

**University of KwaZulu-Natal**

**CHALLENGES FACED BY SMALL MEDIUM ENTERPRISES (SMES) IN  
TERMS OF GROWTH AND DEVELOPMENT: A STUDY OF MNQUMA  
MUNICIPALITY, EASTERN CAPE**

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## **Declaration**

I, Odwa Zintle Sityata, declare that

The research reported in this dissertation/thesis, except where otherwise indicated, and is my original research.

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All glory goes to the Almighty living God for the strength, wisdom and courage He gave me to undertake this journey. Surely, “It is not by might nor by power but by His Spirit”.

This academic work is dedicated to my late grandmother Nonjongile Winfred Sityata, intombi yaseMazizini. I will forever cherish you in my heart.

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## **Abstract**

South Africa continues to face challenges related to poverty, inequality, unemployment and low economic growth. One such province is the Eastern Cape Province, which ranks high in structural unemployment and low economic growth, as the economy moved to skills based employment. The provincial government of Eastern Cape decided to adopt a national strategy of decreasing unemployment and increasing growth and development through small, medium enterprises. (SMEs). Mnquma Municipality was chosen as the focus area of the study. This study explored internal and external challenges faced by owner/managers of SMEs at the Mnquma Municipality. This study was executed using a qualitative approach. The sample consisted of 20 SMEs which were derived from the Mnquma Municipal database. In depth interviews were conducted for data collection. The study was underpinned by the Core Competency theory and Resource - based view of the firm theory. Analysis tools such as Word clouds, cluster analysis and tree maps were used to derive themes coupled with the researcher's interpretive analysis. Some of the key findings were high competition, lack of access to finance and lack of government support that threatened the sustainability of SMEs. The study further found that the critical competencies needed by the SMEs included financial management and accounting, marketing and overall business training and development competencies. The study made recommendations that local government support SMEs through funds and resources to ensure that businesses implement their strategies. It was recommended that local government invest in local business funding, training, and skills development which will result in an improved local economy. Access to technology also needs to be improved. Directions for future researchers include investigation of external factors that hinder the performance of SMEs and the measurement of development.

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### **List Acronyms**

AMIA	American Medical Informatics Association
BEE	Black Economic Empowerment
BMI	Bio Medical informatics
BRICS	Brazil Russia India China South Africa
CIPRO	Companies and Intellectual Property Registration Office
EU	European Union
GDP	Gross Domestic Product
HRM	Human Resource Management
ICTS	Information and Communication Technology Services
NCR	National Credit Regulation
NDP	National Development Plan
OECD	Organisation for Economic Co-operation and Development
OSS	Operational Support Systems
RBV	Resourced-based view
SME	Small Medium Enterprise
UK	United Kingdom
UKZN	University of KwaZulu-Natal
USA	United State of America
VAT	Value Added Tax

# **Chapter One**

## **Introduction**

### **1.1 Introduction**

Small to medium enterprises are an important constituent of the economy of South Africa. Small to medium enterprises are important for economic growth, job creation, reduction of poverty and promoting equality. However, these entities are not immune to challenges. This study seeks to identify challenges experienced by SMEs in the Mnquma Municipality (Eastern Region) within the province of the Eastern Cape. This area experiences high levels of poverty, inequality and unemployment. Small- medium enterprises in the region are a major contributor to local economic development and job creation. The study will also explore the managerial competencies needed by managers of these enterprises to cope with challenges, as well as what will be done to alleviate the challenges faced by SMEs.

### **1.2 Focus Areas**

The focus of this research is to identify challenges that SMEs face as well as determine managerial core competencies and factors needed to promote growth and development of SMEs at the Mnquma Municipality. This study does this by first identifying challenges that are faced by SMEs in this area. These challenges include both internal and external constraints that affect the survival of these businesses.

### **1.3 Research Problem/Problem Statement**

The small to medium enterprise sector has a significant role to play in the economic development of rural provinces in South Africa. This includes the Eastern Cape where the majority of people depend on government grants for survival. The role played by SMEs has encouraged the government to support rural-based businesses and upcoming entrepreneurs especially in rural areas (Nkonde, 2012). However, despite support from the government and the importance that SMEs have on the economy, more than 70 percent of these businesses fail within three years of establishment (Chimucheka and Manipaka, 2015).

The study area Mnquma Municipality is a local municipality that forms part of the Amathole District in the eastern part of the province of Eastern Cape with approximately 252 390 people. Ninety nine percent (99%) of the total population are Xhosa speaking and one percent (1%) is made

up of other languages such as English and isiZulu (Mnquma Municipality, 2016). The Mnquma Municipality population is made up of approximately 54% female and 46% males in 75410 households. These are mostly administered rural areas (Mnquma Municipality, 2017).

It is therefore important to research why businesses fail despite support from the government. This could be an opportunity to ascertain challenges faced by SMEs in Mnquma Municipality. These challenges could be financial or political among others but does affect the management of SMEs. Therefore the study further examines core competencies and resources needed by SME owner and managers to ensure the sustainability of these businesses. Therefore, to avoid assumptions, this study aims to provide research based evidence.

#### **1.4 Background to the problem**

Even though SMEs are defined differently by different individuals, organisations and countries, there are some common indicators such as total assets, size of labour, capital and annual turnover (Abada et al., 2015). Small to medium enterprises are enterprises that do not form part of large enterprises but are rather small enterprises that run independently. These businesses are characterised by their little contribution to the gross domestic product, employment, exports and imports of the country (Abor and Quartey, 2010). Abor and Quartey (2010) explains that for most of these businesses, market share is the key component in identifying these businesses. In South Africa, SMEs are mostly defined by the National Small Act 102 of 1996, which divides these businesses into the following categories:

*Survivalist enterprise:* this type of business generates minimal profits and is below the poverty datum line. These type of enterprises are not registered and are therefore known as informal businesses. This includes street vendors and those that practices sustenance farming (NCR, 2011).

*Micro enterprises:* these businesses are also not registered and make an annual income that does not qualify for tax registration. These enterprises have less than 5 employees a year. It includes the taxi industry and tuck shops (Sitharam, 2014).

*Very small enterprises:* most of these businesses are formal and have access to technology. They have less than 10 employees. Construction businesses make up part of these businesses (Aigbavboa and Thwala, 2014).

*Small enterprise:* these businesses are more stable and established than most of the above enterprises. These enterprises have less than 50 (NCR, 2011).

*Medium enterprise:* such businesses have 100 to 200 employees. Medium enterprises include: manufacturing, mining and construction firms. One of the main attributes of medium enterprises is the decentralization of power to an additional management layer (Aigbavboa and Thwala, 2014). Defining the characteristics of SMEs in South Africa can form the foundation of identifying the challenges that are faced by respective SMEs.

#### **1.4.1 SMEs in the formal sector**

Small to medium enterprises participate in the economy of the country through the support of different government agencies and private institutions. Support can be financial or operational and can only be obtained by businesses that are formally registered (Fatoki, 2014). A business is considered formal if the name of the organisation is recognised and legally registered with relevant bodies such as the Companies and Intellectual Property Registration Office (CIPRO), tax, revenue and other relevant bodies. This is dependent on the type of industry in which the SME's operates. (Nkonde, 2012).

#### **1.4.2 SMEs in the informal sector**

Informal SMEs refer to all the enterprises that are not legally licensed, VAT registered and do not have formal businesses premises, nor operating permits and accounting procedures (Sitharam and Horque, 2016). When a business fails to comply with the registration procedures this means that the enterprise is informal and does not get any assistance from the government and private institutions (Aspeling et al, 2014). Most of these informal businesses operate in survivalist mode which means that they engage in business for survival purposes. The main concern of most of these businesses is survival from day to day rather than growth (Nkonde, 2012). Formally or informally, these enterprises contribute both economically and socially to South Africa. The economic contributions include factors that are economic, growth-related employment creation and maintaining a favorable trade balance. These social contributions result in the reduction of poverty and better standards of living which brings about stability in South Africa. (Davies, 2012).



Developing small, medium and micro enterprise can be a key driver for government economic development, poverty alleviation and job creation strategy. Small businesses offer a great redistribution effect and assist in the restructuring of society (Chimucheka and Rungani, 2013). Despite this acknowledged importance of the SME sector to the economy of the country, SMEs across the country are still faced with many challenges that include internal, external and entrepreneurial challenges (NCR, 2011).

### **1.5 Research questions**

In light of the above problem statement and background, this study will attempt to answer the following questions:

- What are the characteristics of SMEs in the region?
- What are the challenges faced by managers of SME s in Mnquma Municipality?
- What managerial competencies are needed by SMEs managers in Mnquma?
- What can be done to promote the growth of these enterprises?

### **1.6 Objectives**

- To ascertain characteristics of SMEs in this region
- To examine challenges faced by managers of SMEs in Mnquma Municipality.
- To explore managerial competencies needed by SMEs managers in Mnquma.
- To explore what can be done to promote the growth of SMEs.

### **1.7 Motivation/rationale for the study**

This sector plays an important role in the development of rural provinces in South Africa, including Eastern Cape provinces where the majority of people depend on government grants. The role played by SMEs has motivated the South Africa government to call for the support of businesses and entrepreneurs especially in rural areas (Nkonde, 2012). The primary motivation for the study is therefore to identify the current realities in terms of challenges faced by SMEs as well as to plot a trajectory in terms of resources and competencies that can make this sector flourish.

## **1.8 Methodology**

### **1.8.1 Research approach**

This study is located within an exploratory paradigm. The intention is to explore challenges related to growth and development in SMEs. As a result a qualitative approach was utilised. Its inductive nature suited the exploratory paradigm as one can deduce what factors or challenges are affecting SMEs. The qualitative approach allows researchers to discover factors and variables in the light of the research questions. Both primary and secondary data was used in this study. Primary data was gathered through interviews. Secondary data was gathered through a literature review of textbooks and journal articles.

### **1.8.2 Sampling method**

In this study, a purposeful and convent sampling was employed to select and to conduct interviews with the owners and managers of SMEs in the area. This was done based on reference to the 278 registered SMEs of the municipal database which comprised of formal and registered small enterprises, inclusive of several restaurants, coffee shops, salons, butcheries and internet cafés in this area. Sampling was done based on access and availability.

### **1.8.3 Sample size**

The study aimed to attain at least 28 respondents (10% of respondents) which were owners/managers of registered SMEs (from the Municipal database). However, 20 respondents were successfully attained, which formed 71% of the original target population.

### **1.8.4 Data collection method**

Both primary and secondary data was used in this study. Primary data was gathered through qualitative interviews whilst secondary data were gathered by way of a thorough literature review.

### **1.8.5 Data quality control**

Questions were developed around research questions and the theoretical framework (Section 1.9) which ensured that the questions relevant for the purpose of study. Questions were also checked and validated by the supervisor.

## **1.9 Theoretical framework**

The study was underpinned by two applicable theories; the Resource-based and Competence-based theories (Prahalad and Hamel, 1990). The resource-based theory (Barney 1991) explains how to

ensure that the competitive advantage of the business is sustained. The competence-based theory by Prahalad and Hamel (1990) refers to core competencies as a source of strong competitive advantage. The theory further elaborates on the fact that core competencies are valuable capabilities that are unique and collective in their attributes, and they strategically lead to the success of the business.

### **1.10 Contribution of the study**

This study focuses on growth and development challenges faced by SMEs at the Mnquma Municipality in the Eastern Cape. The study contributes towards ensuring the ongoing development of SMEs. It is important to clearly understand challenges faced by SME's to find solutions for these challenge which the study presented.

This study explored challenges faced the SME sector and provides recommendations on how to address these challenges. The study is further intended to increase the confidence and awareness of SMEs in using government, support initiatives. The findings of this study will be helpful to both SMEs and individual entrepreneurs.

### **1.11 Chapter overview**

- Chapter 1: This chapter introduces the study and presents the research problem. This chapter further articulates the research questions as well as the objectives of the study. Motivation and rationale, along with potential contributions of the study, are also drawn.
- Chapter 2: This chapter details the key literature that supports the need for the study. It presents the literature in an applicable format and makes the gap in the body of knowledge clearer. The theoretical framework also underpins the study and shows the applicability of the respective model to the study.
- Chapter 3: This chapter explains the methodology of the study which was based on the qualitative method. It further documents the population and sample as well as the method of data collection.
- Chapter 4: This chapter presents the interpretation and analyses of data. The socio-demographic profile of the respondent's is presented through the use of descriptive statistics, followed by a thematic and interpretive analysis of the data.

- Chapter 5: This chapter concludes the study and provides recommendations, limitations, as well as direction for future research.

## **1.12 Summary**

In South Africa, small to medium enterprises play an important role in the economy of the country. Regardless of their significant role, SMEs still face a number of challenges that restrain their growth and development. This chapter provided a synopsis of the study. This chapter introduced the study and presented the research problem. It further articulated the research questions as well as the objectives that the study wished to fulfil. Motivation and rationale along with potential contributions of the study were also drawn. The next chapter presents the literature that is relevant to the study.

## **Chapter 2**

### **Literature Review**

#### **2.1 Introduction**

In this chapter, the researcher will investigate the past and current literature of small to medium businesses by analysing characteristics of small to medium enterprises. In addition, it will explore the challenges these businesses face and how these challenges can be addressed. Countries with relevant literature on the topic and objectives of the study has been selected and will be discussed. The literature will investigate the perspective of small to medium enterprises in the context of a South African Municipality. It will further explore small to medium enterprises in Mngoma Municipality, which is the chosen focus area of the study. Lastly, it will discuss the theoretical framework, specifically based on the Resource-based view of the firm and Core Competency-based theory, which underpins the study.

##### **2.1.1 Definition of SMEs**

Small to medium enterprises are defined differently by different individuals, organisations and countries. Small medium enterprises are categorised small or medium size. There are some common indicators such as total assets, size of labour, capital and annual turnover (Abada et al, 2015). Small to medium enterprises that are mostly defined as small are the enterprises operated by individuals for subsistence living purposes, either themselves or for their employees (Nxaba, 2014).

These businesses are characterised individually by their minimal contribution to the gross domestic product, employment, exports and imports of the country (Abor, and Quartey, 2010). Abor and Quartey, (2010) explains that, for most of these businesses, market share is the key component in identifying these businesses. In South Africa, SMEs are mostly defined by the National Small Act 102 of 1996, which divides these businesses into the following categories:

*Survivalist enterprise:* This type of business generates minimal profits and it is below poverty line. This type of enterprises is not registered and therefore known as informal businesses. For example, street vendors and those that practices sustenance farming (NCR, 2011).

*Micro enterprises:* these businesses are also not registered and make an annual income that does not qualify for tax registration. These enterprises have less than 5 employees a year. It includes the taxi industry and tuck shops (Sitharam, 2014).

*Very small enterprises:* most of these businesses are formal and have access to technology. They have less than 10 employees. Construction businesses make up part of these businesses but may have more than 10 employees (Aigbavboa and Thwala, 2014).

*Small enterprise:* these enterprises are more stable and established than most of enterprise that have been discussed above. These businesses have less than 50 (NCR, 2011).

*Medium enterprise:* such businesses have 100 to 200 employees. Medium enterprises include: manufacturing, mining and construction firms. One of the main attributes of medium enterprise is the decentralisation of power to an additional management layer (Aigbavboa and Thwala, 2014).

## **2.2 World aspect of small to medium enterprises (SMEs)**

The following literature will be based on the world view aspects of small to medium enterprises (SMEs) and their respective challenges. The initial discussion will be based on developed countries found in Europe. There are general challenges on a global level which affect the growth and development of small to medium enterprises (Hlatshwako, 2012).

### **2.2.1 United Kingdom**

Europe is characterised by developed countries of the world which generally fall under the tag of first world economies. Small businesses have been a significant contributor towards growth and economic development in the region (Cowling et al, 2015). This includes a workforce of 110 million in the past decade being contributed by SMEs (Konrad, 1998). However, there has been alarming concern that many SMEs fail in their first five years (Konrad, 1998).

The global competitive environment has forced the United Kingdom to rethink their strategies of location-based small to medium enterprises practices and consider restructuring and relocation of the industry (Eurofound, 2013). To obtain flexibility in terms of innovation and technology, there is a need for mobility in order to obtain a skilled labour force and for social networks platforms to gain competitive edge in the market place (Higón, 2011). Location-based strategies have caused the failure of small to medium enterprises in the United Kingdom (Eurofound, 2013).

The Organisation for Economic Co-operation and Development (OECD) has identified that, globally, the key element or challenge causing the failure of small medium enterprises has been lack of access to finances (Arzeni, 2009). The innovative firms suffer significantly from lack of funding from the private sector due to their high risk premium. In addition, the government also is not willing to invest due to the high failure rate of small to medium enterprises (Love and Roper, 2015). It has been found that those that are less innovative and still in the first five years of the start-up process can barely survive or sustain themselves in the competitive market (Kotter, 2012).

In the OECD area, the small to medium enterprises are responsible for 50% of the private sector employment, while in the European Union there is a 99% employment by these firms in all enterprises (Ingwe-Lucky and Olusegun, 2012). The EU region has 91% of these small firms being micro businesses which employ less than ten workers. These firms have been used to counter attack recessions in the economy, which has caused government to create programs and policies in favour of small to medium enterprises (Arzeni, 2009).

The global economic crisis strongly affects SMEs in the United Kingdom and most of these businesses face difficulties with obtaining credit. SMEs suffer considerably during world economic crises, because these entities traditional approach for raising funds becomes ineffective. Amongst other challenges, SMEs face challenges related to the small nature of these businesses and therefore cannot practice downsizing (Cowling et al, 2015). These firms are also faced with a huge decrease in demand for their goods because of poor quality due to increased average labour cost. Lastly, small to medium enterprises are challenged through economic slumps and these businesses experience a shortage in working capital which is caused by delayed payments on receivables with increased inventories on hand (Arzeni, 2009).

## **2.3 Small to medium enterprise in developing economies**

### **2.3.1 Asia**

Small to medium enterprises in Asia have been adopted as a national productivity tool to enhance growth and economic development in the economy. It has become the backbone of the continent by contributing 98% in enterprises whilst having a positive impact in employment at 66% in the years 2007 to 2012 (Taghizadeh-Hesary and Yoshino, 2016).

Small to medium enterprises in Asia also have a positive impact on the gross domestic product with a total of 38% in the same years as above. These firms have also contributed to international trade

by benefiting export with 30% of total export value while China's small to medium enterprises accounted for 41.5% in export value with Thailand coming in with a contribution of 28.8% (Taghizadeh-Hesary and Yoshino, 2016).

The continent is not immune to setbacks and/or failures as despite its economic progress, challenges remain for these firms. Small to medium businesses suffer from geographical isolation which is sometimes overlooked, and this affects their competitive advantage. Regardless of this, most economies in Asia still depend on small to medium enterprises for creating jobs and employment in the continent (Wong, 2017).

Resources are crucial for the growth and sustainability of any small to medium enterprise. China and Malaysia will be discussed to give inter-continental perspective with regard to this challenge faced by SMEs, because both these countries are developing countries similar to South Africa and have experienced enormous economic growth and job creation through entrepreneurship (Ahlstrom and Ding, 2014).

Resources are grouped together as finance, technology, skilled labour, and market access and market information. It is no surprise in a continent characterised by high growth that banks are in favour of large enterprises when it comes to investments and allocating strategic resources (Taghizadeh- Hesary and Yoshino, 2016).

Most investors in the continent do not find SMEs appealing, this evident in the hardships that most SMEs owners face when seeking funding. Small to medium enterprises are seen as high risk for investments as compared to large enterprises which affects investments opportunities and profitable partnerships from resourceful stakeholders (Taghizadeh-Hesary and Yoshino, 2016).

In addition, the supply chain process in the small to medium enterprise is usually not smooth especially in terms of production and operations for these businesses. It affects service offering techniques to customers for the required products to customers at the required quantities and quality (Baharun et al, 2012). The major problem is the lack of proper and correct information flow which affects communication between suppliers and customers.

Large organisations have resource and measures for proper information and communication such as listing shares on stock markets and are able to issue securities in bonds, which start-up



businesses, especially small to medium enterprises, cannot practice because of resource constraints (Jayathilake et al, 2014).

Wong (2017) explains that most SMEs have slowed down in the past decade in terms of growth because of lack of investments in research and development. These are key areas of products and services that offer innovation. This has been evident in India, Republic of Korea and Japan with less than 7% of research and development in their businesses, while a country like Ireland can have a 70% rate for research and development focused on SMEs in its business environment (Wong, 2017).

### **2.3.2 Malaysia**

Malaysia is a country that is found on the continent of Asia and it has a past of political instability that once led to the dismantling of the economy which was affected by unemployment and a low growth rate (Arham, 2014). Despite its challenges, socially, economically and politically, the country managed to be part of what some scholars refer to as the Asian Tigers, which is a term given to countries in the Asian continent with considerable economic transformation in a short period of time (Abdul et al, 2011). The country was mainly based in the agricultural industry but in the last few decades, the country has transformed into an industrial-based economy and has reached its third phase by shifting to a knowledge-based industry. A lot of credit has been given to the adoption of technology and increase in human capital for this incredible growth. (Arham, 2014).

The country also credits SMEs for the fast-transformed economy. These businesses make up a crucial element in the transformed economy, especially in the manufacturing sector (Arham, 2014). The Malaysian government has designed a plan to promote and develop small and medium businesses so that they can overcome new challenges of globalisation in the business environment (Fidan et al, 2013). In the year 2006, SMEs comprised 99.2 % of business established while contributing 47% to the gross domestic product (GDP) of the country. Increased employment in the country has been experienced through establishment of small to medium enterprises where 65.3% of the work force are employed by SMEs (Abdul et al, 2011).

Small to medium enterprises contribution to GDP has increased from 29.4% in 2005 to 32.3% in 2011 (Chinniah and Musa, 2015). For the period 2006 to 2011, growth of SMEs surpassed the overall economic growth. In 2020, SMEs in Malaysia are expected to contribute 41% towards the GDP of the country when compared to 32% that was made in 2012. In Malaysia, SMEs are

categorised into service, manufacturing, agriculture, mining and quarrying and construction. Local SMEs are usually suppliers of multi-national companies in the global chain (Chinniah and Musa, 2015).

#### **2.3.2.1 Classification of small to medium enterprises in Malaysia**

According to (Tehseen and Ramayah, 2015) small and medium business can be classified as follows:

- Manufacturing: refers to the transformation of chemical and physical material into products.
- Services: comprises of the accommodation sector (hotels and restaurants), private education, financial sector, entertainment and health.

The following three sectors represent the main economic activities in the country;

- Primary agriculture that is made up of forests and logging, livestock, cash crops and marine fishing;
- Construction which is made up residential and non-residential infrastructures;
- Mining and quarrying.

#### **2.3.2.2 Challenges facing small to medium enterprises (SMEs) in Malaysia**

Small to medium enterprises in Malaysia are not immune to growth and developmental challenges. Some of these challenges amongst others include lack of funding, managerial inefficiency, bureaucracy, competition and technological challenges (Mohammed and Thaker, 2001). Mohammed and Thacker (2001) further ascertain that SMEs in Malaysia face a 50% chance of failure in the first five years of establishment.

##### **2.3.2.2.1 Global sourcing**

Globalisation has made it easier to transfer business resources across borders. In many countries in Asia including Malaysia, competition for resources that include capital and material has rapidly increased over the years. This has resulted in increased pressure for Malaysian SMEs to improve their product quality and provide services at a competitive cost (Alias et al, 2013). Globalisation has also lessened trade barriers within regions which promote innovation and easy entry with less government protection. This has therefore harmed the local small and medium businesses in

Malaysia as they have to compete with foreign countries that are cheaper in price and more innovative (Char et al, 2010).

#### **2.3.2.2.2 Financing and human resource**

Lack of finances in the investment of small to medium businesses in Malaysia has caused constraints in economic growth (Zaimah and Zairani, 2013). The financial instability has contributed to other challenges arising, such as infrastructure challenges, which affects small medium enterprises for growth and development (Aziz et al, 2014). Financial instability and human resource challenges have made it difficult for these businesses to compete with larger companies inside and outside the country that have the latest technology and managerial competencies. This gives the larger companies a competitive advantage (Zaimah and Zairani, 2013).

Similarly, Haron et al (2013) explains that some of the factors that prevent other institutions from investing in SMEs include:

- i. Lack of collateral
- ii. Insufficient documentation to support loan application
- iii. Most of these business lack financial records that details financial operations.
- iv. Lastly, these SMEs are likely to be informal compared to larger business, thus may pose additional risk which can prevent funding.

Small to medium enterprises fail to attract domestic and foreign investors, because predictions reveal that they would operate in loss due to their status being characterised by sustained low growth (Almsafir and KiatGan, 2013).

#### **2.3.2.2.3 Lack of government support**

The government plays an important role in the growth and development of small and medium enterprises. In Malaysia, Halal trade is estimated to be \$2.1 trillion with massive potential for global trade. It is important for the Malaysian government to recognise the potential in order for the country to become an international Halal Hub (Char et al, 2010).

A study made by Aziz et al (2014), discusses some of the barriers by government for SMEs especially in the food industry. These include lack of standardisation, incompetent implementations and regulation barriers that include bureaucracy.

There are other potential growth areas that the Malaysian government can support such as growing the franchise industry and outsourcing. For these areas to be successful, it is important for all government states in Malaysia to support the franchising industry and outsourcing as a national agenda (Chong and Teoh, 2008).

#### **2.3.2.2.4 Managerial inefficiency and bureaucracy**

Malaysia is characterised by high levels of bureaucracy. The lack of skilled employees and government regulations hinder the process of obtaining funds for small to medium enterprises (Mohammed and Thaker, 2001).

Most business owners lack competencies, the basic skills and expertise to hold management positions. This leads to the failure and lack of growth in most SMEs (Ibrahim et al., 2015). Mohammed and Thaker (2001) explain that many managers are incompetent when it comes to branding their products. As a result, these businesses fail to attain foreign and domestic investments and only perceive government as their only source of income.

Building on this, strict controls in regulations by government has caused small to medium enterprises difficulties in accessing funding and this has resulted in limited credit being given to SMEs (Abdul et al, 2011). Amongst other challenges faced by SMEs, in Malaysia especially, the food industry includes high bureaucracy and inadequate government policies. In Malaysia, SME grants and incentives are not efficiently handled. In most cases policy changes occur unexpectedly (Anas et al, 2012). Furthermore, licensing regulations with their procedure requirement have contributed to the slow growth of these types of business. In most cases this results in the government failing to provide capital, which makes it difficult for these firms to compete and access the market (Abdul et al, 2011).

#### **2.3.2.2.5 Recession**

In the USA, the impact of slowdown in mortgages has led to lower growth than estimated. Since the USA governs the global economy this has resulted in a slowing down of the majority of

economies across major countries. In such instances smaller and weaker economies suffer more during this period (Garg et al, 2011).

Ingwe-Lucky and Olusegun (2012) argued that, in Malaysia, during economic downturns the small businesses and entrepreneur environment is usually unfavourable and uncondusive for small businesses and entrepreneurs to function properly and conduct business. Like most other nations, factors such as increased production costs and declining economy are a clear indication of recession that cannot be avoided.

Repercussions of recession include low productions and job cuts, low expenditure by consumers and low demand for products and services. During a recession SMEs involved with trade and supply are mostly affected, as lower cash flows and limited financing are the major challenges faced by the small and medium enterprises during this period (Char et al, 2010).

#### **2.3.2.3. Entrepreneurial competencies for entrepreneurs in Malaysia**

The main vision for Malaysia in 2020 is to become a leading country through an economy that is innovative and knowledge-based. To achieve this, they have made entrepreneurship development as their main solution. Entrepreneurship is also seen as weapon to overcome some social and economic challenges as well as increased graduate unemployment faced by the country (Bagheri et al, 2013).

Entrepreneurs and managers who possess entrepreneurial competencies help to ensure the survival and growth of small to medium enterprises. Competencies have a huge contribution with regard to the success of SMEs. Competencies have a positive correlation with the competitiveness and performance of the business (Gadar et al, 2015). Entrepreneurial competencies are therefore associated with the birth, survival and growth of the business (Gadar et al, 2015).

Every entrepreneurial leader needs to have business competencies that are broader than personal characteristics. These business competencies have strong connections and enduring effects on the tasks performed and the success of the business. There are three significant competencies that are responsible for empowering entrepreneurs when establishing businesses (Bagheri et al, 2013).

Entrepreneurs play a significant role when it comes to the success of the business of small and medium enterprises. Entrepreneurial competencies provide a competitive advantage for the

business which helps to make the business more successful. Entrepreneurial competencies are related to the performance of the business and its competitiveness. Entrepreneurial competencies differ for various contexts. In Malaysia, external integration plays an important role in the relationship between entrepreneurial competencies and business success (Tehseen and Ramayah, 2015).

#### **2.3.2.3.1 Core competence for sustainability in SME's in Malaysia**

The resource-based view of the firm describes the core competencies that provide a competitive advantage for this is obtained through knowledge, resources, skills and competencies. Core competencies is a major source of competitive advantage for the firm (Kabue and Kilika, 2016). There are three requirements which are needed within a firm in order to identify the core competency of the firm. These are capability needed to give the firm access into different markets, determination of the value of the end product and lastly blocking imitations of products by competitors (Al-Erjal and Makhloufi, 2014).

There are four dimensions that determine whether or not competitive advantage can be sustained or not. These are value added, ability to exploit, difficult to imitate and rare. In terms of operation, a firm's infrastructure which allows for the unique and efficient management of operations is considered to be a core competency of the firm (Al-Erjal and Makhloufi, 2014).

#### **2.3.3 China**

China has made significant reforms by realising the importance of non-state owned enterprise. This has been an eye opener for many people. Entrepreneurship through SME's has been a source of job creation and played an important role in the economic growth of the country. This has been made possible by the government amending the constitution in order to grant businesses that are characterised as "non-public economy" to have a status in the socialist market economy (Ahlstrom and Ding, 2014). The business sector provided 64.5% of industrial output value and 68% of total merchandise exporting value. Small and medium enterprise had a huge contribution to China's economic growth. (Zhao, 2010).

The SMEs in China had a significant role in the economic growth of townships in the area. There was a transfer of rural surplus labour to other markets rather than them being dependent on agriculture as a key sector for income generation. In addition, small to medium enterprises boosted

growth in the non-public sectors of the economy which decreased the pressure of unemployment and infrastructure development. (Chen, 2006).

Peng et al., (2012) explains that in 2002 the Chinese government passed a SME promotion law, which was meant to support SMEs. The investment by government in China has produced positive outcomes in the sense that there have been measurable improvements in the size, growth, financial stability and profitability increases in these types of firms.

This has resulted in Chinese SME's experiencing a huge growth in terms of size. In 2012, China had over 42 million SMEs with more than 80 % urban employment, 70% of imports and export trades, 60% of the nation's GDP and 50% of tax revenue (Peng et al, 2012).

#### **2.3.3.1 Challenges faced by small to medium enterprises (SMEs) in China**

Despite the success of SMEs in China, Chinese statistics showed that 60% SMEs have a likelihood of shutting down in the first five years. In China, 19% can survive 6–10 years and only 13% of SME's lifespan can exceed 10 years. This problem is not unique to China (Peng et al, 2012). Internal and external challenges that are faced by China effects the overall goal and objectives of small to medium enterprises in the country. (Jayathilake et al, 2014).

Internal challenges are those that have an impact on policy formulation. These challenges have the potential for hampering innovation and the growth of the business. The external challenges relate to factors that can stop the small to medium firms from exploiting challenges in the global and local environment. They are considered to have an impact on innovation (Jayathilake et al, 2014).

##### **2.3.3.1.2 Financing problems faced by SMEs in China**

Financing issues for SMEs is not a unique phenomenon in China. It is experienced in many countries around the world, even in developed countries that seem to have a well-established financial system (Jiang et al, 2014). Small to medium enterprises in China face a lot of challenges, especially in financing (Chan and Lin, 2013). Even though some of these businesses were able to access financial assistance from the banking sector. Through affiliation with larger state owned businesses, most SMEs relied on informal financing sources (Deng et al, 2013).

A survey that was done on financial issues faced by SMEs in China shows that in 2008, 23% of closure and discontinued SMEs were closely related to lack of capital and 85.6% of SMEs lacked

liquidity (Jiang et al., 2014). Even though the government has introduced some policies to improve the financing situation in China, financing difficulties still exist (Han, 2013).

Some of the reasons for funding issues in China include the small-scale size of SME's which result in them having a weak anti risk ability, opaque information and no standard business and financial statements. This results in too many financial institutions being reluctant to provide these businesses with loans, due to the associated high risk and high credit cost (Chan and Lin, 2013). Financial issues that hinder the success of SMEs are fewer bank loans, issues relating to stock and bonds and that there is lack of standardisation in public funds. When compared to larger businesses, SME have a lack of valuable mortgages and have asymmetric information problems (Han, 2013).

Jiang et al, (2014) believes that some of the solutions to the issues in China include reinforcing the standards of the public fund market and decreasing the limits of bank loans. The improvement of SMEs financing sources can assist to ensure the survival of SMEs and ensure that they continue to promote economic development in China.

#### **2.3.3.1.3 Firm size**

In China, the size of the firm is seen as an indicator of the success of the business. Small to medium firms can be innovative through small services with products which can be easily seen and identified for innovation, but the challenge comes with profitability (Jayathilake et al, 2014). In China, small businesses usually have less access to capital and experience through their business networks. Chinese SMEs have lower levels of debt due to limited trust by external financiers and lack of institutional support (Deng et al, 2013).

In the early stages of development, SMEs are in need of funds for rapid growth. However, these enterprises still fail to secure funding for development. Many financial institutions including banks have increased their credit standards making it hard for these enterprises to secure funding (Zhao, 2010). Small to medium enterprises fail to raise large amounts of capital through investment because of the size of their businesses (Deng et al, 2013). This is because investors, especially in the private sector, doubt the market share of these businesses in a competitive environment. When the business fails to raise capital privately, it puts financial strain on the government which is usually the only source of investment for these types of firms (Deng et al, 2013).



#### **2.3.3.1.4 Proportion of qualified personnel**

Jayathilake et al., (2014) explains that, small to medium enterprises usually employ less qualified employees as the majority of these businesses are still in the start-up phase of the firm and cannot afford high salaries for educated, qualified individuals in a particular field. This has a negative impact on productivity for small to medium enterprises. The firms are then unable to achieve the required operational quality because of the lack of skilled personnel (Jayathilake et al, 2014).

Peng et al, (2013) explains that qualified staff are crucial for the process of innovation in SMEs. Human resources capabilities are important to adapt to constantly changing business environment. These capabilities are linked to skills needed to ensure the smooth operation of these businesses. Highly trained staff are, therefore, crucial for the adaptation and implementation of new technologies in the business (Peng et al, 2013).

#### **2.3.3.1.5 Global competition**

Global competition poses a challenge to the majority of domestic SMEs due to their sales and products power on the local market. Trade liberalisation in the country promotes penetration of remote and underdeveloped markets by foreign businesses. This results in small to medium enterprises struggling to survive and maintain their position within their respective markets (Deshmukh, et al, 2009). Gupta et al, (2017) further emphasised that, unlike larger businesses, SMEs do not respond well to dealing with trade challenges. They lack competitive advantages in international markets.

In China small and medium enterprises mostly gravitated towards serving local niches. Most of the time, these enterprises operate under constraints of lack of technical expertise, reduced intellectual capital and a flat organisational structure. Therefore, research has shown that larger enterprises are more likely to overcome export challenges better than smaller businesses (Deng, 2012).

#### **2.3.3.1.6 Networking and market competition**

Networking and market competition are some of external challenges faced by small to medium enterprises in China although it is recognised that there can also be internal challenges for some types of establishments. The entrepreneurs or managers grow their firms through networking and through research and development with external stakeholders such as universities, research institutes and workshops (Jayathilake et al, 2014).

Strengthening home country network helps to facilitate businesses to pursue international opportunities. Networking helps SMEs to cope better with challenges. One of the most significant roles of networking for SMEs is the substitution for external markets (Deng, 2012).

One of the most effective ways for SMEs to grow and expand is through business networking. Networking and joint alliances helps SMEs to be able to penetrate overseas. Networking is important for small to medium enterprises to obtain knowledge and generate social capital. The more social capital the business is able to generate, the more business opportunities the business can capture (Ma et al, 2012).

## **2.4 Small to medium enterprises in Africa**

Challenges faced by Africa and Asia are similar to China but they are not the identical. Some of the challenges include unemployment, poverty, diseases, civil wars, low growth, slow economic development and increasing population (Zezeza, 2014). The following countries on the continent of Africa will be discussed in the following sections: Nigeria, Swaziland, Ghana and South Africa.

### **2.4.1 Nigeria**

Nigeria is a country found in West Africa and is one of the countries in Africa that has invested in small to medium enterprises as a strategy to eradicate low growth and increase economic development in the country (Abdulraheem, et al, 2014). Thus far, the country has not achieved fruitful results with the SMEs. This is due to small businesses not achieving their stated goals because of operations and challenges incurred internally and externally (Akinlabi et al, 2012).

In 1960, Nigeria attained its independence and as a mechanism to reduce poverty and unemployment, emphasis was put on the growth and development of SMEs. Small to medium businesses are important for the economic development of Nigeria as it helps generate employment and grow and develop entrepreneurs in the country. In Nigeria small to medium businesses play an important role in the growth of the nation and the standard of living among citizens (Adeyemi, 2014).

#### **2.4.1.1 Characteristics of small to medium enterprises in Nigeria**

The definition of small scale business by the central bank is not a reflection of typical characteristics of small to medium enterprises in Nigeria. In recent years the characteristics of small to medium businesses in Nigeria have been characterised by high unemployment rates of graduates, which has resulted in many graduates considering shifting their focus by starting their own businesses

(Adeyemi, 2014). Despite the fact that SMEs in Nigeria constitute more than 90% of businesses in the country they are under performing with a GDP that is less than 10% (Amissah and Gbandi, 2014).

One of major hindrances to small medium enterprises in Nigeria is access to raising adequate capital for such businesses and external sources of funding are difficult to access. In addition, most business owners do not meet requirements because of collateral condition for bank financing (Abdulraheem et al, 2014).

Small businesses are often found in certain sectors due to their financial ability, human resource capabilities and opportunities presented by the economy and not necessarily because of their passion or expertise (Adeyemi, 2014).

#### **2.4.1.2 Challenges of small to medium enterprises in Nigeria**

Most of the challenges faced by the country are similar challenges that are experienced by other developing countries. Most businesses in the country suffer from financial instability with costs and expenses that cannot be managed or eradicated. SMEs experience low profitability due to low revenue collection (Gumel, 2017).

##### **2.4.1.2.1 Inadequate basic infrastructure**

In Nigeria, underdeveloped social and physical infrastructures limits the growth of SMEs. Most of these businesses are dependent upon inefficient governmental infrastructure and cannot afford developing alternatives. Problems regarding infrastructure range from an inadequate transport system, lack of electricity, improper solid waste management and shortage of water supply (Agwu and Emeti, 2014).

##### **2.4.1.2.2 The financial constraints**

Akinlabi et al (2012) explain that financial constraints refer to all factors that make it hard for SMEs to access funds easily. Inadequate sources and supply of funds cause major setbacks which constrain business to grow and expand. This also include the inability of SMEs to raise their own funds to expand their businesses due to (a) poor business history (b) the high risk that is associated with SMEs because of the lack of collateral and (c) inadequate financial knowledge and record keeping.

#### **2.4.1.2.3 Failure to adapt to the changing business environment**

Most of SMEs ventures conduct business with the intention to make money, but lack information and knowledge on how to operate successful businesses. When problems arise in these enterprises, managers lack necessary problem solving skills to ensure survival of these firms. Ihugba et al (2013) further elaborate that introduction of new technology presents a challenge for SMEs. Managers and staff members find it hard to embrace technology and to remain relevant to changing business environment due to the introduction of technology.

#### **2.4.1.2.4 Record keeping**

Record keeping is important for the integrity of the business. Corruption in order to avoid paying tax to relevant authorities has permeated Nigerian entrepreneurs. This has prevented most SMEs owners and managers from keeping adequate records and being transparent (Akinlabi et al, 2012).

#### **2.4.1.2.5 Unstable policy environment**

Unstable government policies have resulted in many SMEs collapsing in the country. For example, in the 1980s the government stated that cocoa should not be exported in raw, unprocessed form after a specified deadline.

This resulted in many SMEs importing machineries only for policy to be later revised and this negatively affected many SMEs (Agwu and Emeti, 2014). The Nigerian government systematically ignores policies that are already in place to promote SMEs. The government is afflicted with greed and corruption and many of the government policies in Nigeria act as a barrier to the success of SMEs in the country (Ihugba et al, 2013).

#### **2.4.2 Swaziland**

There are insufficient studies on SMEs in Swaziland. The current studies are not adequate as SMEs fail to keep records and this affects the validity of the study (Mthethwa, 2016). Challenges faced by small to medium business in Swaziland are similar to the ones faced by other African countries. Swaziland uses small to medium businesses as an economic growth tool to create employment and to also promote the standard of living of rural communities in the country Swaziland (Hlathswako, 2012). Swaziland has a vast population living in rural areas that struggle with necessities and employment opportunities to improve their living conditions. Small contractors are operated through the government ministry in Swaziland. This is done to ensure that they are provided with

a sustainable infrastructure with an efficient transportation system network, with favourable laws which promote their development (Thwala and Mvubu, 2008).

In Swaziland, SMEs play an important role in poverty alleviation, job creation and the economic growth of the country. The role played by SMEs has a significant contribution to GDP and the employment rate of the country (Hlathswako, 2012). Hlathswako (2012) further explains that most rural areas in Swaziland have many informal enterprises that are operating in the farming, sewing and handicraft sectors. These enterprises are important for income and personal development, especially for the unemployed youth in the country.

Industries such as construction to make up a large portion of most small to medium enterprises in the country. They are mostly challenged as employees are constantly looking for competitive salaries within and outside the industry. Most of the small firms do not compete and these businesses are just used by workers as bridge to large companies (Thwala and Mvubu, 2008).

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

##### **2.4.2.1.1 High dependency on external suppliers**

In Swaziland most of their inputs and inventories are sourced from neighbouring countries, mainly South Africa, and this affects SMEs in the country. These business do not have a say with regard to the high costs involved in importing products (Hlathswako, 2012). Swaziland imports approximately 70% from South Africa, which results in high costs for SMEs which inherit South Africa's transportation and inflation cost. These factors are outside of their control (Mngadi, 2016).

Furthermore, Mngadi (2016) asserts that due to the close integration between South Africa and Swaziland economies, any changes in the inflation rates in South Africa can affect Swaziland. This has severe consequences on the prices of products. An increase in inflation results to increase in raw material which results in overall increased production costs.

##### **2.4.2.1.2 Unfair competition from larger firms**

Most of the small to medium enterprises in Swaziland that have been instrumental for job creation over the years are small contractors that have been undermined by larger firms. Smaller contractors experience low costs in terms of overheads whilst operating under the more competitive prices of larger and more established businesses in the country. The government and the private sector

provides relatively low skills and resources needed at the entry level for small to medium enterprises (Thwala and Mvubu, 2008).

#### **2.4.2.1.3 Access to finance/funding**

For any SMEs to succeed, funding is an important factor. Due to lack of collateral, in many cases, SMEs are disqualified by many financial institutions (Hlatshwako, 2012). Hlatshwako (2012) highlighted that 36 % of entrepreneurs of SMEs in Manzini, Swaziland failed to secure funding because they were classified as high risk and did not meet the minimum collateral threshold required by the financial institutions. The financial problem in Swaziland relates more to access than availability. There is no shortage of funds for SMEs in the country. The major cause of lack of credit for SMEs by the banks is based on the notion that these businesses are unprofitable and risky (Mngadi, 2016).

#### **2.4.2.1.4 Access to markets**

Marketing is an important tool for the growth and development of SMEs. Many SMEs struggle to find markets for their product. In rare instances when markets are secured, issues of poor quality of services and goods results in lack of confidence in the product (Hlatshwako, 2012). One of the main issues faced by SMEs in terms of markets is that most businesses start producing without proper market research on their product. Sometimes, the piling of stock it is not based on insufficient demand but rather on poor information flow and lack of advertising with regard to supply and demand. Most SMEs in the country fail to engage in meaningful research regarding markets and advertising (Mngadi, 2016).

#### **2.4.2.1.5 Outsourcing**

Another challenge faced by Swaziland in terms small to medium enterprises is the concept of outsourcing (Dumitraşcu and Hila, 2014). The country has a lot of small firms that depend on outsourcing in order to grow and be sustainable. This has greatly impacted on training to encourage retention of expertise as citizens often lack skills after the contractual agreement has ended with the vendor (Thwala and Mvubu, 2008).

#### **2.4.2.1.6 Lack of managerial competence/management training**

In Swaziland managerial competencies are important for the success of small businesses. Lack of managerial skills, experience and personal qualities, as well as economic conditions, poor business

plans and resource scarcity result in new firms failing to obtain funds (Mngadi, 2016). Young entrepreneurs viewed lack of skills that included financial and work experience, as one of major constraints to initial stages of businesses in Swaziland. In most cases entrepreneurship seminars give irrelevant information with no practical solutions for small businesses. Bicaba et al, (2015) recommends that businesses go beyond business plan preparation and rather form bonds between networks and business service providers. Management and entrepreneurial skills are necessary for the effective management of a successful business. SMEs frequently have excellent products or services, yet lack the marketing and sales skills to generate adequate revenue over time (Hlathswako, 2012).

Mngadi (2016) further explains that for SMEs to succeed, they need competent managers that can recognise when change is necessary and understand change management processes. Well trained managers are able:

- To assess the change power of endurance,
- Create opportunities to practice new skills,
- Provide clarity about behavioural expectations,
- Use the feedback process to monitor implementation and reward and
- Re-inforce both progress and success, whilst aligning systems to support the new and desired behaviours.

### **2.4.3 Ghana**

Like other African countries, small to medium enterprises play an important role in the economic development of Ghana. In Ghana, small and medium enterprises make up 90% of the total number of businesses and accounts for 60% of employment (Akaba et al, 2014). Small to medium enterprises in Ghana are national economic engines, job creators and a seed for big businesses. The largest employers in Ghana are small and medium enterprises rather than multinational businesses (Laryea, 2010).

#### **2.4.3.1 Characteristics of small to medium enterprises in Ghana**

In Ghana, small to medium enterprises are divided into either rural or urban businesses. These businesses are further subdivided into organised and unorganised enterprises (Akaba et al, 2014). An enterprise that is solely owned by an individual with employees are registered entities and are

referred to as organised, whereas ones that include temporary staff and sometimes operate from home with little or no salaried workers are referred to as unorganised (Ackah and Vuvor, 2011).

Rural enterprises are largely made up of individual artisans, women in food production and family groups. Some of the activities in this sector include chemical - based products, food processing, wood furniture, bricks and cement, timber and mining (Akaba et al, 2014). This sector is characterised by unqualified, low education, self-employed individuals. In most cases these businesses are family owned businesses (Ackah and Vuvor, 2011). In Ghana, small and medium enterprises are heterogeneous group that range from making furniture, clothing, medium sized machinery as well as restaurants and consulting firms (Laryea, 2010).

#### **2.4.3.2 Challenges faced by small to medium enterprises in Ghana**

##### **2.4.3.2.1 High competition**

Many SMEs in Ghana have been faced with high external competition and lack of market expansion. Most of these businesses are restricted by poor quality control, private standardisation and limited international marketing experience. All of the above are coupled with a lack of knowledge about foreign markets (Kwaning et al, 2015). Akaba et al, (2014) further highlights that one of basic challenges emerging from global environment for SMEs there is a need to find ways to part take in the global markets in ways that lead to sustainable profitability. The forever changing business environment, due to globalisation, poses new challenges for managers of SMEs. This forces them to find new ways to respond to tougher competition from larger firms.

##### **2.4.3.2.2 Lack of access to financing**

Lack of access to financial assistance is a major challenge for SMEs in Ghana. This is due to a lack of collateral such as land and physical infrastructure that can be used to acquire a loan. Many financial institutions request business records before granting a loan and most SMEs do not have these records (Adjei, 2012). In the light of this, many small to medium enterprises in Ghana do not have access to proper forms of financial services such as credit and equity. Most formal financial institutions in Ghana are structured in a way that benefits large businesses (Kwaning et al, 2015). An inadequate capital base is another challenge that is faced by small to medium enterprises in Ghana. This results in these businesses failing to meet necessary collateral requirement by the banks before they are given credit by financial institutions (Ackah and Vuvor, 2011).



In terms of external factors, small and medium enterprises in Ghana have a huge problem with respect to securing funds for their firms when compared to larger firms. Small to medium enterprises secure funds in smaller amounts and rates in comparison to larger industries. Lastly, SMEs fail to secure long term, capital equity (Churchill et al, 2014). Lack of financial resources causes a huge constraint in terms of growth and development of small to medium enterprises. Lack of financial resources results in these businesses failing to meet various operational and investment needs (Kwaning et al, 2015).

#### **2.4.3.2.3 Lack of basic infrastructure**

Most of the small and medium enterprises in Ghana operate in an environment that has poor infrastructure (Churchill et al., 2014). This hinders their business in competing internationally. The growth and development of many small to medium enterprises in Ghana is restricted by poor infrastructure, lack of access to markets, poor communication and water and power supply (Laryea, 2010).

#### **2.4.3.2.4 Lack of support services**

Regardless of training services that are provided by various institutions, the skills gap still exist in this sector. This is because most entrepreneurs and managers cannot afford the high cost of these services and some do not see the need for upgraded skills (Abor and Quartey, 2010). Hence, such lack of support can hinder efforts of improving small to medium enterprise (SMEs) management.

#### **2.4.3.2.5 Technology and regulatory constraints**

Small to medium enterprises in Ghana lack access to appropriate technologies. Most SMEs use foreign technology that often have limited shared ownership and leasing (Laryea, 2010). Furthermore, challenges that cause development constraints with regard to small to medium enterprises in Ghana include regulatory issues which range from structural reforms, high start-up costs for firms, licensing and registration requirements. These put unnecessary burdens on small to medium enterprises. In addition, court proceedings that require high cost legal claims and which are characterised by excessive delays cause operational inefficiencies (Kwaning et al, 2015). Many African countries, including Ghana, face similar problems such as limited access to technology and Information Communication Technology infrastructure. The major challenge is moving SMEs beyond the basic steps and moving them towards integrated ICTs with more sophisticated business applications (Akomea-Bonsu and Sampong, 2012).

#### **2.4.3.2.6 Lack of managerial competencies**

Aboah et al (2015) explains that managerial competencies are sets of knowledge, skills, behaviours and attitudes that contribute to personal effectiveness. Managerial competencies are important for the growth and survival of SMEs. The competencies of a manager determine if a business will survive or not. The lack of managerial competencies places a significant constraint on the development of small to medium enterprises. Even though small to medium enterprise have motivated managers, these businesses struggle to compete with larger businesses. One of major reasons for the failure of SMEs is lack of managerial experience and skill (Abor and Quartey, 2010).

### **2.5 Small to medium enterprises in South Africa**

Small to medium enterprises play an important role in developing countries, with many employment and income distribution opportunities. In South Africa, SMEs, account for 91% of all formal businesses with a contribution of 60% employment and between 51 and 57 % of the GDP (Cant and Wiid, 2013). However, SMEs in South Africa also suffer due to prolonged high oil prices, exchange rate volatility, drought, declining exports and a struggling economy with decreased growth. The above mentioned challenges affect the low and middle class population.

These challenges result in many people from low-middle class struggling to start businesses (Hlathswako, 2012). Small to medium businesses in the country are declining in profitability and closing because of loss in revenue and increasing average costs (Hlathswako, 2012).

#### **2.5.1 South African perspective on small to medium enterprises (SMEs)**

Post 1994, there were aspirations were for economic freedom and people wanted sustainable jobs, education, health care, safety, infrastructure, participation in government policy and redistribution of income and wealth (Agwu-Ejon and Mbhohwa, 2015). After receiving democracy, the South African government recognised the importance of SMEs across many various sectors. SMEs played a vital role in order to achieve economic growth. In South Africa, SMEs are important for job creation, contribution to the GDP of the country and poverty alleviation. (Aigbavboa and Thwala, 2014).

The post-apartheid government is fully aware of the importance and significant role of SMEs for economic growth and has since come up with a framework to support the development and growth of SMEs. The government established several initiatives such as the National Small Business Act of 1996 that defines SMEs activities in the country (Aigbavboa and Thwala, 2014).

## **2.5.2 Characteristics of SMEs in South Africa**

Characteristics of the firm refer to traits that are unique to that firm. These traits can affect the firm both negatively and positively. Small businesses are characterised by higher interest rates and difficulties when securing bank loans in comparison to larger businesses (Fatoki and Garwe, 2012). Defining the characteristics of SMEs in South Africa can form the foundation of identifying the challenges that are faced by SMEs. For this study, formal and informal businesses operations are the characteristics of SMEs that will be discussed (Sitharam and Horque, 2016).

### **2.5.2.1 SMEs in the formal sector**

Small to medium enterprises participate in the economy of the country through the support of different government agencies and private institutions. Support can be in the form of financial or operational support and can only be obtained by businesses that are formal and registered (Fatoki, 2014). A business is considered formal if the name of the organisation is recognised and legally registered with relevant bodies such as the “Companies and Intellectual Property Registration Office” (CIPRO) tax, revenue and other relevant bodies. This is dependent on the type of industry in which the SMEs operates (Nkonde, 2012). The legal status of the enterprise determines if the business is formal or not. The formality of an enterprise is determined by its legal status. Factors such as the skill level of employees influences the formality of the enterprise (Nkonde, 2012). Lack of skilled personnel has a negative impact on the service and professionalism of the staff of the business and thus affects the formality of the business (Nkonde, 2012).

### **2.5.2.2 SMEs in the informal sector**

Informal SMEs refer to all the enterprises that are not legally licensed, VAT registered and do not have formal businesses premises nor operating permits and accounting procedures (Sitharam and Horque, 2016). When a business fails to comply with the registration procedures, the enterprise is perceived as informal and does not receive any assistance from the government and/or private institutions (Aspeling et al, 2014). Most of these informal businesses operate in survivalist mode which means that they engage in business for survival purposes. The main concern of most of these businesses is survival from day to day rather than growth (Nkonde, 2012).

## **2.5.3 Importance of SMEs for the economy of South Africa**

These enterprises contribute both economically and socially in South Africa. The economic contributions include factors that are economic growth-related employment creation and maintaining a favourable trade balance. The social contributions result in the reduction of poverty and better standards of living bringing about stability in the country (Davies, 2012). In South Africa, SMEs are the largest contributors to economic growth in the country. Small to medium enterprises are important for employment creation and account for 75% of new jobs. Approximately 90% of all formal businesses in South Africa are categorised as SMEs. The government sees SMEs as important tools for acceleration of economy growth (Smit and Watkins, 2012).

The SME sector is the driving force for general innovation, new delivery models and many innovative products. The SME sector are more desperate for growth and development when being compared to larger businesses and are in a better position to take advantage of the deregulating sector. Ultimately, the economy is driven into a more efficient and productive space (Ayandibu and Houghton, 2017). Despite support from government and their important contribution to the economy for SMEs, the failure rate is high and most of these businesses do not pass the second year of trading (Cant and Wiid, 2013). Even though the significance of SMEs for the economy is undeniable small to medium enterprises across the country are still faced with many challenges that include internal, external and entrepreneurial challenges (NCR, 2011).

#### **2.5.4 Internal challenges faced by SMEs**

Internal challenges refer to factors that affect the business internally. Businesses have control over these factors. These are discussed in the following sections.

##### **2.5.4.1 Lack of management skills**

It is important for small business owners to attain relevant training for them to obtain the necessary skills to ensure the prolonged existence and accomplishment of their businesses goals (Sithram, 2014). Most business owners are not knowledgeable as they lack the critical business skills and experience needed to run a business effectively and efficiently (Aspeling et al, 2014). Training must be provided to the unskilled and inexperienced owners to run their businesses successfully (Fatoki, 2014).

Smit and Watkins (2012) acknowledged that lack of managerial skills coupled with a lack of training, experience and poor organisational culture can result in the failure of SMEs. The owner or

manager's characteristics can be a hindrance to the growth and development of the enterprise. The negative attitude of the manager has a negative influence on the business.

#### **2.5.4.2 Access to markets**

Access to markets plays a vital role in the long-term existence of an enterprise. This has a huge impact in a competitive environment (Nxaba, 2014). The government plays a significant role in ensuring that entrepreneurs have a favourable regulatory environment. For entrepreneurs to operate globally, it is important for them to first understand the different stages of the business activities in the various markets (Chimucheka and Mandipaka, 2015).

Cant (2012) alluded that most small businesses fail because of lack knowledge of the importance and relevance of marketing for business. One of major factors that contribute to the failure of SMEs is the lack of marketing strategies

Different markets have different growth rates; therefore it is important for small to medium enterprises in South Africa to predict the future market changes in order for them to adapt to these changes (Sitharam and Horque, 2016). In terms of marketing dynamics, it is important for the business to have a person, who can clearly develop a marketing vision to adapt and achieve sustainable growth in the next decade (Cant and Wiid, 2013).

Cant (2012) further argued that for a business to have a successful marketing strategy it is important to understand the environmental factors that influence the business.

Cant (2012) explains that marketing challenges facing SMEs are the following:

- To gain an understanding of the market and potential for growth
- Market segmentation
- Market needs analysis
- Access to finance to fund marketing actions
- Education and training
- Competitiveness
- Marketing of products and services (Cant, 2012).

#### **2.5.4.3 Mismanagement of resources**

Mismanagement of resources is a common practice in small businesses which involve entrepreneurs or managers using business resources and assets for personal use, exceeding budget and using resources allocated for a specific project or task for a different project or task (Nxaba, 2014). Therefore, business owners and managers have a huge responsibility to make sure that they do not use business assets for personal use before fulfilling the needs of the business (Nxaba, 2014).

Maladministration is closely associated with mismanagement, incompetence and dishonesty which involves a series of financial mismanagement related to misappropriation of funds, the disregard of processes and procedures involved in resources allocation for certain business tasks, lack of budgeting and lack of financial reporting and accountability (Beckmann et al, 2016).

#### **2.5.4.4 Poor costing and pricing**

Setting the correct price for the product is essential in any business. If the pricing is wrong, the targeted market may lose interest and this can have severe consequences on the demand of the product. Pricing should be considered as part of the overall marketing strategy (Chimucheka and Manipaka, 2015)

In the light of this, decision making is crucial in pricing and during the pricing process there are several factors that need to be taken into consideration. These can affect prices. This includes the degree of competitiveness of the environment, supply and demand changes, distribution costs, the product life-cycle stage, changes in production costs and economic conditions. Most of these factors need to be balanced before the ultimate pricing decision is taken (Nkonde, 2012). These conditions are not all usually satisfied and therefore awareness of these factors is important and must be considered.

#### **2.5.4.5 Advanced modern equipment and machinery**

Small to medium enterprises usually expand their businesses through improved machinery and equipment. Lack of funding is a hindrance to accessing advanced modern equipment and machinery. Advanced equipment and machinery can help to reduce production cost and increase the efficiency of production, which in turn increases turnover and improves service delivery (Dangayach et al, 2012).

Boggs and Hojlo (2016) ascertain that advanced technology equipment plays an important role in providing the firm with a strategic advantage and is the key player in improving productivity and income. This modern, advanced equipment is the main competitive differentiator. Automated businesses have high production as they do things faster and continually transform processes for competitive advantage and better service delivery (Boggs and Hojlo, 2016). Dangayach et al (2012) allude that better equipment can help to reduce production cost as production can be done at a faster rate which can result in increased turnover and improved service delivery

### **2.5.5 External challenges faced by SMEs**

These are factors that affect the business externally. Businesses do not have control over these factors. These are discussed in the following sections.

#### **2.5.5.1 Access to finance**

One of the main resources needed by business is funding. Funding plays a vital role in the growth and development of the business. Financial resources play an important role in the start - up of any business (Abbasi et al, 2018). One of biggest challenges faced by small to medium business in South Africa is lack of access to funding bodies. This sector lacks financial support from both government and private institutions (NCR, 2011). The NCR (2011) report found that 18% of the national experts in South Africa identified a lack of financial support from the government and private bodies as a major problem in many entrepreneurial activities in South Africa. Financial institutions also required collateral that was too expensive for small business owners to afford, especially those that were from disadvantaged backgrounds (Kuntchev et al, 2012). In most cases, many small businesses receive initial support investment from informal investors and business associates that have personal contact with the owner (Fatoki, 2014).

Access to funding is a major constraint in the development of SMEs in South Africa (Mutezo, 2014). One of major problems with starting a new business is related to most entrepreneurs failing to secure funding from banks and other financial institutions (Kuntchev et al, 2012). Lack of availability of funds for small business is a major problem in developing the enterprise in many rural based regions. An example of this is the Eastern Cape (Fatoki and Asah, 2011). Most small to medium enterprises operated by young entrepreneurs have failed to secure funding through equity finance because most of these businesses are classified as high-risk businesses and most of these businesses have a non-existence credit history which leads to these firms depending on non-bank financial intermediaries.

In most of the cases young entrepreneurs struggled to obtain finance, seeking funding from friends, families, and personal savings instead of the formal sector (Agwa-Ejon and Mbhohwa, 2015).

#### **2.5.5.2 High competition**

Jayathilake et al, (2014) explains that globally, the competitive business environment has made it hard for certain SME's to sustain growth and compete with already established firms. Nkonde, (2012) posit that competition refers to firms that fulfil the same customer needs and have the potential to serve those customers in the same way. A perfect competitive market is an environment whereby buyers can either buy or reject the product offered (Nkonde, 2012).

Many businesses render similar services/products to consumers and this increases the level of competition. This leads to competition based on lower prices rather than quality, service or other attributes. Thus forces the businesses to lower their pricing and results in a decline of profit margins (Lebeoa, 2017). In cases where the products are identical, the customer does not have the choice of shopping around for quality, service or other characteristics. Businesses are therefore forced to lower their prices and this results in decline of profit margins (Mwobobia, 2012). Entrepreneurs need to understand the different elements and processes of the competitive environment in order for them to discover the forces that make an industry attractive to the entrepreneur (Lebeoa, 2017).

#### **2.5.5.3 High taxes**

The tax system in the country has not favoured SMEs especially in terms of the growth of employees. This relates especially to the youth and women. The financial instability in South Africa also affects the sustainability of these firms. In South Africa, small to medium enterprises usually get their financial capital through government grants for start-up (Agwa-Ejon and Mbhohwa, 2015). One of the major contributing factors faced by SMEs is high taxes. Before 2012 the tax rates for registered SMEs was approximately 29% (Nkonde, 2012). This was the result of the demand for the government to render good public services. Amongst the negative effects of high tax is that it affects cash flow and hinders the business from growing through reinvestment. It also affects the networking and working relationship between businesses (Fatoki, 2014).

#### **2.5.5.4 Crime and corruption**

In South Africa crime has been more widespread and this has a negative impact on the survival rate of SMEs. Garwe and Olawale (2010) further assert that, as a result of crime, most SMEs are not spending their resources on ensuring the growth and survival of their SMEs. In the corporate world



of South Africa, fraud and corruption have been serious issues and SMEs are mostly affected because of lack necessary resources to overcome it (Sitharam, 2014). In most cases, SMEs view crime prevention measures to be very costly and not a necessity for their business (Cant and Wiid, 2013). Small businesses are the most vulnerable to crime and they are mostly affected when a massive loss has taken place .This can threaten the very existence of these businesses (Cant and Wiid, 2013).

Cant and Wiid (2013) further elaborate that the existence of these business are twice as threatened as compared to larger businesses. This mostly occurs in developing countries such as South Africa. Most SMEs do not have influence and power in contrast to larger businesses. Sitharam and Horque (2016) state that bureaucracy and regulatory compliance are the main reason that SMEs get involved in crime and corruption

#### **2.5.5.5 Lack of government support**

The problem is that most small to medium enterprises are sole proprietorship with few being a close corporation. They struggle with funds as the government provides no financial support. These challenges cause the SMEs to not properly compete in the market which causes their failure in their first five years of existence (Serei, 2016). Furthermore, in other developing countries comparable to South Africa, such as Nigeria, the lack of government support has delayed growth and development of SMEs in the country. This is due to weak institutions and economic policies and the lack of political will. Some of the challenges faced by SMEs that contribute to their failure include political and economic instabilities (Gumel, 2017).

#### **2.5.5.6 Lack of resources**

Adequate resources for the firm play an important role in the emphasis on the ability of the company to integrate and build its internal competencies. Resources play a vital role in the development and establishment of SMEs (Garg and Kumar, 2014). Diversity in production processes with both tangible and intangible resources has become more important in giving the firm a competitive advantages and becoming players within the market (Garg and Kumar, 2014).

#### **2.5.6 Entrepreneurial challenges**

For many SMEs, the lack of access to resources results in a lack of productivity. Entrepreneurial challenges are a result of management problems and the lack of managerial skills especially in rural areas. There is a need for training in cash management and financial skills (Tehseen and Ramayah, 2015). Similarly, Nkosi et al (2013) argue that it is important for SMEs managers to have good

financial management abilities. This will ensure that managers efficiently manage sales and financial records. Some of entrepreneurial challenges are labour and regulations and the lack of training and education. These are discussed further in the following sections.

#### **2.5.6.1 Labour and regulations**

Many SMEs are failing to attract and maintain suitable employees to meet high productivity demands. Small to medium enterprises in rural-based areas are faced with challenges related to dealing with the supply and demand of products and services (Sitharam and Horque, 2016). Small to medium enterprises operate in environments that have flexible labour laws. Therefore, it is important for managers to have the knowledge of how export trades are regulated (Sitharam and Horque, 2016). Regulations serve to maintain and enhance the way in which the business functions within big markets.

#### **2.5.6.2 Lack of training and education**

Investment in education and training are fundamental factors. Education and skills are key factors for the economic growth and productivity and prosperity of the company (Aceleanu et al, 2014). Bhorat and Steenkamp (2016) show that formal education and practical training are key factors for improved performance of SMEs. For self-employment, higher return is directly linked to higher levels of education. Marketing, information technology and accounting skills have a positive impact on business performance. Such skills are also necessary for SMEs. Lack of education is a major barrier to entrepreneurial activity in the SME sector in South Africa. Lack of management skills of SMEs owners and managers is due to a lack of education and training (Nieman and Nieuwenhuizen, 2009).

A competency profile of 21st century manager includes to the ability to analyse, synthesise, solve problems and have interpersonal skills which includes motivation and communication skills that are needed by managers to ensure that they are able to cope in the modern society. Competence criteria defines behaviours that are needed to do the job effectively (Drath and Horch, 2014). Lack of training and education of an entrepreneur in any business is risky. Many entrepreneurs in developing countries are illiterate and lack the necessary skills to run a successful business. This results in many entrepreneurs failing to set up and run their businesses efficiently (Chinomona and Maziri, 2015).

#### **2.5.6.4 Managerial incompetence**

Small to medium enterprises in South Africa also face managerial shortcomings in which they struggle to manage and grow the firm. Some managers of small to medium enterprises have struggled to develop strategies for reducing or solving the problems of uneven distribution, high searching costs and attainment of support services (Agwa-Ejon and Mbhohwa, 2015). In South African SMEs the most significant areas required for training is the need for operational and training management. In addition, most SMEs do not have the required expertise and skills to operate the production system efficiently. The South African government has acknowledged that the critical factors to drive SMEs are skills and competencies (Naidoo and Urban, 2012).

Lose and Tengeh (2015) specify that businesses that lack entrepreneurial skills and management skills tend to fail. Lack of managerial and financial skills by the management team can result in the business not achieving its mission. Lack of entrepreneurial competencies amongst other factors accounts for the failure of SMEs. This is because in most cases entrepreneurs are the main decision makers therefore their skills, knowledge, experience and abilities determine how they handle any challenges that may arise (Neneh and Vanzyl, 2012).

Furthermore, poor supplier relations exist with cumbersome, transaction administration requirements (Agwa-Ejon and Mbhohwa, 2015). The high failure rate of loans granted to these firms is mostly caused by managers who are not able to prepare proper business plans, coupled with a lack of financial knowledge. These types of business are exposed to high barriers in the market. These barriers are usually high, rigid market structures favourable to big firms (Agwa-Ejon and Mbhohwa, 2015).

#### **2.5.7 Challenges faced by SMEs in Mquma Municipality**

In a study by Bota (2013) in Mquma Municipality, it was found that the challenges faced by small businesses included lack of managerial skills, lack of finance and support for the development of SMEs and skills development. This had a negative impact on the businesses as well as the implementation of strategies such as BEE (Black Economic Empowerment) strategies designed to help black businesses.

##### **2.5.7.1 Education and employment**

The employment rate in the municipal area has been declining and this has made it hard to foster growth and development through economic policies which can be understood and implemented

(Mnquma local Municipality, 2016). This has been caused by factors such as poor Grade 12 results. This has prevented entry into Universities, Universities of technology and Colleges. The economy of the municipality was affected during the global economic crisis of 2008. This resulted in a high rate of unemployment and a decline in businesses especially in SMEs with a growth rate of -0.17 (Mnquma local Municipality, 2017). Furthermore, the standard of living has decreased due to the low income earned from wages and poor investment performance and lack of economic productivity in the area. There is a large portion of economically marginalised people and only 33% of citizens are considered economically active in the area (Mnquma local Municipality, 2016).

A total of 67% people in the municipal area are not economically active and this places a huge burden on the municipal budget. Most businesses and people require access to water and electricity at low rates most people do not contribute to tax returns. There has been an identification that a rate of 30.1% is living below the poverty income. This makes the municipal area of Mnquma a very poverty-stricken area in South Africa (Mnquma local Municipality, 2016).

#### **2.5.7.2 Crime and corruption**

Mnquma Municipality is no exception and earlier in 2017, the late Mnquma municipal manager, Sindile Tantsi, was arrested on allegation of fraud and corruption of millions of rands which related to 10 million rand in tender guaranteed to Big Boy Events (Ltd) Pty (Mukhuthu, 2017).

### **2.6 Theoretical framework**

Two theories will be discussed: The Resource - based view of the firm (Barney, 1991) and Core Competency Theory (Prahalad and Hamel, 1990). The models will be applied via the research instrument (interviews). Questions were built around the constructs of the model. This allowed the researcher to gain insight to the model from a SA SME perspective (in the geographical area of the study). The results of these are presented in the discussion and findings. From a theoretical view point, this study is one of the first to adopt Core Competencies theory and the Resource-based view of the firm theory to SMEs in South Africa.

#### **2.6.1 Resource-based view of the firm**

The concept of looking at firms as a broader set of resources was first developed by Penrose (1959) but received little formal attention (Birger, 1984). However, recently the idea has received renewed attention, mainly after the economies of scope concept was formalised. The author that contributed the most to evolving the theory into competitive advantage was Barney (1991) in his study "Firm

Resources and Sustained Competitive Advantage” He said that resources that are valuable, rare, inimitable and non-substitutable. Resources enable the firm to develop and maintain competitive advantage so that businesses can perform better. Barney (1991) further explained that an organisation can be considered as a collection of organisational, physical and human resources. Barney (1991) posits that valuable resources should enable businesses to perform in such a way that it results in low cost, high sales and should also add more financial value to the firm.

This theory provides knowledge to managers on how competencies are perceived as the most important assets of the business and further acknowledges how assets can help to improve the performance of the business (Madhani, 2010). Groen et al (2010) explains that the resource-based view of the firm (Barney, 1991) has become one of the most influential theories in the last 20 years. This theory explains how internal sources of the firm ensure that competitive advantage of the business is sustained. The resource -based view of the firm (Barney, 1991) is one of the most widely used. It provides descriptions, explanations and predictions of the organisations interactions (Barney et al, 2011). Das and Teng (2000) explain that the resource - based view of the firm (Barney, 1991) has been systematically applied into strategic alliances. The view of the firm is based on the broad set of resources it owns. These resources can be both tangible and non-tangible and the theory focuses on the analysis of the various resources possessed by the firm. Resources are the most valuable for growth and development of SMEs. When applying the resource-based view of the firm, it is important for firms to analyse which resources provide competitive advantage for the business (Madhani, 2010).

In terms of the resource-based view of the firm (Barney, 1991), SMEs must first have certain elements or principles to guide or achieve in the practice of their functions. Caldeira and Ward (2013) explains that these will lead to competitive advantage for the business and are as follows:

- Resources must have strategic value to the firm
- Resource must be unique from competitors
- Imperfect imitability
- Non-substitutability of the resource (Caldeira and Ward, 2013).

The resource-based view of the firm (Barney, 1991) looks at capabilities of a firm on how it can increase productivity with resources at hand that is aligned with the strategy formulation. The resourced-based view of the firm (Barney, 1991) depends on certain types of categories when it comes to production functions within the operations of the firm. The theory focuses on financial, physical, human, technological and reputational resources. These types of resources include both the physical and intangible aspects with the financial and physical being tangible and others being the intangible resources.

The resourced-based view of the firm (Barney, 1991) has contributed to the success of firms when it comes to those organisations choosing outsourcing in their respective operations (Nath et al., 2010). This theory is used in outsourcing to answer the question of how to gain a competitive edge. The firm needs to have a market position, strategies towards the industries it operates within, analysis of price mechanisms and evaluation of the performance of their service or product offering as compared to other competitors (Autry et al., 2014).

Executives of any firm investigate more the intellectual side of operations which includes human capital that translates to skills and knowledge. Technology is at the heart of organisations across the global business world as it promotes less inputs for greater output in production and business process while it is key in cost reduction. The right managers, who are highly skilled, are preferred to make decisions on when to outsource service or not outsource through cost-benefit analyses and the effect on the firm's reputation (Laosirihongthong, and Somsuk, 2014).

A study by Holtbrügge et al (2010) in India adopted the resource - based view of the firm to determine if retention and recruitment practices had a positive impact on qualified applicants. The results showed that a close relationship exists between using recruitment and retention practices shaped according to the resource - based view of the firm and these two efficiency criteria. The theoretical bridge between HRM and the resource - based view of firm proved the usefulness of the resource - based view of the firm for human resources.

Espino-Rodríguez and Padrón-Robaina (2006) did a study in the UK to add principal work that addresses outsourcing from the resource -based view of the firm (Penrose 1959). For this study two principals were analysed: the propensity to outsource and the relationship between outsourcing and organisational performance. Using the basic premises of the RBV (resources and capabilities, competitive strategy, organisational performance and others) as the moderating variables the frameworks showed that outsourcing of resources and services depend on the strategic value of

resources making them. This strategic value is made up of the heterogeneity of the resources (Espino-Rodríguez<sup>1</sup> and Padrón-Robaina, 2006).

Aurum et al, (2014) conducted a study in Australia where the Resource - based view of the firm (Barney, 1991) was used to build a theoretical framework. This framework was used to develop a set of hypotheses for this study. Three categories for the defect-fixing process of OSS projects were utilized, namely, human capital resources, physical capital resources and organisational capital resources. This study desired to show how resources affected the competitiveness of the OSS projects.

In this study, the resource-based view of the firm had a valuable input in determining the importance of both tangible and intangible resources to ensure the sustainability of the firm.

### **2.6.2 Core competency-based theory**

In order to understand the theory a definition of competency is of paramount importance for this study and for the researcher. Prahalad and Hamel (1990) explain that core competencies include certain elements in organisations which can lead to the success or failure of a firm if not practiced well. Competency is communication that involves deep commitment across organisational boundaries (Pinapati and Sita, 2013). The competence-based theory (Prahalad and Hamel, 1990) refers to core competencies as a source of strong competitive advantage. The theory further elaborates that core competencies are valuable capabilities that are unique and collective in their attributes. They strategically lead to the success of the business. Core competencies strongly utilise and identify the strength of the organisation. Core competencies also assist with the development of the competitive advantage of the organisation (Odero, 2013). The theory comes with a unique product or service which makes it difficult for other competitors to imitate. It is the foundation tool for most companies to outsource certain goods, services or operations of the firm. Lastly it provides entry and access to a wide variety of markets with their respective opportunities. (Salim, 2015).

Core competencies are known as the basic building blocks for the development of new business skills. Core products are the source of core competencies (Prahalad and Hamel, 1990). Uysal, (2007) refers to core competencies as the firm's trend mark that makes the organisation market leaders amongst competitors. "Trend mark" relates to the way that the firm does business and it comes from the organisational- based knowledge, skills, technology, resources and the value chain that sets the organisation apart from its competitors. These core competencies are the organisation fundamental

strength and should be developed with organisational capabilities and resources. In order to gain competitive advantage, it is important for core competencies to provide potential access to different kind of markets, have a huge contribution to the way the customer benefits from the end product and it must be difficult for competitors to duplicate (Prahalad and Hamel, 1990). The strategic management mission of any firm is to establish a competitive advantage for the firm by allocating resources and capabilities in such a way that the organization can compete in the future. Therefore the main role of strategic management includes the role of competencies and the growth of resources for the business (Uysal, 2007).

There were three key dimensions of core competencies that were applied to a Malaysian small to medium enterprise. These were technological competence, market competence and integrative competence (Al-Erjal and Makhloufi, 2014).

In this study technological competence referred to various knowledge that is either practical or theoretical with regard to product, methods, experiences, procedure and physical equipment. Market competences referred to collective knowledge and skills that can be applied to meet customer's need and desires. Lastly, integrative competence referred to various capabilities, knowledge, and skills that empower the organisation to develop products or services that help to meet the needs of customers (Al-Erjal and Makhloufi, 2014).

A study done by Shin et al., (2012) attempted to determine which core competencies were important for managers in the hospitality industry and they found that they were six core competencies that were important for managers to succeed. These included the following:

- Hospitality skills
- Interpersonal skills
- Supervisory skills
- Resource management skills
- Leaderships
- Communication skills

Another study by Chen (2005) was conducted for the purpose of presenting the performance management process and the core competency frameworks of six Canadian public libraries. Core

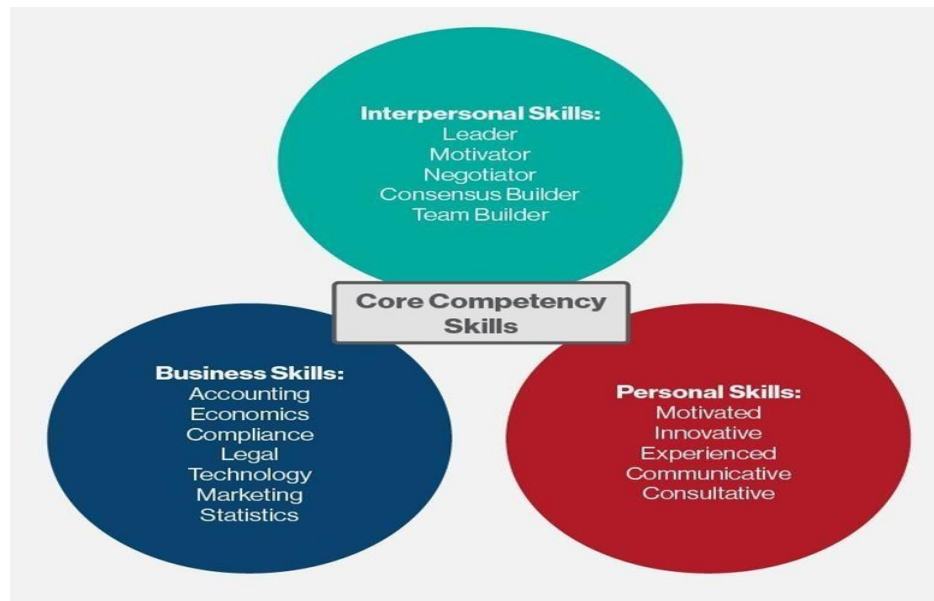


competencies characterised the qualities needed for optimum performance by the library staff. These were then used to determine competencies for the performance management processes in these libraries. The core competencies identified by the six public libraries were communication skills, interpersonal skills, customer service, analytical skills, accountability, adaptability, technological competence, planning and organising skills, knowledge of the organisation, creativity/innovation and leadership.

Another study was by Currie et al (2012) in USA explored core competencies that were designed to guide AMIA biomedical informatics (BMI) graduate education in BMI. The recommended core competencies for BMI were categorised as prerequisite knowledge and skills, fundamental knowledge and procedural knowledge and skills.

A study by Hsu and Hsieh (2009) used the Self-Evaluated Core Competencies Scale to assess the core competencies of undergraduate nursing students. Main components analysis showed that two components of core competencies namely humanity/responsibility and cognitive/performance came up as the main competencies needed. Self - evaluated core competencies should be used as a teaching guide to increase student's competencies to ensure quality patient care in hospitals.

In this study, core competencies theory can help to determine which core competencies are important or most mostly needed by managers in SMEs to gain competitive advantage and achieve better performance. Core competencies theory (Prahalad and Hamel, 1990) May also be used to determine how to improve management. It will help managers to organise their resources for better performance.



**Figure 2.1:** Rouse, M (2017) *The 18 different core competencies divided into three cluster groups* Available at: [https://cdn.ttgtmedia.com/rms/onlineImages/core\\_competency.jpg](https://cdn.ttgtmedia.com/rms/onlineImages/core_competency.jpg) (Accessed: 15 October 2017) (techtargert, 2017). These core competencies are a part of core competencies theory. In this study core competency skills were used to formulating the questions related to the core competencies needed by SME managers.

### 2.6.2.1 Business competencies/skills needed

Business skills should be developed by all owners and managers to ensure the growth and success of these small business enterprises. Business skills must be developed by managers for the purpose of meeting customer needs. Managers need to help staff by leading them to better operational efficiency in business activities (Agwa-Ejon and Mbhohwa, 2015). It is fundamental for the leaders of small to medium enterprises to have marketing skills to increase brand awareness.

#### 2.6.2.1.1 Marketing competencies/skills

In order for entrepreneurs to operate on a larger scale, it is important for them to first understand the different stages of business activities in various markets (Chimucheka and Mandipaka, 2015). In terms of marketing dynamics, it is important for the business to have a person, who can clearly develop a marketing vision to adapt and achieve sustainable growth in the next decade for SMEs. (Cant and Wiid, 2013). Different markets have different growth rates therefore it is important for small to medium enterprises in South Africa to predict future market changes in order for them to adapt to these changes (Sitharam and Horque, 2016).

#### **2.6.2.1.2 Training and development competencies/skills**

Training is an event that occurs among other organizational events and the meaning and significance that employees attach to training can be influenced by managerial actions. In this sense, training is a socially constructed event because the significance of any episode within training, such as training implementation or evaluation, can be interpreted in different ways by trainees (Towler et al, 2014). Training and development are key functions of the business because training and development provides employees with information regarding their roles and the knowledge, skills, and abilities required to perform effectively in their position (Tolwer et al, 2014). Training enhances the survival rate of small businesses. A business that uses training practices tends to perform better than their competitors and have improved financial performance (Chimucheka, 2013).

Small to medium enterprises that provide training are able to keep up with the latest information technology, production techniques and management concepts. Training while developing skills from roadshows and workshops should be conducted and benchmarking should occur with more successful companies. Education and training assist with the development of competencies needed by managers in SMEs for the survival of their business. Management competency is very important for the success and development of the business (Chimucheka, 2013).

#### **2.6.2.1.3 Financial management and accounting competencies/skills**

Financial resources are key resources for the acquisition of other resources. They enable a new business to acquire other resources and serve as an important source in the resource configuration process. The financial management domain focuses mostly on the financing of new and small firms. The amount of start-up capital required by a small to medium enterprise is positively related to new firm growth (Brinckmann et al, 2011).

Financial management skills and accounting skills and procedures should be developed in small to medium businesses. Technical skills with flexibility in technology are needed for businesses. Nkosi et al (2013) argues that SMEs managers who have good financial management abilities will ensure that they efficiently manage sales and financial records.

Brinckmann et al (2011) explains that in the financial management domain, financial competence enables effective financial management activities, which in consequence, impact the development of the new firm. Financial management competencies comprise of the following related skill areas:

- Strategic financial management competence

- Competence in external financing
- Competence in financing through operations
- Competence in financial controlling (Brinckmann et al, 2011).

#### **2.6.2.2 Personal competencies/skills needed**

Personal competencies are related to self-development and individual capacities like communication skills, negotiation skills and innovative approaches (Lara, and Salas-Vallina, 2017).

##### **2.6.2.2.1 Communication skills**

Communication skills involve active listening, speaking with impact and facilitating open communication. The leader should have the competency of demonstrating appropriate emotional intelligence, using active listening and effective negotiation (Tavitiyaman et al, 2014).

Leaders need to be good communicators in order to enhance group effectiveness. A leader must communicate by providing straightforward directions and enabling employees to understand cultural norms and expectations within the organisation (Dunne et al, 2016). Abdul (2018) explains that communication is a very important social skill. Communication is one of the fundamentals for any entrepreneurship business. This includes practical skills such as writing, listening and speaking. Furthermore, communication helps the staff to pass information on to customers through various communication methods such as adverts, reports and word of mouth.

##### **2.6.2.2.2 Negotiation skills**

Business leader must have good negotiation skills in order to advertise and market business to potential clients and make sure that business contracts are concluded with professionalism. The owners of the business must not depend on other people s to negotiate on their behalf but also must have the necessary skills required to negotiate. Bengtsson and Nielsen (2015) ascertain that whenever negotiations take place are it is important to know who you dealing with. Furthermore, the authors explain that negotiations play an important role in conducting businesses, especially in the SMEs sector. The negotiation process is a process of give and take and of having knowledge of the type of person that you are dealing with. Aspects to be taken into consideration whenever a negotiation is undertaken include language, negotiation styles and culture (Bengtsson and Nielsen, 2015).

#### **2.6.2.2.3 Innovative skills**

Small firms in particular need to be innovative in order to survive. Innovation is fundamental for small firms to achieve long-term viability (Dunne et al, 2016). Samad (2012) define innovation as an introduction and application of ideas, processes, products or procedures designed to significantly benefit the organisation. This implies that the context where the new idea, product, service and activity are implemented will determine if it can be considered as an innovation within the context. For organisations to remain competitive, organisational change and adaptation are crucial for the new and fast changing environment. Furthermore innovation is widely described as essential for the success and long term survival for business (Hoch, 2012). Furthermore, the competitive outcome of organisational performance is influenced by resources. One of these resources is innovation capability (Samad, 2012).

#### **2.6.2.3 Interpersonal competencies/skills**

Interpersonal skills include team builder, being motivated and a good leader. The leader implements focused learning, develops a team oriented culture, and supports others on the team and develops self-directed work teams (Tavitiyaman et al, 2014).

##### **2.6.2.3.1 Teambuilding**

Team building is an important aspect of a business (Aga et al, 2016). Fapohunda (2013) explains that good team building involves various activities that are designed to assist the team to perform their best in achieving a given task. A good team builder plays an important role in ensuring self-development through positive communication, leadership skills and the ability to encourage teamwork. Team-level interventions focus on improving social relations and clarifying roles, as well as solving tasks and inter-personal problems that effect team functioning (Aga et al, 2016). Fapohunda (2013) outlined that there are key points that develop an effective team. These include clear goals, good decision making, effective leadership, accountability and responsibility, training and development, organisational support, resource provision and rewards for team success. There are four distinct approaches in team building. These are goal-setting, developing interpersonal relations, clarifying roles and employing problem-solving technique (Aga et al, 2016).

##### **2.6.2.3.2. Motivator**

Mohd-Shamsudin and Chuttipattana (2012) ascertain that motivation is the force that energizes behaviour. To be motivated, individuals must be sufficiently stimulated.

There are two types of factors that can motivate a person. These include:

1. Intrinsic or motivator factors such as achievement, recognition, work itself, responsibility, advancement, and personal growth.
2. Extrinsic or hygiene factors such as status, security, relationship with subordinates, personal life, relationship with peers, salary, work condition, relationship with supervisors and supervision (Mohd-Shamsudin and Chuttipattana (2012).

Seniwoliba and Nchorbono (2013) explain that motivation is very important for any organisation. Any organisation that functions with employees tends to have employees that tend to not give their best at work and provide poor customer services. Lack of motivation is more serious in developing countries and this is because of their poor working conditions. It is therefore important for business managers to constantly provide motivational incentives for their staff to perform their best in order to improve customer services

#### **2.6.2.3.3 Leadership skills**

Leadership credibility is earned by leaders who combine character and competence. Both of these qualities are necessary (Caldwell et al, 2012). For an organisation to succeed, it is important to value the affirmative roles of its leaders and to provide a work environment where leaders can perfect their leadership skills (Caldwell et al, 2012). Leadership skills consist of teamwork orientation, fostering motivation and leadership versatility (Tavitiyaman et al, 2014). In addition, leadership skills include building trust, delegating, evaluating others, varying leadership to the demands of the situation and going against ineffective practices (Tavitiyaman et al, 2014).

### **2.7 Summary**

In both developed and developing countries, SMEs play a significant role in terms of economic growth and have a great contribution on the GDP. Small to medium enterprises also play an important poverty reduction role and reduce the level of unemployment. Despite the importance of SMEs, globally and locally, SMEs across the world and in South Africa face numerous challenges that hinder their growth and development. Two theories were discussed in this chapter, namely the resource-based view of the firm and core competency theory. In the next chapter, the research methodology of the study will be discussed.

## **Chapter Three**

### **Research Methodology**

#### **3.1 Introduction**

This chapter discusses the research methodology that was employed to conduct the study. This chapter will discuss the research design, the qualitative research approach, the research strategy and the population and sampling strategy. This chapter will further discuss the location of the study, data collection methods, data analysis, reliability, validity and the research schedule.

#### **3.2 Research questions and objectives of the study**

The research questions and objectives are documented below:

##### **3.2.1 Research questions**

- What are the characteristics of SMEs of this region?
- What are the challenges faced by managers of SMEs in Mnquma Municipality?
- Which managerial competencies are needed by SMEs managers in this region?
- What can be done to promote the growth of these enterprises?

##### **3.2.2 Objectives**

- To ascertain characteristics of SMEs in Mnquma.
- To examine challenges faced by managers of SMEs in Mnquma Municipality.
- To explore managerial competencies needed by SMEs managers in Mnquma.
- To explore what can be done to promote the growth of SMEs.

#### **3.3 Research design**

The research design is mostly focused on all the steps in the process and end product outcome (Vorsloo, 2014). A detailed plan on how the research will be conducted forms part of the research design. One of the main functions of the research design includes linking the research methods and procedures in order to achieve validity of data during the analysis of results. The research design provides clear guidelines and a framework of the research (Vorsloo, 2014).

The research design is the tool which provides a practical overview of central issues involved in the design of social and economic research. A research design is a plan of action for getting from where one is to where you wish to go, where the initial point is the primary set of questions to be answered

and the destination is the set of conclusions or answers (Al-Hakim, 2000). The intent is to develop a theory or pattern, or advocacy and participatory perspective which includes political, issue-oriented, collaborative or change-oriented approaches (Yin, 2009).

### **3.4 Location of the study**

Eastern Cape in the Mnquma Municipality in Butterworth.



**Figure 3.1: Map showing Mnquma Municipality (Source - Google Maps, 2018)**

The qualitative method was used by the researcher to collect data. For the study, there were 20 owners/managers of registered SMEs that were interviewed and documented. In-depth semi-structured interviews were used to collect the data. Individual interviews in the chosen sample were undertaken with respect to the participants' ability to respond to the presented questions pertaining to the challenges of SME.

### **3.5 Sampling Method**

Sampling is the selection of specific research participants from an entire population, which is done in different ways according to the type of study being conducted. Sampling involves decisions about people, settings, events, behaviours, and/or social processes (Maferetlhane, 2013). In addition, sampling refers to processes that involve selecting a subgroup of the main population of interest and generating results back to population (Vorsloo, 2014). Probability sampling and non-probability sampling are two types of sampling that is used in research depending on the goals of the researcher (Setia, 2016).

#### **3.5.1 Sampling strategy for this study**



Qualitative analyses generally need a smaller sample size than quantitative analyses. The sample size is mostly concerned with getting more in-depth feedback of all perceptions. Dworkin (2012) suggests that, for in depth interviews, anywhere from 5 to 50 participants as adequate in a qualitative analyses. The qualitative sample size is best determined by allocated time, availability of resources and objectives of the study (Gagne et al, 2013). Hence, there are no specific requirements when it comes to selecting sample size for qualitative studies as long as in depth data is derived that satisfies the research questions and/or hypothesis (Dworkin, 2012).

The municipal database was used to extract the sampling frame to address the research questions relating to the challenges faced by SMEs in the Mngoma Municipality. The Mngoma municipality skills audit report shows that there were 278 SMEs in 2017/2018 in this municipality Therefore this study utilised purposeful sampling as businesses were purposely and conveniently selected to participate based on access to business as well as their availability to participate in the study.

### **3.5.2 Recruitment of respondents**

The target population is any group that is the subject of research interest. It is the opinions, views of the target population of a study as a larger pool of cases or elements, such as people and businesses (Bougie and Sekaran, 2016). As previously mentioned, there were a total of 278 registered SMEs in the region (as per Municipal database). This study adopted a qualitative approach and hence the research targeted 10% (28) SMEs in the region to conduct in-depth interviews out of the 28 targeted, 20 interviews were secured. The respondents interviewed were owners, managers, supervisors and general employees.

### **3.5.3 The process of contacting respondents**

The respondents were given personal visits and some were called to make appointments for interviews. A gatekeeper's application was submitted to the Research Office at Mngoma Municipality by submitting a research proposal, research approval letter with interview template, a consent form and a gatekeeper's letter was obtained from the Mngoma Municipality via email. Participants were given an informed consent form to make sure that they decided to voluntarily participate in the study.

<b>Title</b>	<b>Contact Method</b>	<b>Date/Month</b>
Participant 1- Manager	Personal Visit	22/10/2018
Participant 2- Assistant Manager	Personal Visit	22/10/2018
Participant 3- Manager	Personal Visit	22/10/2018
Participant 4- Manager	Personal Visit	22/10/2018
Participant 5- Manager	Personal Visit	22/10/2018
Participant 6- Owner	Personal Visit	22/10/2018
Participant 7- Manager	Personal Visit	23/10/2018
Participant 8-Owner/Director	Personal Visit	23/10/2018
Participant 9- Assistant Manager	Telephonic call	22/10/2018
Participant 10- Manager	Personal Visit	23/10/2018
Participant 11- Manager	Personal Visit	23/10/2018
Participant 12-Assistant Manager	Personal Visit	23/10/2018
Participant 13- Manager	Telephonic call	24/10/2018
Participant 14- Owner & Manager	Personal Visit	24/10/2018
Participant 15- Manager	Personal Visit	24/10/2018
Participant 16- Manager	Personal Visit	22/10/2018
Participant 17- Owner & Manager	Personal Visit	22/10/2018
Participant 18- Owner & Manager	Personal Visit	22/10/2018
Participant 19- Manager	Personal Visit	24/10/2018
Participant 20- Owner & Manager	Personal Visit	23/10/2018

**Table 1: Process of contacting respondent**

### **3.6 Data collection strategies**

#### **3.6.1 Qualitative**

Qualitative research methods involve the description, explanation and interpretation of data that is collected by the researcher (Trochim, 2006). Qualitative research design also uses strategies of inquiry such as narratives, phenomenology, ethnographies, grounded theory studies or case studies (Creswell 2009).

There are a few advantages of the qualitative approach that makes this approach a suitable method for this study. A qualitative research approach produces a detailed description and interpretation of the opinions of the participants (Rahman, 2017). Rahman (2017) further explains that a qualitative approach gives deeper insight into the issues being investigated. This design is appropriate when the inquirer makes knowledge claims based primarily on constructivist perspectives that reveal multiple meanings of individual experiences that are socially and historically constructed. The intent could be to develop a theory or pattern, or advocacy and participatory perspectives, which include political, issue-oriented, collaborative or change-oriented approaches (Yin, 2009).

Furthermore, this approach gives the researcher an opportunity to examine the participants' experiences and finds meaning that shapes the culture of the area being researched. During data collection, the researcher and participants have direct contact, therefore data collection is very detailed and subjective (Rahman, 2017). The qualitative method has an interactive approach that allows a flexible structure of a design that is structured in such a way that allows easy analyses and understanding of complex issues (Rahman, 2017).

In light of this, the researcher uses open-ended questions for respondents and the primary intent of emerging data is to develop themes that help address the research problem

#### **3.6.2 Interviews**

Building from previous section, this study utilised interviews as the primary instrument. The interviews can be classified as either in-depth interviews, focus groups, semi-structured questionnaires or structured interviews relevant to the purpose of the study. (Lewis et al, 2009). Interviews are more powerful than questionnaires especially in narrative data because it allows the researcher to get greater depth of the people interviewed. Interviews allow the interviewees to

express themselves freely and gives a holistic view of the situation (Lewis et al, 2009). Interviews are an effective method in qualitative research to obtain reliable and valid information from respondents with regards to a specific topic that is required for research purposes.

Some of the research objectives were used to formulate the interview questions with a view to resolving the research problem. Furthermore, the theoretical framework was also used to formulate the resource and competency-based questions.

### **3.6.3 Development of the research data instruments**

For this study the interview schedule development composed of three elements. It started with an introduction, which gave details of the research. It clearly stated the topic and objectives of the study. It also gave details about the researcher. In addition, it indicated the possible maximum length of the interview. It also motivated the respondent by providing information about the valuable contribution the study would make to society. The second element of the interview schedule involved listing questions. In this case, the researcher used scheduled interviews which contained major questions. These kind of interviews allowed the researcher to examine the answers given and were easier to conduct. The third element was the closure whereby the researcher summarised the main issues and thanked the respondent for their participation in the study.

#### **3.6.3.1 Administration of Interviews**

Participants voluntarily participated in their own time and in their own comfortable environment to express their views and narrate their experiences. Participants were given full ethical consideration by explaining to them the content of the interview, study and their rights during the process of being interviewed (Annexure 5). The researcher probed the participants in order to obtain in-depth data to help understand the underlying reasons for the problem.

<b>Interview Date</b>	<b>Department/Position of respondent</b>	<b>Method</b>
24/10/2018	Manager- Accommodation (Hotel)	Physical
25/10/2018	Assistant Manager- Accommodation (Country Lodge)	Physical
25/10/2018	Manager- Accommodation (B&B)	Physical
26/10/2018	Manager Accommodation (B&B)	Physical
26/10/2018	Manager- Motor Repair Services	Physical
26/10/2018	Owner- Motor Repair Services	Physical
27/10/2018	Manager- Motor Repair Services	Physical
27/10/2018	Owner/Director- Motor Repair Services	Physical
27/10/2018	Assistant Manager Manufacturing/ (Arts & Crafts)	Physical
29/10/2018	Manager—Retail	Physical
29/10/2018	Manager—Retail	Physical
30/10/2018	Assistant Manager- Motor Repairs Services	Physical
30/10/2018	Manager- Accommodation (B&B)	Physical
30/10/2018	Owner & Manager- Motor Repairs Services	Physical
01/11/2018	Manager- Retail	Physical
01/11/2018	Manager- Manufacturing	Physical
02/11/2018	Owner & Manager- Retail	Physical
02/11/2018	Owner & Manager- (Funeral parlour)	Physical
02/11/2018	Manager- Manufacturing	Physical
03/11/2018	Owner & Manager- Motor Repair Services	Physical

**Table 2: Administration of Interview**

### **3.7 Ethical considerations**

Before proceeding with the research, the researcher applied for a gatekeeper's letter from the Mquma Municipality. To make sure that human dignity was upheld in this research, the researcher obtained “Ethical Clearance” from the University of KwaZulu-Natal Ethical Committee. Privacy and confidentiality was upheld to keep respondents anonymous whilst protecting personal information at all time.

### 3.8 Research mapping - research questions, instrument and theoretical framework

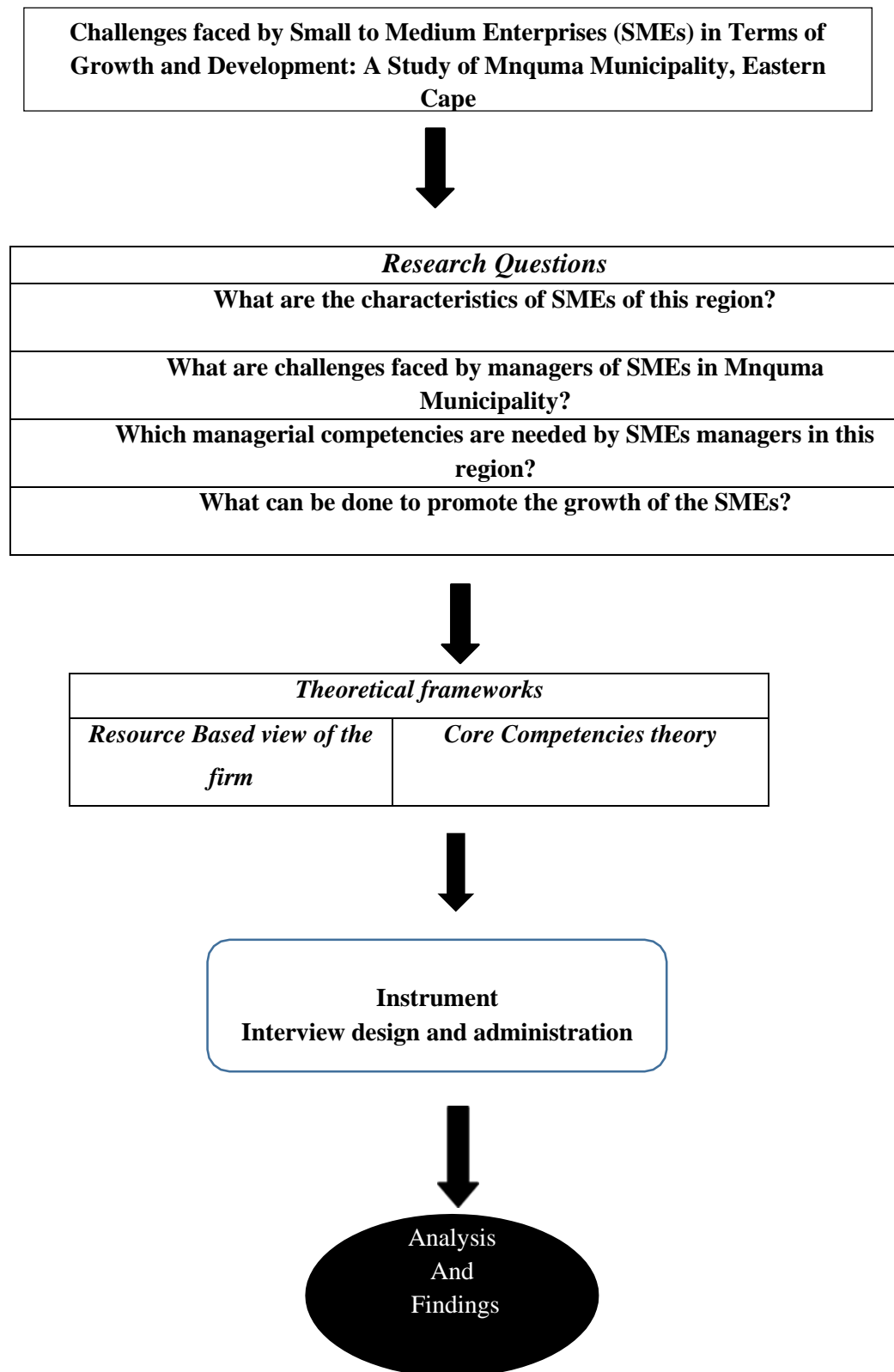


Figure 3.2: Research Mapping of Study

### **3.9 Data validation and pre-testing**

Validity and reliability express broader concepts used for qualitative research data, than other concepts that are usually associated with qualitative research methods (Mafuwane, 2012). The concept of validity in qualitative research determines if the tools of measurement are accurate in measuring what they are meant to measure. Reliability refers to the accuracy of the outcomes of the population that is consistently represented over time. For example, if the same results can be produced over time under the same condition these results can be considered reliable (Sitharam, 2014).

The research can be seen to be relevant through reliability and validity of methods and techniques used for data collection. Reliability is defined as dependability or a positive relationship between two or more parties that has trust and predictability. It can be further defined in statistical terms as a repeated measure which has indicators that yield similar results (Vosloo, 2014).

In qualitative research internal validity and value is measured using credibility. For a qualitative study to be credible it must present results with adequate descriptions of context. Some of the techniques used in qualitative research include reflexivity, answering questions through certain ways such as interviews and the interpretation process (Hammarberg et al., 2015). The credibility of the data was checked using a) the techniques of persistent observation (recurring observations of respondents during and between interview, and b) differences and similarities in the responses of respondents in similar categories and c) member checks (presenting the analysis of the data to respondents for their confirmation and clarity with some of the components of the responses).

The reliability of the study was evaluated using consistency. Consistency does not necessarily mean that the same result is found through other context but the researcher rather finds similar patterns. In some cases, qualitative researchers use the process of checking theoretical findings by other researchers (Hammarberg et al., 2015). The study employed both primary and secondary data. The combination of the research methods helped to summarise the available information and ensure that it was consistent with the newly researched information regarding the challenges of SMEs within the municipality.

### **3.10 Analysis of the data**

#### **3.10.1 Qualitative analysis method**

The analysis entailed both thematic and interpretive analysis. Themes were developed from the interview responses. These were categorised to satisfy the research questions and objectives. Handwritten notes were used during data collection and later transcribed. After being transcribed, all data was analysed using Word Cloud, Cluster and Tree Mapping analysis. Thereafter, Word cloud was used to further validate and analyse each group. Word Cloud is a concise popular yet fun way of displaying the document (Cui et al., 2015). In addition, Word Cloud is a graphic presentation of documents which shows frequently occurring words. These are indicated by font size. Each Cloud emphasised the most important words to ensure the analysed information showed precise content (Castellà and Sutton, 2014). This was then coupled with the researchers own interpretive analysis and discussed.

### **3.11 Summary**

This chapter discussed the research design and methodology employed in the study. It looked at the target population, sampling strategy and the data collection methods. Data analysis techniques were outlined. The following chapter presents the analysis and discussion.



## Chapter Four

### Analysis and Discussion

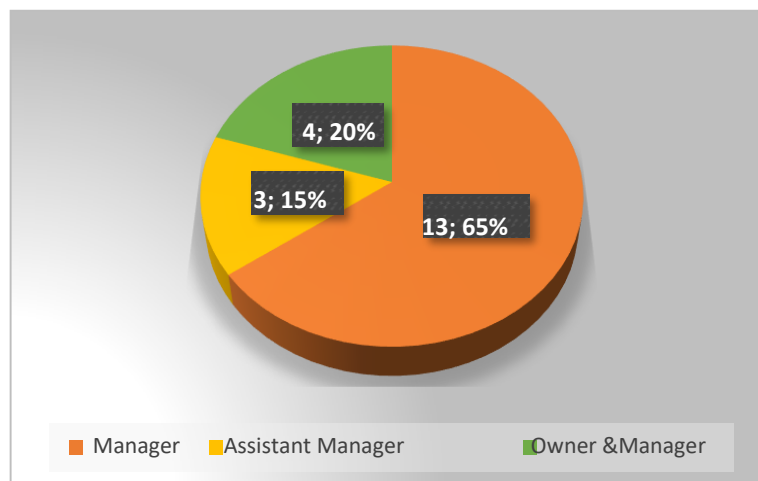
#### 4.1 Introduction

This chapter analyses and interprets the data collected and presents the results. The study sought to investigate challenges faced by SMEs in Mnquma Municipality and to determine how these challenges hinder the growth and development of these businesses. The study also investigated how lack of growth and development of SMEs affected these enterprises contribution towards local, economic development. A sample of 20 owners/ managers of registered SMEs were chosen. Thematic and interpretive analysis techniques were used utilising tools such as word clouds, cluster analysis and tree maps. Results are presented in Section A (Demographics) and Section B (Data analysis) and Section C (Theoretical framework).

#### Section A - Demographics

The socio-demographic profile of the respondents is presented through the use of descriptive statistics. Pie charts have been used to illustrate relations and trends.

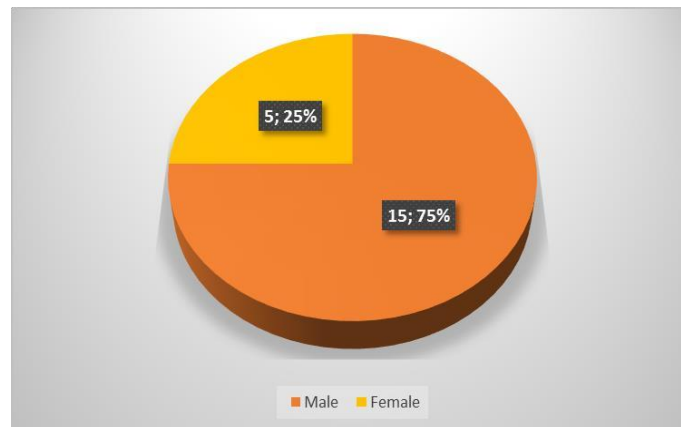
#### 4.1 Role in the business



**Figure 4.1 Role in the business**

The figure 4.1 above shows that 15% of respondents were Assistant managers, whilst 20% of respondents were owner and managers. Majority of the respondents were Managers 65%

## 4.2 Gender

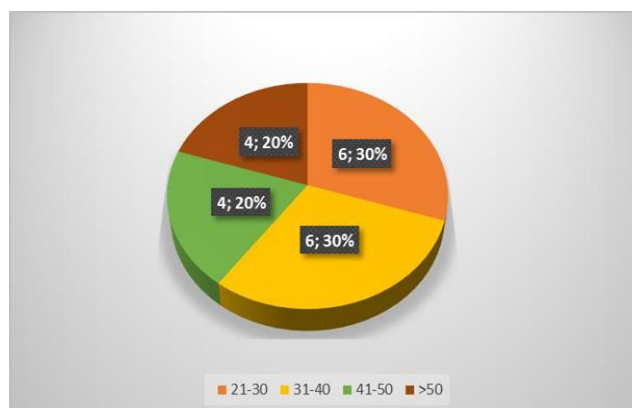


**Figure 4.2 Gender**

Figure 4.2 indicates that the majority of the respondents were males. In this study more males occupied management positions as opposed to females. This is open to interpretation whereby results indicate a lack of female representation in business in this area.

Relating to the possible assumption, challenges faced by women entrepreneurs are not necessarily dissimilar to entrepreneurs in general. Some of the challenges that are faced by women include the conflict between work and family, keeping abreast with advancement with technology and getting credit to start or grow business (Inderpal et al, 2015). In countries such as India, women face challenges such as motherhood issues, tradition, socio-cultural and ethics - related issues. In African countries, women experienced harassment. This results in many women not succeeding in management positions in the workplace (Inderpal et al, 2015).

## 4.3 Age

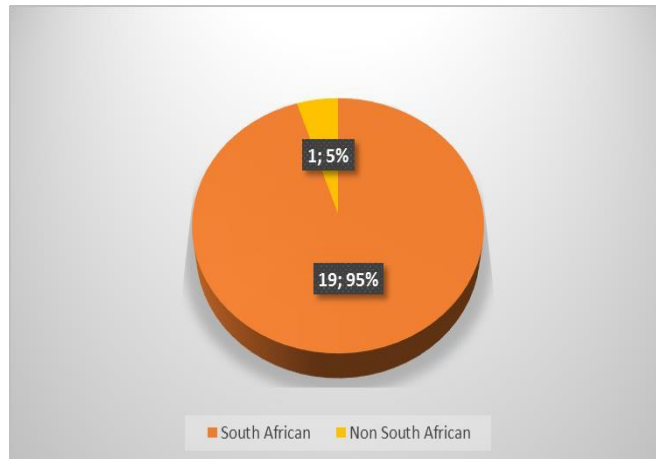


**Figure 4.3 Age**

Figure 4.3 reflects that there is an even distribution between the two age group 21- 30 and 31- 40 with a total of 12 respondents out of 20 (60%). This means that the age ranging between 21- 40 makes up the majority of owners and managers as compared with the two other age groups ranging

between 41 and above 50. This means that SMEs are being owned or managed primarily by the younger generation who may lack the experience of running a successful business.

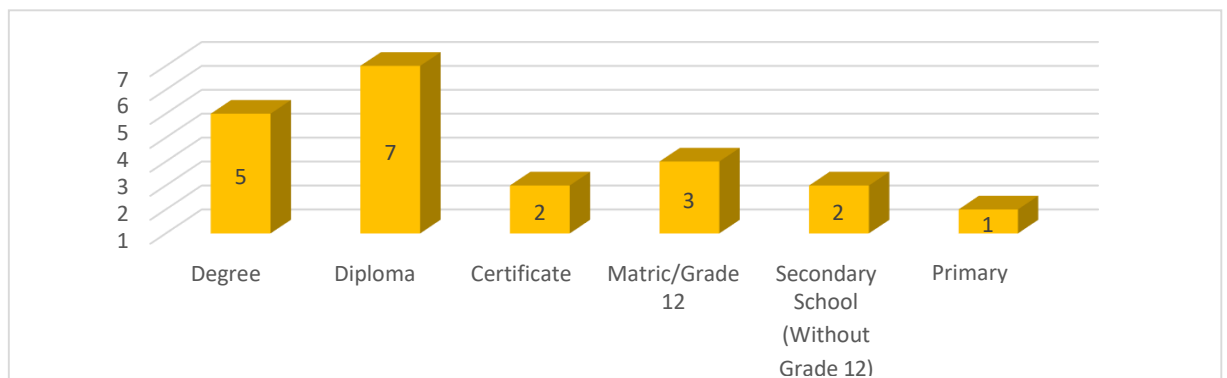
#### 4.4 Nationality



**Figure 4.4 Nationality**

Figure 4.4 above reflects that the majority of respondents were South African who totalled 19 out of 20, which makes up 95% of the respondents.

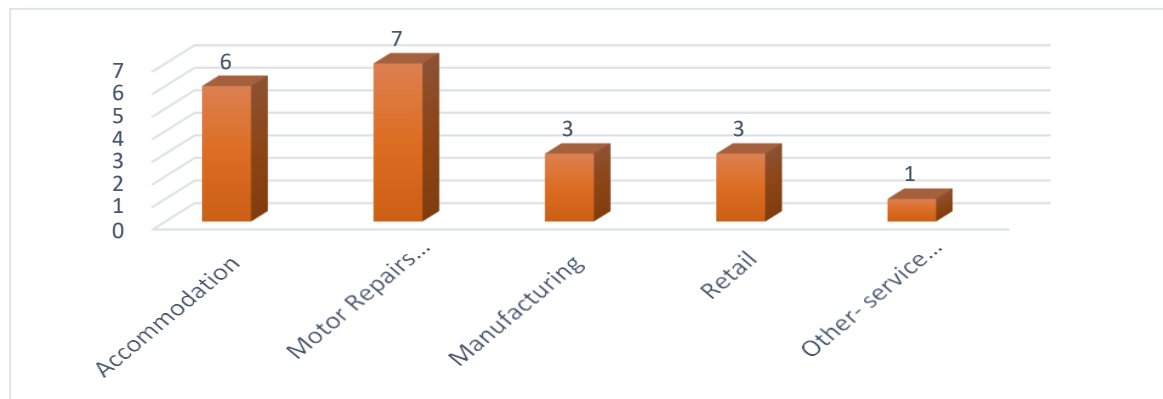
#### 4.5 Level of education



**Figure 4.5 Level of education**

According to figure 4.5 the majority of owners/managers have diplomas and degrees. Three out of 20 respondents had grade 12/matric. This shows that the majority of the respondents were educated.

#### 4.6 Business Sector

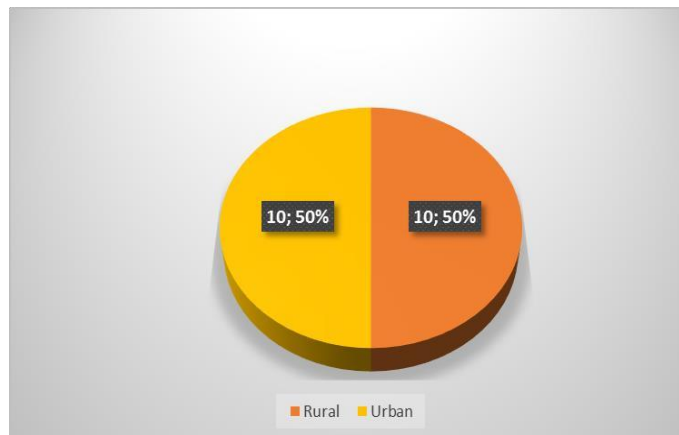


**Figure 4.6 Business Sector**

Figure 4.6 shows that the majority of the respondent's businesses belonged to the motor repair service sector (7 respondents) whilst 6 respondents belonged to the accommodation sector. Manufacturing and retail sector was evenly spread out with 3 out of 20 respondents each and other service providers only accounted for 1 respondent. Businesses were purposefully and conveniently selected to participate in the study based on the availability of business to take part in the study. This shows that most enterprises in this study are clustered between two sectors, motor repairs service sector and the accommodation sector.

This can result in increased competition amongst businesses in the sector, rather than people venturing in other sector or markets. Leboea (2017) asserts that as competition intensifies amongst business within the same sector, the industry declines and becomes unattractive. In most cases, SMEs find it hard to fight the competition of established larger companies. This can result in the smaller businesses losing customers which means less revenue and the possibility that they may close down. One of the main strategies that larger businesses use to remove SMEs is lowering prices which can result in SMEs closing down, as they are unable to cope with operation costs or end up operating at a loss (Leboea, 2017).

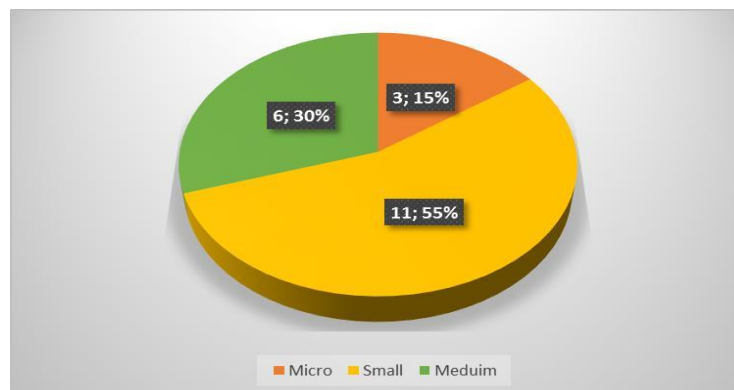
#### 4.7 Location of SMEs



**Figure 4.7 Location of SMEs**

Figure 4.7 reflects that there is an even distribution in terms of location, in terms of urban and rural areas. Therefore, the study gained insights from both settings. The location of the business plays a crucial part in the overall operation of the business. It is important to ensure that where one's business is located is an environment that is favourable to one's business and that its services are required (Chong, 2012).

#### 4.8 Size of SME

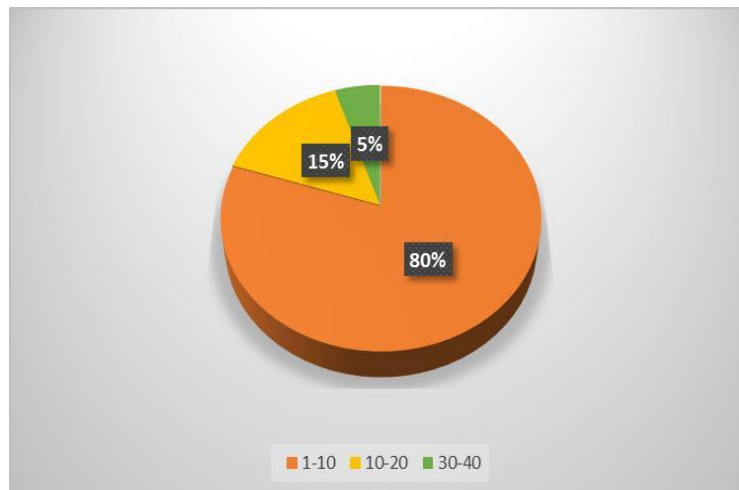


**Figure 4.8 Size of SME**

Figure 4.8 shows that 55% of respondents businesses are small, whilst 30% of respondents indicated that they were medium businesses and only 15% of respondents businesses were micro. Therefore, the majority of SMEs in the area are small and micro, which means that they are prone to economic challenges including competition especially from larger business.

According to Leboea (2017), lack of advanced technology is one of the challenges faced by small businesses. Most of these businesses use technology that is not advanced which results in difficulties in productivity and that makes them uncompetitive in relation to larger businesses. Small businesses have limited access to public infrastructures such as water, serviceable roads and postal services. They have a major restriction on raw material and markets (Leboea, 2017).

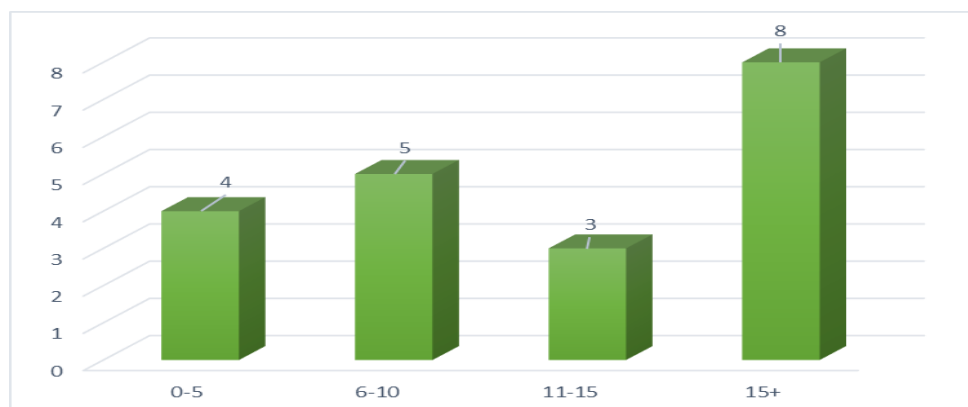
#### 4.9 Number of employees



**Figure 4.9 Number of Employees**

Figure 4.9 shows that the majority of respondents indicated that the number of employees was in the range of 1-10. This directly corresponds to the majority of businesses being relatively small and this can affect the overall production and functioning of the business.

#### 4.10 Number of years in operation

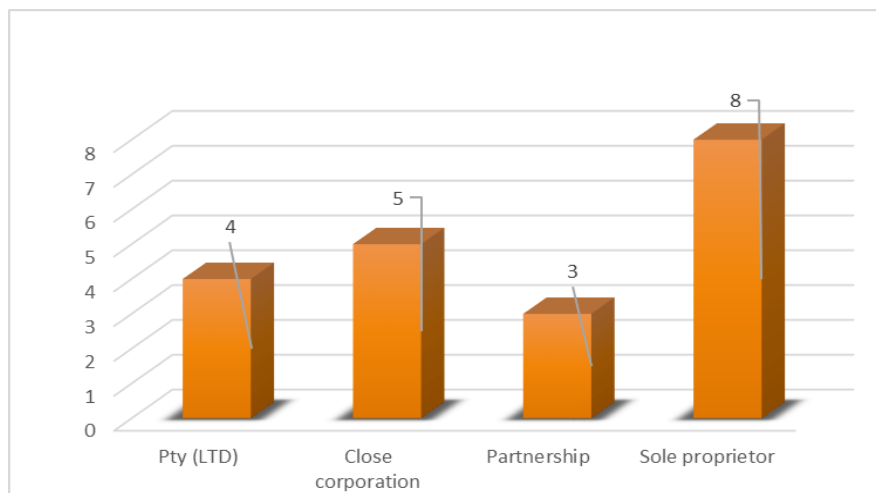


**Figure 4.10 Number of years in operation**

Figure 4.10 shows that 40% of the respondents had been in operation for more than 15 years. Hence, 60% had been in operation for less than 15 years. The majority of the respondents indicated that they had been in operation for less than 15 years. The overall percentage is quite high making it more than 50 % of total responses. This shows that some of SMEs have been in existence for considerable years despite challenges experienced.

Most SMEs are exposed to a high risk of failure in their first three years of establishment. They struggle to start up their businesses and find their place in the local market. Even though the majority of SMEs fail in their infancy stage, those that manage to survive find ways to remain proactive in the marketplace (Cowden et al, 2015).

#### 4.11 Legal status of business



**Figure 4.11 Legal status of business**

Five out of 20 businesses were registered as a Pty (LTD) close corporation, whilst eight out of 20 businesses registered as a sole proprietor.

In South Africa, most SMEs have limited capacity to deal with government requirements. Most SMEs fail to comply with legislation because these enterprises find legislative costs to be very high and this threatens the entire SME sector (Leboea, 2017). In South Africa, the most restrictive factor for businesses is labour law and labour regulations. Labour policies are considered to be more restrictive than labour regulations. For most SMEs, labour market regulations play a vital role in the cost structure (Sitharam, 2014).

## Section B - Data analysis

In this section, the research will use Word Cloud Analysis to analyse and interpret the data in order to make a meaningful conclusion. Word Cloud diagrams were generated and then interpreted by determining the most frequent and commonly used words which were then analysed and interpreted.

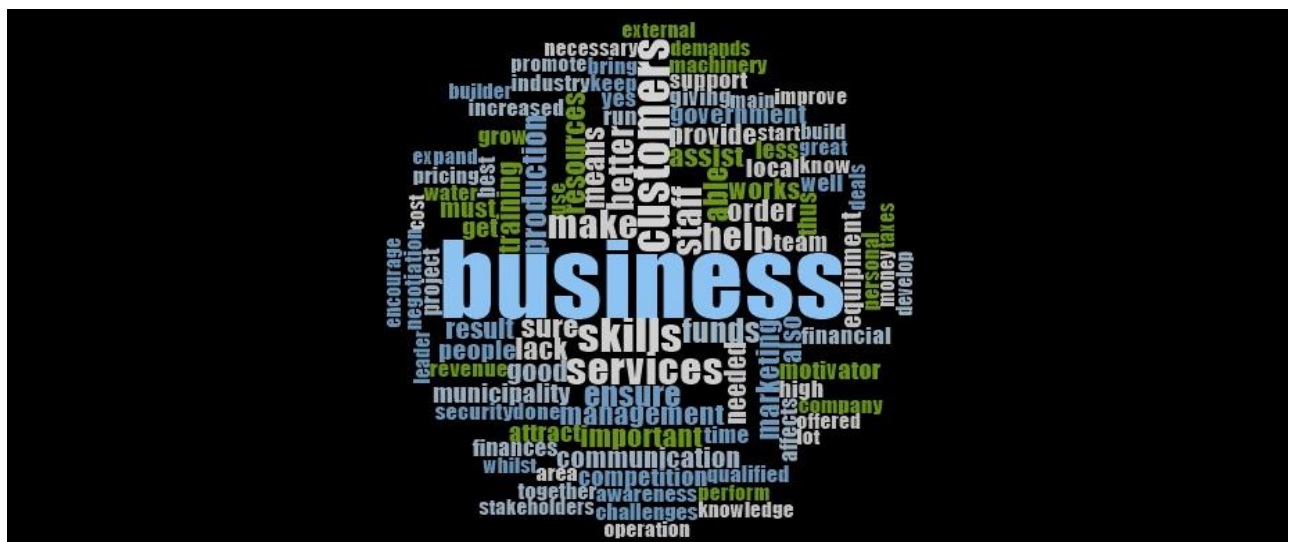
## 4.12 Analysis techniques

Nvivo was used to streamline the data by identifying key and relevant words and phrases. This allowed the researcher to critically analyse and identify the common themes. This formed part of the thematic analysis. Building on this, the researcher then used her interpretative abilities to interpret that data in line with the themes. The key themes identified from the data and aligned to the study research questions and theoretical framework included:

- Overcoming challenges
- Main resources need to grow and expand business
- Business competencies/skills needed
- Personal competencies/skills needed
- Interpersonal competencies/ skills needed.

### 4.12.1 Word Cloud

Word Cloud is an analysis tool to indicate the most frequently appearing words in large data- sets. The larger the font implies the more the word appeared. This helps to identify key themes. (Cui et al., 2010).



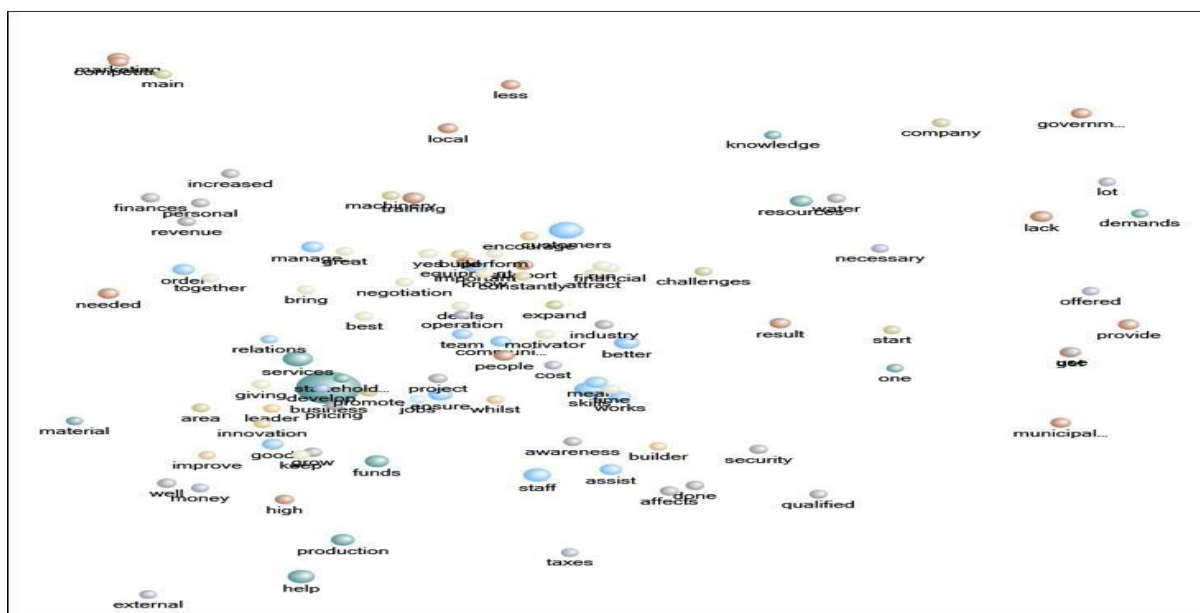


### Figure 4.12.1 Word Cloud

Key words included: Business, Skills, Services, Customers, Funds, Training, Communication, Equipment, Motivator, Negotiator, Competition Marketing and Production.

### 4.12.2 Cluster analysis

Cluster analysis examines relational words. In this study, bubble diagrams were used for cluster analysis. These diagrams show key words in the form of bubbles. The larger the bubble indicates the higher frequency of words. The colour and closeness of the bubbles show that those words are related (Percy et al, 2015)



**Figure 4.12: Cluster analysis**

### 4.12.3 Tree Maps

Tree maps depict data in terms of the size of blocks. Hence the larger blocks reflect those words mainly used. The entire map gives a holistic view of how data is placed in terms of the size of reference and how these words connect to each other.



This negatively affects the profitability of SMEs in the competitive arena due to fewer customers being available.

The following quotations show the shared views of respondents:

**Participant 1** - High competition- The number of B&B has increased over the years in the area, which means more competition, this result in business having fewer customers and business and this affects the revenue income of the business. The business constantly has to find new ways and strategies and at times the business does not have the necessary funds to make sure they implement these strategies to stay relevant into the marketplace.

**Participant 3** - High competition results in the business getting fewer customer because of many other businesses providing the same services, this means less revenue and this can affect the whole business operation.

**Participant 3** - High competition from foreign owners in the industry whose businesses are not even registered and don't have the legal papers to run the business and they do not pay tax. While businesses owned by South African's in the industry are required to pay tax and have a lot of legal demands.

0

**Participant 7** - High competition is a real challenge in the industry. This means that more people are offering the same services which can result in fewer customers for business thus less revenue for the business. This puts a lot of pressure to remain relative within the marketing place. The high competition also affects the pricing and costing of rendered services or product.

**Participant 12** - High competition, increased number of similar businesses makes it hard for the business to remain relevant in the market. High competition results in the business losing customers to competitors as a consequence the business makes less revenue.

**Participant 16** - High Competition. This results in the business losing customers, loss of customers means less revenue. This may result in the business being unstable especially financially.

Jayathilake et al (2014) explains that globally competitive business environment has made it hard for certain SME's to sustain growth and develop high competition with already established firms. Many businesses render similar services/products to consumers and this tightens the level of competition. This leads to competition based on lower prices rather than on quality, service or other attributes. This forces other businesses to lower their pricing and result in the decline of profit margins (Lebeoa, 2017).

#### **4.13.2 Lack of access to finance**

Funds are needed for any business to be successful, including SMEs. The respondents are of a similar view that is important to have access to finance. Their businesses suffer from financial instability and the Mnquma Municipality is not fulfilling its role by assisting them. There are also problems attaining funding from banks because these businesses are regarded as high-risk businesses.

***Participation 2** - Lack of finances- There were no finances from external stakeholders such as government agency so we had to use personal services to start a business.*

***Participation 3-** Lack of support and financial support from municipality and government agency. This means the business owner must find its own source of funding.*

***Participation 14** - Lack of funding and proper infrastructure. Due to lack of funding, the business struggled to secure bigger and proper infrastructure and premises. Lack of funding makes it hard for the business to keep up with production demands.*

***Participant 17** - Lack of finances, business lack access to getting loans or funding from external stakeholders which can assist with finances to expand their business.*

*So, therefore, most business struggled in their start-up stage. The owner/ manager of the business had to self-fund in order to start the business.*

***Participation 20** – Lack of funding from banks and external stakeholders*

*This meant that the owner had to self-fund and the lack of funding results in the business struggling when starting up.*

Agwa-Ejon and Mbhohwa (2015) assert that finance is a key component needed to develop and grow SMEs, but these ventures usually suffer from accessing such a resource. Banks are sceptical to fund such ventures due to their high failure rate. Government financial support and personal funding becomes sources of funding

#### **4.13.3 Lack of government support**

There is a lack of government support for SME's in the sense that owners rely on their own personal funding which is usually not enough. Lack of government support from the local sphere through the municipality has hindered growth and development in these firms. The operations are not effective and productive as a result of poor access to finances.

**Participant 1** - Lack of support from local municipality because this business is in the rural area. Lack of services provided by a municipality such as clean water and sewerage deposition services.

**Participant 8**- Lack of finances- lack of financial support from the local government/ municipality. This can affect the daily operations of the business because of less production. This means less revenue for the business.

**Participant 10** - Lack of local government support. Currently the municipality is not giving support to local business. I had to start a business using personal funds or had to get funding from external stakeholders such as family and friends.

**Participant 14** - Lack of support from the local government during the start-up phase of the business. I did not receive any support from the local government.

The business had created job opportunity and employment but there was no support from the government.

**Participant 14** - There is lack of financial support by government and external stakeholders. The lack of support by government is due to leaders using funds that are meant for such business in other departments and it is difficult to secure funding with external stakeholders such as banks and other financial business due to the lack of stability and security of a new business.

The problem is that most operate as a sole proprietorship with an operating as a close corporation. They struggle with funds with the government providing no financial support. These challenges cause the SMEs to not properly compete in the market causing failure in their first five years of existence (Serei, 2016). Furthermore, in other developing countries comparable to South Africa, such as Nigeria, the lack of government support has delayed growth and development of SMEs in the country. This is due to weak institutions and economic policies and lack of political will. Some of the challenges faced by SMEs that contribute to their failure include political and economic instabilities (Gumel, 2017).

#### **4.13.4 Lack of training and education**

The lack of training in the business field is evident in respondent's comments. Lack of training has caused operations and business activities to be poorly executed. SMEs suffer from training costs and a poor retention strategy as the employees are continuously leaving for better jobs with higher salaries.

There are various employees with various qualifications; namely a degree, diploma, secondary without matric, certificate, matric. These employees are performing the same job as an owner,

assistant manager or a manager without the suitable skills. There is a lack of training for personnel. Training is needed in the business environment as not every degree or qualification is regarded as suitable in business.

The municipal area has been affected by the poor matric results in the region which has stopped more residents from attaining qualifications in Universities, University of technology's and colleges. The size and financial structure of the firm has caused a lack of educational and training of employees in these establishments (Mnquma local Municipality, 2016).

***Participant 1** - Lack of training affects the business in a way that, sometimes staff that work for a business venture is not qualified or well trained for the job, for example cooks in the kitchen. This is because the business cannot afford qualified people. This also limits services rendered in the business.*

***Participant 5** - Lack of skills and training for employees is a major challenge because the company has to spend a lot of time training employees on how to do the work. Sometimes these employees end up leaving for other companies after acquiring the required skills.*

***Participant 8** - Lack of training and skills from staff, unskilled labour takes a lot of production time from the business as more time has to be spent training staff.*

***Participant 12** - With the lack of training, staff is not well trained and they lack practical skills which can affect the overall production of the business.*

***Participant 13**- Lack of training, staff members are not well equipped with all the necessary skills and knowledge to contribute towards the business.*

Lack of education is a major barrier to entrepreneurial activity in the SME sector in South Africa. Lack of management skills of SMEs owners and managers has a huge impact on the education and training (Nieman and Nieuwenhuizen, 2009).

#### **4.13.5 Lack of resources and proper infrastructure**

Enterprises usually want to expand infrastructure to expand production with machinery and equipment but expansion is usually limited. These infrastructural developments are not met because of limited resources.

***Participant 4**- Water shortage affects the business because customers go to neighbouring towns to get the same services the business can provide, in-sufficient water affects the business.*

**Participant 9** - *Poor working condition and infrastructure – The Municipality is currently not supporting the business, instead they constantly threaten to shut down the project and take back their projects. The premises are not well maintained and there is not enough space to showcase the work done in the project.*

**Participant 11** - *Lack of resources, especially in catering. This affects the business enormously because they do not have all the equipment and resources, such as trained staff, especially in the kitchen, which leads to the company failing to sufficiently satisfy the customer. This means customers end up looking for alternatives which limits the businesses ability to better compete with their rivals.*

**Participant 18** - *Lack of resources such as machinery and equipment, Also the equipment that is currently being used is old and because it is expensive and the business is not making money, the business is not able to provide the best services and thus makes less money.*

**Participation 20** - *Poor infrastructure such as poor roads, cause customers to run away because they are scared that the road will damage their car. Therefore they end up taking their businesses to neighbouring towns with better roads.*

Poor telecommunications infrastructure includes poor internet connectivity, lack of fixed telephone lines and underdeveloped services providers. For the country's development and the success of SMEs, resources/ services such as sanitation, transportation and electricity are important. Currently, in South Africa, the demand for electricity is greater than supply and that has led to power cuts that affect the production of SMEs (Sitharam, 2014).

Similarly, in Ghana, SMEs operate in an environment with poor infrastructure and these are barriers when competing internationally. Poor infrastructure can cause inability to access the market, power and water shortages which hinder growth and development of SMEs (Churchill et al, 2014).

#### **4.14 Ways to overcome to overcome challenges**





*The government can reduce taxes that are paid by businesses to the government and lastly tighten laws and regulations to ensure that businesses are registered before entering the industry.*

**Participant 8** - *Local Municipality can give incentives to business that seem to be trying their best in the industry. These incentives can be through training staff which can help them develop more skills that will help them perform better. This can be done through opening workshops and seminars. Some incentives that the Municipality can give could be through funds.*

**Participant 10** - *Local government should start to support local businesses with necessary start-up resources, this encourages entrepreneurship within local areas and this can help with more job creation in the area.*

**Participant 20** - *Local municipality should provide the services required of them and ensure that they fix the roads.*

*The municipality should find other sources of water and also can control the usage of water and further control their number of car washes in town, which use a lot of water.*

#### **4.14.2 Improved marketing**

Business leaders should have or develop marketing skills to create awareness of the product offerings. Developing and maintaining marketing skills will lead to brand awareness which can be an attraction for customers and this can lead to brand awareness and eventually increased profitability.

Reijonen et al (2009) explains that basic marketing principles may be applied to both small and large businesses. Small business marketing is characterised by unique traits that set them apart from larger businesses. These traits include informal, unstructured, loose and spontaneous attributes.

**Participant 1** - *Increasing marketing by using billboards, flyers, etc. This would bring exposure to the business which will mean more people will be aware of the business and services that are provided. This can be done through having updated websites, social media advertising and increased billboards and flyers.*

**Participant 13** - *Investing more in marketing events can assist with promoting business. There are various marketing methods and strategies that the company can use to bring product awareness of the products offered by the business. This can help to promote the business through various events that can be provided by the company.*

***Participant 16** - Increased marketing can help to bring more publicity and awareness of the business. This will assist to draw more customers and more customers will result in the business making more revenue. Increased access to market helps draw target customers and this can help to promote the business. This can be done by distributing flyers.*

***Participant 18** - Marketing the business can help to attract customers and that can help to bring business and that can help to increase cash flow. This can help the business to gain its competitive advantages of the business.*

***Participant 19** - Marketing can help boost the business by promoting the business and attract more customers. It is important to ensure best quality in terms of services and items which can assist to attract more customers.*

Small to medium enterprises are hindered by limited market expertise, customer problems, poor cash flow and limited resources with regards to finance as well as time and impact in the marketplace. Reijonen et al (2009) concluded that implementing marketing in small firms helps to improve the business activities and this determines the level of growth through the effectiveness of the marketing strategy of the firm. However, limited resources within the SME sector can cause additional pressure when it comes to daily business operations.

#### **4.14.3 Increased number of skilled and trained staff**

It is important for businesses to have trained staff as this will assist with running the business efficiently. For example, for a catering company, it is important to have qualified chefs/cooking staff in the kitchen to ensure that the business renders the best service with regard to its specialty. Skilled and qualified staff improve the planning stage of the firm and employing trained staff helps ensure that the objectives and goals of the firm are met. Skilled and trained staff understand their job description better and thus, they help to improve the overall production of the business.

The following quotations show respondent's views:

***Participant 1** - Getting staff trained so that they will be well equipped with necessary skills in order to perform their duties well, By getting staff trained means that staff will have confidence in what they are doing which means better services and more customer being satisfied.*

***Participant 3** - Trained, qualified staff will also assist by providing a better service.*

**Participant 7** - One of the biggest things that can be done to overcome the challenge of high competition that hinders growth and development of the business is by ensuring that the business offers quality services and that it employees are well qualified and trained workers, especially those with tertiary education.

**Participant 8**- Local Municipality can give incentives to businesses that seem to be trying their best in the industry. These incentives can be through training of staff which can help them develop more skills that will help them perform better. This can be done through offering workshops and seminars. Some incentives that the municipality can give could be through funds.

**Participant 13** - It is important to also get training for the staff in order for staff to get all the necessary skills to perform their best in their various positions to ensure that the business gives the best customer service.

Bhorat and Steenkamp (2016) state that formal education and practical training are critical for improved performance of SMEs. For self-employment, a higher return is directly linked to high levels of education. Marketing, information technology and accounting skills have a positive impact on business performance. Such skills are also necessary for SMEs.

#### 4.15. Main resources needed to grow and expand the business



**Figure 4.15** Main resources needed to grow and the expand business

Some of the main resources needed to grow and expand firms in this sector include qualified staff, advanced equipment and machinery and funds. The lack of such resources causes the SMEs to not properly expand and compete in the market. This causes them to fail.

#### **4.15.1 Funding and resources**

Financial resource is a fundamental component for the growth and development of the business. Funding can ensure that the necessary resources, equipment, training and other financial factors are possible and attainable in order to run the business. Funding can also ensure that the business can afford qualified skilled staff.

***Participant 2** - Finance play a big role for day to day operations, for payments of staff and getting all the material needed for the business.*

***Participant 4** - Finance is the main resource and it means that you can provide more and better services. Funds ensure that modern equipment is purchased.*

***Participant 6** - Financial resources is central to ensure that the business succeed. It ensures that all the needed equipment and or other resources that are required by the business are supplied. Funds also boost the business and ensure t smooth operations and help provide training for staff of the firm.*

***Participant 7** - More funding/finance implies that the business will be able to get other resources that are needed in order to operate successfully. Employing adequate staff can also be achieved as well as obtaining adequate equipment.*

***Participant 14** - Funding is the main resource that is needed to grow and expand the business. It also enables hiring more qualified staff and this ensures better service. Funds can also enable the firm to acquire better equipment and machinery that helps increase production. Funding can also assist with the renting or purchasing of bigger and better infrastructure and premises for the business.*

One of the main resources needed by the business is funding. Funding plays a vital role in the growth and development of the business. Financial resources play an important role in the start- up of any business (Abbasi et al, 2018).

#### **4.15.2 Advanced modern equipment and machinery**

In this study, most firms are categorised as small to medium and a few as micro. In order to progress in their business trajectory, these firms need modern and advanced equipment and machinery for improved productivity and better customer service, among other benefits.

Advanced equipment and machinery can help to reduce production cost and increase the efficiency of production which in turn will increase turnover and improve service delivery (Dangayach et al, 2012). Small to medium enterprises usually expand their businesses through improved machinery and equipment. Lack of funding is a hindrance to accessing advanced modern equipment and machinery.

***Participant 1** – Having more tangible resources such as more equipment enhances the business to provide a better service which in turn increases the expansion of the business.*

***Participant 5** - Machinery and equipment are the main resources, they are needed for the work to be done in the businesses. Without these types of machinery, there would be no production.*

***Participant 9** - Machinery and equipment are vital resources for the project to ensure that production is fast.*

***Participant 13** - Better facilities and equipment are one of the main resources that can help to expand and grow the business. Better facilities such as storage and improved equipment such as kitchen utilities and walk-in fridges can help to provide a better service to customers and thus assist with attracting customers.*

***Participant 20** - Equipment and machinery aid by ensuring that service demands are met at a faster pace. Having own machinery means that the business can avoid outsourcing some of the work that they sometimes outsource.*

Boggs and Hojlo (2016) ascertain that advanced technology equipment plays an important role in providing the firm with a strategic advantage and is the key player in improving productivity and income. Modern advanced machinery and equipment are the main competitive differentiator. Automated businesses have high production because these firms do things faster and continually transform processes for competitive advantage and better service delivery (Boggs and Hojlo, 2016).

#### **4.15.3 Qualified trained staff**

Having qualified skilled staff saves the business a lot of production time and money because the company will spend more time on production rather than on training staff. In addition, qualified and trained employees within SMEs can improve operations and the execution of the business activities. Staff training and development must be ongoing and this is can be achieved through adequate funding.

***Participant 1** – Trained staff personal assists by ensuring that customers are given the best services.*



**Participant 1** - Yes, because it helps the business perform better and attracts more customers.

*Trained staff such as a qualified chef will ensure that the business can provide more services and that will attract more customers and also ensures that the business is more competitive and attractive in the relevant area.*

**Participation 3** - Yes, because it is what attracts customers and brings more business which means more revenue. These resources help to provide better service. They help the business to provide better service and overcomes competition in the industry. It improves the overall functioning of the business

**Participant 9** - Yes, this will ensure that the project becomes successful and that there are sufficient resources to run the project.

**Participant 17** - Yes, because it will help the business to get all the necessary resources that assist the business to operate successfully on a daily basis and also help's the business to grow and expand. This resource's will help the business to implement all innovative ideas that management might have for business to gain competitive advantage and gain more customers, which will mean more money.

**Participant 20** - Yes, better machinery will make the business supply more and better services. Better equipment means less outsourcing of jobs. If the firm has trained and skilled professionals it is better positioned to achieved its objectives.

The above views show that resources such as funding would ensure that all the necessary operational needs are met for better services delivery. Advanced equipment and machinery would assist with increased production and better service delivery. Qualified trained staff gives the company a competitive advantage which results in customer satisfaction.

Adequate resources for the firm play an important role in the emphasis on the ability of the company to integrate and build its internal competencies. Resources play a vital role in the development and establishment of SMEs (Garg and Kumar, 2014). Diversity in production processes with both tangible and intangible resources has become more important in giving the firm a competitive advantages and becoming players within the markets (Garg and Kumar, 2014).

#### 4.17 Business competencies/skills needed



**Figure 4.17: Business competencies/skills needed**

Business skills should be developed by all owners and managers to ensure the growth and success of these small business enterprises. Business skills must be developed by managers for the purpose of meeting customer needs and helping staff by leading them to better operational efficiency in business activities (Agwa-Ejon and Mbhohwa, 2015). It is fundamental for the leaders of small to medium enterprises to have marketing skills, to increase brand awareness while increasing demand and to know how to supply.

It is evident from the respondents that financial management, training and technology acquisitions are critical for the success of the firm. Owners and managers of SMEs should ensure that employees are well prepared, trained and motivated towards meeting the basic needs of customers in their respective segments. Benchmarking and road shows should be used as a strategy to further enhance business skills from office bearers.

#### 4.17.1 Marketing competencies/skills

The leaders who are in control of the business should have or develop marketing skills to create awareness of the product offerings. In addition, managers or owners should develop self-management skills in the operation of the organisation. Developing and maintaining business skills can lead to employees providing the right services at shorter lead times, which can positively influence profitability.



The following respondents commented on their views:

**Participant 1** - *Marketing skills -to ensure that the business is well marketed and people will know about it.*

**Participant 2** - *Marketing skills and education- marketing skills will assist with ideas to market the business and education will help to provide an understanding of how business is run.*

**Participant 13** - *Marketing skills will help to have promotion ideas that will help attract customers and better the business.*

**Participant 16** - *Marketing skills these skills are important to sure that management is able to promote the business in order to get customers.*

**Participant 17** - *Marketing Skills. To be able to sell the product/ services to customers.*

In order for entrepreneurs to operate on a larger scale, it is important for them to first understand the different stages of business activities in various markets (Chimucheka and Mandipaka, 2015). In terms of marketing dynamics, it is important for the business to have a person who can clearly develop the marketing vision to adapt and achieve sustainable growth in the next decade, for SMEs to address the market successfully (Cant and Wiid, 2013). Different markets have different growth rates. Therefore it is important for small to medium enterprises in South Africa to predict the future market changes in order for them to adapt to these changes (Sitharam and Horque, 2016).

#### **4.17.2 Training and development competencies/skills**

Training and development should be a key focus of businesses. Training enhances the survival rate of small businesses. A business that uses training practices tends to perform better than their competitors and have improved financial performance (Chimucheka, 2013). Small to medium enterprises that provide training are able to keep up with the latest information technology, production techniques and management concepts. Training while developing skills from roadshows and workshops should be done and benchmarking conducted with more successful ones.

Education and training assists with the development of competencies needed by managers in SMEs for the survival of these businesses. Management competency is very important for the success and development of the business (Chimucheka, 2013).

The following comments were made by respondents:

**Participant 9** - *Training and development skills- Training staff will assist with making sure that people perfect their skills.*

**Participant 14-** *Training and education as managing is important for the knowledge and understanding of work that is being done by staff.*

**Participant 18-** *Training and education. Must have learned business management skills that makes one succeed in business, coupled with resources such as cars.*

**Participant 19 -** *Training and developing skills. It is important to be able to train and develop your staff in order to give better service.*

A competency profile of the 21st-century manager includes the ability to analyse and solve problems, whilst having interpersonal skills which include motivation and communication skills that are needed especially for SMEs to cope in this modern society. Competence sets behaviours that are needed to do the job effectively (Drath and Horch, 2014).

#### **4.17.3 Financial management and accounting competencies/skills**

Financial management and accounting skills and procedures should be developed in practice. Technical skills with flexibility with technology are needed for businesses. Nkosi et al (2013) argues that it is important for SMEs managers to have good financial management abilities. This will ensure that they efficiently manage sales and financial records.

**Participant 2-** *Financial management skills will help to understand pricing and costing.*

**Participant 3-** *Financial management and accounting skills. These skills will help to assist with the business financials and bookkeeping.*

**Participant 4-** *Financial management skills- For bookkeeping purposes and to make sure there is no mismanagement of funds.*

**Participant 6-** *Accounting and bookkeeping skills are important for managers in order to better manage financial resources. Bookkeeping skills will help to keep the records of how funds are spent in the business.*

**Participant 20-** *Good financial management skills in order to handle business finances. People skills, are important to be able to work with people.*



### Figure 4.18 Personal competencies/skills needed

It is evident from the research data collected during interviews that the development of personal competencies is important for SMEs. The leaders of SMEs speak strongly of personal traits but do not link them with the business skills and qualifications needed to run and sustain the business. Negotiation skills are very important for these establishments to continuously negotiate contracts, funding and salaries with stakeholders. Communication is, therefore, a valued key element in the business environment along with its processes.

#### 4.18.1 Communication skills

Communication is one of the most important skills when addressing entities such as buyers, suppliers and other relevant stakeholders. Confidence, respect, loyalty and patience is a key element in dealing with customers. Communication assists in understanding the customer and should be practiced by every employee together with their superiors. The ability to solve problems at hand and having negotiation skills are needed by general assistant managers.

An understanding of the local language, isiXhosa, is important even though English is a medium of exchange in most business, so that information in operations can flow. Good communication is highly important for owners of the business for interchanging instruction and responses in operations.

**Participant 2 - Communication skills-** *For better understanding staff and customers for the smooth operation of the business.*

**Participant 7 –** *Good communication skills by learning the local language (isiXhosa) can help in building better relations with customers and staff.*

**Participant 8 -** *Good communication skills are key for managers in the industry, it a great skill that builds a bridge of understanding between management staff and customers.*

**Participant 15 -** *Good communication skills are important in order to better communicate with existing customers and also potential customers.*

**Participant 17 -** *Good communication for better working relations with staff and customers and to be constantly motivated, in order not to give up.*

Abdul (2018) explains that communication is a very important social skill. Communication is one of the fundamentals for any entrepreneurship business. This includes practical skills such as writing, listening and speaking. Furthermore, communication helps the staff to pass information to customers through various communication methods such as adverts, reports or word of mouth.

#### **4.18.2 Negotiation Skills**

Business leader must have good negotiation to be able to advertise and market business to potential clients and make sure that business contracts are concluded with professionalism. The owners of the business must not be dependent on other people to negotiate on their behalf but also must have the necessary skills required.

**Participant 1 - Negotiation Skills -** *Sometimes customers come with limited funds and therefore it is important to make sure if you can't meet the customer halfway whilst not comprising the business.*

**Participant 5 -** *Experience and great negotiation skills are important because customers always try to get services for less. So it's important to make sure that you don't run the business at a loss because of giving services for less.*

**Participant 10 - Negotiation skills-** *To be able to close business deals with your customers is key in this industry.*

**Participant 14 -** *Negotiation skills. Must be able to able to close business deals with potential clients.*



#### **4.19.1 Teambuilding**

Good team skills can influence the way the business is conducted. In this study, good team building skills have been identified as an important interpersonal skill needed by managers in order for staff employees to perform their best in the workplace and increase productivity. Good team building assists to communicate the vision to the team and gives motivation and support to the team to ensure that the team works together to achieve all their goals and objectives.

***Participant 1** - Team-Builder-To make sure that staff works together in peace and harmony for better services provision.*

***Participant 7** – Good team building skills ensure that the team has the same objectives and goals regarding business.*

***Participant 10** - Good team builder and motivator. This should be done to encourage staff to work together in order to give the best service at all time.*

***Participant 12** - Team building skills. To make sure the team learns to work together to provide the best services.*

***Participant 14** - Team builder. This is important so that your team works together in peace and harmony and make sure that their conflicts are resolved.*

Fapohunda (2013) explains that good team building involves various activities that are designed to assist the team to perform their best in achieving tasks that they are given. A good team builder plays an important role in ensuring self-development through positive communication, leadership skills, and the ability to bring the team to work together. The author further outlined that there are key points that develop an effective team, which include clear goals, good decision making, effective leadership, accountability and responsibility, training and development, organisational support, resource provision and rewards for team success. This relates well to what the respondents asserted.

#### **4.19.2 Motivation**

The study further shows that the respondent indicated that one of the most important interpersonal skills for the managers is to be good motivators. Employee motivation is important for the business to ensure that employees are motivated to perform their best and give the best customer service. Motivated staff leads to increased productivity and gives the best customers service contributing to the organisation meeting its goal.

***Participant 4*** - Being a good motivator is an important interpersonal skill to have in order to ensure that staff is always encouraged and motivated to do their work in order to provide better services.

***Participant 5*** – Motivation- Constantly encouraging your staff to do well and always having incentives to encourage them to perform their best.

***Participant 9*** - Good motivator. Must be able to encourage the project team to keep on performing their best in the business.

***Participant 17***- Motivator in order to encourage your staff to perform better and give better service to customers.

***Participant 20*** – Motivator-must be able to keep your staff motivated at all times.

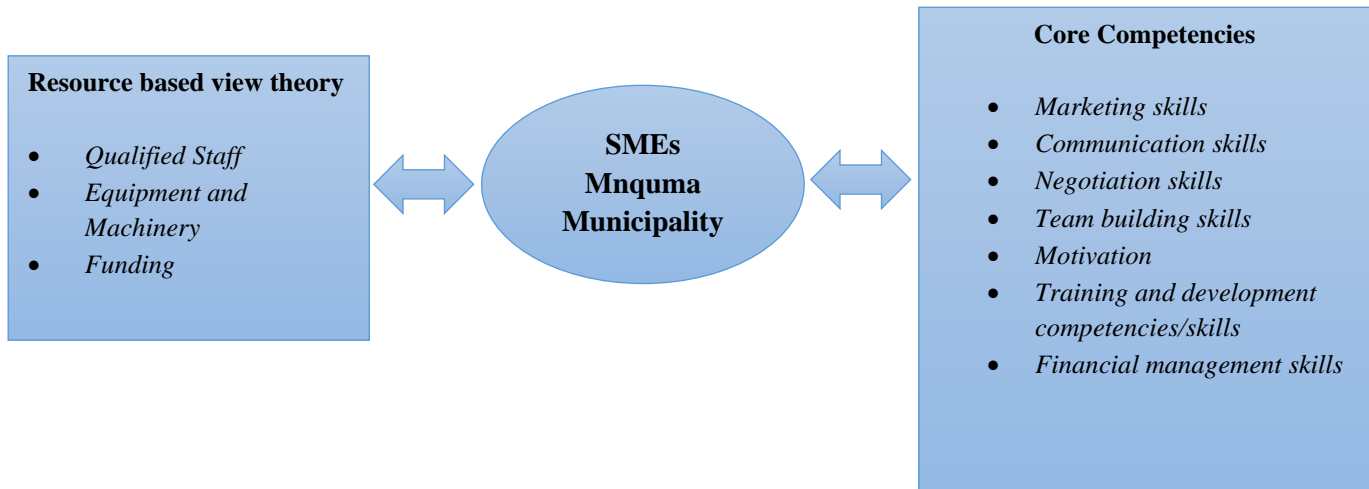
Seniwoliba and Nchorbono (2013) explain that motivation is very important for any organisation. Any organisation that functions with employees tends to not give their best at work and give poor customer services. Lack of motivation is more serious in developing countries and this is because of their poor working conditions. It is therefore important for business leaders/managers to constantly provide motivational incentives for their staff to perform their best for better customer service.

### **Section C: Applicability of theoretical framework**

A theoretical framework is concerned with the theory of a subject or area of study rather than its practical application. This study will focus on the growth and development challenges faced by SMEs in Mnquma Municipality in Eastern Cape. The study seeks to investigate the growth and development of SMEs and the challenges faced by these types of businesses in order to find solutions for hindrances to growth and development.

The theoretical framework designed for the study assists to answer the research questions and address the objectives of the study. In developing the theoretical framework for this study, two theories were applied, resource-based view of the firm theory and core- competencies theory.

## 4.20 Theories applied in the study



**Figure 4.20 Application of Theories via Study Results**

### 4.20.1 Application of resource-based view theory in the study

Das and Teng (2000) explain that the resource-based view of the firm (Barney, 1991) has been systematically applied into strategic alliances. The view of the firm is based on the broad set of resources it owns. These resources can be both tangible and non-tangible and resource-based theory focuses on the analysis of these various resources.

Resources are most valuable for the growth and development of SMEs. When applying the resource-based view of the firm, it is important for firms to analyse which resources provide competitive advantage for the business (Madhani, 2010).

#### 4.20.1.1 Qualified staff

The study finds that the respondents (as SME managers) require educated staff to operate the business.

***Participant 1** – Trained staff personal will assist with making sure that customers are given the best services.*

***Participation 3** - Qualified trained staff- for better services*

***Participant 8** - Trained qualified staff means that more production in lesser time.*

***Participant 11** - Qualified trained staff are key for business to ensure that they provide great service especially when it comes to the catering aspect of the business.*



***Participant 20-** Skilled qualified staff will assist business to provide jobs that current staff cannot provide, because of lack of skill and knowledge*

Peng et al (2013) did a study in China that showed that qualified staff is crucial for the process of innovation in SMEs. Human resources and their capabilities are important for businesses to renew and adapt their competencies over time. Human resources capabilities are closely linked to the skills needed by the business to operate smoothly.

#### **4.20.1.2 Equipment/ machinery**

Equipment and machinery also ranked highly in terms of resources needed.

***Participant 1** – Having more tangible resources such as having more equipment will ensure that the business provides better services. Thus can result in the expansion of the business.*

***Participation 3** - Latest equipment and machinery for faster service delivery.*

***Participant 5** - Machinery and Equipment are the main resources. These are needed for the work done in the businesses. Without the machinery there would be no production.*

***Participant 11** -.Modern equipment to ensure that they are able to keep up with customer demands and expectations.*

***Participant 13** - Better facilities and equipment are one of the main resources that can help to expand and grow the business. Better facilities such as storage and improved equipment such as kitchen utilities and walk in fridges can help to provide better services to customers and thus assist to attract customers and grow the business.*

Dangayach et al (2012) elude that better equipment and machinery can help to reduce production costs as production can be done at a faster rate, which can result in increased turnover and improved service delivery.

#### **4.20.1.2 Funds**

Funding was a major requirement and this is a logical findings as funds become the key driver for startup, daily operations, purchasing of materials and supplies, whilst contributing to the growth of the business.

***Participant 2** - Finances play a big role for day to day operations, for payments of staff and getting all the material needed for the business.*

**Participant 4** - *Finances are the main resource and it means that you can provide more and better services. Funds ensure that modern equipment is purchased.*

**Participant 7** - *More funding/Finances means that the business can get other resources that are needed by the business in order to operate successfully. Resources such as getting more staff personel and equipment.*

**Participant 15** - *More funds are the main resources that are needed by the business to grow and expand. By having more funds you can produce more products and hire good staff that can help the business to grow and this helps the business to perform better.*

**Participant 17** - *Funds are the main resource that will be needed to expand and grow. Funds will help to get more machinery and equipment which will help the business to grow and increase production which will mean that the business will meet its targets in time. More funds also mean that they get more qualified staff, who will also assist the business to grow.*

A study done by Hlatshwako (2012) highlighted that for any SMEs in Swaziland to succeed, funding is an important factor. Due to lack of collateral, in many cases, SMEs are disqualified by many financial institutions.

#### **4.20.2 Applicability of core-competence theory in the study**

Core competence refers to the firm's trend mark that makes the organisation market leaders amongst competitors (Odero, 2013). Trend mark relates to the way that the firm does business and it comes from organisational- based knowledge, skills, technology, resources and the value chain that sets the organisation apart from its competitors (Uysal, 2007).

The application of the Core competence theory (Prahalad and Hamel, 1990) in the study shows that it can be used by SMEs to put emphasis on key competencies needed by the business to promote growth and sustainability. The study found that the critical competencies needed by the SMEs included:

- Marketing skills

The following respondents commented on their views:

**Participant 2** - *Marketing skills and education- marketing skills will assist with ideas to market the business and education will help to provide an understanding of how business is run.*

**Participant 13** - *Marketing skills will help to have promotion ideas that will help attract customers and better the business.*

**Participant 16** - Marketing skills these skills are important to sure that management is able to promote the business in order to get customers.

- Communication skills

The following quotations show respondents views

**Participant 2** - Communication skills- For better understanding staff and customers for the smooth operation of the business.

**Participant 7** – Good communication skills by learning the local language (isiXhosa) can help in building better relations with customers and staff.

**Participant 15** - Good communication skills are important in order to better communicate with existing customers and also potential customers.

- Negotiation skill

The following quotations show respondent's views

**Participant 1** - Negotiation Skills - Sometimes customers come with limited funds and therefore it is important to make sure if you can't meet the customer halfway whilst not comprising the business.

**Participant 5** - Experience and great negotiation skills are important because customers always try to get services for less. So it's important to make sure that you don't run the business at a loss because of giving services for less.

**Participant 19** - Good negotiation skills. Must be able to advertise and market business to potential clients and make sure contracts are concluded.

- Financial management skills

The following quotations show respondent's views

**Participant 3**- Financial management and accounting skills. These skills will help to assist with the business financials and bookkeeping.

**Participant 4**- Financial management skills- For bookkeeping purposes and to make sure there is no mismanagement of funds.

**Participant 20**- Good financial management skills in order to handle business finances. People skills, are important to be able to work with people.

- Team building skills

The following respondents commented on their views:

**Participant 10** - *Good team builder and motivator. This should be done to encourage staff to work together in order to give the best service at all time.*

**Participant 12** - *Team building skills. To make sure the team learns to work together to provide the best services.*

**Participant 14** - *Team builder. This is important so that your team works together in peace and harmony and make sure that their conflicts are resolved.*

- Training and development competencies/skills

The following quotations show respondent's views

**Participant 14**- *Training and education as managing is important for the knowledge and understanding of work that is being done by staff.*

**Participant 18**- *Training and education. Must have learned business management skills that makes one succeed in business, coupled with resources such as cars.*

- Motivation

The following respondents commented on their views:

**Participant 4** - *Being a good motivator is an important interpersonal skill to have in order to ensure that staff is always encouraged and motivated to do their work in order to provide better services.*

**Participant 9** - *Good motivator. Must be able to encourage the project team to keep on performing their best in the business.*

**Participant 17**- *Motivator in order to encourage your staff to perform better and give better service to customers.*

A study done by Shin et al (2012) attempted to determine which core competencies were important for managers in the hospitality industry and it found there are were six core competencies that are important for managers to succeed. These included:

- Hospitality skills

- Interpersonal skills
- Supervisory skills
- Resource management skills
- Leaderships
- Communication skills.

Another study that supports the important development of managerial competencies for managers to succeed was done by Chong (2012) in Singapore and he outlined the following managerial competencies that are linked to the success of managers in business such as planning, organising and motivation.

#### **4.21 Summary**

This chapter provided the detailed qualitative analysis and discussion. These were derived from the primary data and articulated the valuable contribution of the data. The Word Cloud analysis method technique depicted an overall view of key factors that influence the success of SMEs along with the challenges faced. The researcher built on this through interpretation and relevance. A discussion on the resource-based view and core- competencies theories was done to shows its applicability to the study. The next chapter draws the study to a close.

## **Chapter Five**

### **Findings, Conclusions and Recommendations**

#### **5.1 Introduction**

This chapter provides conclusions and recommendations to the study. The chapter further discusses the results in relation to the research questions and objectives of the study. Limitations to the study are provided and recommendations for future research required in the small to medium enterprise sector. This is followed by a conclusion.

#### **5.2 Re-visitation of the problem statement, research questions and objectives of the study**

##### **5.2.1 Problem statement overview**

The small to medium enterprise sector plays a significant role in the economic development of rural provinces in South Africa, including the Eastern Cape provinces, where the majority of people depend on government grants for survival. However, these entities face a plethora of challenges in terms of growth and development.

This study investigated challenges faced by SMEs in Mnquma Municipality and determined how these challenges hindered growth and development of these businesses. It also explored how the lack of growth and development of these enterprises directly or indirectly impacted the survival SMEs in the area.

##### **5.2.1 Research questions**

The research questions of the study were:

- What are the characteristics of SMEs of this region?
- What are the challenges faced by managers of SMEs in Mnquma Municipality?
- Which managerial competencies are needed by SMEs managers in this region?
- What can be done to promote the growth of these enterprises?

##### **5.2.2 Objectives**

The objectives of the study were:

- To ascertain characteristics of SMEs in Mnquma.
- To examine challenges faced by managers of SMEs in Mnquma Municipality.
- To explore managerial competencies needed by SMEs managers in Mnquma.

- To explore what can be done to promote the growth of SMEs.

### **5.3 Key Findings in relation to the study research questions**

The findings of the study will assist the Mngquma Municipality in solving challenges facing SMEs in their area of jurisdiction.

#### **5.3.1 Research question 1-Characteristics of SMEs of this region**

In the Mngquma Municipality majority of the respondents were males. This shows that management positions were occupied by males. In terms of the age of the respondents, SMEs in Mngquma Municipality is comprised of the younger generation, which is a good thing as younger people are flexible and adapt well to change. This study showed that most of respondents were South African, which indicates that more South African are involved in SMEs. Furthermore, the study showed that most enterprises are clustered between two sectors that being the motor repairs service sector and accommodation sector with the majority being micro and small. The majority of respondents indicated that the number of employees were in the range of 1-10. The majority of businesses were small and therefore requires less staff. Most of businesses in the study have been in operation for less than 15 years. Some businesses were registered as a close corporation, whilst others were sole proprietors, Pty (LTD) and partnerships.

#### **5.3.2 Research question 2- Challenges faced by managers of SMEs in Mngquma Municipality**

Some of key challenges faced by SMEs in the study included:

- 5.3.2.1 High competition
- 5.3.2.1 Lack of access to finance
- 5.3.2.2 Lack of government support
- 5.3.2.3 Lack of training and education
- 5.3.2.4 Lack of resources and proper infrastructure.

There was also the absence of technological equipment and advancement. In addition, there was lack of marketing power and financial background with regard to the owners and managers. They thus had difficulty making decisions on how to raise capital investments outside the spectrum of local government. In addition, there was a lack of a mandate from local government on how to develop and sustain the growth of SMEs in their municipality. Hence, there were no clear objectives

on how the municipality, in its own capacity, can assist in the growth of small to medium enterprises. Managerial competencies and resources were needed by these firms.

Furthermore, there is was clear mandate from the national government of the country on how to hold a municipality accountable when they do not push the economic policy of government through SMEs as an element of the broader plan of developing and sustaining SMEs under the National Development Plan (NDP).

### **5.3.3 Research question 3 - Managerial competencies needed by SMEs managers in this region**

The study finds that critical business competencies needed by the SMEs included:

- 5.3.3.1 Financial management and accounting competencies/skills
- 5.3.3.2 Marketing competencies/skills
- 5.3.3.3 Training and development competencies/skills

Furthermore, managers lacked the skills to adapt to changing business environments. Managerial competencies need to be focused on the adoption of technology usage which seems to be absent whilst the global competitive environment requires it in their service offering

### **5.3.4 Research question 4 - What can be done to promote the growth of these enterprises**

For businesses to keep running, it is important for them to constantly find innovation and build strategies to help the business remain relevant in the marketplace and have competitive advantages. Therefore, it is important for local government to give their support through funds and resources to ensure that business implement their strategies. The local municipality should invest in SMEs, training, and skills development in local businesses which will result in an increased local economy. Therefore, the local municipality should start investing in rural-based businesses. Local government can also show support by allocating resources for small businesses rather than business owners relying primarily on their own money to start a business. Local government can also show their support by ensuring that the government provides all the necessary resources needed by most businesses to survive, such as clean water and sewerage removal services.

## **5.4 Findings in relation to models/frameworks**

### **5.4.1 Resource-based view of the firm**

Resources are important for growth and development of these businesses. From the study, it is shown that resources play a key role and determine the trajectory of SMEs. The study identified some of the main resources needed to grow and expand firms in this sector which included funding,



equipment, machinery and trained staff. These will make the business perform better by increasing productivity and service delivery whilst ensuring that daily tasks and goals of the business are met on time. Lack of resources and poor infrastructure are some of the challenges faced by SMEs in Mngoma Municipality. These firms lack access to proper infrastructure and resources such as roads, railways, water and sanitation which are needed for any businesses to succeed. For any business to succeed it needs proper infrastructure and resources. These will increase productivity and thus result in economic growth of the country.

#### **5.4.2 Core Competencies**

The study found this theory applicable to the SME sector and showed that some of critical competencies needed included:

- 5.4.2.1 Communication skills
- 5.4.2.2 Negotiation skills
- 5.4.2.3 Teambuilding and
- 5.4.2.4 Motivation

The study showed that it is important for SMEs to develop personal and business competencies. It has been determined that it is important for SMEs owners and managers to have good negotiation and communication skills which are valued key elements in the business processes. It is evident from the research data collected during interviews that development of personal competencies is important for SMEs.

The leaders of SMEs speak strongly of personal traits but do not link them with the business skills and qualification needed to run and sustain the business. Negotiation skills are very important for these establishments. Managers continuously negotiate contracts, funding and salaries with stakeholders. Communication is therefore a valued key element in the business environment along with its processes.

Building good communication and negotiation will ensure the growth and development of SMEs in Mngoma Municipality. Furthermore, it is important for the management of these businesses to develop interpersonal skills in order to better communicate and interact with staff members. Interpersonal skills are important traits that enable the management to build a good team and to ensure that managers are continuously motivated. Some of the core interpersonal skills identified in this study included teambuilding and motivation.

## **5.5 Fulfilling of study objectives.**

### **5.5.1 Characteristics of SMEs in this region.**

This objective was fulfilled and the characteristics of the SMEs in Mquma municipality were determined.

### **5.5.2 Challenges faced by SMEs in Mquma Municipality.**

This objective was fulfilled and key challenges were discovered that hindered the growth and development for the SMEs.

### **5.5.3 Determine what can be done to promote the growth of SMEs**

This objective was fulfilled and it was found that there are various factors that can promote growth and development.

### **5.5.4 Managerial competencies needed by SMEs managers in this region**

This objective was fulfilled and various competencies identified as critical to success of SMEs.

## **5.6 Recommendations**

The recommendations are based on the literature, findings and assist in answering the research objectives and questions of the study.

### **5.6.1 Improvement of communication to all stakeholders**

Whenever one is venturing into a new business, it is important to consult with the communities that the business will operate in. Therefore, it is vital to conduct research that will help to determine if there is a market for that product or service. Before the establishment of any business, the owner or manager must communicate with the local government/ municipality in order to avoid any legal disputes which can hamper the growth and development of SMEs. There must be a strong relationships formed through communication between the Municipality, community, buyers and suppliers. The firm must clearly stipulate the hierarchy of the business and who is accountable for the operation of the firm in the town, township or rural area where it functions.

### **5.6.2 Developing marketing strategies**

It is important for a small to medium business to develop marketing strategies which will incorporate the marketing plan and strategic plans. The business must have a clear vision, mission, goals and stated objectives that it wants to achieve in the early stages of its formation. The business in its area

of operation must have a target market to enable profitability and sustainability. Small to medium enterprises must have a unique selling proposition different from other competing firms in order to increase profits in order to sustain themselves in the long run. There must be a pricing and positioning strategy based on the specific market in which they operate. Advertising, promotional strategies and the distribution plan must be interlinked in order to satisfy. Internet, sales promotions, word of mouth, and social media can be used as a marketing tool.

### **5.6.3 Infrastructure and resources**

Infrastructure is one of the most important aspect required to increase the growth and productivity of an economic development project for the citizen. The business must operate in areas with access to proper roads, railways, water and sanitation. In addition, for a business to succeed it must invest in developing or owning resources that are unique from competitors to gain a competitive advantage in the industry. Government has a role to play in both resources and infrastructure provision. Hence, SMEs should form a representative body to approach government on such.

### **5.6.4 Access to Funding**

Small to medium enterprises under the jurisdiction of Mngquma Municipality must develop skills and knowledge on how to access funds. There must be a relationship formed with the private sector if the government is reluctant to assist. Unique selling propositions that appeal to investors, banks, and municipalities must be submitted to relevant stakeholders through marketing plans and business plans to raise funds. Establishing small to medium enterprises and operating them as a company can assist in raising funds as companies have limited liability. This will enable the firm to raise funds through shareholders even if they are few. This can reduce the pressure on the local government in the area to avoid the shutdown of the business through shortage of funds.

### **5.6.5 Access to technology**

Technology can streamline the processes of the business within the market or sector it operates in and can further minimise some of the challenges facing small to medium enterprises. Telecommunications can assist in business operations, internet, technologically advanced equipment and machinery to foster efficiency, productivity, and shorter lead times which will lead to satisfactory delivery rates of product in orders to increase profits through sales.

### **5.6.6 Improve training and development**

Managers, owners and employees of small business enterprises must be properly educated and trained on managerial competencies which will assist in dominating market share in their area of jurisdiction. Employees in both the municipality and SMEs must be equipped with basic computer knowledge such as Microsoft Excel, Word, and PowerPoint, among others.

Furthermore, small to medium enterprises in Mquma Municipality need to make sure that employees are equipped with government policies, constitutional obligations and supply chain management and public administration in order to better deliver services and resources to SMEs. There must be workshops and seminars where employees and managers are taught about the importance of providing support to SMEs. This should include correct locations, funding, electricity, water and sanitation which will contribute to their success.

## **5.7 Limitations**

### **5.7.1 Inadequate Database Information**

The initial sample chosen was 28 but only 20 respondents were interviewed due to incorrect information on the municipal database. Contact numbers were not correct which made it difficult to locate managers/owners. Some were also found to be deceased.

### **5.7.2 Sample size**

The sample size does not represent all the SMEs but only those that found in the database of Mquma Municipality. The study focused on only registered SMEs in Mquma Municipality, therefore, the sample size was limited to formal SMEs.

### **5.7.3 Time**

This was due to administrative delay issues. Application process for Ethical Clearance took three months and only received approval in October 2018. This resulted to limited time to collect data versus time left to complete the study.

### **5.7.4 Based on perceptions**

All interviews were dependent on the perceptions of the respondents. Hence this can compromise the quality of data if the respondent does not answer properly, clearly or truthful

## **5.8 Directions for future researchers**

Future studies can/may include:

- Whilst this study has investigated challenges faced by SMEs in Mnquma Municipality, future research can investigate external factors that hinder the performance of SMEs in this area.
- A country wide study across other different areas examining similar concepts as this study may be conducted.
- Future studies can measure the development of SMEs and its contribution to local economic development
- A comparative study between SMEs in South Africa and an international country such as those listed under the BRICS partnership could be conducted.
- A study on successful SMEs and sector in comparison to unsuccessful sectors in Eastern Cape maybe conducted in order to find the niche sectors for SMEs to operate with little competition.
- The impact of the Fourth Industrial Revolution on SMEs in South Africa.

## **5.9 Conclusion**

Small to medium enterprises have a significant role in economic growth globally and in the country. Most SMEs face challenges that hinder the growth and development of these businesses. The aim of this study was to investigate challenges that were faced by SMEs in terms of growth and development in Mnquma Municipality. In this study the researcher used a qualitative research design and conducted interviews to collect data for analysis. A sample of 20 SMEs was used. Analysis included thematic and interpretive analysis. Findings showed that challenges both external and internal affected the growth and development of SMEs in Mnquma and had a negative impact on their performance.

One of the major challenges faced by SMEs in this region is lack of access to finances. This significantly hinders the growth and development of these businesses. For SMEs in this region to survive it is important for SMEs to recognise the importance of competing locally and internationally and also to have the necessary resources and skills whilst striving for governmental support. Some of the limitations included time and sample size whilst recommendations included developing marketing strategies and improving training and development. Future studies may investigate the challenges faced by SMEs in other parts of the country or in South Africa as a whole.

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## Annexure 1-Ethical Clearance



22 October 2018

Ms Odwa Zintle Sityata (211513866)  
School of Management, IT & Governance  
Westville Campus

Dear Ms Sityata,

Protocol reference number: HSS/0918/018M

Project title: Challenges faced by Small Medium Enterprises (SMEs) in terms of Growth and Development: A study of Mquma Municipality, Eastern Cape

### Approval Notification – Expedited Application

In response to your application received on 12 July 2018, the Humanities & Social Sciences Research Ethics Committee has considered the abovementioned application and the protocol has been granted **FULL APPROVAL**.

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

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

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

Yours faithfully

  
.....  
Dr Shamila Naidoo (Deputy Chair)

/ms

Cc Supervisor: Dr Sachin Suknunan  
cc Academic Leader Research: Professor Isabel Martins  
cc School Administrator: Ms Angela Pearce

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Humanities & Social Sciences Research Ethics Committee  
Professor Shenuka Singh (Chair) / Dr Shamila Naidoo (Deputy Chair)  
Westville Campus, Govan Mbeki Building

Postal Address: Private Bag X54001, Durban 4000

Telephone: +27 (0) 31 260 3587/8350/4557 Facsimile: +27 (0) 31 260 4609 Email: [ximbap@ukzn.ac.za](mailto:ximbap@ukzn.ac.za) / [smymanm@ukzn.ac.za](mailto:smymanm@ukzn.ac.za) / [mohunod@ukzn.ac.za](mailto:mohunod@ukzn.ac.za)

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

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## Annexure 2- Gatekeepers Letter



Mnquma Local Municipality • Corner King and Mthatha Street • Butterworth • 4960

Postal Address: • PO Box 36 • Butterworth • 4960

Tel: (047) 401 2400 • Fax: (047) 491 0195 • www.mnquma.gov.za

**Person dealing with the matter: Mrs S Benya Strategic Management**  
**Cell No: 082 9256518**

29 MAY 2018

To: Miss Odwa Zintle Sityata (211513866),

University of KwaZulu-Natal

Dear Madam

**RE: Permission to Conduct Research**

You are hereby granted permission to conduct research for your academic study entitled "**Challenges faced by SMEs in terms of Growth and Development: A study of Mnquma Municipality, Eastern Cape**".

This permission is for the Mnquma municipal region only and data is to be collected for the sole purpose of your research study only.

Kind Regards

**S. MAHLASELA**

**MUNICIPAL MANAGER**

### Annexure 3-Research Approval Letter



**TO:** Miss Odwa Zintle Sityata Student Number: 211513866  
**FROM:** SCHOOL OF MANAGEMENT, IT & GOVERNANCE  
**DATE:** 3 July 2018  
**SUBJECT:** Approval of Coursework Masters Research Proposal

**Title:** Challenges faced by Small Medium Enterprises (SMEs): A Study of Mquma Municipality, Eastern Cape

**Supervisor:** Dr Sachin Suknunan

This memo is to confirm that the Research Proposal Review Committee has accepted your Coursework Masters Research proposal.

Please take note of the following suggestion(s)/comment(s):

- Use the definition of size of company from the Tax office.
- Research Question's and Research Objective's need to be aligned with agreement from the supervisor.

Please note that the above comments/suggestions is intended to develop and strengthen your study, thus you need to consider them seriously. Your supervisor(s) will provide further guidance on how to factor the suggestions into your study.

Good luck with your studies, and we look forward to your successful completion. Please note that you must submit this letter with your application for Ethical Clearance.

Yours sincerely,

Ms Hazvinei Muteswa  
M.COM Coursework Administrator



## Annexure 4 – Information Consent Form

### Information Sheet and Consent to Participate in Research

Dear Sir/Madam

I, **Odwa Zintle Sityata (Student no 211513866)** am a MCom student, at the School of Management, IT and Governance of the University of KwaZulu-Natal (UKZN). You are kindly invited to participate in a research with the title: ***Challenges Faced by Small Medium Enterprises (SMEs) in terms of Growth and Development: A Study of Mquma Municipality, Eastern Cape***. I am being supervised by Dr. Sachin Suknunan (University of KwaZulu-Natal).

Aim of the study

- To determine characteristics of SMEs of this region.
- To examine challenges faced by SME's in Mquma Municipality.
- To determine what can be done to promote the growth of the SMEs
- To establish managerial competencies needed by managers in this region.

This interview should take you about 45 minutes to complete. Your assistance in participating in the interview completing this questionnaire is greatly appreciated.

The study involves NO risks and/or discomforts. The study will provide no direct benefits to participants. However, the study is intended to make important contributions to the research area. Confidentiality and anonymity of records identifying you as a participant will be assured by the university

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

In the event of any problems or concerns/questions you may contact the researcher at 0658766882 or the Supervisor at 031 260 7057 or the UKZN Humanities & Social Sciences Research Ethics Committee, contact details as follows:

#### **HUMANITIES & SOCIAL SCIENCES RESEARCH ETHICS ADMINISTRATION**

Research Office, Westville Campus  
Govan Mbeki Building  
Private Bag X 54001  
Durban  
4000  
KwaZulu-Natal, SOUTH AFRICA  
Tel: 27 31 2604557- Fax: 27 31 2604609  
Email: [HSSREC@ukzn.ac.za](mailto:HSSREC@ukzn.ac.za)

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

I \_\_\_\_\_ have been informed about the study entitled Challenges Faced by Small Medium Enterprises (SMEs) in terms of Growth and Development: A Study of Mquma Municipality, Eastern Cape by Odwa Zintle Sityata

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

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

If I have any further questions/concerns or queries related to the study I understand that I may contact the researcher at 0658766882

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

**HUMANITIES & SOCIAL SCIENCES RESEARCH ETHICS ADMINISTRATION**

Research Office, Westville Campus  
Govan Mbeki Building  
Private Bag X 54001  
Durban  
4000  
KwaZulu-Natal, SOUTH AFRICA  
Tel: 27 31 2604557 - Fax: 27 31 2604609  
Email: [HSSREC@ukzn.ac.za](mailto:HSSREC@ukzn.ac.za)

\_\_\_\_\_  
Signature of Participant

\_\_\_\_\_  
Date

\_\_\_\_\_  
Signature of Witness  
(Where applicable)

\_\_\_\_\_  
Date

\_\_\_\_\_  
Signature of Translator  
(Where applicable)

\_\_\_\_\_  
Date

## Annexure 5-Interview Schedule



## INTERVIEW

### **CHALLENGES FACED BY SMALL MEDIUM ENTERPRISES (SMES) IN TERMS OF GROWTH AND DEVELOPMENT: A STUDY OF MNQUMA MUNICIPALITY, EASTERN CAPE**

Dear Sir/Madam

I, Odwa Zintle Sityata (Student no 211513866) am a MCom student, at the School of Management, IT and Governance of the University of KwaZulu-Natal (UKZN). You are kindly invited to participate in a research with the title: *Challenges Faced by Small Medium Enterprises (SMEs) in terms of growth and development: A Study of Mquma Municipality, Eastern Cape.*

Objective of the study

- To determine characteristics of SMEs of this region.
- To examine challenges faced by SME's in Mquma Municipality.
- To determine what can be done to promote the growth of the SMEs
- To establish managerial competencies needed by managers in this region.

Confidentiality and anonymity of records identifying you as a participant will be assured by the university. This interview should take you about 45 minutes to complete. Your assistance in completing this interview is greatly appreciated.

Kind Regards,  
Odwa Zintle Sityata

## SECTION A

### 1. What is your role in the business?

1. Owner
2. Manager
3. Both
4. Other (Specify) \_\_\_\_\_

### 2. What is your gender?

Male	
Female	

### 3. What is your age?

18-20	
21-30	
31-40	
41-50	
>50	

### 4. Nationality

South African	Non-South African State.....
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### 5. Please indicate your level of education

1. No Formal Education	
2. Primary School	
3. Secondary School(Without Grade 12)	
4. Matric / Grade 12	
5. Certificate	
6. Diploma	
7. Degree	

## 6. Type of Sector for your business

Name of Sector	Indicate sector your business trade in
<b>Agriculture</b>	
<b>Finance and Business Services</b>	
<b>Construction</b>	
<b>Tourism</b>	
<b>Communication</b>	
<b>Transport</b>	
<b>Health Care</b>	
<b>Education</b>	
<b>Social Services</b>	
<b>Catering, Accommodation and other trade</b>	
<b>Retail and Motor Trade and Repair services</b>	
<b>Manufacturing</b>	
<b>Mining and quarrying</b>	
<b>Other(Specify)</b>	

## 7. Location of SME:

Rural		Urban	
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**8. Size of SME:**

Micro		small		medium	
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**9. Number Employed:**

None	
1-10 Employees	
10-20 Employees	
20-30 Employees	
30-40 Employees	
>40 Employees	

**10. Number of Years in Operation:**

0-5 years	
6-10 years	
11-15 years	
15+ years	

**11. Please indicate the legal status of your business**

Private Limited Company

Close Corporation

Partnership

Sole Proprietor

Other (Specify) \_\_\_\_\_

## Section B

1. What are the challenges faced by your business in terms of growth and development?

- How does it affect your business?

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2. What, in your opinion, must be done to overcome these challenges and promote SME growth and development in Mquma Municipality?

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**3. What are the main resources needed by your business to grow and expand?**

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**4. Do you feel like these resources makes your business to perform better?**

Yes	No
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*Why?*

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5. As a manager, what business related competencies/skills are mostly important for your business to grow?

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6. As a manager, what personal skills are mostly important for your business?

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7. Lastly, as a manager, what interpersonal skills are mostly important for your business?

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***NDIYABULELA!!!! THANK YOU!!!!***

## **Annexure 6 – Editorial Certificate**

### **EDITWRITE SOUTH AFRICA**



## **Editorial Certificate**

Manuscript Title

**Challenges Faced by Small to Medium Enterprises in Terms of Growth and Development: A Study of Mnquma Municipality, Eastern Cape**

Author

**Odwa Zintle Sityata**

Date issued

12/9/2019

This document certifies that the above manuscript was proof read and edited by Dr Carol Smith. The document was edited for proper English language, grammar, punctuation and overall style. The editor endeavoured to ensure that the author's intended meaning was not altered during the review.

Kind regards,

**Dr Carol Smith**

D. Tech. Bus. Admin. (DUT), M.B.A. (Wales), M.A. Women's Studies (UKZN), B.A. Hon's. Soc. Work (Wits).

Email:smithcarol686@gmail.com

