of this study there was a high level of literacy among respondents which was evident from the analysis of the socio-economic profile. However, Burgess (2001) added that in terms of those questionnaires that were not responded to, this could be attributed to the low literacy of those individuals who chose not to participate. He further added that more frequently, people are turned off by written questionnaires because of the length as well as the fear relating to how the information obtained will be used.

Despite the disadvantages cited in the above discussion, questionnaires are a common method used for gaining information since there are also numerous advantages that justifies their use (Burgess, 2001). Written questionnaires, according to Burgess (2001), become even more cost-effective as the number of research questions increases when compared to face-to-face interviews if one measures cost in terms of the researcher's time. This is especially true for studies involving large sample sizes and large geographic areas (Burgess, 2001). In this instance, the EMA is quite large and in order for the researcher to ensure that she was able to reach out to as many SMMEs as possible, she had to make use of this method. Time constraints on both the side of the researcher as well as the SMMEs would have made conducting 250 interviews extremely difficult.

In this study, both open-ended and closed-ended questions were made use of in the questionnaire in order to ensure that comprehensive responses were received. Closed-ended response options must contain a possible response, including some response category for those who do not want any of the other choices. Such response categories used in this study included "yes", "no" or "uncertain". Other response categories included specific options identified by the researcher to respond to the question raised. According to Robinson (2007), closed-ended response categories are useful for gathering quantitative, easily coded and analysed data and they are most suitable for mass surveys, especially for mailed or telephone surveys.

Robinson (2007) indicated that open-ended questions provide no answer choices. Robinson (2007) described such questions as easy to ask and allow for a wide variety of responses, including the creative and unusual. He further described open-ended questions as especially useful when you don't know the likely values or can't anticipate how the respondent will respond. The information gathered by open-ended questions could then be used to develop

appropriate close-ended questions for another questionnaire (Robinson, 2007). These questions, according to Robinson (2007), forced the respondent to think and allow the respondent to clarify and explain a response. If the respondent takes needed time and makes the effort, responses can be enlightening and produce useful information. Robinson (2007) argued that the response rate will be lower because the blank space is demanding and intimidating, especially for those who don't like to write. Robinson (2007) indicated that since responses are not really ordered, analysis requires considerable time and effort. It may be difficult to measure and classify responses. He further indicated that responses may be off base because there is inadequate guidance from the instrument itself. Open-ended response options provide respondents with the opportunity to respond to the question in whatever way they see fit.

Robinson (2007) listed the following advantages of open-ended response options:

- allows the respondents to suggest a range of possibilities unknown to the researchers
- avoid the bias of a list of response possibilities
- generate rich details, key words and phrases; are sometimes easier (for example, write in your statement rather than pick from a list of all statements)
- are often used in exploratory research or in early stages of a project
- can generate ideas for future closed-ended response options
- can gather data to explain responses to closed-ended response options (for example, if a respondent said yes, why?)
- allows the respondent to provide feedback to the researcher or the sponsor of the research
- can promote a positive feeling for the respondents that their inputs are valuable

Some of the problems identified with open-ended response categories, according to Robinson (2007), are as follows:

- they need careful pre-testing
- data may be more difficult to code and analyse
- may be left unanswered more often than closed-ended response categories
- requires motivation on the part of the respondent
- requires well-trained interviewers for in-person interviews

- takes more time for analysis for large samples

Once data is collected, the next step is to design a proper format for data entry. According to Arsham (2003), very often data are entered in such a way that it is not readable by statistical software. Arsham (2003) argued that although computer technology is very advanced, data values can only be either numeric or non-numeric. Numeric values can be quantified while non-numeric values can only be summarised in most cases. As a result of the fact that data obtained through fieldwork is difficult to interpret in raw form, the statistical programme used for the analyses and presentation of data in this study specifically is the Statistical Package for the Social Sciences (SPSS). Arsham (2003) declared that SPSS for Windows is an effective statistical package for data analysis. Data is coded and captured into digital format from where it is interpreted and expressed either in tables or graphically. This facilitates the proper application of data to tackle problems and questions in research. Arsham (2003) accentuated the significance of incorporating critical thinking skills in the analysis of data gained through research.

The use of the SPSS included the use of descriptive statistics. Descriptive statistics are theoretical postulates used to draw inferences about populations and to estimate the parameters of those populations (Okech, 2004). The necessary descriptive statistics were obtained in tabular form. Data was checked for errors and cleaned up and most of the tabulations were retained as is evident in chapter six.

### **3.3.2. Qualitative component**

According to Del Barrio (1999: 3), the term “qualitative” is applied to “several procedures of data-collection and data analysis”. In relation to data collection, the qualitative methods include non-structured procedures from observations to interviews, self reports or written narratives. Del Barrio (1999) argued that the focus is within the situation or within the individual; the information collected is not established a priori, as the gathering of information is open-ended in nature. According to Del Barrio (1999), an analysis is qualitative whenever there is not a numeric translation of data beyond the translation to absolute or percentage

frequencies. He further indicated that the usual focus is on the meaning of the information collected either by way of a content analysis, which is more descriptive by way of the interpretation of the responses in terms of levels of complexity. According to Guba and Lincoln (1994), these qualitative analyses can include coding the information into categories or levels looking for similarities and differences among data. A quantitative analysis can follow in some instances.

According to Matveev (2002), the strengths of the qualitative method include:

- Acquiring a more practical sense of the world that cannot be experienced in the numerical data and statistical analysis used in quantitative research. In this study the researcher was able to get practical suggestions on how to improve the SMME environment from people who are familiar with it and work with it every day
- Flexible ways to perform data collection, subsequent analysis, and interpretation of collected information. This was also the case in this study where the researcher was able to conduct the interviews at her and the interviewees' convenience
- Provide a comprehensive view of the phenomena under investigation
- Ability to interact with the respondents in their own language and on their own terms
- Illustrative capacity to describe the content of the primary data which is often unstructured

The weaknesses of the qualitative method, according to Matveev (2002) include:

- Departing from the initial objectives of the research in response to the varying nature of the environment
- Arriving at different conclusions based on the same information depending on the personal characteristics of the researcher
- Inability to investigate causality between different research phenomena
- Difficulty in explaining the difference in the quality and quantity of information obtained from different respondents and arriving at different, non-consistent conclusions
- Requiring a high level of experience from the researcher to obtain the targeted information from the respondent since very often respondents may continue to speak about content that

is irrelevant to the study. It is a skilled researcher who will be able to sift through the information and only use that information that it is relevant to the study

- Lacking consistency and reliability because the researcher can employ different probing techniques and the respondent can choose to tell some particular stories and ignore others

### **3.3.2.1. The semi-structured interview**

The qualitative component of this study consisted of semi-structured interviews. Semi-structured interviews were conducted with key informants from the public sector in different spheres of government involved in SMME development as well as with services providers from the private sector who provide BDS to SMMEs. In these types of interviews, the interviewer prepares an outline of key topics and areas of interest (Bernard and Renz, 1998). The semi-structured interview is one of the most frequently used qualitative methods. In this particular method an interview script is used, consisting of a set of questions as a starting point to guide the interaction. Bernard and Renz (1998) indicated that since the aim is to capture as much as possible on the subject's thinking about a particular topic or a practical task, the interviewer follows in depth the process of posing new questions after the first answers given by the subject. Consequently, at the end every interview can be different from each other. The main task is to understand the meaning of what the interviewee is saying (Kvale, 1996 cited in Bernard and Renz (1998)).

According to Bernard and Renz (1998), the interview guide is not rigidly followed, but does provide a general context within which the interviewer is free to explore. This methodology was selected due to time constraints which are generally experienced by most government representatives and the private sector where only one short interview was granted to the researcher. This method of data collection also facilitates the compilation of reliable, comparable data (Bernard and Renz, 1998). The interviewer can pursue in-depth information about a topic. The interview can also be a useful follow-up to certain responses to questionnaires. According to Valanzuela and Shrivastava (2000), interviews are a far more personal form of research than questionnaires. Valanzuela and Shrivastava (2000) argued that interviews are generally easier for the respondent, if what are sought are opinions or impressions. However, interviews are very time consuming and resource intensive.

Semi-structured interviews were analysed through themes, creating categories, data organisation and patterns which were recorded. Valanzuela and Shrivastava (2000) advocated this type of analysis. Furthermore, Valanzuela and Shrivastava's (2000) approach was followed by the grouping of problems and issues in terms of occurrence of such issues, across the sample. The data was then subjected to further analysis before being assessed by the researcher to establish its reliability, competence, uniformity, aptness as well as its relevance to the research questions. Enormous caution was exercised in organising the qualitative data and in guaranteeing that the quintessence of responses was reflected in a precise and all-inclusive style (Valanzuela and Shrivastava, 2000).

According to Moodley (2002), with quantitative analysis it is especially important to understand the units of measurement in comprehensible formats. However, Moodley (2002) contended that qualitative research exists as an alternative research approach, side by side with the quantitative approach. It is complimentary to conventional quantitative inquiry with the use of a number of methods. In-depth interviews are the most common method used. Moodley (2002) identified other techniques which included participant observation, oral histories, focus groups, journal keeping, autobiography, photographs and textual analysis. Dyck (1997) asserted that the value of these strategies is in its potential for understanding experiences, perceptions, attitudes and meanings in space or place that go beyond pure description. It was necessary in this study to also add a qualitative approach which seeks to understand people's opinions, attitudes and perceptions in relation to SMME development and support.

#### **3.4. Secondary data collection**

Secondary data collection included the compilation and analysis of existing information from a wide range of sources including journal articles, books, research papers and internet articles. Secondary research was undertaken and comprised a desktop study of existing literature and research. The research collated though this method formed the basis of the literature review and conceptual framework. It is evident that a large body of knowledge exists on SMME research and development internationally. Literature on South African SMMEs was very limited and there are just a handful of authors who focus their research on this sector which

included Berry *et al.* (2001), Kesper (1998; 2000) and Rogerson (2004b; 2006). The collection and analysis of secondary data was necessary in the analysis to establish trends as well as to either confirm or refute the findings. The desktop review also included the analysis of various government documents such as the National Small Business Strategy (1995) and the National Skills Development Strategy (1997).

### **3.5. Sampling method**

Sampling is a major problem for any type of research. It is not possible to study every case of whatever we are interested in, nor should we want to. According to Maxwell (1998), every scientific enterprise tries to find out something that will apply to a larger population of a certain kind by studying a few examples. Maxwell (1998) indicated that the main idea of statistical inference is to take a random sample from a population and then to use the information from the sample to make inferences about particular population characteristics such as the mean (measure of central tendency), the standard deviation (measure of spread) or the proportion of units in the population that have a certain characteristic. Maxwell (1998) believed that sampling saves money, time and effort. In addition he believed that a sample can, in some cases, provide as much or more accuracy than a corresponding study that would attempt to investigate an entire population. He added that careful collection of data from a sample will often provide better information than a less careful study that tries to look at everything.

Webster (1985 cited in Maxwell, 1998), defined a sample as a prearranged element of a statistical population whose properties are considered to acquire information about the whole. He observed that when dealing with people it can be defined as a set of respondents (people) selected from a larger population for the purpose of a survey. He indicates that sampling identifies the restrictions of selecting the entire population in the collection. Hence, information is collected about a particular group, which is seen to be broadly representative of the entire population. Foreman (1991) (cited in Maxwell, 1998) portrayed the sample as a basis for statistical estimates or inferences from items about the characteristics of the entire population. He pointed out that a sample is a small percentage of the population that is surveyed and the total population is known as the sampling frame. There are a number of

reasons why sampling is used. Moodley (2002) believed that sampling saves time, money and energy as there are only a small number of well-trained surveyors/survey administrators that are needed while the results that are obtained are more accurate due to greater attention being paid to detail.

The researcher used a multistage sampling method to select SMMEs for the study. The researcher targeted SMMEs who participated at the SMME Fairs and Conferences which the eThekweni Municipality organised. The events included the World Trade Point Federation SMME Conference which the World Chamber organised, the SMME Conference which the Royal Tobacconist Association organised and the Informal Economy Conference which the Business Support Unit of the eThekweni Municipality organised. In addition to this, the researcher administered the questionnaires at the 2005 SMME Exhibition held at the Durban Exhibition Centre. She administered questionnaires at the regional Fairs held in KwaMashu, Clairwood and Pinetown in 2006. She also administered questionnaires at the Main SMME Fair of 2006. More questionnaires were administered at the 2007 Regional Fairs held in Inanda, Umlazi and Pinetown. The intention of the researcher was to ensure a wide outreach in terms of geographical areas and therefore ensured that the areas covered included the East, West, North and Central areas of the EMA.

At each event the researcher obtained a list of all SMMEs who were participating. The researcher then used a systematic sampling method by identifying every  $n^{\text{th}}$  SMME on the list and distributed questionnaires to them. According to Pepe (undated), systematic sampling is conducted by sampling every  $n^{\text{th}}$  item in a population after the first item is selected at random from the first  $n$  items. Pepe (undated) indicated that it is important to remember that the first item must be randomly selected for the statistical theory to hold true. If there is random ordering in the population of the variable values, then systematic sampling is considered to be equivalent to a random sample (Pepe, undated).

At each of these events, the researcher obtained the list of participating SMMEs. The researcher decided to look at targeting at least 20% of SMMEs at each event and then identified how many respondents she would want from each event. For example, at the Inanda-Ntuzuma-KwaMashu (INK) Regional Fairs, there were 250 SMMEs participating. The

researcher decided that she would like to obtain at least 20% of that number which was 50 respondents from this fair. The researcher then divided the total number of participants by the number of responses required and the result was five. The researcher therefore administered questionnaires to every 5<sup>th</sup> SMME present at this fair. A similar method was used for the other two Regional Fairs (Pinetown and Umlazi). From all of these fairs, a total of 100 questionnaires were returned.

At the main SMME Fairs of 2005 and 2006, approximately 600 SMMEs in total participated at both these Fairs. Based on the 20% of respondent's principle, the researcher obtained at least 120 respondents (20% of the sample size) from this fair. The researcher therefore administered questionnaires to every 5<sup>th</sup> SMME present at these fairs. From these two fairs, a total of 92 questionnaires were returned.

At the SMME Conference the Royal Tobacconist Association organised, the Informal Economy Conference the Business Support Unit of the eThekweni Municipality organised and the World Trade Point Federation SMME conference the World Chamber organised, there was an average of 150 SMMEs at each of these Conferences. The researcher identified at least 30 questionnaires at each of these events with a total of 90 (20% of a total of 450) being administered at all events. Again, questionnaires were administered to every 5<sup>th</sup> SMME present at this fair. From these three conferences, a total of 58 questionnaires were returned.

While a total of 600 questionnaires were administered, 250 completed questionnaires were analysed for the purposes of deriving a complete understanding of the current approaches to SMME development and support within the EMA. It is important to note that during the period of administering the SMME questionnaires respondents were only approached once to complete a questionnaire since several SMMEs may have participated in more than one of the targeted fairs.

In terms of participants for the key informant interviews the researcher used a purposive sampling method to identify a list of key informants from the various spheres of government. According to Patton (1990), in this method a subject is selected because of some characteristic

and is a popular method in qualitative research. Kay (1997) explained purposive sampling as another type of non-probability sampling, which is characterised by the use of judgment and a deliberate effort to obtain samples by including typical areas or groups in the sample. The researcher identified the respective Departments involved in SMME development from all three spheres of the government of South Africa: national, provincial and local. Public officials at different levels in the organisations who were specifically involved in SMME development were interviewed to determine their attitudes towards SMME development, their capacity to provide effective business development services and to determine possible recommendations on the most effective means of providing business development services to SMMEs. In selecting participants for the study it was important to identify those individuals who provided direct services to SMMEs. Additionally, it was necessary to identify those who influenced the lives of SMMEs at a strategic level in each of these government departments. At the local government level, a total of 16 key informants were selected from the Business Support, Governance, Procurement and Economic Development Units of the eThekweni Municipality. Ten staff members of the eThekweni Small Enterprise Development Agency (SEDA) were interviewed since they provide assistance to SMMEs at a local level. At the provincial level, 15 key informants were selected from the Department of Economic Development and Finance who are also responsible for the provision of development and support to SMMEs within the EMA. At the national level, nine key informants were selected from the Department of Trade and Industry who provide SMME support and development within the EMA. Three officials from the National Productivity Institute (NPI) were also interviewed since they make a significant contribution to the support and development of SMMEs within the EMA. A total of 53 interviews were conducted with the public sector.

In terms of the private sector, there are a number of existing databases of private sector service providers who offer support and development services to SMMEs within the EMA. These databases were compiled by the Procurement Unit of both the Municipality and the Province. The researcher used the database to call up service providers and set up interviews. The interviews were selected on the basis of the most senior person in the organisation who worked directly with SMMEs. In addition to the above, the researcher made use of the SMME fairs (2006 and 2007) to interview individuals from banks, training providers and business

development agencies who provided services to SMMEs on behalf of the private sector. They were interviewed to determine their levels of understanding of SMME development, their capacity to provide effective business development services and to determine possible recommendations on the most effective means of providing business development services to SMMEs. At the end of the process the researcher managed to conduct 50 interviews with the private sector.

The data were analysed in relation to the objectives of the study. The information was analysed and presented in terms of themes such as organisational capacity, training, customer care, and roles of the public and private sectors. Some of the data were presented in tables and figures.

### **3.6. Challenges encountered during the research**

The use of questionnaires was relatively impersonal; however, it was a necessary method due to the fact that it was difficult to secure 300 people for interviews as a result of time constraints. The use of face-to-face interviews would have given the researcher an opportunity to probe the responses thereby gaining a far richer and more comprehensive picture. The administration of the questionnaires was also a very time consuming process. The researcher had to ensure that she was present at every conference and exhibition to hand out the questionnaires as well as collect them at the end of the day. A number of questionnaires were returned incomplete and many people did not return them.

The semi-structured interviews that were conducted with key informants proved to be particularly challenging since it was time consuming to set up these interviews. It involved a number of telephone calls as well as unproductive trips. Even though appointments were made with individuals, many of them failed to keep their appointments and follow-up meetings needed to be set with them until finally the researcher managed to complete the task with all key informants being interviewed. Some businesses were reluctant to provide information since they assumed that the information was required for tax purposes. However, the researcher had to reassure them of non disclosure of business names through the use of a confidentiality letter before respondents were willing to provide the necessary information.

### **3.7. Conclusion**

The purpose of this chapter was primarily to describe the eThekweni Municipality as the study area and to explain the methods which the researcher used to provide responses to the research problem. In addition, the researcher also explained the modes and modus operandi employed to gain information necessary to tackle the research questions. It first discussed the aims of the study before examining the methods of data collection, both primary and secondary, used in this study. Within the quantitative approach, the tool used was the questionnaire. Within the qualitative approach the technique used was the semi-structured, key informant interview. The researcher highlighted the sampling methods used to identify participants for the study. In order to identify participants to whom questionnaires were administered, the systematic sampling approach was adopted. In order to identify key informants with whom interviews were conducted, the purposive sampling approach was used. The researcher finally highlighted some of the challenges that were experienced during the course of undertaking the research.

## **CHAPTER FOUR**

### **Literature Review**

#### **4.1. Introduction**

This chapter briefly reviews, discusses and summarises published information, and other secondary data sources that presently exist on SMME development and policies, as well as determines their links to the economy and its growth. The thematic discussion contributes to providing the conceptual framework and a context within which to present the methodologies, analyse the data and forward recommendations. While this chapter focuses on generic information on SMMEs, the subsequent chapter focuses on SMMEs within the international, national and local contexts. In this chapter the focus is initially on the definitions of SMMEs and entrepreneurship. It then shifts its focus to the challenges that SMMEs faced. Some of the issues focused on include policy issues and aspects of gender in terms of its relevance to entrepreneurship and SMMEs. It also identifies the most common challenges SMMEs faced which include technology, training, and access to finance and markets. Furthermore, this chapter identifies strategies that could be employed to address these challenges. Some of the strategies identified include improving the environment and enabling access to skills and capacity building. In addition, strategies discussed include facilitating access to finance and markets. The rationale for the provision of Business Development Services (BDS) is discussed specifically in relation to roles of the public and private sectors.

#### **4.2. Definitions of SMMEs**

The White Paper on the National Strategy for the Development and Promotion of Small Business in South Africa the Department of Trade and Industry (DTI) developed in 1995 was instrumental in birthing the abbreviation SMME which refers to small, medium and micro-enterprises (DTI, 1995). An SMME can be defined as an enterprise, which is owner operated and functions with the primary focus of providing a livelihood for the owner and the immediate employees (DTI, 1995). Motsa (2004) pointed out that the informal sector comprises of survivalist and single-person micro-enterprises and the formal sector comprises of medium and large enterprises. Micro enterprises employing one to four people as well as very small and small enterprises are

considered to be a mix of the formal and informal sector. This was highlighted in the 2001 Ntsika State of Small Business Development in South African Annual Review (DTIa, 2001).

There is a lack of clarity about what is understood as a small business. Motsa (2004) contended that in some cases the significant trait is the entrepreneurial component; whether there is an inherent concern for the economy's capacity to generate new activities or to create new divisions in response to new needs. However, she indicated that many entrepreneurial ventures do not reach the stage of small businesses, as they never start operating. Motsa (2004) posited that many small businesses are age-old entities, such as family businesses which have been passed from generation to generation.

According to the DTI (2004), another interesting characteristic often associated with small businesses is ownership and management. The DTI highlighted a number of issues among which are both concentration versus competition, and the broad economic participation of the population, not only as co-owners of productive entities, but as agents who are able to exercise power in the management of these entities. A further area of focus, according to the DTI (2004), is on the informal or semi-informal economy. The DTI (2004) claimed that the SMME sector is predominantly from the Black African population group, particularly in rural or peri-urban areas. A major portion of informal businesses can be categorised as micro-enterprises, while some entities may be larger. A number of informal activities may be sporadic, in the sense that they may be started, discontinued and reactivated several times during a year (DTI, 2004).

The DTI (2004) expressed a concern around the size of the entities. They indicated that this was the measure most frequently adopted internationally for small business studies. However, the restriction of what comprises a 'small' business contrasts from one economy to the next (DTI, 2004). They pointed out that in developed countries, entities with fewer than 500 employees are usually considered as small and medium enterprises (SMEs), while in developing countries the thresholds are generally lower. They further pointed out that in South Africa, micro-enterprises are occasionally described as businesses whose revenue is below the obligatory VAT registration limit (R300 000). A further differentiation was the 'survivalist' business, which is generally defined as generating revenue below the poverty line (DTI, 2004).

However, all of these criteria do not fit exactly with the official definition. The National Small Business Act (Act 102 of 1996) provides definitions for various SMME categories identified in Table 4.1. These are all underpinned by the fact that the enterprises must be a separate and distinct business entity, and must be owner/s managed. Using the National Small Business Amendment Act (Act 26 of 2003) as a starting point, the table below summarises the ‘qualification criteria’ based on employee numbers and turnover which apply to SMMEs.

Type	Employees	Asset Value	Characteristics
Micro enterprises	Often owner run and do not have more than 5 employees.	Minimal	Generally lack business formality. Generally lack premises. Are “survivalists” operated/owned–services and products are of a basic nature. Often do not operate bank accounts.
Very Small	Often owner run with up to 20 employees.	Moderate to high – depending on stock levels.	Operate on a “quasi-formal” market. Have premises and basic infrastructure. Meets basic legal compliance. Will have bank accounts.
Small	Often owner run with up to 50 employees.	High – due to stock levels and accumulated assets.	More established, with a traceable trading history. Meets legal compliance. Has succession planning mechanisms. Will have bank accounts established and due to positive trading history, will have access to finance.
Medium	Less than 100 employed. Still owner managed but more complex management structure.	Very high – due to stock level and accumulated assets.	Decentralisation of power to management distinguishes medium from small. Far more established with traceable references and well-established trading history.

Table 4.1: Definitions of SMMEs

Source: DTI, 1996, National Small Business Act 102 of 1996, Department of Trade and Industry, Cape Town.

The White paper focused on survivalists and micro-enterprises due to their potential as a vehicle for poverty alleviation, particularly for the unemployed and unskilled. The 1997 United Nations

Development Programme (UNDP) Microfinance Assessment Report for South Africa indicated that:

The smallest micro enterprises tend to be run by people unable to find a paid job. Little capital is invested and the individuals running the micro enterprises often have no skills training and limited growth opportunities. Self-employment in the form of such enterprises remains critically important survival strategies for the poorest sectors of the economy, especially for women living in rural areas.

(Ashe, Madinane and Japhta, 1997: 2)

Ashe *et al.* (1997) pointed out that such survivalist enterprises have been described as pre-entrepreneurial and involved activities such as hawking, vending and home industries. They further argue that deficiency of financial resources, social barriers and a lack of entry to markets prevent this group from becoming truly entrepreneurial.

Baumann (2003) argued that although some survivalists have grown into micro-enterprises and formal SMMEs, the majority are likely to remain poor since there are a number of challenges which they face which continuously underpin their position at the lower rungs of the economic scale. He further argued that women are more severely impacted by these challenges than males and this therefore implies differing approaches for addressing restrictions male-owned and female-owned SMMEs faced. Baumann (2003) asserted that there appeared to be tension between whether SMMEs should be developed for the purposes of addressing poverty alleviation or for the purposes of employment creation. This tension is often acknowledged as the reason for the limited impact of policy on SMME development in South Africa. The 2002 Global Entrepreneurship Monitor (GEM) report (cited in Foxcroft, Wood, Kew, Herrington, and Segal, 2002) argued that policy interventions need to distinguish between social upliftment and poverty alleviation programmes versus targeted small business support. They further argued that the former should be aimed at unregistered businesses and the latter at registered businesses. In a similar vein, a further contention Porteous (2002) identified referred to the policy objectives in South Africa that result in promoting small businesses for job creation (which are likely to be mainly White-owned) versus transformation efforts in the form of Black Economic Empowerment (BEE) to achieve socio-political stability.

Other definitions point to different dimensions. For example, Porteous (2002) outlined the distinction between formal and informal based on legal status (registration), tax registration, and

the keeping and auditing of accounting records. Foxcroft *et al.* (2002) also made the distinction between formal and informal enterprises and these are characterised in terms of economic contribution, education, resources and needs. Similarly, some definitions differentiate and target SMMEs based on their marginalisation. For instance, the Small Business Strategy differentiated SMMEs in terms of the constraints they faced, placing particular emphasis in addressing constraints SMMEs faced, in those were initiated, owned or controlled by those who were disenfranchised and/or otherwise discriminated against in the past (DTI, 1995). This included enterprises owned or controlled by Black South Africans, women and all other disadvantaged and marginalised groups, including those in remote rural areas as well as the disabled, elderly people and the youth (DTI, 1995).

A comparison with international literature points to still other small enterprise development definitions that generally focus on differentiating between micro and small enterprises (MSEs) on the one hand, and small and medium enterprises (SMEs) on the other (Rogerson, 1997). Labie (1995) highlighted the point that SMEs are generally more labour than capital intensive in that they have high relative production costs (because raw materials are purchased in small quantities); lack technical experience in production, accounting, administration and stock control (due to low levels of qualification); and are mainly unregistered (or partially registered) and family-based. The United States Agency for International Development's (USAID) definition on the other hand distinguishes micro-enterprises from small enterprises and characterises them as tiny, informally organised business activities which mainly involves only one person, the owner-operator or micro-entrepreneur (USAID, 1995a; 1995b).

For the purpose of this study, the researcher will focus on the definitions of small and micro-enterprises (SMEs) as the DTI defined. The rationale for selecting this particular grouping is that they are at earlier stages of establishment. They are also often in a position where they require development and support from institutions and organisations, whether it is public or private, to help them develop and grow. This study will not focus on informal traders or survivalists because they generally do not make use of business support services.

### **4.3. Who is an entrepreneur?**

The terms of entrepreneurship and small business are used interchangeably in the literature. However, Thurik and Wennekers (2004) suggested that the two terms are related but not synonymous. In reviewing the vast amount of literature available on entrepreneurship, it is apparent that there is no generally accepted or agreed upon definition for the term entrepreneurship, despite the interest shown in this area. Thurik and Wennekers (2004) advised that an entrepreneur is a person who conceives of, launches and manages an enterprise. They further advise that this person is said to fulfil the roles of inventor, trendsetter, risk-taker and co-ordinator, possessing some intrinsic abilities, as well as some acquired skills and abilities. However, Thuss (2003: 4) took a more extreme approach in his understanding of entrepreneurs when he says “you either have (entrepreneurship) in your genes or you don’t”. He believed that while study and practise brings experience which in turn brings improvement, the point is that entrepreneurship is not something that can be learnt. The debate on the innate entrepreneurial abilities remains unresolved, but most people would agree on the point that not all people are entrepreneurial (Jackson, 2004). The GEM Report (2003) identified two types of entrepreneurs according to their motivations: opportunity entrepreneurs and necessity entrepreneurs. Klofsen and Spaeth (2004) pointed out that the former consists of those people who start an enterprise in order to take advantage of a perceived opportunity, and the latter are those people who start an enterprise out of a need to survive. This implied different policy approaches based on understanding the factors driving the entrepreneur to start his or her business. These definitions may assist in understanding the motivations of the entrepreneurs and the nature of their enterprises. Klofsen and Spaeth (2004), however, argued that the crucial issue is that the entrepreneur can be said to help encourage economic development due to the creation of new business and to expedite economic development through ingenuity and distinctiveness that leads to higher levels of productivity and competitiveness.

When considering entrepreneurship, it cannot be done in a vacuum. According to Rwigema and Venter (2004), it is always imperative to reflect on such concepts as entrepreneurship in a context in order to value the rich texture of its contribution through the ages. In this regard, it is imperative to refer to significant contributors to this field. Joseph Schumpeter (1883-1950) (cited in Deakins and Freel, 2003) was thought to be one of the most significant contributors to the

field of entrepreneurship. Schumpeter's entrepreneur could not be placed in one category. Schumpeter introduced the concepts of new combinations of various categories of entrepreneurs (Deakins and Freel, 2003). Hisrich and Peters (2002) defined entrepreneurship to be the process of creating something new of value, by devoting the necessary time and effort, assuming the accompanying financial, psychic and social risks, and receiving the resulting rewards of monetary and personal satisfaction and independence. Dollinger (1999) defined entrepreneurship to be the creation of an innovative economic organisation (or network of organisations) for the purpose of gain or growth under conditions of risk and uncertainty. According to Bartol and Martin (1998), entrepreneurship entails the creation of a new enterprise. Rwigema and Venter (2004: 6) proposed entrepreneurship to be the "process of conceptualising, organising, launching, and through innovation, nurturing a business opportunity into a potentially high growth venture in a complex, unstable environment". Van Aardt, Van Aardt and Bezuidenhout (2000: 7) defined entrepreneurship as "the act of initiating, creating, building and expanding an enterprise or organisation, building an entrepreneurial team and gathering other resources to exploit an opportunity in the marketplace for long-term growth." Bateman and Snell (1996), on the other hand, defined entrepreneurship to be the act of forming a new organisation of value.

According to Dollinger (1999), the large number of definitions on entrepreneurship points out that it essentially involves a person who engages in some type of behaviour. Whilst there might exist a large contingency of viewpoints and definitions, interpretation of such concepts is dependent on the context within which it operates. Just as there are several definitions on the concept of entrepreneurship, there are also several approaches used to enhance its understanding. However, for the purposes of this research only two of these approaches will be looked at briefly. The first one is the economic approach and the second one is the multi-dimensional approach.

The economic approach emphasises the role of the entrepreneur in economic development and the application of economic theory. Deakins and Freel (2003) viewed the entrepreneur as a person who is responsible for coordinating different factors of production. In this instance the entrepreneur is seen as a pure risk-taker with the incentive being the ability to generate profits. According to Deakins and Freel (2003), agreement emerged amongst the proponents of this approach in that, in conditions of insecurity and transformation, the entrepreneur is a key

participant in the economy. The multi-dimensional approach involves a complex framework, where the individual (for example, need for achievement), the environment (for example, presence of experienced entrepreneurs), the organisation (for example, type of firm), and the venture process (for example, the entrepreneur locates a business opportunity) are emphasised (Kuratko and Hodgetts, 1995).

It is important to understand that there is never a wrong or right approach to entrepreneurship. According to Kuratko and Hodgetts (1995: 7), “the study of entrepreneurship is still emerging” and therefore debates need to be encouraged based on the premise that there is no agreed upon or accepted definition which will in turn encourage further debates. They argued that entrepreneurship should be conceived of as an interdisciplinary concept as evidenced in the multitude of definitions.

#### **4.4. Critical issues and challenges in SMME development**

SMMEs face a large number of challenges which affect them on a daily basis. Rogerson (2004b) contended that when these challenges are not met with responsive solutions at an early stage, it often leads to the demise of the SMME in its first year of operation. He further contended that SMMEs are not a homogeneous group since they often operate in different sectors and industries, and they face different challenges at different stages of their development. Some of these challenges are general whilst others are sector or industry specific. It is for this reason that Bob, Moodley, Perry and Gumede (2005b) pointed out that a blanket programme or a ‘one size fits all’ for all SMMEs will prove to be less effective in addressing all of their needs. The following section discusses the various challenges that SMMEs faced. While there are many challenges that are similar, there are also challenges that are peculiar to specific countries.

##### **4.4.1. Policy issues**

Small enterprise policy, according to Berry *et al.* (2002), has been dominated by the idea that SMMEs are smaller versions of formal sector enterprises within the First Economy. In recognising the contribution of small enterprises to employment, the issue of a policy environment which is conducive for small enterprises has received increased attention. Unfortunately, according to Berry *et al.* (2002), the knowledge on the impact of the policy environment on small enterprises and on their employment performance is very limited. The

general goal of SMME policy, according to Lundstrom and Stevenson (2001), is to strengthen the existing foundation of small enterprises by guaranteeing that they can compete in the marketplace and that they are not discriminated against because of their small size, relative to large firms. Reinecke (2002) confirmed that while some authors insist on the need for policies to show partiality towards small enterprises so as to enable them to compete with larger enterprises and investigate their employment creation potential, the overriding opinion is that there are no generally defensible reasons for economic policies to favour any specific size class of enterprises. He adds that well functioning output and input markets which are biased neither in favour of small nor large enterprises are seen as a key component of an enabling policy environment. According to Berry *et al.* (2002), this does not resolve the question on the choice of policies given that State interventions of various types may be necessary, precisely to attain well-functioning markets.

Reinecke (2002) indicated that in many countries, specific small enterprise policies have been designed and employed for the purpose of helping small enterprises improve their performance. He adds that despite the small enterprise promotion programmes offered, most small enterprises never obtain the information on these programmes. For example, he illustrates that, in a survey among small enterprises in Bangladesh, the Philippines and Nepal, more than 70% of the surveyed entrepreneurs did not know about any public agency in their country giving assistance to small enterprises. Moreover, he pointed out that many countries have support programmes for small enterprises while the overall economic policies are biased in favour of large enterprises.

Berry *et al.* (2002) contended that while the many specific support programmes may counteract the bias in the overall policies, there is the risk that many enterprises suffer from the anti-small bias. This prevents them from being able to benefit from the specific programmes in support of small enterprises. This meant that many enterprises are afraid of the fact that they might be considered too small to participate in programmes from which they could have benefited. According to Reinecke (2002), another risk of policies that are specially oriented towards helping the smallest enterprises is that they may convert themselves into growth-constraining policies for those enterprises which are close in size to the maximum thresholds of these benefits. He summed up that while a limited number of policies may be designed specifically for small

enterprises, virtually all policies have intended or unintended impacts on small enterprises. He therefore felt that it is necessary to adopt a very broad perspective when looking at the issues around policy development.

Current trends in government support, according to Lundstrom and Stevenson (2003: 37), included a shift from subsidies and grants to repayable loans, a shift from financial assistance to information assistance, the development of 'one-stop shops', a focus on research and development and technological innovation, and efforts to reduce the information gap between SMMEs and financial institutions. They argue that it is increasingly recognised that schemes to support SMMEs will not be successful in the absence of an entrepreneurial economy. They further point out that creating a vibrant entrepreneurial economy requires changes in the legislative, regulatory and tax environments to promote the entry of new businesses and the active promotion of entrepreneurship in society.

According to Reinecke (2002), a review of the qualitative assessments of the policy environments illustrate that a number of issues hinder the growth of small enterprises as opposed to promoting it. Reinecke (2002: 12) highlighted three guiding principles for best practice approaches which are:

- The policy environment should not unnecessarily restrain enterprise activities in general and small enterprise activities in particular. While such a principle does not appear to be contentious, there may often be trade-offs between different objectives, for example, business development and labour standards.
- The policy environment should create a level playing field for all enterprises, and not discriminate small enterprises relative to larger ones. Regulations that apply in a uniform manner to all enterprises may in fact discriminate the smaller ones for different reasons.
- Where specific support programmes aim at facilitating the development of small enterprises, these programmes should be well-targeted, not require excessive bureaucratic red-tape for participation, and the information on their existence and how to use them must be readily available for small enterprises.

Best practice statements, according to Reinecke (2002), view labour regulations essentially as restrictions that tend to hamper business development and thus employment creation. He further points out that labour market policies often generate cost differences favouring small enterprises, but it is not very clear what the net impact of these policies is on small enterprises and their workers.

Trade policies area another significant policy area since, according to Reinecke (2002), they have an impact on the access to imported material inputs as well as the price of the enterprises' final products. He highlighted the fact that under import-substitution schemes, imported inputs have been licensed or directly allocated by governments which then favours large enterprises which are more likely to gain access to import quotas than small ones. However, what he further highlighted is that import tariffs do not necessarily have an impact on small versus large enterprises, as their application is uniform, which then means that the phasing out of non-tariff import barriers in the context of trade liberalisation policies in many developing countries should give small enterprises a more favourable environment. Moreover, Reinecke (2002) added that new export incentives that have been introduced to facilitate the shift towards more outward-oriented enterprise strategies sometime repeat the experience of discriminating against small enterprises. Finally, he indicates that trade liberalisation processes in many developing countries have also led to increased competition. Given the traditionally low import content of small enterprise production may in the short-term outweigh the advantage of cheaper imported inputs. Many small enterprises do not have the professional management and resources to adapt to the more competitive environment and may therefore not benefit from such policies (Reinecke, 2002).

According to Reinecke (2002), in many developing countries, pricing policies have been unfavourable to agriculture. Since most small enterprises are located in rural areas, policies that restrain agricultural incomes limit the demand base for small non-agricultural enterprises. Another important issue which Reinecke (2002) highlighted, is taxation policies. In many cases, small enterprises may pay no or few taxes, either because they are formally exempted or because they successfully evade taxes. On the other hand, Reinecke (2002) maintained that tax evasion can make enterprises susceptible to administrative interference, and the threat of high taxes may

keep growth-oriented enterprises from growing as this would augment their visibility. Moreover, he added, tax exemptions are often given to large enterprises and foreign investors which can easily have a direct negative impact on small enterprises when subsidies are channelled towards large-scale producers of goods who compete directly with small-scale production.

Credit policies have also been identified as another factor in many countries which makes it difficult for small enterprises to obtain formal loans. Most analyses, Reinecke (2002) asserted, agree that the lack of access to formal credit is a more important impediment for small enterprises than its cost. He therefore suggested that the policy emphasis should be on establishing devices to allow small enterprises access to credit at normal market rates, rather than providing inexpensive credit to a small number of enterprises. Furthermore, he stated that the cross-cutting issue in relation to the quality of the policy environment is its transparency. He added that transparent and consistently enforced regulations are superior to regulations which are difficult to access, difficult to comprehend or enforced arbitrarily. He also pointed out that small enterprises are likely to suffer most from a lack of transparency as they have fewer resources to obtain information or to protect themselves against arbitrary administrative decisions. On the other hand, Reinecke (2002) argued that the very smallest enterprise may be able to avoid unwanted contact with the authorities because of their limited visibility.

According to Rogerson (2004b), at the centre of national government's SMME support programmes are policy interventions introduced by the State's new institutions and structures which were set up to implement the pro-SMME strategy at a national scale. As identified in the White Paper, the key actors were Ntsika Enterprise Promotion Agency, which were responsible for non-financial or business development services, and Khula Enterprise Finance which functions as a wholesale finance institution supporting a range of retail finance intermediaries which would deal directly with the SMME entrepreneurs themselves (DTI, 1995). Support measures, according to Rogerson (2004b) concentrated on enhanced and decentralised access to information, training, markets, finance, and technology, improvements in business infrastructure and the market environment, and the reinforcement of networks among enterprises.

In sum, although some general recommendations are made in the literature, there is no uniform best practice for all policy areas. Most of the studies assume that a favourable policy environment will contribute to more employment creation, but this effect is rarely analysed more thoroughly. Further, within this chapter various strategies will be presented which assists in enhancing the competitiveness of SMMEs.

#### **4.4.2. Gender dynamics**

Until the middle of the last century, according to Kirkwood (2005), gender was considered a one dimensional construct with males and females being complete opposites. Men were expected to be providers while women were the care-givers. Kirkwood (2005) stated that the feminist movement of the 1960s helped change this perception so that a lifetime working career and self-achievement became more acceptable for women. She proclaimed that in conjunction with the feminisation of management, the role of men and women within the labour force has changed conspicuously since the early 1970s. She further indicated that women have increasingly become involved in previously male-dominated, task-oriented occupations while male participation in previously female-dominated, relationship-based occupations has become more accepted. Not unexpectedly, this movement in workforce roles played by men and women has been paralleled by a liberalisation of gender roles defined as “the attitudes, behaviours, rights and responsibilities that a society associates with each sex” (Kirkwood, 2005: 9).

Both male and female entrepreneurs play a vital role in creating wealth and jobs. However, Levin (1993) saw women entrepreneurship as a concept that is relatively new as a result of harsh economic imperatives, the rising expectations fuelled by feminism, the sheer demographics of working women, the glass ceiling in many corporations, the downsizing trend among large corporations, and the general perception of small business activity as an answer to the economic ills of the world. More and more women all over the world are breaking away from the chains that for so long kept them in the shadows of their male counterparts (Nieman and Valla, 2005).

It is important not to neglect the possibility that the very character of the term entrepreneur is gendered. Ahl (2003) suggested that entrepreneurship is not gender neutral but its male gendered. Hyrsky (1999) used metaphors to characterise entrepreneurs and also found that

women's and men's views fluctuated, where women speak in terms of family issues, lifestyles, personal characteristics and natural settings; while men concentrated on using metaphors that reflect sports, warfare and adventure to portray entrepreneurs. According to Stevenson (1990), women do not consider themselves entrepreneurs in the male sense of the word because an entrepreneur is defined in a masculine way, and women are often less likely to perceive themselves as masculine.

The lack of integrative frameworks for comprehending the nature and implication of issues related to sex, gender and entrepreneurship, according to Fisher, Reuber and Dyke (2002), had been a major impediment. They further highlighted two perspectives which have helped to organise and interpret past research, and highlight avenues for future research. These are liberal feminism and social feminism. Liberalist feminist theory, they added, suggested that women are disadvantaged relative to men due to explicit discrimination and systemic factors that deprive them of vital resources like business education and experience. According to Fischer *et al.* (2002), previous studies which have explored whether or not women are discriminated against by lenders and consultants, and whether or not women actually do have less relevant experience and education, are consistent with a liberal feminist perspective. They maintained that those empirical studies that have been conducted provide modest evidence that explicit discrimination, or any lack of access to resources that women may experience, impedes their ability to succeed in business.

Social feminist theory, according to Fischer *et al.* (2002), suggested that due to differences in early and ongoing socialisation, women and men do differ inherently. However, they contended that it does not mean women are inferior to men, as women and men may develop different but equally valuable traits. Previous entrepreneurship studies, according to the authors, that have compared men and women on socialised traits and values are consistent with a social feminist perspective. These studies have documented few consistent gender differences, and have suggested that those differences that do exist may have little impact on business performance.

While this interpretation of past findings is relevant to the question of if and how female and male entrepreneurs differ, there are still large gaps in our knowledge (Nieman and Valla, 2005).

Understanding the barriers facing female entrepreneurs can be beneficial to females currently engaged in entrepreneurship, aspiring and emerging female entrepreneurs, and policy-makers. This understanding, according to Nieman and Valla (2005), led to more supportive policies and programmes for female entrepreneurs. The barriers which face female entrepreneurs are categorised as follows (Nieman and Valla, 2005):

- Social and cultural barriers
- Infrastructural barriers
- Educational and occupational barriers
- Role barriers
- Behavioural barriers

According to Crampton and Mishra (1991), a major obstacle for women is the presence of constraints society imposed upon them, the family and women themselves. They see women still “working in a society that often does not accept them as powerful and influential business leaders” (Crampton and Mishra, 1991: 7). They argued that relationships in society are structured hierarchically, with women subordinate to men, having less power, opportunity and access to resources. An important barrier, according to Nieman and Valla (2005), is the negative attitudes and stereotypes society created towards career women. The first stereotype they point to is that women assume more of the physical work involved in running a household than do men. The second stereotype, according to the authors is that women assume a higher level of responsibility. The third, and most discouraging according to them, is that the man’s job is considered more important. Although not all women fit this stereotype, Crampton and Mishra (1991: 2) reported the following stereotypes as among the most identifiable barriers to women’s advancement: “women lack career commitment, are not tough enough, don’t want to work long or unusual hours, are too emotional, won’t relocate, lack quantitative and analytical skills and have trouble making decisions”.

Women sometimes lack the confidence and skills to overcome these cultural obstacles that are an addition to the problems usually associated with starting a business for any entrepreneur (Organisation for Economic Co-operation and Development - OECD, 2001: 13) Attempts to stereotype females will continue according to Nieman and Valla (2005), to be perceived as of

little importance, and as a consequence, the advisory system as a whole may not take applications from female entrepreneurs as seriously as from men. Social and cultural barriers continue to affect women's access to entrepreneurial opportunities.

Financing, according to Nieman and Valla (2005), is one of the major impediments to female entrepreneurship. Most business owners, they add, face barriers to obtaining sufficient and affordable capital to start and acquire a venture. Generally speaking, however, most women entrepreneurs say that when they decide to seek outside financing, they face greater difficulties than men because of their lack of credibility, the type and relatively small scale of their business endeavours and their lack of experience in negotiating financial matters (OECD, 2001: 5). All entrepreneurs have to contend with a financial environment that has become increasingly demanding (Nieman and Valla, 2005). However, they add that access to capital markets has been regarded as among the most important resources denied to women. Carter *et al.* (1997) cited three reasons why women may be disadvantaged in capital markets: they tend to have less experience and equity in their businesses than men; resource lenders may have discriminated against them on the basis of outmoded gender-role beliefs and their belief that differential treatment may reduce the rate of lending applications among women business owners.

From the above it is apparent, according to various authors, that women experience greater difficulty in obtaining financial assistance because of their lack of assets to secure loans and their perceived ability to repay loans. Nieman and Valla (2005) maintained that capital cannot turn a weak business idea into a strong business, but lack of capital can derail a good business idea. Lack of access to start-up and small business financing is not unique to women, yet it poses a greater obstacle to their business development effort (OECD, 2001).

Allie and Human (1997) highlighted the differences in educational levels of entrepreneurs in the more developed economies compared to those in less developed economies. They further indicate that in the former the educational level of entrepreneurs is relatively high and the percentage of entrepreneurs without a graduate education is decreasing, whereas the latter find themselves with an inadequate education and training base. Stevenson (1986) stated that female entrepreneurs are generally better educated than males. She further illustrated that female

entrepreneurs were more likely to have completed high school and university programmes but they often did not have an educational background in business. Cliff (1998) concurred with this when he found that female business owners were less likely than males to have business degrees. They suggested that this lack of specialisation may raise perceived risk associated with female-owned businesses.

According to Nieman and Valla (2005), female entrepreneurs are often less prepared and have different business backgrounds than their male counterparts. They added that female entrepreneurs also have difficulties accessing the scientific, technological and economic information which is of vital importance in ensuring competitiveness. Female entrepreneurs, they further indicate, are unable to access this information due to a lack of time and specialist skills. Nieman and Valla (2005) asserted that there is also the need for increased competencies such as market knowledge, technology, norms and quality, and legal and fiscal regulations. However, they further asserted that female entrepreneurs lack both time and resources for developing their own competencies in these fields.

A further barrier, Nieman and Valla (2005) highlighted, was that women faced dual role stress. Crampton and Mishra (1991) found that in addition to the demands of a career and family, women also experience the additional behavioural expectations placed on them by society, the burden of child-rearing. Schauer (1993) highlighted a study that was conducted on British female entrepreneurs which found that many of the respondents considered that there was a definite conflict between their roles as wives and mothers and their roles as businesswomen. It was found out that problems arose from the attitudes held by the respondents' families, as well as the business institutions they dealt with. Such attitudes, they concluded, led to reduced support and tended to undermine respondents' self-confidence and credibility.

Nieman and Valla (2005) believed that starting new smaller firms serve the double purpose of generating an additional family income and creating an arena for self-fulfilment. However, they also believe that these entrepreneurial ambitions are then combined with the double female burden of also being the family person responsible for unpaid housework and upbringing of the family's children. This "double burden" to contribute to both the productive and reproductive

sector, is also characteristic of women in Western economies and implies that women do not progress in their careers at an equal rate to men (Ylinenpaa and Chechuria, 2000: 5). Fischer *et al.* (2002) affirmed that policy-makers need to start addressing systemic factors that afford women less access to experience. They believed that support for classroom training or related advisory activities may not be warranted; there is little evidence that women lack access to relevant classroom education. However, these authors indicated that programmes which help to increase women's access to hands-on experience in starting firms or in working in the industry in which they hope to set up business does seem advisable. They further indicated that in-class education or counselling would not seem to compensate for lack of real world experience, which suggests that any available funds should be directed more towards initiatives centred on apprenticeship programmes than towards those centred on classroom teaching.

Implications for lenders and investors are less clear cut, but suggest whatever innate differences exist between men and women are irrelevant to entrepreneurship (Fischer *et al.*, 2002). They contend that while women's businesses do not perform as well as men's on measures of size, they show fewer differences on other, arguably more critical business effectiveness measures such as growth and productivity and no differences on returns. Discrimination, they argue, against women-owned businesses based on these findings would be clearly unethical and unwarranted. The fact that women appear to obtain similar growth, productivity, and returns, in fact suggests that they may be compensating for experience deficits in ways that current research does not illuminate (Fischer *et al.*, 2002). Finally, they asserted that while more systematic enquiry is required to assist in understanding why men's and women's firms may differ in some predictable ways, their study would suggest that lenders and investors wishing to assist small businesses should focus on evaluating the amount and quality of the business and non-business experience of entrepreneurs, and consider gender an irrelevant variable. However, this study certainly confirms that gender is a significant variable within the context of SMME development.

#### **4.4.3. Access to technology**

The potential contribution of technology to improve the competitiveness of SMMEs has long since been recognised. However, the realisation of this potential has been challenging and over recent years there have been a number of initiatives government agencies supported which have

attempted to aid and encourage the take up of technology to enable access to such benefits (Morgan, Colebourne and Thomas, 2005). Gibbs and Tanner (1997) defined Information and Communication Technology (ICT) as the convergence of telecommunications and computing. For many years, they contend, ICT has been recognised as a critical factor in the effective operation and prosperity of modern organisations. They also identified that the management and dissemination of information is central to the enterprise. They further identified that the utilisation of, and access to, technology was also a key feature in the explosion of the internet and usage of the World Wide Web (WWW). The key characteristics of this included exploring and exploiting ICT to enhance communication and information exchange between organisations and individuals. Thomas, Sparkes, Brookshank and Williams (2002) signalled that some firm's slow adoption of ICT could cause them to be technologically immobilised and unable to compete effectively, becoming preoccupied with their incapacity to use the technology available. The relatively low numbers of people may be an indication of a lack of effective and appropriate advice provided to these firms when they made the original decision to invest. Brink, Munro and Osborne (2002) found common problems involving time and workload pressures associated with learning and keeping abreast of technology developments for improving productivity and for ensuring the company maintained a competitive edge in the marketplace.

In a number of reviews conducted by Gibbs and Tanner (1997) on businesses in the UK, it was recognised that for whole economies to flourish, SMMEs which make up the vast proportion of all businesses in the UK also needed to embrace information technology and the benefits it can bring. In addition, they reported that the government has placed great emphasis on the adoption of ICT across all sectors and has recognised the potential for ICT to contribute to the growth and competitive gains of SMMEs. According to Thomas *et al.* (2002), part of the problem for SMMEs with take up and effective usage was cost of equipment and lack of suitable expertise to understand it. They confirmed that technical changes have resulted in impressive increases in productivity in ICT manufacturing which together with falling costs, facilitate rapid diffusion of ICT as a pervasive technology.

In a study the Turkish Prime Ministry State Planning Organisation (PMSPO) conducted on Turkish SMMEs in 2004, it was found that a typical Turkish SMME produces for the Turkish

market using traditional production methods (PMSPO Turkey, 2004). However, in a number of fields, they had to compete with foreign firms, primarily with the European Union firms, in the domestic market. This study further indicated that the technological level of Turkish SMMEs is much lower than that of European companies and Turkish SMMEs engage themselves in producing low quality goods with low value added, often using outdated designs, ineffective production methods and older machinery and equipment (PMSPO Turkey, 2004). Furthermore, it was discovered that SMMEs have made little use of consultancy services and/or conducted research and development (PMSPO Turkey, 2004). It was further discovered that technically related service sectors could not develop because of the low-level use of engineering consultancy, design, technology transfer and educational services and insufficiency of the trade of products and services in the country (PMSPO Turkey, 2004). As a requirement of restructuring in the face of the competition the Customs Union (CU) created and the opportunities of the European Union's Single Market (EUSM), the technology level of Turkish SMMEs had to be increased extensively. During this period, adequate support could not be provided for the SMMEs due to limited public funds (PMSPO Turkey, 2004). With the additional impact of structural problems impeding the spread of technology, the competition pressure the Customs Union brought about added to the shrinkage of the Turkish market. This thereafter led to the upgrading of the technology level of the SMMEs of the country in general (PMSPO Turkey, 2004).

In another study, Euroconsultants (2005) conducted, it was found that technological improvements offer SMMEs a route to increased efficiency, higher productivity and/or better quality of services. According to this study, achieving improvements in the competitiveness of SMMEs through the increased use of appropriate technology is not an easy task. In addition to the high costs which are often associated with the new technology, a high degree of expertise and experience is required when working on such programmes. For example, Euroconsultants (2005) found that the technological base of Macedonian SMMEs is also affected by the low level of direct foreign investment in the country and the absence of guarantee schemes, an agency credit rating, business angels and dedicated credit lines for enterprises seeking to introduce new technology.

In a study conducted on Japanese SMMEs in the electrical machinery industry, an attempt was made to identify the sources of business success in outstanding SMMEs with respect to the techno-sales performance in an information society (Tanabe and Watanabe, 2003). According to Tanabe and Watanabe (2003), Japanese SMMEs had become far more competitive in an IT economy than before through the use of the internet and websites. Tanabe and Watanabe (2003) argued that they were able to collate information about their customers and markets. While this might have proved advantageous in Japan, in South Africa access to IT has proved to be particularly challenging for SMMEs. In addition to this, research and development investment in technological advancement has been high among SMMEs in Japan (Tanabe and Watanabe, 2003). The analysis using micro-data demonstrates that there are many SMMEs achieving excellent performance. This evidence demonstrates that the competitiveness of the Japanese manufacturing industry has been created by collaborative activities between large enterprises and SMMEs. South African SMMEs tend not to make investments into research and development since their major constraint is usually access to finance for normal operations. Tanabe and Watanabe (2003) posited that successful Japanese SMMEs have accumulated their technology potential and developed new business aggressively based on technological innovation utilising the external technology information, particularly information from large enterprises, universities and government.

All of these findings suggest a new policy direction effective to inducing technological innovation of SMMEs in an IT economy by stimulating the maximum utilisation for their potential comparative advantage. In line with these findings, the policies for SMMEs in Japan have changed in the late 1990s from policies of supporting inferior firms towards policies of stimulating SMMEs in a way to maximise utilisation of their potential comparative advantage. Stimulated by these circumstances, SMMEs are expected to develop their own identical core technologies and to increase their competitiveness through technological innovation by making full utilisation of external resources in innovation. It should be noted that while these successes were noted while focussing on Japanese SMMEs in this industry, the context in which South African SMMEs operate presents different challenges from the Japanese environment. However, in South Africa, it is widely recognised that the only way in which SMMEs can compete globally is by improving their technology in general as well as ensuring that they are competent in IT.

#### 4.4.4. Training for SMMEs

The debates about SMME development is an important policy priority in South Africa. These debates about the importance of SMME development intersect with other national priorities with respect to skills development. According to McGrath (2005), skills development has been given increasing attention in the President's State of the Nation address since 2003. In a Parliamentary Bulletin No.11 (March, 1997), the following were highlighted as some of South Africa's training and skills problems:

- There is a mismatch between education and training decisions and the real needs of the economy and society, that is, there is too little training in skills that are needed, and too much training in skills that are inappropriate.
- The level of industry training is much lower than that of our major trading partners, leaving South Africa with a major competitive disadvantage.
- The sectors in which most growth and employment opportunities are likely to occur spend less on skills development than the national average.
- Most industry training is informal.
- Only a very small proportion of formal training is provided to lower-level workers.
- There is a shortage of high quality management. Firms fail to recognise the importance of training within the new competitiveness environment and within their competitive strategies
- Apprenticeships and artisan training has declined dramatically.

McGrath (2005) highlighted the fact that the Department of Labour (DoL) is generating R3 billion per annum for skills through its levy-grant system and is maintaining the high profile of skills through its National Skills Development Strategy which is an attempt at addressing the above mentioned problems. In the Skills Development Strategy for Economic and Employment growth in South Africa, the DoL (1997: 1, cited in McGrath, 2005: 3) highlighted the following:

Given the demands of a more complex and changing economy, characterised by increasing use of information, more complex technologies and a general rise in the skill requirements of jobs, people must also have rising levels of competence. The focus on skills development in this Green Paper is about this process of deepening individuals' specialised capabilities in order that they are able to access incomes through formal

sector jobs, through SMMEs or community projects which in turn positively contribute to the economic success and social development of our country.

McGrath (2005) pointed to the Department of Education which is stressing the importance of the Further Education and Training College sector and the need for public education to stress scarce skills needs. Moreover, he pointed to the Human Resource Development Strategy which emphasises the need for coordinated action across government on skills issues. According to Nieman (2003), the government recognised the importance of developing a strong SMME sector. He asserts that it is rather “a feather in the cap” of the new government to do this in such a short space of time since in more than 300 years successive governments have failed to give this particular impetus and status to SMMEs (Nieman, 2003: 7).

According to Nieman (2003), entrepreneurship education should be directed at the preparation of individuals who can be change agents for the next decade, simultaneously providing the much needed entrepreneurs required in South Africa. He further added that entrepreneurship and small enterprises training can be approached from different angles and that the main areas of concentration are business skills training, technical skills training and entrepreneurial skills training. Business skills training, according to Nieman (2003), covered all the conventional management training areas in a business while the technical skills’ training addresses the ability to use knowledge or techniques of a particular discipline to certain ends. He further indicates that entrepreneurial training involves the birth and growth of a business enterprise and includes among other entrepreneurial traits creativity and innovation, risk propensity and a need for achievement.

Wickham (1998) defined entrepreneurial skills’ training as the skills which enhance entrepreneurial performance. A critical debate Henry, Hill, and Leitch (2004) presented pertains to whether or not entrepreneurship can be taught and if so, what aspects can be taught. The research shows that entrepreneurship can be traced to a complex interaction of innate, background and environmental factors (Faris, 1999). Jack and Anderson (2001) indicated that the entrepreneurial process is both an art and a science. However, the potential for, and benefits of, enabling factors such as structured training interventions cannot be ignored (Atherton, Gibb, and Sear, 1997). Furthermore, as Robertson (2004) asserts, in developing economies where a number

of restrictions persist, small business development may depend significantly on subsidised educational and training infrastructure and services the government sector provided.

Small business training is not only about entrepreneurship development. Fernald and Solomon (1997) indicated that although small businesses hired the majority of new, entry level employees, they are often unable to afford the substantial costs of training that are necessary for successful employee performance and productivity. Thus, the majority of small business employees do not receive the training they need to remain competitive in the market and increase their productivity. What is also important is that given the constraints small businesses faced, they are often unable to afford expensive or time consuming training programmes. Many small businesses cannot release employees for training and they are unable to hire consultants to conduct in-house training for employees.

Fernald and Solomon (1997) identified the following employee training needs:

- Sales/marketing
- Record keeping
- Managing inventory
- Financial analysis and control
- Funding/securing capital
- Procuring government contracts
- Computer skills

Devins and Johnson (2003) stated that smaller businesses account for the vast majority of enterprises in the economy and their reluctance to become engaged in external training activities continues to present policy challenges. In numerous countries, including South Africa, policy documents identify the importance of SMMEs in the economy and recognise the need for policy to consider their interests. Devins and Johnson (2003) asserted that the rationale underlying the need for policy intervention is largely based on the argument that smaller enterprises face greater barriers to training than their larger counterparts. Consequently, Kitching and Blackburn (2002) argued that they undertake less training. A critical conceptual problem pertaining to SMMEs is the different ways in which small businesses are categorised and the difficulty of defining small

business “success” (Honig, 1998; Simpson *et al.*, 2004). It is also important to give due consideration in terms of policy development and training to businesses that do not pursue active growth in relation to turnover or the number of employees (Walker and Brown, 2004). Many SMMEs are not only financial growth motivated but may be personal factors and lifestyle choices personal factors and lifestyle choices motivated. Thus, policy and training efforts need to take into account non-financial measures of success and motivation which include autonomy, job satisfaction and/or the ability to balance work and family responsibilities (Parsuraman, Purohit, Godshalk and Beutell, 1996). Banfield, Jeenings and Beaver (1996) indicated that it is important to recognise that some small business owner-managers prefer independence and autonomy to growth and profit, and they often work within limited geographical horizons with little desire to expand. This will have implications for the timing and type of training being conducted. Banfield *et al.* (1996) further indicate that it is generally assumed that training and development will lead to growth and expansion; however, some owner-managers of small businesses choose not to participate in training and development programmes since it is very time consuming and may impact negatively on profit generation during the training period.

Devins and Johnson’s (2003) study indicated that where public/government policies are in place to inform SMME training there is greater commitment to training and development. The main challenge becomes harnessing the appropriate resources and support to translate commitment into practice. In the absence of clear policies, training and development in the SMME sectors tend to be largely unplanned and reactive (Kitching and Blackburn, 2002).

The review of literature indicates that the training of entrepreneurs in South Africa is still rather fragmented and most probably in the hands of too many role-players. According to Nieman (2003), the training emphasis in most SMME service providers still seem to be more on conventional management training than entrepreneurial training. He further indicated that there are a number of institutions that claim to provide entrepreneurship training whereas it is mainly business training. It is clear that more emphasis needs to be placed on appropriate training which is much more coordinated than current trends. Nieman (2003) further asserted the importance of ensuring that the results of training interventions are measured and researched to determine the best interventions that could and should be used.

#### **4.4.5. Facilitating access to finance for SMMEs**

Amongst a large number of problems commonly associated with SMMEs, financing is often mentioned as a key issue. Beck (2003) highlighted the fact that numerous studies have discussed that SMMEs are financially more constrained than large firms and are less likely to have access to formal finance. They further pointed out that both in the developing and developed world small firms have been found to have less access to external finance and to be more constrained in their operation and growth. In their review of surveys on small and micro-enterprises in Africa, Parker, Riopelle and Steel (1995) observed credit constraints relative to working capital and raw materials SMMEs cited as one of their major problems. They further report that SMMEs considered access to credit and its cost as the main constraint to new investments.

SMMEs worldwide relied initially on entrepreneurs self-financing (Murdoch, 1999). SMMEs, then move on to debt finance and/or venture capital as the established business records and expands operations. Murdoch (1999) pointed out that SMMEs have four key funding requirements:

- initial infrastructure investments;
- lumpy operation costs;
- next-step expansions; and
- Unexpected opportunities requiring quick access to funds.

According to Murdoch (1999), SMMEs access to external sources of funding depends largely on the development of financial markets, the regulatory environment within which financial institutions operate and their ability to assess, manage and price the risks associated with loan products for SMMEs. He added that the latter functions take place within a particular socio-economic context, which is in fact determined by the historical patterns of financial intermediation.

Theoretically, a number of analytical paradigms have attempted to explain the complexities and practicalities involved in small firm financing (Murdoch, 1999). Murdoch (1999) further added that besides the different schools of thought that try to explain the financing needs of SMMEs, there are also major differences between the needs of SMMEs in developed and developing

countries. Additionally, the degree of competition between banks and the stage of development of the capital markets constitute an underlying force that may explain differences between industrial and developing countries. According to Ayyagari, Dermiguc-Kunt and Maksimovic (2005), in a First World setting such as the United Kingdom, a finance gap occurs when a firm has grown to a size where the use of short term finance is maximised, but the firm is not big enough to access capital funds. He further highlights that by contrast, in developing countries it is probable that a finance gap arises at an earlier stage of the enterprise's lifecycle. Ayyagari *et al.* (2005) argued that financial and institutional deficiencies might prevent SMMEs from growing to their optimal size and explain the lack of an empirical causal link between SMMEs and economic development. It is therefore crucial to understand obstacles to SME operation and growth and how they vary.

In terms of SMMEs, the size of the enterprises is certainly a contributor in as far as it impacts on its growth and development. Biggs and Shah (2006) highlighted the fact that small firms consistently report higher growth obstacles than medium size to large firms. Beck (2003) showed that size, age and ownership are the most reliable predictors of firms' financing obstacles. The authors find that older, larger and foreign-owned firms report lower financial obstacles. This relationship, they further emphasised, is not only statistically significant, but also economically significant. This leads to the fact that in a world with fixed transactions and information asymmetries, small firms with demand for smaller loans face higher transaction costs and face higher risk premiums since they are typically more opaque and have less collateral to offer (Beck, 2003). Not surprisingly, Beck (2003) pointed out that small firms finance a smaller share of their investment with formal sources of external finance.

Do the higher financing obstacles that small firms report actually constrain their growth or do they find ways around these obstacles? Beck (2003) found that higher obstacles faced by smaller firms indeed translate into slower growth. The study found that small firms' financing obstacles have almost twice the effect on annual growth than large firms' financing do. The difference, according to Beck (2003), is even stronger in the case of growth constraints related to the legal system and to corruption, where small firms suffer more than three times as much in the form of slower growth than larger firms do. Finally, Beck (2003) pointed out that small firms do not only

report higher growth obstacles, these higher obstacles are also more constraining for their operation than in the case of medium-size and large firms.

Firms in countries with higher levels of institutional development report significantly lower financing obstacles than firms in countries with less developed institutions (Beck, 2003). The positive effect of financial and institutional development, according to Beck (2003), can also be observed in the use of external rights. She adds that better protection of property rights increases external financing of small firms significantly more than it does for large firms, particularly due to the differential impact it has on bank and supplier finance. Combining firm-level data with indicators of national policies and institutions also helps researchers assess the causes for the missing middle phenomenon observed in developing countries (Beck, 2003). For example, Sleuwagen and Goedhuys (2002) showed that smaller firms grow relatively faster in Germany than in Cote d'Ivoire, while the opposite holds for large firms. Beck (2003) questioned what exactly drives these differences in the growth rates of small and large firms in developed and developing countries. They show that the effect of growth obstacles on firm growth is smaller in countries with better developed financial and legal systems and even more, it is the small firms that stand to gain the most from financial and institutional development. The effect, they further add, of financial and legal development on the constraints growth relationship is significantly stronger for small firms than for large firms. Financial and institutional developments thus have the potential to close the gap between small and large firms.

How do financing patterns of SMMEs in today's developing economies compare with the financing patterns of the past in developing economies? Cull and Xu (2005) indicated that in developing countries finance from friends and family play a much more significant role than industrialised countries. Generally, SMMEs in many developing countries get around market failures and lack of formal institutions by creating private governance systems in the form of long-term business relationships and tight, ethnically-based, business networks. Biggs and Shah (2006) pointed out that there is also variation in access to networks across ethnic groups, for example, Indian entrepreneurs in East Africa, Lebanese firms in West Africa and European enterprises in Southern Africa form business networks, whose members lend to each other, provide personal preferences and ease transactions with an informal contract enforcement system

based on reputation. These networks, they maintain, help entrepreneurs to overcome deficiencies in their economies' institutional environment.

Beck (2003) demonstrated that financial and institutional development has a strong economic effect on easing the financial constraints on SMMEs and increasing their access to formal sources of external finance. However, she asked what policy-makers could do to ease the constraints SMMEs experienced and thus improve their access to finance (Beck, 2003). She pointed out that credit availability to SMMEs depends on the infrastructure that supports financial transactions, including the legal system and the information environment. She further highlighted the fact that commercial laws that effectively assign and protect property rights and their efficient enforcement are crucial for financial transactions. This, according to Beck (2003), included the laws, regulations and institutions to create, register and enforce collateral and an effective bankruptcy system and that firms in countries with more effective and more adaptable legal systems report lower financing obstacles. Literature on SMMEs has shown the positive effect that credit information sharing has had on the credit availability to SMMEs. Pagano and Japelli (1993) indicated that the use of information from these bureaus and of proprietary information from financial institutions for small business credit-scoring has become popular in the United States (US) and other developed economies. Frame and Wolssey (2001) showed that the use of credit-scoring techniques has increased small business lending by banks in the US.

Several techniques provide alternatives to relationship lending for SMMEs. Berger and Udell (2006) indicated that asset-based lending and leasing are both lending techniques focused on the underlying asset as the primary source of repayment. According to Berger and Udell (2006), leasing is mostly for equipment, while asset-based lending is used for accounts receivable and inventory. While asset-based lending relies on a sophisticated and efficient legal system, they maintain that leasing does less so since the ownership of the asset passes on to the financier. Finally, Berger and Udell (2006) highlighted the banking market structure and regulatory policies influencing this market structure as having an important impact on the availability of SMME financing. They also emphasise the point that while a large share of small banks do not necessarily result in more finance being available to small firms, financial systems dominated by government-owned banks seem less effective in providing credit to SMMEs. The entry of

foreign banks, according to Clarke, Cull, Soledad, Peria and Sanchez (2003), is mostly associated with greater SMME credit availability. For example, they point out that foreign banks can bring the necessary know-how and scale to introduce new transaction lending techniques simply by competing with the domestic banks. This can force domestic banks to then cater for SMMEs which they generally consider to be at a lower level than larger enterprises.

This section summarises the broad range of literature which shows that access to finance is an important growth constraint for SMMEs. It is noted that financial and legal institutions play an important role in relaxing this constraint as well as the fact that innovative financing instruments can help facilitate SMMEs access to finance even in the absence of well developed institutions. This section highlights some of the research available on access to finance which has a broad range of implications for future research opportunities.

#### **4.4.6. Facilitating access to markets for SMMEs**

Not having access to markets has been identified as a major challenge for SMMEs. SMMEs often limit their growth potential by choosing to supply only local markets. Most often SMMEs are not equipped with information on how to access regional, national or even international markets. Finnegan (1999) also identified the problem of SMMEs making little or no effort to investigate new market opportunities, especially at the lower levels where micro-enterprises and even small enterprises do not have the necessary skills for simple market research, and as a result will not be prompted to investigate new markets as they would be of the opinion that they cannot expand their production. Finnegan (1999) cited an example of a Business Development service project in Colombia which worked with approximately 1000 micro-enterprises, with 50% being women and 50% being male-owned micro-enterprises. These enterprises' main activity entailed producing consumer goods for the local market. Their method of operation involved making use of a mediator for marketing services when producers wished to penetrate new markets or improve their current position. Finnegan (1999) believed that this will make a huge difference to their business from working in specific sectors. He further believes that marketing service providers become experts in issues such as consumer preferences, new trends and designs which translate into expertise on ideas for producers on what to produce and how.

Poor competitiveness, according to Schreyer (1996), of SMMEs and their products and services on national and international markets represents one of the major problems for the economy. Improving SMMEs competitiveness to facilitate their participation in markets is critical to ensuring the growth of SMMEs. This is also applicable in relation to global competitiveness of SMMEs. It therefore becomes critical to analyse the current practices of SMMEs and identify the areas that are constraining their growth against the backdrop of international trends. Once the areas of weakness have been identified, appropriate response programmes need to be developed. The SMME Strategy (EM, 2007b) indicated that SMME market potential needs to be ascertained by market testing and research to assess market response to SMME products and services, and to develop monitoring and evaluation systems to ensure that market demands are met and SMME capacities are improved.

The above discussion is simply an overview of some of the challenges that are faced by SMMEs but should never be considered as an all inclusive list. The section that follows is a discussion on some of the strategies that could be put in place to address some of these challenges.

#### **4.5. Strategies used to improve the competitiveness of SMMEs**

Just as there are numerous challenges that are faced by SMMEs, the following discussion is a description of the many strategies that may be employed to address these challenges. A multi-pronged strategy is often necessary to address such challenges. While these strategies are not a guarantee to ensure a successful business operation, it does go a long way in alleviating some of the frustrations associated with the challenges faced, if not alleviating the challenges altogether. It should also be noted that SMMEs operate in a dynamic context and therefore the strategies required to assist are always changing as their needs change as they reach new levels in their business operation. The following strategies, whilst not all inclusive, is a discussion of a multi-pronged approach to SMME development. There are a number of strategies which can improve the SMME environment, however, for the purpose of this thesis only the following strategies will be discussed:

- Creating a conducive environment
- Facilitating access to skills and capacity building
- Facilitating access to markets and finance

#### **4.5.1. Creating a conducive environment for SMMEs**

Improving an environment in which a SMME operates is often critical for the success of its operation. The government of South Africa has made a serious attempt to create an enabling environment as reflected in the National Small Business Act of 1996. Nieman (2003: 166) perceived an enabling environment as one which “provides various levels of support which contributes to efficient functioning of SMMEs”.

Rogerson (2004b) agreed that improving the regulatory environment is a significant means of creating an enabling environment. He further believed that regulations and policies are clearly important in that they provide direction and guidance to SMMEs and introduce a level of order into their operations. The National Strategy for the Development of Small and Medium-sized enterprises for the period 2003 to 2008 in the Republic of Serbia which the Republic of Serbia (RoS) (2002) adopted, indicated that the SMME sector, both sole proprietors and companies, face many complex procedures and regulations at the start-up stage, in day-to-day operations and in the event of cessation of the enterprise. Compliance with rules is imposing a heavy burden on the restricted financial, management and personnel resources of SMMEs (RoS, 2002: 10).

SMMEs in South Africa are often subjected to a plethora of legislations such as by-laws, requirements by South African Revenue Services (SARS), labour legislation, business registration and the list can go on. Rogerson (2006) argued that such legislation often proves to be more onerous to the SMME owner who is also struggling to establish himself in his/her business. SMMEs often do not comply with legislation and this sometimes prevents them from moving to the next stage of the business cycle. However, the flip-side of the coin could indicate that SMMEs are comfortable at that stage and don't necessarily want to graduate to the next stage, hence they avoid regulatory compliance. Only where SMMEs are interested in moving to the next stage of the business cycle, does it become critical to reduce such regulatory burden and to simplify procedures for SMMEs. It is very important to constantly assess the impacts of certain regulations on SMMEs, identify the challenges they face and make attempts to rationalise existing regulatory burdens. Promoting a greater awareness among SMMEs of the need to comply and the subsequent benefits which Finnegan (1999) recommended. Once SMMEs are confident about the legal status of their operations, it enables them to focus Finnegan (1999) all

of their attention on the business at hand. The RoS, in order to facilitate the process of improving the regulatory environment of SMMEs created a special Inter-Ministerial Working Group which effectively assisted in the creation of proposals for simplified terms and procedures for the establishment and development of SMMEs and private entrepreneurship, and had a mandate to coordinate deregulation measures taken by various ministries (RoS, 2002). According to the RoS (2002), this Working Group made recommendations on all proposed laws and regulations which impacted on SMMEs taking into account internationally accepted norms of good laws and regulations. This Working Group was also involved in the preparation and implementation of simplified registration procedures as well as specific measures which were designed to strengthen the SMME sector (RoS, 2002).

The Government of Albania (GoA) recognised that they and their agencies had a role to play in providing an environment that was favourable to business operations and conducive to private investment (OECD, 2005). They also recognised that in order to flourish they need an environment that facilitates and enables business start-up and does not encumber them with unwarranted and expensive regulations, and instead promotes access to finance and business services (OECD, 2005). It was for this reason in 2002, that the GoA launched the Enterprise Policy Performance Assessments (EPPAs) which was aimed at assessing the quality of government policy for the SME sector and regularly monitor its implementation covering seven policy dimensions: institutional framework, regulatory environment, tax policy, access to finance, advisory services, business incubators, entrepreneurship, vocational training and access to technology (OECD, 2005). The EPPA report was offered as an innovative and beneficial contribution to the deliberation on enterprise policy in Albania, bringing forward the views of the small business sector and providing a set of priority actions and policy recommendations to the government and the small business community (OECD, 2005). It is critical to create the conditions that are conducive to the SMME sector to operate in a streamlined and secure legal environment depending on the basic principle that laws and regulations serve to facilitate SMMEs and not to hinder their work (OECD, 2005).

While there may exist a large body of research on SMMEs, very often the validity and relevance of such research comes under question and it therefore becomes necessary to improve and

coordinate SMME research as well as to ensure its dissemination. According to the SMME strategy of the eThekweni Municipality (EM, 2007b), research is important in that it provides a framework that guides the intervention process in each organisation. Very often there appears to be a mismatch between the SMME needs and the programmes that are developed by organisations and this is often as a result of inferior research conducted. The strategy states that ongoing research is necessary in order to assess economic trends, assess various markets and ascertain the most efficient practices in various sectors (EM, 2007b). Once research has been conducted it then becomes necessary to facilitate SMMEs access to such information.

Finnegan (1999) indicated that the objective of information dissemination is to facilitate access of SMMEs to information that is of value to them in both verbal and written forms. He further indicates that most SMMEs use informal sources of information such as relatives, friends and employees and this is possibly a reflection of the fact that public and private organisations have invested little in the development of effective information sources. Such information can be disseminated through the organisation of trade fairs and one-stop-shops (OSS) which provides information of interest (Finnegan, 1999). According to Finnegan (1999), other methods of information dissemination can be through the distribution of technical publications, the operation of information centres where SMMEs can consult specialised publications and the publication of newsletters. He adds that some private sectors have started to disseminate information through their own websites. Finnegan (1999) argued that an associated challenge could well be that SMMEs cannot afford to have a computer or subscription to the internet and that many of them are often not computer literate. He goes on to suggest that business development service providers offer an internet service at a nominal fee.

Another suggestion Finnegan (1999) promulgated is that there should be television and radio programmes that broadcast special programmes which are of interest to SMMEs. They could broadcast information which is technical in nature such as marketing, sources of finance and new government incentives for SMMEs. There is increasing evidence, according to Finnegan (1999), that SMMEs are willing to pay for information which they consider critical to improving their businesses, such as information on new models and designs and demand by their market niche (for example, a foreign market). Finnegan (1999) added that current innovations include

promoting exchange visits and meetings between SMMEs operating in the same sector but in different parts of the world. He indicated that bringing together producers and customers for an exchange on how products might be enhanced to make them beneficial and more appealing has also created some encouraging impacts as has the publication of technical booklets. It is therefore evident that conducting relevant research and ensuring the dissemination of such information can achieve a significant measure of success in improving the environment in which an SMME operates.

SMMEs rely heavily on the availability and quality of infrastructure facilities and as a result improving on the business premises and infrastructure available to SMMEs becomes a critical strategy which is intended to address the challenge of a lack of appropriate infrastructure. A lack of infrastructure can lead to the demise of an SMME operation in its infancy stage (EM, 2007b). Often just operating within a decent office environment and having access to telephones, transportation, computers and other equipment can contribute to the success of an SMME. It therefore becomes critical to assess the infrastructure needs of SMMEs operating in various sectors and identify and develop facilities that will meet such infrastructure needs. Incubators, hives, office and industrial parks are some of the options identified in the SMME strategy available to addressing such infrastructure needs.

Incubators appeared in industrial countries in the early 1980s (Finnegan, 1999). Finnegan (1999) added that incubators provide affordable workspace, shared facilities, counselling, training, information, and access to external networks for entrepreneurial groups, thereby helping to promote venture creation and economic development. Finnegan (1999) indicated that the majority of incubation world-wide can be characterised as public-private partnerships in which government provided initial financial support. He further demonstrated that many governments consider them as part of the business infrastructure and that evidence indicates that the annual taxes and other benefits from new economic activity more than offset the capital and operating cost subsidy. This then leads to the private sector only participating when it sees that the programme will lead to greater economic spin offs and business opportunities.

It is expected that OSS will create a one-stop solution for all SMMEs leading to enhanced co-ordination and therefore less duplication of effort, ensuring that the investment in the SMME sector is more efficient. As the information and support required is centrally housed, according to the EM (2007b), it would certainly contribute to ensuring higher levels of compliance to laws and regulations by SMMEs. SMMEs stand to benefit greatly with having a wide range of stakeholders accommodated within a single venue. The SMME strategy (EM, 2007b) identified the establishment of an OSS as a critical method of building and improving the capacity of SMMEs. The strategy suggested that the OSS should be created for a wide spectrum of SMMEs from the survivalist to the well established and that consideration can also be given to sector specific support for those industries that have a significant base within the boundaries of the Municipality. The Strategy further suggested that this facility should be a proud semblance of the SMME sector that offers world-class service and assists in improving the image and understanding of this highly under-rated sector (EM, 2007b).

According to the SMME strategy the EM (2007b) developed, this increased and focused support increases the chances of the SMMEs survival and leads to sustainable business practice. It should, however, be stated that the incubation period should be for a limited number of years in accordance with a development plan that closely monitors the progress of the operation and thus also determines an appropriate exit strategy.

#### **4.5.2. Facilitating access to skills and capacity building for SMMEs**

The lack of skills, according to McGrath (2005), has often been identified as a critical challenge facing SMMEs. McGrath (2005) believed that most often SMMEs enter into business out of necessity and therefore do not have the opportunity to equip themselves with the necessary skills required for a successful business operation. They therefore lack the capacity to ensure a successful business operation leading to the early demise of the business. According to McGrath (2005), some of the difficulties associated with skills development in South Africa was often a discrepancy between education and training needs and the actual needs of the economy. He added that while there may be training provided, it is most often considered to be inappropriate. If skills development for SMMEs is too narrowly conceived as the provision of training which is classroom-based, then it could lead to a major disadvantage for the small enterprise itself.

According to Harper (2004: 1), the barriers and disincentives to participation in small business in structured training have been well documented and include both demand and supply side factors and involves the well accepted preference of small business for training that was “short, sharp, specific, convenient, low cost and immediately relevant to the practical requirements of the business”. According to Harris (2005: 1), “when it comes to skills development, small businesses often ride in the rear of the bus, overlooked by many training suppliers playing the numbers game but that picture is changing”. The next section on facilitating access to skills will look specifically at training programmes and improving technology in small business which in turn contributes towards improving the capacity building of SMMEs.

The main objective of training programmes, according to Finnegan (1999), is to help SMMEs to acquire new technical and business skills or to improve their current skills. He adds that another objective of training is to help SMMEs identify and find solutions to problems and to identify where to obtain specialised assistance. The increasing growth of interest in the economic contribution of small business and enterprises, according to Henry, Hill and Leitch (2004), has been accompanied by an increased level and variety of public and private sector initiatives at various levels to stimulate and support the development of the sector. Henry *et al.*, (2004) argued that even though much research evidence has been accumulated about how the small business sector operates, there are still significant areas that have not been subject to the same level of debate and analysis. There are significant concerns around training for the small business sector. This also includes the debate about whether or not entrepreneurs can be trained for the purposes of business creation and entrepreneurship and the inherent problems in evaluating the effectiveness of such programmes (Henry *et al.*, 2004). Despite this argument it is evident that both the public and private sectors have developed a number of training programmes. However, according to Finnegan (1999), evaluation of such training programmes the public sector provided, point to weaknesses in terms of efficiency and impact. Finnegan (1999) further argues that training is often too generalised and does not respond to the specific needs of trainees. He further argues that such training is also supply-driven and delivered in a controlling fashion with the qualifications of trainers being highly inadequate.

Based on lessons learnt from international programmes, Finnegan (1999) pointed out that training should always be business-oriented and designed on the basis of the clients needs, not merely an extension of the education system. This training, he adds should be directed at assisting SMMEs and their employees towards acquiring skills for running their businesses profitably. Training should be based on a good understanding of the SMME markets and its needs and therefore should be designed in line with such needs. A further lesson Finnegan (1999) pointed out is that training should not be delivered according to conventional approaches, such as classroom lectures. However, it should simulate real SMME situations and actively involve the trainees and should be concrete and problem-oriented. He further points out that if training is to be conducted in line with business principles, then monitoring and feedback from the clients is critical. In order to ensure commitment on the part of the clients, Finnegan (1999) asserted that it is vital that some fee is charged.

In terms of SMME training there is general agreement in the literature that the training approach should be participative and practical. Specifically, in a study Bob *et al.* (2005b) conducted the literature review of work various authors (Fernald and Solomon, 1997; Taylor *et al.*, 2001) conducted, revealed the use of the following approaches to training perceived as being useful for improving skills:

- Hands on experience
- On-the-job training
- Short courses
- Workshops and seminars
- In-house seminars
- Professional certification
- Technical manuals
- E-learning
- Field trips
- Mentoring
- Peer training
- Team-based training

In order to ensure that the SMME has the freedom to choose the service provider, according to Sakai (2002), countries like Paraguay make use of the voucher system. This system consists of providing SMMEs with vouchers thus allowing them freedom of choice in the selection of a training institution (public or private) to purchase the training they need without having to pay for it. Through institutions like the Umsobomvu Youth Fund (UYF, 2001), the voucher programme has also been introduced in South Africa. The advantages of the voucher programme, Sakai (2002) identified, are that it helps to select entrepreneurs for training and that secondly, it can stimulate a higher quality of training since the SMME has the opportunity to select whichever training institution they wish. This in turn ensures that trainers themselves will ensure a higher quality of training in order to attract SMMEs to their programmes.

International literature, according to Sakai (2002), also suggested promoting the organisation of group training, the advantages of which includes the fact this approach facilitates training that is adapted to the clients' needs at an affordable cost. He points out that organising training groups from the same sub-sector (for example, 20-50 participants), will significantly reduce the cost per trainee. He further points out that it makes it possible for the group to negotiate the type of training it requires.

According to Timmins (2005), in Lesotho, the United Nations Industrial Development Organisation (UNIDO) has trained 20 business and technical advisors to improve the skills of small entrepreneurs, particularly in the highland areas of Lesotho. Timmins (2005) indicated that this effort enhanced the entrepreneurial skills of almost 700 women, representing over 3 000 family members who were also given small grants. She further indicates that about 350 entrepreneurs obtained consultancy services and about 70 entrepreneurs upgraded their technical skills. In Guinea, according to Timmins (2005), UNIDO assisted entrepreneurs to obtain training in pre-investment analysis and technical and financial services which were provided for business advisors. Timmins (2005) argued that individually, SMEs are often unable to take advantage of economies of scale and capture market opportunities requiring large production runs, standard inputs and consistent quality standards. She further argued that they often lack training, market intelligence and the capacity for technological innovation. Networking with other SMEs can help them to overcome these problems and achieve economies of scale. Timmins (2005) discovered

that linkages with large enterprises enable them to specialise in their core businesses. She further discovered that these networks and linkages allow SMMEs to achieve previously inaccessible collective advantages.

In Kenya, Albaladejo (2002) highlighted the fact that BDS organisations planned enterprise exchange visits for SMMEs with the intention of providing them with a real opportunity to learn and exchange information and to develop commercial linkages. He also highlighted the *modus operandi* of such visits which were conducted in groups and accompanied by someone from the organisation. According to Albaladejo (2002), following the visit, one-on-one advisory services on product design, development and skills upgrading was provided. Albaladejo (2002) argued that this particular approach has significant benefits in that the type of benefit derived translates into practical, business-oriented solution driven approaches to problems encountered by SMMEs. This is in stark contrast to traditional, classroom-based approaches.

Improving SMMEs access to technology is also a significant means of building their capacity, as indicated earlier in this chapter. In a number of reviews Gibbs and Tanner (1997) conducted on businesses in the UK, it was recognised that for whole economies to flourish, SMMEs need to embrace information technology and the benefits it can bring. In addition, they reported that the UK government has placed great emphasis on the adoption of Information and Communication Technology (ICT) across all sectors and has recognised the potential for ICT to contribute to the growth and competitive gains of SMMEs. According to Thomas *et al.* (2002), part of the problem for SMMEs with take up and effective usage was cost of equipment and lack of suitable expertise to understand it. They confirmed that technical changes have resulted in impressive increases in productivity in ICT manufacturing which together with falling costs, facilitate rapid diffusion of ICT as a pervasive technology.

According to Finnegan (1999), the purpose of technology transfer and development is to improve enterprise productivity and the quality of the goods enterprises produced to help them withstand local and international competition. Finnegan (1999) indicated that policies for improving the technological capacity of the country should not simply focus on the larger enterprises only, they should encompass all enterprises whatever their size. He further indicates that technological gaps

between SMMEs and larger enterprises should be reduced. In terms of lessons learnt from international practice, Finnegan (1999) purported that the technological development of SMMEs should be viewed in the overall context of the technological development of the country. It is important also to increase the awareness of the potential profitability of the market and it has been observed that in many developing countries, there is little evidence of an active technology market. He further purported that it is necessary to increase awareness about the importance of shifting to other modes of production, based on higher content of locally produced inputs and capital goods, and relying more on local technological capacity. Finnegan (1999) also emphasised the need for encouraging and promoting a market for innovations. The technological and industrial achievements of advanced economies are largely the result of a myriad of innovations individuals and all sizes of firms developed. The need to promote an integrated approach to technology development was also emphasised since Finnegan (1999) indicated that individual enterprises find it difficult to raise their level of technology in isolation. There is a need for close collaboration between a wide range of partners who can contribute to various aspects of technological development and transfer.

According to Jaffe (2003), small businesses face special challenges that deserve specific attention. He adds that small firms face tight resource constraints and may lack the resiliency of larger firms in the face of setbacks and in his study provided small business owners with a framework for determining how the internet can help them. Jaffe (2003) asserted that the internet is essential for small business success writing and it already provides unparalleled opportunities for cost effective marketing and customer service. He states a site on the World-Wide-Web is one of the most powerful and visible means to market a company. Jaffe (2003) also pointed out that every business with a website has the potential to promote itself as an around-the-clock worldwide business. He further points out that “as a business manager in the '90s you need to make the most of what you've got and you need to put your business online and be visible. Your competitors, if not already there, are planning their appearance” (Jaffe, 2003: 7). In this way, the author issued a call-to-action for small business managers to harness the power of the internet for their businesses, or get beaten by competitors.

According to the RoS (2002), innovation should be taken to mean continuous enhancement to products, services and processes within enterprises. In recent years, survival has been the main issue for many of Serbia's enterprises and resources have not been generally available for reinvestment in product and services development and upgrading. Existing facilities for assisting enterprises in developing and testing new products or improving current products will be identified in Serbia and assessed and a programme will be devised for the development and implementation of innovations for SMMEs (RoS, 2002).

There are a wide range of technologies that exist and that could be employed for each business type for the purposes of improving operations. An example of appropriate technology development was the marketing of the treadle pump in Bangladesh Finnegan (1999) identified. The treadle pump was designed by a Non Government Organisation (NGO) in the early 1980s. Although it was sold commercially, there was also significant subsidised distribution by NGOs. The International Development Enterprises (IDE) became involved when the design had been finalised. Finnegan (1999) indicated that the IDE set about changing the existing approach to transferring the technology, arguing that this should not be a subsidised process and that the most effective way of reaching the largest number of people was a self-sufficient, private network of manufacturers and retailers. Finnegan (1999) further indicated that eventually, after resistance from the charitable instincts of some NGOs, this view prevailed. The IDE then set about a process of selecting village dealers and agreeing on terms with them (among which was a requirement that they had to set up a demonstration pump), training village well dealers and advertising through a variety of means, including village theatre and a film. The result of this effort has been that over 1 million pumps have been sold - around 4 times the initial target - and according to an external evaluation the ratio of benefits to costs is over 40:1.

#### **4.5.3. Facilitating access to markets for SMMEs**

It is critical to facilitate SMMEs' access to markets in order for them to grow their businesses and to increase their competitiveness in the economy. One such method of improving competitiveness and in turn assisting SMMEs in accessing markets, according to Finnegan (1999), is through the use of marketing services which covers a wide range of services, including information on local and foreign markets, assistance in market appraisal studies and accessing

foreign markets, in addition to developing designs in line with market demand and packaging materials. Finnegan (1999) stated that marketing services may be categorised according to different phases, either the input phase (product development and design and raw material supply) or the output phase (quality control, packaging and transport).

Another method of promoting access to markets, according to the SMME strategy of the EM (2007b), is through the creation of business linkages. Business linkages encompass various activities or business transactions conducted between large and small businesses. These activities include subcontracting, franchising, outsourcing, unbundling, partnership agreements, joint ventures and technological inputs. According to this strategy, business linkages are theoretically characterised by high levels of cooperation and are profit motive driven, which is mutually advantageous between enterprises (EM, 2007b). Such linkages, as pointed out by the strategy, are a result of positive market forces that encourage enterprises to seek the most proficient way of acquiring or sourcing the components or part of the services that make up the products or services they sell, rather than doing such services in-house (EM, 2007b). Business linkages therefore result in specialisation of businesses, diversification of activities, widely distributed benefits and widespread economic competence as it allows enterprises, whether sellers or buyers in the market to focus on their core activities in which they have the comparative advantage and rely on commercial dealings to help in the areas where they relatively lack proficiency but where other enterprises have the comparative advantage (EM, 2007b).

Finnegan (1999) also highlighted the fact that networks or associations of SMMEs also provide a wide range of services to their members including training, loans, information and, in some cases, some form of social protection. Finnegan (1999) pointed out that wholesalers or exporters deal only with huge orders and they may require certain conditions in terms of quality control, timely delivery of the goods (etc). It is also preferable for them to deal with a single client rather than a large number of small producers, and it is under these circumstances that networks or associations of SMMEs can play an integral role of a liaison between wholesalers or exporters and their members. They usually assume ultimate liability for the well-timed conveyance of the goods and for quality control. In addition, according to Finnegan (1999), such networks and associations also assist their members by facilitating access to cheaper and better quality materials and intermediate inputs through bulk purchases at reduced prices.

Exposing SMMEs to fairs and exhibitions contributes significantly to providing them with opportunities to gain access to markets. An exhibition or fair, according to the DTI (2007), can be one of the most effective marketing tools available where customers can come to the SMME, in large numbers and be able to view the product face to face. Fairs and exhibitions thus also become a product research opportunity for SMME as they test the demand for their products and identify areas of improvement in order to increase their market share. From impact studies on previous exhibitions Bob *et al* (2005a) conducted, it was discovered that SMMEs do need market opportunities, and that exhibitions do provide a marketing platform, create business linkages and networking opportunities. They also assist, to an extent, in informing SMMEs about their products as they get an opportunity to interact with many potential buyers and members of the public.

Another critical strategy employed to increase SMMEs access to markets has been the promotion of the BEE policy, particularly in South Africa. Since the early years of democracy, the government has highlighted the link between SMMEs and BEE. According to Sanchez (2006), it has only been in recent years that the importance of small businesses for transformation has been emphasised. Sanchez (2006) highlighted the fact that the SMME and BEE frameworks have been better aligned recently. He further highlighted the fact that the strategy for Broad Based-BEE highlights the importance of SMMEs in the transformation process, on the one hand and on the other, the national strategy for the development and promotion of small business identifies the creation of new Black-owned and Black controlled enterprises as a key issue. It is evident that the interactions between the two frameworks have become clearer throughout the years.

Sanchez (2006) pointed out that policies and institutions have been aligned to better serve the needs of SMMEs within the transformation process and to advance the goals of empowerment through the active participation of the smaller enterprises. Yet, implementation of BEE remains a challenge for many small businesses and their potential contribution to economic growth remains untapped. Sanchez (2006) also looked at an overview of the BEE scorecard and illustrates some of the existing links between the two frameworks and some of the positive and negative effects of transformation on SMMEs. On the positive side, implementation of the scorecard stimulated the transfer of ownership to Black entrepreneurs and, through procurement policies, created

business opportunities that did not exist before (Sanchez, 2006). Sanchez (2006) indicated that subcontracting practices provided opportunities for the development and transfer of managerial and technical skills. He further indicated that through the scorecard elements of enterprise development and Corporate Social Investment, government and private companies were encouraged to invest in the development of smaller businesses. Sanchez (2006) argued that it seems that BEE has served to encourage several private and public enterprises either to start to implement or strengthen existing initiatives supporting small businesses. The activities of companies like Electricity Supply Commission (ESKOM), Amalgamated Bank of South Africa (ABSA), South African Brewery (SAB) Miller and others serve to highlight these initiatives.

The ESKOM Development Foundation assists many promising new businesses with grants and also offers mentoring provided by its own staff (*Business Day*, 17 October 2005). The ABSA Business Centre in Pimville provides access to small businesses including informal traders and spaza shop owners in Soweto with the aim of bringing the informal business sector into the formal economy and into the banking system (Sanchez, 2006). The whole notion of BEE has to some extent achieved the objective of increasing access of SMMEs to markets. It is evident, according to Sanchez (2006), that despite the good intentions of the BEE policy; in most cases it served primarily the interest of the Black elite as opposed to the redistribution of wealth as it was originally intended.

#### **4.5.4. Facilitating access to finance for SMMEs**

SMMEs around the world, according to Beck and Demirguc-Kunt (2006), identify access to finance as the single most important challenge experienced to the growth of their business operation. Beck and Demirguc-Kunt (2006) indicated that a large number of studies have highlighted the fact that SMMEs are more constrained than large firms and are less likely to have access to finance. According to Hussain (2006), in Pakistan, it was decided to review the role of their banks in order to determine whether or not they were creating hurdles in the way of lending to SMMEs and discovered that the same prudential regulations which were applicable to corporate borrowers were made applicable to SMMEs despite the fact that the requirements are very different for each segment. It was then that the Pakistani government made a conscious decision to review such regulations and endeavour to reduce stringent requirements on SMMEs.

According to Levy (1996), South African banks were also accused of either lending to established White companies or requiring collateral that was unaffordable to the SMMEs and especially previously disadvantaged entrepreneurs. However, Levy (1996) argued, following the interviewing of entrepreneurs, that South Africa's banking system was far more flexible than its developing counterparts when it came to issues such as age, size of business as well as collateral discrimination. Recent studies (Lance, 2003; Motsa, 2004) have indicated that banks these days have more readily embraced SMMEs. They have become more conscious of the needs of SMMEs and some tend to aggressively market themselves as being SMME friendly.

Business angel finance is often viewed as an alternative to bank finance. This type of financing refers to the granting of finance from bigger companies who choose to invest in smaller companies that are not their own. According to the South African Executive Report (GEM, 2001: 32-33), the most recent statistics on angel finance suggest that in the past few years, approximately 1.1% of South Africans have privately invested into firms that were not theirs. While this may be significantly lower than other developing countries, the culture of business angels is growing.

According to Hussain (2006), efforts were being made to improving the offer of financing to SMMEs. For example, a separate SMME department was established for the purposes of responding specifically to the financing needs of SMMEs. This newly established Department, according to Hussain (2006), was tasked with creating an "environment that is conducive for banks to increase the flow of credit to SMMEs, to promote a strategic focus on SMMEs on the part of banks and to help banks adopt best practices in the development of their SMME business lines". Following their investigation on challenges SMMEs faced with regards to the finance, Falkena, Asedian, von Blottnitz, Coovadia, Davel, Madungandaba, Masilela and Rees (2001) argued that banks were found not to be the sole actors who are able to provide debt finance to SMEs. He further argues that their capability to influence the quantity and quality of SME finance could be done through their particular refinancing capacities and by providing a back-up line to non-bank financial intermediaries.

Motsa (2004) argued that changes may be required in the regulatory environment to give momentum to diminish the separation between bank and non-bank lenders, particularly the emerging 'middle class' of formal, registered and better administered small lenders. She further argued that there is a need for improved research and disclosure on the precise extent of banks' participation as it is argued that banks are getting more involved but are not reporting it sufficiently. Further, Motsa (2004) indicated that the costs of administering loans and granting borrowers vital business support were seen to still be a massive challenge and more competent and innovative mentorship schemes were recommended to overcome this challenge.

According to Lance (2003), in the Commercial Lending Review (CLR), as the small business banking market becomes more lucrative for financial institutions today, many are struggling to define their strategies, implement the right technologies and attract the right small business customers. Lance (2003) indicated that small business is the great, untapped market for United States (US) banks and represents the latest and greatest market opportunity for banks. This Review pointed out that industry consultants claim that small business customers are five to seven times more profitable than the average consumer household, however, without the right strategies and the right tools to service small businesses, a financial institution cannot maximise the revenue opportunity from this valuable, untapped segment (Lance, 2003).

The above discussion on strategies is simply recommendations made by various contributors which enhance our understanding of how SMMEs can become more successful and thus ensuring that they become more sustainable in their operations. According to Maranto-Vargas and Gómez-Tagle (2003), firms whose managers have been able to make a shift in their business paradigms and are open to change and to incorporate new business practices have at least been able to match multinational competitors. In addition to this, they added that firms whose explicit business strategy emphasises innovation and knowledge creation have been able successfully to participate in global contexts.

Maranto-Vargas and Gómez-Tagle (2003: 91) argued that a "market-oriented strategy supported by more specialised competitive advantages contributes to an above-average performance". Ensuring that pro-SMME policies are put in place also contributes significantly to the success of

SMMEs. In addition to this, as statistics have revealed, a large proportion of SMMEs are women-owned and therefore having gender sensitive policies in place is critical. Further to this, Maranto-Vargas and Gómez-Tagle (2003) believed that training and development has been identified as a key strategy that would assist in increasing the firm's competitive advantage by having highly skilled and committed employees. Another strategy outlined was the introduction of technology which has been identified to improve the overall operation of SMMEs. Soft technology (that is, technical knowledge, administrative processes and organisation procedures) more than hard technology (that is, state-of-the-art machinery) contributes to the development of competitive advantages. Maranto-Vargas and Gómez-Tagle (2003) contended that even though financial resources are important for a firm to leverage performance it was found that development of internal capabilities has been more important than limited financial resources to develop competitive advantages to compete with larger and multinational competitors.

#### **4.6. The rationale for the provision of Business Development Services (BDS)**

The spirit of entrepreneurship is a major factor which contributes to the success of an enterprise (Finnegan 1999: 3). Finnegan (1999) asserted that this usually refers to the ability to be able to take cautious risks, determined to attain more information and skills that are necessary for successful business. Over and above this, he points out that keeping abreast of trends in the industry, being receptive to client needs as well as ensuring high standards in the quality of goods and service on offer.

Finnegan (1999: 3) argues that this “entrepreneurial spirit” is not shared by all and while those who are "born entrepreneurs" might do exceptionally well, there are those who might never succeed in business, despite efforts made on their part. It becomes particularly difficult to identify who has an entrepreneurial spirit. The question that is asked is what criteria should one use to determine who has an entrepreneurial spirit. Finnegan (1999) further argues that this has important implications for those people in the public or private sector who are responsible for developing enterprise development programmes. In order to maximise the effectiveness and impact, he recommends that these programmes should aim at providing support services mainly to those who can make the best use of them for the benefit of their enterprise, as well as for the

benefit of society as a whole. While an entrepreneurial spirit is a necessary condition for running a successful business, it is not sufficient in itself. It is as a result of the fact that governments, development practitioners, and researchers have recognised the importance of small business development in increasing employment and income among poor and low-income people that they continue to look for ways of providing support and assistance through the development of support programmes (Miehlbradt and McVay, 2003a). These researchers have highlighted the point that successful microfinance programmes and institutions have shown that services tailored to meet the needs of very small businesses can be financially viable and effective in reducing poverty. Over and above this, according to Miehlbradt and McVay (2003a), small businesses are also inhibited by non financial factors such as little or no education, incompetent skills, insufficient access to markets, lack of information and unreliable infrastructure. It is as a result of these factors that businesses often fail at an early stage although they have access to finance.

The dire need expressed for both financial and non financial services resulted in the development of the concept of Business Development Services. According to Miehlbradt and McVay (2003a), the term Business Development Services (BDS) encapsulates and refers to the numerous services used by entrepreneurs to help them function proficiently and to increase their businesses with the ultimate purpose being a contribution to alleviating poverty, generating employment and growing the economy. They assert that business development services are created for the purpose of helping SMMEs to overcome the challenges they face and ensure high levels of profitability and productivity resulting in accessing sizeable markets. Miehlbradt and McVay (2003a) indicated that SMMEs will be in a position to not only in this way realise their potential but also lock them out of the poverty cycle and also make a meaningful contribution to economic growth. They further point out that this area of business development had been subject to experimenting for years with programmes that were done on smaller scales and were highly subsidised, however, this area of business development has changed its approach to looking at sustainable, high impact strategies that have wider reach.

#### 4.6.1. What is Business Development Services?

From fair trade marketing to rental of cell phones, from entrepreneurship training to the publication of trade magazines, 'Business Development Services' (BDS) refers to the wide range of services used by entrepreneurs to help them operate efficiently and grow their businesses with the broader purpose of contributing to economic growth, employment generation, and poverty alleviation.

(Miehlbradt and McVay, 2003a: 7)

According to Lusby (2004), the term Business Development Services was coined in the late 1990s which arose from a search from the donor community for an alternative term for non-financial services conceived as too narrow a definition of the term. According to the World Bank (2001), the notion of BDS is seen to entail services that are all encompassing and designed to improve the overall efficiency and competency of the SMME as well its ability to compete on a broader scale. According to Hitchins, Elliot and Gibson (2004), it is important to note that BDS are provided in the market in at least three different contexts. Firstly, they highlight the fact that there are the very visible BDS that are offered to small-scale enterprises as distinct services for which fees or a commission is paid, for example, accounting services, and advertising, legal advice and product design. Secondly, they highlight the fact that there are embedded services that are included within a commercial transaction for another produce or service, for example, quality control an exporter provided to a small processor amounts to an embedded service. Thirdly, services such as information, knowledge and advice are provided to small-scale enterprises through various networks, whether social or business (Hitchins *et al.*, 2004).

According to Tanburn, Trah and Hallberg (2000: 6), a further distinction is made between "operational" and "strategic" business services. They pointed out that "operational" usually refers to those services that are required for day-to-day operations, such as information and communications, management of accounts and tax records, and adherence to labour legislation. They further pointed out that "strategic" services are used to address medium and long-term issues in order to improve the performance of the enterprise, its access to markets as well as its ability to compete, for example, such services can help the enterprise to identify and service markets, design products, set up facilities and seek financing. While there may exist the market for operational services with the demand and willingness to pay, the demand for strategic services has not been as great (Tanburn *et al.*, 2000: 6). Table 4.2 provided a description of the

different types of BDS available and also defines the service in greater detail, including associated benefits. Such description is very useful to increase SMMEs understanding of BDS as well as its associated benefits.

At the outset of the introduction of the whole notion of BDS, it was envisaged that both the public and private sectors were responsible for developing programmes. The section that follows will discuss the roles of the public and private sectors in as far as being able to make a meaningful contribution to SMME development and the provision of the necessary services required to grow and sustain SMMEs.

<b>Categories</b>	<b>Service defined</b>
Advisory services relating to production processes	An enterprise has been advised on the latest techniques that have been developed with regard to producing an item more efficiently or providing a service better.
Environmental management training and advisory services	Permits enterprises to substantially reduce the cost of production by improving your economic efficiency through the reduction of resources such as water, energy and raw materials.
Facilitation of business linkages	Acts as an agent, broker or middle-man that links small or large firms by helping small firms sell products or services to large firms or win tenders or sub-contracts from large firms.
Quality training and advisory services	Looks at a service or finished product in terms of quality. There is always quality standards or perceptions of a product imposed.
Advertising services	Teaches an enterprise how to advertise their products or services, where to advertise, how often to advertise, which media to use , the development of an advert, etc.
Identifying new markets and opportunities	Looks at the current service or product the enterprise is offering and assists in finding new and more worthwhile markets than the ones they have. A new market opportunity will be if a company changed their product slightly to achieve new markets sales.
Assistance with regard to tendering	Keeps up-to-date on what Tenders are advertised. Assists a company/ organisation/business/enterprise in obtaining of the tender document/how to put together a plan to tender/interpret terms and conditions and assist them in completing a tender application on time. They could also provide a service where they put together the physical plan, guide them in ways that could make their tender more competitive.
Accounting services	Provides accounting services to a company/ organisation/ business/ enterprise is a consultant/ company/ expert who has studied financial management, accounting, chartered accounting or similar fields and provides financial expertise to companies who do not have it in-house.
Advisory services in business planning/ management and mentoring	A specialist consultant/ company who are skilled in management techniques and management generally, as well as how to plan the future of a business efficiently. Sometimes a company/ organisation/ business/ enterprise has a good concept/product but is not doing well, because it is mismanaged. It could be sales management, production management and administration management. Shows the company more effective ways of management. Assists a company like that to find the root cause and to plan for it, so that they run more efficiently.
Computer hardware and software services including maintenance and website design	Assists and advises a company/ organisation/ business enterprise on either becoming computerised or improving its current computerisation. Provides training on the relevant software. Identifies particular programmes that could solve some of the company's problems.
Legal support/advisory in legal services processes	Provides legal support. A consultant who has studied law, or a company who hires people who have studied law. The service provider could have different areas of speciality such as Patent and Copyright Law, Company Law or Employee/ Labour law.
Management and business skills training	Provides the necessary business skills and management training usually in the form of training courses since many businesses start because someone has an idea/concept or a product for which there is a market but have no knowledge of business skills or how to develop skills within their organisation should the company grow.
Financial planning/ business plans for finance	Assists a company/ organisation/ business/ enterprise who has a good product/ service and may also have a very good market or client base, to plan their company on sound financial principles. Also assists the business to develop an asset credit policy or payment policy, how to access funds and how to price goods and services.
Negotiation skills regarding government/other contracts	Supports a company with negotiation skills which could include either physically hiring the services of a negotiator or being trained to negotiate for contracts successfully. Successful selling and communication skills could be incorporated in this training.

Table 4.2: A description of different types of BDS available

Cunningham, S. and Trah, G. (2004). Market assessment of Business Development Services in Nelspruit, Paper prepared for the German Technical Co-operation.

#### **4.7. The roles of the public and private sectors in SMME development**

“Governments are notoriously ineffective in promoting economic activities. Governments are at their best when they are implementing standardised repetitive function, according to a rule book” (Atkinson, 2004: 1). This broadly refers to Max Weber’s description of a government model where its primary responsibility was to act as a “night watchman” providing basic services such as health, education, public order and defence (Atkinson, 2004: 1). It would therefore be difficult for such a model of government to embrace the notion of a developmental State which requires, according to Atkinson (2004), flexibility, innovation and responsiveness to unique and rapidly changing circumstances.

According to Rogerson (2006), SMME development began in the 1970s with the international development agencies’ recognition of the informal sector with the resulting effect being that national government began to subsidise the delivery of SMME support services of various kinds, including credit, business and technical training and assistance with identifying and accessing new markets. Dawson and Jeans (1997, cited in Rogerson, 2006) pointed out that enterprise development efforts in developing countries were based mostly on the premise that the small entrepreneur was someone that required constant subsidisation in the form of free training, ready-made feasibility studies, purpose-built industrial estates, marketing assistance, credit, below-market interest rates and continuous advice. The promotion of SMMEs is a key element in the government’s strategy for employment creation and income generation. Many governments had taken direct measures to support the development of small enterprises. They launched incubators and training programmes, encouraged mentors, given out money, guaranteed the money of others, created special councils or task forces, adopted promotional policies, and even offered tendering preferences to the small enterprise sector (White, 2005).

One of the most important challenges which faced the South African government with the birth of democracy was that of promoting economic development and job creation. The last two decades have seen increasing attention being paid to the role of the SMME sector in economic development. Both Berry *et al.* (2002) and Kesper (2002) maintained that in order to attain the objectives of economic growth through competitiveness on the one hand and employment generation and income redistribution on the other, increased policy attention had focused on the

promotion of the country's SMME economy. Hallberg (2003, cited in Rogerson, 2004b) indicated that in common with the experience of many developing world countries, post apartheid South Africa has been at the forefront of the development and implementation of a set of pro-SMME policies. One such policy the Government of National Unity developed was the National Small Business Strategy whose intention it was to promote small business development in South Africa.

Rogerson (2004b) argued that despite its good intentions as outlined in the White Paper, the Government of South Africa has made little progress in terms of the outreach of both financial and non financial support services. This was, according to Rogerson (2004b), attributed to the limited amount of funding that was available, weak implementation and ineffective coordination of programmes. Although large institutions were created to ensure that subsidies went to small entrepreneurs, often these subsidies were captured for the benefit of more powerful groups with the result that only limited benefits actually accrued to the poor (Dawson, 1997, cited in Rogerson, 2004b). Atkinson (2004) supported this view and argued that the core aspect of delivery failure was that national government's SMME programmes simply have not been reaching their target groups, especially the poor. She further indicates out that it is against this background of disappointments associated with national support programmes that the former approaches to SMME developments need to be reviewed.

According to Miehlabrad and McVay (2003a), the late 1990s and early 2000s saw the emergence of a strategy for business development services which focused on developing markets for services that were appropriate to, and small enterprises demanded, rather than the direct provision of business development services by governments or donors. Miehlabrad and McVay (2003a: 8) argued that this shift was in the direction of an emphasis upon being "business-like and demand-led" at the institutional level and it focused intervention strategies toward facilitating transactions between SMME clients as opposed to beneficiaries. According to Tanburn *et al.* (2000: 1), motivating the search for a "new paradigm" for BDS was the shared recognition that traditional interventions had failed to provide quality, affordable BDS to a large proportion of the target population of small enterprises. These authors argue that there was a general feeling that publicly-provided and publicly-funded services have not achieved their objectives: enterprise productivity and competitiveness, job creation, poverty alleviation and social mobility. Moreover, good

performance measurement was lacking to be able to evaluate and compare programmes (Tanburn *et al.*, 2000). These authors further assert that the BDS market development framework grew out of the belief that achieving economic and social goals was only achievable through the dependence on the private sector to provide a wide range of services. This dependence on the private sector, according to Tanburn *et al.* (2000: 1), to achieve greater outreach required a better understanding of how BDS providers could be financially sustainable or profitable

The core challenge, according to Rogerson (2006), is to develop low-cost service products and delivery mechanisms in order to match the needs and willingness to pay by the smallest clients. This new best practice approach also signifies a shift towards a stress upon the creation of an enabling environment for SMME competitiveness and on developing markets for SMME relevant services rather than substituting for them as in the old approach (see Figure 4.1).

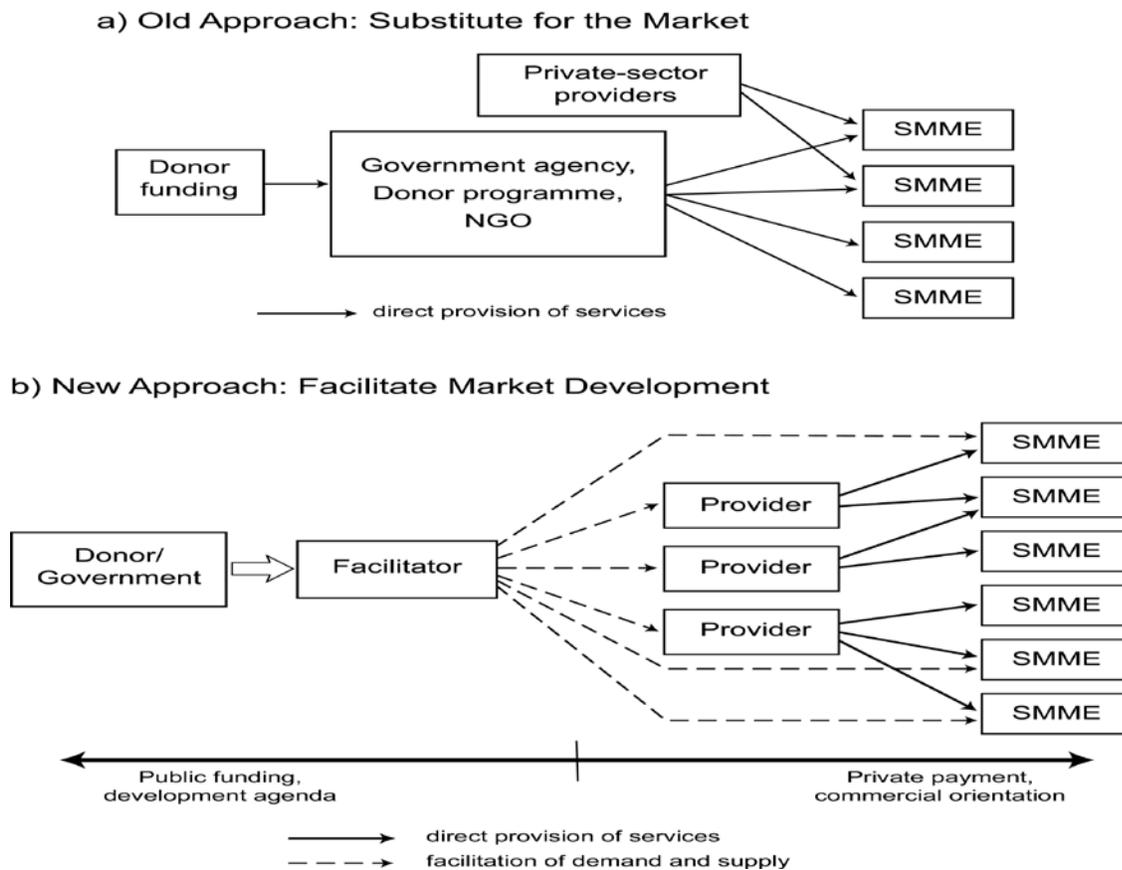


Figure 4.1: Changing approaches to BDS Provision

World Bank. (2001). Business Development Services for small enterprises: Guiding principles for donor intervention, prepared by the Committee of Donor Agencies for Small-scale enterprise Development.

In Figure 4.1 both the old approach and the new approach to BDS provision is described. The old approach is characterised by direct government support and intervention in the form of subsidies to business support providers while in the new approach, also referred to as the Market Development Approach (MDA), there is a shift away from direct government to use of a facilitator. According to Torrpa (2006: 3), the MDA places emphasis on “what problems businesses have and why the market environment is not providing solutions to these? The old approach asks what problems do businesses have and how can government solve these?”

Rogerson (2006) emphasised that this shift represents a move away from supply-driven State (or donor) subsidised services and support for individual organisations towards developing more

effective market environments that facilitate the delivery of demand-led services. Moreover, Miehlabrad and McVay (2003a) argued that there was a heightened acknowledgement that public sector organisations had proved to be ineffective providers of BDS to SMMEs. They further argued that government organisations were viewed as insufficiently business like or similar to SMMEs in terms of their cultures, staffing or structures. Moreover, these authors assert that subsidies for State provided business support has created a set of market distortions that hinder the development of private sector provision.

The Market Development Paradigm, according to Miehlabrad and McVay (2003a), emerged from a convergence of innovative practices, research and pioneering thinking. These authors emphasise the point that there were isolated BDS practitioners around the globe, who were determined to reach large numbers of firms through sustainable delivery of BDS, and therefore experimented with and developed innovative ways of delivering BDS that would overcome the challenges of traditional programmes. Miehlabrad and McVay (2003a) highlighted the fact that the MDA is entrenched in a concrete belief in private sector markets as drivers of growth and competent suppliers of goods and services. This approach, Rogerson (2006) emphasised reflected a new vision for success. The reason for this is that programmes start by understanding both the existing supply of BDS from the private sector and government. Market failures can result from a gap between the supply and the demand for services. The goal of market development interventions then is to overcome these market failures and take advantage of opportunities to expand the service market for SMMEs. The desired result, Miehlabrad and McVay (2003a) underscored, is that numerous SMMEs buy the BDS of their choice from a wide selection of products offered from unsubsidised, private sector suppliers in a competitive and evolving market. They further highlight that buying can mean paying fees for services or procuring them through commercial relationships with other businesses. Miehlabrad and McVay (2003a) argued that this is very different from the direct provision of services by government departments who often do not charge for their services. In addition to this, services are often not tailored to meet the needs of the SMMEs themselves but are offered in very general terms. They further argue that the resulting effect is that there is a mismatch between what SMMEs need and the services they are given by government. It has been the experience the world over, according to Miehlabrad and McVay (2003a), that when people do not pay for services, it is not appreciated

and they may therefore decide to use or not use the service which results in the wastage of resources.

Miehlbradt and McVay (2003a) asserted that the market development perspective recognises that the provision of operating subsidies to particular suppliers may crowd out other private sector suppliers who do not receive subsidies. They further asserted that market development programmes tend to promote as many suppliers as the market will bear. Some programmes also encourage demand simply through the provision of information about services and marketing, however, the main activity of a subsidised BDS programme is not direct service provision. Rather, it is market research, provision of information for consumers, new product development, supplier training, monitoring and evaluation, and activities aimed at facilitating market improvement by increasing demand and/or improving supply (Miehlbradt and McVay, 2003a). Rogerson (2006) supported and emphasised Miehlbradt and McVay's (2003a) arguments.

Private sector participation in the provision of services has largely risen out of the failure of the State to provide services. According to Bear, Gibson and Hitchin (2001: 7), an appropriate role for the State needs to be identified in order to alleviate the misconception that the BDS market development is "anti-government" and "neo-liberal" in its outlook. In alleviating these misconceptions, however, they argue that the whole concept of the MDA is certainly opposed to the unquestioned State subsidised provision that has become the trademark of government's role, particularly in developing countries. While there may be no widely accepted rule or formula for the role of the State, they further argue that government should be playing a more appropriate role that fits with its core competence as a provider of public goods. Hitchins (2002) argued that BDS are private goods. He further argues that it is critical that such business services are not mistaken for other functions which may justifiably be regarded as public goods.

Bear *et al.* (2001) argued that these roles may vary and should also be driven by an understanding of the wider market and the context within which it occurs, for example, activities related to regulation, information, research and standards. They further argue that the State's key role in supporting market development will be to focus on general priorities such as education,

social welfare, infrastructure and funding for research. Although these issues are not specific to Business Development Services, they can impact directly or indirectly on it.

It is encouraging to note that the introduction of the Integrated Small Business Development Strategy (ISBDS) (DTI, 2003a) also recognised that the level of support for small businesses revealed major challenges. The Strategy also identified a number of weaknesses which, according to the DTI (2003a), emphasises the fact that the generalised approach towards small business development proved ineffective and suggests the need for differentiated services, instruments and delivery concepts that should be adapted to the different segments of small, medium, and microenterprises. It is noteworthy that the DTI recognises in its ISBDS that the broad brush approach to small business development contained in the 1995 Strategy had run its course and more importantly, a more sharply defined strategy is required. However, once again as in the implementation of the 1995 Strategy, the ISBDS (DTI, 2003a) has not (five years since its introduction) been fully implemented and small businesses have not yet felt its impacts.

Hitchins (2002) suggested two appropriate roles for government as a service provider or as a facilitator. As a service provider, experience suggests that the most efficient providers of business services are organisations or individuals that are “close” to or similar to SMMEs, commercially motivated and entrepreneurial with similar backgrounds, status and structures (Hitchins, 2002). This “closeness”, argued Hitchins (2002: 6), is critical, enabling service providers to understand SMMEs and deliver appropriate viable products on some form of commercial principles. Government, on the other hand, in terms of structure, culture, orientation and people has been deemed to be inappropriate to deliver these business services to SMMEs and therefore, Hitchins (2002) further argued that there is broad agreement that government should not attempt to provide BDS to businesses directly.

In considering the role of government as a facilitator, Hitchins (2002) maintained that facilitation is a temporary intervention which uses public funds to address specific market failures. A facilitator tries to develop a market to encourage access and competition, with a view to making the market work more effectively in terms of price, product diversity or standards. While the nature of facilitation will vary according to context, it will comprise of the following: the identification and analysis of constraints as the basis for intervention, the development of a clear

exit strategy (that is, the facilitating function ceases once a specific service market achieves a defined degree of effectiveness), the time-bound and focused use of public funds and finally the use of non cash instruments rather than subsidising transactions between service consumers and providers.

Hitchins (2002) reemphasised the fact that international experience regarding government facilitation of BDS market development is somewhat restricted and as a result definitive rules to direct government is non-existent. Hitchins (2002) noted that the distinction between short-term facilitation and more permanent market-supporting functions will most certainly differ in accordance with the context in which it occurs. Hitchins (2002) also argued that the distinction between facilitation and more permanent roles will be determined by time, scale, government competence and most appreciably a translucent view of how a particular market needs to operate in the longer term. He further argues that it also appears to be the case that government's role - be it facilitatory or permanent – reflects its core competencies and responsibilities, in particular relating to policy-making, regulation, competition and standards regimes, coordination, information, science and technology infrastructure, and public sector practices. The ISBDS (DTI, 2003a) acknowledges the roles Hitchins (2002) proposed and supported it for two reasons. Firstly, “because government programmes are restricted and can only reach a limited number of enterprises” (DTI, 2003a: 23). According to the DTI (2003a: 23), the other reason provided was because “there are broader influences affecting the business environment in which small businesses operate, which can undermine the impact of specific government programmes”.

The whole public–private sector debate, while being widely debated on a global scale, has not reached conclusive evidence as to which has been the better model to use in the delivery of services. This study will investigate SMMEs perceptions of both the public and private delivery of services to them within the context of the eThekweni Municipality. In addition, this study will also investigate the *modus operandi* of service providers from both the public and private sectors and attempt to establish their effectiveness in as far as they are able to meet the needs of SMMEs.

#### **4.8. Conclusion**

This chapter helped to briefly examine and encapsulate published information, and other secondary data sources that presently exist on SMME development and policies, as well as to determine their links to the SMME economy and its growth. This chapter focused on SMMEs at a general and global scale. The definitions of SMMEs and entrepreneurship were thoroughly debated in the National Strategy for the Development and Promotion of Small Business in South Africa (DTI, 1995). It presented the definitions as described by various authors. It then shifted its focus to the challenges that are faced by SMMEs. Some of the issues the chapter focused on include policy issues and aspects of gender in terms of its relevance to entrepreneurship and SMMEs. It also identified the common challenges which SMMEs face such as technology, training, access to finance and access to markets. Furthermore, this chapter identified strategies that could be utilised to tackle these challenges. Some of the strategies identified include broadly improving the environment, improving access to skills and capacity building. In addition, strategies discussed include facilitating access to finance and markets. The rationale for the provision of BDS was discussed, specifically in relation to roles of the public and private sectors.

## CHAPTER FIVE

### International, National and Local contexts of SMMEs

#### 5.1. Introduction

Governments worldwide have assisted SMMEs for various reasons. At the heart of the rationale behind supporting small enterprises in developed countries, according to Jackson (2004), is the belief in how economic growth is positively affected by enterprise formation and by the efficiency and productivity gains through innovation. Jackson (2004) further points out that it is clear that small enterprises in developed countries refer to the classic, formal, small enterprise and its contribution to innovation, productivity, job creation, and hence economic growth. However, in the developing country context, the link between small enterprise and poverty alleviation takes on special significance. In the context of economic liberalisation, deregulation and thus global economic integration, Berry *et al.* (2002) argued that small enterprises are often viewed as the best way to overcome poverty and inequality in developing countries.

Virtually all countries, at whatever stage of economic development, recognise the importance of SMMEs and the need to support their development (Levitsky, 1996). According to Ladzani (2000), SMMEs contribute more than 90% of employment opportunities in many countries and are responsible for revenue creation and poverty alleviation, and often a source for creativity and innovation. This chapter looks broadly at the thematic issues discussed in the previous chapter within defined contexts: international, national and local. It first focuses its attention on the international arena. It then shifts its focus to SMMEs within the South African context for the last thirteen years before honing in on the eThekweni Municipality and its uniqueness. It also focuses on the economy of the EMA as well as the challenges it faces. Amongst the many challenges, unemployment remains the greatest challenge hence the need to promote the development of SMMEs for the purposes of generating income and creating jobs.

## 5.2. Lessons from international experience

Small enterprise development continues to challenge governments, donor agencies and practitioners at a global level. According to White (2005), responding to these challenges has created originality in approaches that enhance practices and expand the comprehension of small enterprises and their role in national and local economies. White (2005) argued that while the advantages of small enterprise development and their contribution to the local and national economies are documented by many, the methods for small enterprise promotion are the subject of debate. He further argued that in some cases, small enterprises are a symptom of underdevelopment and poverty, but elsewhere they are symptoms of a pulsating, entrepreneurial economy. Both developed and developing countries have come to acknowledge the importance of the small enterprise sector and its relationship to large enterprises and the strategic position that many countries are looking for in the world economy (White, 2005).

In considering the history of SMMEs internationally, Rogerson (2002) traced its development beginning in the 1970s with the policy detection of the informal sector whereby many international development agencies and national governments began to subsidise the delivery of SMME support services of various kinds, including credit, business and technical training. By the 1980s, according to Rogerson (2002), the validity of this form of intervention was being challenged on the grounds that it generally had failed to produce a strong and competitive small enterprise economy. In Africa, according to Rogerson (2002), hopes that new entrepreneurial initiatives would flower in the wake of structural adjustment programmes and market liberalisation did not materialise. Rogerson (2002) posited that during the early 1980s alternative approaches to conventional models of support provision began to emerge. He further asserted that the new approaches became known as minimalist as they focused on delivering only one promotional service as opposed to the whole package. Such minimalist programmes were rooted on several assumptions, *inter alia*, (1) that entrepreneurs in order to succeed did not need to have the whole package of support services; (2) that the provision of services, such as credit, training or industrial support, did not necessarily have to be integrated; and (3) rather than serving a select few as with the integrated approach, a minimalist approach could reach a far greater number of SMME

entrepreneurs (Rogerson, 2002). Rogerson (2002) argued that this period represented a gradual shift from government (or donor) provided business development services through public institutions or NGOs on a free or subsidised basis to a new support paradigm, a more market-based approach in which service provision was driven by the demands of the target group which would be expressed in terms of significant beneficiary contributions, sufficient to cover most of the costs of service delivery.

According to Rogerson (1998: 925), “international experience of SMME support programmes suggested that supply-driven approaches continued as the instrument of choice despite the existence of mixed evidence for their effectiveness”. He argued that government’s neglect of demand-driven approaches in the developing world was particularly striking. Overall, according to Tendler (1994), despite the proliferation of supply-side approaches to SMME development, there was a compelling argument for demand-driven approaches. In the 1990s there emerged several important issues that challenged the prevailing conventions of SMME support (Rogerson, 2002). The numbers of SMMEs continued to grow and there appeared to be higher levels of competition among them. Rogerson (1998) emphasised the need for a client-driven approach, oriented to associations of enterprises as opposed to individual firm. It was for these reasons that by the late 1990s and early 2000s, Dorfling (2001: 36) argued for a strategy for business development services that “was appropriate to and required by the enterprise as opposed to government just providing the services directly to enterprises irrespective of whether the SMME actually needs it”. Rogerson (1998) emphasised that this approach was based upon being business-like and demand-led at the institutional level and it focuses intervention strategies toward facilitating transactions between SMME clients as opposed to beneficiaries. Hallberg (1999) argued that the core challenge was therefore to develop service products and delivery mechanisms at a lower cost which will match the needs and willingness to pay of the smallest clients. She further asserted that this new best practice approach also denoted a move towards the creation of an enabling environment for SMME competitiveness and on developing markets for SMME relevant services rather than substituting for them as in the old integrated approach (Hallberg, 1999). Rogerson (2002) emphasised the fact that ultimately, the prevailing inclination was to expand the impact and

outreach of government support programmes by using the private sector to dispense services and by focusing scarce public resources on the facilitation of market transactions and the investment of public goods.

The eThekweni Municipality established a Best Practices City Commission (BPCC, 1999) to look at some of the City's practices. This Commission also reviewed the SMME development practices of a number of governments around the world. The discussion highlighted the practices of only a few of the countries surveyed. According to this Commission, the city of Dortmund, Germany, exemplified the importance of technology transfer to SMME success, and the role which local government can play in catalysing innovation in high-tech oriented Local Economic Development (LED). The Dortmund Tomorrow LED Programme involved new public investments, including the establishment of a technology centre for promoting research and development, strengthening the science and engineering capacity of the University of Dortmund, and encouraging new anchor firms in high-tech activities. Its aim was to link new investment in high technology to the acceleration of innovation among local SMMEs. The Development Centre Dortmund was set up as a think-tank to support SMMEs through transferring knowledge and appropriate technology in selected fields (particularly the environmental sector), and to identify promising areas for employment creation initiatives. SMMEs were given access to premises in unused buildings as a parallel support measure (BPCC, 1999).

The BPCC (1999) also identified the Toronto Economic Development Corporation (a business corporation which is City owned) which supported five small business incubators as part of its SMME development, and is actively involved in their administration, leasing or funding. Each incubator provides a combination of rental space, business and financial counselling/mentoring, technical assistance and shared equipment. Each has an industry focus, namely, multi-media, fashion design, environment, food production and visual arts.

Another interesting approach to SMME development, identified in Seattle, was the Mayor's Small Business Task Force which was a group of small business owners the Mayor appointed to act as a proactive liaison between the Mayor of Seattle and the small business community. It recommended innovative solutions to political, economic and social issues

that affect small businesses, and promotes their growth and prosperity. The functions of this task force, according to the BPCC (1999), included initiating and reviewing policy; organising and participating in public forums; providing representation on policy-making committees; recognising small business owners for outstanding community involvement and leadership; helping small business learn to communicate and work together effectively with city government; and finally, cooperating with other business organisations to accomplish similar goals.

While certain measures of success have been achieved in some countries, in some cases these initiatives have been ill-informed; they have created and perpetuated market distortions and usually only benefits a handful of enterprises in a sporadic and unconstrained manner (White, 2005). However, there are also cases where governments have promoted small enterprises in a more strategic, market-oriented manner where they have recognised the roles that other actors can perform and sought to facilitate the development of markets for BDS. White (2005) argued that in many cases, governments have come to see that operating their own businesses is an ineffective venture and that there are convincing arguments for a vibrant and competitive private sector as a device for the distribution of resources, goods and services. He further argued that for the governments of many developing economies a new relationship with the private sector is being forged where they are required to recognise the value of markets and are only required to interfere with them when they have a clear and good reason. Furthermore, according to White (2005), globalisation and the removal of barriers to trade have exposed enterprises of all sizes to competition from the world economy, challenging many national governments to find new ways of managing their economies.

### **5.3. Support for SMMEs in South Africa**

According to Berry *et al.* (2002), during apartheid, South Africa's SMME economy was either policy-makers largely neglected, or in the case of Black-owned enterprises, repressive measures actively discouraged. Further, in proportion to political apathy, Berry *et al.* (2002) assert that small enterprises were wiped off the research agenda of most business schools and university commerce departments. The establishment of the Small

Business Development Corporation (SBDC), according to Berry *et al.* (2002), in the early 1980s was the initial government initiative to support small firms but only in the late 1980s did a racially impartial political interest in the development of small business take root. Despite this interest, there was the notion that it was the larger SMMEs that were more likely to contribute to employment creation and economic growth and therefore Bloch and Kesper (2000, cited in Rogerson, 2002) highlighted the shift that gave new impetus to a renewed focus on established, albeit White-owned, SMMEs in South Africa.

Rogerson (2002) recognised that as a result of the restrictions imposed on small business development, the South African government initiated a wide ranging consultation and research process. This process eventually concluded in the production of the White Paper on the National Strategy for the Development and Promotion of Small Business in South Africa in March 1995. This piece of legislation was followed by the Skills Development Act 97 of 1998, the Preferential Procurement Policy Framework Act 5 of 2000 and the Mineral and Petroleum Resources Development Act 28 of 2002. The purpose of such legislation, according to Rogerson (2002), was to support SMMEs in addressing the low skill levels, lack of markets, procurement and unfavourable legal environment in the mining sector. The White Paper appeared to be a representation of government's philosophy of its contribution to the process of stimulating SMMEs (DTI, 1995). The government recognised that the real engine of sustainable and equitable growth in this country was the private sector and hence committed itself to allow such businesses to get on with the job. The strategy also recognised that in contrast with big business, small businesses confronted a wider range of limitations and problems and were less capable of addressing these challenges on their own, even in effectively functioning market economies (DTI, 1995). According to Karungu *et al.* (2000), the main thrust of the strategy is to create an enabling framework for SMME development.

Riley (1993) identified several principal constraints facing Black SMMEs in South Africa. Financial constraints have been considered the world over to represent a major restraint on SMME growth and development. According to the National Small Business Strategy (NSBS) (DTI, 1995), in surveys among small enterprises all over the world,

access to finance emerged as one of the most urgently felt needs. The strategy adds that this is true even though other problem areas (like marketing, technical skills, poor product quality, weak management, etc.) often aggravate the financial position of small enterprises and hamper their access to funds. South Africa is no different, according to Riley (1993), with a lack of working capital being a major constraint at the start-up level as well as a lack of investment funds becoming more significant as time passes. Riley (1993) adds that the support of family and friends in making a financial contribution has also been significant. She further asserted that access to finance from formal institutions has traditionally been scarce before a firm has at least five employees and is three-to-five years old. Despite the fact that this was relevant fifteen years ago, SMMEs still experience the same challenges today which provides evidence, according to Rogerson (2006), that the government has failed to address these challenges since the inception of the Government of National Unity.

Another constraint Riley (1993) identified has been market constraints where a lack of customers, increasing competition, and the rising cost of supplies, microenterprises felt most acutely. According to the National Small Business Strategy (DTI, 1995), small enterprises usually regard market constraints and the inability to sell their products and services as one of the most serious obstacles to the starting of businesses and growth beyond a mere subsistence level. These firms, asserted Riley (1993), tended to operate in small, location specific, low-income niche markets and very often broader markets were found to be virtually closed to them. Rogerson (2006) identified access to markets as a constraint that still impacts on SMMEs today.

Riley (1993) identified business premises and tenure arrangements as a major constraint thereby forcing SMMEs to operate from homes. This often leads to further complications in that they are often away from commercial traffic. Not many SMMEs, especially emerging Black businesses can afford space in town. Compliance with the regulations has also been identified as a constraint that was found to be a significant issue. It has been found that the taxes and regulations imposed on SMMEs have often been found to be both burdensome and costly (DTI, 1995). In addition to the above, the National Small

Business Strategy also identifies the lack of access to appropriate, relevant and understandable information and advice as some of the most important problems of small enterprises, in particular micro enterprises, survivalists and small start-up enterprises (DTI, 1995). The strategy added that while in South Africa some progress has been made with the preparation of information material relevant for small enterprises and the dissemination of information and advice, to date the number of enterprises effectively reached remains small (DTI, 1995).

According to Rogerson (2002), in addressing these constraints, the government attempted to create an enabling environment by putting the right policies in place whereby small businesses could thrive. The strategy set forth several policy goals (DTI, 1995: 15-16), the most significant goal being stated as “creating an enabling environment” in terms of national, regional and local policy frameworks for SMME development. In addition to this basic goal, several specific policy objectives were identified. Firstly, according to the DTI (1995: 21), it was “to facilitate the greater equalisation of income, wealth and economic opportunities” which is inseparable from “a strengthening of the labour-absorptive process in the micro-enterprise and survivalist segments, the redressing of discrimination with respect to Blacks as well as women's access to economic opportunities and power, and the facilitation of growth in Black and small enterprises in rural areas”. Secondly, according to the DTI (1995), it was to create permanent jobs which necessitated policy interventions intended to improve human resource skills and to reinforce the use of appropriate modern technologies. They further indicated that the third goal was to stimulate economic growth through addressing the obstacles and constraints that prevent SMMEs from contributing to overall growth. The fourth objective, according to the DTI (1995), was to level the playing fields both between large enterprises and SMMEs and between rural and urban businesses. Fifthly, it was important to reinforce cohesion between SMMEs in order for them to benefit from networking and building relationships with each other. Finally, the White Paper targets the goal of enhancing the capacity of small business to comply with the challenges of globalisation and an internationally competitive economy (DTI, 1995).

Rogerson (2002) indicated that the SMME support structures that started after 1994 were mainly the provincial SMMEs desks, the Ntsika Promotion Agency, and Khula Enterprise Finance Limited. He further stated that the purpose of the provincial SMMEs desks were to provide SMMEs support in all the provinces. The Ntsika Enterprise Promotion Agency, according to the DTI (1995), was intended to provide a wide range of non financial services to local service delivery groups on a wholesale basis, that is, the delivery of resources to local providers that work directly with SMMEs. These services were offered accredited local service providers and include institution-building of these organisations, training programmes for entrepreneurs, mentoring of individual firms, marketing, procurement advice, and technology assistance. In addition, Khula Enterprise Finance Limited provided wholesale finance to non-governmental organisations (NGOs) that offered microloans to starter entrepreneurs. This is done through the development of Retail Financial Intermediaries (RFIs) that were financially sound, with the commitment and the capacity to serve the SMME sector, with special emphasis on its previously disadvantaged population (DTI, 1995).

The last vital institutional component of public sector support was the formation of Manufacturing Advice Centres (MACs) which was inspired by the small enterprise support structure initiated in Denmark (DTI, 1995). The main purpose of establishing the MACs was to assist SMME manufacturers to enhance their competitiveness in local, national and international markets. The MAC programme was launched in 1997 as a joint initiative of Ntsika, DTI, the Centre for Social and Institutional Research (CSIR) and the National Productivity Institute (NPI) and coordinated by the National Programme Office. Other support institutions introduced by the DTI were initiatives such as local industrial parks (LIPs), small business incubation and linked sectoral cluster programmes. The LIPs are a DTI initiative to tackle the challenges of employment creation and addressing the needs identified in the Reconstruction and Development Programme (RDP) through the creation of a sustainable SMME sector (Rogerson, 2002). The emphasis is on industrial production rather than on any other kind of economic activity. Business incubators are institutions that have proved effective in other parts of the world and are designed to support the growth of new and emerging enterprises within a controlled work

environment, and over a limited time period (Rogerson, 2002). The development of industry cluster processes by DTI is aimed at national economic growth through competitiveness and involves a collaborative exercise in which firms and organisations in an industry work together to recognise obstacles to competitiveness, and to encourage a collective approach to addressing these obstacles (Dorfling, 2001).

Since 1999 the SA national government has sought actively and intentionally to create an enabling environment which is designed to support the sustainability of the SMME economy. The main activities of government, according to Rogerson (2002), included a review of the national strategy for the promotion of SMMEs, a review study on access to finance by SMMEs, and a review of laws and regulations that impact upon the SMME economy. According to Bloch and Daze (2000: 2, cited in Rogerson, 2004b), in the national strategy review it was contended notably that the flagship Local Business Support Centre (LBSC) programme did not have a clear strategy and that there was negligible cooperation between RFIs and LBSCs even within the same geographical area, and with the same category of SMMEs. Furthermore, the authors highlighted the fact that the aftercare of SMMEs had been neglected after initial service provision, and that costly decisions had been made to select and expand the capacity of LBSCs which had over-consumed resources. In his assessment of financial access to SMMEs, Dorfling (2001: 108) concluded that whilst both Ntsika and Khula had made limited progress in their respective mandates, it was apparent that “more rapid progress is required, especially with respect to appropriate non-financial service provision”, a greater improvement of programmes was required for enhancing delivery and that there existed a disparity in terms of large-scale delivery of finance to microenterprises. Finally, Rogerson (2002) argued that in terms of the review of laws and regulations impacting upon the SMME economy, the intentions were to shift the overall culture of regulation, to establish coordination and to provide national consistency in regulations, as well as to make access easier to SMMEs through less complex administrative procedures, reduced paperwork and more practical assistance.

While it is widely acknowledged that the SMME strategy will unquestionably contribute to remedying harsh disparities inherited from the apartheid period in terms of patterns of economic ownership, Rogerson (2002) cautioned that it would be perilous for policy-makers to rely on SMMEs as the main agent for economic redistribution in South Africa for the following reasons. Firstly, he asserted that the core economic power of South Africa is mostly concentrated in the hands of the large White-owned corporations (Rogerson, 1999). Secondly, according to Manning (1996), the sizes of the majority of Black-owned businesses are small and their restricted incomes alone would certainly not be able to shift the patterns of income distribution. Thirdly, Rogerson (2002) asserted that even if SMMEs prove to be a successful channel of wealth to Black entrepreneurs, this does not alter the state of income inequality because of the unequal distribution of the benefits of enterprise expansion.

Overall, Rogerson (2002) argued that a number of serious institutional obstructions challenged the implementation of the Small Business Strategy. He further indicated that in launching the implementation of several programmes as proposed in the White Paper on Small Business, the South African government severely underestimated several vital institutional factors: (1) the problems of establishing a whole new set of support institutions; (2) the capacity of these new support institutions to establish and implement a wide range of new policy initiatives; and (3) the capacity of the existing NGO network in South Africa to become involved in the highly ambitious set of programmes that were implemented both as regards financing and non financial support for SMMEs in South Africa. Further, Dorfling (2001) raised institutional issues concerning the effectiveness of both Ntsika and Khula with allegations of the mismanagement of Ntsika and of financial losses recorded at Khula. Although significant criticism has been focused on the poor performance of Ntsika, this should be viewed in the context of the enormous tasks and sometimes poorly defined and contradictory mandates that were given to the Agency to begin with. Qualmann (2000) observed that the major mistake of Ntsika stems from the fact that it barely had a realistic opportunity to meet all the goals set for it.

Some of the shortcomings in the current effectiveness of policy frameworks for the sustainability of SMMEs revolve around the fact that government is not organised or sufficiently coordinated to implement programmes (Rogerson, 2002). Although the tendency of Ntsika and Khula is to specialise in programmes for emerging micro-enterprises, DTI focuses more on established SMMEs. According to Rogerson (2002), because of the wide differences in support needs of the different segments of the SMME economy, this divide has resulted in poor communication between the national support institutions concerned with SMME sustainability. A much greater degree of coordination, according to Rogerson (2002), is required also between government departments in order to improve the prospects for a sustainable SMME economy. Rogerson (2002) asserted that the last 14 years of government enterprise support in South Africa has been disappointing and unimpressive. He further asserted that programmes have not reached their target groups, hence there is now a need to revolutionise the SMME support structures within South Africa looking for alternative models and practices that would help increase the global competitiveness of SMMEs thereby making a significant contribution to the global economy.

In response to perceived failings of the current small enterprise support infrastructure, the South African government has decided to merge Ntsika and NAMAC to form the Small Enterprise Development Agency (SEDA). The Agency aims to provide a comprehensive package of services with uniform quality throughout the country (DTI, 2004). SEDA will incorporate all existing small enterprise support programmes as different product offerings under one organisation (for example, tender advice, business advice and manufacturing advice). A key aspect of the programme, according to the DTI (2004), will be information sharing through a common information system, which will enable tracking clients, and developing good data on clients, performance and client satisfaction. SEDA will allow shared business processes, which will entail a common diagnosis of client problems and needs, an enterprise plan which designs appropriate interventions for the client, and identification of appropriate service providers. These services, according to the DTI (2004), will be available at SEDA offices, which will be distributed nationally in all of South Africa's districts. The DTI (2004) envisaged approximately forty such

SEDA offices. These centres will be monitored on the basis of outputs such as the number of businesses supported. However, the information system that has been set up will also allow for customer satisfaction feedback (DTI, 2004). This institution is not without its criticisms. From the researchers own observations, three-and-a-half years following its establishment, SEDA is not yet out of its starting blocks. As indicated in the literature review, in many government institutions, the problem is a lack of leadership and weak top management which has failed to provide the vision and leadership required to get things moving.

According to Orford (2005), on balance, the public initiatives to support small enterprises have not been very effective; however, there are a number of initiatives that have demonstrated success in supporting small enterprises. Some examples of these are the Business Place, the Tourism Enterprise Programme and the MACs. These are examples of public private partnerships that were established to achieve specific objectives. The Business Place, according to Orford (2005), provided a walk-in centre offering one-on-one advice to entrepreneurs who want to explore starting or expanding their small businesses. The first Business Place Investec launched in Johannesburg. There are now Business Places in Cape Town and King Williams Town with plans to open a further two in KwaZulu-Natal and Philippi in the Western Cape. The core feature of the Business Place is that it locates several relevant services within one business-friendly environment. Services provided within Business Place are business planning, access to finance, accounting services, legal services, computer and skills training, tender information and advice, import and export advice, and marketing.

Smith and Associates' (2003/2004, cited in Orford, 2005) assessment revealed that the Business Place in Johannesburg functions well above the average Local Business Support Centre. Customer surveys indicate that 79% of Business Place customers felt that they had been 'helped a lot' by the Business Place, and 92% planned to return in the near future (Orford, 2005). Customers regarded information and resources as the most important services offered at the Business Place. In the period under review (16-month period until end 2003), the Business Place helped start 30 new businesses and helped 102

existing businesses (Orford, 2005: 18). The new businesses employed 80 people full-time (including 25 of the owners) and 17 people part-time. The existing businesses employed 311 people full-time and 159 people part-time (Orford, 2005: 18). Orford (2005: 19) posited that the aggregate turnover of the businesses the Business Place in Johannesburg helped was R1.5 million per month compared to the total budget for Business Place Johannesburg of R1.3 million for the same period.

The Business Place, according to Orford (2005), represents a dynamic public-private sector solution to the need for basic information and business advice for micro- and emerging small businesses. Investec originally initiated the Business Place but later sought to attract co-investors to each of its centres. Co-investors include the City of Johannesburg in the Business Place in Johannesburg, the City of Cape Town and the provincial government in the Business Place in Cape Town. Private sector companies also contribute by providing free services to Business Place customers (for example, legal and accounting services Weber Wentzel and Ernst and Young) provided. The model has potential for specialised focus in particular areas (for example, the Business Place in Philippi will have a focus on businesses located there). It solves a number of market failings. In particular, it reduces search costs for people wanting information on how to start a business or needing access to services located in the Business Place. A key feature of its success is the ability to provide quality, efficient services (Orford, 2005).

Another example, Orford (2005) identified, is the Tourism Enterprise Programme (TEP) which is a Business Trust project Ebony Consulting International (ECI) Africa implemented. The purpose of the programme, according to Orford (2005), is to facilitate and foster commercially viable business transactions between established industry players and small businesses. The TEP contributes to small-business growth by assisting in cost sharing on activities that will secure transactions resulting in growth of the business. Activities that TEP sponsors include marketing assistance for events, development of businesses and marketing plans, preparation and submission of tenders, and proposals to become a supplier, training, exhibitions and conferences (where appropriate), certification and licensing, and identification of service providers.

TEP does not finance assets, operating capital, raise share capital or provide start-up capital. Businesses that qualify for the TEP programme are either directly involved in the tourism industry or are suppliers to formal tourism businesses. The key objective of the programme is to grow the businesses with which they work. Orford (2005: 25) reported that in the Western Cape the TEP supported 60 businesses in 2004 and over 200 since the inception of the project. Orford (2005: 25) further showed that in 2004 they estimated that the programme created 150 000 'job days' (equivalent of 610 annual jobs assuming an 8-hour day and a 246-day year) and increased turnover by R45 million. Key ingredients for the success of the programme, argues Orford (2005), includes its ability to provide effective business support to small businesses enabling them to win new deals and grow their businesses. Orford (2005) believed that critical to achieving this is the fact that the programme is delivered by people with business experience who understand and are sympathetic to the needs of small businesses operating in the tourism sector. These are examples of Public Private Partnerships that were established to achieve specific objectives. These examples have been reviewed for the purpose of gleaning lessons that could guide the implementation of provincial and national programmes to support small enterprises.

#### **5.4. Description of the eThekweni Municipal Area**

It is very evident that economic empowerment and growth has become a priority not only for South Africa but for the eThekweni Municipality. Economic empowerment also provides opportunities for greater and broader economic participation for the majority of unemployed and underemployed citizens (EM, 2002a). SMMEs represent a sustainable, important vehicle to address the challenges of job creation, economic growth and equity within the EMA. There are a number of organisations, both public and private, that exist within the EMA which provide services to support and develop SMMEs. The Business Support Unit was established in 2002 for the purpose of providing integrated business support services to SMMEs on behalf of the Municipality.

An entity in the form of the Thekweni Business Development Centre (TBDC) now known as SEDA, which the Durban Metropolitan Council had established, had been charged

with the responsibility of providing support services to SMMEs within the EMA. At a provincial level, the Department of Economic Development and Finance provides targeted support to SMMEs within the EMA. At a national level, services are offered to SMMEs within this area through the regional offices of the Department of Trade and Industry. There are also a host of private sector organisations which also provide support services to SMMEs, for example, the Durban Chamber of Commerce through the SMME Desk. There are also a host of banks and training providers which also provide support services to SMMEs within the EMA.

Despite the fact that there is in existence an array of organisations which provide support to SMMEs, at the centre of the City's development challenge is the need to strengthen the economic base of the City. Whilst the per capita income of R19 943 per annum is higher than that of South Africa as a whole, it is far less than that of comparable middle income countries (EM, 2002a: 8). In fact, it has declined at a rate of 0.34% per annum between 1990 and 1999 resulting in declining standards of living (EM, 2002a: 8). The eThekweni economy is currently growing at a slow pace of 1.8% per annum compared to a healthy rate of 3%. In addition, the City faces a severe and increasing unemployment situation with estimates placing unemployment levels between 30% and 40% of the economically active population and since 1997 there has been a net loss of formal jobs of 1.5% per annum, that is, 40 000 jobs in total (EM, 2002a: 8).

In the light of the above discussion, and given that the last 14 years of government enterprise support in South Africa has been disappointing and unimpressive with programmes not reaching their target groups, Rogerson (2006) argued that there is now a need to revolutionise the SMME support structure within South Africa. This entails looking for alternative models and practices that would help increase the global competitiveness of SMMEs thereby making a significant contribution to the global economy. It is important, firstly, to assess current approaches to SMME support and development within the EMA, and secondly, to look at the most appropriate and effective means of revolutionising the SMME sector in South Africa and within the eThekweni Municipality, in particular, into becoming significant contributors to the economy in

terms of both job creation and economic growth as well as global competitors in global markets.

#### **5.4.1. History of SMME support within the eThekweni Municipal Area**

The former Durban Metro Council (DMC) had taken up the challenges of its local economic development responsibilities, with the Economic Development Department (EDD) being established in 1997 within the Council's Corporate Services Unit. The aim of EDD was to facilitate the development of policies, strategies and programmes to enhance economic development and job creation in the EMA. A key element within the Unit was SMME development, which was driven by the SMME and Community Economic Development Unit within the EDD (DMC, 1998).

It should be noted that despite this effort, the DMC did not have an all-inclusive, integrated SMME support framework. However, the overarching role of the EDD was to provide advice, networking, and coordination and facilitation services (DMC, 1998). The SMME and Community Economic Development Unit already provided an institutional focus for SMME support with its functions including research, data gathering, strategic guidance, capacity building, packaging of projects, and monitoring and evaluation (DMC, 1998).

Over and above this, there was ongoing research with the primary intention being the development of a sound information base in order to identify and maximise economic opportunities (DMC, 1998). Key research projects with an SMME-related focus at that time included investigations of the 'muthi' trade, street trading, inner city markets, urban agriculture, craft production, and employment issues and opportunities in the informal economy of townships (DMC, 1998).

The Thekwini Business Development Centre (TBDC) was also established under the auspices of the Economic Development Department. The TBDC was in essence a Local Business Support Centre (LBSC) which the National Small Business Strategy (DTI, 1995) proposed. The TBDC is a "one-stop-shop" which served as an agent on behalf of

DMC to provide services related to SMME support. The TBDC provides a comprehensive range of services and facilities to meet the needs of existing and aspiring entrepreneurs (DTI, 1995). Core services are the provision of business information, business advice, business linkages and tender advice. The TBDC is also expected to provide the support required for the successful implementation of the DMC's affirmative procurement policy (DTI, 1995). Furthermore, through training of small businesses and the development of a small business database, the centre helps the corporate sector to source goods and services from capable, proven small entrepreneurs (DTI, 1995).

The Affirmative Procurement Policy which the DMC adopted in March 1998, as a means of undoing historical patterns of unequal economic opportunities. The policy aspires towards a more significant involvement of small historically disadvantaged suppliers, service providers, contractors and consultants (DMC, 2000). The strategy tackles tendering procedures, financial guarantees, payment procedures and so on, and introduces a point preference system. For contracts with a value of less than R2 million, according to the DMC (2000), 7.5 preference points are awarded to enterprises with Affirmable Business Enterprise (ABE) status, and 2.5 points to enterprises with Women Equity Ownership (WEO) (DMC, 2000). The remaining 90 points are accorded to tender price. For contracts worth more than R2-million, a minimum contract participation goal of 10% has been set, with a maximum of 10 points awarded *pro rata* for the attainment of a contract participation goal in excess of 10% and up to a maximum of 40% or more (DMC, 2000). This procurement policy was expected to have had the most influential impact of all the mechanisms local government could employ to support SMMEs. This, according to the DMC (2000), was as a result of the size of its procurement budget which was around R1.1 billion. Successful implementation of the policy was thus vital for SMME support.

Other mechanisms used to support SMMEs were the Durban Metro Small Business fair which commenced in 1998. The fair represented opportunities for exposure for local enterprises in a concentrated, well-publicised environment that will help to promote their growth (DMC, 2000). The objectives of this Fair was to affirm the DMC's commitment

to SMME promotion and development. In addition, showcasing SMME products and service providers was also a priority. Other objectives included advising SMMEs on the Council's Affirmative Procurement Policy as well as exposing opportunities available for SMMEs within local government and corporates in the DMA (DMC, 2000). These SMME support measures the DMC provided evolved in an ad-hoc manner in response to changing local government responsibilities, an increasingly important SMME sector, and growing knowledge of SMMEs' needs and support practices elsewhere (DMC, 2000). The Year 2008 is the tenth year anniversary of the fair, and with each year the number of exhibitors and visitors to the fair continues to grow. The profile of the fair also improves with each year in terms of the publicity it receives as well as its guests. Trade shows are becoming increasingly popular in South Africa and the fair continues to play a significant role in raising the profile of small businesses within the EMA.

In addition to the above, the Provincial Department of Economic Development has been tasked with providing support to SMMEs within the EMA. In 2000, in line with the local government election, the eThekweni Municipality was established. Under the auspices of the newly established Municipality, the Business Support Unit (BSU) was established in 2001. The Business Support Unit seeks to provide integrated business support services to existing and potential businesses in the EMA to enable them to undertake income generating activities resulting in economic growth and job creation (EM, 2002b: 1). The eThekweni Municipality's Business Support Unit was formed on the strength of recommendations arising from the Procurement Unit on strategies to improve and increase the delivery capacity of procurement in eThekweni Municipality. Once formed, the BSU drafted an implementation plan for the Informal Economic Policy, which the Executive Committee of the eThekweni Municipality in 2002 (EM, 2002b: 1) adopted. The Business Support Unit is responsible for implementation of the Small Business Act (1996), the Informal Economic Policy and the Targeted Procurement Policy and operates in the formal and informal economic sectors of the eThekweni Municipality (EM, 2002b: 1).

In determining the capacity of any enterprise it is important to establish whether the business operates in the formal or informal economy (EM, 2002b: 1). The reason is simply that the development objectives of the informal economy and the formal economy are different. It is the aim of the Business Support Unit to regulate the informal economy so that survivalists and traders graduate to the formal economy (EM, 2002b: 1). With regards to the formal economy, the Business Support Unit is actively engaged in promoting an enabling business environment where SMMEs can flourish. Both the informal and formal economies of eThekweni Municipality are sustained by progressive business policies and programmes Business Support Unit (EM, 2002b: 1) implemented.

As part of its Draft Economic Development Strategy (DEDS), the eThekweni Municipality is advocating the growth and development of a vibrant entrepreneurial culture (EM, 2002b: 1). The Business Support Unit acts as a catalyst in creating an enabling environment for entrepreneurs. Amongst other things, the Business Support Unit aims to promote a safe and healthy environment for business. It also provides opportunities for entrepreneurs to showcase their products and services (EM, 2002b: 1). In addition to this, it provides relevant business information and resources as well as business to business networking and mentorship. Moreover, the intention of this Unit is to facilitate the provision of infrastructure and premises for business while providing referrals to appropriate government resources and quality business development service providers, including assistance/facilitation with business plans, access to finance, business skills and marketing (EM, 2002b: 1).

In addition to the above intentions, there are a number of projects which the Municipality is engaged in for the purposes of promoting SMME development. According to the South African Cities Network (SACN) (in EM, 2007d), the eThekweni Municipality signed a memorandum of understanding for the purposes of strengthening the economic ties between eThekweni and the Confederation of Indian Industry (CII). This relationship is expected to help a lot of SMMEs and emerging businesses and ensure that Indian experience and knowledge of business is translated into a plan of action for the eThekweni municipality.

Another initiative was the Standard Bank and eThekweni Municipality Partnership Programme for SMMEs which is a project targeted at identifying and developing SMMEs who have been denied access to financial services in the past. The main intention of the programme is to develop and enhance skills and capacities of historically disadvantaged SMMEs from the EMA. To this end and with the broad intention of fulfilling its constitutional objective of promoting social and economic development, the eThekweni Municipality partnered with Standard Bank to develop an integrated and effective SMME sector support and development programme. To initiate this project, the programme was intended to be piloted to 20 entrepreneurs whom the eThekweni Municipality selected via an assessment process. In total, 23 entrepreneurs were invited. On the basis of the pilot programme, a full programme is intended to be rolled out to benefit more SMMEs in the EMA. In a study Bob *et al.* (2005b) conducted aimed at evaluating the project, concerns were raised about developing appropriate training programmes that considered differing SMMEs levels, skills, experiences and business sizes. The participants also emphasised the need for monitoring and continued assessment of the training (including the provision of after-care support). In addition, there was an expressed need for more information and improved communication. Despite its good intentions through its various initiatives, the Municipality's major development challenge still remains high levels of unemployment which is an indication that the numerous efforts the Municipality made to create jobs over the years have not been very successful.

## **5.5. Conclusion**

This chapter commenced with a discussion on SMMEs within an international context and looked at trends in specific cities such as Dortmund, Toronto and Seattle. The South African economy is examined with particular reference to government initiatives on SMMEs. On examining the literature, it is clear that despite the introduction of the National Small Business Strategy which was purposed to improve the overall context within which small businesses operated, national government efforts were not successful and fragmentation and duplication of services still plagued it. To overcome these challenges, the DTI introduced SEDA which was intended to be a one-stop-shop amalgamating the various institutions and agencies offering support to SMMEs. While

SEDA is still in its infancy stage, to date it has not made a significant impact on the SMME environment (EM, 2005).

Swift service delivery marked the 1996-2001 period of the EMA to enable it to meet the needs of previously disadvantaged communities. Over the past 12-years the emphasis of local government has been on reversing the legacy of apartheid through meeting basic needs. This must continue over the next five years so that all citizens have access to basic services and decent housing (EM, 2005). However, it should be acknowledged that this alone will not help achieve a sustained improvement in the quality of life. Actions to build on the inherent strengths of the economy will be vital to generate income and jobs (EM, 2005). Furthermore, in order for eThekweni to become a globally competitive city, it needs to make serious efforts to upgrade the human resource skills and technology to enable eThekweni to become a “smart municipality”, in touch with its citizens, neighbours and the world (EM, 2005).

The history of SMME support in eThekweni began with the Durban Metro Council and the introduction of the EDD in 1997 wherein the SMME development function was located (EM, 2005). This Department was also instrumental in initiating the first Local Business Support Centre (an instrument of the DTI) in the form of TBDC. Further restructuring within the Municipality combined with the growing emphasis on SMME development lead to the creation of the Business Support Unit which is currently the Unit which is instrumental in promoting SMME development (DMC, 2000).

It is quite evident that there are numerous efforts the eThekweni Municipality made to improve its efforts to enhance the economy. The large number of awards and accolades that have been heaped on the Municipality recognising its improved service delivery as well as the developmental role it plays is evidence of this. Such awards are proof that local government can be very efficient in performing certain functions such as service delivery; however, it may not be as efficient in others such as promoting economic development and job creation.

## **CHAPTER SIX**

### **The analysis of data of questionnaires administered to SMMEs within the EMA**

#### **6.1. Introduction**

This chapter analyses the data that were collected from the questionnaires that were administered to respondents within the SMME sector of the EMA. In this study the discussion that follows will in essence be an attempt to answer the research questions and thus fulfil the research objectives of the study. The data was organised thematically. The first section of this chapter deals with similar types of studies that were conducted as a prelude to the discussion on the different questions that SMME respondents were asked. The chapter then focuses on the socio-economic profile of SMMEs and the profile of their businesses. This is followed by a discussion on their perspectives regarding the roles that should be played by the public and private sectors. The discussion then focuses on the respondents, awareness and understanding of Business Development Services (BDS) and finally, their willingness to pay for services needed is investigated. It is important to note that the findings of the researcher are integrated with supporting literature from various other studies to demonstrate linkages to other studies throughout the chapter.

#### **6.2. Similar studies conducted on SMMEs within South Africa**

With unemployment levels in South Africa standing at 42%, Jinabhai and Kadwa (2005: 19) asserted that government's priority is to focus on economic transformation and SMME development. According to Jinabhai and Kadwa (2005), while governments hoped to speed up the development of micro-/and small businesses, allow better access to people operating in the second economy and to decrease the cost of setting up new business in a bid to stimulate jobs, South Africa is still lagging behind the rest of the world on several entrepreneurial indicators. Jinabhai and Kadwa further (2005: 17) indicated that of the 31 countries surveyed in 2004, total entrepreneurship activity was 8.8%, while for developing countries it was 18.4%. South Africa's total entrepreneurship activity was 4.3% and the country was ranked 222. They further indicated that this rate is dropping at an alarming pace year-on-year and add that while in 2001 the rate was 9.4% in 2002 it decreased to 6.5% (Jinabhai and Kadwa, 2005: 17).

A study Cunningham and Trah (2004) conducted in Nelspruit sought to undertake a market assessment for BDS, with an analysis of demand and usage of BDS in that locality. According to Cunningham and Trah (2004), the German South Africa programme on BDS and Local Economic Development (LED) is engaged in the development of operational markets for the BDS that benefit local SMMEs, assisting them to realise their growth potential and hence create more employment. Cunningham and Trah (2004) maintained that the German Technical Cooperation (GTC) firmly believed in the ‘new approach’ towards facilitating market development for private sector provision of BDS. In particular, they argue that the German Technical Corporation (GTC) study focused on local knowledge, as well as the use and satisfaction of SMMEs with a range of different kinds of BDS. The findings of Cunningham and Trah (2004) were based on a sample of 440 SMMEs and concerned issues of awareness, knowledge, usage and satisfaction levels of BDS. The main results were:

- Awareness levels were highest for advertising, accounting and legal services, and lowest for assistance regarding tendering and negotiation skills.
- The extent of knowledge about different BDS varies between different kinds of SMMEs.
- Although small and medium-sized enterprises generally have a better knowledge of services than micro-/or very small enterprises, it was shown that microenterprises had the best knowledge of certain types of BDS, most notably quality training and advisory services; training on customers’ feedback to develop new markets; and advice on business planning, management and mentoring.
- The most important sources of information about BDS were colleagues and, in a few cases, advertisements and the activities of consultants.

Bob *et al.* (2004; 2005a; 2005b) conducted a number of studies on SMME initiatives within the eThekweni Municipality. The Small Business Fair is a key component of a local government (in this case the eThekweni Municipality’s) support programme offered to SMMEs in the form of an exhibition. The purpose of the exhibition is to offer SMMEs an opportunity to showcase their products and services. In their 2004 study that was conducted on the Small Business Fair held at the Durban Exhibition Centre from the 3<sup>rd</sup> – 5<sup>th</sup> September 2004 the key objectives of this study, according to Bob *et al.* (2004), were as follows:

- To determine volume counts of people attending the Fair
- To ascertain the demographic and business/institutional profiles of attendees and exhibitors
- To examine the economic impact of the Fair and spending patterns at the Fair
- To evaluate the perceptions and satisfaction levels of attendees and exhibitors in relation to various aspects such as location of the event, organisation of the event and the cost of stands
- To examine issues pertaining to the marketing/advertising of the event
- To assess the extent and nature of business benefits exhibitors accrued
- To establish exhibitors' and attendees' knowledge of the Small Business Fair and their main objectives for participating in the Fair
- To assess perceptions regarding the Fair

In order for the above objectives of the study to be achieved, according to Bob *et al.* (2004), the methodology adopted included the administering of 416 questionnaires (116 exhibitors and 300 attendees) with a random selection of exhibitors at the event. A purposive sampling approach was used to interview attendees. It was estimated that there were 173 exhibitors at the Fair. Thus, 67% of the exhibitors were interviewed. From their findings Bob *et al.* (2004), concluded that the overall socio-economic impact assessment of the 2004 Small Business Fair indicates that it was a relatively successful event. Their investigation revealed that one hundred and seventy three (173) exhibitors and 20 320 persons attended the event over the three day period. They motivated that the organisers develop a strategy of attracting more exhibitors since the anticipated 200-300 exhibitors for the event was not achieved. Bob *et al.* (2004) note that a key complaint of many of the exhibitors was insufficient sales. It is clear that only 5% of attendees intended to purchase items. Thus, the event is largely attracting people who want to make business contacts and get to know more about the small business sector. They concluded that there appeared to be a disjuncture in terms of objectives for exhibitors and this needs to be addressed by the organisers. It may therefore be necessary to clarify the key objectives of the Small Business Fair to all stakeholders to ensure that unrealistic expectations are not raised.

A different study Bob *et al.* (2005a) conducted to evaluate SMME Fairs since its inception in 1997. The survey population for this study were exhibitors who had participated in the SMME Fairs since its inception in 1997. According to Bob *et al.* (2005a), telephonic interviews were

conducted with the exhibitors who were chosen from lists provided by the Business Support Unit and Mirror Productions (organisers of the SMME Fair). Bob *et als*' (2005a) findings revealed that the vast majority of the respondents support the SMME Fair and viewed it as being beneficial to small businesses. However, they indicated that from the results it seems as if the key reason for most SMMEs exhibiting at the Fair was to increase market exposure. This implies that they expect potential customers to attend the SMME Fair. Further findings revealed that much of the frustrations of the respondents were linked to not receiving direct benefits from the SMME Fairs in relation to business contacts and increased sales. Linked to the expectations is also a concern that after the SMME Fairs, communication with the City stops.

In relation to the above, Bob *et al.* (2005a) asserted that the role of the eThekweni Municipality should be re-examined. They asserted that it was imperative that the Business Support Unit utilises the Fairs (as well as other opportunities) to profile it, especially the services and support it is mandated to provide in the City. Currently, the SMME Fair does not emerge as a "City-owned" event. In fact, it is not strongly associated with the Business Support Unit among the exhibitors (Bob *et al.*, 2005a). A significant challenge Bob *et al.* (2005a) identified was how the SMME Fair can balance the differing interests and aspirations of the different types/sizes of SMMEs that attend the Fair. Bob *et als*' (2005a) findings revealed that some respondents certainly felt disadvantaged and marginalised and it may therefore be important to consider suggestions forwarded by some of the respondents to organise the Fair in terms of business types and limit the number of businesses depending on their size and/or type. Their findings further revealed that in terms of the workshop training it is also imperative that different types of training be provided for different groups. This is particularly important to address the concern pertaining to workshops being conducted almost exclusively in isiZulu. Bob *et al.* (2005a) concluded that the SMME Fair has great potential to provide a platform for SMMEs in the EMA, however, the concerns and problems that the SMMEs raised should be addressed to improve the SMME Fair in the future.

Another study Bob *et al.* (2005b) conducted for the purposes of evaluating the Standard Bank/eThekweni Municipality partnership programme. The Standard Bank and eThekweni Municipality Innovative Partnership Programme for SMMEs is a project targeted at identifying and developing SMMEs who have been denied access to financial services in the past. The main intention of the programme is to develop and enhance skills and capacities of historically disadvantaged SMMEs from the EMA. To this end and with the broad intention of fulfilling its constitutional objective of promoting social and economic development, the eThekweni Municipality partnered with Standard Bank to develop an integrated and effective SMME sector support and development programme. To initiate this project, the programme was intended to be piloted to 20 entrepreneurs the eThekweni Municipality selected via an assessment process. In total, 23 entrepreneurs were invited. On the basis of the pilot programme, a full programme was intended to be rolled out to benefit more SMMEs in the EMA. A Business Support Unit representative revealed that SMMEs who participated in the programme were unable to access funding from Standard Bank and the City is therefore reconsidering the original partnership arrangement with this bank. According to the representative, the City intends approaching other financial institutions to further the interests of this programme.

The findings Bob *et al.* (2005b) discovered, demonstrated that the majority of respondents (85.7%) would like to expand their businesses in the near future. The main ways identified by participants were increasing turnover, increasing scope of business provincially and nationally, opening branches, moving to a bigger site, adding more space, purchasing more equipment and providing services to hospitals and hotels (interior decorating business). According to Bob *et al.* (2005b), some of the respondents (28.6%) would also like to diversify their businesses by opening a conference centre, constructing sidewalks and storm-water drains, become trainers and start other opportunities. Bob *et al.* (2005b) highlighted the additional comments forwarded by the majority of the respondents (64.3%) in relation to the SMME programme. Generally, they reinforced key concerns raised which related to developing appropriate training programmes that considered differing SMMEs levels, skills, experiences and business sizes. The monitoring and continued assessment of the training (including the provision of after-care support) was deemed to be important. There was an expressed need for more information and improved communication

According to Bob *et al.* (2005b), the barriers to participation in training programmes emerging out of the research findings and the literature review relate to the following aspects:

- Attitudinal: attitudes held by family member, the community or by the individual
- Situational: problems of distance, financial difficulties, time available and educational levels
- Systemic: lack of support services and/or training that is appropriate to specific trainee needs and aspirations

Bob *et al.* (2005b) indicated that in terms of the research, the length and timing of the training as well as the quality of training (in relation to specific trainers) emerged as key concerns that needed to be addressed. They further indicated that the training providers raised unrealistic and incorrect expectations among participants of getting contracts/ direct business/ loans/ grants from eThekweni Municipality. This was despite the fact that the City officials and Standard Bank continuously emphasised that the objectives of the training were to enhance skills and assist in transferring knowledge. Bob *et al.* (2005b) discovered that much of the frustrations of the participants were linked to not receiving direct contracts from the City. Related to this expectation is also a concern that after training many of the participants saw the role of eThekweni as providing contracts and financial assistance. The study Bob *et al.*, (2005b) conducted indicated that reliance and expectations on government for support and contracts persists.

### **6.2.1. A discussion of socio-economic profile of SMME respondents within the EMA**

According to Berry *et al.* (2002), any policy decision concerning South African SMMEs requires accurate information about their size and structure, as well as the contribution of SMMEs to the economy. In particular, they added that there is need to know the number and size of SMMEs, and where to find them. Berry *et al.* (2002) argued that because their needs vary strongly according to these two criteria, it is also important to know their distribution across age categories and across industries. They further asserted that the potential of SMMEs for economic empowerment can only be projected with an appreciation of the share of previously disadvantaged individuals (PDIs) in the ownership of SMMEs. Unfortunately, accurate information is not available in South Africa, especially on the informal sector, which apparently represents at least two-thirds of the SMME population.

In terms of the gender of respondents, Figure 6.1 indicates that there were more female-owned SMMEs (51.6%) who participated in this study than their male counterparts (48.4%).

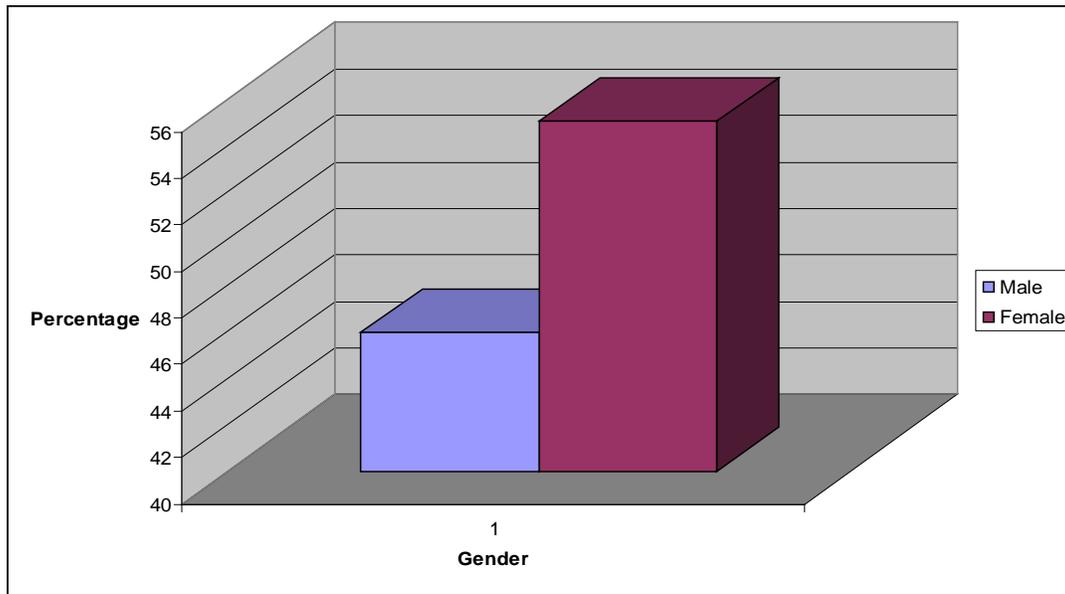


Figure 6.1: Gender of SMME respondents in the EMA

A study Solomon (2004) conducted in Cape Town revealed a slightly different picture with male participants being in the majority (55.05%) while there were 44.95% females. However, the findings are very similar to the study in eThekweni which Bob *et al.* (2005b) conducted which revealed that almost equal proportions of males and females were interviewed (49.7% males and 50.3% females). This study conducted in the EMA is also similar to the study Dzansi (2004) conducted where the majority were females (55%) while males made up 45% of respondents. Dzansi (2004) posited that this heralded good news for policy-makers who have been trying to bring women into mainstream economic activity.

According to Kornegay (2000), in October 1999, in a study conducted in Cornfields, KwaZulu Natal, only one in every four (26%) of African women between the ages of 15 and 65 years was employed compared to 41% of all African men. Kornegay (2000) argued that employed women are concentrated in low-paying occupations. Of the African women employed, one-fifth (21%) have clerical or sales jobs. One in twenty-five (4%) are professional while 11% are in the semi-professional. In terms of industry, only 10% of employed African women and 12% of all

employed women have jobs in manufacturing compared to 16% of all employed men. Women in general account for only 25% of all managerial positions.

In a study Rogerson (2004a) conducted focussing on SMMEs in the Free State, the results with regards to gender revealed a higher percentage of males to females. Out of 140 participants, 104 (75%) were males while only 25% were females. This is in stark contrast to the findings of study in the EMA. Because of the limited opportunities in the formal employment sector, many women seek opportunities within the informal sector thereafter progressing into the small business sector. Women stand to gain as government implements plans to grow the economy and create jobs. By strengthening women's economic capacity and enabling them to become key players in the economy, growth and development are also being promoted. According to the government of South Africa, women now have better access to jobs, skills training and government contracts (DTI, 2000). The provincial government's tender and recruitment policies are biased towards women, especially Black women. In addition, women entrepreneurs are favoured in government contracts and in tourism and other ventures (DTI, 2000).

The findings reveal a higher proportion of women participants than male and this is a strong indication that empowerment efforts that are directed at women have succeeded in increasing the number of women active in the economy. Although there are no national or local statistics that indicate the level of involvement of women in SMMEs prior to 1994, observations of women's attendance at fairs over the years show a marked increase in their participation. Since the birth of democracy in South Africa, women's empowerment has been placed at the top of the post-apartheid government agenda. A range of laws, programmes and projects is being implemented to improve the lives of women. However, Gqola (2006: 1) argued that the "women's empowerment" hype is a smokescreen and assumes that women are the only ones who need empowerment. In addition, she added that the "women's empowerment" discussion rests on an incorrect assumption that limited access to wealth by women transforms society meaningfully. She further added that it ignored that women's access to wealth and high office is also influenced by class, homophobia, race and xenophobia, and can only empower a small minority of women.

In spite of this criticism, the eThekweni Municipality has also recognised the importance of the economic empowerment of women by giving special preference points to women in business through its procurement policy (EM, 2002b). In addition, the Business Support Unit has developed a women's empowerment project for women in business sectors that were previously dominated by men, for example, the construction, petrochemical and automotive sectors. Eighty three women-owned SMMEs graduated from this programme which is a strong indicator that women are eager to participate in such programmes as well as the fact that women's empowerment is a strong priority of government (EM, 2007b).

According to Poswell (2002), societal perspectives on the acceptability of women working may also have changed in favour of female participation. Poswell (2002) was of the view that affirmative action may have played a strong role here. He indicates that the number of women of working age in the household has a positive and significant impact on female labour force participation and that this may be due to the fact that additional women in the house free up time in terms of childcare and the sharing of household chores. Poswell (2002) argued that where infrastructure has improved, traditional roles of women such as fetching water may have diminished and points to the fact that women may no longer be able to rely on more traditional sources of income, either from husbands or due to the fact that a higher proportion of men are unemployed. He further asserted that it appears that the major reason for such a rapid increase in the female economically active population is that women are in a sense being forced into the labour market. On the other side of the coin, we see that women are also more likely to be better equipped to enter the workforce in terms of attitudes, education and time availability.

It is important to identify the age groups categorisation of persons owning SMMEs. This study within the EMA reveals (Figure 6.2) that the majority of respondents were between the ages of 21-30 years (34%), 31-40 years (32%) and 41-50 years (22.4%). The average age of the respondents was calculated to be 36 years.

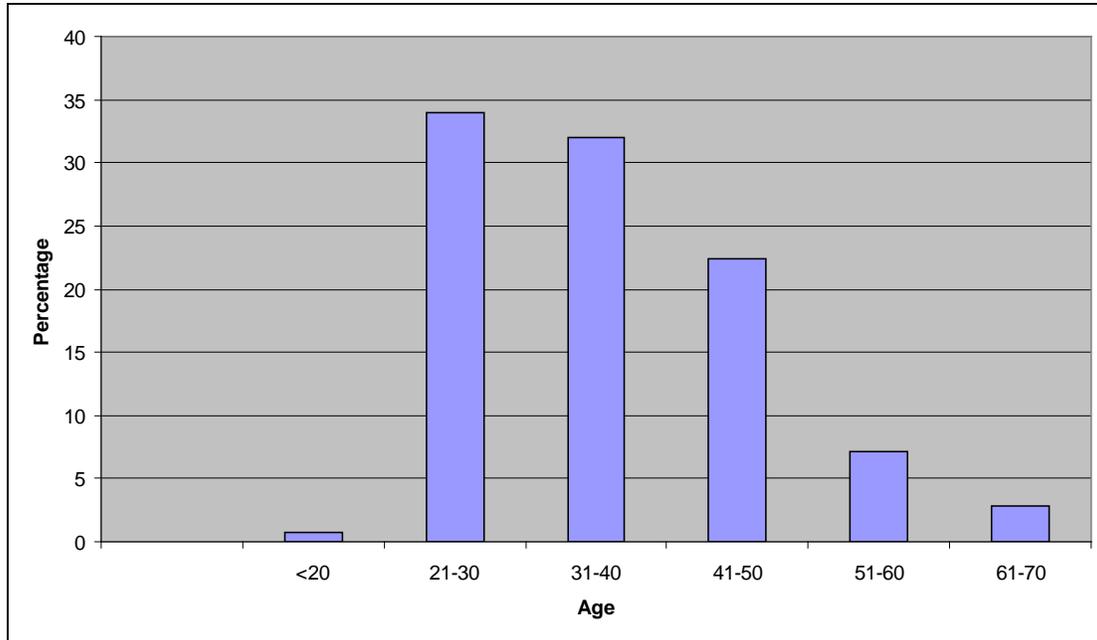


Figure 6.2: Age of SMME respondents in the EMA

This study (current) closely correlates to Bob *et als*' (2005a) study which revealed that the majority of the respondents were between the ages of 21 to 30 years (33.1%), 31 to 40 years (35.6%) and 41 to 50 years (19.6%). In South Africa the age categorisation of youth is 18-35 years. This study (current) therefore revealed the active participation of youth in the majority of SMMEs and this was also an indication of the success of youth empowerment programmes that the government of South Africa is encouraging. It has long been recognised that employment opportunities for young people even with tertiary education is restricted in South Africa and the youth are therefore encouraged to start their own businesses. The high frequency of SMME participants in this age category is a strong indication that young people are taking up such opportunities.

A study Rogerson (2004a) conducted on SMMEs in the Free State reveals that in excess of half of the sample was in the age range of 41-60 years and over two-thirds in the age range of 31-60 years. A study Dzansi (2004) conducted on SMMEs in Pretoria revealed that SMMEs were mainly in the following categories: 19-30 years (25%), 31-45 years (47.4%), 46 years and over (27.6%). These studies reveal that the majority of owners of SMMEs are relatively young between the ages of 21-40 years, which are similar to the findings of this study.

In South Africa, given the historical system of apartheid, race has become a significant factor in analysing the socio-economic profile of SMME owners. According to Venter (2001), the main characteristic of the South African political economy is the high inequality in living standards between rich and poor where these inequalities are race-related, with the vast majority of the poor being Black and the majority of the rich being White. Big business is owned mainly by a small group of White companies. Venter (2001) argued that although South Africa has now disposed of apartheid, the more equal distribution of political power within the population if measured in terms of franchise does not mean that economic power and benefits have been redistributed. However, fifteen years since the birth of the new democracy, this study reveals (Figure 6.3) a notably high percentage of African-owned SMMEs (70%) followed by Indian owned SMMEs (16.8%) at a significantly lower percentage. The lowest percentages were recorded for Whites (8.4%) and Coloureds (4.4%), respectively. It should, however, be borne in mind that the majority of the respondents were selected at SMME Fairs and other government conferences. The group targeted for such events by government are historically disadvantaged individuals which could account for the lower percentages of White participants. In addition, in the EMA, Coloureds are in the minority and the 4.4% is in part reflective of the Coloured population who reside in the EMA. It is also important to note that of the historically disadvantaged groups it is usually women who are targeted to participate in programmes since this is a priority area of the BEE policy of South Africa.

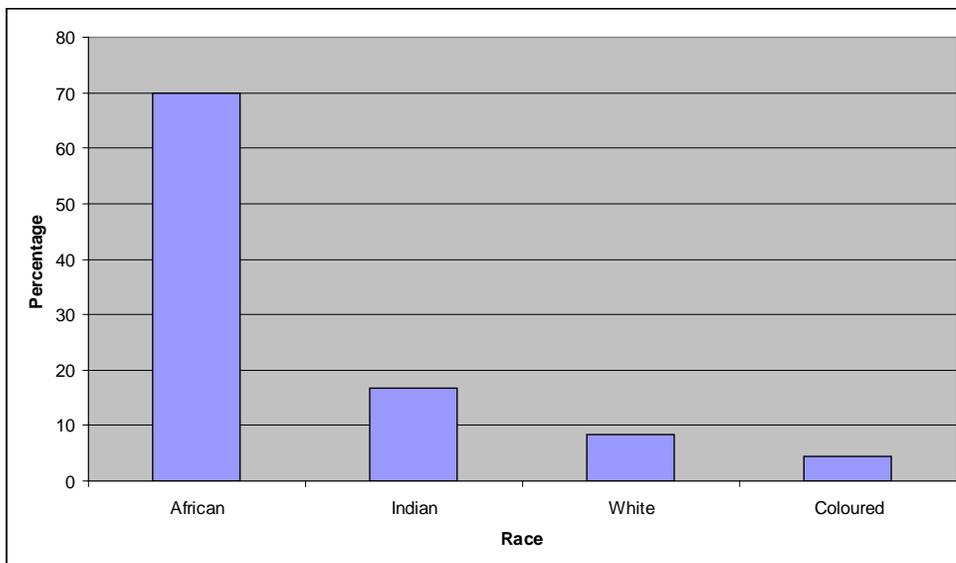


Figure 6.3: Race of SMME respondents in the EMA

Bob *et als*'. (2005a) study also revealed that the majority of the respondents were Africans (51.5%) followed by Indians (37.4%). Additionally, 9.2% of the respondents were Whites and 1.8% were Coloured. This finding which revealed a high percentage of Black-owned SMMEs refers back to the empowerment theory where Southall (2006) argued that BEE in South Africa has come to mean the empowerment of Blacks and therefore their increased participation within the private sector of the economy. Cant and Stanford's (2004) results also revealed that the majority of the SMME owners were Blacks (36.47%) followed by Asians (24.31%) and Coloureds at a low percentage of 17.22% while Dzansi's (2004) study on SMMEs in Pretoria showed a far higher percentage of Black owned SMMEs (46.81%) than their White counterparts (39.17%) and Indians at 14.02%. Such differences may be strongly indicative of the population distribution in the different areas.

According to Berry *et al.* (2002), given South Africa's specific history of apartheid which meant the exclusion of the majority of potential entrepreneurs from proper education and access to property and/or financial resources, it is important to know to what extent and in what forms PDIs are able to take their part in business. Berry *et al.* (2002) found that the Global Entrepreneurship Monitor (GEM) (2001) study suggested that 76.8% of entrepreneurs are African, Coloured or Indian. They believed it to be plausible that there has been an increase in the share of PDIs in the last four years prior to 2002. This could be attributed to the Black empowerment programmes that South Africa has embarked on.

According to Rylands (2005), in South Africa, Black Economic Empowerment (BEE) is emphasised especially as it relates to the SMME scene. Rylands (2005) argued that transformation and the BEE equity component has become a business imperative for both big and small business. SMMEs are beginning to see the opportunity of using a BEE equity transaction as a means to inject capital and exit value out of their business. Although BEE does not equate to small business development, Rylands (2005) believed BEE is perceived to continue discriminating against informal survivalists. Rylands (2005: 3) posited that most beneficiaries in respect of BEE activities are from the formal business sector which exacerbates the negative perception that government's small business support programmes are elitist because it benefits only the "haves". He further indicated that those described as the "have-nots" do not participate

in BEE, as they do not have the basic skills, experience and collateral to access these opportunities.

Another significant element of the socio-economic profile of SMMEs is their educational level which often is a factor in determining their levels of success in business. In this study only 17.2% of the respondents indicated in Figure 6.4 that they had no education at all. Most respondents (82.4%) had indicated some level of formal education which is in fact contrary to the perception that SMME owners have very little to no education. A detailed investigation into the results revealed that 16.4% of the respondents had secondary education while 32.8% of the respondents indicated that they had diplomas, with 18% of the respondents indicating that they had degrees and 12.8% of the respondents indicated that they had postgraduate degrees. The fact that there is a high percentage of literacy among SMME owners indicates a higher level of understanding and therefore, a strong indication that they could benefit from training programmes and other types of support programmes.

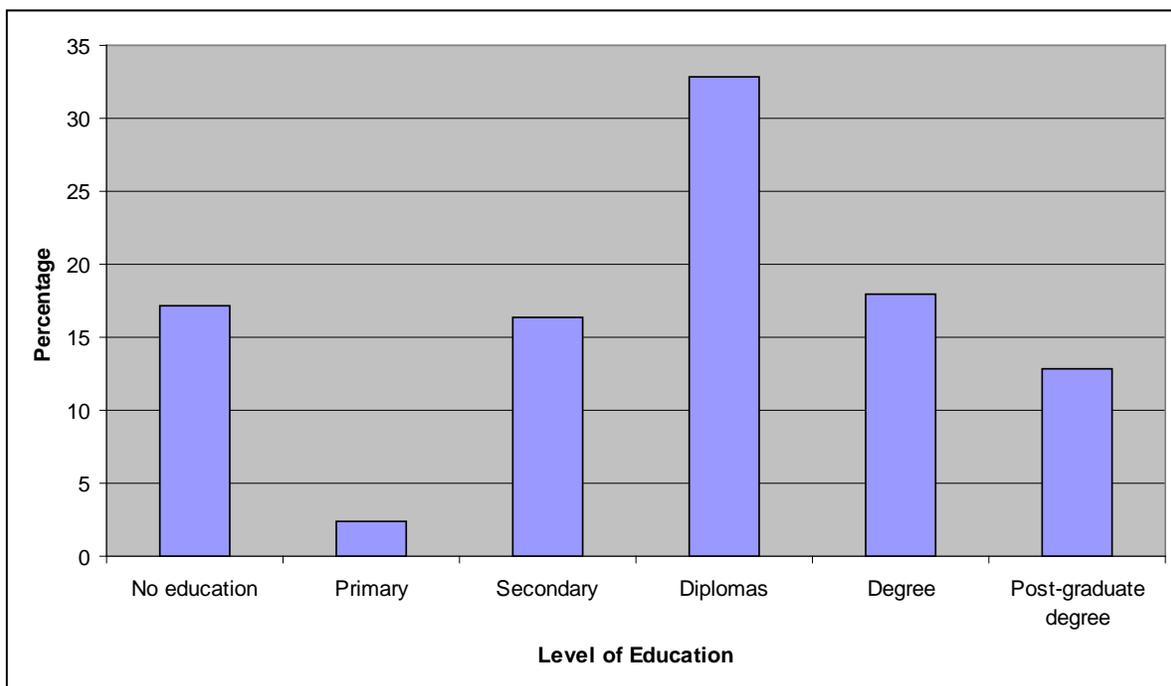


Figure 6.4: Educational level of SMME respondents in the EMA

These research findings are similar to other studies discussed below. According to Bob *et al.* (2005a), in their study conducted on SMMEs in eThekweni, only 3.7% of the respondents indicated that they had no formal education, the rest had some level of formal education and a significant proportion had post-matric qualifications, particularly certificates (21.5%) and diplomas (27.6%). Approximately a third of the respondents (33.1%) had secondary level education with a few respondents (1.8%) having primary education. The study further revealed that 8.6% of the respondents had degrees and 3.7% had postgraduate degrees (Bob *et al.*, 2005a).

Dzansi (2004) revealed that only 4.14% of the respondents had no formal education while 15.92% had primary level education, 9.24% had secondary level education, 27.07% had matriculation and 28.66% had post-matriculation qualifications while 14.97% of the respondents indicated a postgraduate level of education. The Dzansi study revealed that over 70% of the owners have at least matriculated which augured well for training providers who would not have much difficulty in providing further training to SMME owners given their educational levels. A significant challenge Bob *et al.* (2005a) identified was the range of educational levels which indicated a need to provide programmes such as workshops that address the differing educational levels. The discussion of the socio-economic profile describes the various characteristics of the SMME owner while the next section highlights the characteristics of the enterprise.

### 6.2.2. Business Profiles of SMME respondents in the EMA

The profile of a business describes the characteristics of the business such as location, age of business and turnover of the business. In terms of location of business, this study reveals (Table 6.1) that the majority (78.8%) of the respondents are located in fixed positions/ sites while a smaller percentage considered their business to be mobile (21.2%).

Category	Frequency	Percentage
Fixed	197	78.8
Mobile	53	21.2
Total	250	100

Table 6.1: Location of respondent's business in the EMA

Based on his study on SMMEs in the United Kingdom (UK), North (2005) asserted that a fixed location generally increases the credibility of a business as well as its potential for growth and success, In this study in the EMA, there was a significantly high proportion of respondents who had fixed locations which is a strong indicator of permanency of the business and potential clients will know where to go to access the business. It therefore indicated that SMME respondents within this study had a strong potential to grow and succeed on the basis of its credibility acquired through the high percentage of fixed locations observed.

The stage of development of a business is an important factor that is used when determining measures of support that is required. In this study in the EMA, the most significant group are those with fairly young businesses (less than 3 years) with the collective percentage amounting to 57.6% (Table 6.2). This implies that most businesses are in the emerging or the start-up stage of their business cycle (0-3 yrs - 57.6%). This is closely followed by businesses which are between 4-7 years in operation (34.8%). Only 4.8% of businesses are operating longer than 7 years. The average number of years in business was calculated to be 3.6 years which is a strong indicator of fairly young businesses.

<b>Number of years</b>	<b>Frequency</b>	<b>Percentage</b>
No response	7	2.8
1 year	63	25.2
2-3 years	81	32.4
4-5 years	38	15.2
6-7 years	49	19.6
> 7 years	12	4.8
<b>Total</b>	<b>250</b>	<b>100</b>
Average: $\bar{x} = 3.6$ years		

Table 6.2: Number of years that the SMME is operational in the EMA

Cant and Stanford's (2004: 7) study revealed similar findings with 55.71% of the businesses being in the early stages of operation (0-3 years) while those who operate in the 4-7 years category constituted 22.86%. Dzansi's (2004) study on SMMEs in Pretoria revealed the following results: those in operation for less than 5 years (24.2%), 6-10 years (34.4%), 11-20 years (25.79%) and 21 years or more (15.61%). Rogerson's (2004a) study revealed a significant percent of SMMEs operating in the 0-3 years (41%) category. These studies reveal a higher

percentage of younger firms. North (2005) presented two main arguments for focussing support on younger firms, the first of which is that their prospects for employment generation are better than that of older firms and secondly, they may need particular support in order to evolve into more mature businesses. North (2005) argued that while younger firms also demonstrate a potential to generate jobs, this is to some extent offset by their lower chance of survival. It would therefore, according to North (2005), be erroneous to target policy support exclusively on younger firms. It can be concluded that SMMEs in this study is at the stage of development where the most business development support is required to ensure further growth and sustainability and therefore such respondents would strongly benefit from a good SMME support environment.

<b>Area</b>	<b>Frequency</b>	<b>Percentage</b>
No-response	21	8.4
Historically advantaged areas		
Durban CBD	150	60
Western district	17	6.8
Historically disadvantaged areas		
Northern districts	46	18.4
Southern districts	16	6.4
Total	250	100

Table 6.3: Area in which the SMME is located in the EMA

Table 6.3 indicates that the majority of businesses (60%) are located within the CBD of the eThekweni Municipality which is a strong indication that businesses gravitate towards the main, built, urban areas since this is where the strongest access to markets and economic opportunities exist. A far smaller percentage (24.8%) of SMMEs is located within historically disadvantaged areas, specifically the Western and Southern suburbs. This is due to a number of factors, among which is the fact that SMMEs in townships have not yet fully taken off due to factors such as accessibility, transportation networks and higher levels of criminal activity.

Table 6.4 presents the average monthly turnover of SMME respondents in the EMA. The findings reflect that 90% of the respondents earn below R12 000 per month with the most significant percentage being from those respondents which generate a turnover of between R9000 - R12000 per month (33%). This is a strong indicator that the majority of the SMMEs is within the micro-enterprise sector as per the definition the DTI (1995) proposed. Findings also

reflect that only 10% of the respondents generate a turnover in excess of R12 000 per month. The average turnover generated by the respondents is R6 900 per month which is highly reflective of the turnover of businesses of the micro-enterprise sector.

<b>Income category</b>	<b>Frequency</b>	<b>Percentage</b>
No response	30	12
<R1 000	37	14.8
R1 000-R3 000	30	12
R3 001-R6 000	22	8.8
R6 001-R9 000	23	9.2
R9 000-R12 000	83	33.2
>R12 000	25	10
Total	250	100
<b>X = R6 900</b>		

Table 6.4: Average monthly turnover of respondents in the EMA

Table 6.5 is an indication of the types of business activities the respondents were involved in as per the national definition of sectors the DTI (1995) proposed. It is evident that SMMEs are involved in a wide range of activities.

<b>Type of Business</b>	<b>Frequency</b>	<b>Percentage</b>
Clothing and Textile and related	36	14.4
Information and Communication Technology	33	13.2
Arts and craft	25	10
Consultancy and related products	24	9.6
Unspecified	24	9.6
Construction and related products	23	9.2
Catering and cleaning	20	8
Interior design and related products	13	5.2
Manufacturing	12	4.8
Automotive	7	2.8
Printing and related	6	2.4
Health care	6	2.4
Agriculture and related	5	2
Chemicals	4	1.6
Engineering	4	1.6
Wholesale and Retail	3	1.2
Tourism and Hospitality	3	1.2
Logistics	2	0.8

Table 6.5: Sectors of business activity that respondents within the EMA are involved in

The most significant sectors that businesses are involved in include those who are in the clothing and textile sector (14.4%) and those who are involved in the information and technology sector (13.2%). This is due to the fact that there has been large numbers of jobs that have been lost in the clothing and textile sector which has in turn encouraged people to start their own businesses in this sector. A number of respondents were also engaged in the construction and related products sector (9.2%). Whilst there currently is a boom in the construction industry, there have also been claims contractors made that insufficient support is offered to them in the construction industry (EM, 2007c). The Business Support Unit together with SEDA technologies have increased the levels of support offered to contractors through the establishment of a construction incubator which has been set up for the purpose of providing support to this sector. There were also a number of participants in the arts and crafts sector (10%). The Business Support Unit also has a specific support programme for participants in this sector where a number of them are assisted in gaining access to markets both locally and internationally. Crafters are supported financially to attend international exhibitions where they are given opportunities to showcase their products. Consultancy and related products (9.6%) and catering and cleaning (8%) also featured quite prominently in the findings. The eThekweni Municipality makes use of these services on a regular basis; however, more support is required to improve the quality and standards of these services.

<b>No. of Employees</b>	<b>Frequency</b>	<b>Percentage</b>
No response	32	12.8
1-5	140	56
6-10	48	19.2
11-15	16	6.4
15-20	7	2.8
>20	7	2.8
<b>Total</b>	<b>250</b>	<b>100</b>
$x = 5.3$		

Table 6.6: Size of SMME businesses in relation to number of persons employed in the EMA

Table 6.6 looks at the size of SMME businesses in terms of the number of persons employed. The highest percentages of respondents are those who employ less than five employees (56%). This implies that a large percentage of respondents fit into the definition of microenterprises the DTI (1995) defined. Results further indicate that only 19.2% of the samples have between 6-10

employees while only 12% of respondents employ in excess of 10 employees. From the sample, 31.2% of respondents can be categorised as small and medium enterprises as defined by the DTI (1995). The average number of employees was calculated to be 5.3 employees. In Rogerson’s (2004a) study, a similar result was obtained where 86% of the respondents in his sample employed five employees and less while 13.6% of the respondents in his sample employed in excess of five employees. According to Rogerson (2004a), certain observations must be made concerning the size of enterprises and employment opportunities created in the emergent SMME economy. Generally, the employment profiles on the growing SMME economy in the Free State emphasised the colossal challenge of realising the positive targets for job creation through the growth of existing enterprises that have been put forward in provincial planning documents. Rogerson (2004a) argued that the extent of this challenge can be further understood through a more meticulous analysis of the business performance and development trajectories of the emergent SMME economy which had been investigated within the Free State. Similar conclusions can be drawn for this study in the EMA. While SMMEs may be looked at as the “engine of growth” in South Africa, it can never be seen as a panacea for resolving the unemployment challenge that is rife in both eThekweni and South Africa as a whole. However, it does have the capacity to create jobs, albeit on a somewhat limited scale.

Table 6.7 represents whether SMMEs are registered with an agency. The purpose of this question is to investigate levels of formality among the respondents. The findings reveal that only 38.4% of the businesses surveyed are registered with a formal agency while an overwhelming majority of 52% are not registered with any agency. Some of the interviewees (9.6%) did not respond.

<b>Registered</b>	<b>Frequency</b>	<b>Percentage</b>
No response	24	9.6
Yes	96	38.4
No	130	52.0
Total	250	100

Table 6.7: SMMEs in this study are registered with an agency

The SMME respondents that were registered were spread among various agencies, namely the Durban Chamber of Commerce (9%), SEDA eThekweni Business Centre (7%), Companies and Intellectual Property Registration Office (CIPRO) (13%), Tourism, Hospitality and Sport

Education and Training Authority (Theta) (3%) and Construction Industry Development Board (CIDB) (6%).

The main purpose of registering an SMME with an agency would be for support institutions and service providers to maintain statistics as well as maintain an inventory of SMMEs for the purpose of providing incentives and support services. In India, SMMEs are encouraged to register in order to access some incentives or support given by the central or State government (Small Medium Enterprise Rating Agency-SMERA, 2008). In Singapore, SMMEs are considered to be critical to Singapore’s economic success and are therefore encouraged to register in order to access the benefits and incentives of doing business in Singapore (AsiaBiz, 2008). In the EMA, the Municipality proposed no formal incentive schemes only businesses which have some sort of formal registration are able to access procurement opportunities from the Municipality. In view of the fact that 52% of respondents are not formally registered, the opportunity to access procurement opportunities or support from the EM is constrained for these businesses.

In view of the fact that the study area was the EMA, the researcher wanted to investigate (as illustrated in Table 6.8) how the respondents felt about the EMA as a place in which to conduct their business. A significant proportion of the sample (42.8%) indicated that the eThekwini Municipality is an excellent place to conduct business in, while 24.4% of the sample indicated that the Municipality is a pleasant place to conduct business in. A very insignificant proportion of the sample (0.8%) indicated that the eThekwini Municipality is an unpleasant place to conduct business in.

<b>Rating</b>	<b>Frequency</b>	<b>No response</b>
No response	12	4.8
An excellent place for business	107	42.8
A pleasant place for business	61	24.4
An average place for business	68	27.2
An unpleasant place for business	2	0.8
Total	250	100

Table 6.8: Respondents rating of eThekwini Municipality as a place to conduct their business in

Some of the reasons cited for rating eThekweni as a positive place within which to conduct business in (Table 6.8) included views that eThekweni is a fast growing environment to conduct business, and is the economic hub of the Province. The respondents also indicated that the area was a good market for their products and services. More specifically, Table 6.9 presents findings on the advantages of locating within the EMA. The most significant advantage respondents identified is the close proximity to markets (28.8%). Other key advantages the respondents cited were good infrastructure (17.6%) and good support from local government (17.2%). Other advantages identified were low crimes rates (4%) and lower property rates (2.4%). Thirty percent of the respondents did not forward any advantages.

<b>Advantage</b>	<b>Frequency</b>	<b>Percent</b>
No response	75	30
Lower property rates	6	2.4
Good infrastructure	44	17.6
Close proximity to markets	72	28.8
Good support from government	43	17.2
Low crime rates	10	4
Total	250	100

Table 6.9: Advantages of respondents locating within the EMA

According to EM (2008b: 1), the City has four main locational advantages which SMMEs also benefit from:

- The City is well located for trade within the Indian Ocean Rim
- It enjoys a favourable location relative to domestic trade with the country's inland centre (Gauteng) and the Southern African region.
- Good proximity to other industrial and commercial centres within the Province, notably Pietermaritzburg and Richards Bay
- The City acts as a gateway for tourists to explore the many world class attractions situated within KwaZulu Natal.

While the EMA views its locational advantages relative to regional competitiveness and linkages, as illustrated above, the SMMEs are concerned about advantages that they perceive in relation to the internal characteristics of the EMA, especially in terms of service provision and business opportunities.

<b>Disadvantage</b>	<b>Frequency</b>	<b>Percent</b>
Higher property rates	63	25.2
Poor infrastructure	7	2.8
Poor access to markets	54	21.6
Poor support from government	37.5	15
High crime rates	87.5	35
Congestion	1	0.4
Total	250	100

Table 6.10: Disadvantages respondents identified of being located within the EMA

The most significant disadvantage respondents identified in Table 6.10 is the high crime rates (35%). The EM (2007a) has recognised crime to be one of the major issues that needs to be addressed in the City. According to the City Manager’s Newsletter (EM, 2007a), the levels of crime are still far too high and huge resources are being concentrated to address this issue (EM, 2007a). Another significant disadvantage cited in eThekweni is higher property rates within the area (25.2%). The Municipality has recently approved a new policy to evaluate property values which is a legislated requirement necessary every five years (EM, 2008b). This evaluation has generated high levels of dissatisfaction amongst the public as revealed by daily reports in the newspapers (Savides, 2008). While many respondents highlighted access to markets as a distinct advantage cited in the previous table, 21.6% of respondents also cited it as a disadvantage. An additional disadvantage cited by respondents was the poor support that they received from government (15%).

<b>Rate of success</b>	<b>Frequency</b>	<b>Percentage</b>
No response	14	5.6
Extremely successful	49	19.6
Averagely successful	101	40.4
Just making ends meet	69	27.6
Not successful	17	6.8
Total	250	100

Table 6.11: The extent to which the respondent considered the enterprise to be successful

Table 6.11 reveals that the majority of the respondents indicated that their businesses were averagely successful (40.4%). In addition, 27.6% of the respondents indicate that they were just making ends meet. It is noted that 19.6% of the respondents indicated that their businesses were

extremely successful. However, 6.8% stated that their businesses were not successful. The results imply that 80.4% of the respondents required some measure of support in order to ensure that their businesses grow and succeed to the next level. This indicates that despite the numerous policies, strategies and programmes that have been put in place by the various spheres of government as identified in the literature review, more support is still required for SMMEs.

According to Bob *et als*' (2005b) study, the types of assistance/support/training respondents felt were needed to address the problems identified were:

- Access to finance (grants, loans, etc.)
- Start-up capital
- Provision of business sites and equipment
- More business (especially long-term contracts)
- Training of workforce/ skills development
- Market exposure/ assist with advertising
- More specialised business training

This study reflects Bob *et als*' (2005b) findings with most respondents highlighting the need to improve their businesses through various types of support measures. Specifically, some of the ways to improve their businesses, respondents identified in this study in the EMA, were increasing market exposure (73.2%) and increasing sales/business opportunities (66.8%). Respondents also identified networking and partnerships as a significant support measure (64.8%). Additional support measures cited were access to finance and machinery (4.4%) as well as obtaining leads for opportunities within government (2.4%).

SMMEs experience several problems in their businesses on a daily basis. The SMME respondents in the EMA identified several problems that their businesses are currently experiencing. (See Table 6.12)

<b>Problem</b>	<b>Frequency</b>	<b>Percentage</b>
Access to finance	190	76
Access to infrastructure	39	15.6
Access to markets	154	61.6
Access to skills	115	46
Access to technology	53	21.2
Gender discrimination	6	2.4
Lack of government support	22	8.8
Competition	22	8.8
Cheap imports destroying the market	9	3.7

Table 6.12: Problems respondents were experiencing in their enterprises in the EMA

An overwhelming 76.2% of respondents identified access to finance as the most significant problem. This was followed by those who identified access to skills (46%) as a problem. Access to markets (38.6%) was also identified as a challenge to their business followed by access to technology (21.4%) and access to infrastructure (15.6%). Lack of government support (8.8%) and competition (8.8%) were additional problems identified. Gender discrimination was an issue that was identified by 2.4% of respondents.

The problems identified by respondents in this study correspond strongly with problems other studies identified. Bob *et al.* (2005b) in their study identified the following problems experienced by SMMEs:

- Inadequate finance and capital
- The lack of tools, machinery and equipment
- Overhead costs
- Inability to employ skilled personnel
- Insufficient business space
- Insufficient business opportunities/ few customers/ lack of markets for products
- Inability to use computers

Rogerson's (2004a) study identified shortage of and access to finance as the core issue at the start-up of SMME enterprises. Rogerson (2004a) argued that this applies across all the major sectors of SMME development. He further identified inadequate or unavailable premises as a major problem particularly for the operations of manufacturing and retail SMMEs, the majority

of which start out their existence as home-based businesses or backyard enterprises. Other issues included the lack of equipment (or finance for such equipment) as a blockage that is strongly felt at the start-up of manufacturing and construction enterprises. In addition to these, Rogerson (2004a) indicated that problems of inadequate markets are most strongly experienced by the highly competitive market environment of service SMMEs. The issue of theft is of particular concern to manufacturers and retailers with a number of entrepreneurs complaining that crime against their business had resulted in the loss of their equipment or stock. Other generic issues identified in Rogerson's (2004a) study related to problems experienced by entrepreneurs in becoming formally registered, lack of knowledge of the particular businesses that they were operating and for manufacturing enterprises in particular, problems relating to transport of materials or goods.

In a study the DTI (2004) conducted on SMMEs in Mpumalanga as part of the Annual Small Business Review, the major challenges and constraints facing Mpumalanga's SMME economy parallel those found elsewhere in the country – inhibitive or non-existent policy frameworks in the past and critical internal constraints such as inadequate business and technical expertise, access to markets and suitable infrastructure, as well as inadequate availability and access to finance. According to DTI (2004: 17), in common with the national challenges of SMME development, finance is identified as a critical challenge for the Mpumalanga Province, as SMME entrepreneurs operate within an environment of inadequate access to finance which is linked to “inappropriate financing institutions and instruments for different sections of SMMEs”. An additional problem for SMME development in the Province is identified as the marketing of products and services. The major issues relate, *inter alia*, to poor access to markets, high prices and limited access to inputs, inadequate access to business opportunities, insufficient (or non-existent) networking between SMMEs and large business enterprises, and insufficient networking amongst SMMEs themselves. Infrastructure improvement and technology enhancement are further challenges for provincial SMME development. Several forms of infrastructure have been recognised as priority needs for the SMME economy, including telecommunications, industrial premises, incubators and affordable business premises. Technological support was identified as requiring the right level to address the production problems of specific kinds or clusters of enterprises. Land tenure was identified as a further

challenge for SMME development, especially in terms of a critical lack of access to title deeds. Finally, problems identified in Mpumalanga include a shortage of skills for business development and the existence of a network of business and technical training deemed fragmented and uncoordinated. Of special concern is the balance of available training in the province. It is argued that an over-supply of training exists in fields such as needlework, in which the market is already saturated, while an under-supply occurs in economic sectors such as tourism in which the Province is seen as having great potential for future development.

In a study Solomon (2004) conducted, a number of reasons were identified for the failure of small businesses. Some of these reasons will be dependent on, for example, inexperience and the lack of training and marketing. Solomon (2004) argued that poor location or inability to identify markets or opportunities, human resources in terms of low productivity, operations such as lack of quality control systems, management behaviour (for example, reluctance to seek advice) or lack of commitment might be among the many reasons which account for small business failure. He further argued that a significant factor is whether business failure implies that the business was a viable venture to begin with or whether the small business owner failed to make the business successful. Solomon (2004) contended that additional factors which bring about business failure could be attributed to inefficient management of resources, for example, bad debts may be careless extension of credit. He further argued that a lack of managerial and planning skills, ineffective working capital management, an inability to manage the competitive environment, and over-expansion, are factors contributing to the financial failure of small businesses.

Solomon (2004) asserted that small businesses that are young, those who produce poor products and those with inefficient marketing strategies do not possess the managerial skills to respond to environmental shocks. It is therefore important for a business to align its activities, be it services or products, with the need/s in the market since it is extremely difficult for small businesses to influence the market as big businesses do. According to Solomon (2004), a small business is owner-driven, which is fundamentally different to big business. Furthermore, a small business is not team managed, it has high failure rate, a short-term focus on returns, no internal labour pool and a high personal financial commitment by the owner.

Mutezo (2005) identified the most significant constraint to SMME growth as time since there are often limited managerial resources within a business and the small business owner plays the role of financial controller, marketing manager and operations manager, purchasing manager, dealing with staff matters as well as executing key strategic decisions similar to that of a chief executive officer. Furthermore, Mutezo (2005) indicated that other obstacles that the firms experienced included marketing risks which emanated from having a limited product range. Many small firms produce just one type of good or service or at least a very limited range of them. This in turn exposes them to problems should consumer tastes and demand conditions change. Additional problems relate to difficulties in finding suitable and reasonably priced premises since the best locations tend to be expensive and often only affordable by larger firms. Mutezo (2005) further argued that poor financial systems, lack of regulations and anticompetitive policies are also key constraints. Also, poor business processes and procedures and the existence of a “business as usual” attitude inhibit growth. Mutezo (2005) further identified policy-generated costs that constrain financial development such as implicit taxation through financial (interest rate) repression, taxation through unremunerated reserve requirements and a poor legal system for loan recovery.

Berry *et al.* (2002) argued that while finance appears to be a common challenge for all SMMES, in their study which was conducted on SMMES during the period 1995-1999 in South Africa, the main reason cited by more than 60% of non-borrowing firms (but only 30% of Black firms and 50% of Indian and Coloured firms) was that they did not need a loan. This is a surprisingly high result, which suggests that, at least at the time of the survey; a significant proportion of South Africa’s formal SMMES were not constrained by financing problems, but rather by a lack of investment opportunities or a lack of entrepreneurial spirit. The second more prominent reason for not borrowing from banks, provided by almost 10% of non-borrowing firms, was the lack of security/ collateral. These results closely correlate with the finding of this study which shows an overwhelming majority experiencing financially-related difficulties.

In the study Berry *et al.* (2002) conducted, regulatory burdens remain a major obstacle for SMMES as these firms tend to be poorly equipped to deal with the problems arising from regulations. Berry *et al.* (2002) posited that access to information about regulations should be

made available to SMMEs at minimum cost. They further pointed out that policy-makers must ensure that the compliance procedures associated with, for example, research and development and new technologies, are not unnecessarily costly, complex or lengthy. Berry et al. (2002) contend that transparency is of particular importance to SMMEs, and information technology has great potential to narrow the information gap. They further asserted that it would be of great help to set up a “one-stop-shop system”, where all the necessary information which affects firm strategies and decisions is made available in one place, as exists already in some countries. This finding is in contrast to the finding of this study since only 8.8% of respondents identified lack of government support as a challenge. No specific mention was made of regulatory burdens imposed by government. This could be due to the fact that there was a high percentage of respondents (52%) who were not registered and possibly do not concern themselves with regulatory compliance.

It is safe to conclude that there is a high correspondence between the findings of this study to other studies conducted by Berry *et al.* (2002), Bob *et al.* (2005a; 2005b), DTI (2004), Mutezo (2005), Rogerson (2004a) and Solomon (2004). These studies presented a strong argument that it does not matter where SMMEs are located within South Africa, the problems experienced by them transcend the boundaries of their location.

### **6.2.3. The role of the public sector in providing support to SMMEs in the EMA**

One of the purposes of this study is look at the roles of both the public and private sectors in SMME development. This section will report on the respondents’ awareness of the support government provides for SMMEs. It looks at whether the respondents have accessed services offered by government departments/ programmes and their experiences in this regard. This section further investigates the potential roles that SMMEs think the public sector should be playing.

In terms of those who have accessed support from government, an analysis of the data in Table 6.13 reveals that an overwhelming majority (72%) have never accessed government support for their business while only 24% of SMMEs had accessed government support.

Accessed services	Frequency	Percentage
No response	10	4
Yes	60	24
No	180	72
Total	250	100

Table 6.13: Respondents accessed support from any sphere government to improve their business

Those who had accessed support and were specified the type of support accessed had done so in the following ways:

- Training (13.3%) (8)
- Financial (3.33%) (2)
- Advice (3.33%) (2)
- Exhibitions (1.6%) (1)
- Corporate identity development and web design (1.6%) (1)

The findings of this study corresponds closely with the findings of the study Bloch and Kesper (2000 cited in Rogerson, 2002) conducted where it was found that 57% of emerging SMMEs interviewed in Gauteng and 70% in the Western Cape had never had contact with or even heard of any government support institution. Berry *et al.* (2002) argued that the lack of faith in the ability of the government in different spheres to make interventions that would lead to an improved environment for small business contributes to SMMEs not looking for assistance from the DTI and other government structures as well. In a study Bob *et al.* (2005b) conducted on the awareness of the Business Support services, only 18.4% of the respondents were aware of the services/ support provided for the SMMEs by the eThekweni Municipality. The main services identified were business advice (56.7%), training (10%) and BEE support (6.7%). Only 3.7% of the respondents stated that they were actually using the services primarily by contacting the Business Support Unit for advice. Nhlapo (2004) found that 40% of the entrepreneurs in Kroonstad were not aware of the services provided by government such as Khula Enterprises and SEDA, previously Ntsika Enterprises. Those who were aware of them were not successful in their applications for a loan. This is consistent with the findings of the GEM report of 2003

(Orford *et al.*, 2003) that indicated that government programmes in South Africa are not well known to the people and accessing them is complex.

There were a number of suggestions (Table 6.14) that SMME owners interviewed had forwarded regarding how local government could improve the environment in which they operated.

<b>Suggestions for improvement</b>	<b>Frequency</b>	<b>Percentage</b>
Facilitate access to finance	82	32
Business linkages	69	27.6
Information dissemination and capacity building	58	23.2
Access to markets	26	10.4
Regulatory compliance	24	9.6
Crime prevention	17	6.8
Access to infrastructure	15	6
Improved technology	13	5.2
Total	250	100

Table 6.14: Improvement of the business environment by local government in the EMA

The most critical areas of support identified are access to finance (32%), business linkages (27.6%) and information dissemination and capacity building (23.2%). Access to markets (10.4%) has also been identified as an area that government could improve on. Additionally, regulatory compliance (9.6%) was identified as area of improvement by local government. Respondents also believed that local government should play a role in crime prevention (6.8%) within the EMA. These are also important areas of support that have been identified by the SMME Strategy proposed by the Business Support Unit (EM, 2007b). Some of the programmes identified in this strategy include having business sensitive regulations, conducting research on SMMEs, and building infrastructure and business premises. In addition to the above, the strategy also includes an access to markets programme, business linkages and a franchise opportunity programme. Access to finance, creating a one-stop-shop as well as incubators and hives are among the priorities of the strategy. While the strategy has synergy with what has been expected from local government, the greatest challenge that will be experienced is in the implementation of the strategy. Inadequate resources and inexperienced staff are some of the reasons cited by respondents for the non-performance of public sector staff.

According to Rogerson (2004a), although finance is a critical support need in general, the expectations from local government are mostly for the provision of non-financial means of support. Whilst this study in the EMA has highlighted access to finance as the most critical measure of support required from local government, Rogerson's (2004a) study highlighted the point that SMME owners identified the provision of adequate business premises SMME entrepreneurs as a critical role of local government. He pointed out that entrepreneurs within the Free State also look to local government for assistance in terms of access to markets, most commonly through allocation of tenders and in some cases through the blocking out of competitors, such as 'foreigners' or 'Indians' in certain areas. Rogerson (2004a) argued that local government clearly plays an important function in terms of ensuring adequate or improved services concerning electricity and water supplies. He further argued that the improved provision of advice and information on potential business opportunities is a further function of local government. The issue of reduction of crime against businesses is another issue that needs the attention of local government, especially from the perspective of servicing SMMEs.

In terms of the role played by provincial government, SMMEs in eThekweni saw very similar roles to that of local government. It should be noted that an overwhelming 64% of SMMEs did not respond to the question. This is clearly an indication that SMMEs do not understand the role/s that provincial government should be playing in their development and support. Of those who did respond, several measures of support were identified which are illustrated in Table 6.15.

<b>Suggestions for improvement</b>	<b>Frequency</b>	<b>Percentage</b>
No response	160	64
Facilitate access to finance	21	8.4
Information dissemination and capacity building	17	6.8
Access to markets	14	5.6
Regulatory compliance	12	4.8
Business linkages	12	4.8
Access to infrastructure	11	4.4
Crime prevention	3	1.2
Total	250	100

Table 6.15: Improvement of the business environment by provincial government in the EMA

Rogerson (2004a) posited that SMME owners have different expectations of support delivery from provincial as opposed to local government. In his study he emphasised that provincial government is seen as a major vehicle for delivery of potential improvement concerning access to finance. In this thesis, however, only 8.4% of respondents identified access to finance as a measure of support required from provincial government. He further emphasised that provincial government is also seen as an important institution for the market development of enterprises, especially through the award of tenders. Once again, in this thesis only 5.6% of respondents identified access to markets as a critical support measure required from provincial government. The role of provincial government as a potential source for business advice and training support is highlighted in Rogerson's (2004) study. However, Rogerson (2004a) argued that relative to local government, the role of provincial government in terms of support for business premises is reduced.

According to DTI (2004: 19), in terms of support interventions, it is stated in the Mpumalanga Provincial SMME Strategy that, whilst accepting the national challenges facing SMME support as set forth in the 1995 White Paper, Mpumalanga "determined its priorities as related to the realities of the specific needs and constraints of the province". To address the challenge of access to finance, the provincial strategy is committed to facilitate the establishment of financial intermediaries in the province and to coordinate and assist such intermediaries to access funds from organisations such as Khula Enterprise Finance or donors (DTI, 2004). It was stressed that the role of the provincial government in assisting SMMEs to improve their access to finance will be a strictly facilitative one as there is no provincial government capacity to provide direct financial support. In terms of poor access to markets, according to DTI (2004), the Province is committed to assisting SMMEs overcome their marketing constraints through a two-pronged approach. First, the Province will identify market or economic opportunities and niches for SMMEs in the Province. Secondly, the Province will facilitate access to information regarding market opportunities to SMMEs, including through improved tender processes for government contracts and by creating networks for subcontracting opportunities between large businesses and SMMEs (DTI, 2004).

A similar conclusion may be drawn about SMMEs' understanding about the role/s of national government in that once again an overwhelming majority (92.4%) did not respond to the question which is a strong indicator that they do not understand the role that national government should be playing in their support and development. Those who did respond highlighted roles for national government which are presented in Table 6.16.

<b>Suggestions for improvement</b>	<b>Frequency</b>	<b>Percentage</b>
No response	231	92.4
Crime prevention	7	2.8
Regulatory compliance	6	2.4
Access to markets	3	1.2
Business linkages	2	0.8
Access to infrastructure	1	0.4
<b>Total</b>	<b>250</b>	<b>100</b>

Table 6.16: Improvement of the business environment by national government

The findings in Tables 6.15 and 6.16 clearly indicate that only a few respondents made comments about the roles of provincial government and national government. In Table 6.16 respondents identified crime prevention (2.8%) as the most critical area of improvement by national government. In addition, they also identified regulatory compliance (2.4%) as an area that could be improved by national government. Moreover, respondents believe that access to markets (1.2%) should be improved by national government. The high level of non-response emphasises the need for the different spheres of government to look at alternative measures of support to SMMEs within the EMA, especially since both have departments, namely the Department of Economic Development and Finance in the provinces and the DTI as a national government department which deals specifically with SMME support and development. The DTI in particular has been instrumental in developing the National Small Business Strategy but has not made significant attempts to showcase itself as a government department and the wide range of incentives and programmes it has in place.

#### 6.2.4. Type of support respondents needed to address problems the enterprise experienced

SMMEs need various measures of support in order to overcome many of the challenges they experience in their business. The respondents participating in this study were questioned on the types of support they required and the most critical measures identified were access to finance, business skills and markets (Table 6.17).

<b>Support required</b>	<b>Frequency</b>	<b>Percentage</b>
Access to finance	133	53.2
Capacity building and information dissemination	102	40.8
Access to markets	98	39.2
Business linkages	28	11.2
Compliance support	16	6.4

Table 6.17: Type of support required from respondents to improve their business

As evident in the literature review and in Table 6.17, access to finance (53.4%) was identified as the most critical measure of support required. Access to capacity building and information dissemination (40.8%) was an additional area of support identified. Another significant area of support required that was also evident in the literature review was access to markets (39.2%). In addition, respondents also highlighted business linkages and compliance support as areas of support required. Over and above support measures required, respondents were also questioned on whether they had accessed support from local government. The results are presented in Table 6.18.

<b>Accessed business support from local government</b>	<b>Frequency</b>	<b>Percentage</b>
No response	10	4
Yes	60	24
No	180	72
Total	250	100

Table 6.18: Respondents who accessed business support from local government in the EMA

An analysis of the data revealed that an overwhelming majority (72%) have never accessed local government support for their business while only 24% of SMMEs had accessed local government support (Table 6.18). A detailed investigation of the results revealed that only 14% of the SMME owners had in fact accessed direct business support from local government. Others

who had indicated that they had accessed support from local government had in fact accessed services from either national or provincial government or their agencies.

An investigation into the methods used whereby people were made aware of the programmes available were workshops (15%), letters (20%), Durban Metro Magazine (15%), the grapevine (7%), newspapers (5%), pamphlets (4%) and councillors (3%). The actual support received from such interventions included being sponsored to exhibit at the main Fair and sponsored material, winning prizes, participating in international exhibitions, planning of brochures and referrals to different institutions. Table 6.19 reflects that of the SMMEs who did access government services, only 16.6% thought the services were excellent while an overwhelming majority of 83.4% of SMMEs indicated that the level of service was average to poor.

<b>Level of service</b>	<b>Frequency</b>	<b>Percentage</b>
Excellent	10	16.6
Very good	9	15
Average	17	28.4
Poor	24	40
Total	60	100

Table 6.19: Level of satisfaction respondents experienced with the business support offered from local government

These results reflect high levels of dissatisfaction with government services providers. These findings corresponds with to Rogerson's (2004a) study which states that government programmes have failed to meet the needs of SMMEs, hence the need for a paradigm shift and to seek out more innovative solutions to challenges faced by SMMEs. According to Mutezo (2005), Pretorius and Van Vuuren (2003: 519) conducted a study which investigated the programmes being used in South Africa to support SMMEs found that the core focus of programmes included finance, growth, expansion and competitiveness that are more relevant for existing business than for start-ups. There is a general tendency for support institutions, namely DTI and the Industrial Development Corporation (IDC) to focus on the larger and existing ventures as their target audience while very few programmes are aimed at micro and small enterprises. Mutezo (2005) asserts that although some programmes do focus on start-ups, the prerequisites suggest that they are relevant for larger ventures. Pretorius and Van Vuuren (2003) (cited in Mutezo, 2005) found

that there is no indication that these programmes contribute directly towards the development of entrepreneurial orientation among SMMEs in their study.

Berry *et als*'. (2002) study of SMMEs in South Africa, of those SMMEs that were aware of the DTI programmes revealed that only 15% approached the DTI and its related institutions for assistance. In the extreme case of the Venture Capital Scheme, for example, only one SMME (out of the 78 that were aware of it) finally approached the IDC for assistance. The local intermediaries that implement Ntsika and Khula programmes were approached by 19% of those SMMEs that were aware of them. Overall, however, more than 80% of the SMMEs in the sample did not approach either institution for assistance despite being aware of their programmes. Overall, the findings of Berry *et al*'s. (2002) study and the EMA study pointed to the fact that the usage of government programmes and products is alarmingly low for SMMEs of all sizes. The data analysed from this study revealed that larger SMMEs are more likely to receive assistance than their smaller counterparts. The fact that only 6% of the micro-enterprises use SMME support programmes points to the poor reach or inadequate response to the needs of emerging SMMEs. Berry *et al*. (2002) argued that these findings support the general feeling that SMME support programmes need to be marketed more effectively.

According to Berry *et al*. (2002), the search costs to find an adequate service provider are exorbitant for SMME owner-managers whose time spent on non productive activities has high opportunity costs. These authors discovered that information with respect to contact details of specific service providers are not easily accessible and the telephone directory, as the easiest accessible database of support institutions or directories prepared for the provincial SMME Desks (in Western Cape and Gauteng, for example), offered little specification of the services offered and the hourly rate charged. Berry *et al*. (2002) pointed out that even once a potentially appropriate service provider is identified; it is extremely arduous to get hold of the right person at the first phone call made. Hence, the search for support is more than often abandoned before reaching its target due to the time and effort required.

In addition to the above, Berry *et al*. (2002) argued that the main reasons why the DTI incentive schemes targeting SMMEs have not been used extensively are lack of information about their

existence, red tape accompanying applications and discouragement by dismal experiences of other applicants. They further argue that in the particular case of the Competitiveness Fund, for example, firms are expected to identify their needs and provide a detailed analysis of how their performance will improve in the event that their proposed investment might be funded. Moreover, the requirements to qualify for and the components of certain schemes have changed several times over the past years without proper communication, which discourage SMME owner-managers from applying for these schemes. Such requirements and demands on the SMME become too cumbersome for the SMME who very often at the start-up level is trying to earn a living and in doing so do not have the time or the energy to engage in such laborious tasks.

According to the Blueprint Strategy and Policy (Pty) Ltd (2005) developed for SMMEs in the chemical sector in South Africa, although little research has been undertaken to specifically assess the effectiveness of new and restructured institutions providing support to South Africa's SMMEs, there are indications that the originally well-intended policy measures suffer from suboptimal implementation. General distrust towards external agencies among SMMEs on the one hand, and the incapacity of support institutions to persuasively raise awareness about their existence and effectiveness on the other, are said to lie at the heart of the problem. Moreover, the poor coordination of service providers results in a replication of services, and clustering of institutions in urban areas. In the 'Blueprint' study an investigation was conducted on support measures for SMMEs in the chemical sector and revealed that both emerging and established SMMEs showed little awareness of the existence of SMME support initiatives.

Terblanche (2002) contended that South Africa is not a friendly environment for small business for a number of reasons. The most important of these reasons, argues Terblanche (2002: 1), is the "stubborn myth that small business equals informal business". According to Terblanche (2002), everyone seemed to have caught on that small business is the answer to high levels of unemployment and therefore everyone wants to contribute. But for civil servants, corporate buyers, politicians, teachers, unions, social workers and community activists the words "small business conjure up an image of somebody sitting on a pavement selling vegetables" (Terblanche, 2002: 1). Terblanche (2002: 1) believed that it is this "misconception that has cost

the government millions of rands in failed projects and programmes”. According to Terblanche (2002: 1), in view of the fact the Small Business Act of 1995 defines small businesses as those with fewer than 50 employees, “our definitions should not be restricted to focussing on survivalists”. This study is in support of Terblanche’s argument and has also chosen not to focus on survivalists. From 1994, almost the entire South African Small Business Development Strategy was aimed at enabling the unemployed to become employers. Terblanche (2002: 1) believed that government agencies established for this purpose “have failed dismally”. It is important to be able to make clear distinctions between support for micro-and small business. Terblanche (2002: 1) argued that despite this the DTI continues to stop short of “acknowledging that support for survivalists is poverty relief and should therefore become the responsibility of other departments such as Welfare, Education and Labour”. He adds, however, that separating micro-and small is politically risky. Terblanche (2002) indicated that the DTI is already being criticised for being “elitist” by focusing too much on formal businesses and that their challenge is to convince the unemployed that the “haves” have to be supported in order to benefit the poor.

The DTI is of the opinion that the lagging SMME sector is mainly due to the short history of an available policy framework for SMME development (DTI, 2007). The support approach used for the past thirteen years was a broad-brush stroke – treating all businesses as homogenous. The DTI (2007) indicates that there is now a realisation that several of their policy areas are in need of proper definition, especially relating to national, provincial and municipal roles. Furthermore, most of the SMME support institutions were supply-driven, which have overwhelmed entrepreneurs instead of meeting their needs. The obvious problem of access to finance and collateral, a result of historical imbalances, has impeded the number of start-ups and growth of existing businesses. Globalisation has also had a major negative impact on an emerging market such as South Africa, which caused small businesses to become more vulnerable in an already uncertain climate. The DTI (2007) has stated unambiguously that its objective is to increase the number of new businesses and decrease the number of business failures. Moreover, there is also a need for the growth of existing businesses. However, the DTI is a coordinating body with a specific role to create the right environment for SMMEs to thrive in (DTI, 2007).

### 6.2.5. Role of the private sector in providing SMME support in the EMA

The intention of this study was also to investigate the role that SMMEs thought that the private sector should be playing to support and develop them. According to Steel (1997), international experience suggested that government or semi-government organisations are not proficient Business Development Services providers. They are not sufficiently business-like, often suffer from a general lack of vision and motivation, and are subject to political and bureaucratic interference. In addition to the fact that governments often have a charity-orientation that can work against business, Steel (1997) believed that their overall managerial and technical capacity is often unproductive. The roles that the private sector can play that were identified by the respondents in Table 6.20.

<b>Role</b>	<b>Frequency</b>	<b>Percentage</b>
No response	74	29.6
Flexibility in accessing funds	89	35.6
Skills development and market linkages	51	20.4
Be able to solve our problems	11	4.4
Protect interests of local manufacturing by not importing products	10	4.0
Simplified information to help sustain business and growth	7	2.8
Private sectors should give opportunities to conduct business	3	1.2
Provide workshops	3	1.2
Sub-contracts to SMMEs	2	0.8
Total	250	100

Table 6.20: The role respondents believed that the private sector should play in improving their enterprises

The most significant roles for the private sector identified by respondents were facilitating access to finance (35.6%) and facilitating access to skills and markets (20.4%). It appeared that respondents also believed that the private sector offered the solution to their problems (4.4%). In addition, respondents were of the opinion that the private sector should assist in protecting the interests of local manufacturing by reducing or not importing products (4.0%) as well as provide simplified information to help sustain business and growth (2.8%). According to Miehlsbradt and McVay (2003a), many BDS interventions are concerned with highlighting areas where markets have failed to deliver good services. While this can often be attributed to a basic lack of purchasing power on the part of consumers, Miehlsbradt and McVay (2003a) believed that there are also occasions where this market failure is attributable to the supply-side's basic lack of

creativity in developing solutions to problems. They argue that BDS organisations, with donor support, are sometimes in a position to innovate approaches which may even have the potential to become sustainable from market demand (Miehlbradt and McVay, 2003a). Having shown that there can be profitable opportunities in serving SMMEs or, perhaps more relevantly, developing technologies which SMMEs can service or manufacture, Miehlbradt and McVay (2003a) posited that there may be an opportunity to stimulate the private sector generally into looking at previously unfashionable areas (appropriate technologies) in a serious commercial sense. The private sector here may include self-help groups, microenterprises and businesses at the upper end of the SMME range.

According to Lever (1997), in many countries SMMEs receive almost all of their support services from the private sector. These include training, the supply of raw materials and equipment, as well as access to information and marketing services, which are provided without any subsidy and are therefore self-sustaining. Lever (1997) argued that the improvement or replication of these services through private sector channels is very appealing in terms of reaching far more SMMEs than could be reached by overly subsidised, generic government programmes. South Africa has a long way to go before SMMEs can truly embrace the culture of making use of the private sector to provide BDS. South African SMMEs are too heavily dependent on government support programmes.

#### **6.2.6. SMMEs awareness of Business Development Services offered**

According to Miehlbradt and McVay (2003a), governments, development practitioners, and researchers have for decades acknowledged the significance of small business development in increasing employment and income among poor and low-income people. Miehlbradt and McVay (2003a) argued that the success of micro-finance programmes and institutions has demonstrated that services customised to meet the needs of very small businesses can be financially feasible and effective in reducing poverty. They further asserted that it is equally evident, however, that small businesses are inhibited by non-financial factors such as little or no education, inadequate technical skills, poor access to markets, lack of information and unreliable infrastructure. Miehlbradt and McVay (2003a) posited that these factors often prevent businesses from

becoming more lucrative, despite having access to capital. They further indicate that BDS are intended to help SMMEs overcome impediments to increased profitability by improving their productivity and access to high value markets. In this way they can realise their potential, work their way out of poverty, create jobs, and grow local economies. After experimenting for decades with small-scale, subsidised programmes having modest impact, Miehlbradht and McVay (2003a) asserted that the field of BDS is now quickly adopting new high-impact strategies that can reach large numbers of businesses in a sustainable manner. They further assert that the provision of some services – communications and advertising are two – on a fully commercial basis has shown that effective markets for business services offer the opportunity to help many small enterprises develop and compete. The BDS field is now focused on adapting lessons learned from the field of micro-finance, consolidating decades of learning from small enterprise development experience around the globe, and facing the challenging questions of who should be providing business support services to SMMEs, which have plagued practitioners for years (Miehlbradht and McVay, 2003a).

Respondents’ awareness of BDS was also investigated in this study. SMMEs were questioned on whether they were aware of what BDS were available. In this study the majority of SMMEs interviewed (55.2%) were not aware of the availability of BDS while only 40% indicated an awareness of availability of BDS (Table 6.21).

<b>Aware of BDS</b>	<b>Frequency</b>	<b>Percentage</b>
No response	12	4.8
Yes	100	40
No	138	55.2
Total	250	100

Table 6.21: Awareness of availability of Business Development Services in the EMA

Of those who were aware of BDS, Table 6.22 lists the specific BDS that respondents were aware of. The BDS which SMMEs indicated that they were most aware of was management and business skills training (20.8%). This finding coincides with Bloch and Kesper’s (2000) (cited in Rogerson, 2002) argument that support services government institutions offered are too narrowly conceived around general education and training, especially business skills, which emerge as the

most prominent areas where support is offered, while more specific needs such as legislation around SMME start-ups, have received little attention by both public and private support institutions. Respondents also indicated an awareness of advertising (8.8%) and financial management training (7.6%). IT support (4.4%) and training (2.8%) were also among the BDS that respondents were aware of. In spite of being aware of some of the BDS on offer, as reflected in Table 6.22, SMMEs in the EMA have not developed a complete awareness of the various types of BDS available to them.

<b>BDS aware of</b>	<b>Frequency</b>	<b>Percentage</b>
Management and business skills training	52	20.8
Advertising	22	8.8
Financial management	19	7.6
IT support	11	4.4
Website development	7	2.8
Training	7	2.8
Mentorship	6	2.4
Tendering advice	4	1.6
Accounting	3	1.2
SMME Fairs	1	0.4
Informal trade support	1	0.4

Table 6.22: Awareness of specific Business Development Services available in the EMA

SMMEs were then presented with a list of BDS and questioned as to whether they would make use of the services listed, the results of which are presented in Table 6.23. As indicated in Table 6.23, the only service that a significant number (in excess of 40%) of SMMEs in the sample indicated they would make use of was management and business skills training (43.2%). In addition, a number of respondents indicated their willingness to make use of financial planning and business plans for finance (31.2%). As evidenced in the literature review and in this study, access to finance appears to be a significant challenge SMMEs faced and this could account for the strong need identified to overcome this challenge through the use of this service. The findings of Berry *et al.* (2002) and Bob *et al.* (2005b) supported the above findings. The use of advertising (31.2%) was also cited as a service that SMMEs would make use of which is possibly associated with the known benefits of this service. In addition, respondents also identified advisory services in business planning, management and mentoring (29%) and the facilitation of business linkages (22.4%) as significant services they would make use of.

Computer hardware and software services including website design (20.4%) was another service that was cited. This is clearly indicative, as illustrated in the literature review, that SMMEs are embracing technology as well as its associated benefits to their business.

The following is lists of services that a significant number (in excess of half) of SMMEs in the sample would not want to make use of were:

- Environmental management training and advisory services (80.8%)
- Advisory services relating to production processes (79.2%)
- Negotiation skills regarding government/ other contracts (77.6%)
- Legal support/ advisory in legal services processes (73.6%)
- Quality training and advisory services (71.6%)
- Identifying new markets (70.4%)
- Computer hardware and software services including maintenance and website design (71.2%)
- Facilitation of business linkages (68.8%)
- Advisory services in business planning/ management and mentoring (67.6%)
- Accounting services (67.2%)
- Assistance with regard to tendering (65.5%)
- Financial planning/ business plans for finance (62%)
- Advertising services (62%)
- Management and business skills training (50.4%)

<b>Type of Services</b>	<b>Yes</b>	<b>No</b>	<b>No response</b>
Advisory services relating to production processes	14.4	79.2	6.4
Environmental management training and advisory services	9.6	80.8	9.6
Facilitation of business linkages	22.4	68.8	8.8
Quality training and advisory services	16.0	71.6	12.4
Advertising services	31.2	62.0	6.8
Identifying new markets	12.8	70.4	16.8
Assistance with regard to tendering	24.4	65.6	10
Accounting services	24.8	67.2	8
Advisory services in business planning/ management and mentoring	29.0	67.6	12.4
Computer hardware and software services including maintenance and website design	20.4	71.2	8.4
Legal support/ advisory in legal services processes	14.4	73.6	12.
Management and business skills training	43.2	50.4	6.4
Financial planning/ business plans for finance	31.2	62.0	6.8
Negotiation skills regarding government/ other contracts	12.0	77.6	10.4

Table 6.23: List of Business Development Services which respondents would make use of

Both these results as well as the high non-response rate are a strong indication that the respondents clearly do not understand the actual nature of the above mentioned BDS or the actual benefits that their businesses could derive from the usage thereof. There are a number of services such as negotiation skills, identifying new markets and facilitation of business linkages that would assist a business to generate high levels of growth yet the results reflects high percentages (77.6%, 70.4% and 68.8%, respectively) of it not being a service that would be used. This result is in direct contrast to the types of support respondents indicated that they require in Table 6.20 where access to markets and business linkages was highlighted. This is also a reflection of the tendency of SMMEs to be highly dependent on government to provide these services as opposed to them seeking out these services from specific providers.

Bliss and Polutnik's (2001) study conducted in Bosnia and Herzegovina shows a very high degree of BDS awareness - for both consulting/advisory and training services. Most areas had awareness rates of 90% and higher; the lowest rate of 77.5% was for business development and strategy consulting. Actual usage rates are lower, however, averaging 55%, with a range of 26.2% (environmental training) to 66.2% (occupational safety training and marketing/

promotion/ sales consulting). These high awareness rates mean that for most areas, means that the proponents of BDS, Southeast Europe Enterprise Development (SEED) can concentrate their efforts on improving the quality and value of BDS offerings as well as marketing skills of existing BDS providers rather than educating SME managers about the definitions of services. In the context of this study, however, BDS providers needs to focus their attention on raising the awareness on different types of BDS as opposed to increasing the quality and value of the service as is currently being done internationally.

In a study Cunningham and Trah (2004) conducted on the usage of BDS and the satisfaction levels, the results indicated a relatively low overall usage of most forms of BDS in the Nelspruit area. The highest usage incidence is recorded for advertising services (55%), accounting services (54%), computer hardware and software services (42%) and legal support services (38%). The lowest levels of service usage incidence were recorded for environmental management (3%), facilitation of business linkages (4%), negotiation skills (4%) and tender support (4%). Rogerson's (2004a) study recorded higher levels of usage of services than this study. However, in surveying the international arena, Bliss and Polutnik's (2001) study on the usage of BDS reveals a very different picture. The most popular types of BDS used were accounting and finance (92%), information technology (85%), marketing promotion and sales (75%). When comparing these results with the findings of Bliss and Polutnik's (2001) this study as well as studies Berry *et al.* (2002), Bob *et al.* (2005b) and Rogerson (2004a) conducted; it is evident that SMMEs in Europe place far greater emphasis on the use of BDS and their usage is not restricted only to business skills training and operate at a far more sophisticated level than SMMEs in South Africa and eThekweni in particular.

In South Africa SMMEs receive services from the public and private sectors as well as Community-Based Organisations (CBOs) and Non Government Organisations (NGOs). The intention of this section is to investigate who were the main providers of BDS to SMMEs in the eThekweni Municipal area. Respondents were therefore provided with a list of the specific types of BDS and were requested to indicate whether the service was obtained from the public sector, private sector, CBO or NGO. The results are presented in Table 6.24.

<b>Service provider</b>	<b>Frequency</b>	<b>Percentage</b>
No response	205	82
Government	17	6.8
Private sector	17	6.8
Community Based Organisation	6	2.4
Non Government Organisation	5	2
Total	250	100

Table 6.24: Main providers of BDS in the EMA

The two key organisations from which SMMEs in the sample sourced BDS are the public and private sectors. The number of respondents who accessed BDS from the public and private sectors is 17 (6.8%) each. The number of respondents who accessed services from Non Government Organisations is 5 (2%) and those who accessed services from Community-Based Organisations are 6 (2.4%). It is important to note, however, that the non-response rate to this question is extremely high (82.4%). This is clearly indicative of the fact that the respondents were neither aware of the benefits of BDS nor made use of them.

In addition, respondents were questioned further on their experiences with regards to accessing BDS from the various service providers. The first question focussed on the levels of satisfaction they experienced with the services received (Table 6.25).

<b>Level of satisfaction</b>	<b>Frequency</b>	<b>Percentage</b>
Extremely satisfied	12	26.6
Satisfied	20	44.4
Average	7	15.7
Not satisfied	6	13.3
Total	45	100

Table 6.25: Respondents rating of BDS they received in the EMA

Of those who had accessed services, only 26.6% of the respondents were extremely satisfied with the level of service they received while 44.4% of SMMEs were satisfied. This translates into an overwhelming majority of 71% of the respondents indicating that they were satisfied at some level with the services received. This is in keeping with the study Berry *et al.* (2002) conducted who discovered that contrary to general perceptions, and the vast majority of SMMEs

that use support programmes appear to be satisfied with the assistance they obtain in terms of reception, quality and cost. It was also found that 29% of the sample in this study found the services to be average or were not satisfied. Some of the reasons listed for not being satisfied were that employees were rude, insufficient time was given to their proposals, did not get what they wanted, the service did not help improve their business and they did not receive sufficient information.

Respondents were questioned about whether the services received were relevant to their business. The findings (Table 6.26) reveal that 32.4% found that the service received was relevant to their business while only 4.8% of the SMMEs found that the service was not responsive to their business. It should be borne in mind that 62.8% of the sample did not respond.

<b>Service relevant</b>	<b>Frequency</b>	<b>Percentage</b>
No response	157	62.8
Yes	81	32.4
No	12	4.8
Total	250	100

Table 6.26: Relevance of service to the respondents business in the EMA

In addition, respondents were questioned as to whether the services received helped improve their business. Table 6.27 shows that close to a third of the respondents (33.6%) indicated that the service they received helped to improve their business while only 8.0% indicated that the service did not help improve their business. More than half of the respondents (58.4%) did not respond.

<b>Improved business</b>	<b>Frequency</b>	<b>Percentage</b>
No response	146	58.4
Yes	84	33.6
No	20	8.0
Total	250	100

Table 6.27: The service improved the respondents business in the EMA

SMMEs indicated that the services received help improve their businesses in the following ways:

- Improved my business contacts
- Networking, marketing and sharing of information
- Improved showroom
- Improved markets
- Better financial management and quality assistance
- Filling tender documents

The respondents were further questioned as to whether they would make use of the service again. Thirty-six percent of the respondents indicated that they would make use of the service again while only 5.2% indicated that they would not make use of the service again. There was a non-response rate of 58.8%. Of those who indicated that they would not make use of the service again, the reasons given were that it was a waste of time, they were not aware of the services and it did not improve their business.

<b>Make use if service again</b>	<b>Frequency</b>	<b>Percentage</b>
No response	147	58.8
Yes	90	36.0
No	13	5.2
Total	250	100

Table 6.28: The respondents would make use of service again

The findings reflected in the above tables indicate high non-response rates which can also be interpreted as high levels of misunderstanding of the benefits of usage of such services as well as high levels of non-usage. Those respondents who had made use of BDS had generally indicated satisfaction with the levels of services received (70.4%) as well as the fact that the services had helped improve their business (33.6%). Thirty six percent of the respondents indicated that they would make use of the services again. According to Miehlbradt and McVay (2004), SMMEs generally have little experience with, and knowledge of business services. They argued that innovative market assessments should examine specific business problems and the awareness of and demand for solutions to them. The greatest challenge, according to Miehlbradt and McVay (2004), are finding services and programmes that deliver the desired business benefits at lower

costs. They argued that many SMMEs claim to not afford, and are reluctant to purchase services but rather depend on highly subsidised services from government.

Miehlbradt and McVay (2003a) argued that there is an increased acknowledgement that public sector organisations have not proved to be effective providers of BDS to SMMEs. In particular, government organisations are viewed as insufficiently ‘business like’ or ‘close’ to SMMEs in terms of their cultures, staffing or structures (Miehlbradt and McVay, 2003a). In addition, Bear *et al.* (2001) argued that subsidies for State provided business support has created a set of market distortions that hinder the development of private sector provision. This has in turn led to the private sector being looked upon to provide such services. Rogerson (2006) emphasised these arguments and believed that the shift was towards an emphasis upon being business-like and demand-led at the institutional level, and it focused intervention strategies toward facilitating transactions between SMME clients as opposed to beneficiaries. Rogerson (2006) argued that the core challenge is to develop low-cost service products and delivery mechanisms in order to match the needs and willingness to pay of the smallest clients.

#### **6.2.7. SMMEs payment for Business Development Services received**

SMMEs have become accustomed to highly subsidised government services and are therefore reluctant to pay for services that they require to improve their businesses. Most governments who offer support services to SMMEs do not charge for such services while private sector suppliers do charge for their services. According to Steel and Webster (2001), reducing the risks and costs of BDS requires attention to payment as part of the design of BDS products. They add that this is particularly important for the smallest microenterprises which are in the majority within this study. Micro-enterprises often require flexible and innovative approaches to delivery and payment mechanisms which are needed to boost demand for services. Steel and Webster (2001) pointed out that long-term donor subsidy to the demand or supply of BDS are likely to distort BDS markets and crowd out the commercial provision of services. They indicate that this will undermine the objectives of impact, outreach, cost-effectiveness and sustainability that are the pillars of the BDS market development paradigm. However, they do indicate that subsidies may be justified in the short-term as an investment in the development of BDS markets.

SMMEs were questioned about whether they would pay for services. Table 6.29 indicates that only 18% of the respondents indicated that they will pay for services received while 61.2% of the sample indicated that they would not pay for services received. When questioned about the factors that would prevent them from paying the respondents indicated that they would not pay for poor quality services (20%). Some of the respondents indicated that the information could be obtained free of charge from SEDA (15%). Other respondents cited low profitability of their businesses (17%) as a reason that would prevent them from paying. There were also those respondents who believed that government should be providing these services at no charge (9.2%). This is a strong indication that South Africans are still dependent on government to provide services to them.

<b>Prepared to pay</b>	<b>Frequency</b>	<b>Percentage</b>
No response	52	20.8
Yes	45	18
No	153	61.2
Total	250	100

Table 6.29: Respondents are prepared to pay for business development services received

In this study the factors that would support their decision to pay would be if the services that were provided were good (7%), beneficial to their business (5%) and provided some sort of guarantee that it would improve their business (6%). In a study Bliss and Polutnik (2001) conducted where they looked at some of the factors that determine the importance of paying for BDS, three factors stand out - the provider's reputation, the appropriateness of the service, and whether the firm has used the provider previously. Additional factors Bliss and Polutnik (2001) cited which dominate the choice of BDS provider were reputation and matching needs with offerings. In their study, SMMEs expressed a clear willingness to pay for quality service that is appropriate for their needs. In fact, low price was considered unimportant by two-thirds of the respondents, and most firms that used consultants said they would pay considerably more than the actual cost of the service. Three-fourths of the sample in their study had planned to purchase BDS in 2001, and the vast majority of them had already earmarked BDS spending in their 2002 budgets. Additional factors Bliss and Polutnik (2001) cited were a lack of in-house experience and the advice of a friend or colleague. In Bliss and Polutnik's (2001: 79) study, it was noted that almost half (47.7%) do not believe that the service should be offered for free which is in stark

contrast to this study in the EMA where 61% of respondents indicated that they will not pay for services received. This finding is very significant in that it identifies a far lower acceptance of a Market Development Approach (MDA) to SMME development. This contrasts with international experience with evidence pointing to countries who embrace the MDA with far greater acceptance levels. This is strongly indicated by their willingness to pay for services.

SMMEs were questioned on how much they spent on BDS. The findings in Table 6.30 reveal that only 12.4% of the sample had actually paid for services received with at least 48.4% of these respondents spending between R5 000 - R10 000 on services received. The average amount of money spent on BDS was calculated to be R5 380.

<b>Amount spent</b>	<b>Frequency</b>	<b>Percentage</b>
R1 - R100	1	3.2
R101 - R500	3	9.6
R501 - R1 000	3	9.6
R1 001 - R2 500	3	9.6
R2 500 - R5 000	4	12.9
R5 000 - R10 000	15	48.4
R10 001 - R15 000	1	3.2
R15 001 - R25 000	1	3.2
Total	31	100
<b>x = R5 380</b>		

Table 6.30: Amount of money spent on business development services received by respondents

Respondents were then presented with a list of specific BDS and then questioned on their willingness to pay. The findings in Table 6.31 indicate a very different picture from Table 6.29 emerges.

Type of service	Willing to pay (%)	Will not pay (%)	No response (%)
Advisory services relating to production processes	54.4	34	11.6
Environmental management training and advisory services	53.2	34.4	12.4
Facilitation of business linkages	55.6	34	10.4
Quality training and advisory services	55.6	34	10.4
Advertising services	57.6	33.6	8.8
Identifying new markets	56.4	34.8	8.8
Assistance with regard to tendering	55.4	35.9	8.8
Accounting services	57.2	32.8	10
Advisory services in business planning/ management and mentoring	56.4	32.8	10.8
Computer hardware and software services including maintenance and website design	58.4	32	9.6
Legal support/ advisory in legal services processes	56.8	33.2	10
Management and business skills training	57	33.5	9.6
Financial planning/ business plans for finance	56.2	33.4	10.4
Negotiation skills regarding government/ other contracts	56	34.8	9.2

Table 6.31: Respondents willingness to pay for business development services received

When questioned on the more specific BDS that SMMEs would be willing to pay for, the results reveal that a greater number (average rate of 56%) would be prepared to pay for specific services than those who will not pay (average response rate of 33.8%). The type of service that received the highest level of willingness to pay is computer hardware and software services including maintenance and website design (58.6%). Gibbs and Tanner (1997) identified ICT as a critical factor in the effective operation and prosperity of modern organisations. Advertising (57.8%) was also identified as a service that they would pay for which could possibly be due to the acknowledgement of the associated known benefits and advantages of advertising one's business. This was followed by accounting services (57.4%) which is possibly motivated by the more stringent controls on small business tax records that warrant the need for accounting services. Management and business skills training (57%) was also a critical service that a higher percentage of respondents would be prepared to pay for. Bliss and Polutnik's (2001) study found marketing, promotion and sales to be ranked among the highest percentage of services that would be paid for, followed closely by consulting/advisory services. The results of this study in the EMA revealed that if SMMEs are enlightened about the benefits of each type of BDS and the

benefits for their business, they would be more willing to pay for services than if they did not understand the potential benefits of each type of service for their business. In this study the mere probing for specific responses triggered a greater interest for these services and, specifically, the willingness to pay for such services.

While some may contend that the provision of business development services to SMMEs should be government's responsibility since they have the interests of the people at heart, public choice theory, and Buchanan (1990) in particular, argued that State officials are just as likely as private managers to maximise their status. Miehlabradt and McVay (2004) therefore argued that the market approach for BDS should be encouraged and would grow only if the SMMEs are geared for growth. Willingness to pay for services is a mindset that needs to be changed in SMMEs. Miehlabradht and McVay (2004) believed that this mindset can be changed by challenging the SMME to answer basic questions such as how can the business operations be more productive? How can new markets be discovered? Where can one find new and good customers? These are basic business questions that can only be raised in a favourable business climate. Miehlabradht and McVay (2004: 76) were of the opinion that instead of creating dependency relationships and promoting the "hand-out" syndrome, the MDA treats a small business as benefiting from the right kind of service in the right way as any other business would.

### **6.3. Conclusion**

This chapter responded to the research questions thus fulfilling the research objectives that were set out for this study. The first section of this chapter dealt with other similar types of studies that were conducted as an introductory section to support the discussion on the different questions that respondents (SMMEs) were asked. The chapter then focused on the socio-economic profile of SMMEs and asked for information about their age, race and level of education. The next section focused on the profile of their businesses to establish the number of years that the business was in operation, the challenges that respondents faced with regards to their business as well as the measures of support that they required. This was followed by a discussion on their perspectives regarding the roles that should be played by the public and private sectors. This section looked at the expectations that respondents had of the various spheres of government (local, provincial and national) and the private sector. The discussion then focused on the

respondents' awareness and understanding of BDS and finally, their willingness to pay for services was investigated. In accordance with the public choice theory, business development services are not defined as public goods since its provision does not lead to the benefit of all, it should therefore not necessarily be public sector provided. It is most certainly a service that could be obtained at a price. In addition, this chapter pointed to the need to raise the awareness of SMMEs understanding of BDS and the value inherent in its usage.

## **CHAPTER SEVEN**

### **Analysis of semi-structured interviews conducted with respondents**

#### **from the Public sector**

##### **7.1. Introduction**

According to Jones (2001), many observers believed that the public sector lacks the ability to learn and adapt to circumstances of rapid change. Jones (2001) argued that governments tend to experience great difficulties in diagnosing problems early, selecting policy directions, designing effective and efficient programmes, rectifying problems and avoiding what is commonly referred to as public sector failure. As a result of these capacity gaps, Jones (2001) believed that some countries have not been able to take advantage of the many opportunities offered by rapid advances in the economic and technological spheres. She further believed that governments and the people of whom they are composed have always been faced with uncertain times and complex choices but the speed, scale and scope of ongoing changes are exceptional in world history. These challenges, according to Jones (2001), placed new and often highly complex demands on the capacity of governments to analyse emerging issues and to respond to them effectively.

In 2001, the government of South Africa strengthened the promotion of small business by ensuring that every department was committed to doing something for small business and to indicate how they were providing support (DTI, 2001b). In terms of this approach, the various government departments were tasked with collaborating with other departments in order to promote SMMEs. This placed particular demands on the capacity of various departments to deliver on mandates outside the normal scope of their work.

At a national level, the key government departments which play a pivotal role in SMME development are the Department of Trade and Industry (DTI) and the National Treasury. In this context it has to be emphasised that the Micro Finance Regulatory Council (MFRC) reports to the Minister of Trade and Industry. As the financial backbone of government, the National Treasury obviously plays an important role in SMME finance through its fiscal policy (DTI,

2001a). Other important role players are the regulators of financial institutions, that is, the Financial Services Board (FSB) and the South African Reserve Bank (SARB), which have to ensure that SMMEs have reasonable access to finance (DTI, 2001a).

At a provincial level, the Department of Economic Development and Finance provided support to SMMEs. At a local level, SMME support is provided via the Business Support Unit of the eThekweni Municipality. According to DTI (2001b), local councils are responsible for procurement and sometimes form partnerships with business to deliver services. The LED approach encourages local government to also play a role in promoting small businesses. The Department of Provincial and Local Government administers a fund of about R42 million, to which municipalities can apply for their LED projects (DTI, 20001b). Many of the approved projects relate to small business activities. The promotion of SMMEs is an objective across government. Many departments, according to the DTI (2001b), have specific strategies in place, for example, developing SMMEs in the tourism sector, or the Housing and Public Works, Land and Agriculture, Arts and Culture developing small and emerging contractors. The promotion of SMMEs is also an important part of the different spatial development initiatives and the Urban Renewal and Rural Development strategies. As part of the National Skills Development Strategy, the Sector Education and Training Authorities (SETAs) are also supposed to develop programmes that help develop small businesses in their respective sectors (DTI, 2001b).

According to Fan (2003), public sector support of SMMEs is necessary because of various factors including market failures that cause biases against SMMEs as their small size creates cost disadvantages. Fan (2003) argued that SMMEs do not have the same capacity to influence the environment in their favour as larger firms do, and regulations impose disproportional costs on SMMEs. She further argued that private institutional agreements are more costly to SMMEs due to their lack of economies of scale and this raises SMMEs' transaction costs and limits their ability to take advantage of economic opportunities. Fan (2003) believed that SMMEs are limited in capability development due to their size, and often therefore lack management capacity. In addition, she believed that SMMEs cannot afford costly support services (for example, financial, human resources, legal and training) and do not have the ability to access and analyse information. Fan (2003) asserted that SMMEs' absorptive capacity is poor, which impacts negatively on productivity and hampers their ability to achieve their business objective. Effective

cooperation among different government departments is critical to ensure that public policy addresses any market failures, without introducing new distortions or different obstacles (Fan, 2003).

This chapter presents results derived from the semi-structured interviews held with officials from the local, provincial and national spheres of government. This chapter responded to objectives three which looked at the perceptions of the public sector with regards to the provision of BDS as well as their capacity to deliver such services. In addition, it also responded to objective four which investigated their viewpoints on the payment for services received. It first looks at the target group that was interviewed. It goes on to investigate the organisational capacity of the different tiers of government. It then looks at the training opportunities within the organisation to improve the capacity of individuals who are responsible for SMME development. The next section will then focus on customer care before discussing whether customers are charged for services received. Finally, it looks at the role of the public sector in providing services to SMMEs.

## **7.2. Public sector respondents who provide business development services to SMMEs in the EMA**

In this particular section, public sector officials from all three spheres of government were interviewed. Officials that were interviewed were questioned on their qualifications and the number of years of experience they had (Table 7.1). The researcher interviewed 22 individuals from local government, 16 individuals from provincial government and 15 from national government. The researcher interviewed 53 public sector officials in total. The researcher was able to secure the participation of these officials through the various conferences and exhibitions that she attended. The experience of the researcher was that it is quite challenging to secure the participation of officials since they are often reluctant to participate in such initiatives identifying time constraints as a major factor.

Level	Local (n= 22)	Provincial (n=16)	National (n=15)	Total (n=53)
<b>Position in Organisation</b>				
Managerial	31.8% (7)	37.5% (6)	46.7% (7)	38% (20)
Technical	54.5% (12)	43.8% (7)	40% (6)	47% (25)
Supervisory	13.6% (3)	18.8% (3)	13.3% (2)	15% (8)
<b>Level of education</b>				
Matriculation	59.1% (13)	75% (12)	53.3% (8)	62% (33)
Degree/ Diploma	27.3% (6)	18.8% (3)	33.3% (5)	26% (14)
Postgraduate	13.6% (3)	6.3 (1)	13.3% (2)	12% (6)
<b>Experience (average number of years)</b>				
	11 years	12 years	7 years	10 years

Table 7.1: Level of position and education of public sector respondents who provide services to SMMEs within the EMA

From the findings in Table 7.1, it is evident that the majority of respondents were within a managerial (38%) and technical (47%) capacity in their respective organisations. Only 15% of respondents were at the supervisory level. In terms of level of education, it was found that all officials interviewed had matriculated and 26% of individuals had degrees, while only 12% of the respondents had postgraduate qualifications. In terms of experience, whilst the average number of years of experience is 10 years for public sector officials, this is not necessarily in the provision of business support. The area of business support is relatively new to the public sector and officials are often seconded from other departments to the department which provides support to small business.

### **7.3. Organisational capacity of public sector respondents to provide business development services to SMMEs in the EMA**

The researcher's intention in this section was to establish the organisational capacity of the different government departments to be able to effectively reach out to SMMEs and offer efficient services. In reviewing the various websites where government provides information on the services they offer, it is evident that while services advertised appear to be very comprehensive and all encompassing, in reality this is not often the case. Detailed interviews conducted with public sector officials provided evidence in this regard. When questioned on the main function of the various government departments, the responses were as follows:

- They provide support to SMMEs and create an environment that is conducive for them to operate in
- They provide coordination between formal and informal businesses
- They ensure service delivery and dealing with other stakeholders in the public domain
- They have programmes which develop and support SMMEs, and support, develop, manage and promote informal trade
- They promote economic development and address urban renewal development issues
- They look at policy development as well as trade and industry development and promotion

Respondents identified the following services as being provided by their respective departments:

- The facilitation of training and provision of small businesses with permits
- Partnership linkages with other stakeholders and the ensuring of smooth operations of businesses
- Provide information on business opportunities, tender advice and training, emerging contractor training and enterprise development
- Offer programmes such as youth initiatives, grants to non-profitable organisations, gender initiatives and poverty alleviation programme
- Vulnerable groups programmes, trade promotion and development and industry development
- International trade and economic development

From the above, what is evident is that the services offered are at a generalised level and not specific enough to cater for the specific needs of SMMEs. Services were offered through the following mediums and methods:

- Work through partnerships with implementing agencies such as SEDA
- Workshops with businesses
- Communication through pamphlets and movies
- Stakeholders and liaison officers
- Registered service providers
- Seminars
- Exhibitions
- Presentations
- Participating in trade negotiations

When questioned on whether their department had a vision/mission statement which relates specifically to small business, slightly more than half indicated that they did (Table 7.2).

	<b>Frequency</b>	<b>Percentage</b>
Yes	29	54.7
No	18	33.9
Uncertain	6	11.4
Total	53	100

Table 7.2: Respondents organisation had a vision/mission statement which guided their operations

Whilst it is encouraging to note that 54.7% of the respondents indicated that their departments had a vision/mission statement specifically for small business, it is also important to note that 45.3% of the respondents indicated that their departments either did not have a vision/mission statement or they were unaware of one. This does not augur well for the recipients of SMME services from these departments since it is important that every organisation has a vision/mission which guide their operation.

The public sector officials were questioned on any relevant legislation that they were aware of which related to small business development. The findings reveal (Table 7.3) that only 13.2% of respondents are aware of relevant small business legislation while an overwhelming majority (86.8%) did not know or are uncertain of relevant small business legislation.

	<b>Frequency</b>	<b>Percentage</b>
Yes	7	13.2
No	32	60.4
Uncertain	14	26.4
Total	53	100

Table 7.3: If respondents were aware of relevant legislation applicable to small business

Of those respondents who indicated that they were aware of small business legislation, the following pieces of Acts, policies and strategies were identified:

- Liquor and Food Vendors Act
- Businesses Act of 1991
- Small Business Development Act
- Business Opportunity Network
- Tax regulations
- Justice Act
- BEE Policy
- GEAR
- Preferential Procurement Policy
- Small Business Development Strategy
- Businesses Act of 1991.

It should be noted, however, that only two of these respondents identified the Small Business Development Strategy and the Businesses Act of 1991. This represents only 3.8% of the sample. This figure is extremely low since the National Small Development Business Strategy was intended to be the key tool national government developed for public sector implementation aimed at developing and supporting SMMEs. If most officials interviewed are not even aware of the relevant legislation, one can question the extent to which it is being successfully

implemented.

The respondents were questioned as to whether there were any definite organisational structures in place within their institution to effectively address small business development. Table 7.4 shows that the majority of respondents (69.8%) indicated that there were structures in place to address small business development. They further identified the following as their structures:

- Voucher programme to small business
- Red Door project
- Skills development projects
- SEDA has offices in Municipality
- Umsobomvu Youth Fund
- Tender advice centres
- Dedicated small exporter development unit

	<b>Frequency</b>	<b>Percentage</b>
Yes	37	69.8
No	16	30.2
Total	53	100

Table 7.4: If respondents' organisation had structures in place to address small business development

It should be noted that among the respondents questioned at a local government level, only those individuals who worked within the Business Support Unit of the eThekweni Municipality identified the organisational structure of their Department as a structure which is clearly linked to small business development. It was indicated that this Unit is subdivided into Operational as well as Policy and Strategy sections. The Policy and Strategy section is responsible for developing policies and providing strategic support with the intention of advancing the support and development of small business development while the Operations section is responsible for implementing these policies and providing daily support to SMMEs including making referrals to other service providers and providing the necessary information to SMMEs. At a provincial level, respondents from the Department of Economic Development and Finance identified the Enterprise Development section as the specific structure that is in place to address small business

needs. At the national level, respondents from the DTI identified The Enterprise Organisation (TEO) as the structure in place to address small business needs.

The above mentioned discussion on the organisational capacity Berry *et al.* (2001), Hallberg (1999), Miehlabradt and McVay (2003a; 2003b) and Rogerson (2004a; 2004b; 2006), validated the arguments which criticised government programmes for being weak, overly generalised and ineffectively coordinated. In addition, the delivery mechanisms have not been target specific or outcomes-based. Atkinson (2004), however, believed that the creation of motivated entrepreneurs for the SMME economy needs to be accompanied by a set of programmes which are designed to unlock or create new economic opportunities for new or emerging entrepreneurs as well as provide support for existing entrepreneurs. A successful strategy, according to Atkinson (2004), will focus on maximising public sector procurement programmes at both provincial and local government levels as well as maximising support for SMMEs through an expanded business linkages programme with larger business enterprises. In suggesting this, however, Atkinson (2004) maintained that governments are notoriously ineffective in promoting economic activities and are at their best when they are implementing standardised repetitive functions according to rule book.

#### **7.4. Training to improve the capacity of Public sector respondents to provide business development services in the EMA**

The intention of this section was to determine the extent to which officials who were responsible for small business development were equipped to provide the relevant support and development to SMMEs. An investigation into the qualifications of the officials (Table 7.1) who participated in this study indicated a relatively low level of tertiary education relevant to this area of expertise. Only 26% of respondents indicated that they had degrees while 12% indicated that they had postgraduate degrees. Some of the qualifications included Social Science degrees, Bachelor of Administration and Bachelors of Art degrees. Although many of the individuals did have a number of years of experience (average of 10 years), this was predominantly at a general level which was mostly administrative within the various government departments. Through restructuring processes within the various government departments to accommodate the function of small business development, people were moved into these sections. In some instances, people who were previously responsible for the management of informal trade and markets were now

being given the task of providing advice to small businesses. This was undertaken without building the capacity of such officials to offer such services to small businesses.

Officials were questioned on whether they were receiving adequate training in the key areas of small business development. Table 7.5 indicates that only 30.1% of the interviewees responded in the affirmative. It is evident that half of the respondents did not believe that were receiving adequate and relevant training in the area of SMME support and development while 19% of respondents were uncertain of training initiatives that were on offer.

	<b>Frequency</b>	<b>Percentage</b>
Yes	16	30.1
No	27	50.9
Uncertain	10	19
Total	53	100

Table 7.5: If respondents received training which helped improve their capacity to offer business development services

Respondents were asked to respond to the statement: “A structured programme should be in place to build the capacity of officials who offer services to small businesses”. The responses to the above statement (Table 7.6) indicate that all respondents agreed that there should be a structured programme in place to impart skills development and professionalism to those who are tasked with offering services to small businesses, with 69.8% of the respondents strongly agreeing with the statement and 30.2% agreeing.

	<b>Frequency</b>	<b>Percentage</b>
Strongly agree	37	69.8
Agree	16	30.2
Total	53	100

Table 7.6: Respondents belief in the need for an organisation to have structured training programmes in place to improve their skills levels in the area of small business development

One of the recommendations to develop a structured programme respondents forwarded was that there should be a Skills Development Forum established so that different stakeholders involved in skills development can work together to structure a programme. This would assist all officials who offer business support services to keep abreast of changes within the skills development

arena and thereby respond appropriately. Respondents also commented that skills developments within their work environments are always thought of as a second step in business development; however, this should be the first. It should also be acknowledged that small business development is complex and new in South Africa, especially in relation to government officials. There should therefore be strong consideration to ensure that capacity is developed and/ or enhanced.

In view of the fact that there were a number of policies introduced such as the BBBEE and PPP which had some relevance to SMME development, the researcher's intention was to investigate the extent to which staff was being trained to adjust to changing policy requirements with regard to small business development. Changing legislation within government departments often requires staff to keep abreast of such changes. Only 20% of respondents received training on changing legislation whereas an overwhelming majority (80%) had either not received training or were uncertain. The respondents indicated that little is being done to change officials' mindsets and this leads to departmental division. Staff should be informed (and trained, if necessary) about policy developments and related implications. Attendance at seminars and conferences which address such changes should be encouraged.

In addition, respondents were also asked if they were active in determining the training needs within the organisation. Only 30% of the respondents stated that they were involved in identifying their training needs while the majority (70%) indicated that they were not involved in identifying their training needs. Some of the respondents pointed to the DTI's learning centre that is responsible for identifying the training needs of staff and developing and designing training programmes to address these needs. In a study conducted by the DTI (1995), the need for quality, continuous, consistent and preferably collaborative research is evident for the effective development of the small business sector as a viable option to drive the economy. In this study, the DTI (1995) highlighted the fact that there exists substantial opportunity for research efforts, preferably of a joint nature with foreign and local counterparts, especially of a comparative nature involving provinces, regions and national findings of small business activities. This indicated that sufficient knowledge and understanding of the dynamics of small business activities is lacking amongst the decision-making bodies that influence policy for small business. According to the DTI (1995), there exists the possibility that publicly-funded initiatives

for the development and support of SMMEs may be ill-informed and therefore the return realised may not justify the intensity of investment, especially since governments assume that training would improve firms' performance and therefore make significant investment in small business training. However, government failed to place the same level of significance or investment for that matter on officials who are responsible for providing the development and support for SMMEs.

#### **7.5. The level of customer care the public sector offered SMME clients in the EMA**

The intention of this section was to investigate who their clients were and how clients were identified in terms of the provision of business development services to SMMEs. Clients were identified through the following means:

- Work with other institutions, for example, ABSA, Standard Bank, SEDA and the Department of Labour
- Through workshops, seminars and exhibitions
- Clients who walked in looking for small business advisory services
- Advertisement through the media
- Partnerships
- Referrals
- Word of mouth
- Presentations
- E-mail, phone and fax

The above methods of client intake are reflective of an *ad hoc* system of intake. None of the respondents had identified a coordinated, systematic approach to client intake. According to Freedman (2005), organisations and firms could benefit from improvement in their client-intake procedures. Freedman (2005) argued that the better these procedures are the more likely you are to have quality clients, get paid for your services, avoid conflicts and collect strategic valuable information. Freedman (2005) believed that the starting point of any intake procedure is a high quality intake form. Freedman (2005) argued that solid business practices and payment expectations should be employed and established at the very beginning of the relationship and

that quality clients will appreciate the care and diligence you show to the business and communication aspects of your practice. Public sector respondents identified the following methods which the public sector has put in place with regards to intake of clients for the provision of small business services: no method (43%), walk-in (29%), assessment forms (10%), regular meetings (7%) and partnerships with industry associations (11%). Clients' needs are determined through the following mechanisms: business perception surveys (10%), business assessment (12%), interaction with clients (67%) and a needs analysis survey (11%). According to Finnegan (1999), the importance attached to assessing the needs of SMMEs before designing the appropriate support mechanism has been increasing over the past ten years, in parallel with economic and political liberalisation. He believes that people must express their wishes and be full participants in programmes that affect them directly. In addition, he indicates that some donors have been active proponents of this policy and apply it systematically in their technical cooperation programmes.

Another phenomenon, identified by Finnegan (1999), which may also explain the increased focus on needs assessment, is the gradual transfer of the business development activities from government to the private sector or semi-private bodies. Thus, business development services are being viewed as commercial activities, especially in the context of the increasing pressure to achieve financial sustainability. Consequently, business development service providers are beginning to behave like the owners of successful enterprises who pay special attention to market research, which is, through carrying out market or needs assessments. Finnegan (1999) argued that needs vary according to a wide range of variables, including location, size of the enterprise, sex of the owner and type of sector. He further asserts that good practice means that the service provider should try to be as precise as possible in the assessment of needs.

The public sector respondents were also questioned about the extent to which they were able to respond to clients' needs. An overwhelming majority of the respondents (69.8%) indicated that they were not able to respond to their clients' needs while only 20.8% of respondents indicated that they were able to respond to clients needs with the remaining 9.4% being uncertain as to whether they were meeting their clients' needs or not (Table 7.7).

<b>Respond to clients needs</b>	<b>Frequency</b>	<b>Percentage</b>
Yes	11	20.8
No	37	69.8
Uncertain	5	9.4
Total	53	100

Table 7.7: If respondents were able to assist in addressing clients needs in relation to their business

In realising that they (respondents) were unable to meet the needs of their clients, the respondents referred clients to other organisations for assistance, the list of which is indicated in Table 7.8. In line with the finding that access to finance is a significant challenge SMMEs faced, 65% of respondents referred clients to banks while 55% of respondents referred their clients to Umsobomvu Youth Fund. In excess of half the respondents referred their clients to CIPRO (55%) while a significant percentage of respondents referred their clients to SEDA (40%). These statistics reveal that a significant percentage of referral activity occurs within the public sector as far as SMME development is concerned and one is led to question the actual amount of support the public sector offered directly.

<b>Agencies/Organisations</b>	<b>Frequency</b>	<b>Percentage</b>
Banks	34	65
Umsobomvu Youth Fund (UYF)	29	55
CIPRO	29	55
SEDA	21	40
Department of Labour	18	34
Business Development Corporation	16	30
SARS	15	28
Business Opportunities Network	11	20
NDA	8	15
NPI	8	15
Export Councils	2	4

Table 7.8: Agencies/organisations which respondents referred clients to for assistance

The public sector respondents were questioned on the programmes that they had in place to address the needs of small businesses. There are several programmes that the different spheres of government had in place to meet the needs of their clients (Table 7.8). The most significant programme identified by the respondents was training (79.2%). A significant percentage of

respondents identified Business Awareness Workshops (66%) as a key programme of their departments. Another area of significance was individual sessions (47.1%). These responses coincide with the findings revealed from questionnaires administered to SMMEs (Table 6.20) which highlighted training and business skills as a key programme of the public sector. Rogerson's (2004a; b) studies confirmed these findings which point to the generic nature of government programmes.

<b>Programmes</b>	<b>Frequency</b>	<b>Percentage</b>
Training	42	79.2
Business Awareness Workshops	35	66
Individual sessions	25	47.1
Business seminars	19	35.8
Business Forums	15	28.3
Business area networks	8	15
Small exporters development programme	3	5.6
Export marketing and investing	2	3.7

Table 7.9: Programmes respondents' organisations had in place to address the needs of small businesses

Respondents were also questioned about the extent to which they monitored the performance of clients and the processes and procedures that have been put in place to monitor the performance of clients. The majority of respondents (68%) indicated that they did not have processes and procedures to monitor the performance of clients while 15% of respondents indicated that they were uncertain of such procedures. Only 17% of respondents indicated that they did have processes and procedures in place to monitor performance.

Of those who indicated that they did have policies and procedures in place, such processes included follow-ups that were made at the end of the year to get feedback from clients. Other methods included business visits (5%) and business forum meetings (7%). Some of the respondents indicated regular report backs (5%) from clients' personal assessments and evaluation that were made. Respondents were further questioned on whether they had after care programmes to monitor and evaluate the progress of the business and provide clients with further assistance after the initial services were rendered. A significant majority (67.9 %) of respondents indicated that they did not have after care programmes while 15% of respondents were uncertain

as to whether they did have after care programmes. Only 16.9% of respondents indicated that they did have after care programmes through partnerships with the Department of Labour and SEDA.

According to Kesper (2001), the prevalent theme existing throughout the emerging body of literature on South African SMMEs suggested that a mismatch exists between the model of the SMME sector South African government used and its reality. Manning (1996) argued that SMME performance does not only depend on the elimination of constraints by means of supportive supply-side measures, but also on unfalteringly macro-economic conditions and industrial or market structures. Kesper (2001: 73) argued that the policies aimed at upgrading emerging and supporting established SMMEs have hence not been able to create “the enabling environment conducive to SMME growth”, and the delivery of supply-side measures suffers from inferior or onerous implementation. Rogerson (2004b; 2006) supported these findings.

Finnegan (1999) argued that international experience demonstrates that the best business providers are people working in an environment which induces commitment and a strong sense of ownership. He further argued that this is often found amongst not-for-profit organisations or commercial firms where the managers and staff members have a clear idea about the objectives of the organisation and long-term plans for growth within the organisation. Finnegan (1999) believes that these conditions do not generally apply to large bureaucracies where staff rotation may be the norm, achievements are not always recognised and goals not clearly defined.

#### **7.6. Public sector respondents’ attitudes towards payment for business development services SMMEs received**

The intention of this section was to determine the actual value that should be placed on services government departments offered. In general, services are often offered free from government departments. In the cases of exhibitions, where payment is made, the fee is highly subsidised. Respondents were asked the question as to whether SMME clients should pay for business development services that they received. Seventy percent of the respondents indicated that SMMEs should pay for services. They indicated that clients should not feel entitled to free services and that if people paid for services they will place more value on such services. They

also indicated that SMME owners who paid for services were more committed to their success. From the researcher's own experience in her work with SMMEs this was found to be extremely accurate. An example is the SMME Fair sometimes provided limited opportunities for SMMEs have exhibition stands sponsored from big business as part of their corporate social responsibility towards the development of small businesses. This is usually done for the purpose of providing them with a platform to showcase their products and services. Most often an overwhelming majority of sponsored SMMEs never take up this opportunity thereby preventing other paying SMMEs from securing such an opportunity. Only 30% of the respondents indicated that clients should not pay for services since their clients are disadvantaged and could not afford services and that government should focus on the delivery of services without focusing on payment. It is often this form of a welfare mentality that prevents SMMEs from reaching their potential growth and reinforces the dependency on government services.

The respondents were further questioned about whether SMMEs were paying for business developments services received. The results show that the majority of the respondents (69.8%) stated that SMMEs were did not pay for any business development services received from them. Most of their clients are reluctant to pay the monthly rental fees since some were disadvantaged and could to afford to pay. Among those respondents who did charge for services, there was currently no system in place to determine the rates for services offered. They further indicated that SMMEs were not consistent in paying for business development services received from them, neither were they efficient at recovering such payment from clients. Recovery of payment generally involved judgements and court hearings which government neither has the resources nor the willpower to engage in.

Tanburn *et al.* (2000) believed that payment for BDS was critical to ensuring the sustainability of SMMEs. They argue that long-term donor subsidies for the demand or supply of BDS are likely to distort BDS markets and crowd out the commercial provision of services which thereby undermines the objectives of impact, outreach, cost-effectiveness and sustainability that are the pillars of the BDS market development paradigm. According to Tanburn *et al.* (2000), while subsidies may be warranted in the short-term as an investment in the development of BDS markets, a complicated issue is defining the extent to which BDS services have characteristics of

public goods that might justify longer-term subsidies. Tanburn *et al.* (2000) argued that although most BDS are deemed to be private goods, training and information, for example, may have both private and public goods characteristics. Other difficult services may be quality assurance (for example, through certification of trainers), a market-enhancing activity whose costs may be difficult to fully recover. Tanburn *et al.* (2000) believed that reducing the risks and costs of BDS requires focus on delivery and payment mechanisms as part of the design of BDS products. This would be particularly valuable for the smallest micro-enterprises where flexible and creative approaches to delivery and payment mechanisms are needed to boost demand for services. Government needs to think of making use of indirect payment mechanisms for BDS such as commissions and mark-ups rather than direct fees which can reduce the cash flow burden on SMMEs.

#### **7.7. The role respondents believed all spheres of government should play in SMME development**

The National Small Business Strategy assumed that with an enabling environment, the small business owners will proactively assume responsibility for their development. However, thirteen years down the line what is evident is that government programmes are not well-promoted and coordinated (Rogerson, 2006). SMME owners are not familiar with these support programmes as is evident in the previous chapter and from literature on South African SMMEs in general. Government support programmes were previously provided through the wholesale delivery of Ntsika and Khula schemes which were criticised for not being well-marketed. However, the more recent government support strategy through the establishment of SEDA has also been met with criticism. Most SMMEs believed that it is simply a glorified version of LBSCs with the inclusion of the MACs as well as Ntsika (Rogerson, 2004a). Whilst the original intentions of SEDA were noble and appeared to be targeting SMME development, its implementation from the researcher's observations has failed to achieve such objectives. The majority of government programmes have been heavily criticised for being primarily supply-driven and therefore do not cater for the needs of small-scale enterprises.

On being questioned as to whether they were effective in addressing SMMEs needs, only 20% of the public sector respondents believed that they were effective in meeting the needs of SMMEs

while an overwhelming majority (70%) indicated that they did not believe they were effective in addressing the needs of SMMEs. It was felt that funding of small businesses is a major issue since some financial institutions have requirements that are too restrictive for SMMEs. Small businesses are not an organised sector and their challenges are very diverse and broad. It was further indicated that partnerships with the private sector are important in overcoming some of the challenges government faced in dealing with the small business sector.

Respondents were questioned on the problems listed in Table 7.10 they currently experienced with regard to the delivery of small business services to SMMEs. A significant percentage of public sector respondents (62%) identified the high cost of overregulation as a problem. According to the SBP (2005), SMMEs have reportedly complained about the many hours spent filling in long and confusing government forms and waiting in queues to get official papers signed and stamped. The SBP (2005) argued that by focussing on reducing red tape costs that arise from complying with regulations, the government can free up private sector resources for more productive uses and improve its own administrative efficiency. Many of the respondents (64%) identified a lack of capacity and an understanding of small business issues as a critical problem they experienced. While government often directed programmes at training SMMEs, insufficient attention was focussed on the training of officials who offer support to SMMEs. These problems led Miehlsbradt and McVay (2003a) to conclude that in the real world the best environment for SMMEs was one in which providers and SMMEs interacted through market (transactional) relationships. The best providers of services therefore were close to SMMEs in terms of their people, structures and orientation and were able to respond effectively to SMME demands through the provision of private services.

<b>Problems</b>	<b>Frequency</b>	<b>Percentage</b>
Lack of a comprehensive database of government services	37	69.8
Lack of understanding of small business issues	34	64.2
Lack of organisation within the sector	33	62.3
High cost of over-regulation of the sector	33	62.3
Lack of a complete database of SMMEs	28	52.8
Non-availability of SMMEs to participate in programmes	19	35.8
Lack of capacity to provide services	16	30.2
Lack of resources, staff and budget	11	20.6

Table 7.10: Problems respondents experienced in the delivery of small business services to SMMEs in the EMA

The absence of a database of all available government services was identified as a significant problem by almost 70% of the public sector respondents. This often resulted in the fragmentation of programmes and projects across the different spheres of government which also resulted in the duplication of services. It was felt that the same SMMEs were benefiting from services from all spheres of government as a result of this duplication, while some may never benefit from such an opportunity.

Other problems public sector respondents cited included a lack of resources such as budgets and staffing. Governments often advertise the numerous funds available for SMMEs; however, SMMEs claim to be unable to access such funding very easily. One such fund, according to Wadula (2005), is the National Empowerment Fund (NEF) which since its inception in 1998 has been dogged by controversy around non-delivery and not meeting its mandate. In addition, public sector respondents also identified a lack of a complete database of SMMEs (53%), lack of organisation within the sector (62%) as well as the non-availability of SMMEs to participate in their programmes (36%) as challenges they consistently faced.

Public sector respondents were questioned on what changes they would introduce in the way in which they currently operated in relation to small business development. Table 7.11 describes the suggestions that respondents forwarded.

<b>Programmes</b>	<b>Frequency</b>	<b>Percentage</b>
Improve the level of integration with other government departments	37	69.8
Stronger partnerships with the private sector	35	66.04
Training of small business support officials	34	64.2
An improved level of monitoring	34	64.1
An improved level of mentoring	33	62.3
Creation of a fund in partnership with financial institutions	33	62.3
An improved level of after care service	28	52.8
An improved level of information provision	19	35.8
Improved focus on access to markets and exporting	18	33.9
Improve relationship building with SMMEs	17	32
Improve standards of SMMEs in their operations	16	30.2
Training of SMMEs	11	20.6

Table 7.11: Suggestions respondents made to improve small business development services by the public sector in the EMA

The most significant area of change identified by almost 70% of public respondents was about improving the level of coordination among government departments in the provision of small business provision. Public sector respondents called for a greater level of integration of programmes various spheres of government offered to avoid duplication and wastage of resources. Another significant area of change identified was a stronger participation and partnership with the private sector (66%). A significant percentage of respondents (62%) focussed on improvements within the financial arena in terms of forming partnerships with financial institutions and providing grants to small business (start-up capital) with viable business ideas. Alternative funding options was also suggested as a means of improving access to finance. There also appeared to be a strong call for improvement in the levels of monitoring (64%), mentoring (62%) and after care services (53%). Access to markets (34%) and an improved level of information provision were also identified as areas where changes were needed. Another significant area identified was training of both SMMEs (20%) and a stronger emphasis on the training of officials (64%) within the organisation to improve on relationship building with SMMEs and being more effective.

In terms of the role that the public sector should play, two very distinct strands of thought were discussed in the literature. On the one hand, Fan (2003) supported the idea of a very active role the public sector played with regards to SMME development and on the other hand, authors such as Gibson (2001) and Rogerson (2006) believed that the public sector should play a more facilitative role and that a MDA should be employed for the provision of support to SMMEs. Fan (2003) argued that the public sector could play a role in the provision of BDS which could be done by addressing market failures to open market access. Improved transaction efficiency and risk reduction were needed. Fan (2003) believed that this could be achieved by strengthening financial institutions' capacity to serve small clients and providing market support structure to help build SME competitiveness. This would make a significant contribution to the sector. According to Fan (2003), markets for services suitable for and demanded by SMMEs should be fostered as well as low-cost service products and delivery mechanisms needed by SMMEs should be developed. Fan (2003) argued that certain expensive regulatory requirements must be eliminated and flexibility in the implementation of regulations should be added. In addition, she believed that infrastructure should be built and information access facilitated. SME performance and policy impact ought to be monitored. Public and private partnership at local level must be created and investment in public goods is recommended.

Storey (1994) believed that the main role of the public sector should be in supporting venture capital. Other types of risk financing identified by Storey (1994) should be to reduce the risk and cost of private equity finance. He further believed that the government should complement and encourage the development of the private-capital industry, including enhancing the skills of the people involved in undertaking this task. According to Gibson (2001), whose perspectives Miehlsbradt and McVay (2003a) as well as Bear *et al.* (2001) supported, the general feeling is that the performance of government interventions with regards to small business development has been weak and this disappointing performance was manifested in:

- Outreach: only a small number of SMMEs were being reached with official support services. The vast majority were untouched.
- Sustainability: public organisations supported to deliver services consumed resources with little or no income from their SMME clients who were aid dependent.
- Impact: there were few signs of major impact, there seemed to be little perceived value on

the part of SMME clients and no obvious improvement in the performance of their businesses.

- Efficiency: the cost bases of providers and their ways of working seemed more appropriate to the world of donors than those of SMMEs.

Miehlbradt and McVay (2003a: 9) asserted that overall, “the difficult but inexorable conclusion reached was that delivery systems of public BDS, had failed”. At the heart of this disappointing performance, according to Miehlbradt and McVay (2003a: 9), were a number of core factors:

- Services were regarded as public goods, to be offered free or heavily subsidised by State organisations primarily via traditional training and consulting, based on the perception that these were good for SMMEs and met their needs. This was (and is) an artificial and narrow view of the nature, importance and role of services.
- Yet, agencies’ experiences in the real world showed that the best environment for SMMEs was one in which providers and SMMEs interacted through market (transactional) relationships. The best providers of services therefore were close to SMMEs in terms of their people, structures and orientation and were able to respond effectively to SMME demands through the provision of private services.
- Intervention approaches were often pale imitations of practices in high-income economies, created within a very different institutional environment, usually underpinned by a weak rationale and with questionable efficacy.
- Far from being confined to a narrow set of formal education-type services, the worlds of business services cover a plethora of different types of services, delivered in a range of ways and were increasingly important in creating an environment conducive to SMME competitiveness.

Miehlbradt and McVay (2003a) pointed out that the collective impact of donor experience presents a glaring picture. In many countries the clear consequence of years of government and donor-supported interventions has been to weaken the development of market forces. They argued that products distributed cheaply or even free to SMMEs provokes dependence and a doubt over quality and value of services. Over the past decade, according to Rogerson (2006), there had been little public discussion about the MDA towards BDS provision in South Africa.

Rogerson (2006) contended that as a whole, the discussion on SMME programmes and SMME development has been steadily confined within the concept of State-delivery of subsidised support services. He further contends that since 1994, national government has been devoted to the introduction and roll-out of a series of support programmes, most importantly those relating to Local Business Service Centres, the Tender Advice Centres and the Manufacturing Advice Centres, as the core of its attempts to advance the role of SMMEs in the post-apartheid economy (DTI, 2004). In terms of the revised Integrated Small Business Development Strategy, according to Rogerson (2006), among its central obligations is the promotion of entrepreneurship, unlocking opportunities for entrepreneurs as well as building the capacity of entrepreneurs to become competitive. Rogerson (2006) indicated that it has been articulated that under the guidance of the new National Small Enterprise Development Agency a strong State commitment will be reserved towards the role of government support and provision for SMME development in South Africa. He further points out that it appears that some room for guiding principles will also be opened for the activities of the parallel MDA which thus far has been a somewhat ignored component of discussion in SMME debates concerning South Africa. The ISBDS (DTI, 2003a) appeared to be an indication of government's acceptance of the demand side approach as well as an increased recognition of the significant role the private sector has to play in SMME development in South Africa. However, the extent to which this approach will be successfully implemented and embraced whole-heartedly remains to be seen in the SMME arena.

According to Torppa (2006), national government funded (SEDA, TEO) business development service support programmes seem to be supply led. The majority of such programmes are centrally planned and somewhat generic services are actually being offered mainly by parastatals. Torppa (2006) argued that this is not to say that such services are not relevant to the needs of small businesses. He further argued that it does, however, suggest that a one approach fits all concept prevails and that these services may have been designed without a thorough analysis of the needs of a specific type of enterprise in a specific location and in relation to what is available to them from the markets. Furthermore, according to Torppa (2006), it appeared that most of the government promoted BDS remain heavily subsidised and services are made available from a preselected group of experts who are often contracted by the support institution rather than the private enterprise. From a neoliberal perspective, Harvey (2006) is in agreement

with this approach and argued that if markets do not exist (in areas such as education, health care, social security or environmental pollution) then they must be created, by State action if necessary; however the State should not attempt to extend its role beyond this. He further asserts that State interventions in markets must be kept to a minimum because the State cannot possess sufficient information to question market signals (prices), and because powerful interests will inevitably distort and bias State interventions (particularly in democracies) for their own benefit.

According to Rogerson (2006), in the context of a flexible policy environment concerning national government support for SMME development in South Africa it becomes imperative to reassess the implications for local government of changing international trends in support programming for SMME development. This analysis, argued Rogerson (2006), must also be set against the continual appreciation of the importance of a flourishing SMME economy for realising the visions of South African local economic development as described in the national policy guidelines for executing LED. For the purpose of emphasis, Rogerson (2006) argued that in line with international experience there is an increasing trend away from direct national government support for SMME development and instead towards the adoption of new roles for government in SMME programming. He further argues that this international shift towards what is termed a MDA for the provision of business development services potentially holds significant implications for local level support programming by municipal governments as part of LED planning, not least in South Africa.

## **7.8. Conclusion**

This chapter presented results that were derived from the semi-structured interviews conducted with officials from the local, provincial and national spheres of government. The first section of the chapter looked at the demographic data of the target groups that were interviewed, such as their levels of education and the number of years of experience they had. It then investigated the organisational capacity of the different spheres of government to be able to effectively offer business development services to SMMEs. The focus here was on structures and programmes in place to offer such services as well as perceptions of their abilities and effectiveness in meeting the needs of their clients. The chapter then looked at training opportunities within the organisation to improve the capacity of individuals who are responsible for SMME development

in terms of business management and changing legislation. The section that followed focused on customer care in terms of after care programmes and monitoring of performance before discussing whether customers were charged for services received. Finally, it looked at their role as the public sector and discussed the literature relevant to what the role of the public sector in providing services to SMMEs should be.

## **CHAPTER EIGHT**

### **Analysis of Private Sector Semi-structured Interview Responses**

#### **8.1. Introduction**

The private sector has also been identified as a provider of business development services to SMMEs in the EMA. The basic economic argument given for private sector provision of services from a neoliberalist perspective is, according to Gomez-Echeveris (1997), is that governments have few incentives to ensure that the enterprises they own are well run. Gomez-Echeveris (1997) indicated that one problem is the lack of competitiveness in State monopolies and that it is problematic to know in advance if an enterprise is competent or not without contenders to compare against. He further indicated that another problem is that the central government administration, and the voters who elect them, have difficulty in assessing the efficiency of numerous and divergent enterprises. In addition to the above, a private owner, often specialising and gaining great knowledge about a certain industrial sector, can evaluate and then reward or punish the management in much fewer enterprises much more efficiently.

This chapter presents results derived from the semi-structured interviews held with officials from the private sector. This chapter first looks at the target group that has been interviewed. It then goes on to investigate the organisational capacity of the companies that were interviewed to be able to provide services effectively to SMMEs. It then focuses on the training opportunities within the private sector organisation to improve the capacity of individuals who are responsible for SMME development. The next section will focus on customer care before discussing whether customers are charged for services received. Finally, it looks at the role of the private sector in providing services to SMMEs and what they perceive the role of the public sector to be.

## **8.2. Private sector respondents who provide Business Development Services to SMMEs in the EMA**

In this particular section, employees from various private sector organisations responsible for providing services to SMMEs were interviewed. Interviewees were selected from organisations such as banks, training institutions, consultants, accounting firms, marketing firms, tax consultants and property developers. The researcher conducted 50 interviews with individuals from various private sector companies. Interviewees were questioned about their qualifications and the number of years of experience they had. The researcher was able to secure the participation of these officials through the various conferences and exhibitions that she attended. The experience of the researcher has been that individuals from the private sector are more cooperative in agreeing to interviews than individuals from the public sector.

## **8.3. Organisational capacity of private sector respondents to provide Business Development Services to SMMEs in the EMA**

The intention in this section was to establish the organisational capacity of the different private sector companies to be able to effectively offer services to SMMEs. According to Finnegan (1999), in terms of organisational capacity, the BDS service provider should use a business-like vision and promote a corporate culture. Finnegan (1999) argued that it should maintain a transactional relationship with its clients, and client satisfaction should be an unremitting concern. Finnegan (1999) further argued that the legal status of the service provider should facilitate a receptive and business-like management style. This business-like management style means that it should have the competence to freely select its staff, the freedom to adopt a salary structure which will attract staff with the right qualifications, and possibly provide bonuses to the better performing staff members. In addition, Finnegan (1999) argued that the service provider should be in close proximity to its clients and it should not be required to cover too large a geographical area.

When questioned on the main function of their organisation as well as the services offered it was evident from the interviews conducted that the main function of the companies was in line with the provision of business development services. This highlighted the sense of

purpose of each company interviewed and the fact that the reason for its existence was very clear. The services identified are presented in Table 8.1.

<b>Services</b>	<b>Frequency</b>	<b>Percentage</b>
Product design and development	37	74
Business plans	32	64
Mentorship	26	52
Technology development	21	42
Research and development	20	40
Financial services and accounting	17	34
Registration of company	17	34
Business advisory services and skills development	12	24
Marketing	11	22
Business linkages and networking	13	26

Table 8.1: List of business development services the private sector offered to SMMEs in the EMA

From the above list, it is evident that the services offered are highly specialised and specifically designed to cater for the needs of SMMEs. The main services offered were linked to product design and development (74%), business plans (64%) and mentorship (52%). Other services offered included technology development (42%), research and development (40%), financial services and accounting (34%), registration of company (34%), business linkages and networking (26%), business advisory services and skills development (24%) and marketing (22%). Services were offered through:

- Clients visiting the offices (66%)
- The identification of clients for tailor-made solutions (24%)
- Service outlets (54%)
- Instructor-led training programmes (50%)
- Client self assessment (24%)
- Referrals from other service providers (28%)
- Technology audits (42%)

The above-mentioned mechanisms of obtaining clients are a strong indication of demand-led services as opposed to supply-driven services. According to Rogerson (2006), an increased emphasis on the development of BDS markets represents a move away from supply-driven State subsidised services and support for individual organisations towards developing more effective market environments that facilitate the delivery of demand-led services. The initial moves towards more market-based approaches, according to Dawson and Jeans (1997), occurred in the 1980s. Service provision was to be demand driven which would be expressed in terms of significant beneficiary contributions, sufficient to cover most of the costs of service delivery. According to Miehlabradt and McVay (2003a), by the late 1990s and early 2000s the emerging strategy for business development services focused on developing markets for services that were suitable for, and demanded by small enterprises, rather than the direct provision of business development services by governments or donors. Hitchins (2002) argued that this shift was towards an emphasis upon being business-like and demand-led at the institutional level and it focused intervention strategies toward facilitating transactions between SMME clients as opposed to beneficiaries.

According to Hitchins (2002), in ensuring that BDS are demand-driven, experience shows that institutional service providers often neglect to assess the type of services needed by their clients. In these cases, services are mostly supply-driven and do not reflect the real needs of the clients. Under normal commercial conditions, according to Hitchins (2002), service providers would make a loss because clients would not pay for services that do not correspond to their needs. In cases where services are free of charge or highly subsidised, clients may accept the service although it may be of little use to them. Hitchins (2002) pointed out that this is often found in training, when trainees are provided with financial or other incentives for participating in training courses. He further posits that ensuring that services are demand-driven presents two advantages: they can create a greater and more positive impact on the business and it can encourage clients to start paying for the services they value.

Respondents were questioned on the existence of a vision/ mission statement to which an overwhelming majority responded positively (70%), while only 10% of respondents did not have a vision/ mission statement. Twenty percent of the respondents were unaware or did not

know whether their organisation had a vision/ mission statement. These results differed significantly from those obtained from the public sector where 54.7% of respondents indicated that their departments had a vision/ mission statement specifically for small business while 45.3% indicated that their departments either did not have a vision/ mission statement or they were unaware of one.

The private sector officials were questioned about any relevant legislation that they were aware of which related to small business development. Seventy percent of respondents indicated that they were aware of small business legislation. These respondents cited the following pieces of legislation that they were aware of:

- Small Business Tax Amnesty (46%)
- Skills Development Act (50%)
- National Small Business Act (56%)
- National Small Business Strategy (60%)

Only 20% of respondents indicated that they were not aware of small business legislation and 10% were uncertain about such legislation. These findings are in stark contrast to interviews conducted with the public sector representatives, where an overwhelming majority (86%) were not aware of relevant small business legislation. While only 3.8% of the respondents from the public sector group identified the National Small Business Act and National Small Business Strategy, 56% and 60%, respectively, of the respondents from the private sector were aware of this legislation. In terms of definitive organisational structures that were in place within the company to effectively address small business development, an overwhelming majority (80%) of the respondents indicated that they did have institutional structures in place, while 20% reported that they did not have specific institutional structures set up aimed at specifically addressing small business development.

The findings are a strong indication of high levels of capacity within the private sector. The high percentage in terms of having a vision/ mission, organisational structure and knowledge of relevant legislation are indications of solid organisational capacity. This argument is

supported by Parker and Kirkpatrick (2005) who believe that these are all ingredients of a strong organisation which is both effective and efficient. Other factors which also contribute to strong organisational capacity, according to Finnegan (1999), are the necessity of the service provider to focus on a restricted range of functions in order to guarantee the provision of quality services. In addition, Finnegan (1999) believed that a very significant factor in the success of a service provider is the selection of the chief executive of the organisation. In addition to meeting solid qualifications for the job, this person should exhibit the best characteristics expected from a successful entrepreneur, particularly a keen entrepreneurial spirit. Finnegan (1999) implied that a routine bureaucratic transfer of a civil servant from a ministry to the business development organisation is likely to defeat the whole purpose of establishing this type of organisation.

Another crucial factor, according to Finnegan (1999), was the need for the business development organisation to focus on a small number of technical areas, rather than trying to cover the whole field of BDS. Service providers may specialise in one or two services (for example, training), sectors or clientele. The trend towards specialisation, argued Finnegan (1999), was being complemented by a parallel trend towards networking, thus, a specialised service provider may refer a client to other BDS providers specialised in other services. This does not appear to be the case in eThekweni, particularly among public service providers, namely, SEDA and the Business Support Unit where both attempt to provide the full range of business support services.

#### **8.4. Training to improve the capacity of the Private sector respondents to provide Business Development Services in the EMA**

The intention of this section was to determine the extent to which the respondents within the private sector were equipped to provide the relevant support and development to SMMEs. There were a higher percentage of respondents who occupied the technical level (50%) of the organisation than the managerial (36%) and the supervisory (14%) levels. An investigation into the qualifications of the officials who participated in this study indicates a very high level of tertiary education which is relevant to the area of expertise required (Table 8.2).

	Frequency	Percentage
<b>Occupational level</b>		
Managerial	18	36%
Technical	25	50%
Supervisory	7	14%
<b>Level of education</b>		
Matriculation	10	20%
Degree/Diploma	25	50%
Postgraduate	15	30%
<b>Experience (average number of years)</b>	8 years	

Table 8.2: Level of occupation and education of private sector respondents who provide services to SMMEs within the EMA

Some of the qualifications included ICT related degrees (10%), Bachelor of Administration (6%), Bachelor of Commerce degree (12%), degrees in Marketing (10%) and Education and Training diplomas (12%). In addition, there were at least 15 of the 50 individuals (30%) who possessed postgraduate qualifications. Five respondents had a Masters in Business Administration degrees. The average number of years of experience among all respondents was 8 years. Even though this was less than the average experience among the public sector respondents (10 years), the experience among private sector respondents was generally specific to the area of service they were providing.

Officials were questioned about whether they were receiving adequate training in the key areas of small business development. It is evident from the officials interviewed that a significantly high percentage (60%) of respondents was receiving training relevant to SMME support and development. Only 20% of individuals indicated they did not receive any measure of support in this field; while 20% of respondents were uncertain of training initiatives that were on offer.

Respondents were asked to respond to the statement: “A structured programme should be in place to build the capacity of officials who offer services to small businesses”. The responses to the above statement revealed that all respondents agreed that there should be a structured

programme in place to impart skills development and professionalism to those who are tasked with offering services to small businesses.

In terms of changing legislation proposed by national government, the respondents were questioned on the extent to which staff was being trained to adjust to these changing policy requirements in small business development. Sixty percent of respondents indicated that they were being exposed to changing requirements within the business environment and were being trained on such concepts as Broad-Based Black Economic Empowerment (BBBEE), government's Preferential Procurement Policy (PPP) and the Small Business Strategy the DTI devised. Only 20% of respondents indicated that they did not receive training while 10% of respondents were uncertain as to whether they did receive training in legislation.

Thirty six percent of the respondents also indicated that they were constantly being trained on customer services as well as being kept abreast about key issues pertaining to the SMME environment. Some respondents (30%) indicated that they had been exposed to the programmes offered by the DTI for the development of SMMEs. In addition, respondents were also asked if they were active in determining the training needs within their organisations. The majority (76%) of respondents indicated that they were involved in identifying their own training needs, while only 24% of respondents indicated that they were not involved in identifying their training needs. Identify your training needs and receiving such appropriate training in terms of small business development helps to bridge the gap in terms of their capacity to deliver business development services to SMMEs effectively and efficiently. These findings confirm the capacity of the private sector to deliver small business services efficiently since their skills are constantly being sharpened.

#### **8.5. The level of customer care the private sector offered to SMME clients in the EMA**

The intention of this section was to investigate who the private sector offered services to, how clients were identified to become beneficiaries of business development services offered as well as how services were offered to recipients of their services. The majority of the

respondents (64%) indicated that their clients were predominantly SMMEs. Some respondents from financial institutions indicated that their clients were predominantly retailers (20%) or individuals (16%).

<b>Clients</b>	<b>Frequency</b>	<b>Percentage</b>
SMMEs	32	64
Retailers	10	20
Individuals	8	16
Total	50	100

Table 8.3: Who the recipients of services offered were

Private sector service provider secured clients through the following communication methods:

- Advertising (46%)
- Word of mouth (24%)
- Media advertisement (TV/Radio) (30%)
- Presentations (12%)
- Local newspapers (42%)
- Networking (30%)
- Marketing mechanisms (40%).

It is evident that the private sector uses a variety of mechanisms to secure SMME clients, the most popular of which is advertising (46%), followed by publishing in local newspapers (42%). Some respondents made use of other types of marketing mechanisms. Some of the respondents made use of media advertising through the television and the radio (30%). Networking (30%) at events, meetings and conferences was also a method that was used by respondents. Word of mouth (24%) also appeared to be a common type of communication method respondents used.

The needs of the clients were identified through the following methods:

- Individual assessments and research (40%)
- Computer analysis following personal discussion and diagnostic analysis (30%)
- Client services desks (15%)

From the above findings, it is evident that a significant proportion of private sector respondents obtained SMME clients through individual assessments (40%) and computer analysis following individual investigation (30%). Tanburn *et al.* (2000) were in agreement with such methods and indicate that when conducting initial assessments with clients it is important to consider what services SMMEs are aware of, currently want and are willing to pay for, and what might be successfully marketed to them in the future. While recognising the difference between perceived needs and real needs, Tanburn *et al.* (2000) argued that appropriate weight should be given to perceived needs, relative to the more traditional expert assessment of real needs. It is also important to note that it is difficult to determine willingness-to-pay in underdeveloped and/ or distorted markets. He further argued that the services may be totally unknown locally thereby making test-marketing more reliable than a survey.

Finnegan (1999) argued that business development organisations should practice what they preach and operate in a business-like manner. This implies that they should have a good understanding of the needs of their clients. Their staff should be aware that their long-term position in the organisation depends on its overall performance and, therefore, their own performance should contribute positively to this. Finnegan (1999) believed that they (staff) should be able to quickly adjust to changes in demand and that BDS managers should be fully convinced of the need to achieve full (or at least some agreed upon) level of financial sustainability over a given period, and strive to meet this commitment. It is therefore important that staff is constantly trained to be able to respond to these changing needs. In addition, he indicates that they should also be aware of the comparative performance of other business development service providers in the same market, in the same way that private entrepreneurs should follow closely the performance of their competitors.

The respondents were questioned about the extent to which they were able to respond to clients' needs. The results in Table 8.4 indicate that a significant proportion of respondents (64%) indicated that they were able to respond to their clients' needs while only 26% of respondents indicated that they were not able to respond to clients' needs. The remaining 10% were uncertain as to whether they were meeting clients' needs or not. In instances where they

were unable to meet the needs of their clients probably through incorrect referrals, they redirected the client to the appropriate service provider.

	<b>Frequency</b>	<b>Percentage</b>
Yes	32	64
No	13	26
Uncertain	5	10
Total	50	100

Table 8.4: If private sector respondents are able to address the small business needs of SMMEs

It was found that several programmes had been put in place to meet the needs of their clients. The most significant procedure in place is individual sessions with clients (84%). Respondents believed that more information as well as more value can be derived from such sessions. Steel and Webster (2001) argued that this makes significant client impact which in turn induces changes in SMME performance (for example, higher sales, value added products and increased profitability), or broader social and economic impacts (for example, employment growth and poverty alleviation). Other programmes in place include mentorship programmes (70%), site visits (64%) in order to understand the products and services offered, business seminars (54%), business to business networking (54%), project management (32%) and customer services orientation (24%).

<b>Programmes</b>	<b>Frequency</b>	<b>Percentage</b>
Individual sessions	42	84
Mentorship programmes	35	70
Site visits and report back sessions	32	64
Business to business networking	27	54
Business seminars	27	54
Project management	16	32
Customer services orientation	12	24

Table 8.5: Programmes and procedures private sector respondents had in place to address the needs of SMMEs

Respondents were further questioned as to whether they had after care programmes to which a significant majority (70%) indicated that they did while only 10% of respondents indicated that they did not have after-care programmes. The remaining 20% of respondents were not certain as to whether they did have after-care programmes. Of those who did have after-care programmes, examples of methods for conducting after-care were through site visits (30%), mentorship programmes (26%) and “Care 4 u” call centres (4%) which were designed to assist with client problems. Steel and Webster (2001) believe that reliable performance measurement and monitoring provides a solid foundation for institutions to improve the design of instruments in response to client demand. These performance measurements also assist in facilitating decisions by donors on types of actions needed to enhance the extent and quality of the market. Steel and Webster (2001) argued that for BDS providers, performance measurement is a management tool that assists them to create marketing strategies, monitor customer satisfaction, respond to changes in demand, develop new and better products, manage costs, and establish staff incentives. However, they did acknowledge that there are also many practical problems in BDS performance measurement. For example, the problem of attribution: were changes in performance caused by the intervention or by other factors?

Steel and Webster (2001) believed that measurement problems also arise in the categories of market development and institutional performance. The current limited state of knowledge of the dynamics of BDS market development, according to Steel and Webster (2001), particularly in underdeveloped and distorted markets (such as in transition countries), makes it difficult to map its progress. At the institutional level, they believe that indicators of prices and cost recovery are complex when services are bundled or paid indirectly, and measuring sustainability is complicated by the legacy of substantial subsidies received in the past. According to Steel and Webster (2001), the staff in most cases did not have the expertise required to collect high-quality data, nor is it necessarily desirable to impose the costs of extensive new data collection on commercially-oriented providers.

## **8.6. Private sector respondents' attitude towards payment for Business Development Services SMMEs received**

Many authors (Finnegan, 1999; Mielbradt and McVay, 2003b; Rogerson, 2006) supported the notion of payment in exchange for services rendered to SMMEs. These authors argued that payment instils a value or a sense of worth onto the service required. The purpose of this section was to investigate whether respondents from the private sector believed that services should be paid for as well as the attention that was given to mechanisms that were put in place to ensure such payment is made on a consistent basis.

Respondents were asked whether they thought clients should pay for services that they received as well as whether their clients were currently paying for services. The results revealed that all respondents believed that clients should pay for services received, and that all their clients currently do pay for services received. Respondents believed that the profitability of their company and the ability to sustain their operation was dependent on the ability of clients to make payments in accordance with the service that was received. There appeared to be no question about an exchange of payment from the SMME to the service provider. Terms and conditions for payments as well as rates were determined prior to the service being offered, which left no room for any discrepancies or confusion with regards to payment. While there might be the odd occasion when clients did not pay for a service, they did have procedures in place to ensure that they followed up on payment.

Rates for payment of services are dependent on the level of service required. There is a sliding scale for emerging businesses as opposed to more established businesses. In certain instances, rates were based on commission and set fees. However, in most cases rates were determined according to predetermined criteria. Some respondents indicated that their rates are determined according to the financial assessment of the business and a corresponding subsidy formula put in place which varies from 90:10, 65:35, 50:50, for example, in the 90:10 formula, the client pays 90% and the service provider subsidised 10%. In the 65:35 formula the client pays 65% and the service provider subsidised 35%. Finnegan (1999) believed that it is important that the service provider uses various approaches to achieve some level of financial sustainability. These may include finding ways to make the charging of fees more

attractive for the entrepreneurs, diversifying funding sources, and finding ways to reduce costs. According to Finnegan (1999), the crucial question is, of course, whether SMMEs can afford such outsourced services and whether competent private sector providers will in fact come forward. Finnegan (1999) argued that the challenge is to develop an effective market for such services (encouraging entrepreneurs to provide these services at affordable prices and making SMMEs aware of and willing to utilise these services) rather than just wait for publicly funded services to be made available free of charge. Finnegan (1999) posited that the evidence suggests that even the lowest level of SMMEs are willing to pay for training schemes, provided that they are specific and add value to their business. If business owners are serious about growth and profitability they generally wish to work with specialised experienced providers. Finnegan (1999) argued that government's role then is not to expand its own network of institutions but rather to permit the market of service providers to develop, to control quality and facilitate access, especially of very small and rural enterprises to private enterprises.

According to Rogerson (2006), the core challenge was to develop low-cost service products and delivery mechanisms in order to match the needs and willingness to pay of the lowest levels of SMMEs. Rogerson (2006) argued that this new best practice approach also suggests a move towards an emphasis on the creation of an enabling environment for SMME competitiveness and on developing markets for SMME relevant services rather than substituting for them as in the old approach which included a direction provision of government delivered business development services. According to Tanburn *et al.* (2000), reducing the risks and costs of BDS requires a focus on delivery and payment mechanisms as part of the design of BDS products. They believed that especially for the smallest microenterprises, flexible and creative approaches to delivery and payment mechanisms are needed to augment demand for services. They further believed that the use of indirect payment mechanisms for BDS commissions and mark-ups rather than direct fees can reduce the cash flow burden on SMMEs, allow them to share the risk if benefits from BDS do not occur, and reduce administrative costs for BDS providers. Tanburn *et al.* (2000) held the view that donors should encourage BDS providers to design payment mechanisms that are appropriate to the local situation and the characteristics of their clients. Tanburn *et al.* (2000)

argued that long-term donor subsidies to the demand or supply of BDS are likely to distort BDS markets and crowd out the commercial provision of services. This would effectively impair the intention of impact, outreach, cost-effectiveness and sustainability that are the pillars of the BDS market development paradigm. They further argued that sometimes subsidies may be warranted in the short-term as an investment in the development of BDS markets (for example, through development of new products and models). However, even provisional subsidies can create distortions, and are necessary only if their market development impacts overshadow their distortionary effects. Therefore, donors must exercise caution in the application and duration of subsidies.

#### **8.7. The role respondents believed that the private sector should play in SMME development**

There are a number of authors (Berry *et al.*, 2001; Mielbradt and McVay, 2003a; 2003b; Rogerson 2004b; 2006) who in criticising governments role in SMME development, support the notion of private sector led services to SMMEs. When questioned on whether they were effective in meeting their clients' needs, a significant proportion of respondents (64%) indicated that they were able to respond to their clients' needs while only 26% of respondents indicated that they were not able to respond to clients' needs.

Private sector respondents were questioned about the problems they currently experienced with regard to the delivery of small business services to SMMEs. Table 8.6 presents some of the challenges the respondents identified.

<b>Problems</b>	<b>Frequency</b>	<b>Percentage</b>
Too much red tape from government	32	64
Lack of understanding of technology	30	60
Lack of creativity and innovation within the sector	30	60
Lack of SMME management skills	25	50
Lack of understanding of legislation	25	50
Competition from the corporate business sector	22	44
Lack of SMME finance to pay for needed services	20	40
Lack of trust from SMMEs	15	30
Negative sentiment towards SMME development	17	34

Table 8.6: Problems private sector respondents experienced in the delivery of small business services to SMMEs in the EMA

The most significant problem identified by respondents was that government had too much red tape (64%). Respondents believed that the overregulation of the sector presented SMMEs with a number of constraints including time and money. This constraint was further amplified by the lack of understanding of legislation (50%). This viewpoint is supported by the SBP (2005) which believed that by focussing on reducing red tape costs that surfaces from complying with regulations, the government can release private sector resources for more productive uses and enhance its own administrative competency. Another significant area of concern for the respondents was the lack of understanding of technology (60%). Gibbs and Tanner (1997) also identified this constraint in relation to businesses in the UK, and they recognised that for whole economies to flourish, SMMEs which make up the vast proportion of all businesses in the UK also needed to embrace information technology and the benefits it can bring. In addition, Thomas *et al.* (2002) believed that contributing to this problem was the take up and effective usage of technology and lack of suitable expertise to understand it. Thomas *et al.* (2002) verified that technological changes have resulted in remarkable growth in productivity.

A further constraint respondents identified was the lack of innovation and creativity within the sector (60%) as well as a lack of management skills (50%). These findings correspond with that of the SMME strategy by the EM (2007b) which indicates that innovation and enterprise culture is almost nonexistent within the sector, especially in such sectors as

agriculture and arts and crafts where markets have become saturated with goods in their existing form. In addition, according to EM (2007b), the lack of skills among SMMEs is often as a result of the fact that the current education system does not gear itself for entrepreneurship.

Another significant constraint reported the world over and by the respondents is the lack of SMME finance to pay for needed services (40%). Ayyagari *et al.* (2005) identified financial and institutional deficiencies as key constraints which might prevent SMMEs from growing to their optimal size. This therefore translates into them not having the finance to secure much needed services from service providers. Beck (2003) highlighted the fact that small firms consistently report higher growth obstacles than medium size to large firms. Beck (2003) found that higher obstacles faced by smaller firms indeed translate into slower growth. In their research, they found out that small firms' financing obstacles have almost twice the effect on annual growth than large firms' financing do. Other constraints reported by respondents included competition from bigger established businesses (45%) and the fact that there was negative market sentiment towards small business development (35%).

Respondents were questioned on changes they would introduce in the way in which they currently operated regarding small business development. One of the most significant changes identified in Table 8.7 is the improved understanding and access to business development services (74%). According to Steel and Webster (2001), in motivating for the search for a new model for BDS was the collective acknowledgment that traditional interventions have proved to be futile in providing quality, affordable BDS to a large segment of the target population of small enterprises. They believed that there was a general feeling that publicly-provided and publicly-funded services have not achieved their objectives, hence the need for BDS. However, it appears that SMMEs, especially within eThekweni have not fully grasped this concept or its associated benefits as discovered in chapter six. It therefore becomes imperative for the service providers to improve the marketing of their services and strive to enhance the SMMEs' understanding of these services as well as their associated benefits.

<b>Programmes</b>	<b>Frequency</b>	<b>Percentage</b>
Encourage big business mentorship of SMMEs	30	60
Improve accessibility to and understanding of technology by SMMEs	22	44
Improved marketing and advertising of SMME services	27	54
Better access to information	15	30
Improved business linkages	25	50
Improved confidence levels of SMMEs in their product or service	30	60
Government should provide incentives to private sector	25	50
Improved access to finance	32	64
Lower regulatory burdens	22	44
Improved access and understanding of business development services	37	74
Rates of fees to be determined by SMMEs' affordability	17	34
A comprehensive database of SMMEs	20	40

Table 8.7: Suggestions respondents made to improve small business development services by the private sector in the EMA

Improved access to finance (65%) was also cited as an area where change needs to be introduced. As discussed in the literature review, according to Hussain (2006), in Pakistan, it was decided to review the role of their banks in order to determine whether or not they were creating hurdles in the way of lending to SMMEs. This review was followed by the Pakistani government making a conscious decision to review its regulations and endeavour to reduce stringent requirements on SMMEs. Other types of financing such as business angel finance were often viewed as an alternative to bank finance as discussed in the literature review.

Improving the confidence levels of SMMEs in their product or service (60%) was another area of change identified. According to Ball (2007), the key to changing your business into the fabric of a world-class business is by being confident in your product as well as being flexible and adapting to an ever-changing environment. Ball (2007) argued that the key to competitiveness is adaptation which usually means changing to seize opportunities and to sidestep threats. He believed that it also means adapting to global as well as local dimensions of change; change driven by new, productive workforces and consumers in other countries; and changing customer tastes.

Improving the marketing of SMMEs' services was also identified as an area that requires change (54%). Finnegan (1999) believed that one such method of improving competitiveness, and in turn assisting SMMEs in accessing markets, is through the use of marketing services which covers a wide range of services, including information on local and foreign markets, assistance in market appraisal studies and accessing foreign markets, in addition to developing designs in line with market demand and packaging materials. According to Hooda (2005), the government of Haryana in India introduced a SME Renewal Fund for the purpose of improving the marketing of their services and allowing them to compete globally. Respondents in this study believed that SMMEs which did not market their products and services adequately were not very successful.

Another aspect identified as an area that needed change was the established businesses' mentorship of SMMEs. Hisrich and Peters (2002) believed that one-on-one mentoring can be a rewarding relationship that can have a significant impact on a business through the start-up and growth and survival phases. In addition, they believed that guidance by a mentor who can offer words of wisdom and support can contribute significantly to the management of the growth process. Respondents argued that there are a number of established thriving businesses within eThekweni who could provide such mentorship to SMMEs. Respondents also suggested that small businesses should work together to support each other, and special computer programmes should be developed to create business to business linkages.

In order to counter some of the problems/ challenges raised, it was felt that government should offer incentives to the private sector (50%) to encourage them to help small businesses. A crucial factor was lowering the regulatory burdens on SMMEs, thereby creating a more enabling environment within which to operate which is essentially about making markets work. Government must ensure that inappropriate legislation, regulations and administrative requirements do not prevent markets from operating effectively. It was also felt that it is important to maintain a comprehensive database of SMMEs (40%) in order to ensure that as many SMMEs as possible are reached. Other suggestions included better access to information (30%) and that rates of fees should be determined in line with affordability (34%).

According to Torrpa (2006), the foremost challenge for this private sector driven approach in South Africa is the existing notion of the role and responsibility of markets in the economy. Torrpa (2006) argued that the prevailing political environment is not seen to conform to the concept of markets as a basis of development, but rather as the engineer of discrimination. He further argues that it is thus made clear that it is the duty of the government to protect or release the poor and disadvantaged people from the markets. Torrpa (2006) contended that while the central objective for government involvement is addressing market failures, the supporters of this approach claim that the government itself does not comprehend market failures and by its actions the government further intensifies the failures and misrepresents the markets. Torrpa (2006) believed that the supporters of this approach claim that the government is only concerned with achieving temporary gains by addressing the symptoms of market failures rather than the causes of them. He further believes that recognition needs to be made of the fact that awareness of this approach in South Africa is relatively low.

While perception of the MDA is rather negative, Torrpa (2006) argued that it is seen to be in opposition to the developmental mandate of the government, because, as stated before, the markets are not seen as a mechanism for equal development but are seen as to be partially responsible for perpetuating poverty and unemployment. In spite of this, Torrpa (2006) stated that there are sections of the economy for which the government perceives the MDA as the way forward. In reference to the limited understanding of the MDA amongst government and parastatal officials, there seems to be a feeling that a focus on creating markets for small-scale enterprises through facilitating access to public procurement is enough to claim that the approach is being followed (Torrpa (2006)). While this is certainly an important component of market development, Tanburn *et al.* (2000) believed that methods of delivery of support and a wider operational environment need to be taken into account when gauging whether the MDA is applied or not. Furthermore, BDS interventions occur within a bureaucratic environment. Bureaucracies are predominantly absorbed with spending the allocated budgets within the agreed timeframes in a predictable manner (Torrpa, 2006). The MDA is support by the neoliberalist perspective where Cerny (2004) argued it is necessary to formulate and establish institutions and practices that are market-based and market-led.

According to Rogerson (2006), the private sector approach suggests that business development services are most effectively delivered to small enterprises by other small enterprises and should be on a transactional basis rather than subsidised through a variety of means, including vouchers. Rogerson (2006) identified three noteworthy advantages related to the MDA in contrast to the conventional model of State-led provision of support services, namely:

- it is demand-led rather than supply-driven and focuses thus on market-led development;
- it has the potential for sustainability even after the close of a period of active donor or government support intervention; and
- it has the potential for high impact or delivery of support.

In terms of the role of the public sector, respondents were asked what they thought the role of government should be. Respondents agreed that the role of government should be to assist them at ground level and that government should support SMMEs by procuring services from them. They also felt it was important for government to create an enabling environment that will help to promote South African businesses in international markets. Rogerson (2006) believed that over the past decade there has been inadequate public debate about the MDA towards BDS provision in South Africa. He argued that the discourse on SMME programmes and SMME development has been firmly established within the idea of State-delivery of support services. He further argues that the novel approach at the global level emulates a primary belief in the principles of a market economy. In line with the public-private sector debate and the neoliberalism approach, Quiggin (1997) argued that in almost all countries and on almost all measures the range of economic activities undertaken by governments was substantially larger at the end of the 20<sup>th</sup> Century than at the beginning. He further argued that during the past 20 years there were sustained and to some extent successful attempts to reduce the role of governments. Rogerson (2006) emphasised that the new approach is not anti-government but instead outlines new roles for the State - at all spheres-in terms of providing an enabling environment, in correcting or compensating for market failures and in the provision of public goods. He further emphasises that under the MDA, however, the State does not have a long-term role in the direct provision of services that can be more efficiently

provided by the private sector. Rogerson (2006) added that in terms of this approach, the expectation is that with appropriate product design, delivery and payment mechanisms, BDS can be facilitated on a commercial basis even in weak markets for the lowest-income segment of the SMME economy.

In the revised SMME strategy, the DTI identified three distinct roles for the government which are recognised in the draft policy, these being that of a regulator, a facilitator and a promoter (Torrpa, 2006). According to Torrpa (2006), the crucial role for the government is that of a facilitator. This is focused on ensuring that the economic environment is favourable to business promotion. In addition to this, gathering support from wide stakeholder cooperation and the leveraging of resources for initiation and support of small business development efforts were considered important. In terms of the role of promoter, Torrpa (2006) argued that government is already directly intervening in small-scale enterprise development projects and processes and it continues to allocate resources to provide financial and business development services to achieve specific development outcomes.

## **8.8. Conclusion**

This chapter presented the results that were derived from the semi-structured interviews held with officials from private sector companies. The first section of the chapter looked at the target group that was interviewed. It then investigated the organisational capacity of the different companies to be able to effectively offer business development services to SMMEs. The focus here was on institutional structures and programmes in place to offer business development services as well as perceptions of their abilities and effectiveness in meeting the needs of their clients. The chapter discussed training opportunities within the organisation to improve the capacity of individuals who are responsible for SMME development in terms of business management and changing legislation. The section that followed focused on customer care in terms of after care programmes and monitoring of performance before discussing whether customers were charged for services received. Finally, it discussed their role as the private sector before discussing what they perceived the role of the public sector to be in providing services to SMMEs.

## CHAPTER NINE

### Key findings, recommendations and conclusions

#### 9.1. Introduction

Every successful entrepreneur, according to Ericksen (2004), is a remarkable, inspirational case in point and also illustrative of the spirit that turns successful visions into lucrative realities. Ericksen (2004: 1) believed that they are “absorbed in a process that economist Joseph Schumpeter describes as creative destruction, tearing down old ways to provide new responses to the needs and wants of the marketplace”. He further described the chronicle of every successful entrepreneur to be a microcosm of the whole, with variants of an underlying theme: they have a vision; they believe in it completely and pursue it whole-heartedly. However, Ericksen (2004) argued that in spite of this all entrepreneurs reach a point when they recognise that they cannot do it by themselves and that they need help to turn their vision into a thriving business. It is at this point that they turn to either the private or public sectors for such assistance. It was therefore the intention of this study to critically analyse public and private sector approaches towards the provision of BDS to SMMEs within the EMA for the purposes of turning SMMEs into entrepreneurs who will become the lifeblood of the economy. This chapter will discuss the key findings from research conducted with the groupings of SMMEs as well as the public and the private sector officials/ representatives. Additionally, the chapter forwards recommendations based on the research findings. Finally, concluding remarks are provided.

#### 9.2. Key findings

Numerous issues exist within the EMA which encouraged the researcher to conduct research on this topic. Below is a discussion of the various problems and issues which prompted this study.

##### **Problem One - Lack of awareness and coordination of business development services**

There are a number of organisations, both public and private, that exist within the EMA which provide services to support and develop SMMEs. Despite the fact that there is in existence an array of organisations which provide support to SMMEs, the challenge of the Municipality still remain high levels of unemployment and low economic growth (EM, 2002a). Studies had

revealed that awareness and usage of the Department of Trade and Industry (DTI) programmes and the Ntsika and Khula programmes have been extremely poor (Jackson, 2004). In addition, coordination of SMME service delivery within the Province and the Municipality is not optimal (Karungu *et al.*, 2000). Karungu *et al.* (2000) further added that there are too many SMME initiatives within the Province with each Ministry having its own SMME initiative. Apart from the problems pertaining to the lack of accountability and co-ordination, such initiatives also lead to duplication and unhealthy competition (Karungu *et al.*, 2000).

### **Problem Two - Capacity within institutions to provide efficient services**

Further criticisms of national government's SMME support programmes refer to the centralised, top-down nature of many of the programmes (Rogerson, 2004) and the sluggish progress in appropriate Business Development Services (BDS). In examining Local Business Support Centres (LBSC), Bernstein (2004) considers the lack of business skills and experience of personnel to be the major downfall of LBSCs. The programmes and delivery mechanisms have suffered from common weaknesses of lack of competence, lack of adherence to the principle of subsidiary, and corruption.

### **Problem Three - Minimal impact of programmes**

In an evaluation of an SMME training programme implemented in the eThekweni Municipality conducted by Bob *et al.* (2005b), a significant problem raised was the range of different types of SMMEs that were expected to undergo a "one-size-fits-all" training programme. Hallberg (1999) argued that publicly provided programmes for SMMEs often suffer from being too general and supply-driven, and of poor quality with insufficient awareness of cost control. Since both the quality and quantity of publicly provided and publicly funded services are limited by the value of subsidies available, programme coverage tends to be low - typically only 5-10% of the target population of SMMEs (Hallberg, 1999: 7). The purpose of offering demand-driven services was to identify and deliver those that have a significant impact on SMMEs (Miehlbradt and McVay, 2003a). Demand-driven services should meet a clearly identified need which is more likely to have an impact on business performance than services that development experts believe will benefit SMMEs.

#### **Problem Four - Willingness to pay for services**

According to Hallberg (1999), in many developing countries, governments continue to provide heavily subsidised services for SMMEs. In order to overcome the array of problems presented through government-driven programmes to SMMEs, Hallberg (1999) proposes a strategy which represents a fundamental shift in the role of the government, away from the direct provision of services and benefits for SMMEs towards the development of markets and networks. Rogerson (2006) supported this view and argued that the emerging strategy for business development services focused on developing markets for services that were appropriate to, and demanded by small enterprises, rather than the direct provision of business development services by governments or donors. Hallberg (1999) argued that a realistic strategy should work on both sides, encouraging the development of private markets for SMME services, and rationalising public expenditure on SMME assistance programmes to reduce their distorted effects. Rationalisation, argues Hallberg (1999), can include gradual increases in cost recovery, using the private sector to deliver publicly-funded services, conditioning budget allocations on the achievement of impact, improving the targeting of interventions, and privatising service providers while ensuring financial sustainability. Ensuring sustainability usually involves paying for services received as opposed to depending on government handouts. Payment for services is a good indication of desire and value (Miehlbradt and McVay, 2003a). If a service adds value to the business and it is worth the investment, entrepreneurs pay. When people pay, they expect quality services (Miehlbradt and McVay, 2003a). Services delivered through business transactions are more responsive to SMME wants and needs and are likely to have a high impact (Miehlbradt and McVay, 2003a).

The research objectives of this study were therefore to:

- Ascertain the business and socio-economic profile of SMMEs.
- Assess SMMEs' awareness of and attitudes towards business development service providers and services and the extent and frequency to which they make use of such services.

- Critically examine the attitudes and perceptions of the public and private sectors towards SMME support and development within the EMA and their capacity to provide effective BDS to SMMEs.
- Determine the attitudes of SMMEs as well as the public and private sectors towards payment for BDS provided.

The findings of this study are explained in relation to each of the stated objectives to demonstrate that the objectives of the study have been addressed.

### **9.2.1. Objective One**

#### **Socio-economic and business profile of SMMEs**

The section on socio-economic profile revealed a high complement of female SMMEs who were at a relatively young age with the majority being between the ages of 21-40 years (66%). It also identified a large number of Black SMMEs who are currently at the start-up phase of development. The majority of SMMEs in the study can be defined as microenterprises as per the definition of the DTI. This finding revealed consistency with other South African studies conducted by Berry *et al.* (2001), Bob *et al.* (2005b) and Rogerson (2004a). The South African government promulgated BBBEE programmes which started gearing Black South Africans, women in particular, to take up the challenge of starting their own businesses. The increase in women participants in the economy is a strong indication that empowerment efforts in South Africa that are directed at women (for example, DTI, 2003b) have managed to increase the number of active women in the economy. While a range of laws, programmes and projects are being implemented to improve the lives of women, there are those who argue that the “women’s empowerment” hype is a smokescreen and assumes that women are the only ones who need empowerment (Gqola, 2006: 1). Gqola (2006) added that the women’s empowerment discourse rests on the fallacious assumption that increasing women’s access to wealth transforms society meaningfully. She further indicated that it ignores that women’s access to wealth and high office is mediated by class, homophobia, race and xenophobia, and can only empower a small minority of women. In spite of these criticisms, the eThekweni Municipality’s efforts in the form of special preference points to women in business through its procurement policy and the women’s empowerment project for women-owned SMMEs in sectors that were previously dominated by

men (for example, in the construction, petrochemical and automotive sectors), have significantly increased the profile of women-owned SMMEs in the EMA as indicated by the number of women who participated in this study. In terms of educational levels, most respondents (82.4%) indicated some level of formal education which is in fact contrary to the popular belief that SMME owners have very little to no education. A significant percentage of this group (63.6%) had post-matriculation qualifications. This percentage is a strong indicator of the potential success of the SMMEs. The educational level of the SMME owners increases the propensity of the individual to engage in high-order learning activities, specifically in business development. In the Philippines, according to David and Kalalo (2004), given the impact of SMMEs on the economy, educational institutions have developed entrepreneurship courses to help equip entrepreneurs with skills and knowledge to establish successful business ventures. SMME owners in this study would most certainly benefit from such a type of education since it will also help increase the understanding of the market within which they operate and heighten their understanding of the specific BDS that will improve their business.

In terms of the age (stage of development) of the business, the most significant group (57.6%) are those with fairly young businesses (less than 3 years). This implied that most businesses are in the emerging or the start-up stage of their business cycle. This factor is particularly useful in determining the measures and types of support that are required by the SMME. According to David and Kalalo (2004), some of the areas that businesses in the start-up phase require assistance on, usually relate to opportunity recognition, market entry, protecting intellectual property, the legal requirements of new business and the severe resource requirements. In addition, North (2005) argued in favour of focusing support on younger firms, the first of which is that their prospects for employment generation are better than that of older firms and secondly, they may need particular support in order to evolve into more mature businesses.

In terms of location the findings reveal a high percentage of SMME respondents with fixed locations (72.8%) which, according to studies on SMMEs in the UK, augurs well for the credibility and potential growth and success of the business (North, 2005). It is noted that 90% of individuals in the SMME sector in the EMA earn below R12 000 a month with the most significant percentage being from those businesses which generate a turnover of between R9 000 - R12 000 a month (33%). This is a strong indication that the majority of the SMMEs are within

the micro-enterprise sector as per the definition the DTI proposed (1995). At an early stage of business, which the majority of the SMMEs are in, there are a number of expenses which they are responsible for which, according to North (2005), could include the following: rent, wages, advertising and marketing, insurance, utilities, transport, office supplies, tools and equipment. This has serious implications for the affordability of BDS and therefore the potential for growth of the business.

The findings reveal a high percentage of SMME businesses in the EMA which are not registered (52%). This high percentage of non-compliance could be closely related to the huge costs associated with regulatory compliance. According to the SBP (2005), South Africa faces a particularly broad range of regulatory challenges. The SBP (2005: 12) argued that while there are costs associated with compliance, it should be emphasised that there are also major benefits which include but are not limited to the following:

- Safer and higher quality products and services in very competitive markets
- Lower prices for goods and services produced by monopolies or near-monopolies
- Better access to health and education services for poorer people
- Safer working conditions and more adequate wages for those in employment
- More innovation, which has positive impacts on growth
- A more stable business environment, which has positive effects on investment, both domestic and foreign
- Less pollution, less pressure on natural resources, better environmental sustainability

If the benefits of regulations are well understood and transparent, it makes it easier for the SMME to understand what they are and how they benefit. It is therefore necessary for government to engage in major awareness campaigns with regard to its regulations to increase compliance on the part of SMMEs. The initiative by South African Revenue Services (SARS) on Tax Amnesty is an example of one such campaign which assisted in increasing compliance of small businesses. According to FICSA (2006), Government Notice 1035, published in the Government Gazette No. 29299 on 13 October 2006, the Minister of Finance has issued an exemption from the reporting obligations under section 29 of the Financial Intelligence Centre Act No 38 of 2001 (the “FIC Act”), in respect of the Small Business Tax Amnesty and

Amendment of Taxation Laws Act, 2006 (Act Number 9 of 2006) (the “Small Business Tax Amnesty Act”). FICSA (2006) indicates that SARS issued a tax amnesty to small businesses that are non-compliant with tax legislation. This amnesty covers businesses with a turnover not exceeding R10 million and covers the full spectrum of small businesses, that is, sole proprietors, partnerships and certain unlisted companies and trusts. According to a *Mail and Guardian* reporter (2008), tens of thousands of businesses was applying for the tax amnesty and just over 66 000 businesses had registered since the amnesty was advertised in 2006. This is an example of a campaign which has helped impact positively on increasing the compliance of small businesses. This example points to further efforts that should be made by the architects of regulations and policies to empower SMME owners with information and education.

Another significant finding in this study is SMME owners’ experience of the eThekweni Municipality as a place to conduct business in. A significant proportion of the SMME respondents had rated the eThekweni Municipality as an excellent or pleasant place to conduct their business in (67.2%). They further indicated that some of the advantages of this location include close proximity to markets (28.8%) as well as good infrastructure (17.6%). Respondents also indicated that they experienced good support from the EMA. All of these factors could be attributed to the fact that as identified in the DEEDS (EM, 2005) and highlighted in the literature review, this Municipality is recognised as the epitome of management success in local government in South Africa and had won many awards. Sutcliffe (EM, 2007a: 1) highlighted the reasons associated with these awards which include quality of service, infrastructure development as well as the economic empowerment and job creation objectives of the City.

SMME respondents identified crime (35%) as a negative factor and this has been supported by the City Manager of the eThekweni Municipality, Doctor Mike Sutcliffe (EM, 2007a), who acknowledged crime to be one of the major issues that needs to be addressed in the City, one into which resources were being allocated for the purposes of attempting to reduce levels. The findings of this study reveal that the majority of the respondents indicated that their businesses (80.4%) required some measures of support in order to ensure that their businesses grow and succeed to the next level which indicates that despite the numerous policies, strategies and programmes that have been put in place by the various spheres of government as identified in the literature review, more support is still required from SMMEs in the EMA. Some of the major

areas of support measures identified included increasing market exposure (73.2%), increasing sales/business opportunities (66.8%) and networking and partnerships (64.8%). Any support measures identified should therefore place a significant emphasis on these aspects in order to enable SMMEs to grow and develop beyond their current levels.

There appears to be strong consistencies between the findings of this study with other studies conducted by Berry *et al.* (2002), Bob *et al.* (2005a; b), DTI (2004), Mutezo (2005), Rogerson (2004a) and Solomon (2004). It is therefore safe to conclude that the challenges experienced by SMMEs are common despite their location.

### **9.2.2. Objective Two**

#### **SMMEs' awareness of and attitudes towards business development service providers and services and the extent and frequency to which they make use of such services**

The purpose of this objective was to look at SMMEs' awareness of and use of support services private and public sectors offered as well as their experience of such services offered. The findings reveal that an overwhelming majority (72%) have never accessed local government support for their business while only 24% of SMMEs had accessed local government support. Of those SMMEs who did access government services, only 16.6% thought the services were excellent while an overwhelming majority (68.4%) of SMMEs indicated that the level of service was average to poor. Most often the public associate local government with the provision of infrastructure and services such as housing, electricity and water, they often are not aware of the full range of services offered by local government. They therefore do not approach local government for services such as business development services. The results correlate closely with the findings of the study conducted by Bloch and Kesper (2000, cited in Rogerson, 2001b) where it surfaced that 57% of emerging SMMEs interviewed in Gauteng and 70% in the Western Cape had never had contact with or even heard of any government support institution. In addition, Berry *et al.* (2002) asserted that the lack of belief in the ability of the government to make interventions that would lead to an improved environment for small business contributes to SMMEs not looking for assistance from the government. Bob *et al.* (2005a) also pointed out that in terms of the Business Support Services, only 18.4% of the respondents were aware of the services/ support provided for the SMMEs by the eThekweni Municipality.

The most critical areas of support identified are access to finance, business linkages, information dissemination and capacity building. These are also important areas of support that have been identified by the Business Support Unit's (EM, 2007b) SMME Strategy. Some of the programmes identified in this strategy include having business sensitive regulations, conducting research on SMMEs, building infrastructure and business premises. In addition to the above, the strategy also includes access to markets programmes, business linkages and a franchise opportunity programme. Access to finance, creating a one-stop-shop, and developing incubators and hives are among the priorities of the SMME Strategy. While the Strategy has synergy with what has been expected from local government, the greatest challenge that will be experienced is in the implementation of the Strategy. Inadequate resources and inexperienced staff are some of the reasons cited for the non-performance of public sector staff.

The findings in the EMA correlates with the findings of Rogerson's (2004b) study which stated that government programmes have failed to meet the needs of SMMEs, hence the need for a paradigm shift and seek out more innovative solutions to address challenges faced by SMMEs. In addition, Berry *et al.* (2002) indicated that more than 80% of the SMMEs in their sample did not approach either institution for assistance (Ntsika and Khula) despite being aware of their programmes, and they further found that the overall usage of SMME programmes is alarmingly low for SMMEs of all size classes. The findings in the EMA study indicate that only 6% of the micro-enterprises use SMME support programmes which points to the poor reach or inadequate response to the needs of emerging SMMEs. Berry *et al.* (2002) argue that these findings support the general perception that SMME support programmes need to be marketed more effectively.

In addition to the above, Berry *et al.* (2002) argued that the main reasons why government incentive schemes targeting SMMEs have not been used extensively are lack of information about their existence, red tape accompanying applications and discouragement by dismal experiences of other applicants. The Blueprint Strategy and Policy (PTY) LTD (2005) study conducted on SMMEs in the chemical sector in South Africa highlights the fact that although little research has been undertaken to specifically assess the effectiveness of new and restructured institutions providing support to South Africa's SMMEs, there are indications that the originally well-intended policy measures suffer from sub-optimal implementation. Furthermore, Terblanche (2002) argued that South Africa is not a friendly environment for small

business since it appears that small business equals informal business, which is not necessarily the case. Terblanche (2002) argued that it is this misconception that has cost the government millions of rands in failed projects and programmes.

It had been argued that the failing SMME sector in South Africa is mainly due to the short history of an available policy framework (White paper on Small Business Strategy) for SMME development (DTI, 2003a). The support approach used for the past thirteen years was a broad-brush stroke - treating all business as homogenous. The DTI indicated that there is now a recognition that several of their policy areas are in need of proper definition, especially relating to national, provincial and municipal roles (DTI, 2003a). Furthermore, most of the SMME support institutions were all supply-driven, which have overwhelmed entrepreneurs instead of meeting their needs. According to Rogerson (2004a), although finance is a critical support need in general, the expectations from local government are mostly for the provision of non-financial means of support. However, this study has highlighted access to finance as the most critical measure of support required from local government. Rogerson's (2004a) study highlighted the provision of adequate business premises that might be used by SMME entrepreneurs as a critical role of local government. He points out that entrepreneurs within the Free State also look to local government for assistance in terms of market development, most commonly through allocation of tenders and in some cases through the blocking out of competitors, such as 'foreigners' or 'Indians' in certain areas. Rogerson (2004a) argued that local government clearly plays an important function in terms of ensuring adequate or improved services concerning electricity and water supplies. He further argued that the improved provision of advice and information on potential business opportunities is an additional function of local government. The issue of reduction of crime against businesses is another issue that needs the attention of local government, especially from the perspective of servicing SMMEs.

Miehlbradt and McVay (2003a) argued that there is an increased acknowledgement that public sector organisations have not proved to be effective providers of BDS to SMMEs; in particular, government organisations are viewed as insufficiently 'business-like' or 'close' to SMMEs in terms of their cultures, staffing or structures. In addition, Bear *et al.* (2001) argued that subsidies for State provided business support have created a set of market distortions that hinder the development of private sector provision. This has in turn led to the private sector being

undermined in relation to providing such services. The shift needed, according to Rogerson (2006), is towards an emphasis upon being business-like and demand-led at the institutional level and focusing intervention strategies toward facilitating transactions between SMME clients as opposed to beneficiaries. Rogerson (2006) argued that the core challenge is to develop low-cost service products and delivery mechanisms in order to match the needs and willingness to pay of the smallest clients.

The findings in the EMA study also supported the findings of Rogerson (2006) and Miehlsbradt and McVay (2003a) where it highlighted firstly the unawareness of business development services offered by the different spheres of government and secondly, the low usage of business development services offered. The above-mentioned studies including the EMA study points to the need for government to rethink its stance on the support measures offered to SMMEs and look for innovation in their offerings which meant that there needed to be a new emphasis on public private partnerships in the provision of business development services to SMMEs.

In addition, the researcher's intention was further to investigate the role that SMMEs thought that the private sector should be playing in their support and development. The most significant roles for the private sector identified by respondents were facilitating access to finance (35.6%) and facilitating access to skills and markets (20.4%). As discussed previously, Lever (1997) believed that in many countries SMMEs receive almost all of their support services from the private sector. These include training, the supply of raw materials and equipment, access to information and marketing services, which are provided without any subsidy and are therefore self-sustaining. Lever (1997) is of the view that the expansion or reproduction of these services through private sector channels is very appealing in terms of reaching far more SMMEs than could be reached by overly subsidised, generic government programmes. In the EMA, SMME owners have a distance to go before they can truly embrace the culture of making use of the private sector to provide BDS since they are too heavily dependent on government supported programmes.

In view of the fact that internationally the private sector is generally the driver of BDS provision, the researcher also investigated the SMME respondents' awareness and attitudes towards BDS provision by the private sector. SMME owners were questioned on whether they were aware of

what BDS were available. In this study, the majority of the SMME owners interviewed (60%) were not aware of BDS available while only 40% indicated an awareness of BDS available. While SMMEs listed a few of the BDS that they were aware of, the predominant service identified was management and business skills training (20.8%). Bloch and Kesper (2000, cited in Rogerson, 2001b) argued that it is apparent that this type of support service government institutions generally offered appear to be too narrowly conceived around general education and training. However, what is observed is that SMME owners in the EMA have not developed a complete understanding of the various types of BDS available to them to improve their businesses and tend to underestimate the usefulness of these services. In the EMA study it is strongly evident that a significant number of respondents have never made use of all of the business development services listed in Table 6.25. These results, as well as the high non-response rate, are a strong indication that the SMME respondents clearly do not understand the actual nature of the above mentioned business development services or the actual benefits that their businesses could derive from the usage thereof. There are a number of services such as negotiation skills, identifying new markets as well as facilitation of business linkages that would assist a business to generate high levels of growth yet the results reflect high percentages of these not being services that would be used. This is a strong reflection of the dependency of SMMEs on government to provide these services as opposed to them seeking out these services from specific providers.

The two key organisations from which SMMEs in the sample sourced business development services are the public and private sectors. The average number of respondents who accessed BDS from the public sector and private sectors is 17 (6.8%). The most popular service sourced from the public sector was management and business skills training (12%). The most popular services sourced from the private sector were advertising services (13.6%) and accounting services (14%). The average non response rate to these questions is extremely high (82.4%). This is clearly indicative of the fact that the respondents were neither aware of the benefits of BDS nor made use of them. These results contrast with international studies (Bliss and Polutnik, 2001) which indicate high awareness levels of BDS. This meant that internationally efforts can be concentrated on improving the quality and value of BDS offerings as well as marketing skills of existing BDS providers rather than educating SMME managers about the definitions of services. Here in the EMA, the various types of BDS as well as its benefits need to be marketed more

effectively so that the awareness levels among SMMEs of BDS as well as their usage of BDS increases dramatically in order to promote growth in their business.

The results of the EMA study reveal that SMMEs in eThekweni view a very different role for the private sector as opposed to the role played by the different spheres of government. They believe that the private sectors should be providing opportunities to conduct business and increase flexibility in accessing funds. In addition to this, skills development and market linkages should become the responsibility of the private sector. There appears to be a clear distinction about the understanding of the roles played by the various spheres of government. Respondents also appeared to have a far greater understanding of the role local government played than the roles provincial and national government played. This was evidenced by the levels of non-response to the question on the support accessed by these spheres of government. Any action plan for the emergent SMME economy should seek to address the most important constraints, identified in chapter six, that entrepreneurs identified. An action plan should be framed within the context of an acknowledgement of the limitations of the various spheres of government as well as the international trend of a growing acceptance of the MDA towards SMME development. The fact that local government is closer to the environment that SMMEs operate within, places it in a far more advantageous position to offer support services to SMMEs than any other sphere of government, and cognisance should be taken of this before any SMME support plan is developed.

### **9.2.3. Objective Three**

#### **The attitudes and perceptions of public and private sectors towards SMME support and development and their capacity to effectively provide BDS within the EMA**

These results presented in chapters seven and eight were derived from the semi-structured interviews held with officials from the local, provincial and national spheres of government as well as private sector service providers. These chapters first considered the target groups that were interviewed. These chapters then investigated the organisational capacity of the different spheres of government. These chapters discussed the training opportunities within the organisation to improve the capacity of individuals who are responsible for SMME development as well as the customer care service offered to SMMEs.

From the findings it is evident that in the public sector, the majority of the respondents were within a managerial (38%) and technical (47%) capacity in their respective organisations, while in the private sector there were a higher percentage of respondents who occupied the technical level (50%) of the organisation than the managerial (36%) and the supervisory (14%) levels. An investigation into the qualifications of the officials who participated in this study indicated a very high level of tertiary education among the private sector respondents relevant to the area of expertise in which they were offering the service. In the public sector, however, while all of the officials interviewed had matriculated, only 26% of individuals had degrees with only 12% with postgraduate qualifications while private sector respondents identified qualifications which included ICT related degrees, Bachelor of Administration, Bachelor of Commerce degrees, degrees in Marketing, and Education and Training diplomas. The private sector officials demonstrated a higher level of more relevant qualification specifically in terms of small business provision than the public sector officials and, hence were in a far superior position to provide a higher quality of business development services than their public sector counterparts.

In addition, the public and private sector officials were questioned on any relevant legislation that they were aware of which related to Small Business Development. The findings revealed that only 14% of public sector respondents were aware of relevant small business legislation while an overwhelming majority (86%) were either not aware of relevant small business legislation. In contrast to this, 70% of private sector respondents indicated a higher level of awareness of small business legislation and were more aware of specific regulations than public sector respondents. This relates back to the amount of training received by both the public and private sector respondents. The public sector respondents indicated that they were not sufficiently trained on changing requirements in the small business arena. This contributed to their limited awareness of small business legislation. The private sector, on the other hand, was not only directly involved in identifying their training needs but received continuous training in terms of the small business sector particularly in relation to small business legislation.

Organisational capacity was another area in which public and private sector respondents were questioned. They were asked whether their organisation had a vision or mission statement and found that 55% of the public sector respondents indicated that they did have one, while 70% of the private sector respondents indicated that they did have a mission or vision statement. It is

critical that everyone in the organisation is knowledgeable about their vision or mission statements since it is the foundation upon which their organisation is based and it drives their operations. The higher percentage of respondents who acknowledged a vision or mission statement within the private sector places them in a far more advantageous position than the public sector. According to Bowman (2005), successful organisations create a vision statement which provides a context for external stakeholders to share a common expectation of them and acts as one of the most powerful management tools as well as a powerful marketing message. Parker and Kirkpatrick (2005) supported this argument since he believed that these are all ingredients of a strong, effective and efficient organisation. Both public and private sector respondents indicated that had structures in place, for example, to offer small business support and development. From a public sector perspective, respondents from local government were able to clearly articulate that the appropriate structure which they had in place was the Business Support Unit of the eThekweni Municipality. This Unit was identified as the organisational structure of local government which is clearly linked to small business development. It was indicated that this Unit is subdivided into Operational as well as Policy and Strategy departments. The Policy and Strategy department is responsible for developing policies and providing strategic support with the intention of advancing the support and development of small business development while the Operations Department is responsible for implementing these policies and providing daily support to SMMEs in the form of making referrals to other service providers and providing the necessary information to SMMEs. The existing SMME Strategy that was developed by this Unit appears to respond appropriately to the challenges identified by SMMEs as reflected in chapter five of this thesis.

Over and above structures, it was important to test the extent to which both the public and private sectors were sharpening their skills in small business development through undergoing training. In addition, the intention was to determine the extent to which the respondents within the public and private sector were being trained to become equipped to provide the relevant support and development to SMMEs. In both the public and private sectors the majority of the respondents (70% and 80%, respectively) agreed that they should be exposed to structured programmes to impart skills development and professionalism to those who are tasked with offering services to small businesses. In terms of training received, only 30% of the public sector respondents indicated that they received training while 60% of the respondents in the private sector indicated

that they received training. In addition, only 30% of the respondents in the public sector indicated that they were involved in identifying their training needs while 75% of the private sector respondents indicated that they were involved in identifying their training needs. Similar results were obtained when questioned on training received in relation to changing legislation where only 20% of the public sector respondents received training while 60% of the private sector respondents received training. Clearly the capacity of the public sector is not being developed adequately (especially when compared to training levels in the private sector) as evidenced in the responses. Miehlabradt and McVay (2003b) emphasised the importance of building the capacity of the suppliers of SMME support services. They indicate that BDS can be effective only if the suppliers are sufficiently equipped to provide such services. Miehlabradt and McVay (2003b) argued that the provision of technical assistance to suppliers in order to address supply-side constraints is thus a valuable intervention.

The researcher's intention was also to investigate how the public and private sectors identified potential clients and the extent to which these respondents took care of SMMEs after the initial services was offered. In terms of customer care, the methods of customer in-take programmes that were in place to offer services, as well as after care programmes were investigated to establish the extent to which the progress of SMMEs were being monitored and evaluated. Findings from the public sector respondents reflected an *ad hoc* system of in-take (business perception surveys, assessment, interaction with clients and a needs analysis survey) as opposed to the private sector where a coordinated, systematic approach to client intake was identified. A significant proportion of respondents from the private sector obtained clients through individual assessments and computer analysis following individual investigation. Tanburn *et al.* (2000) were in agreement with such methods and indicate that when conducting initial assessments with clients it is important to consider what services SMMEs are aware of, currently want and are willing to pay for, and what might be successfully marketed to them in the future. Freedman (2005) argues that organisations and firms could benefit from improvement in their client in-take procedures and motivates that the better these procedures are, the more likely the organisation is to have quality clients, get paid for its' services, avoid conflicts and collect strategically valuable information. He believed that the preparatory point of any intake procedure is a high quality intake form and argued that sound business practices and payment expectations should be engaged and instituted at the very inception of the relationship and that quality clients will

appreciate the thoroughness and consideration the organisation showed to the business and communication aspects of the practice.

In addition, the public and private sector respondents were questioned about the extent to which they were able to respond to clients' needs to which an overwhelming majority (70%) of the respondents from the public sector did not believe that they were able to respond to their clients' needs, while a significant proportion of respondents (65%) from the private sector indicated that they were able to respond to their clients' needs. The findings reveal that the private sector had several programmes in place to meet the needs of their clients. The most significant procedure in place is individual sessions with clients which respondents believed resulted in the most valuable information. This approach is supported by Steel and Webster (2001) who argued that this makes significant client impact which in turn induces changes in SMME performance (for example, higher sales, value added products and increased profitability) or broader social and economic impacts (employment growth and poverty alleviation). Other programmes in place include site visits in order to understand the product and services offered, project management, customer services orientation, mentorship programmes, business seminars as well as business to business networking. Respondents from the public sector found themselves making a number of referrals to other agencies and organisations such as Banks (65%), the Umsobomvu Youth Fund (55%), CIPRO (55%) and SEDA (40%).

After care programmes as well as the monitoring and evaluation of SMMEs performance and progress are considered to be an essential element in the customer care process. A significant majority (60%) of public sector respondents indicated that they did not have aftercare programmes. In contrast to this, a significant majority (70%) of private sector respondents indicated that they did have after care programmes. This contrast points back to the efficiency of the public sector to offer business development services to SMME owners in a sufficient businesslike manner to ensure their success. Examples of methods for conducting after-care were through site visits, mentorship programmes and "care 4 u" call centres which were designed to assist with client problems. According to Steel and Webster (2001), dependable performance measurement and monitoring provides a sound foundation for institutions to enhance the design of instruments in reply to client demand. These performance measurements also assist in supporting decisions by donors on types of actions needed to enhance the scope and quality of

the market. In addition, Steel and Webster (2001) contended that for BDS providers, performance measurement is a management device that assists them to create marketing strategies, supervise customer satisfaction, answer to changes in demand, develop innovative and improved products, manage costs, and establish staff incentives.

In terms of challenges and suggestions for change, a significant portion of public sector respondents (62%) identified overregulation as a problem. This finding corresponds strongly with the problems identified by the private sector respondents who indicated that there was too much red tape by government and believed that overregulation of the sector presented SMMEs with a number of constraints including time and money. A crucial factor to development was lowering the regulatory burdens on SMMEs thereby creating a more enabling environment within which to operate which is essentially about making markets work. Government must ensure that inappropriate legislation, regulations and administrative requirements do not restrict markets from operating effectively. This challenge was further augmented by the lack of understanding of legislation (50%). This finding corresponds with the finding of the SBP (2005) which indicates that SMMEs have reportedly complained about the many hours spent filling in long and confusing government forms and waiting in queues to get official papers signed and stamped. The SBP (2005) argued that if the government focuses on reducing red tape costs that surface from complying with regulations, the government can release private sector resources for more productive uses and enhance its own administrative competency. In terms of SMMEs within the EMA crucial attention needs to be given to the better provision of support services to SMMEs in order to assist them to comply with various laws and regulations which, according to the Sigma International (2006), should include:

- Increasing the awareness of the currently available support structures and programmes
- Coordinating the activities of various organisations that are involved in SMME support to improve their efficacy
- Improving communication between the various organisations involved in SMME support
- Consideration should be given to engaging the various SMME stakeholders at a broad-based forum

Many of the respondents (64%) identified a lack of capacity and an understanding of small business issues as a critical problem they experienced. While government often directed their focus at training SMMEs, insufficient attention was focused on the training of officials who offer support to SMMEs. Existing skills development initiatives for public sector officials who offer SMME support services need to be evaluated and benchmarked. This should involve all the relevant stakeholders who are engaged in this field and ensure that this area of expertise is fully understood and documented. A gap analysis needs to be performed and the identified gaps should be addressed in terms of skills intervention strategies. One of the most significant changes that respondents identified was the improved understanding and access to business development services (75%). According to Steel and Webster (2001), the search for a new model for BDS is based on the collective acknowledgment that traditional interventions have proved to be futile in providing quality, affordable BDS to a large segment of the target population of small enterprises. They believe that there is a general feeling that publicly-provided and publicly-funded services have not achieved their objectives hence the need for BDS. However, it appears that SMMEs, especially within the EMA have not fully grasped this concept or its associated benefits as discovered in chapter six. It therefore becomes imperative for the service providers to improve the marketing of their services and strive to enhance SMMEs' understanding of this service as well as its associated benefits.

Seventy percent private sector respondents identified the absence of a database of all available government services as a significant problem and at the same time it was also recognised by 40% of the public sector respondents that a comprehensive database of SMMEs needs to be maintained in order to ensure that as many SMMEs as possible are reached. This lack of information often results in the fragmentation of programmes and projects across the three spheres of government. This also results in the duplication of services by different spheres of government. It was felt by some of the respondents that the same SMMEs benefited from services from all three spheres of government as a result of this duplication. Other problems cited by the respondents included the lack of resources such as budgets and staffing within the public sectors.

Another significant constraint respondents identified was the lack of SMME finance to pay for needed services (40%). Whilst governments are always advertising the numerous funds available

for SMMEs, SMME owners indicate that they are unable to access such funding very easily. One such fund, according to Wadula (2005), is the National Empowerment Fund (NEF) which since its inception in 1998 has been dogged by controversy around nondelivery and not meeting its mandate. The current process of provision of finance, together with transactional banking needs of SMMEs must be reviewed for appropriateness, and consideration must be given to alternatives to the credit rating in assessing SMMEs' ability to borrow funds. According to Sigma International (2006), some of the potential measures that could be used are transactional history or savings history of the SMME. Sigma International (2006) indicated that banks could also play a mentorship role when providing access to finance for SMMEs. Sigma International (2006) argued that consideration should be given to the Municipality playing a more active role in assisting SMMEs access finance in the context of community facilitated banking that is generally promoted and administered by local authorities as seen in Brazil and India, thereby reducing the reliance of SMMEs on banks and other financial institutions.

Another significant area of concern for the respondents was the lack of understanding of technology (60%). Gibbs and Tanner (1997) also identified this constraint in a study conducted on businesses in the UK, where it was recognised SMMEs need to embrace information technology and its benefits more vigorously. Thomas *et al.* (2002) verified that technical changes have resulted in remarkable growth in productivity.

Further constraints private sector respondents identified included the lack of innovation and creativity within the sector (60%) as well as a lack of management skills (50%). These findings correspond with that of the SMME Strategy developed by the EM (2007b) which indicates that an innovation and enterprise culture is almost nonexistent within the SMME sector, with some sectors such as agriculture and arts and crafts experiencing market saturation. In addition, according to EM (2007b), the lack of skills among SMMEs is often as a result of the fact that the current education system does not gear itself for entrepreneurship. Improving the confidence levels of SMMEs in their product or service (60%) was another area of change identified. Ball (2007) argued that the key factor to success was confidence in the product as well as flexibility to adapt to an ever changing environment.

Improving the marketing of SMME services have also been identified as a constraint that requires change (55%). Finnegan (1999) and Hooda (2005) highlighted the significant benefits of marketing and improving competitiveness of SMMEs in being able to access markets. Respondents believed that SMMEs who did not market their products and services adequately were not very successful. Another area identified as a change area was the mentorship of SMMEs by more established businesses. Hisrich and Peters (2002) identified one-on-one mentoring as a beneficial exercise and further believed that a mentor's guidance can offer words of wisdom and support and can contribute significantly to the management of the growth process.

From the above discussion, clearly the private sector is far more efficient and effective than the public sector in their capacity to deliver services to SMMEs. This argument is supported by Maharaj (2003) who believed that current public debate on the competence and efficacy of SMME support dedicates too little attention to the actual or potential role of private sector institutions. He believes that aside from those bodies which have conventionally served the small business sector, that is, chambers, sector associations, conventional training bodies and NGOs active in the SMME support scene, specialised private sector service suppliers like accounting firms, marketing agencies, and legal consultants are of increasing importance. Maharaj (2003) argued that with the altering business environment of South Africa, demanding new services such as outsourcing and specialisation triggered by globalisation, private service providers will play a crucial role. These private service providers will be essential in strategic areas such as facilitation of market access, technology transfer and systematic provision of business information. Maharaj (2003) further argued that national bodies should assist these markets to expand (through accreditation of renowned business service providers) instead of hindering them through the provision of rather unstipulated subsidised services.

According to Torrpa (2006), the foremost challenge for the private sector driven approach in South Africa is the existing notion of the role and responsibility of markets in the economy. Torrpa (2006) argued that the prevailing political environment is not seen to conform to the concept of markets as a basis of development, but rather as the engineer of discrimination. He further argues that it is thus made clear that it is the duty of the government to protect or release the poor and disadvantaged people from the markets. Torrpa (2006) contended that while the

central objective for government involvement is addressing market failures, the supporters of this approach claim that the government itself does not comprehend market failures and by its actions the government further intensifies the failures and misrepresents the markets. Torrpa (2006) believed that the supporters of this approach claim that the government is only concerned with achieving temporary gains by addressing the symptoms of market failures rather than the causes of them. He further believes that recognition needs to be made of the fact that awareness of this approach in South Africa is relatively low.

While perception of the MDA is generally rather negative, Torrpa (2006) argued that it is seen to be in opposition to the developmental mandate of the government, because, as stated before, the markets are not seen as an instrument for equal development but are seen as to be partly blamed for the perpetuating poverty and unemployment. In spite of this, Torrpa (2006) asserted that there are sections of the economy for which the government perceives the MDA as the way forward. In reference to the limited understanding of the MDA amongst government and parastatal officials, there seems to be a feeling that a focus on creating markets for small-scale enterprises through facilitating access to public procurement is enough to claim that the Approach is being followed (Torrpa, 2006). While this is certainly an important component of market development, Tanburn *et al.* (2000) believed that methods of delivery of support and a wider operational environment need to be taken into account when gauging whether the MDA is applied or not. Furthermore, the bureaucratic environment in which the greater part of the BDS interventions are executed are not appropriate for the MDA to BDS. Bureaucracies, whether national or local government or foreign donor, are predominantly absorbed with spending the allocated budgets within the agreed timeframes and in a predictable manner (Torrpa, 2006).

Rogerson (2006) believed that over the past decade there has been inadequate public debate about the MDA towards BDS provision in South Africa. He argues that the discourse on SMME programmes and SMME development has been firmly established within the idea of State-delivery of support services. He further argues that the novel approach at the global level emulates a primary belief in the principles of a market economy. Rogerson (2006) emphasised that the new approach is not anti-government but instead outlines new roles for the State - at all levels - in terms of providing an enabling environment, in correcting or compensating for market failures and in the provision of public goods. He further emphasised that under the MDA,

however, the State does not have a long-term role in the direct provision of services that can be more efficiently provided by the private sector.

In terms of the role of the public sector, respondents from the private sector were questioned on what they felt the role of government should be. Respondents agreed that the role of government should be to assist them at ground level. The only tier of government that appears to be effective on the ground is local government through their Municipalities. In the ISBDS (DTI, 2003a), the DTI identified three distinct roles for government which are being that of a regulator, a facilitator and a promoter. According to Torrpa (2006), the crucial role for the government is that of a facilitator. This is fixed on ensuring that the economic environment is favourable to promote business. In terms of the role of promoter, Torrpa (2006) argued that government is already directly intervening in small-scale enterprise development projects and processes and it continues to allocate resources to provision of financial and BDS to achieve specific development outcomes.

The Municipalities are in the best position to provide services to SMMEs through the establishment of public-private partnerships. It is therefore a key recommendation of this study that the national and provincial spheres of government which are responsible for providing services to SMMEs should redirect their resources both in terms of staffing and funding to Municipalities who in turn should establish partnerships with the private sector which is in the best position to offer BDS to SMMEs. Rogerson (2006) supported this recommendation and claims that the private sector approach suggests that BDS are most effectively delivered to small enterprises on a transactional basis rather than subsidised through a variety of means, including vouchers.

#### **9.2.4. Objective Four**

##### **SMMEs payment for business development services to the service providers**

Many authors (Finnegan, 1999; Mielbradt and McVay, 2003a; b; Rogerson, 2006) supported the notion of payment in exchange for services rendered to SMMEs. These authors argue that payment instils a value or a sense of worth onto the service required. The purpose of these sections on payment for services in chapters six, seven and eight was to investigate whether SMMEs as well as respondents from the public and private sectors believed that services should

be paid for as well as the attention that was paid to mechanisms that were put in place to ensure such payment is made on a consistent basis.

SMMEs in the EMA and in South Africa, based on the findings of other studies (Rogerson, 2006; Berry *et al.*, 2002) of other studies such as had generally become so accustomed to highly subsidised government services that they find it difficult to pay for services that they require to improve their business. Most Governments who offer support services to SMMEs do not charge for such services while private sector suppliers charge for their services. Steel and Webster (2001) argued that government subsidies are not very useful for a long-term period and tend to reduce the value of BDS. They added that this is particularly important for the smallest microenterprises that are in the majority in this study. Microenterprises often require flexible and innovative approaches to delivery and payment mechanisms which are needed to boost demand for services. Steel and Webster (2001) noted that long-term donor subsidies undermine the objectives of impact, outreach, cost- effectiveness and sustainability of BDS. Subsidies may be justified in the short-term as an investment in the development of BDS markets.

In terms of whether SMMEs were prepared to pay for services, only 18% of the sample indicated that they will pay for services received while 61.2% of the sample indicated that they would not pay for services received. Some of the factors that would prevent them from paying included respondents not being willing to pay for poor quality services, and that information could be obtained free of charge at SEDA. Some respondents cited low profitability of their businesses while others believed that government should be providing these services at no charge. This is a strong indication that many SMMEs in the EMA are still dependent on government to provide services to them. Of those SMMEs that did pay for BDS at some point, the average amount of money spent on BDS was R5 380.

When respondents were presented with a list of specific BDS and then questioned on their willingness to pay, a very different scenario emerged. The results revealed that a more significant number (average rate of 56%) would be prepared to pay for specific services than those who would not be prepared to pay (average response rate of 33.8%). The service that received the highest level of willingness to pay is computer hardware and software services, including maintenance and website design. This was followed closely by advertising which is due to the

acknowledgement of the associated known benefits and advantages of advertising one's business. Accounting services were also identified as an aspect that a significant proportion of the respondents were willing to pay for. This was motivated by the more stringent controls on small business tax records that warrant the need for accounting services. Management and business skills training was also a critical service that a higher percentage of respondents would be prepared to pay for. Miehlbradt and McVay (2004) believed that the market for business development services would grow only if the SMMEs are geared for growth, and that willingness to pay for services is a mindset that needs to be changed in SMME owners and therefore supported these responses. Miehlbradt and McVay (2004) supported this view and state that instead of generating dependency relationships and promoting the "hand-out" syndrome, the MDA treats small business as benefiting from the right kind of service in the right way as any other business would.

The view of the public sector revealed that half of the respondents indicated that SMMEs should pay for services. However, 70% of the respondents indicated that their clients were not currently paying for services. Some of the public sector respondents believed that clients should not feel entitled to free services and that if people paid for services they will place more value on such services while others believed that people who paid for services were more committed to their success. From the researcher's own experience in her work with SMMEs this viewpoint was found to be extremely accurate. An example is the SMME empowerment workshops where SMMEs are provided with relevant information free of charge. The Municipality pays for the costs of these workshops. It was found that attendance at these workshops was very poor. However, when SMMEs are expected to pay for attending these workshops, their attendance is much better. This translates into them ascribing some value to the service offering when payment is made. Only 30% of the public sector respondents indicated that clients should not pay for services since their clients are disadvantaged and could not afford services and that government should offer such services free.

The question of payment for services with private sector respondents revealed a very different scenario where all private sector respondents indicated that they believed that clients should pay for services and had started paying for services received. Respondents believed that the profitability of their company and the ability to sustain their operation was dependent on the

ability of clients to make payments in accordance with the service that was received. There appeared to be no question about an exchange of payment between the SMME and the service provider. Terms and conditions for payments as well as rates were determined prior to the service being offered which left no room for any discrepancies with regards to payment. While there might be the odd occasion when clients did not pay for a service, they did have procedures in place to ensure that they followed up on payment.

The private sector also highlighted more sophisticated payment mechanisms than the public sector. With the private sector, payment rates for services are dependent on the level of service required. There is a sliding scale for emerging businesses as opposed to more established businesses. In certain instances, rates were based on commission and set fees. However, in most cases rates were determined in accordance with predetermined criteria. Some respondents indicated that their rates are determined according to the financial assessment of the business and a corresponding subsidy formula was put in place. The payment for service arguments were supported by Finnegan (1999) and Tanburn *et al.* (2000).

Finnegan (1999) believed that it is important that the service provider uses various approaches to achieve some level of financial sustainability. Finnegan (1999) also argued that the critical question should be one of whether SMMEs can afford such outsourced services and whether competent private sector providers will in fact come forward. Finnegan (1999) argued that the challenge was to develop an effective market for such services (encouraging entrepreneurs to provide these services at affordable prices and making SMMEs aware of and willing to utilise these services) rather than just wait for publicly funded services to be made available free of charge. Finnegan (1999) posited that the evidence suggests that even the lowest level of SMMEs are willing to pay for training schemes, provided that they are specific and add value to their business. This argument is supported by Rogerson (2006) who identified the core challenge as developing low-cost service products and delivery mechanisms in order to match the needs and willingness to pay of the lowest levels of SMMEs. Tanburn *et al.* (2000) also believed that reducing the risks and costs of BDS requires a focus on delivery and payment mechanisms as part of the design of BDS products. They believed that especially for the smallest micro-enterprises, flexible and creative approaches to delivery and payment mechanisms are needed to

augment demand for services. Tanburn *et al.* (2000) believed that payment for BDS was critical to ensuring the sustainability of SMMEs, in general.

This section explained the key findings of the primary data analysis undertaken. Furthermore, links to the literature were reinforced. The next section forwards recommendations based on the research findings. It is important to note, however, that throughout the data analysis chapters as well as in this section that explains key findings, recommendations (where applicable) were integrated into the discussion. Thus, the next section highlights some key recommendations as well as reiterates critical recommendations already raised in this thesis.

### **9.3. Recommendations**

It is clear that the issue of "one size fits all" for SMME development, Lever (1997) identified needs to change in South Africa. This argument is supported by Berry *et al.* (2002), Rogerson (2004b; 2006) and Tanburn *et al.* (2000) who identified government programmes as being too generic and in most cases not meeting the needs of SMMEs. Lever (1997) argued that we need to develop specific responses for specific needs and the SMME market needs to be clearly defined in terms of size, sector, the business cycle and gender specific requirements, if applicable. Lever (1997) believed that business support organisations need to be more visible and need to market themselves more broadly. He argued that there needs to be a much more concerted effort to identify and harness business experience when offering business support and mentorship, that is, the advisor/mentor should have business experience superior to that of the persons whom they are trying to help. Lever (1997) contended that it is unfortunately perceived that people employed in most public sector organisations often do not have the insights about running a small business, are under-skilled and know less than the client seeking assistance or support. The researcher therefore recommends that corporate support and greater use of retired business people and executives would be one way to harness experience for the greater good, while keeping costs down at the same time.

Lever (1997) argued that feasibility studies, where appropriate, should lead the development of business plans and should offer the potential business owner insight into whether or not to take up the business they have decided on. He further argued that training programmes need to be offered that help SMMEs do their own feasibility studies. Most public sector departments are

accused of procrastinating as far as decisions are concerned and therefore Steel and Webster (2001) believe that business support organisations need to streamline their processes to promote far more efficient turnaround times at all levels within these organisations. While business development support does require substantive information from clients in order to assist them, consideration should be taken of the time factor. The researcher agreed with Lever (1997) and Steel and Webster (2001) and also believed that SMME owners should be trained and empowered to develop their own business plans as opposed to looking to under-capacitate service providers to conduct these services.

It has been established that the public sector generally lacks the capacity to be able to offer meaningful BDS which has significant impacts. The challenges that SMMEs face are so critical that traditional business development strategies have to date proved to be inefficient. While SMMEs in eThekweni appear to have challenges in common with SMMEs nationally and internationally, they require solutions that are contextual and unique to the environment within which they operate. One of the most significant recommendations of this thesis is that the public sector should continue to be involved in SMME development and that it should not be entirely privatised. However, this should only be driven at a local government level through respective municipalities. The other two spheres of government (National through the DTI programmes and the Provincial Department of Economic Development) should redirect their resources (funding, incentives, staffing) to municipalities to build their capacity to help them become more effective. International literature points to the fact that municipalities are generally more accessible and accountable than any other sphere of government since they are closer to the people (Atherton *et al*, 1997). The IDPs introduced in Municipalities in Africa ensure that services are offered with developmental objectives in mind in a most cost efficient way. Local government has a long way to go before they are able to embrace the economic development objectives of an ideal developmental local government and attempting to bridge the gap between the first and second economies. A further recommendation is that other projects which will complement the development of the SMME sector should be located in close proximity to each other such as Business Support Information Centre, Business Management Skills Training Programme, Certified Service providers' database, a BSU Mentorship programme, SMME Advertising Agency and SMME Web Hosting Company.

### **9.3.1. SMME Coalition Hub**

The lack of coordination and duplication of services have been identified as key challenges in relation to providing SMME services and support. It is therefore the recommendation of this thesis to establish a SMME Coalition Hub (SCH) similar to a one-stop-shop concept the Municipality proposed and the SMME Alliance Park Sigma International (2006) proposed. The Municipality should set up the SCH through a public-private partnership. Public-private partnerships, according to Esek (2008), are regarded as the new economic paradigm for sustainable development today. Esek (2008) emphasised the need to recognise a mutual interdependence and that governments at all levels are challenged to keep pace with the demands of their constituencies. Esek (2008) argued that sometimes government revenues and capacity are not sufficient to meet the demands, and local governments need to look beyond their traditional structures to increase their capacity to meet the changing needs and demands of the environments in which they operate. Esek (2008) believed that recognising this mutually interdependent relationship based on shared risk and reward will bring substantial projects to fruition and it is on this premise that such a model is being proposed for the SCH.

The SCH should accommodate all stakeholders at a single location to ensure improved accessibility. The SCH should be established for individuals across the range from the survivalist to the established SMMEs. The SCH should cater for all categories of SMMEs, in terms of convenience and safety. This may mean having satellite centres in different locations to ensure geographical spread and access. The SCH should offer world class service and assist in improving the image and understanding of the highly underrated SMME sector. Development funding can be obtained from the various spheres of government, international donor agencies (for example, CIDA, USAID and EU) and the private sector companies who have an interest in the SCH.

The SCH can be sustainable and an easy to replicate model which should allow greater access to resources for all beneficiaries. The SCH should create a one-stop solution for all SMMEs leading to greater coordination and therefore less duplication of effort, ensuring that the investment in the SMME sector is more effective. The SCH can be used as a platform to highlight key successes thus creating a positive enabling environment for potential start-ups. As the

information and support required is centrally housed, it would make achieving proper compliance with laws and regulations by SMMEs less restrictive or daunting. By housing a multitude of stakeholders, there is the opportunity of benefiting from collective learning from the participating stakeholders. Advertising costs can be collectively shared amongst the “tenants” of the SCH. SMMEs have a single location to discuss issues pertaining to their business which should significantly improve the coordination of development activities in the SMME sector. The SCH should initially be subsidised but mechanisms need to be put into place to ensure long-term sustainability. This means that local government should obtain resources from the other two spheres of government and help to pay for the costs of setting up the SCH. When the Hub is operational, government should slowly reduce the subsidy to the Hub until it can be sustained through the payment of services by SMMEs.

### **9.3.2. SMME Support Information Centre**

The objective of this development is the formation of a SMME Support Information Centre (SSIC) to provide SMMEs, entrepreneurs and new businesses with comprehensible and succinct, intelligible, jargon-free business information. The information can be provided by means of two methods: a Walk-in Centre and via the Internet. Many SMMEs do not have access to the Internet as a result of their limited turnovers. Availing such a resource would most certainly assist them in being able to access on-line tenders, access potential markets or access and send e-mails. Initially the SSIC should be an office located within the SCH with the long-term goal of having several SSICs spread throughout the EMA. The hosting of the web-site can be subcontracted to an emerging Internet service provider ensuring its long-term economic viability. The availability of an Internet Café can also provide a business opportunity to a potential SMME who would be interested in setting up one.

### **9.3.3. Certified Service Providers and SMME Database**

A significant challenge public and private sector respondents identified by in this study was a lack of a database, both for service providers who offer services to SMMEs and one for SMMEs themselves. An idea which could be of significance to SMMEs which should be explored is the creation of a service providers’ database, listing per business sector, accredited SMMEs the Municipality evaluated and approved their products and/or services, had completed the Business

Development Skills Management training should be approved for other local and provincial government departments use. This database could contain the following information: goods and services, accreditation credentials, business sector, company structure, financial background and track record. An essential component of this concept is ensuring that Municipal and Provincial Government departments' first source/place tenders for goods and/or services with companies registered on this database before going out on "public" tender. As an additional feature, there could be an abridged tender process for companies listed on the database. There will also have to be an ongoing accreditation programme in place to ensure that companies listed on the database adhere to the defined standards and that continuous training and improvement in skills occurs for service providers. The creation of a database of SMMEs who require services is also worth developing since the SCH could be equipped with knowledge about their potential clients.

#### **9.3.4. SMME Mentorship and Business Linkages Programme**

After care and monitoring were identified as areas that are lacking in SMME support. This programme would identify potential entrepreneurs who display the propensity and keenness to develop themselves further to be placed within various companies. In addition, those SMMEs who are experiencing challenges in their business would also be matched with successful companies. The purpose of this would be for SMMEs to learn the secret ingredients for the success of these companies and transfer such learning into their own businesses. The value of mentorship as an education tool is well documented by the SBP (2003). Mentoring provides exceptional skills and serves as a means of educating young professionals and budding entrepreneurs, providing them with sound knowledge and skills they require to improve their businesses (SBP, 2003). The creation of a score card as well as the DTI's (2007) BEE Charters encourages corporate to engage the services of SMMEs. This creates the perfect opportunity for the SMME mentorship and business linkages programme to approach the corporate sector and encourage the corporate to procure their services from the SMMEs in the database as well as offer mentorship to those SMMEs who are struggling with challenges that the corporate sector has already overcome. An additional opportunity is for retired members in the corporate sector who have a wealth of knowledge and are willing to share this knowledge with SMMEs, can also participate in mentorship programmes.

### **9.3.5. SMME Advertising Corporation**

The establishment of an Advertising Corporation that is dedicated to servicing the marketing and advertising requirements of SMMEs will assist SMMEs in improving their access to markets. The corporation can be started as a Joint Venture between the SCH and an established advertising business and could be staffed with young professionals working under the guidance and mentorship of experienced marketing consultants. This corporation will assist SMMEs to brand their companies at affordable rates. This can help to clearly identify their company and its values as well as products. This corporation could also assist SMMEs get business cards, letterheads and other types of marketing materials which will help them to establish a presence in the markets in which they operate.

### **9.3.6. SMME Technology Support Company**

Access to technology and building on the technology skills for SMMEs was identified as an area that needs attention in relation to the support services offered to SMMEs. This technology support company can be a Joint Venture between the SCH and an ICT company with the purpose of offering technology support to SMMEs. Inventive use of information technology and telecentres can reduce operation costs, and permit micro-entrepreneurs and SMMEs to link up to information about markets more effectively. In addition, this company can assist SMMEs to set up their own websites. The benefits to an SMME of having their own website can never be overestimated. Websites help SMMEs to increase their accessibility as well as their presence in the market which can only help increase the potential success of their business.

The above-mentioned recommendations should not be seen as a panacea for the problems plaguing the SMME sector within the EMA, but should rather be viewed as a starting point to herald in much needed change. The greatest challenge is about finding and developing good partners. In the SMME development arena, this is no different. The message throughout this thesis is clear. The best organisations that should be offering services to SMMEs are those that are business-minded and business-like. Mielbradt and McVay (2003a; 2003b) argued that it is important to create the right funding environment, allowing them to learn incrementally and

building incentives. It is hoped that the above recommendations will make significant inroads into the SMME development arena of the EMA.

#### **9.4. Concluding remarks**

Wherever you go in the world, entrepreneurs are seen as the drivers of the world economy. David and Kalalo (2004) argued that whether they are driven by a necessity or by a desire to seize business opportunities, entrepreneurs provide opportunities to millions of people. Ericksen (2004) asserted that perseverance is essential for the reason that entrepreneurship is not an event. He further argued that it is a learning process and that part of the process is the ability to fail, to learn from failure and to seek the next opportunity. Ericksen (2004) indicated that entrepreneurs not only benefit their families and their communities, but the SMME sector and the country's economy as well. Those who choose to walk the path of entrepreneurship need to know that they have the support of the most important stakeholders in the economy, the public and private sectors.

The support measures required by SMMEs pointed to a need to critically examine the current approaches to SMME development in South Africa, and in the case of this thesis, in the EMA. This thesis attempted to expand the scope of understanding the roles of the public and private sectors in as far as SMME development and support is concerned. Despite attempts from the public sector to infuse a significant amount of resources into the SMME sector, there has been minimal impact. It is therefore necessary to seek innovative means of revolutionising the sector for the purpose of increasing its impact on the economy.

The conceptual framework within which this particular study on SMMEs and entrepreneurship was located was presented in Chapter two of this thesis. This thesis adopted a multi-conceptual framework in understanding the current approaches to SMME support and development within the EMA. This thesis, while being located within the broad field of Geography, and more specifically in the sub-discipline of Economic Geography or Business Geography, also draws on elements of the political economy approach which in itself is multi-dimensional. The political economy approach recognises that economic decisions are not taken remotely but influenced by a range of social decisions. The State makes decisions not only on the basis of economic

rationale but is also informed by social and political factors (Maharaj, 2006). The political leadership of this country drives some of the key programmes such as the BBBEE and PPP. The political leadership also drives the whole notion of the SMME economy which is considered to be a national priority of South Africa. This chapter also examined the public choice theory which demonstrated why turning to governments to fix things can often lead to more harm than good. According to Buchanan (1990), this theory makes a persuasive case for private sector provision of services as opposed to the public sector since it bases itself on the notion that public servants do not act from self-sacrifice and kindness and therefore privatisation may be a more logical path to pursue. It is important to recognise that political economy as an approach unfolds in different ways in different contexts and this chapter therefore presented the political economy approach within the South African context. An analysis of both the public and private sectors indicated a need to debate the issues of privatisation and anti-privatisation thus interrogating the public-private sector debate. The chapter then explicitly dealt with the concept of neoliberalism in as far as it is relevant to the debate. Finally, this chapter considered the SMME economy within the context of the empowerment theory and in particular it focused on the BEE strategy within South Africa and its relevance to SMME development and support. The high number of Black respondents and a significant percentage of women is a strong indication that these empowerment programmes by government promoted gaining momentum in South Africa.

In order to accomplish the objectives of the thesis, it was necessary to present a description of the study area before discussing the research methodology of the study which comprised of a comprehensive approach made up of both secondary and primary research methods. In this study both qualitative and quantitative research methods were employed in the collection of relevant data, aiding in the provision of a comprehensive understanding of SMME development and support in the EMA. Literature on evaluation and applied research techniques tends to support the combined use of qualitative and quantitative methods to achieve the most accurate results (Bernard and Renz, 1998). A qualitative approach is deemed to be the most appropriate method to be used when dealing with people's attitudes, perceptions and opinions. In terms of a quantitative approach, the researcher made use of questionnaires as a tool to gather data. The Statistical Package for Social Sciences (SPSS) was used to calculate percentages which helped analyse the data. In terms of a qualitative approach, the researcher made use of semi-structured

interviews to gather data from the officials of both the public and private sectors. To the best of the researcher's knowledge, this was the first study that examined systematically the views and concerns of SMMEs as well as private and public sector officials/representatives. This allowed for comparisons to be made between the public and private sectors and therefore contributed significantly to the body of knowledge on SMMEs in the EMA.

A review of the literature which attempted to examine, critically assess and summarise published information and other secondary data sources that presently exist on SMME development and policies, as well as to determine their links to the economy and its growth, helped inform the research that was presented in Chapter three. The literature review served as a context within which to present the methodologies, analyse the data and forward recommendations. The review focused on SMMEs at a general and global scale. In the second chapter the focus was initially on the definitions of SMMEs and entrepreneurship. It then shifted to the challenges that are faced by SMMEs. Some of the issues focused on included policy considerations and aspects of gender in terms of its relevance to entrepreneurship and SMMEs. It also identified the most common challenges faced by SMMEs which included technology, training, and access to finance as well as access to markets. This aspect is particularly relevant since it is consistent with the findings of other research where similar challenges were identified (Berry *et al.*, 2002; Bob *et al.*, 2005a; 2005b; Rogerson, 2004a). More importantly this chapter identified strategies that could be used to tackle these challenges. Some of the strategies identified include broadly improving the environment, improving access to skills and capacity building. In addition, strategies discussed include facilitating access to finance and markets. These strategies were similar to the strategies proposed by the eThekweni Municipality's Business Support Unit. This is a strong indication that the Municipality is moving towards a position of understanding the SMME environment. The extent to which these strategies can be successfully implemented in the EMA still needs to be investigated. The review also discussed the justification for the provision of Business Development Services (BDS) specifically in relation to roles of the public and private sectors.

The next chapter then presented literature on SMMEs within a defined context; international, national and local. It first assessed the state of the SMME economy at a global level before shifting its focus to SMMEs within the South African context since the introduction of

democracy. The uniqueness of the eThekweni Municipality was examined as well as its associated challenges of which unemployment remains the greatest. Hence the need to promote the development of SMMEs for the purposes of generating income and creating jobs. It is quite evident that there are numerous efforts made by the eThekweni Municipality to improve its efforts to enhance the economy. The large number of awards and accolades that have been heaped on the Municipality, acknowledging its improved service delivery as well as the developmental role it plays, is evidence of this. Such awards are proof that local government can be very efficient in performing certain functions such as service delivery.

The chapters that followed were for the purpose of responding to and fulfilling the research objectives set out in this study. These chapters validated the research objectives and confirmed that the thesis achieved what it set out to accomplish. This first section of this chapter dealt with other similar types of studies that were conducted as a prelude to support the discussion on the different questions that respondents (SMMEs) were asked. The chapter then focused on the socio-economic profile of SMMEs and discussed information about their age, race and level of education. Significant information that emerged was that the majority of respondents had a level of education that was contrary to common beliefs of there was high illiteracy among SMMEs. However, it is important to reiterate that this study focused exclusively on formal SMMEs and did not consider survivalists. The profile of the SMME sector would have been significantly different if the survivalist group was included. The next section focused on the profile of their businesses to establish the number of years that the business was in operation, the challenges that respondents faced with regards to their business as well as the measures of support that they required. It was also quite clear here that the majority of the respondents were at the start-up phase of their business and this was clearly identified as a phase which requires the most amount of support since this particular phase was characterised by a high level of failure and subsequent demise. The roles that should be played by the public and private sectors were interrogated and the key finding that emerged pointed to respondents being more aware of local government and the services they provide than any other sphere of government. The discussion then focused on the respondent's awareness and understanding of Business Development Services (BDS) and finally, their willingness to pay for services needed was investigated. It was found that the

respondents within the study did not really fully grasp the concept of BDS and the associated benefits for their business.

The two chapters that followed presented the results that were derived from the semi-structured interviews conducted with respondents from the public sectors and private sectors. The first section of the chapters looked at the demographic data of the target group that had been interviewed such as their levels of education and the number of years of experience they had. It then investigated the organisational capacity of these two sectors to be able to effectively offer business development services to SMMEs. The focus here was on structures and programmes in place to offer such services as well as perceptions of their abilities and effectiveness in meeting the needs of their clients. These chapters then looked at training opportunities within the two sectors to improve the capacity of individuals who are responsible for SMME development in terms of business management and changing legislation. The section that followed focused on customer care in terms of after care programmes and monitoring of performance before discussing whether customers were charged for services received. The results reveal that the private sector is in a far more advantageous position to offer meaningful services to SMMEs than the public sector in general. From a neoliberalist perspective, according to Letwin (1998) who indicated that privatising certain functions of government might impede coordination, and charge firms with specialised and limited capabilities to perform functions for which they are not suited. He further pointed out that in rebuilding a war torn nation's infrastructure, for example, a private firm would, in order to provide security, either have to hire security, which would be both necessarily limited and complicate their functions, or coordinate with government, which, due to a lack of command structure shared between firm and government, might be difficult. Letwin (1998) asserted that a government agency, on the other hand, would have the entire military of a nation to draw upon for security, whose chain of command is clearly defined. According to Letwin (1998), opponents may have argued that this is a false assertion since numerous books refer to poor organisation between government departments. However, local governments appear to be more accessible than the other two spheres of government and therefore in a far better position to engage in partnerships with the private sector to offer BDS to SMMEs, hence the recommendation of a SMME Coalition Hub where the Municipality will work with the private sector to be able to offer BDS at a single location of convenience. Payment in exchange for

services should not be negotiable since it instils commitment and value to the service being provided.

SMMEs play a fundamental role in the economic development of nations. Tecson (2004) argued that while they hold a lot of promise towards contributing meaningfully to the world economy, living up to this promise remains a challenge for SMMEs. However, it should be borne in mind that SMME development occurs in a very dynamic and globalising context (Tecson, 2004). Whether SMMEs continue to be important to the economy is largely dependent on the extent to which they are able to significantly contribute to keeping alive the vitality of the economy. Tecson (2004) believed that this would require that SMMEs push beyond the growth frontiers by achieving high levels of growth and productivity in their businesses through the various support mechanisms available to them. These mechanisms should ensure that such support services are both more accessible and more beneficial to their businesses. Both the private sectors and public sectors should step up their support mechanisms as suggested in this thesis. According to Tecson (2004), it is becoming apparently clear that SMMEs are finding themselves in a new and rapidly globalising context. Tecson (2004) argued that in order to take advantage of this trend instead of being engulfed by it, a brand new class of SMMEs must be fostered. For this, according to Tecson (2004: 82), “a world class support environment is needed!”

Achieving a world class support environment requires hard work and political commitment. The public sector operating within the EMA needs to recognise and acknowledge its limitations and seek out private institutions which have the expertise to deliver on the recommendations outlined above. The setting up of a SCH should be based on the principles of inclusiveness and transparency and ensure that serving the needs of the SMMEs are at the top of the agenda. SMMEs are viewed as the engine of growth of any economy and ensuring that maximum support is given to them to thrive and succeed will have a positive overall impact on the economy and quality of life of society.

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## APPENDIX ONE

### DEPARTMENT OF GEOGRAPHY UNIVERSITY OF KWAZULU NATAL RESEARCH TOWARDS A PHD DEGREE

#### QUESTIONNAIRE TO SMMES

##### 1. Demographic background of respondents

###### 1.1. Gender

Male	Female
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###### 1.2. Age (in years)

< 20	
21-30	
31-40	
41-50	
51-60	
61-70	
> 70	

###### 1.3. Historical racial category

African	
Indian	
Coloured	
White	

###### 1.4. Educational level

No formal education	
Primary	
Secondary	
Certificates	
Diplomas	
Degree	
Post-graduate degree	
Other	

## 2. Profile of SMME

### 2.1. Location of business

Fixed (specify area)	Mobile (specify area of operation)
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### 2.2. Average years in business

< 1 year	
2 – 3 years	
4 – 5 years	
6 – 7 years	
> 7 years (specify)	

### 2.3. Average monthly turnover of business

< R1 000	
R1 000 – R3 000	
R3 001 – R6 000	
R6 001 – R9 000	
R9 001 –R12 000	
> R12 000 (specify)	

### 2.4. What type of business do you run?

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#### 2.4.1. What specific products/ services do you provide?

Products/ Services	Specify Types

### 2.5. What is the size of your business (number of persons currently employed)?

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### 2.6. Is your main business registered with an agency?

Yes		If yes, specify
No		

**3. Knowledge of eThekweni economy**

3.1. Could you rate what you think of EtheKwini as a place to conduct your business?

An excellent place to conduct business in	1
A pleasant place to conduct business in	2
An average place to conduct business in	3
An unpleasant place to conduct business in	4
A very unpleasant place to conduct business in	5

3.2. Give reason/s for your answer?

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3.3. What are the main advantages to being located within this Municipal area?

Lower rates	
Good infrastructure	
Close proximity to markets	
Good support from Government	
Low crime rates	
Other, Specify	

3.4. What are the main disadvantages to being located within this Municipal area?

Higher rates	
Poor infrastructure	
Poor access to markets	
Poor support from government	
High crime rates	
Other, specify	

3.5. What do you think can be done to improve the environment you conduct your Business in by government?

Local	
Provincial	
National	

3.6. What do you think can be done to improve the environment you conduct your business in by the Private sector? (Eg, Banks, training providers etc)

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3.7. How would you describe your Business?

Extremely successful	1
Moderately successful	2
Just making ends meet	3
Not successful	4

3.8. In what ways do you think your business could be improved?

Increasing sales/ business opportunities	
Market exposure	
Sharing information	
Networking/ fostering partnerships	
Other (specify)	

#### 4. Awareness of government support to small businesses

4.1. What are the problems your business is currently experiencing?

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4.2. What type of support do you need to address these problems?

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4.3. Have you ever accessed local government support for your Business?

Yes	No

4.3.1. If yes, specify

What type	
From who	
How	
How were you informed of this support?	
Did you benefit from support?	If yes, specify

4.4. What was the level of satisfaction you experienced with the support offered?

Excellent	1
Very good	2
Good	3
Average	4
Poor	5

4.5. What role do you think government should play in supporting small businesses?

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## 5. Knowledge of business development services

5.1. Are you aware of Business Development Services available to you?

Yes	No

5.2. If yes, what Business Development Services are you aware of?

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5.2.1. Have you heard of the following Business Development Services?

Categories	Y	N
Advisory services relating to production processes		
Environmental management training and advisory services		
Facilitation of business linkages		
Quality training and advisory services		
Advertising services		
Identifying new markets including new markets		
Assistance with regard to tendering		
Accounting services		
Advisory services in business planning/management and mentoring		
Computer hardware and software services including maintenance and website design		
Legal support/advisory in legal services processes		
Management and business skills training		
Financial planning/business plans for finance		
Negotiation skills regarding government /other contracts		

5.2.2. Which of the services have you made use of?

Categories	Very Often	Frequently	Seldom	Never
Advisory services relating to production processes				
Environmental management training and advisory services				
Facilitation of business linkages				
Quality training and advisory services				
Advertising services				
Identifying new markets including new markets				
Assistance with regard to tendering				
Accounting services				
Advisory services in business planning/management and mentoring				
Computer hardware and software services including maintenance and website design				
Legal support/advisory in legal services processes				
Management and business skills training				
Financial planning/business plans for finance				
Negotiation skills regarding government /other contracts				

5.2.3. What was the main reason/s for you using the service?

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5.3 Who were the main providers of these services?

Categories	Government	Private	NGO	CBO
Advisory services relating to production processes				
Environmental management training and advisory services				
Facilitation of business linkages				
Quality training and advisory services				
Advertising services				
Identifying new markets including new markets				
Assistance with regard to tendering				
Accounting services				
Advisory services in business planning/management and mentoring				
Computer hardware and software services including maintenance and website design				
Legal support/advisory in legal services processes				
Management and business skills training				
Financial planning/business plans for finance				
Negotiation skills regarding government /other contracts				

5.4. Where did you hear about this service from?

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5.5. How easy was it for you to be able to access the service?

Easy to access	
Not so access	
Difficult to access	

5.6. How would you rate the services in terms of your satisfaction?

Extremely satisfied	Satisfied	Average	Not Satisfied

5.6.1. If not satisfied, why?

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5.7. Was the services received relevant to the needs of your business?

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5.8. Did the service you received help to improve your business?

Yes	No

5.8.1. In what ways did usage of the service improve your business?

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5.8.2. Would you make use of this service again?

Yes	No

5.9. What are the main reasons for you not making us of the services available?

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## 6. Willingness to pay for services

6.1. Did you pay for the service you received?

Yes	No

6.2. If yes, how much did you spend on the service received?

Range	
R1- R100	
R101- R500	
R501 – R1001	
R1001 – R1500	
R1501 –R2500	
R2500 –R5000	
R5000 – R10000	
R10001- R15000	
R15001 – R25000	
Above R25000	
Cant remember	

6.3. Which of the services listed below would you be willing to pay for?

Categories	Pay	Will not pay	Reasons
Advisory services relating to production processes			
Environmental management training and advisory services			
Facilitation of business linkages			
Quality training and advisory services			
Advertising services			
Identifying new markets including new markets			
Assistance with regard to tendering			
Accounting services			
Advisory services in business planning/management and mentoring			
Computer hardware and software services including maintenance and website design			
Legal support/advisory in legal services processes			
Management and business skills training			
Financial planning/business plans for finance			
Negotiation skills regarding government /other contracts			

6.3. What are the factors that would prevent you from paying?

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6.4. What are some of the factors that would support your decision to pay?

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6.5. General comments/ suggestions

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**THANK YOU!**

**APPENDIX TWO**

**DEPARTMENT OF GEOGRAPHY  
UNIVERSITY OF KWAZULU NATAL  
RESEARCH TOWARDS A PHD DEGREE**

**SMME Development: Private Sector**

Name (Optional)				
Name of Organisation				
Address				
Telephone				
Email				
Services Offered				
Qualification				
Experience (Yrs)				
Designation category	Managerial	Technical	Supervisory	Administrative

**Section: A: Organisational Capacity**

1. What is the main function of your organisation?

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2. What services do you offer?

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3. How do you offer these services?

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4. Does your Organisation/ Company have a vision statement which relates to Small business development?

1	2	3
Yes	No	Uncertain

5. Does the mission statement of your Organisation/Company focus on Small Business Development?

Yes	No

a) If yes, explain how?

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b) If no, explain how it can incorporate Small Business Development issues?

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6. Are you aware of any relevant legislation that relates to Small Business Development? Quote examples

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7. Are there any definitive organizational structures in place within your Organisation/Company to effectively address small business development?

Yes	No

a). If yes, explain the nature and function of these structures

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**SECTION B: Training**

1. Has there been adequate training in the key areas of Small Business Development?

1	2	3
Yes	No	Uncertain

2. A structured programme to impart skills development and professionalism should be introduced to those who are tasked to offer services to small business.

1	2	3	4	5
Strongly agree	Agree	Uncertain	Disagree	Strongly disagree

Comments: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

3. To what extent are staff being trained to adjust to changing policy requirements with regard to small business development.

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

4. Are you active in determining the training needs within your organization?

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**Section C: Customer Care**

1. Who are your customers/clients?

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

2. How do you get clients?

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

3. How do you determine the needs of your clients?

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3. Are you generally able to respond to all of your clients needs?

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4. Do you refer your clients to other organizations for assistance? Yes/No If yes, list.

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5. What are some of the processes you have in place with regards to intake of clients?

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6. What are some of the programmes you have in place to meet the needs of your clients

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7. What processes and procedures do you have in place to monitor performance of clients?

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8. Do you have after-care programmes for your clients? If yes, explain.

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**Section D: Payment for services**

1. Do you think your clients should pay for services? Why?

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2. Do your clients pay for your services?

1	2	3
Yes	No	Uncertain

3. If no, why not?

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4. If yes, how do you determine the rates of payment for services?

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5. How good are your clients at paying for services?

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6. How good are you at recovering payment?

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**Section E: Role of Private Sector**

1. Do you think that your Organisation/ Company is currently effective in meeting the needs of small businesses?

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2. If there is anything you could change in the way in which you currently operate regarding small business development, what would it be?

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3. What do you think should be playing a lead role in relation to small business Development?

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4. What are the key problems with Small Business Development in the Private Sector?

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5. What possible solutions do you recommend?

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6. What role/s do you think Government should play in Small Business Development?

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7. General Comments

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Male	Female	<b>Old Race Classifications</b>			
		A	W	C	I

**THANK YOU FOR YOUR TIME AND HELP. HAVE A NICE DAY!**

**APPENDIX THREE**

**DEPARTMENT OF GEOGRAPHY  
UNIVERSITY OF KWAZULU NATAL  
RESEARCH TOWARDS A PHD DEGREE**

**Semi Structured Interviews: Public Sector**

Name (Optional)				
Telephone No				
Email address				
Department				
Qualification				
Experience (Yrs)				
Designation category	Managerial	Technical	Supervisory	Administrative

**Section: A: Organisational Capacity**

1. What is the main function of your organisation?

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2. What services do you offer?

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3. How do you offer these services?

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4. Does your Department have a vision statement which relates to Small business development?

1	2	3
Yes	No	Uncertain

5. Does the mission statement of your Departments focus on Small Business Development?

Yes	No

a) If yes, explain how?

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b) If no, explain how it can incorporate Small Business Development issues?

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6. Are you aware of any relevant legislation that relates to Small Business Development?  
Quote examples.

---

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---

7. Are there any definitive organizational structures in place within your institution to effectively address small business development?

Yes	No

a) If yes, explain the nature and function of these structures

---

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**Section B: Training**

5. Has there been adequate training in the key areas of Small Business Development?

1	2	3
Yes	No	Uncertain

6. A structured programme to impart skills development and professionalism should be introduced to those who are tasked with offering services to small businesses.

1	2	3	4	5
Strongly agree	Agree	Uncertain	Disagree	Strongly disagree

Comments: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

7. To what extent are staff being trained to adjust to changing policy requirements with regard to small business development.

\_\_\_\_\_  
\_\_\_\_\_

8. Are you active in determining the training needs within your organization?

\_\_\_\_\_  
\_\_\_\_\_

**Section:C – Customer Care**

1. Who are your customers/ clients?

\_\_\_\_\_  
\_\_\_\_\_

2. How do you get clients?

\_\_\_\_\_  
\_\_\_\_\_

3. How do you determine the needs of your clients?

\_\_\_\_\_  
\_\_\_\_\_

4. Are you generally able to respond to all of your clients needs?  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

5. Do you refer your clients to other organizations for assistance? Yes/No If yes, list.  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

6. What are some of the processes you have in place with regards to intake of clients?  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

7. What are some of the programmes you have in place to meet the needs of your clients?  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

8. What processes and procedures do you have in place to monitor performance of clients?  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

9. Do you have after-care programmes for your clients? If yes, explain  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**Section D: Payment for services**

1. Do you think your clients should pay for services? Why?

2. Do your clients pay for your services?

1	2	3
Yes	No	Uncertain

8. If no, why not?

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9. If yes, how do you determine the rates of payment for services?

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10. How good are your clients at paying for services?

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6. How good are you at recovering payment?

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**Section E: Role of Government**

1. Do you think that your Department is currently effective in meeting the needs of small businesses?

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2. If there is anything you could change in the way in which you currently operate regarding small business development, what would it be?

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3. What do you think should be playing a lead role in relation to small business Development?

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4. What are the key problems with Small Business Development in the Public Sector?

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5. What possible solutions do you recommend?

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Male	Female	<b>Old Race Classifications</b>			
		A	W	C	I

**THANK YOU FOR YOUR TIME AND HELP. HAVE A NICE DAY!**