

UNIVERSITY OF KWAZULU-NATAL

**ENVIRONMENTAL FACTORS AND STRATEGIES THAT
IMPACT ON THE SUCCESS AND FAILURES OF SMMEs IN
MASERU**

By

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DECLARATION

I, Liako Priscilla Masupha declare that:

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Firstly, I would like to give all thanks and praise to the Mighty God and Saviour, for being with me and leading me throughout this study, I would never have made it without His presence in my life:

“For I am confident of this very thing, that He who began a good work in you will perfect it until the day of Christ Jesus.” **Philippians 1:6**

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ABSTRACT

In most, if not all, economies SMMEs operate in both the micro and macro environments, and are subject to intense internal and external forces. For the continued success of and in order for failure rates of SMMEs to decrease, all internal and external factors, as well as vital strategies employed by SMMEs, must be carefully monitored and analysed by the owner-managers of these small businesses including all relevant stakeholders such as the government and supporting institutions. The aim of this study was to analyse the environmental factors and strategies that result in a low rate of success and unfortunately a high failure rate of small, medium and micro enterprises in the city of Maseru. This study aimed to determine the extent to which SMMEs depend on assistance from financial institutions, with regard to the extent to which the Government of Lesotho's intervention supports or hampers SMMEs' endeavours to obtain financial assistance. The study also aimed to determine whether SMMEs have adequate training and development, and the extent to which these enterprises develop and practise strategic plans. A further aim was to determine the advertising strategies used by SMMEs for continued success, as well as the extent to which competition impacts on their success, leading to the short lifespans of these SMMEs.

Primary data for this study was collected through questionnaires which were distributed to a sample of 250 SMMEs in Maseru. The sample was derived from the table for determining sample sizes from a given population by past scholars. Of the 250 questionnaires that were distributed, 180 respondents completed and returned questionnaires, which were thus used for data analysis. A quantitative approach was used for data collection and the data was analysed using the Statistical Package for Social Science (SPSS21). Data was presented in tabular form, followed by the researcher's interpretation and observations regarding the findings. The findings revealed that there still persists inadequacy in financial assistance and lack of training and development for these small businesses. The findings reveal that SMMEs are indeed dependent on assistance from financial institutions as there seems to be high rates of self-funding and limited use of available financial institutions. The results also reveal the significance, awareness and extensive need of training and development activities and workshops for these enterprises. However, a vast majority of these workshops are in high favour of and usually target registered and formal SMMEs. SMME owner-managers engage in strategic planning even though the frequency in

business planning is rather low, as well as advertising efforts which are regarded as cost-bearing routines due to insufficient funds, therefore resulting to a loss of customers to foreign-owned SMMEs, thus resulting to escalating competitive environment in the SMME sector. Of all the recommendations put forward, the most crucial one is with regard to the government's intervention for financial support, to further encourage growth and development of these enterprises as they are key to sustained job creation and poverty reduction.

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LIST OF ACRONYMS

| | |
|---------|--|
| ADB: | African Development Bank |
| BCF: | Better Cheaper Faster |
| BEDCO: | Basotho Enterprise Development Corporation |
| BOS: | Bureau of Statistics |
| BTI: | Bertelsmann Stiftung's Transformation Index |
| CAI: | Consultancy Africa Intelligence |
| CBL: | Central Bank of Lesotho |
| FDI: | Foreign Direct Investment |
| FIAS: | Foreign Investment Advisory Service |
| GDP: | Gross Domestic Product |
| GNI: | Gross National Income |
| GOL: | Government of Lesotho |
| IRIN: | Integrated Regional Information Networks |
| LCCI: | Lesotho Chamber of Commerce and Industry |
| LNDC: | Lesotho National Development Corporation |
| LRA: | Lesotho Revenue Authority |
| MLE: | Ministry of Labour and Employment |
| MTICM: | Ministry of Trade and Industry, Cooperatives and Marketing |
| NGOs: | Non-Governmental Organizations |
| OBFC: | One-Stop Business Facilitation Centre |
| RSA: | Republic of South Africa |
| RUSCGS: | Rural Savings and Credit Cooperatives |
| SACCOS: | Savings and Credit Cooperatives |
| SMMEs: | Small, Medium and Micro Enterprises |
| TV: | Television |
| UN: | United Nations |

UNCTAD: United Nations Conference on Trade and Development

UNDP: United Nations Development Programme

UNIDO: United Nations Industrial Development Organization

VSLAS: Village Savings and Loan Associations

WBCSD: World Business Council for Sustainable Development

CHAPTER ONE: Overview of the Study

1.1 Introduction

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

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

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

1.2 Background of the Study

The Ministry of Trade and Industry, Cooperatives and Marketing (2012) states that, "there have been numerous challenges facing the Small, Medium and Micro Enterprises (SMMEs) in Maseru." The Government of Lesotho (GOL), through its Ministry of Trade and Industry, Cooperatives and Marketing (MTICM), and with support from the United Nations Development Programme (UNDP) and United Nations Industrial Development Organization (UNIDO), came to a decision that there is a need for a unified commission. This commission should include countries such as South Africa

and China, and should aim to identify feasible projects that will boost Maseru's economy and will provide workshops and seminars to further enhance development in the city (Nthejane, 2000). This move is the result of the growing rate of SMMEs failure and Lesotho's inflation, which is said to be contained at 5.5%, and is mainly contributed to by intense inflationary pressures in South Africa since the country supplies Lesotho with 70% of consumer goods (Lesotho Country Monitor, 2013).

Lesotho's small businesses' market is said to be growing, albeit slowly. Sales have grown swiftly but declined in 2009 due to South African currency depreciation which remains in parity with the Loti (Index Mundi, 2013). According to The Ministry of Trade and Industry, Cooperatives and Marketing (2012), unsuccessful SMMEs that are forced out of the market by harsh environmental factors have affected the economy negatively, since they are one of the biggest employers in Maseru, which contribute 9.1% to GDP and make up to 20% of employment in the labour force. According to Khoase and Govender (2013) small businesses, mostly entrepreneurial businesses, regard informal operation as the basis for growth and success because they are able to avoid taxes which otherwise are imposed on formal businesses. This results in loss of taxes by the government which then impacts the economic growth of the city.

1.3 Research Problem

SMMEs operate in a very active and competitive environment with the aim of surviving despite these difficult conditions. However, a majority seem vulnerable to competition mostly by the foreign-owned enterprises; hence they are unable to sustainably function in a competitive environment. Having realised the major role played by small businesses in improving countries' economies, this study intends to investigate the impact of environmental factors on SMMEs and the strategies they should undertake in order for them to succeed in the market.

It has been observed that the majority of SMMEs in Maseru encounter difficulty in their daily business activities and are vulnerable to environmental factors that impact businesses in general, more especially the absence of an enabling environment within Lesotho. SMMEs are said to be one of the biggest employers and one of the largest contributors to the city's economy (Ministry of Trade and Industry, Cooperatives and Marketing, 2012). However, the impact of current economic crisis, a high unemployment rate, predominant poverty, the country's weak demand for business

development services, and inadequate finance to engage in strategic planning causes major constraints to the growth and development of SMMEs. The country as a whole is currently faced with an escalating unemployment rate which is up to 25.3%, the formal sector being unable to employ the 67.6% of youth aged 18-35 who are unemployed (Ministry of Trade and Industry, Cooperatives and Marketing, 2012). Such a case results in more entrepreneurial businesses becoming a stepping stone by providing employment and income generation which thus enhances the country's economy. However, the African Institute for Community-Driven Development (2005) has observed that these small entrepreneurial businesses have to compete with large businesses, thus forcing small operators to drop their prices in order to increase sales. This results in low profits which do not contribute to growth.

According to the Ministry of Trade and Industry, Cooperatives and Marketing (2012), the Government of Lesotho has limited strategic direction in the trade and industrial sector, not because of the absence of strategic plans, but rather due to the challenges faced in the implementation of goals. Such limited economic activities are said to result from lack of hands-on initiatives from the government resulting in most SMME owners lacking information regarding the supporting government institutions that offer training and development (Lesotho Country Monitor, 2013). There is little attention devoted to promoting and developing SMMEs in Maseru, which add value to the economy and reduce unemployment by employing an estimated 200,000 people in both formal and informal enterprises, with about 2,000 emerging small enterprises that employ six or more people (The Kingdom of Lesotho Embassy, 2012).

1.4 Research Questions

- To what extent do SMMEs depend on assistance from financial institutions?
- Do SMMEs have adequate training and development?
- To what extent do SMMEs develop and practice strategic plans?
- What advertising strategies do SMMEs use in order to be successful?
- To what extent does competition impact on the success of SMMEs?

1.5 Research Objectives

- To ascertain the extent to which SMMEs are dependent on assistance from institutions.
- To establish if all SMMEs have adequate training and development.
- To determine the extent to which SMMEs develop and practice strategic plans.
- To ascertain the advertising strategies SMMEs commonly use in order to be successful.
- To determine the extent to which competition impacts on the success of SMMEs.

1.6 Structure of the Dissertation

Chapter One- this chapter provides the background to the study and outlines the problem statement, indicating why the issue of SMME growth and development is of importance to the economy of Lesotho and why research into the sector is therefore necessary. The chapter also sets out the research questions and objectives that should be answered by the study.

Chapter Two- the chapter presents literature review on all SMMEs, especially those that operate in developing countries. The chapter begins with a definition of SMMEs and their importance to economies. The General Systems Theory as a framework for understanding how SMMEs operate in the environments in which they are positioned is also discussed. The internal, task and external operating environments and the key factors relating to each are expanded on. Thereafter the strategies employed by successful SMMEs, as well as their characteristics are considered. The chapter ends with a brief explanation of the role of financial institutions in ensuring the success of SMMEs.

Chapter Three- this chapter narrows the focus down to the SMME sector in Maseru specifically. A profile of the SMME sector and its significance to the economy of Maseru is provided. Thereafter the marketing strategies and government support initiatives that contribute to the success of SMMEs in Maseru are discussed. Lastly, other factors that may constrain the growth and development of SMMEs in Maseru are

considered. These are the environmental factors, gender equity in the sector, the location of specific enterprises, as well as competition faced from foreign-owned enterprises.

Chapter Four- in this chapter firstly the research approaches employed in the study are discussed, namely the descriptive research design using a quantitative approach. Next, a detailed discussion of the population, the sample selected from this population, and the specific research instrument that was used for data collection, namely a structured questionnaire, is provided. The chapter then considers the data quality controls that were used, as well as the data analysis method. Finally, the ethical considerations and limitations of the study are reflected on.

Chapter Five- this chapter presents the data collected during the study, which was analysed using SPSS 21. The chapter is divided into two sections. Section A presents the demographic data of the respondents, using descriptive frequency statistics. Thereafter, Section B provides detailed analysis of the collected data regarding the strategies, environmental factors and challenges faced by SMMEs in Maseru. Each objective is considered, and data is presented in the form of tables and descriptions of the analyses conducted.

Chapter Six- this chapter presents the discussion of the findings, beginning with a consideration of the demographic information pertaining to the respondents, and thereafter discussing the data collected in relation to each of the research objectives that guided the study.

Chapter Seven- the final chapter offers the overall conclusions and recommendations for improving the SMME sector in Maseru based on the discussion of findings that were presented in Chapter Six. Lastly, the chapter puts forth recommendations for future research.

1.7 Conclusion

This chapter has presented the background of the study, the problem statement, research questions and objectives, as well as the structure of the dissertation. The next chapter will focus on the literature review of this study.

CHAPTER 2: Literature Review- SMMEs in Developing Countries

2.1 Introduction

This chapter provides an overview of previous studies that have addressed the numerous strategies SMMEs use in the dynamic environments in which they operate. The chapter begins with a definition of SMMEs and a consideration of the different enterprises encompassed by the term. Thereafter, the importance of SMMEs to economies and the General Systems Theory within which SMMEs can be understood is discussed. Subsequently, the environment in which SMME's operate, as well as the strategies they follow to ensure continuous operations and success is examined. Lastly, the financial institutions that contribute to their success as well as the challenges that SMMEs face is outlined. Research by Lee *et al.* (2001) shows that strategic literature of SMMEs is classified into three areas: (a) source of daily operations of SMMEs with regard to the environment; (b) the preparation of strategic planning process and attributes; and (c) identification of the success factors for SMMEs. Thus, an urgent need exists for insight into the environmental factors and strategies that impact on the success and failures of SMMEs.

2.2 Definition of SMMEs

According to Pett and Wolff (2012) there is an increasing body of literature that addresses various differences between large enterprises and SMMEs. In most cases they are distinguished by the number of employees each class of these enterprises has, such that SMMEs in the US are defined as enterprises with fewer than 500 employees and in the European Union as those with fewer than 250 employees. However, Pett and Wolff (2012) argue that this classification and definition of SMMEs is not an ideal one. This is due to the fact that the number of employees per enterprise is a measure that is regarded as rather unimportant by SMME owner-managers relative to the disclosure of confidential information on financial measures, as this confidential information is rarely given. Thus, researchers are left with measures that these owner-managers are prepared to provide, which is with regard to the number of their employees and this has been the key criterion that prevails in defining SMMEs. Research by Reynoso *et al.* (2014) shows that there is a general economic standard used by the Bolton Committee to define SMMEs, which includes: small businesses that own a moderately small market share;

owners who are fully or at least partly involved as shareholders; daily operations that are conducted in a personalized manner; and no formal business structure.

Table 2.1 below illustrates the classification of SMMEs in the European Union context, with regard to the number of employees and annual turnover per classification.

| Micro-enterprise | Small enterprise | Medium-sized enterprise |
|---|---|---|
| <ul style="list-style-type: none"> • Employs below 10 people | <ul style="list-style-type: none"> • Employs from 10 to 49 people. • Annual turnover is below 7 million euros | <ul style="list-style-type: none"> • Employs from 50 to 250 people. • Annual turnover is below 49 million euros |

Table 2.1: Classification of small, medium and micro-sized enterprises in Europe

Source: Becla (2013)

2.2.1 Survivalist enterprise

Beyene (2002) states that “survivalist enterprises are primarily for people who are unable to find paid jobs or to get in the economic sector of their choice.” Often classified under micro enterprises, Beyene (2002) further explains that a survivalist enterprise is defined as a business with no formal employees, generating income below poverty line. The main reason for such a business is to provide income for the owner and their family as a means for survival, with little capital invested and there is also a lack of training and minimal opportunity for growth and development (Gunasekaran, Griffin and Rai, 2011).

2.2.2 Micro enterprises

A micro enterprise is a business which lacks formality in terms of registration (Lokhande, 2011). According to (Bowen *et al.*, 2009) micro enterprises are associated with characteristics such as small scale of operation and market share, low income generation, unproductivity and high informality. The informality of these enterprises has led many to believe that micro enterprises assist in generating sustainable income for

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

2.2.3 Small enterprises

These enterprises are more established as compared to micro-enterprises. According to Dockel and Ligthelm (2005), small businesses are usually owner managed or family managed businesses that operate in business or industrial areas and they are usually registered and meet other fundamental registration requirements. Ownership and management structure in these enterprises is more complex as there is usually decentralisation of power and division of labour that helps to differentiate them from micro-enterprises (Beyene, 2002).

2.2.4 Medium enterprises

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

2.3 Importance of the SMME Sector

According to Cant and Wiid (2013) SMMEs are best known to enhance a country's economy, generating employment opportunities to ameliorate the ever increasing unemployment crisis that countries face, alleviating poverty in developing countries and contributing to GDPs. SMMEs contribute to a country's national product that is manufactured then offered to consumers and other enterprises, both locally and internationally (Cant and Wiid, 2013). Gunasekaran *et al.* (2011) argue that "SMMEs are the driving force for exploitation of individual talents and entrepreneurship especially in rural areas where agriculture is common." In this regard, SMMEs are without doubt providers of an excellent starting point for the deployment of villagers' talents as entrepreneurs, promoting entrepreneurial skills and abilities.

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

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

- (i) Owners of micro enterprises who mostly establish their businesses for survival;
- (ii) The employed poor people working in the small businesses;
- (iii) People who depend on these poor workers and owners of small businesses, families and friends;
- (iv) The unemployed sector of poor people who might get employed in these businesses and;
- (v) The poor people who purchase from these small businesses because of convenience and low costs.

2.4 The General Systems Theory

The focus of this study is to highlight the environmental factors and strategies that impact on SMMEs. This study therefore aims at determining the essential organisational components that are orderly arranged and managed to create a systems approach for SMME owner-managers in their respective enterprises. According to Stichweh (2000), a system may be defined as an arranged alignment of separate but interdependent components for the primary purpose of achieving determined objectives. Stichweh (2000) states that three vital characteristics of systems include:

- The orderly grouping of components in a hierarchical manner, regardless of its complexity;
- Communication between components in a system, even though they are interdependent;
- Orientation of a system towards an objective; therefore any collaboration among components must be deliberate to attain the objective.

The biologist, von Bertalanffy, is regarded as the initiator of the general systems theory, having succeeded in his efforts to discover a unifying framework that led to the development of the general systems theory (Stichweh, 2000). Bertalanffy (1934) states that “a business organisation is a system that is man-made, has a vibrant interaction with its environment, suppliers, customers, competitors and all other stakeholders who form part of the environmental factors surrounding the business.” SMMEs are influenced by and do influence the environment they operate in. Kast and Rosenzweig (1972) add that systems theory aims at developing a clear objective for a business, that interacts with the environment for decision making. However, Dubrovsky (2004) took a different view from previous research and proposed an argument on the basis of the significance of the systems theory in business organizations. According to Dubrovsky (2004), for general systems theory to include hierarchy as one of its gradual laws means disregarding its importance as an operational theory in business.

Yalcin *et al.* (2005) noted that SMMEs do not operate in isolation but exist as part of an influential social system, an environmental societal system with influences such as the socioeconomic circumstances, geographical location, and political and historical influences of the social system. According to Adams *et al.* (2014) systems theory lacks a single proposition that defines it, however, one of the most common definitions by von Bertalanffy (1934) regards systems theory as “the formal correspondence of general principles, irrespective of the kinds of relations or forces between components.” Adams *et al.* (2014) explain systems theory in an organizational context as a useful way of thinking about the management of a particular job, providing a framework for visualizing the internal and external environmental factors. Further research by Adams *et al.* (2014) found that systems theory has a superior impact on the internal organization of, and the decision making processes, within individual business enterprises. The systems approach in organisations thus compels managers to assess

their business organisations as information networks whereby there is flow of information providing the decision makers at different levels of management with vital information essential for all types of decisions.

2.5 SMMEs and the Environment they operate in

According to Liao *et al.* (2003) SMMEs are extremely limited in their capabilities to adapt vital strategies to their business environment and thus continue using their past strategies despite environmental changes. Reports show that there is continued failure of small businesses in economies, mostly in developing countries. According to Headd (2003) small business failure is usually associated with both internal and external risk factors, whereby half of all small businesses, usually those with insufficient start-up capital, fail to operate for more than five years, while 80% of these businesses fail within the first five years. Dabija (2011) adds that the environment consists of internal, market and external forces that influence the way in which the company expands and sustains exchanges that are satisfactory with the target market. Dabija (2011) further states that knowing and understanding the environment allows a business to be able to harness opportunities and strengths, and to avoid threats of the market and weaknesses of the company. According to Reynoso *et al.* (2014) the behaviour of SMMEs results from miscellaneous factors that determine their responses to environmental incentives. The factors differ from those that affect large corporations as they affect SMMEs differently and with unpredictable impact (Reynoso *et al.*, 2014).

2.5.1 Internal environment

According to (Shepherd and Patzelt, 2011) the internal environment includes all factors that are within the organization, which are controlled and influenced by management of the company. These factors are resource related and solve resource management issues that do not only affect SMMEs but a large part of businesses. Such factors are as follows:

2.5.1.1 Resources

Premaratne (2001) states that “an enterprise’s resources comprise of anything that it owns, such as capital, equipment, liabilities and experience.” Migdadi (2009) adds that resources refer to the financial support, human resources, attention and time essential for the successful implementation of knowledge. Migdadi (2009) further explains that

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

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

2.5.1.2 Leadership

Leadership in small businesses involves capabilities needed to organise the human and social capital. O'Regan *et al.* (2006) define leadership as a process of transforming an enterprise from what it currently is to what the leader of the enterprise wants it to

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

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

2.5.1.3 Employees

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

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

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

2.5.2 Task environment

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

2.5.2.1 Competition

According to Gunasekaran *et al.* (2011) it is essential for each enterprise to study the competition that they directly and indirectly face, so as to create ways to try to outperform competitors. The SMME sector is the most competitive sector and it needs active and well strategized individuals to survive. Bekele and Worku (2008) state that social capital networks in which information, innovative ideas and business skills are shared amongst employees in an enterprise help SMMEs to gain competitive advantage. SMME owner-managers are expected to be strongly aware of the competitive pressure around them, even if it is not intense. This is to ensure that they know the risk of emerging competitors surrounding them. Storey (2010) shows that large enterprises honestly possess adequate finance that enables them to fight competition, whereas small enterprises have limited finance to permit them to outperform competitors as any emerging competition could certainly be threatening. Dabija (2011) adds that it is important for SMMEs to study the weaknesses and strengths of their competitors so as to engage in strategies that competitors fail to use. SMMEs have substantial advantages

with regard to high capability of innovation which is determined by competition. Nartisa (2012) states that the establishment and growth of small, medium and micro enterprises is necessary for creating a normal economic environment, promotes manufacturing goods and a good basis for competition.

2.5.2.2 Customers

According to Appiah-Adu and Singh (1998) SMMEs have to direct their efforts to meet customers' needs and wants as these customers are now becoming well organised, informed and more demanding. Small businesses often fail to focus on the customers and markets they serve. Dos Santos (2009) states that, "a business enterprise cannot succeed without the existence of customers." According to Dabija (2011), SMME owners must also take into account the preferences, lifestyles and needs of their customers. SMMEs' advertising is closely linked with close relationships with customers in comparison to larger enterprises that have formal structures which therefore makes it difficult to embed close customer relationships in their organizational culture. Jones and Rowley (2011) add that SMMEs narrow and confine their customer base which creates a much shorter communication line between the enterprise and its customers, where personal relationships are formed and maintained. This results in increased customer loyalty and high levels of customer satisfaction. Long-term relationships with customers are augmented by a quick response to their needs as SMMEs are acknowledged for their flexibility and ability to respond to customers' needs instantly (Jones and Rowley, 2011).

SMME owner-managers must be customer-driven, that is, they must put effort into focusing on new and creative ways to build and maintain relationships with customers. Fiore *et al.* (2013) state that small business owners must build emotional relationships with customers and must aggressively engage in new ways of networking by using existing customers to explore new markets. Bekele and Worku (2008) suggest that more focus should be placed on the emotional level of customer relationships and development strategies of an enterprise rather than traditional marketing approaches. According to Navickas *et al.* (2014) SMMEs need to find unique features that must appeal to their customers, since fostering the trust of customers can enable an enterprise to build a strong background for value creation and competitive gain. This is because trust is a substantial contributor to customer satisfaction and loyalty. In fact, Reynoso *et*

al. (2014) point out that: “trust is the pioneering method to gain a competitive advantage and strong customer base.”

2.5.2.3 Suppliers

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

According to Victoria and Jesús (2009), an enterprise must go beyond supply chain relationships by identifying the existing weak supply relationships and creating measures of detecting and dealing with the problem early and immediately. This helps the enterprise in identifying suppliers who bring valuable resources, and also helps to create awareness for suppliers in terms of increasing their performance. The more strategic the relationship is between the supplier and the buyer, the more likely it is that both parties will have an interest in developing and maintaining the relationship (Victoria and Jesús, 2009). Mishra (2011) shows that the relationship between buyers and suppliers is crucial for all business enterprises regardless of the operation. SMMEs must build buyer-supplier relationships where trust, collaboration and appropriate flow of information acts as pillars to reinforce the relationship for maintainable relationships. Satya Parkash and Veerender Kumar (2014) add that without cautious monitoring of suppliers and their performances, SMMEs will find it difficult to precisely evaluate whether the current suppliers meet their business needs.

2.5.3 External environment

This entails all the forces that are outside the organisation which SMME owner-managers cannot control but come to terms with. These factors are: political and legal factors; economic factors; socio-demographic and cultural factors; as well as

technological factors. According to Tshabalala and Rankhumise (2011), the short-term efficiency and long-term survival of an enterprise is determined by the actions it takes with regard to the external environment.

2.5.3.1 Political and Legal factors

Soontiens (2002) maintains that the number of SMMEs that operate globally is not satisfactory due to country-specific policies that protect domestic SMMEs from outside competition. Hence Soontiens (2002) asserts that governments must assist in the negotiation of export requirements with the affected countries to allow SMMEs easy access to global competitive markets. The political and legal framework allows free trade and opens new markets to national companies. In line with the aforementioned point, Jeppesen (2005) suggests that assistance from the government in terms of policies for SMMEs must be determined by the size of an enterprise and the type of an enterprise. The MTICM *White Paper* (2012) states that improvement of SMMEs' access to government contracts will represent a substantial effort, to incorporate them into local supply chains and to enhance their capabilities to fulfil policy requirements, such as procurement requirements. Reynoso *et al.* (2014) propose that government policies must promote SMMEs by providing support for small and micro enterprises, since they are usually owner-managed and their behaviours are determined by the owners' decisions who have less interest in competing in the marketplace. SMME owners usually lack the skills necessary for growth and development strategies for their enterprises, which would be vital to ensure an increase in their market share.

2.5.3.2 Economic factors

Economic factors have a direct impact on the prospective attractiveness of different strategies and consumption patterns in the economy. According to Olawale and Garwe (2010), economic factors include interest rates, inflation, foreign exchange rates and government fiscal and monetary policies, and do affect the demand for products and services and therefore the growth of SMMEs. High interest and inflation rates, low growth rates and declining exchange rates are currently experienced in developing countries. The economic recession that results from these factors and the global economic meltdown causes decline in sales, incomes and market potential for SMMEs (The Economist, 2009). The economic meltdown locally and internationally results in many small businesses struggling to make ends meet since consumers are faced with

inadequate income to purchase, as well as high interest rates that also negatively impact these businesses. Due to such challenges, Olawale and Garwe (2010) suggest that SMME owner-managers must have the ability to assess and interpret environmental changes to sustain their enterprises' capability and performance. Tshabalala and Rankhumise (2011) argue that economic situations affect SMMEs to a greater extent than large enterprises because SMMEs are less responsive due to inadequate funds. This exacerbates the challenges faced by SMMEs in sustaining their survival as most of these small businesses operate in a dynamic, changing environment and are therefore more vulnerable to change.

2.5.3.3 Social factors

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

2.5.3.4 Technological factors

Due to technological improvements in organizations, small businesses are now able to communicate awareness of their organizations, products and service offerings to a large part of potential and existing customers, both globally and internationally. However, a

study by Keh and Shieh (2001) found that SMMEs are not usually involved in the technological development of their products and services, which can assist in differentiating them from those of competitors. Kyobe (2004) states that such challenges can arise from complex internet formats that may seem too difficult for emerging enterprises with low capital to adapt to. Further obstacles may include a loss of focus in continuous communication of the products and services to customers, and cultural inflexibility by potential customers which may arise as customers may be likely to reject the e-tailing and opt for the traditional way of purchasing. Phan *et al.* (2005) add that SMMEs tend to abandon their prevailing competitive advantages like strong positioning for the disposition of technological developments which is not a wise move. According to Al-Qirim (2008), a majority of small businesses prefer and continue to use traditional ways of producing and selling their products to customers. This is due to their inaccessibility to equipment which makes them lack quality in their product standardisation. Factors such as the aforementioned lack of quality control and standardisation of products cause SMMEs' products to become less competitive in local and international markets. SMME owner-managers need to consider the challenges they are likely to face regarding technological developments as most small businesses in developing countries are localised (Dabija, 2011).

2.6 SMMEs' Strategies to Succeed

Research shows that it is essential for any business organisation to engage in different strategies in order to operate for a long period of time. Any organisation's strategy is determined by its size, location, financial incentives and numerous other factors. The focus of this study is on the general strategies that all SMMEs use and must follow, namely the business plan, mission, objectives and goals, Porter's generic strategies, as well as other optional but crucial strategies such as advertising, customer service and partnerships. Strategic planning offers a mechanism to enable employees to focus and direct their efforts due to increasing pressures and prompt changes facing SMMEs. Strategic planning would therefore result in allocation of resources by management and the establishment of goals and targets essential for business success (Kozan *et al.*, 2006). Adamoniene and Andriuscenka (2007b) add that strategies developed and practised by any enterprise should set the task of preparing an enterprise's base for future success and should assist an enterprise in performing better in comparison to other enterprises in the competitive environment. According to Renko and

GRNHAGEN (2011), small businesses have to offer goods and services that exceed customer expectations since superior customer service leads to satisfactory customer shopping experience which will thus exceed their expectations. However, Cordeiro (2013) argues that SMMEs usually lack an understanding of essential business activities and also lack an understanding of their primary objectives with regard to what they do or deliver to customers. Cordeiro (2013) explains that this results in decreased efforts, misallocation of people and financial resources, an ineffective approach to customer service and, eventually, a loss of competitive advantage in the business environment. The development and practise of strategies based on long-term forecasts helps an enterprise to anticipate future opportunities and challenges, and these strategies must clearly outline the primary idea of the goals of an enterprise and the means to achieve them (Skokan *et al.*, 2013).

2.6.1 Business Plan

Research shows that every business needs a business plan. A business plan communicates the goals throughout the whole enterprise and aids the business in staying focused on its objectives (Hormozi *et al.*, 2002). Since SMMEs possess fewer human and financial resources as compared to large businesses, there is indeed a need for them to perform all business-related functions that are within their capabilities, and a business plan assists SMMEs to outline these functions. A business plan describes how the business will advance during the first five years and provides a net cash flow forecast for that period (Newman and Cullen, 2002). Financial institutions that are determined to assist small businesses also require a business plan to evaluate the probabilities of success and whether to risk their money on the venture. A business plan is a fundamental necessity required by financiers to assess the potential of a business, to gain a detailed analysis of the documented information about the business, to assess the opportunity offered by the business and the feasible amount required to invest in or finance it (Hormozi *et al.*, 2002).

A study by Kozan *et al.* (2006) showed that operative strategic planning contributes to the development of clear assessments regarding competitive environments: existing competitors; potential competitors; and their internal resources. According to Thomas and Segel (2006), if new businesses fail during the first two years of trading, the financial institutions are said to be incapable or disinclined to offer necessary advice

and control to minimise risks. This is why it is essential for SMME owner-managers to check their business plans cautiously and guard against being over-optimistic. The aim of a business plan is to outline the purpose of the business and to clarify in detail how the enterprise will operate in the market. According to Segel and Thomas (2006), business plans must be brought up to date annually and re-visited time and again to see where businesses were and where they are going.

2.6.2 Mission Statement

A mission statement is the main aim of an enterprise, explaining its existence and differentiating it from other enterprises. Small businesses must each day validate reasons for their existence in the market place. Levicki (2003) states that a well-crafted mission statement must identify the business and the customers' spheres in which the business operates or plans to operate. A mission statement promotes a sense of collective expectations among business owner-managers and all employees (Toftoy and Chatterjee, 2004). An operative mission statement is customer oriented and will persuade or inspire the employees. According to Adamoniene and Andriuscenka (2007a) each and every enterprise must first generate a mission statement which plainly and briefly outlines why the enterprise exists and what exclusive contribution it will bring to the society in which it will operate.

Newman and Cullen (2002) assert that the SMME sector is one of the most competitive sectors and that this has encouraged more small and medium-sized enterprises to innovate many new ideas by listening and responding to customer needs. The mission statement would therefore provide small business owners with a guiding force for all strategic plans. An enterprise's official mission statement should be attractive for all stakeholders. Nonetheless, Adamoniene and Andriuscenka (2007a) argue that the formulation of a strategic mission statement is extremely vital for medium-sized and large enterprises and less likely to play an extremely crucial role for the small and micro-sized enterprises. A study by Alavi and Karami (2009) found that entrepreneurs starting small businesses are more often preoccupied with other aspects of their business operations to dedicate sufficient time to formulate mission statements. Williams (2008) recommends that it is essential for firms to narrow down the purpose of the mission statement to persuasively communicate the product and market objectives to the business' stakeholders, by simply defining the enterprise's business and its future goals.

The development of a mission statement must be the preliminary strategic decision that a small business should take.

2.6.3 Objectives and goals

The formulation of objectives entails the determination of where an enterprise should be headed in the future (Cravens and Piercy, 2008). The task of the manager is to set objectives after settling on the mission statement. Management usually sets long-term and short-term objectives. According to Stevenson and Hojati (2007) long-term objectives are usually set for five years or more and they specify the results an enterprise must attain to remain successful over time. Short-term objectives are set for one or two years only and measurement of these at consistent intervals indicates how well an enterprise is performing in meeting its long-term objectives. The main purpose of having written goals and objectives is to provide a specific target for an entrepreneur. The sales and profit targets set as goals must be realistic and based upon the potential market which subsists for the small enterprise. (Nieman and Nieuwenhuizen, 2009) emphasize that the overall objective of a venture is to develop the ability to adapt its offerings to the changes that may occur in the target market's needs and requirements, ensuring long-term profitability by meeting customers' needs.

2.6.4 Porter's generic strategies

The three well-known generic strategies instrumental to enterprises are cost leadership, differentiation and focus strategies. Porter's theory on competitive strategy provided a model which states that firms in the disjointed SMMEs sector, more especially the small and medium-sized enterprises, may highlight one or two of these generic strategies in order for them to gain competitive advantage (Wheelen and Hunger, 2011).

| <i>Target Scope</i> | <i>Competitive Advantage</i> | |
|--|---|--|
| | Low Cost | Product Uniqueness |
| Broad (Industry wide) | Cost Leadership Strategy | Differentiation Strategy |
| Narrow (Market segment) | Focus Strategy (Low cost) | Focus Strategy (Differentiation) |

Figure 2.1: Porter's Generic Strategy Matrix

Source: Porter (1980)

2.6.4.1 Cost leadership

This strategy encourages an enterprise to accomplish lower costs than competitors, to reach consumers who consider price as important when purchasing (Terblanche, 1998). McGee *et al.* (2010) state that the cost leadership strategy helps firms increase their market share and make use of a low-cost strategy. This strategy does not suggest however, that an enterprise will market the lowest price product or service in the industry. More often, the lowest prices are perceived by customers as sub-standard products and only appeal to a proportion of the market. According to Grant *et al.* (2002), low cost does not necessarily mean cheap and low-cost enterprises cannot have a high-class charm. Low cost also does not mean employees and stakeholders will receive low rewards; rather it means that SMME owner-managers intend on acquiring a cost advantage over their rivals, retaining a strong product position in customers' minds and achieving a high profit margin.

(Grant *et al.*, 2002) add that cost leadership strategy is achieved through enterprises focusing on a market segment with needs considerably below average and the

company's costs are saved by meeting their needs exactly to avoid unnecessary additional costs. In trying to keep costs low, small and medium-sized enterprises must include product features that are regarded necessary to the target market. Strickland and Thompson (2008) state that a product offering that is too basic weakens an enterprise's competitiveness. Furthermore, they suggest that in achieving a cost advantage, a firm considering the cost leadership strategy must lower their costs across the value chain and they must be lower than that of competitors.

2.6.4.2 Differentiation

The differentiation strategy entails providing a product or service that is different from that of competitors. The value added by the uniqueness of the product may allow an enterprise to charge a premium price for it and the higher the price of that product, the more it will cover the extra costs incurred in making the product unique (McGee, Thomas and Wilson, 2010). According to Thompson *et al.* (2008), the core of differentiation is for SMMEs to be unique in ways that are valuable to customers and to make sure that they can sustain the uniqueness for a long period of time. They add that an enterprise must study the buyers' needs and behaviour wisely to determine what buyers are willing to pay for. This will enable enterprises to integrate customers' desired traits into their products and service offerings, and to ensure that they differ from competitors.

Thompson *et al.* (2008) state that "it is not enough for an entrepreneur to simply add value to the products or services but the customer must also distinguish and escalate the difference, and if it cannot be clearly visible to customers, the products or services must be communicated to them through advertising." According to Terblanche (1998), successful differentiation has to be built on a unique capability, something that the firm is better at doing than competitors. A large number of small businesses are known to be failing at a high rate within five years of start-up. However recent research shows that it is their small size that makes it vital for small businesses to have unique product and service features, focusing on a narrow market segment so they can outdo their competitors, which then makes their potential to grow, survive, compete and grow a success (Erasmus *et al.*, 2013).

2.6.4.3 Focus

The focus strategy concentrates on a targeted segment of the market to attain either cost advantage or differentiation. McGee *et al.* (2010) state that a firm or business using this strategy often enjoys high levels of customer loyalty, and entails the constraining of activities to only a targeted segment by offering products and services at low costs to that segment. The business employing this strategy may either use cost leadership or differentiation. A strategy of cost focus pursues an enterprise to focus on low costs in its target segment only. With a strategy of differentiation focus, the retailer must focus on differentiating their products or services to the target segment only as compared to competitors (Lynch and Smith, 2000). According to Terblanche (1998), the firm's strategy is to concentrate on a particular segment of the market rather than trying to gratify all customer requirements for a specific need or want. Terblanche (1998) further adds that the main objective of the focus strategy is to generate a monopoly for the firm in the specific market or niche. A focus strategy is perfect for small businesses because most of them do not have access to resources in order to serve big markets with deviating needs and wants (Segel and Thomas, 2006).

Wheelen and Hunger (2011) state that the cost focus strategy is cherished by those who believe that an enterprise which focuses on its determination is better able to serve its narrow target market more efficiently than competitors. On the other hand, the differentiation focus is valued by those who believe that an enterprise that focuses their efforts in providing unique products and services is able to serve the special needs of a narrow target segment better than competitors. However, a recent study by Erasmus *et al.* (2013) shows that, of the three generic strategies outlined by Porter (1980), the focus strategy which concentrates on particular market segment(s) is the most applicable strategy to SMMEs. Erasmus *et al.* (2013) suggest that the three generic strategies most applicable to SMMEs are:

- The niching strategy - filling the market gap by offering products and services that differ but can be substitutable to that of the large enterprises,
- The free-riding strategy - exploiting the development of the markets served by large enterprises in offering products and services similar to theirs, and;
- Forming strategic alliances with other enterprises to gain competitive advantage.

According to Reynoso *et al.* (2014) SMMEs regularly exist in niche markets where they are capable of taking advantage of monopolistic situations to influence market prices.

2.6.5 Advertising

Advertising is said to be an important tool for creating awareness in customers about an enterprise's products and services, and an important communication and marketing tool for businesses. However, Singh (2010) states that SMME owners still regard advertising as a cost-bearing routine because most of these enterprises do not even have adequate finance. Singh (2010) further adds that the lack of awareness regarding advertising strategies for SMME owners results in insufficient or no information and knowledge about the cheap and effective methods of advertising their products and services. Efficient advertising of products and services requires clear objectives and goals of an enterprise, hence the reluctance of most SMME owners in taking the advertising route (Skokan *et al.*, 2013).

Small businesses usually decide on appropriate advertising media within severe resource constraints, including constraints of human, financial and organizational resources. Having to experience daily business pressures, advertising may be regarded as an unnecessary disbursement by small owner-managers. Dolliver (2002) states that advertising and other forms of business promotions are subjective to the nature of the target market an enterprise aims to serve, as well as the media vehicle that is within the financial budget of an enterprise. Fiore *et al.* (2013) show that marketing expertise and planning behaviour of SMME owner-managers is lacking or to a very low degree, even in cases where these individuals have past formal marketing education or work experience. Navickas *et al.* (2014) state that the complexity in the implementation of advertising strategies in the SMME sector is due to its informality, chaos and responsiveness and is built on conventionality to industry norms. Some advertising platforms are outlined below:

2.6.5.1 Newspaper

Newspapers are the leading advertising medium for businesses due to its affordability and accessibility and enables business owners to reach their target audience with minimal costs (Hazeldine and Miles, 2007). Research by Dolliver (2002) shows that “ a local newspaper that targets a specific group of people reaches more readers even

though small businesses' ads are frequently unnoticed due to low cash inflow and therefore lesser advertising space in the newspapers.”

2.6.5.2 Radio

Radio is the most used medium by people. The advertiser can reach a local audience with the message directed towards the anticipated target audience and radio is therefore beneficial to small retailers with modest budgets who can afford to advertise (Hazeldine and Miles, 2007). Radio advertising relies on the number of listeners and is a direct mode of advertising to the audience. However, Dolliver (2002) argues that money is wasted if the message intended for the audience is unclear or the potential customers have no interest. Bohen (2012) suggests that SMME owner-managers must cautiously consider customers' habits before selecting radio advertising. The choice of the right radio station and the time the potential customers are most likely to be listening is essential for enterprises to gain the most out of their investment in radio advertising (Bohen, 2012).

2.6.5.3 Magazine

Magazines are much more specialized in content and more national in distribution than newspapers. According to Robert (2002) magazines have more print quality, are less likely to be thrown away as compared to newspapers, and are more personal.

2.6.5.4 Internet

According to Kitchenman (2009) small businesses fail to frequently update their website information and details regarding their businesses and this results in loss of potential customers to competitors. Kitchenman (2009) suggests that small business owners must be attentive to their sites once they are established. This entails keeping the intended message conveyed through an organized page, enabling customers to use the Web to identify the business and to contact it, which forms a platform for the site to repeatedly show up in Web searches due to frequent updates. Schaupp and Bélanger (2014) state that web-based advertising, especially the social media advertising, is essential to small businesses, providing exposure to potential customers and assisting small businesses to encourage the existing customer base and ensure loyalty in an affordable and efficient manner.

2.6.5.5 Television

Television advertising, according to (Simpson and Docherty, 2004), allows individuals to advertise locally or nationally and to reach a wide variety of viewers. Products and services offered by enterprises can be viewed in a clear, visualised and auditory manner, conveying impressions that are live (Simpson and Docherty, 2004).

2.6.5.6 Word of mouth

According to (Zimmerer *et al.*, 2002 word of mouth advertising is the most proficient type of advertising in the SMME sector as it is usually executed by gratified customers who often narrate their satisfaction to other potential customers. The advantage of this type of advertising is that there are no costs in executing it, and word of mouth is thus very powerful in reaching out to a majority of potential customers.

2.6.6 Customer service

Customer service plays a critical role in the success of SMMEs. Carraher *et al.* (2009) state that “customer service is one of the acts and elements that enable consumers to receive what they desire from small businesses.” According to Gunasekaran *et al.* (2011), decisive winners in the SMME sector are those who make use of their employees’ energy to convey a superior service to customers. Renko and GRNHAGEN (2011) suggest that understanding customer needs and building long-term relations with them is advantageous. They further state that it is essential to serve customers before, during and after sales, meaning that they should project their customer service programs around presales, during sales and post-sales to attain differential competitive advantage. Customer satisfaction is mostly influenced by expectations and past experience. Customer service level is assessed differently by different people. According to Johnson *et al.* (2008), SMMEs need to observe customer service involving two components. Firstly, the expected services need to be observed, which are customer services expected from any enterprise, such as simple employee politeness. Secondly the augmented services must also be considered, which the services that improve the shopping experience are and that provide SMMEs with a competitive advantage. SMME owner-managers are strained without enough attention placed on expected services. According to Bohen (2012) store owners or managers need to do staff training to show the kind of customer service standards they will be expected to meet.

2.6.7 Partnerships

A study by Foreman-Peck *et al.* (2006) found that a partnership is questionably the most risky legal form and not considerably associated with the growth of an enterprise. They further add that each partner in the management of an enterprise is accountable for the mistakes of the other but that they may have limited control over those mistakes. However, SMMEs normally have extreme resource limitations. A study by Lee and Gongming (2007) shows that in the internal operations of SMMEs, there is minimal information, management line, capital and experience while externally, SMMEs face challenges due to their vulnerability to environmental factors and changes. Due to these internal and external constraints, Lee and Gongming (2007) suggest that SMMEs should resort to partnerships or strategic alliances to overcome resource and capability shortages, and to share and spread costs and risks between partners. Nartisa (2012) states that partnerships are essential for the success of SMMEs in the sense that they allow transfer of knowledge between partners, the know-how of business and creation of new knowledge. In dealing with each other's experiences, it becomes easy and possible to be warned of risks and to easily find solutions for problems that may be encountered in the development stages of the business.

2.7 Characteristics of Successful SMMEs

2.7.1 Good human relations

Bermans and Evans (1998) state that SMME owner-managers must seek to create and preserve long-term relationships with customers, and they need to monitor customer or shopper satisfaction and keep in contact with customers at all times. (Allen *et al.*, 2013) state that, "there is an increasing interest in assisting SMMEs to understand the essential ways to drive higher business performance through employee and customer relations, as the viability of exchange relationships increases employee motivation, customer satisfaction and eventually, increased business performance".

2.7.2 Commitment

Commitment is one of the factors that add to the preservation and progress in relationships. According to Sanchez-Perez and Iniesta-Bonillo (2004), commitment creates a positive effect on the efficiency, output and effectiveness of a small business and it also assists in maintaining customer loyalty. Every SMME owner-manager needs

to communicate with their employees, issue some forms of rewards for achievement, outline objectives and goals required to be attained, and also motivate employees to do their jobs, which will result in more commitment from them (Sanchez-Perez and Iniesta-Bonillo, 2004).

2.7.3 Leadership

Leadership plays a vital role in the performance of SMMEs and leaders must evaluate themselves frequently to guarantee that they stay operative in their role. Sukasame (2008) identified six elementary leadership styles and stated that all of them have an impact on organisational surroundings and can increase financial performance. These styles are authoritative style, coercive style, affiliative style, democratic style, coaching style and the pacesetter style. They further add that successful leaders do not depend on only one style but rather use a blend of styles. In SMMEs the role of a leader is played by the founders of the enterprises who influence the behaviour of employees and all subordinates in these enterprises. Dzikowski (2012) states that a leader is the carrier of change in an organization and has an important influence on creating those changes by generating ideas to meet the needs of the environment.

2.7.4 Motivating and rewarding employees

Research shows that employee satisfaction results in both employee loyalty and increased productivity. Sukasame (2008) states that support services given to employees, as well as company policies that enable them to convey customer needs, determines the feelings employees have towards their job, co-workers and customers. The support services include employee development programmes such as training, empowerment, performance appraisals and reward systems.

2.7.5 Competitive position

It is very important for SMMEs to know and familiarize themselves with their competitors because they aim for similar strategies and formats as well as related target markets. According to Gunasekaran *et al.* (2011) it is essential for SMMEs to study how intense the competition is around them and to determine and explore future opportunities. Competitive advantage, as explained by Cordeiro (2013), is the ability to provide products and services through the implementation of strategies that competitors fail to follow. Cordeiro (2013) suggests that all SMMEs need to grow and become

innovative to enable responsiveness to competition and counterweigh inflationary pressures.

2.7.6 Creativity and Innovation

These attributes are mostly common and encouraged in entrepreneurial businesses. Research by Ligthelm (2008) found that constant professional development is necessary to improve business knowledge and thus efficiency is also improved if employees are already in possession of educational qualifications to further enhance their creativity and innovative behaviour. Ligthelm (2008) states that “the educational level of a business owner is one of the crucial factors that result to the survival of a business.” Potočan and Mulej (2009) state that it is vital to develop and maintain innovativeness and creativity not only for an entrepreneur but also for all employees. Therefore, SMMEs must create innovative and creative developments that are equal or better than developments made by large businesses. According to Buse, Herstatt and Tiwali (2010), generating and implementing creativity in an enterprise, as well as providing innovative products and services with superior convenience, helps an enterprise to hold a strong competitive position in both global and international markets. For manufacturing enterprises, these innovative practices of bringing in new products, and modifying already existing products in the markets, enable more operative production and distribution of the products globally.

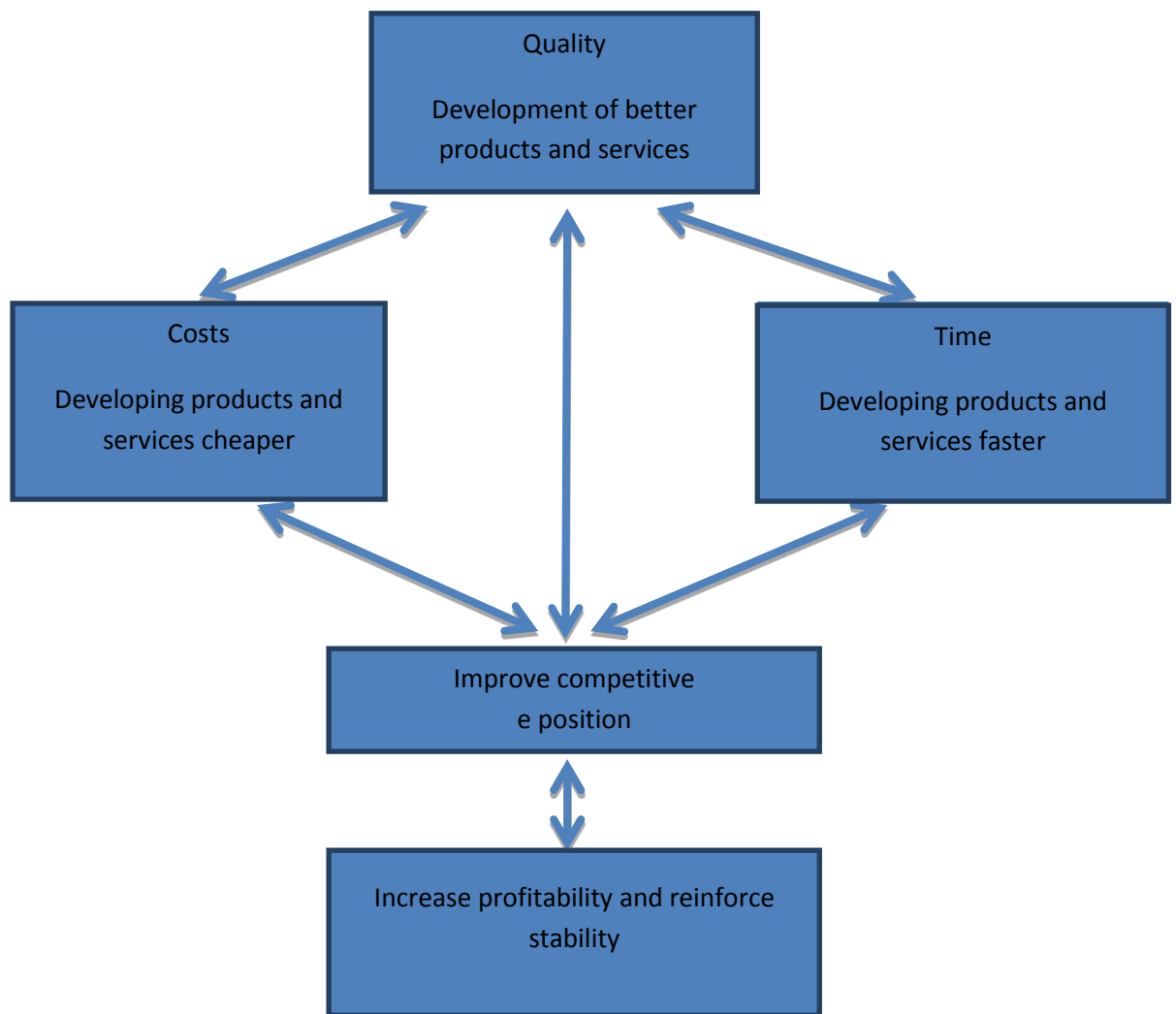


Figure 2.2: The BCF model of SMME innovation

Source: (Buse *et al.*, 2010)

Figure 2.2 shows the innovation activities required for SMMEs to improve and maintain strong competitive positions. Buse *et al.* (2010) describe the model as the Better, Cheaper, Faster (BCF) model for innovation. Due to the sizes of individual SMMEs, it becomes advantageous to these enterprises to have close and direct contact with customers who provide instant feedback about products and services. The lack of a formal managerial hierarchy and the flatter organizational structure in SMMEs place them in better positions for innovation than large enterprises where creative and innovative ideas are put to managers and the guarantee of implementation is low (Buse *et al.*, 2010).

2.8 Assistance from Institutions

Research by Bekele and Worku (2008) shows that there are numerous initiatives by governments aimed at assisting SMMEs through the implementation of programmes such as: the establishment of financial institutions and cooperative services; technology adoption; product and market development. However, Bekele and Worku (2008) argue that such programmes fail to recognize the challenges to the sustainability and growth of these enterprises since they are exposed to lack of business and managerial skills, inadequate financial support and macroeconomic policies, which results in their vulnerability to bankruptcy. Support for SMMEs, especially for the survivalists, micro and small enterprises, must frequently target the need for fundamental business skill training for developing entrepreneurs and the need for improved access to capital. A study by Peters and Naicker (2013) suggests that such issues must be based on the evidence of previous SMME failures, restrictions on Black business ownership and access to finance that resulted in a disabling environment for SMME growth and development. According to Reynoso *et al.* (2014), in improving the SMME sector performance, governments must offer development and support to these enterprises, as this sector possesses high levels of heterogeneity, particularly those that have self-employment and sustenance as their primary objective.

Reynoso *et al.* (2014) suggest that government policies relating to small businesses must encourage SMME productivity through training for owners, employees and entrepreneurs. However a study by Agostino and Trivieri (2014) suggests that these enterprises need to formalise and associate through application and development of elementary business competencies, because the ability to learn and develop basic skills would be beneficial in utilizing innovative technologies. Many programs offering services to SMMEs are not sustainable for numerous SMME owner-managers due to a non-existence of basic business skills such that these enterprises fail to absorb existing information and innovative, technologies and even fail to take advantage of financial support from the public sector. Agostino and Trivieri (2014) suggest that governments' initiatives to further enhance the SMME sector must firstly entail formulating the least bureaucratic and most inexpensive registration process possible. (Reynoso *et al.* (2014)) further add that the formulation of policies and business skills development programs must reach out to business owners and entrepreneurs in the informal sector, including those that are in underdeveloped urban and rural areas.

2.9 Conclusion

Chapter Two presented a broad review of research and views by various authors and scholars regarding small, medium and micro-sized enterprises. SMMEs were defined, the importance of the sector was outlined, and the General Systems theory that provides a framework for understanding how SMMEs operate in various environments was discussed. The environments that SMMEs operate in, namely the internal, task and external environments were expanded on. Thereafter, the strategies that SMMEs should employ in order to succeed and the characteristics of successful SMMEs were explained. Finally, the assistance offered by institutions to SMMEs was described, and it was shown that business skills are crucial in order for owner-managers in the SMME sector to take advantage of this assistance. The following chapter focuses specifically on SMMEs in Maseru, which is the capital city of Lesotho.

CHAPTER THREE: Literature Review - SMMEs in Maseru

3.1 Introduction

Ministry of Trade and Industry, Cooperatives and Marketing (2012) states that, “Lesotho is identified as a landlocked country, well known for its prevalent poverty, escalating unemployment rate, low levels of formal and higher education, migration of individuals from rural areas to cities and a high rate of SMME failure.” There is therefore a need to recognise the importance of SMMEs in creating employment and alleviating poverty, thereby stimulating the economy, and a crucial need for entrepreneurs in SMMEs to act as agents for contesting crime and unemployment. Thus the Government of Lesotho together with supporting financial institutions such as the Basotho Enterprises Development Corporation better known as BEDCO, Lesotho National Development Corporation (LNDC) and Lesotho Chamber of Commerce and Industry (LCCI) came together to create credit schemes as a way of assisting SMMEs financially (Ntheja, 2000). The previous chapter discussed the environmental factors and strategies that impact all SMMEs, with particular focus on those in developing countries. This chapter addresses the environmental factors and strategies that impact all SMMEs in Maseru. The chapter begins by profiling the SMME sector in Maseru and discussing the significance of the sector. Thereafter, marketing strategies employed by SMMEs are briefly outlined and an overview of government support initiatives is provided. Next, the factors that constrain the success of SMMEs in different environments are discussed. Finally other factors relating to SMMEs namely gender equity, location and foreign owned enterprises are considered.

3.2 Profile of SMMEs in Maseru

According to the Ministry of Industry, Trade and Marketing *White Paper* (2002), which is focused on the development and promotion of SMMEs in Lesotho, a small business is defined as an enterprise that is independently owned, managed by the owner and has a small national market share. The *White Paper* (2002) classifies Lesotho’s small businesses in relation to the employees as follows: micro enterprises are those that have less than three employees; small enterprises are those that have three to nine employees, whereas medium enterprises have ten to forty-nine employees. A large majority of unregistered SMMEs in Maseru are micro-enterprises with a predominance of basic survivalists. The majority of registered SMMEs in the city, on the other hand, are

retailers, followed by the services sector, with the industry and agro-processing sector being the minority (MTICM, 2008). For the purpose of this study, the definitions above have been adopted as they are applicable in the context of Maseru. SMMEs are defined with regard to the number of employees rather than an enterprise's turnover or assets because this enables ease of access to information and the definition is unaffected by changes in the value of money in relation to future studies (MTICM, 2008). Research by UNDP (2013) shows that in Lesotho as a whole, there is a high youth unemployment rate which is at 34%, between ages of 15 and 35. This has resulted in the Government of Lesotho through the Ministry of Gender, Youth, Sport and Recreation, teaming up with UNDP and UN agencies to assist in the promotion of youth employment for poverty alleviation. Reports show that this initiative has made solid progress, as more than 1,100 young citizens – over 60% being women – have started and completed courses focusing on how to establish and enhance a business (UNDP, 2013).

According to The Bureau of Statistics (BOS) (2009), most SMMEs in Maseru operate informally and are frequently involved in small-scale manufacturing, producing goods that range from sewing and knitting, woodworks, handicrafts and pottery, electronics, metal and leather works, candles and toiletries, solely for generating income for daily survival. The MTICM (2008) adds that a large part of SMMEs in the city are survivalists and micro-enterprises with minimal potential for growth and development, as one third of the SMMEs in the city are operated by the owners with no employees and over a third operate with one employee in addition to the owner. The majority of SMMEs in Maseru are owned by men, while a large number of women own survivalist enterprises and only 14% of the citizens under the age of thirty years own SMMEs (Integrated Regional Information Networks, Lesotho News, 2014).

3.3 Significance of the SMME Sector to Maseru's Economy

Research by Langwenya, Mabuza and Tshabalala (2011) found that SMMEs are an essential part of the economy, constituting 85% of Lesotho's private sector and employing an estimate of over 130,000 people, which thus makes the sector the largest employer. Small and micro enterprises in Maseru are mostly scattered in remote areas and have local importance for the rural economy since they are mainly agriculturally based, while medium enterprises are mostly found in urban areas using appropriate technologies to match with factors of production for sustainable income generation

(Ntheja, 2000). The World Business Council for Sustainable Development (WBCSD) (2004) states that if SMMEs are well managed, they can have the capability to become sources of employment and wealth creation, service provision base for large corporations, as well as sources of community development as they work hand in hand with communities. The country envisages that by 2020 it shall retain a robust economy, having recognized that due to the increasing emergence of SMMEs in its capital city, initiatives for the development of these enterprises is the best strategy to accomplish economic development, poverty reduction and a low level of unemployment (Government of Lesotho, 2008). Lesotho, like most developing countries, has been hit hardest by increasing levels of poverty and unemployment, so much so that most citizens resort to the establishment of small enterprises for survival ((Ntlaloe, 2011).

3.4 Marketing Strategies

Trivedi (2013) states that, marketing activities can productively function if there is commitment from internal stakeholders, to bring in innovative marketing practices, by clearly formulating goals and evaluating numerous innovative marketing alternatives, with regard to their capabilities and resources. SMMEs' marketing strategies work on the basis of clearly articulated marketing programmes to reach a large number of existing and potential customers (Trivedi, 2013). According to Asquith (2014) small businesses spend substantial amounts of money on marketing materials that return poor investments or at worst, damage their brands. This is because most SMMEs, due to their minimal finance, often opt for cheaper marketing which results in them paying twice once they realise that the cheapest options were not the right way to communicate their brands with the target market. Asquith (2014) suggests that SMME owner-managers must put essential research, planning and inexpensive expertise in online marketing, especially social networks, as they possess a larger audience of target customers.

3.5 Government Support

Langwenya et al. (2011) state that, "the development of the SMME sector in Maseru is run by the Ministry of Trade and Industry, Cooperatives and Marketing (MTICM), as well as the Lesotho Chamber of Commerce and Industry." According to Ntlaloe (2011) the SMME sector is specifically operated by one of the government bodies, the Basotho Enterprise Development Cooperation (BEDCO) which solely aims to guarantee that there is effective promotion of SMMEs' activities in the market in terms of the

development and trade of the city's commodities and services. Before the existence of BEDCO, the Lesotho National Development Cooperation (LNDC), which is also an agency of the MTICM, operated the SMME sector and mainly focused on small handcraft businesses. However, the cooperation shifted its focus from small businesses to larger industrial enterprises, leaving SMMEs in the hands of BEDCO which was established in 1975 (Government of Lesotho, 2008). BEDCO is a government parastatal established to enhance the development of Lesotho's indigenous businesses, supporting SMMEs in developing their business expertise to promote economic growth (Lesotho Times, 2010). Langwenya *et al.* (2011) argue that the Government of Lesotho recognizes the vital role that SMMES play in the growth and sustenance of the economy; however, there is no policy that offers guidance to government planning in this regard. Subsequently, the possible SMME sector development initiatives that exist are combined in the Lesotho Vision 2020 document which aims to instil a strong industrial base, reinforced by a prospering SMME sector (Langwenya *et al.*, 2011).

BEDCO has since continued to provide business management training, marketing, fundamental bookkeeping and preparation of business plans for small enterprise owners (MTICM, 2012). The extensive government support given to SMMEs is made possible through the registration of these enterprises at individual countries' Companies Registries. A study by Greeff (2014) shows that a Memorandum of Understanding and Agreement between the MTICM, Lesotho Revenue Authority (LRA), Ministry of Labour and Employment (MLE) and the Ministry of Home Affairs was formulated whereby all public, private and external companies in Lesotho are to be registered through the Companies Registry at the One-stop Business Facilitation Centre (OBFC). The MTICM (2012) states that, "the establishment of the one-stop shop is mainly to assist small business owners to promptly obtain company registration so as to reduce transaction costs, as it takes 40 days to register a business, the time limit for the processing of licence applications intended to be reduced to 15 days." OBFC is a facility established through this Memorandum and offers services including company registration, issuance of work and residence permits, as well as trading and manufacturing licences (Greeff, 2014).

The Central Bank of Lesotho (2012) indicates that excessive tax rates and oppressive tax administration can hamper the business sector growth, such that most small business owners fail to register their businesses so as to avoid tax. According to Peters and

Naicker (2013) the government must recognise the SMME sector and regard it as the fundamental means of creating an empowering environment by enhancing job creation and wealth distribution requirements. Peters and Naicker (2013) suggest that by successfully supporting the SMME sector, more emphasis should be placed on further developing proficient entrepreneurs, more so amongst the disadvantaged citizens. A majority of SMMEs in Lesotho are micro, one-person enterprises restrained to the local market and established for survival. A closer consideration of these enterprises becomes vital as much concentration is placed on the formal SMMEs which are the small and medium-sized SMMEs rather than the informal sector being the micro, one person enterprises. A study undertaken by the MTICM (2008) found that there is a tendency by the Government of Lesotho to regard small businesses as micro-enterprises that are established for means of survival. This therefore undermines their potential for growth and development which needs to be strongly acknowledged by policy makers with respect to the value of entrepreneurship, economic growth and job creation resulting from the establishment and existence of these small enterprises. Jeppesen (2005) suggests that it is vital for the government and all financial institutions to carefully examine the structure of these micro, one person enterprises, meaning that these institutions must take into consideration the number of these enterprises in each category, the sector they operate in, the kind of customer needs they meet and what effective and efficient methods can be implemented for them to reach the market. Reynoso et al. (2014) suggest that all strategies set in place to promote the growth and development of SMMEs must be focused on the reinforcement and consolidation of businesses with the primary objective of self-employment as well as businesses with high potential for growth.

3.6 Factors that Constrain the Success of SMMEs in Maseru

Although the SMME sector contributes significantly to Lesotho's economy, the high failure rate among these enterprises is of major concern. Headd (2003) states that "many studies have and continue to examine the perceived causes for increased SMME failures, and therefore, the two primary issues at most concern are the lack of appropriate business management skills and inadequate capital, both at start-up and continuing basis". Numerous efforts have been made, locally and internationally, to evaluate the business-enabling environments, with known cases of the existence of sets of laws and rules that, if successfully implemented, can diminish barriers to entry and

growth for private enterprises (Langwenya *et al.*, 2013). A company operates in a particular business environment which directly impacts on its activities (Ratanova *et al.*, 2013). According to Dutoit, Erasmus and Strydom (2010), internal business challenges (micro environment) entail access to financial resources, training and development, marketing as well as financial management. The task environment consists of customers, suppliers, competitors, investors and the market; and the external challenges (macro environment) include the political, technological, economic and social factors which are discussed below (Dutoit *et al.*, 2010). These will be discussed in detail below.

3.6.1 Micro environment

(i). Access to financial resources

Among various challenges encountered by SMMEs, limited access to financial resources remains the key barrier to their survival, performance, growth and development (Ouma and Rambo, 2013). Fatoki and Odeyeni (2010) state that approximately 75%, or more, of the SMMEs' applications for bank credit are rejected which results in them relying on retained earnings and loans from informal institutions. According to Herrington and Maas (2006), an emerging micro enterprise is known to exist in the market for less than forty two months, while 75% of these enterprises fail within the first two years due to low levels of income and thus difficulty in capital accumulation. This is supported by Ouma and Rambo (2013) who assert that the growth and success of SMMEs entails sustained investments. Capital needs for these enterprises create a gap between those needs and the available resources. Of all the necessities that go into an enterprise, lack of financial credit is the most fundamental (Fatoki and Odeyeni, 2010). Lukhande (2011) adds that best plans for an enterprise fail because of the unavailability of the required finance at the right time. SMMEs' need for credit is not solely for running an enterprise but also for modification and growth (Lukhande, 2011).

According to Bekele and Worku (2008) formal financial institutions such as commercial banks fail to provide for the financial needs of SMMEs. This is due to their strict rules and regulations with respect to lending, such that these terms and conditions tend to be biased against small enterprises, with the view that the disadvantaged are not bankable. The Central Bank of Lesotho (CBL) is the supervisory authority for the formal financial service providers. According to the United Nations Development Programme (2010),

much emphasis on the accessibility of financial products and services is on government employed individuals located in urban areas and not on the survivalist enterprises that are mostly agricultural and based in the rural areas. Unsatisfied SMME demand therefore exists in this sector. In Lesotho, SMMEs have limited access to financial services provided by formal financial institutions resulting in most SMMEs instead relying on loans from friends, family and informal associations. According to Lesotho Country Monitor (2013), many Basotho rely on financial assistance from semi and informal financial service providers who are mainly moneylenders, Savings and Credit Cooperatives (SACCOS), stockvels, burial societies and Rural Savings and Credit Cooperatives (RUSCGS). However, these financial service providers have a restricted capacity of assistance to the SMMEs (MTICM, 2012), are usually volatile, unsecure and have restrained scope for risk sharing (Ntlaloe, 2011). This results in the inability of these enterprises to access the products and services needed by the market and to engage in strategic activities.

Table 3.1 illustrates the profile of key players in the provision of finance to SMMEs and large enterprises in Lesotho.

| Institution type | Number of institutions | Licensor | Legalized range of services |
|---|-------------------------------|-------------------------------|------------------------------------|
| Banks | 4 | CBL | Savings and credit |
| Insurance companies | 6 | CBL | Life and non-life insurance |
| Insurance brokers | 12 | CBL | Products |
| Moneylenders | 51 | CBL | Credit only |
| Non-Governmental organizations (NGOs) | 1 | Ministry of Justice | Credit only |
| Saving and Credit Cooperatives (SACCOS) | 141 | Commissioner for Cooperatives | - Savings and credit - Deposits |

| | | | |
|---|---------|---------------------|--|
| | | | from members and non-members |
| Rural Savings and Credit Groups (RUSCGS), Village Savings and Loan Associations (VSLAS) | Unknown | Ministry of Justice | - Savings and credit - Deposits from members only |

Table 3.1: Overview of formal and semi-formal financial institutions in Lesotho

Source: United Nations Development Programme (2010)

According to Herrington and Maas (2006), access to venture capital funds for small and micro enterprises is limited and this result in enterprises depending on the owner's own savings, loans from friends and family and few bank credits. Cohn and Coleman (2000) explain that should a firm incur 100% debt in its capital structure, such a debt will lead to a legal responsibility to pay interest and if the firm cannot pay its debt, it is obligated into bankruptcy and experiences associated costs. However, it becomes unlikely that most of these enterprises that are indebt fail to pay back what they owe. An enterprise which is indebted to financial institutions commits itself to increased performance and profit generation in order to settle its debt hence a need for financial inclusion of SMMEs as it results in increased performance and growth.

Fatoki and Odeyeni (2010) argue however that this is not the case with most small and micro enterprises. The advantage of the fiscal policy cannot be applied to them because they are known to be less likely to be profitable and as a result they will not be able to use debt in order to get tax shields. The purpose of central banks in developing countries is mainly to offer credit and financial services to businesses at reasonable prices especially to a large section of the disadvantaged and low income groups of people engaged in micro enterprises (MTICM, 2012). Banking services are in the form of public goods which means that credit to be provided to businesses is for the entire

population, including the banking and payment systems, and no business entity must be denied its right to get access to these kinds of services provided they qualify and are bankable (Fatoki and Odeyeni, 2010).

Cant and Wiid (2013) suggest that it is essential for SMMEs to assess which source of finance is suitable for funding them so that they can determine the balance between equity and debt. Cant and Wiid (2013) further add that debt financing, when used in the right amounts and for right reasons, can be a very important part of the firm's growth. However, the challenge for SMMEs will lie in deciding on a sensible amount of debt a new enterprise can take without endangering its good fortune and sustained growth potential (Cant and Wiid, 2013). The creation of a well-designed credit guarantee scheme can make an important contribution to a more dynamic entrepreneurial environment in Lesotho. Such a scheme must be well designed in terms of risk sharing, fees, governance and risk management. Moreover, it is important that prospective entrepreneurs are supported in the formulation of business proposals, management and record-keeping, and compliance with legal requirements. A report by Bertelsmann Stiftung's Transformation Index (2014) shows that credit access remains a serious indicator that presents a challenge in creating an enabling business environment in Maseru, as government initiatives to improve the situation are disrupted by the predominant corruption in the tendering processes.

(ii). Training and development

The training and development activities of SMMEs, mostly micro enterprises which are entrepreneurial in nature, are subject to: competitive strategies practised by an enterprise; the owner's obligation to training employees; as well as how well the work plan is organised (Panagiotakopoulos, 2011). A study by MTCIM (2012) shows that, Lesotho still lags behind in terms of training and manpower development. Furthermore, insufficient information still persists regarding the scale and character of human resource development in SMMEs which in turn makes it challenging to target assistance aimed at improving the skills-base of SMMEs. Reynoso et al. (2014) suggest that of all the keys to enhancing SMMEs' operations, one crucial way of doing so is by implementing policies and business skills development programs that reach out to SMME owners in both the informal and underdeveloped sectors in rural and urban areas. They further add that the goal in trying to reach out to SMME owners would be to

advance employment creation and to reinforce the fundamental skills that allow small businesses to accomplish economic performance.

Das (2001) suggests that training programmes designed for small businesses to upgrade their performance and standards must concentrate on providing experience such as internships or on-the-job training programmes for those considering creating new business ventures. For already existing ventures, the programmes must build on the prevailing experiences with regard to training offered and the selection of specific enterprises to support. The Ministry of Industry, Trade and Marketing, *White Paper* (2002) states that “an enterprise will strive to ensure that employees are given much training and development, be assigned to attend outside courses to supplement on-the-job training and to obtain expertise knowledge.” However, research by Langwenya *et al.* (2011) found that current statistics show that 84.8% of Lesotho’s total population is literate, and whilst the GOL’s policy is to formulate a functionally literate society with grounded sufficient social, scientific and technical knowledge and skills, it was established that the education budget in the country is primarily for academic not professional training, thereby resulting in a shortage of training and development institutions for SMMEs. Lesotho Country Monitor (2013) adds that the training plan for development of employees and owners of small businesses are non-existent, thereby leading to demoralization of staff. A study by Lesotho Country Monitor (2013) also shows that a problem with this strategy is how to reach out to the SMME owners who often do not regard themselves as business owners and more often do not show any interest in training and lack basic educational skills. Reynoso *et al.* (2014) argue that this strategy will be unproblematic only if the development programs are flexible and adapt to eccentric situations.

(iii). Business management

Limited knowledge regarding SMMEs’ training programmes is attributed to inadequate financial resources and lack of motivation of managers to invest in skills development (Makó, 2005) . According to Pawliczek *et al.* (2013), the role that the SMME owners play in their businesses, as well as the sizes of their enterprises, determines the role of their managing capabilities. Managerial capabilities are known as knowledge, attitudes, skills and behaviour that contribute to individual success. Cant and Wiid (2013) find that lack of managerial know-how; skills, personal qualities, poorly structured business

plans and resource famishment are the primary reasons why small businesses fail. Education, training and experience are the major factors contributing to proper financial management of the business. A study by Bekele and Worku (2008) found that managerial skills and business knowledge are vital factors that stimulate the existence and long-term survival of SMMEs, empowering them to become competitive in economies and this can be put down to careful realisation and analysis of efficient ways of utilising scarce resources and opportunities. Ryu and Simpson (2011) add that managerial abilities are supported by the education of the SMME owners, managerial experience, and entrepreneurial experience. However, Cant and Wiid (2013) highlight that low educational levels found in SMME owners, especially in the micro enterprises, decreases their management competencies and this is one of the reasons why their businesses fail.

Previous studies recommend that all business managers need managerial skills that are vital for their success. According to Mohammed and Farhad (2003) training programmes are implemented to advance managerial skills such that they are motivated towards increasing their effectiveness and must have the ability to identify and accept the need for change. However, a study by (Das, 2001) shows that in most developing countries, business management training has become a concern, resulting in deprived results and inefficiency of managers involved in training. Das (2001) explains that the training efforts in these countries are very low as some managers have managerial weaknesses and are therefore reluctant to undergo training.

3.6.2 Task environment

(i). Customers

SMMEs' abilities to offer products and services that customers need is limited due to inadequate financial resources that would assist them in exploring other business profitability sources such as research, low cost leadership and skilled employees to develop business strategies (Appiah-Adu and Singh, 1998). According to Cravens and Piercy (2003), the challenge with most small businesses in terms of customers lies in determining the right products and services to meet their needs and wants, to reserve market share and to develop customer loyalty. The small businesses' environment is very dynamic so much so that SMME owners in small and medium-sized enterprises have to deal with the most perceptive customers, who base their purchase choice on a

combination of factors such as price, product availability, location and the image of an enterprise. It is vital for emerging SMMEs to create relationships with customers from scratch. Nevertheless, Lindman (2004) states that SMMEs' marketing is generally different from that of well-established larger firms. SMMEs have narrow scope in terms of business operations, a small market share and essential operations driven and managed by owners (Lindman, 2004).

Ross (2012) states that SMME owners in small and medium-sized enterprises fail to develop and maintain relationships with their customers with the assumption that when the sale is made, the relationship ends and the attention shifts to getting new customers. Ross (2012) suggests that having a repeat customer is most valuable to the business because sensitive and personal relationships are established which make customers emotionally attached to the enterprise's products and services. Lack of demand for the products and services offered by SMMEs in Maseru was identified as one of the major challenges these small businesses face (GOL, 2008). According to Ntlaloe (2011) the undifferentiated nature of SMMEs' products and services offerings and lack of competitiveness between these enterprises due to the small market results in limited demand from customers.

(ii). Competitors

The majority of businesses in Lesotho are SMMEs, which continue to dominate the country as core contributors to economic growth hence the critical need for them to be competitive in the global market (MTICM, 2008). Small businesses operate in a very dynamic and competitive environment in which they are expected to succeed and most of them are vulnerable to competition and are not able to sustainably function in the business environment. According to Lepolesa (2008) the performance of Basotho-owned enterprises, especially those in retailing has declined in recent years, given the intense competition from foreign-owned enterprises, especially Asians who enter the city in large numbers and are given preference to access suppliers' credits since they easily repay their loans on time. However, a study by the African Development Bank (2012) contends that the level of competition in the city is very weak. The weak competitiveness of the city's economy results in numerous constraints that cause difficulty in determining productivity levels of infrastructural facilities, inadequate access to superior financial services, destitute quality of education and training, poor

quality of contemporary technology as well as ineffective marketing (African Development Bank, 2012). Research by the World Bank (2013) also shows that Maseru's uncompetitive business environment is one of the major constraints to the growth of businesses which affects both foreign investment and the growth of SMMEs. Ntlaloe (2011) suggests that the ownership structure of small businesses in Maseru and the relationship between foreign-owned enterprises and Basotho-owned enterprises are critical issues that need to be carefully revised in order to adopt a sustainable environment for all SMMEs in the city. There is no legislative framework in place to enhance and control competition regardless of the initiatives by the Government of Lesotho. The conscripting of the competition bill and the preparation of the competition policy are currently overdue thus resulting in failure to provide any breakthrough (BTI, 2014).

(iii). Employees

The quality of relationships that exists between employees and management in SMMEs influences the employees' capabilities to access crucial information to solve daily problems that arise in the workplace (Nelson *et al.*, 2007). Ryu and Simpson (2011) state that employees can also be customers of the company; this means that if they do not receive fair treatment, the message will get through to customers and this can be costly to the firm. When employees are not satisfied, they opt to take time off from work through sicknesses; they show less interest for the company's products and services and can even display their negative attitudes to customers (Euromonitor International, 2012). There are limited advanced resources available to SMMEs regarding the recruitment and developmental programs of employees, who are the driving force behind the success of an organization regardless of its size. Fathi *et al.* (2011) add that SMMEs have inadequate development programs intended to improve an employee's skills-base and knowledge, offering an opportunity for them to progress with the enterprise. There is a need for professional consultants who conduct seminars for employees for further training and skills development. These exist in larger businesses whereas for small businesses there is usually an owner, the manager and an employee (Fathi *et al.*, 2011).

3.6.3 Macro environment

(i). Political sub environment

The regulatory and legal environment influences the capacity of entrepreneurial activities and the establishment, formalization, growth and development of viable SMMEs. Research by the Foreign Investment Advisory Service (2007) found that special tax policies for SMMEs in Lesotho are non-existent, which forces these small businesses to be incorporated and to become subject to corporate income tax rather than a simplified tax regime. Small businesses regard the increased compliance charge imposed by tax systems to be heavy and are therefore faced with difficulties with respect to the preparation of self-assessments for income tax since they are unable to prepare proper books and are obliged to use accountant services which add substantial expenses (FIAS, 2007). According to the MTICM (2008), the majority of SMMEs in Maseru are retail businesses which become victims of the Lesotho Revenue Authority (LRA) due to increases in assessments on an estimated basis, and are therefore forced to shut down when tax regimes are not paid and business licenses are not renewed. Maleleka (2009) suggests that SMMEs must be introduced to tax regimes that are simplified and that enable the capability for the development of small businesses as this encourages SMMEs to register with tax authorities and to formalize.

Langwenya *et al.* (2013) state that “rules, regulations and policies designed to enhance economic development must support entrepreneurial activities in the same manner that they protect the interests of large enterprise.” According to Ratanova *et al.* (2013) the political attitude of a country regarding businesses depends on the goals and objectives of the government. The stability and sustainability of an enterprise is largely determined by the level of the legal framework a country has towards SMMEs (Ratanova *et al.*, 2013).

(ii). Economic sub environment

Economic progress in Lesotho as a whole has primarily been shaped by developments in the Republic of South Africa (RSA) which surrounds Lesotho in all areas and is more economically dominant. Research by the Ministry of Labour and Employment (2012) shows that GDP growth in Lesotho averaged 3.9% over the last 3 decades but this has not resulted in an increase in the employment rate and there has actually been a 57.3% increase in poverty level. Limited research in relation to the current unemployment ratio

still persists. However, a study by African Economic Outlook (2012) shows that the employment ratio to population ratio stands at 54.1% and 15.3% of this ratio represents the unemployed youth who find refuge in the SMME sector which nonetheless fails to absorb all unemployed youths. Increasing levels of unemployment and poverty rates result from retrenchments and falling remittances of migrant workers employed in RSA mines. This is due to the fact that the country depended highly on remittances from mineworkers as this generated about 50% of the gross national income (GNI). Because of the economic breakdown experienced both locally and globally, Tshabalala and Rankhumise (2011) state that businesses, especially SMMEs, are struggling to make ends meet. This can be attributed to the fact that consumers do not have enough income to purchase and the escalating inflation rates negatively affect the businesses so greatly that most of these small businesses face a dreary future. Low interest and inflation rates are vital to the uninterrupted operations of small businesses due to ease of access to loans for growth and development. Tshabalala and Rankhumise (2011) explain that extensive inflation and interest rates are a result of increased costs which become expenses to small businesses with regard to crucial business needs such as materials used in production, utilities and payments of rent. Consumer purchasing power also decreases since it becomes costly to take out loans for business growth and development.

(iii). Socio-cultural sub environment

Cravens and Piercy (2003) state that “for a business organization to operate successfully, it has to adhere to the changes in culture, nationality, religion and all other socio-cultural values that are treasured by members of the community.” The Basotho people need to be made aware of the potential for creating small businesses. The MTICM (2008) argues that the career attitudes of Basotho regarding business establishment are very ambiguous as there is lack of enthusiasm in embarking on new business ventures and Basotho are also pessimistic about the practicality of running their own businesses. Bruce and Jesselyn (2005) suggest that government initiatives in promoting and supporting the entrepreneurial culture across the personnel must be instigated by using large enterprises as vehicles. Bruce and Jesselyn (2005) explain that large enterprises have an eagerness to grow their employees as entrepreneurs with the potential for creating their own small businesses, thereby supplying their former employers with primary services that are crucial to the companies and that are easily

outsourced. According to the MTICM (2008), strategies such as the localisation and indigenisation of the supply chain through establishment of business linkages has proven to be a success in countries like South Africa and Tanzania hence a need for the government of Lesotho to encourage entrepreneurial culture. There are increased rates of small business establishment in countries that have optimistic perceptions of entrepreneurship, and those that have a developing societal awareness regarding the significance of entrepreneurship in relation to business growth and development (Bruce and Jesselyn, 2005).

(iv). Technological environment

There is deficiency in the market-driven, specialised technology institutions in Lesotho (Nthejane, 2003). According to the United Nations Conference on Trade and Development (2009) the introduction and usage of the internet has made slow progress across Maseru, reflecting low income and increased costs. Internet connectivity in Maseru is very low. A report by the MTICM (2008) shows that economic policies in Lesotho are affecting innovation and the rate of technological change such that the country does not benefit fully from FDI in relation to skills transfer and technology acquisition, especially for Basotho-owned enterprises. UNCTAD (2009) explains that there is a need for foreign associates to establish more advanced facilities as the literacy level in Maseru is comparatively high but lacks the industrial base, technical competences and entrepreneurial skills. Further study by the MTICM (2008) found that the under-developed transport infrastructure in many areas across the city restricts the ease of access to essential services as the road infrastructure remains mostly unpaved. Access to electricity and water varies across zones, where businesses in remote areas are faced with limited or no access to electricity and water, compared with those situated in urban areas.

Infrastructural constraints are prevalent for small businesses operating in informal settlements that are not interconnected to services and are situated in remote areas with inadequate infrastructure with inadequate finance to afford these services (MTICM, 2008). GOL (2008) states that efforts have been made to alleviate infrastructural challenges in order to diversify the economy and to offer an enabling environment for resourceful, cost-effective and safe transport. However, inadequate government resources, limited ability in local road construction and the nonexistence of recognized

and designated industrial settings to permit the development of serviced premises for industry have caused constraints in infrastructure rollout. This therefore results in increased rentals for SMMEs as they are faced with limited options for selecting appropriate locations for their businesses (MTICM, 2008). According to GOL (2008), a secure commitment to develop and maintain consistent physical and communications infrastructure has indeed been made. This is as a result of research which has shown that upgraded electricity, road and water supply are of critical prominence to SMMEs with regard to intensifying capacity and opportunities for local and international trade as well as encouraging the development of Lesotho's tourism industry.

3.7 Gender Equity

There are limited job opportunities available in both government and non-governmental organisations (NGOs) in Lesotho and as a result many Basotho, both males and females resort to creation of their own businesses to be their own bosses (Lesotho Country Monitor, 2013). Female entrepreneurs also play significant roles in the dominance of SMMEs. A study by Chirwa (2008) found that female-owned and male-owned enterprises encounter different challenges in their business operations which in turn results in differential influences on business performance. Abor and Biekpe (2006) state that, female-owned enterprises grow more rapidly than male-owned enterprises due to easier access to credit facilities which lately put much focus on women entrepreneurs. However, a study by the MTICM (2012) argues that business ownership in Lesotho's SMME sector is more or less equally divided between males and females even though those with higher annual turnover are mostly owned by men. Abor and Biekpe (2006) further explain that differential performances on gender-based enterprises are determined by the economic sectors within which the enterprises operate. Neutral gender sectors where profits are lower include textile, wood, leather and pottery manufacturing, hotels, restaurants and services while for female-owned enterprises, higher return rates are in sectors such as food, beverages, tobacco, garments, footwear and general merchandise retailing (Chirwa, 2008).

According to Sengaloun and Yoshi (2012) males' and females' experiences come from the environment and culture that surrounds them and this influences their decision-making behaviour, their choice of strategies and how they approach their businesses. Sengaloun and Yoshi (2012) further explain that female entrepreneurs have high

societal qualities such as a strong concern for others, generosity and interpersonal compassion while male entrepreneurs tend to possess high self-assertion and the eagerness to become masters in their businesses. The MTICM (2012) states that socio-cultural customs that regard women as minors entail legal constraints which discourage women from gaining adequate access and control of productive resources. Chirwa (2008) recommends that governments must implement initiatives to support microfinance institutions that aim at assisting SMMes' economic activities without being biased towards providing credit based on gender. A report by IRIN Lesotho News (2014) shows that in Lesotho women, especially those in the rural areas, encounter extensive difficulty with respect to accessing financial assistance as they do not meet the requirements of financial institutions, and are further faced with gender-based institutional, regulatory, legal and cultural barriers that constraint the scope and scale of their business activities. A survey undertaken by Langwenya *et al.* (2011) shows that, a large number of SMMes in Maseru are owned by men, a clear indication of the underperformance of Lesotho regarding the entrepreneurial role women play in the economy. Nevertheless, the government of Lesotho has made far-reaching efforts by paying attention to such constraints, guaranteeing ease of access for women to these financial services. Currently processes to modify the applicable legal frameworks are underway and the establishment of more micro-credit schemes is being encouraged (IRIN Lesotho News, 2014).

3.8 Location (Rural versus Urban)

An observation from a survey carried out by Lepolesa (2008) showed that there is still a difference in activities between urban and remote areas in Maseru, such that a higher percentage of small manufacturing businesses are mostly found in remote areas of the city while the trade and services activities in remote areas have decreased and are mostly located in urban areas. Booyens (2011) found in his study that emerging SMMes have a greater possibility of rapid growth in most rural areas as compared to those in urban areas because of the advantages associated with operating in markets with lower debt loads and lower entry modes. However, Nurmet *et al.* (2012) argue that many factors regarding the success of SMMes are in favour of the urban-located SMMes because they are bigger in size, have easier access to a skilled and educated workforce as compared to the rural SMMes and are likely to be situated in growing sectors of the economy.

3.9 Existence of Foreign-owned Enterprises

The contemporary existence of Asian investors in Maseru continues to be regarded by Basotho-owned businesses as one of the main challenges they are faced with. Strong anti-Chinese opinions prevail in Maseru, such that these foreign traders are often accused of any possible misconduct. Research carried out by Consultancy Africa Intelligence (2011) found that governments in most developing countries impose strict regulations on local SMMEs, whereas the existing legal systems provide more conducive environments for international companies and thus make it impossible for local SMMEs to compete with international firms. A report by Turner (2013) indicates that “there is a local frustration from Basotho people such that they regard Asian investors as foreigners who take over the existing small-scale sector.” An interview by IRIN Africa (2008) with one of the most successful Mosotho entrepreneurs showed that much blame for the failure of local small businesses is placed on the existing and prevailing emergence of foreign-owned enterprises with strong sentiments that these enterprises offer products and services of poor quality and at very low prices. However, Turner (2013) shows that without the existence of foreign-owned enterprises in the city, investment would also be non-existent. “The government of Lesotho should take more dynamic roles in training Basotho entrepreneurs to compete as the global economy comes to their doorstep” (Turner, 2013).

3.10 Conclusion

The focus of Chapter Three was to provide a discussion of the SMMEs that operate in Maseru specifically. The environmental factors that surround and impact on the daily operations of these small enterprises were outlined. Furthermore, the strategies that are essential to the success of SMMEs in Maseru were examined. Lastly, the chapter provided an overview of the particular challenges that impact on the growth and development potential of SMMEs located in Maseru. The following chapter details the methodology that was used in order to gather data for this study.

CHAPTER FOUR: Research Methodology

4.1 Introduction

The previous two chapters entailed a comprehensive literature review from appropriate journals, books, newspapers, magazines and the internet in an attempt to discuss small, medium and micro enterprises. The systems theory that guided this study, the environmental factors that impact on the success and failures of these enterprises, strategies vital to their growth and development as well as the challenges they face were also entailed. Secondary sources reveal that SMMEs are effectively the driving force behind job creation, poverty alleviation and innovation and therefore play a substantial role in the economic growth of any country. Ciubotariu (2013) presents a continuum for assessing the significance of SMMEs and their basis for economic development through their vitality, flexibility, adaptability, and innovative potential. Literature also revealed the challenges faced by these enterprises, mostly with regard to internal and external environmental factors as they directly impact on these enterprises.

The purpose of this chapter is to determine and discuss the appropriate research methods used in obtaining the results of the study. Research methodology provides a guideline of data collection for research projects. Welman *et al.* (2005) state that research methodology considers and provides a meaning behind research methods and research techniques, and has a broader scope than research methods, which in turn, have a wider scope than research techniques. The research methods and techniques used in this study assisted the researcher to take into account past research findings on SMMEs and to further research the issues related to the success and failures of SMMEs in relation to environmental factors, in the context of Basotho owner-managers operating their small businesses in the capital city of Lesotho, which is Maseru.

A number of research questions were posed and research objectives formulated in this study. In answering these questions and addressing the objectives, the researcher made use of a descriptive study in order to assist the researcher in determining the environmental factors and strategies that impact on the success and failures of SMMEs in Maseru.

4.2 Research Questions

In guiding this study, the following research questions were posed:

- To what extent do SMMEs depend on assistance from financial institutions?
- Do SMMEs have adequate training and development?
- To what extent do SMMEs develop and practice strategic plans?
- What advertising strategies do SMMEs use in order to be successful?
- To what extent does competition impact on the success of SMMEs?

4.3 Research Objectives

To answer the research questions, the following objectives were formulated:

- To ascertain the extent to which SMMEs are dependent on assistance from financial institutions.
- To establish if all SMMEs have adequate training and development.
- To determine the extent to which SMMEs develop and practice strategic plans.
- To ascertain the advertising strategies SMMEs commonly use in order to be successful.
- To determine the extent to which competition impacts on the success of SMMEs.

To ascertain the extent to which SMMEs are dependent on assistance from financial institutions.

This research objective provides a clear understanding of the role of adequate finance in small business success. A study by Nurmet et al. (2012) found that there is a difference in extensive success strategies practised by SMMEs with government funding relative to micro enterprises, survivalists and a portion of small enterprises who are in most cases overlooked regarding financial assistance. Nurmet *et al.* (2012) base their argument on the premise that enterprises with no financial assistance and inadequate start-up capital fail to exercise vital strategies and are therefore most vulnerable to environmental factors, thereby hindering their growth and development abilities. This

factor was therefore reviewed in this study, in order to determine the significance of government finance in small business success.

To establish if all SMMEs have adequate training and development.

Given the inadequate finance available for SMME owner-managers to practice success strategies, this objective assists in determining the perceived vitality of training and development needs. It further aims to provide a clear understanding of whether the essential training and development activities are affordable and available to SMME owner-managers and their employees. Research by Morgado *et al.* (2014) shows that the contribution in support of SMME survival and development through training programs to further enhance business competences of the owner-managers and employees is vital to the success of SMMEs.

To determine the extent to which SMMEs develop and practice strategic plans.

With regard to the increasing rate of failure of SMMEs in Maseru, and the decrease in training and development workshop attendance, this objective aims to obtain a clear understanding of the abilities of SMME owner-managers to be robust, to think and act strategically for the long-term survival of their enterprises, given the internal and external challenges surrounding businesses as they strongly impact and slow the growth of these enterprises. Alstete (2014) presents a continuum of deceptive contradictions to contrast operational strategic planning with flexibility of these small businesses with the changing, dynamic environment.

To ascertain the advertising strategies SMMEs commonly use in order to be successful.

In order for this research to provide meaningful results, this criterion was measured for all participants. The study used information from a large number of small to medium-sized enterprises regarding this objective, as advertising strategies are linked to growth potential and therefore are usually financially supported. Thus there is a need for SMMEs to engage in advertising strategies to create awareness of their existence, products and services offerings to new and existing customers. The results from a limited number of basic survivalists and micro enterprises were obtained even though they barely regard advertising strategies as a basis for their survival, given their inadequate financial state. This objective aims to identify the essential advertising

strategies vital to SMMEs to adopt, implement and operationalize. The extensive utilization of these strategies provides a solid framework for SMMEs' capacity to generate competitive advantage, and a vibrant perspective for the future developments of SMMEs. Small and medium enterprises depend on considerable finance, special expertise acquired from training, and unlimited impact in the marketplace acquired from the practise of significant advertising strategies. All these factors therefore support the need for resource allocation and deployment of essential advertising activities (Valeriu *et al.*, 2011).

To determine the extent to which competition impacts on the success of SMMEs.

This research objective provides clarity with regard to the competitiveness of SMMEs, which is a complex and contested concept in the universal literature. The business environment is surrounded by national and international competitors and this creates a necessity for individual enterprises to identify the behaviours of these competitors and to assess their potential. The present development of business environment has produced substantial failure of SMMEs, hence there is a need to evaluate the extent to which competition impacts on their success, and the competitive strategies that allow them to sustain their gained market positions and to have a concrete foundation in the competitive battle (Manole *et al.*, 2014).

This study was vital for the SMME sector, especially the micro-enterprise owner-managers who have been excluded in previous studies due to the size of their enterprises and limited potential for growth and development. Ntlaloe (2011) states that a majority of SMMEs in Maseru are micro-enterprises with limited potential for growth and development, however, previous studies done to investigate SMMEs in the capital city did not include the proportion of micro-enterprises because the main objective of those studies was to obtain adequate data on the enterprises with high potential for growth and development. This study aimed to create an awareness amongst SMME owner-managers of the vitality of their enterprises to the country's economy, to gain a clear understanding of the activities that happen within and around their enterprises, the kind of strategies they should engage in, as well as an awareness of the financial and training institutions available to help further their enterprises' growth and development.

4.4 Geographic Area

The data required for this study was gathered from both formal and informal SMMEs trading in the city of Maseru. The geographic region is vital for this study because the city has been regarded as a developed growth point in Lesotho. With regard to the valuable access to respondents throughout the city, through contacts and random approach, and an in-depth knowledge and clarity of all villages in the city, it was regarded crucial for the city to serve as the target area for this study, with all SMME owner-managers concerned. The city of Maseru, which is the largest and most concentrated of all other 9 districts in Lesotho, is the capital city of the country, with a population of approximately 227,880 people, concentrated in both the urban and remote areas within it (Government of Lesotho, 2008).

Previous studies showed that the economy of Maseru has both urban and rural communities, hence the importance to enhance the SMME sector in order to assist in poverty alleviation through creation of more jobs throughout the city. Enhancing the SMME sector would improve sustainable economic activities by creating awareness for potential investors of the significant role these small businesses play and the extensive efforts to bring them into the conventional economic developments. In the Maseru district, 23.4% of the population is unemployed and characterised by increasing levels of poverty (Government of Lesotho, 2008). Agricultural activities are therefore becoming a common trait and a source of employment and sustenance for the majority of the rural population for survival (African Economic Outlook, 2012). Extensive measures have been taken by the government to promote the city through foreign investments offering potential opportunities for immense growth, with the hope that such investments will provide opportunities for SMME initiatives (GOL, 2008).

4.5 Research Design

According to Hair, Celsi, Money, Samouel and Page (2011) a research design is the fundamental direction for executing the project. The researcher must choose a design that will provide appropriate information as per the research questions or hypotheses in the study and the research design must allow the researcher to complete the study in the most effective manner (Hair *et al.*, 2003). Sekaran and Bougie (2010) add that in order to simplify the researcher's understanding of various designs, research designs are

grouped into three types, namely: exploratory research design; causal research design; and descriptive research design.

Exploratory research design is undertaken when the researcher has minimal knowledge about the problem, opportunity or situation at hand and there is no available information on how related problems or research issues have been resolved in the past years (Cavana, Delahaye and Sekeran, 2001). According to Hair *et al.* (2003) exploratory research is undertaken to determine new relationships, themes, ideas or patterns and is not intended to test research hypotheses. Exploratory research design depends more on qualitative techniques than on quantitative approaches (Hair *et al.*, 2003).

Causal research is undertaken to test the cause-and-effect relationship (Bougie and Sekaran, 2010). Hair *et al.* (2003) state that causal research tries to show a causal relationship between variables, meaning that a change in one variable results in a consistent change in another variable.

Lewis, Thaunders and Thornhill (2011) state that, a descriptive research design is used to obtain data that describes the characteristics of the research topic of interest and it answers the who, what, how, where and when questions. Descriptive studies should represent data in a significant way to help researchers achieve a clear understanding of the characteristics of the group in a given situation, to think systematically about all aspects in that situation, to suggest ideas for further research and to make assured, easy to follow decisions (Hair *et al.*, 2003).

The research design relevant for this study was the descriptive research design as it assisted the researcher to clearly describe the characteristics of the variables in the study, that is, to describe how strategies undertaken by SMMEs as well as environmental factors moderate their performance to be successful. According to Cavana *et al.* (2001) descriptive research is undertaken to gain a clear understanding of organizations that follow certain common practices. This design was used to also describe the characteristics of the individual owners of these enterprises, which includes variables such as age, race and educational background. Bougie and Sekaran (2010) explain that descriptive research design allows the researcher to gain an in-depth profile that describes the characteristics of areas of interest in employees, businesses and industries.

4.6 Research Approach

Bougie and Sekaran (2010) state that there are two research approaches used regarding data collection and these are the qualitative and quantitative research approaches. Cavana *et al.* (2001) state that qualitative research is generally based on evidence collected from people's values, beliefs and interpretations about the topic being studied, while quantitative research is based on unbiased observations, accurate measures, statistical analysis and provable truths that identify human behaviour for researchers to control and predict.

A quantitative research approach was used in this study to collect data. This is because it helped the researcher in providing a summary of the information obtained from the respondents. Lewis and Thornhill (2007) state that a quantitative research approach clarifies occurrences by collecting numerical data that are analysed using statistically based methods. The data collected is displayed using tables, transforming it to numerical codes so that it can be analysed statistically. Miles, Huberman and Saldana (2013) add that using the quantitative approach to collect data ranges from simple counts such as the frequency of occurrences to more complex data such as test scores, prices or rental costs.

4.7 Study Site and Target Population

The study site for this research was the remote and urban areas of the city of Maseru. The reason for this study site was because most of the SMME population operates in these areas. Furthermore, Maseru is the capital city of Lesotho, which has the largest population concentration of SMMEs and thus provided sufficient information which represents all SMMEs in the city. Cavana *et al.* (2001) defines population or target population as the entire group of people, events or things of interest to the researcher that he or she wishes to investigate. The target population for this study was 1,000 SMME owners who operate in the rural and urban areas of Lesotho's capital city which is Maseru. There is no accurate data regarding the number of SMMEs in Maseru. However, a study by Ntheja (2000) shows that the number of SMMEs in Lesotho is approximately 10,000, meaning that Maseru as a capital city has approximately 1,000 SMMEs operating formally. The target population included small, emerging, as well as informal enterprises. The informal enterprises are also included because they form a large majority of the SMMEs in the city and they have been excluded in most previous

studies done in the country concerning SMMEs as they are said to have limited potential for growth and development. The SMME owner-managers were randomly approached at their places of operation and given questionnaires to fill in, in the presence of the researcher.

4.8 Sampling Techniques and Description of the Sample

According to Hair *et al.* (2003) sampling is the process of selecting a number of elements from the population so that its characteristics or properties would enable the researcher to generalize to the rest of the population. Saunders *et al.* (2011) explain that a need to sample is crucial to the researcher as it saves time and it is easier to organize and manage the data collected from fewer people. The two fundamental types of sampling as explained by Hair *et al.* (2003) are and the non-probability sampling. With non-probability sampling, Cavana *et al.* (2001) explain that not every element of the target population has a chance of being selected, meaning that the researcher has no assurance that each element of the population will be represented in a sample.

With probability sampling, Cavana *et al.* (2001) state that the elements in a sample are of importance and must be representative of the population, that is, the elements in the population have an equal chance of being selected as subjects in the sample. The sampling technique suitable for this study was the stratified sampling which is a form of probability sampling. Bougie and Sekaran (2010) add that stratified sampling is used when the researcher's targeted population is large, enabling the researcher to breakdown the sample into strata using fixed criteria which increases the accuracy of the sample information. Because of the dominance of small businesses, with an estimated 10,000 plus formally operating in the country, the potential SMMEs to form a sample for this study were 1,000 in the city of Maseru alone. According to (Kotrlík and Higgins, 2001), the sample size required to be representative of the responses of 1,000 SMME owners in Maseru relative to the environmental factors and strategies that impact on the success and failures of their enterprises is 250.

It is crucial for the sample to be representative of the population so that the result can be generalised to the larger population of SMMEs in Maseru through both the descriptive and inferential statistics. In this method, the participants in the study were divided into strata and elements were then selected separately from each stratum. The sample was characterised as follows:

- (i) Micro, Small and Medium-sized enterprises in the capital city of Maseru.
- (ii) Male and female SMME owner-managers.
- (iii) SMMEs located in the remote and urban areas of Maseru.
- (iv) Both registered and unregistered SMMEs.
- (v) All SMMEs regardless of the number of years in operation.

4.9 Research Instrument

Structured questionnaires were formulated with the use of both close-ended and open-ended questions. The method was preferred because Cavana *et al.* (2001) suggest that the use of structured questionnaires provides accurate and useable data that will enable the researcher to analyse and write a good report. Rowley (2014) adds that questionnaires are frequently used in conducting a quantitative study from a large pool of respondents, whereby the researcher aims to profile the sample in relation to numbers or to be able to count the frequency of occurrences of attitudes, opinions, experiences or behaviours. Questionnaires were distributed to the participating SMME owner-managers to complete, with three research assistants available for distribution. The reason for this was to take advantage of the easy accessibility to a large number of potential respondents spread within the city in a short space of time. The research assistance was preferred because data was to be collected from a large group of respondents geographically dispersed within Maseru. The presence of the research assistants throughout the process of filling in of the questionnaires was due to the illiteracy level amongst owner-managers. The assistants could therefore guide and offer clarity to avoid any misunderstandings that might occur regarding the questions. Rowley (2014) states that “one common limitation of a questionnaire is that the researcher is never assured as to whether or not the respondents understood all questions and provided answers accordingly thus the importance of the researcher’s presence for clarification.” Gill and Johnson (2010) add that such a method enables adequate data collection because of high response rates.

The questionnaire was divided into two sections with a mixture of both open-ended and close-ended questions focusing on the objectives of this study. According to Rowley (2014) close-ended questions are quick for respondents to fill in, which thus increases

the response rate and becomes easier to code and analyse. On the other hand open-ended questions become vital for the researcher to gain in-depth insights and information, permits respondents to use their own language and to express their views, relative to the confinement of the pre-arranged structure of the close-ended questions. These questions concentrated on the extent to which SMMEs get assistance from financial institutions, the level of training and development these owner-managers possess, the extent to which they engage in strategic planning, the advertising strategies they use as well the impact of competition surrounding them. The first part of the questionnaire, which is Section One, focused on the demographic information of the respondents. Section Two consisted of questions that seek to find information regarding the objectives of this study. The questions included in Section Two were as follows:

Questions A. (i) to (v) address the issue of government financial support, that is, to determine the role that various use of sources of capital and adequate financial support play in the growth and development of these enterprises.

Questions B. (i) to (viii) address the second objective and seek to find information regarding the necessity of training and development activities for owner-managers and their employees, using the MTICM *White Paper* (2012) definition of SMMEs in Lesotho with regard to the number of employees. These questions assisted in determining the level of participation per classification of these enterprises.

Questions C. (i) to (v) seek to identify the level of strategic thinking, planning and practice by SMME owner-managers, thereby addressing the third objective of this study.

Questions D. (i) to (vii) seek to gather information with regard to the fourth objective, to identify the advertising strategies that are vital and those used by owner-managers.

Questions E. (i) to (v) address the issue of competition and seek to elicit information from the respondents about the current and potential new indigenous and foreign competitors surrounding them, thus providing information regarding the fifth and last objective.

A number of SMME owner-managers were approached at their places of operation so the need for the gatekeeper's letter was deemed unnecessary. The attachments on the questionnaire included the letter from the School of Management, IT and Governance at

the University of Kwa-Zulu Natal, Westville Campus, which granted permission to conduct the study, and the consent letter that explained to participants that their participation in the study was entirely voluntary and that their confidentiality would be maintained at all times.

4.10 Data Quality Control

Hair et al. (2003) suggest that before the researcher can use the scores from any construct for analysis, they must confirm that the variables chosen to represent and measure the concept do so in an accurate and consistent manner. Accuracy is associated with validity and consistency with reliability (Hair *et al.*, 2003).

4.10.1 Test for validity

According to Sekaran and Bougie (2010) validity refers to the extent to which a construct measures what it intends to measure. (Hair *et al.*, 2003) classified the validity tests under three approaches, namely the criterion validity, construct validity and the content validity, discussed below:

- (i) Cavana *et al.* (2001) define criterion validity as a measure that evaluates whether a construct does perform as expected in comparison to other variables that are identified as also meaningful criteria. Under this approach, two types of criterion validity checks can be used and are referred to as the predictive validity, which assesses whether a construct measured at a particular time has the ability to predict another criterion at a later time, and the concurrent validity, which evaluates the ability of measured constructs to produce different scores (Hair *et al.*, 2003).
- (ii) Construct validity assesses what the construct or scale is really measuring, that is, how accurate the outcome found from the use of the instrument fits the constructs it is intended to measure (Bougie and Sekaran, 2010). According to Hair *et al.* (2003), to assess construct validity, two approaches have to be used, namely the convergent validity, which is the extent to which the concepts that measure the same constructs are positively correlated, and the discriminant validity, which is the extent to which the constructs that are of different measures do not correlate.

- (iii) Hair *et al.* (2003) explain that content or face validity involves the degree to which objects completely represent the constructs measured. Content validity was used for this study. According to Bougie and Sekaran (2010), content validity ensures that suitable and illustrative objects that measure a concept are entirely representative and represent the concept that is measured. The same sample size will entirely represent the SMMEs in the urban and rural areas of Maseru.

4.10.2 Test for reliability

Cavana *et al.* (2001) explain that the reliability of a measure implies the extent to which a measure of a construct is unbiased, without error and offers consistence and accurate measurement across time and across numerous items in the instrument. To determine the stability of measures, (Hair *et al.*, 2003) state that the use of a test-retest, parallel-form and internal consistency reliability are vital.

- (i) Test-retest reliability measures the degree to which an instrument containing items that are to measure a concept is administered to the respondents at different times and under similar conditions to compare the results in order to determine their similarity and if they are similar, they have high test-retest reliability (Hair *et al.*, 2003).
- (ii) Parallel-form reliability is explained by Bougie and Sekaran (2010) as a response from two sets of measures assessing the same construct and highly correlated, that is, having a set of a number of different questions measuring a single construct, dividing them into two parts and administering them differently to the same sample.
- (iii) According to Hair *et al.* (2003) internal consistency reliability is used to assess the valuated scale to form a total score for a construct summed by several items, which means that the internal consistency reliability specifies the consistency of a set of items in the scale that together measure the construct and items must be capable of independently measuring the same construct for the respondents to be able to assign the same meaning to each of the items. The two types of internal consistency reliability as explained by Hair *et al.* (2003) are the split-half reliability in which the researcher

randomly divides equally the set of scale items and correlates them, as well as the coefficient alpha which is also referred to as the Cronbach's alpha.

- (iv) Cronbach's Alpha was used to find the level of reliability regarding the information presented, based on the average correlation of variables within a test if the variables are standardised. Panayides (2013) states that, "if the variables are not standardised, the test is based on the average covariance among the variables". The test was computed to assess how consistent the results were and if related results can be generated if the sample size was to be increased on a need for basis. Panayides (2013) recommends reliabilities of 0.70 or better, but not beyond 0.80 for basic research.

4.11 Data Analysis

Data was captured and analysed using the Statistical Package for Social Sciences (SPSS21) which is defined by Green and Salkind (2011) as a set of data manipulation and statistical analysis programs used by researchers to understand the meaning of their data. Frequencies were used in analysis across variables of the questionnaires to investigate the relationship between variables and were presented in the form of tables for clearer understanding. The non-parametric techniques were also used to analyse relationships among variables. The Mann-Whitney U Test was used to test for differences between two independent groups on a continuous measure while the Kruskal-Wallis Test was used to compare the scores on a continuous variable for three or more groups. According to Green and Salkind (2011) non-parametric testing is perfect to use when data are measured on nominal and ordinal scales.

4.12 Ethical Considerations

Ethical consideration forms the basis for the research and provides an indication of how the study would be conducted. Ethical issues in this study were considered through pursuing ethical clearance from the Research Ethics Committee of the University of KwaZulu-Natal and approval was given to undertake the study, with the issuance of a formal letter in this regard. The target population and sample of the study constituted SMME owner-managers who were in the right position to provide relevant information about their enterprises based on the questions in the questionnaire. Due to the fact that no permission was deemed necessary in terms of the gatekeeper's letter, these owner-

managers were approached at their places of operations. The rules that govern the field work were read to the SMME owner-managers, they were made aware of their voluntary participation, confidentiality, benefits and intentions of the study as well as the minimal time required for their participation in filling out the questionnaire.

4.13 Limitations of the Study

- Due to the limited time and cost constraints, the researcher found difficulty in accessing most of the medium-sized enterprises, as a large number of these enterprises are foreign-owned and were therefore reluctant to disclose any information regarding their business operations. However, the results of this study can be used for further research regarding the known racial diversity in the SMME sector and the inclusion of proportionate SMMEs for more reliable and valid sampling frame.
- There was no accurate database only the limited literature available regarding the number of SMMEs operating in Maseru hence the use of approximation to determine the population and sample size. The figure of 10,000 SMMEs operating throughout Lesotho, which was derived from the literature was divided proportionately between the 10 districts to determine the target population of 1000 which then assisted in deriving at the sample size of 250.
- Some of the targeted participants were unwilling to disclose any information or participate in the study whatsoever; as they were not convinced of the primary objectives of the study with extensive misunderstandings of what the information collected would be used for. This reduced the number of actual participants that made up the actual sample used for the study.
- A few of the questionnaires that were left for respondents to fill in during their own free time were never returned as the participants may have been busy or may have lost interest, thereby reducing the sample size to 180 instead of the anticipated 250.

4.14 Conclusion

Chapter Four presented the methodology employed in this study. The chapter began by recapping the research question and objectives, and provided a motivation for why each

of the objectives was selected. Thereafter the geographic area in which the study was based was briefly discussed. Next, the descriptive research design and the quantitative approach was explained, and a justification as to why these were utilized by the researcher was offered. Following on from this, the chapter detailed the target population, the sampling technique and research instrument used in the study. The data quality controls of validity and reliability were subsequently expanded on. The chapter concluded with a consideration of the ethical issues related to the study, as well as the limitations that the researcher had to overcome in conducting the study. The next chapter presents the results of the study and provides interpretations regarding the analysis of the data collected.

CHAPTER FIVE: Presentation and Interpretation of Results

5.1 Introduction

In the previous chapter, information was provided with regard to how the data collection was carried out, with a clear description and presentation of the research methodology. This chapter presents the data collected during the study, which is displayed in the form of tables and briefly described. In carrying out this study, questionnaires were administered to determine the knowledge, attitudes and views of SMME owners in Maseru, regarding the strategies vital to their businesses, the environment they operate in as well as the challenges they face. The total number of questionnaires returned by the respondents was 180. To derive the information provided below, the data was processed using SPSS (version 21) and will be interpreted per question (as they appeared in the questionnaire) in two sections, namely Section One and Section Two. Section One focuses on the demographic information collected from the questionnaire and the data is therefore presented as descriptive inferential statistics. Thereafter, Section Two presents a detailed inferential analysis regarding the strategies employed by SMMEs, as well as the environmental factors and challenges that these enterprises face. Firstly however, the chapter begins with an overall account of the data received from all questionnaires.

5.2 Data Analysis

Table 5.1 Cronbach's Validity

| | | N | % |
|-------|----------|-----|-------|
| Cases | Valid | 171 | 95.0 |
| | Excluded | 9 | 5.0 |
| | Total | 180 | 100.0 |

Table 5.2 Reliability Statistics

| Cronbach's Alpha | Cronbach's Alpha Based on Standardized Items | N of Items |
|------------------|--|------------|
| .722 | .735 | 16 |

Table 5.1 indicates the Cronbach's reliability. The population (N) is 180 and the actual responses received from the participants are 95%, with the 5% exclusion resulting from unanswered questions in those questionnaires.

At .722, the reliability and stability of the study is confirmed, as indicated in Table 5.2. Cronbach's Alpha was used to measure the reliability of the study for clarification of whether the questions in the questionnaire were all reliable to measure the same underlying variable. Cronbach's Alpha based on standardized items is .735, making the items more reliable, and is thus acceptable since Alpha more than .60 is regarded reliable.

Table 5.3 Item Statistics

| | Mean | Std. Deviation |
|--|------|----------------|
| How did you obtain the start-up capital for your business? | 1.00 | 1.225 |
| Was your request (loan) approved? | .78 | .441 |
| What areas did you receive training on? | 2.44 | 2.186 |
| How many employees do you have? | 1.89 | .601 |
| How often do you train them? | .33 | .707 |
| How often is planning carried out? | 1.78 | 1.093 |
| Are plans implemented and achieved? | .33 | .500 |
| Where do you wish to see your business in the next 3-5 years? | .89 | 1.764 |
| What form of advertising media do you use to inform your customers about your products and services? | 3.00 | 2.398 |
| How often are your products and services advertised? | 1.33 | 1.000 |
| If yes, please clarify your target market? | 1.22 | .667 |
| What do you regard as the challenges linked to competition? | 1.44 | 1.590 |
| Is competition high in the current market? | .11 | .333 |

| | | |
|--|------|-------|
| What measures are taken to ensure a competitive advantage is maintained? | 2.33 | 1.871 |
| If yes, briefly describe | 2.67 | 1.323 |
| Any additional suggestions on what it takes to be successful as a small business owner | 3.00 | 1.658 |

Table 5.3 indicates the descriptive statistics (mean and standard deviation) for the variables correlated.

5.3 SECTION ONE: Demographic Information

DESCRIPTIVE FREQUENCY STATISTICS

This section presents the information regarding the demographic information of the respondents and is presented in the following tables:

Table 5.4 Gender (N=180)

| | | Gender | | | |
|-------|--------|-----------|---------|---------------|--------------------|
| | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Male | 115 | 63.9 | 63.9 | 63.9 |
| | Female | 65 | 36.1 | 36.1 | 100.0 |
| | Total | 180 | 100.0 | 100.0 | |

Table 5.4 indicates that 63.9% of the respondents were male owners of SMMEs in Maseru, while 36.1% of the respondents were female owners. In terms of gender in relation to the establishment and success of small businesses, the SMME sector remains male-dominated. This is a clear indication that women are still disadvantaged with regard to establishing small businesses and are regarded as minority as compared to men.

Table 5.5 Age (N=180)

| | | Age | | | |
|-------|--------------------|-----------|---------|---------------|--------------------|
| | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Under 21years | 7 | 3.9 | 3.9 | 3.9 |
| | 21-34 years | 77 | 42.8 | 42.8 | 46.7 |
| | 35-45 years | 61 | 33.9 | 33.9 | 80.6 |
| | 45 years and above | 35 | 19.4 | 19.4 | 100.0 |
| | Total | 180 | 100.0 | 100.0 | |

Table 5.5 indicates the age group dispersion of participants. From this table, most (42.8%) of the participants who own small businesses are between the ages of 21-34 years. The next group (33.9%) fell within the age range of 35-45 years, followed by 19.4% of the respondents who are above the age of 45 years. The smallest number of 3.9% represents the respondents who are below 21 years. The fact that the least number of respondents are under the age of 21 years shows that small business ownership among this age group is lower due to current enrolment of young people in schools. This 3.9% of respondents under the age of 21 likely represents those who are underprivileged and who establish small businesses as a means for survival.

In terms of age and small business establishment, the fact that the majority of respondents fall between the age ranges of 21-34 years and 35-45 years indicates a concurrence that 'middle-aged' people establish small businesses due to the high unemployment rate that exists among these age groups, while some are likely to have established small businesses for market opportunities in so far as entrepreneurial experience is concerned. The older age group of 45 years and above may have embarked in SMME activities due to early retirements and profitable investments, in an effort to afford basic daily requirements.

Table 5.6 Race (N=180)

| Race | | | | | |
|-------|--------|-----------|---------|---------------|--------------------|
| | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Black | 168 | 93.3 | 93.3 | 93.3 |
| | White | 5 | 2.8 | 2.8 | 96.1 |
| | Indian | 3 | 1.7 | 1.7 | 97.8 |
| | Asian | 4 | 2.2 | 2.2 | 100.0 |
| | Total | 180 | 100.0 | 100.0 | |

From Table 5.6 above, it can be seen that a resounding majority (93.3%) of small business ownership in Maseru is by Black people as compared to White people (2.8%), Asians (2.2%) and Indians at 1.7%. The SMME sector in the city, particularly informal SMMEs, is predominantly owned by Black people. An effort was made to have representation of all racial groups in the study sample, however, a large number of respondents from other races were not willing to participate in this study, which posed a challenge with respect to racial diversity among SMMEs in Maseru.

Table 5.7 Educational level (N=180)

| Educational level | | | | | |
|-------------------|----------------------|-----------|---------|---------------|--------------------|
| | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Primary school level | 11 | 6.1 | 6.1 | 6.1 |
| | High school level | 69 | 38.3 | 38.3 | 44.4 |
| | Tertiary level | 98 | 54.4 | 54.4 | 98.9 |
| | Other | 2 | 1.1 | 1.1 | 100.0 |
| | Total | 180 | 100.0 | 100.0 | |

It is evident from Table 5.7 that the majority (54.4%) of SMME owners are those equipped with tertiary qualifications. The next group (38.3%) had only a high school educational level, followed by 6.1% at the primary level, whereas the smallest group (1.1%) failed to indicate their educational level. The qualification levels reported by the respondents are in agreement with the actual situation regarding SMMEs in Maseru, that most university graduates find refuge in small businesses due to the current escalating unemployment rate in the city (Ministry of Trade and Industry, Cooperatives

and Marketing, 2012). Furthermore, by revealing that the second most dominant group with regard to educational level are those who possess high school educational level, it is evident that the SMME sector is also characterised by individuals who cannot afford to further their studies. They therefore establish small businesses with limited or no skills and knowledge about managerial and business strategies vital for the success of small businesses.

Table 5.8 Number of years in business (N=180)

| Number of years in business | | | | | |
|-----------------------------|--------------------|-----------|---------|---------------|--------------------|
| | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | 0-2 years | 82 | 45.6 | 45.6 | 45.6 |
| | 3-5 years | 60 | 33.3 | 33.3 | 78.9 |
| | 6-10 years | 25 | 13.9 | 13.9 | 92.8 |
| | 11 years and above | 13 | 7.2 | 7.2 | 100.0 |
| | Total | 180 | 100.0 | 100.0 | |

Table 5.8 indicates that most (45.6%) of the respondents have been in business for less than two years. The group with the second longest ownership (33.3%) have 3-5 years business experience in the SMME sector. This group was followed by 13.9% of the respondents who have been in operation for 6-10 years and lastly 7.2% of the respondents who have been in business for 11 years or more. This shows that there is a high rate of emerging SMMEs that do not survive for longer than 5 years as they may be vulnerable to environmental challenges, with limited or no business skills to undertake strategies that would further enhance their growth and development.

Table 5.9 Registration with OBFC (N=180)

| Registration with OBFC | | | | | |
|------------------------|-------------------------------|-----------|---------|---------------|--------------------|
| | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Registered | 78 | 43.3 | 43.3 | 43.3 |
| | Not registered | 62 | 34.4 | 34.4 | 77.8 |
| | Will not register | 15 | 8.3 | 8.3 | 86.1 |
| | In the process of registering | 25 | 13.9 | 13.9 | 100.0 |
| | Total | 180 | 100.0 | 100.0 | |

Table 5.9 indicates that a majority of SMMEs (43.3%) across Maseru are registered with OBFC, followed by 34.4% of respondents representing unregistered SMMEs (mostly street vendors and those operating in informal settlements) who are reluctant to engage in the registration processes in order to avoid taxation. The next most numerous group of respondents are the 13.9% who are in the process of registering but claimed that registration processes and paperwork take a long time to be processed. Lastly 8.3% of respondents indicated that they will not register, emphasizing their smooth business operations without government intervention. The large number of registered SMMEs is in contention with past reports which show that the SMME sector is predominantly occupied by informal SMMEs relative to formal SMMEs. However, this is an indication that the government's efforts are indeed extensive with respect to reaching out to SMMEs in terms of registration.

5.4 SECTION TWO: Strategies, Environmental Factors and Challenges

INFERENTIAL STATISTICS

With regard to the statistical approach adopted in this study, to present and interpret the findings, the research objectives and the corresponding questions in the questionnaire are outlined below. Statistical information applicable to the research questions will be presented and analysed according to each of the predetermined objectives.

| RESEARCH OBJECTIVES | QUESTIONS ADDRESSING OBJECTIVES |
|---|---|
| <ul style="list-style-type: none"> • To ascertain the extent to which SMMEs are dependent on assistance from financial institutions. • To establish if all SMMEs have adequate training and development. • To determine the extent to which SMMEs develop and practice | <ul style="list-style-type: none"> • Questions A. (i), (ii), (iii), (iv) and (v) • Questions B. (i), (ii), (iii), (iv) and (v) • Questions C. (i), (ii), (iii), (iv) and (v) |

| | |
|--|---|
| <p>strategic plans.</p> <ul style="list-style-type: none"> • To ascertain the advertising strategies SMMEs commonly use in order to be successful. • To determine the extent to which competition impacts on the success of SMMEs. | <ul style="list-style-type: none"> • Questions D. (i), (ii), (iii), (iv), (v), (vi) and (vii) • Questions E. (i), (ii), (iii), (iv) and (v) |
|--|---|

5.3.1 OBJECTIVE 1: To ascertain the extent to which SMMEs are dependent on assistance from financial institutions.

CROSS TABULATIONS AND CORRELATIONS

*Table 5.10 Age * How did you obtain the start-up capital for your business? Cross tabulation*

| | | How did you obtain the start-up capital for your business? | | | | Total |
|-------|--------------------|--|----------------|------------|-----------------|-------|
| | | Own savings | Friends/family | Bank loans | Finance schemes | |
| Age | Under 21 years | 5 | 2 | 0 | 0 | 7 |
| | 21-34 years | 43 | 17 | 12 | 5 | 77 |
| | 35-45 years | 36 | 13 | 9 | 3 | 61 |
| | 45 years and above | 15 | 4 | 12 | 4 | 35 |
| Total | | 99 | 36 | 33 | 12 | 180 |

Table 5.11 Correlations

| | | Age | How did you obtain the start-up capital for your business? |
|--|---------------------|-------------------|--|
| Age | Pearson Correlation | 1 | .159 [*] |
| | Sig. (2-tailed) | | .033 |
| | N | 180 | 180 |
| How did you obtain the start-up capital for your business? | Pearson Correlation | .159 [*] | 1 |
| | Sig. (2-tailed) | .033 | |
| | N | 180 | 180 |

The analysis is used to determine whether the ease of access to financial assistance is determined by the age of SMME owners. The results outlined in Table 5.10 above show that a large number of SMME owners (99) in Maseru make only limited use of available financial institutions, resorting to their own savings for start-up capital. The next most likely source of capital indicated by the SMME owner-managers (36) was money borrowed from friends and family. Only 33 owner managers indicated that they had obtained financial assistance in the form of bank loans. This is a clear indication that challenges still persist with respect to SMMEs' access to financial assistance, with the possibility that government's efforts in reaching out to SMMEs for financial support are limited.

These results show that access to credit for start-up capital is not determined by the age of SMME owners.

In establishing confidence in the results, the Pearson coefficient was used, as shown in Table 5.11 above. The results reveal that there is a very weak positive relationship between age and ease of access to financial assistance, ($r=.159$, $n=180$). The correlation was found to be significant at only a 5% level of significance ($p=.033$). This means that ease of access to financial assistance is not determined by the age of an individual.

*Table 5.12 Race * How did you obtain the start-up capital for your business?
Cross tabulation*

| | | How did you obtain the start-up capital for your business? | | | | Total |
|-------|--------|--|----------------|------------|-----------------|-------|
| | | Own savings | Friends/family | Bank loans | Finance schemes | |
| Race | Black | 97 | 29 | 31 | 11 | 168 |
| | White | 0 | 2 | 2 | 1 | 5 |
| | Indian | 1 | 2 | 0 | 0 | 3 |
| | Asian | 1 | 3 | 0 | 0 | 4 |
| Total | | 99 | 36 | 33 | 12 | 180 |

Table 5.13 Correlations

| | | Race | How did you obtain the start-up capital for your business? |
|--|---------------------|------|--|
| Race | Pearson Correlation | 1 | .047 |
| | Sig. (2-tailed) | | .528 |
| | N | 180 | 180 |
| How did you obtain the start-up capital for your business? | Pearson Correlation | .047 | 1 |
| | Sig. (2-tailed) | .528 | |
| | N | 180 | 180 |

Table 5.12 illustrates the relationship between the race of SMME owner-managers and ways in which they obtained their start-up capital. From the table it can be confirmed that there is limited use of financial institutions by small business owners, regardless of race, which is a clear indication that the government fails to reach out to these businesses. However, out of 180 respondents that took part in this study, the majority represented black-owned SMMEs and therefore outnumbered all other races. It must be borne in mind that SMME owner-managers from other race groups were reluctant to form part of the study, so the sample of 180 provides less racial diversity than is known to exist in the SMME sector. This resulted in more black-owned SMMEs (168) being the majority in all aspects relating to sources of start-up capital. These is therefore not truly representative of the fact that foreign-owned SMMEs continue dominating the sector and are a priority with regard to accessing government financial support.

A correlation analysis was computed in Table 5.13 to assess the association of sources for start-up capital regarding race. The results reveal a very weak positive correlation between the two variables, ($r=.047$, $n=180$). The correlation was therefore not statistically significant between sources of start-up capital and race, ($p=.528$).

*Table 5.14 Educational level * How did you obtain the start-up capital for your business?
Cross tabulation*

| | | How did you obtain the start-up capital for your business? | | | | Total |
|-------------------|----------------------|--|----------------|------------|-----------------|-------|
| | | Own savings | Friends/family | Bank loans | Finance schemes | |
| Educational level | Primary school level | 11 | 0 | 0 | 0 | 11 |
| | High school level | 53 | 14 | 0 | 2 | 69 |
| | Tertiary level | 35 | 20 | 33 | 10 | 98 |
| | Other | 0 | 2 | 0 | 0 | 2 |
| Total | | 99 | 36 | 33 | 12 | 180 |

Table 5.15 Correlations

| | | Educational level | How did you obtain the start-up capital for your business? |
|--|---------------------|-------------------|--|
| Educational level | Pearson Correlation | 1 | .457** |
| | Sig. (2-tailed) | | .000 |
| | N | 180 | 180 |
| How did you obtain the start-up capital for your business? | Pearson Correlation | .457** | 1 |
| | Sig. (2-tailed) | .000 | |
| | N | 180 | 180 |

Table 5.14 indicates that there is minimal use of financial institutions in Maseru regardless of the educational level of SMME owner-managers. The large number of respondents who possess high school qualifications (53) resort to their own savings for start-up capital while those with tertiary qualifications (63) form the majority of those who obtain assistance from friends, family, bank loans and finance schemes. The respondents with primary and other qualifications (13) were the minority in all categories, which shows that only a limited number of young individuals are participative in the SMME sector.

In determining the level of confidence with respect to the results, the Pearson coefficient was computed in Table 5.15. The results show that there is a moderate positive relationship between the educational level and sources of start-up capital, ($r=.457$, $n=180$). The correlation was found to be significant at 1% level of significance ($p=.000$).

*Table 5.16 Number of years in business * How did you obtain the start-up capital for your business? Cross tabulation*

| | | How did you obtain the start-up capital for your business? | | | | Total |
|-----------------------------|--------------------|--|----------------|------------|-----------------|-------|
| | | Own savings | Friends/family | Bank loans | Finance schemes | |
| Number of years in business | 0-2 years | 62 | 14 | 6 | 0 | 82 |
| | 3-5 years | 26 | 13 | 12 | 9 | 60 |
| | 6-10 years | 7 | 9 | 9 | 0 | 25 |
| | 11 years and above | 4 | 0 | 6 | 3 | 13 |
| | Total | 99 | 36 | 33 | 12 | 180 |

Table 5.17 Correlations

| | | Number of years in business | How did you obtain the start-up capital for your business? |
|--|---------------------|-----------------------------|--|
| Number of years in business | Pearson Correlation | 1 | .413** |
| | Sig. (2-tailed) | | .000 |
| | N | 180 | 180 |
| How did you obtain the start-up capital for your business? | Pearson Correlation | .413** | 1 |
| | Sig. (2-tailed) | .000 | |
| | N | 180 | 180 |

Table 5.16 indicates that a majority of SMMEs that have been operating for less than 2 years utilize their own savings for establishing their businesses, which gives them minimal chance for growth and development, resulting in them failing to operate for longer periods of time. The results show that the problem of the limited use of available financial institutions in Maseru still persists, which poses a challenge for SMMEs to operate for more than 5 years as inadequate finance results in limited use of vital strategies for success.

Pearson correlation was used in Table 5.17 to determine the level of confidence in the results. The results show that there is a positive relationship between the number of years the SMME owners had owned their existing businesses and their sources of start-up capital, ($r=.413$, $n=180$). The correlation was significant at 1% level of significance, ($p=.000$).

*Table 5.18 Registration with OBFC * How did you obtain the start-up capital for your business?
Cross tabulation*

| | | How did you obtain the start-up capital for your business? | | | | Total |
|------------------------|-------------------------------|--|----------------|------------|-----------------|-------|
| | | Own savings | Friends/family | Bank loans | Finance schemes | |
| Registration with OBFC | Registered | 20 | 16 | 31 | 11 | 78 |
| | Not registered | 48 | 14 | 0 | 0 | 62 |
| | Will not register | 14 | 1 | 0 | 0 | 15 |
| | In the process of registering | 17 | 5 | 2 | 1 | 25 |
| Total | | 99 | 36 | 33 | 12 | 180 |

Table 5.19 Correlations

| | | Registration with OBFC | How did you obtain the start-up capital for your business? |
|--|---------------------|------------------------|--|
| Registration with OBFC | Pearson Correlation | 1 | -.421** |
| | Sig. (2-tailed) | | .000 |
| | N | 180 | 180 |
| How did you obtain the start-up capital for your business? | Pearson Correlation | -.421** | 1 |
| | Sig. (2-tailed) | .000 | |
| | N | 180 | 180 |

Table 5.18 indicates the relationship between the registration status of SMMEs and their sources of start-up capital. It provides an indication that a majority of registered SMMEs use financial institutions as compared to unregistered enterprises, which is beneficial to their growth. Unregistered SMMEs rely on friends; family and own savings to establish their businesses, which is a clear indication, that business registration results in definite chances for government financial assistance.

A correlation analysis was done to determine the confidence of the results. Table 5.19 shows that there is a moderate, negative relationship between the sources of capital and business registration, ($r = -.421$, $n = 180$), with high rates of SMME establishment through different sources of start-up capital associated with decreasing rates of SMME registration. The correlation was significant at 1% level of significance, ($p = .000$).

*Table 5.20 Are you aware of the financial institutions assisting SMMEs?*was your request (loan) approved? Cross tabulation*

| | | Was your request (loan) approved? | | Total |
|--|-----|-----------------------------------|----|-------|
| | | Yes | No | |
| Are you aware of the financial institutions assisting SMMEs? | Yes | 50 | 52 | 102 |
| | No | 0 | 7 | 7 |
| Total | | 50 | 59 | 109 |

Table 5.20 shows the relationship between the respondents' awareness regarding financial institutions established to assist small businesses and whether or not their loans were approved. A large number (52) of SMMEs were aware of the financial institutions, however, their loans had not been approved. The second largest number of respondents (50) was aware of such institutions and their loans had been approved. The least number (7) of respondents were not aware of financial institutions, however, went ahead to apply for loans and were thus unapproved.

Table 5.21 Correlations

| | If yes, have you tried applying for assistance of start-up capital from such institutions? | Was your request (loan) approved? |
|--|--|-----------------------------------|
| If yes, have you tried applying for assistance of start-up capital from such institutions? | Pearson Correlation Sig. (2-tailed) N | 1 .186 .053 149 109 |
| Was your request (loan) approved? | Pearson Correlation Sig. (2-tailed) N | .186 1 .053 109 109 |

Pearson correlation was used to determine the confidence in the results. Table 5.21 indicates that there is a weak, positive relationship between application of financial assistance and approval of loans, ($r=.186$, $n=180$). The correlation was not statistically significant between application for start-up capital and the loan approval, ($p=.053$). This means that increasing or decreasing rates of applications for start-up capital by SMMEs do not significantly relate to increasing or decreasing rates of loan approvals by financial institutions.

CHI-SQUARE TEST FOR GOODNESS OF FIT

Table 5.22 Gender

| | Observed N | Expected N | Residual |
|--------|------------|------------|----------|
| Male | 115 | 90.0 | 25.0 |
| Female | 65 | 90.0 | -25.0 |
| Total | 180 | | |

Table 5.23 How did you obtain the start-up capital for your business?

| | Observed N | Expected N | Residual |
|-----------------|------------|------------|----------|
| Own savings | 99 | 45.0 | 54.0 |
| Friends/family | 36 | 45.0 | -9.0 |
| Bank loans | 33 | 45.0 | -12.0 |
| Finance schemes | 12 | 45.0 | -33.0 |
| Total | 180 | | |

Table 5.24 Test Statistics

| | | Gender | How did you obtain the start-up capital for your business? |
|-------------------------|------|---------------------|--|
| Chi-Square | | 13.889 ^a | 94.000 ^b |
| Df | | 1 | 3 |
| Asymp. Sig. | | .000 | .000 |
| Monte Carlo Sig. | Sig. | .000 ^c | .000 ^c |
| 99% Confidence Interval | | | |
| | | Lower Bound | .000 |
| | | Upper Bound | .000 |

Table 5.22, gender, provides the observed frequencies Males (115) and Females (65) as well as the expected frequencies Males (90), Females (90) which were the frequencies expected from the study, meaning that there was an anticipation of equal proportion of both males and females in the SMME as the study by MTICM (2012) argued that business ownership in Lesotho's SMME sector is more or less equally divided between males and females. The differences between the observed and expected frequencies are provided in the residual column with Males (25.0) and Females (-25.0) respectively.

Table 5.23, sources for start-up capital, provides the observed frequencies own savings (99), friends/family (36), bank loans (33) and finance schemes (12), as well as the expected frequencies of 45 for each category.

Table 5.24 indicates the grouped actual results of the chi square test for goodness-of-fit. From the table it can be concluded that there was a statistical significance in gender, $\chi^2(1, n=180) = 13.89, p=.000$, as well as a statistical significance in sources of capital, $\chi^2(3, n=180) = 94.0, p=.000$. It can thus be concluded that there are statistically significant differences in the preference of the type of source of start-up capital utilized by SMME owner-managers, with few people attaining an opportunity of support from finance schemes (12) and bank loans (33) compared to those left with no choice but to get assistance from either friends/family (36) or own savings (99).

Table 5.25 Are you aware of the financial institutions assisting SMMEs?

| | Observed N | Expected N | Residual |
|-------|------------|------------|----------|
| Yes | 138 | 90.0 | 48.0 |
| No | 42 | 90.0 | -48.0 |
| Total | 180 | | |

Table 5.26 If yes, have you tried applying for assistance of start-up capital from such institutions?

| | Observed N | Expected N | Residual |
|-------|------------|------------|----------|
| Yes | 99 | 74.5 | 24.5 |
| No | 50 | 74.5 | -24.5 |
| Total | 149 | | |

Table 5.27 Test Statistics

| | | | Are you aware of the financial institutions assisting SMMes? | If yes, have you tried applying for assistance of start-up capital from such institutions? |
|-------------------------|--|--|--|--|
| Chi-Square | | | 51.200 ^a | 16.114 ^b |
| Df | | | 1 | 1 |
| Asymp. Sig. | | | .000 | .000 |
| Monte Carlo Sig. | | | .000 ^c | .000 ^c |
| Sig. | | | | |
| 99% Confidence Interval | | | | |
| Lower Bound | | | .000 | .000 |
| Upper Bound | | | .000 | .000 |

Table 5.25 outlines the observed frequencies of respondents who were aware of the financial institutions (138) and those who were not aware (42), as well as the equal proportion of expected frequencies of 90 in both categories.

Table 5.26 provides the observed frequencies of respondents who have made initiatives in applying for government financial assistance (99) and those who failed to apply for financial assistance (50), as well as the equal proportion of expected frequencies of 74.5 in both categories.

Table 5.27 provides the actual results of the chi-square test for goodness-of-fit and from the table it can be concluded that there was a statistical significance: $\chi^2(1, n=180) = 51.2, p=.000$ and $\chi^2(1, n=149) = 16.1, p=.000$ respectively.

MANN-WHITNEY U TEST

Table 5.28 Ranks

| Was your request (loan) approved? | | N | Mean Rank | Sum of Ranks |
|--|-------|-----|-----------|--------------|
| Do you feel that inadequate finance impacts on your ability to undertake strategies that would help your business to grow? | Yes | 50 | 54.59 | 2729.50 |
| | No | 59 | 55.35 | 3265.50 |
| | Total | 109 | | |

Table 5.29 Test Statistics

| | |
|------------------------|--|
| | Do you feel that inadequate finance impacts on your ability to undertake strategies that would help your business to grow? |
| Mann-Whitney U | 1454.500 |
| Wilcoxon W | 2729.500 |
| Z | -.440 |
| Asymp. Sig. (2-tailed) | .660 |

Table 5.28 above shows the difference between loan request approval and inadequate finance to undertake growth and development strategies. A Mann-Whitney U Test in Table 5.29 revealed no significant difference between the two variables, ($U=1454.500$, $z=-.440$, $p=.660$, $r=.04$). Test results of this study, carried out on a sample of 180 SMME owners, were used to describe the interpretation of research results using the Mann-Whitney U test. As the sample included more than 30 SMME owners the z-approximation was calculated. Table 5.29 presents data on the calculated z-values and the approximately calculated statistical significance of differences between the tested variables. In this table, the z-value was $-.440$. The statistical significance of differences ($p=.660$) was calculated and it was greater than $.05$. The results, therefore, showed no statistically significant differences that the inadequacy of finance had hampered the ability to undertake business growth strategies.

5.3.2 OBJECTIVE 2: To establish if all SMMEs have adequate training and development.

CHI-SQUARE TEST FOR INDEPENDENCE

*TABLE 5.30 Are you aware of the training and development workshops that are available to SMMEs? * Do you require training and development?
Cross tabulation*

| | | Do you require training and development? | | Total |
|--|-----|--|----|-------|
| | | Yes | No | |
| Are you aware of the training and development workshops that are available to SMMEs? | Yes | 121 | 10 | 131 |
| | No | 39 | 10 | 49 |
| Total | | 160 | 20 | 180 |

Table 5.31 Chi-Square Tests

| | Value | df | Asymp. Sig. (2-sided) | Exact Sig. (2-sided) | Exact Sig. (1-sided) |
|------------------------------------|--------------------|----|-----------------------|----------------------|----------------------|
| Pearson Chi-Square | 5.892 ^a | 1 | .015 | .030 | .019 |
| Continuity Correction ^b | 4.670 | 1 | .031 | | |
| Likelihood Ratio | 5.322 | 1 | .021 | | |
| Fisher's Exact Test | | | | | |
| Linear-by-Linear Association | 5.860 | 1 | .015 | | |
| N of Valid Cases | 180 | | | | |

Table 5.32 Symmetric Measures

| | | Value | Approx. Sig. |
|--------------------|-------------------------|-------|--------------|
| Nominal by Nominal | Phi | .181 | .015 |
| | Cramer's V | .181 | .015 |
| | Contingency Coefficient | .178 | .015 |
| N of Valid Cases | | 180 | |

Table 5.30 is used to explore the relationship between the awareness of workshops available for the respondents and the needs of the respondents with regard to training and development. A large number (121) of respondents are aware of the workshops

available to them and require training and development from these workshops. On the other hand 10 respondents who are aware of such workshops did not feel the need for training and development (10). From Table 5.30, it is also clear that more respondents (39) who are not aware of the workshops do in fact need training and development as compared to those that are not aware of these workshops and do not feel that they require training and development (10).

A chi square test for independence was computed in Table 5.31 to assess the relationship between these two variables. All expected cell sizes have to be greater than 5 and the significance value has to be less or equal to .05. A chi square test for independence, with Yates' Continuity Correction in Table 5.32, indicated a significant association between the requirement for training and development and an awareness of workshops available, $\chi^2(1, n=180) = 4.67, p=.031, \phi=.181$. The training and development of SMMEs is consistent with the availability and attendance of workshops.

*Table 5.33 If yes, have you attended any? Did you find the workshop useful?
Correlations*

| | | If yes, have you attended any? | Did you find the workshop useful? |
|-----------------------------------|---------------------|--------------------------------|-----------------------------------|
| If yes, have you attended any? | Pearson Correlation | 1 | .408** |
| | Sig. (2-tailed) | | .000 |
| | N | 145 | 86 |
| Did you find the workshop useful? | Pearson Correlation | .408** | 1 |
| | Sig. (2-tailed) | .000 | |
| | N | 86 | 86 |

The analysis was undertaken to deduce whether respondents had attended training and development workshops and whether they found those workshops useful. Pearson correlation was computed to assess the relationship between the two variables. From Table 5.33 it can be concluded that there is a moderate, positive relationship between workshop attendance and its significance to SMME owners, ($r=.408, n=86$). The correlation was significant at 1% level of significance, ($p=.000$).

*Table 5.34 How many employees do you have? * How often do you train them? Cross tabulation*

| | | How often do you train them? | | | | Total |
|---------------------------------|-------|------------------------------|------------------|--------------------------|-------|-------|
| | | Once a week | 2-4 times a week | More than 5 times a week | Never | |
| How many employees do you have? | None | 0 | 0 | 0 | 2 | 2 |
| | 1-3 | 29 | 5 | 1 | 13 | 48 |
| | 4-9 | 26 | 7 | 7 | 6 | 46 |
| | 10-49 | 11 | 2 | 9 | 0 | 22 |
| Total | | 66 | 14 | 17 | 21 | 118 |

Table 5.34 outlines the number of employees in each classification of participant SMMEs, dependent on the number of employees, and the frequency that these employees receive training. From the table, we can conclude that the frequency in employee training in the majority of enterprises, regardless of employee numbers is once a week, with a majority of micro-enterprises, that is enterprises with 1-3 employees, (13) indicating that they never undertake employee training.

KRUSKAL-WALLIS TEST

Table 5.35 Ranks

| | What areas did you receive training on? | N | Mean Rank |
|--------------------------------|--|----|-----------|
| If yes, have you attended any? | Bookkeeping | 33 | 31.00 |
| | Increase in sales | 14 | 31.00 |
| | Team building strategies | 3 | 31.00 |
| | Strategic analysis for SMMEs | 1 | 31.00 |
| | Marketing strategies | 5 | 31.00 |
| | Business, customer and employee management | 5 | 31.00 |
| | Total | 61 | |

Table 5.36 Test Statistics

| | If yes, have you attended any? |
|-------------|--------------------------------|
| Chi-Square | .000 |
| df | 5 |
| Asymp. Sig. | 1.000 |

A Kruskal-Wallis Test was computed to compare the scores of groups on the continuous variable. Table 5.35 indicates no statistically significant difference in workshop attendance between different kinds of training areas received, $\chi^2(5, n=61) = .000$, $p=1.000$, with a mean rank workshop attendance score of 31.00 for all kinds of training areas received as indicated in Table 5.36. This means that there are different kinds of training and development activities practised at the workshops, which become a positive impact to the success of these enterprises.

5.3.3 OBJECTIVE 3: To determine the extent to which SMMEs develop and practice strategic plans.

CROSS TABULATIONS AND CORRELATIONS

Table 5.37 Does your organization engage in planning? Are you aware that a business plan assists in planning? Cross tabulation

| | Are you aware that a business plan assists in planning? | | Total |
|--|---|----|-------|
| | Yes | No | |
| Does your organization engage in planning? Yes | 136 | 12 | 148 |
| No | 7 | 24 | 31 |
| Total | 143 | 36 | 179 |

Table 5.38 Correlations

| | | Does your organization engage in planning? | Are you aware that a business plan assists in planning? |
|---|---------------------|--|---|
| Does your organization engage in planning? | Pearson Correlation | 1 | .654** |
| | Sig. (2-tailed) | | .000 |
| | N | 180 | 179 |
| Are you aware that a business plan assists in planning? | Pearson Correlation | .654** | 1 |
| | Sig. (2-tailed) | .000 | |
| | N | 179 | 179 |

The analysis was undertaken to deduce whether there is awareness amongst SMME owner-managers regarding the significance of business plans and whether they engage in business planning. Table 5.37 indicates that a majority of SMMEs are aware and make use of business plans relative to those that are not aware and fail to engage in business planning.

A Pearson correlation was used to determine the confidence in the results. Table 5.38 shows that there is a strong, positive correlation between awareness of the importance of business plans and engagement in business planning, ($r=.654$, $n=179$). The correlation was significant at 1% level of significance, ($p=.000$).

*Table 5.39 Does your organization engage in planning? * Are plans implemented and achieved? Cross tabulation*

| | | Are plans implemented and achieved? | | Total |
|--|-----|-------------------------------------|----|-------|
| | | Yes | No | |
| Does your organization engage in planning? | Yes | 120 | 26 | 146 |
| | No | 7 | 2 | 9 |
| Total | | 127 | 28 | 155 |

Table 5.40 Correlations

| | | Does your organization engage in planning? | Are plans implemented and achieved? |
|--|---------------------|--|-------------------------------------|
| Does your organization engage in planning? | Pearson Correlation | 1 | .027 |
| | Sig. (2-tailed) | | .740 |
| | N | 180 | 155 |
| Are plans implemented and achieved? | Pearson Correlation | .027 | 1 |
| | Sig. (2-tailed) | .740 | |
| | N | 155 | 155 |

Table 5.39 illustrates the relationship between SMMEs' engagement in business plans and the degree to which the plans are implemented and achieved. A majority of the respondents do engage in business plans and achieve the plans compared to those that fail to plan.

A correlation was computed in Table 5.40 to assess the relationship between engagement in planning of SMMEs' activities and whether or not the plans are implemented and achieved. There is a very weak, positive relationship between the two variables, ($r=.027$, $n=155$). The correlation was not statistically significant between the two variables, ($p=.740$). This means that the increase or decrease of SMMEs in engaging in business planning does not significantly relate to the increase or decrease of implementation and achievement of those plans.

*Table 5.41 Does your organization engage in planning? * Where do you wish to see your business in the next 3-5 years? Cross tabulation*

| | Where do you wish to see your business in the next 3-5 years? | | | | | Total |
|--|---|-----------|------------|----------------|---------------|-------|
| | More customers | Expansion | Registered | More employees | Stable growth | |
| Does your organization engage in planning? Yes | 72 | 1 | 22 | 6 | 43 | 144 |
| No | 15 | 4 | 4 | 3 | 6 | 32 |
| Total | 87 | 5 | 26 | 9 | 49 | 176 |

The analysis was undertaken to deduce whether SMMEs engage in planning and the desired feasibility of their businesses in the next 3-5 years. Table 5.41 indicates that a majority of respondents (87) desire to have more customers, followed by 49 respondents who want stable growth, 26 respondents who wish to have their businesses registered and lastly 5 respondents who wish to expand their operations to other areas.

CHI SQUARE TEST FOR INDEPENDENCE

*Table 5.42 Does your organization engage in planning? * How often is planning carried out? Cross tabulation*

| | How often is planning carried out? | | | | Total |
|--|------------------------------------|---------|-----------|--------|-------|
| | Weekly | Monthly | Quarterly | Yearly | |
| Does your organization engage in planning? Yes | 39 | 46 | 22 | 48 | 155 |
| No | 0 | 0 | 0 | 0 | 0 |
| Total | 39 | 46 | 22 | 48 | 155 |

Table 5.43 Chi-Square Tests

| | Value | Df | Asymp. Sig. (2-sided) |
|------------------------------|-------------------|----|-----------------------|
| Pearson Chi-Square | .682 ^a | 3 | .877 |
| Likelihood Ratio | .709 | 3 | .871 |
| Linear-by-Linear Association | .641 | 1 | .423 |
| N of Valid Cases | 155 | | |

Table 5.44 Symmetric Measures

| | | Value | Approx. Sig. |
|--------------------|-------------------------|-------|--------------|
| Nominal by Nominal | Phi | .066 | .877 |
| | Cramer's V | .066 | .877 |
| | Contingency Coefficient | .066 | .877 |
| N of Valid Cases | | 155 | |

Table 5.42 is used to explore the relationship between organisational strategic planning and the frequency in planning. 48 respondents carry out planning yearly, followed by those who engage in planning on a monthly basis (46).39 respondents plan on a weekly basis and lastly 22engage in planning on a quarterly basis.

A chi-square test for independence was computed in Table 5.43 to assess the relationship between the two variables. Pearson chi-square indicated no significant association between the engagement in strategic planning and the frequency in planning: $\chi^2 (3, n=155) = .682, p = .877$ and a very weak strength of association ($\phi = .066$) between the variables computed in table 5.44.

5.3.4 OBJECTIVE 4: To ascertain the advertising strategies SMMEs commonly used in order to be successful.

CHI SQUARE TEST FOR INDEPENDENCE

*Table 5.45 What form of advertising media do you use to inform your customers about your products and services? * How often are your products and services advertised? Cross tabulation*

| | | How often are your products and services advertised? | | | | Total |
|--|---------------|--|--------|---------|---------|-------|
| | | Daily | Weekly | Monthly | Anytime | |
| What form of advertising media do you use to inform your customers about your products and services? | Newspaper | 2 | 29 | 21 | 0 | 52 |
| | Radio | 17 | 3 | 1 | 0 | 21 |
| | TV | 0 | 0 | 1 | 1 | 2 |
| | Word of mouth | 23 | 3 | 1 | 65 | 92 |
| | None | 0 | 0 | 0 | 0 | 0 |
| Total | | 42 | 35 | 24 | 66 | 167 |

Table 5.46 Chi-Square Tests

| | Value | df | Asymp. Sig. (2-sided) |
|------------------------------|----------------------|----|-----------------------|
| Pearson Chi-Square | 171.900 ^a | 12 | .000 |
| Likelihood Ratio | 191.179 | 12 | .000 |
| Linear-by-Linear Association | 29.651 | 1 | .000 |
| N of Valid Cases | 167 | | |

Table 5.47 Symmetric Measures

| | Value | Approx. Sig. |
|------------------------|-------|--------------|
| Nominal by Nominal Phi | 1.015 | .000 |
| Cramer's V | .586 | .000 |
| N of Valid Cases | 167 | |

Table 5.45 is used to explore the relationship between the types of advertising media used in SMMEs and their frequency in advertising as Maseru's market has a low customer base (Nthejane, 2003) and advertising being the strategic way to create awareness to customers about the products and services offered by these enterprises. Word-of-mouth done anytime (65) is the most used advertising media by the respondents, followed by weekly advertising (29) through newspapers, daily word-of-mouth advertising (23), monthly advertising through newspapers (21) and lastly the daily use of radio advertising (17). From these results, it is clear that SMMEs prefer the use of word-of-mouth and newspaper advertising mainly because they are less costly, with TV advertising (2) being the least used advertising medium in all categories of the frequency in advertising, which may be due to the high costs related to the use of this medium.

A chi-square test for independence was computed in Table 5.46 to assess the relationship between the two variables. The table indicated a statistically significant association between the use of advertising media and the number of times the advertising is done: $\chi^2 (12, n=167) = 171.9, p=.000$, with a very strong strength of association ($\phi = 1.0$) between the variables computed in Table 5.47.

*Table 5.48 How often are your products and services advertised? * Are your customers reliant on advertising to purchase? Cross tabulation*

| | | Are your customers reliant on advertising to purchase? | | Total |
|--|---------|--|----|-------|
| | | Yes | No | |
| How often are your products and services advertised? | Daily | 38 | 4 | 42 |
| | Weekly | 32 | 3 | 35 |
| | Monthly | 13 | 11 | 24 |
| | Anytime | 50 | 16 | 66 |
| Total | | 133 | 34 | 167 |

Table 5.49 Chi-Square Tests

| | Value | df | Asymp. Sig. (2-sided) |
|------------------------------|---------------------|----|-----------------------|
| Pearson Chi-Square | 16.260 ^a | 3 | .001 |
| Likelihood Ratio | 15.678 | 3 | .001 |
| Linear-by-Linear Association | 6.061 | 1 | .014 |
| N of Valid Cases | 167 | | |

Table 5.50 Symmetric Measures

| | | Value | Approx. Sig. |
|--------------------|------------|-------|--------------|
| Nominal by Nominal | Phi | .312 | .001 |
| | Cramer's V | .312 | .001 |
| N of Valid Cases | | 167 | |

Table 5.48 is used to assess the relationship between the frequency of advertising done by SMMEs and the customers' reliability on advertising to purchase. With regard to customers who rely on advertising to purchase, a large number of SMME owner-managers (50) advertise their products and services anytime, followed by a lesser number who engage in daily advertising (38) and weekly advertising (32) and lastly monthly advertising (13). Regarding the owners who did not believe that customers rely on advertising to undertake the purchasing process, advertising done anytime by the SMMEs has a majority (16), followed by monthly advertising (11), daily advertising (4) and lastly weekly advertising (4). From these results, we can thus conclude that extensive advertising efforts by SMME owner-managers are made, in order to create awareness amongst customers who rely on the advertising to purchase the products and services offered.

A chi-square test for independence was computed in Table 5.49 to assess the relationship between the two variables. Pearson chi-square indicated that there was a statistically significant association between customers' reliability on advertising to purchase and the frequency of advertising done by the respondents: $\chi^2(3, n=167) = 16.260$, $p = 0.01$, with a weak strength of association ($phi = .312$) computed in Table 5.50.

CROSS TABULATION AND CORRELATION

*Table 5.51 Do you ever receive feedback from your customers concerning your products and services? * Are your customers reliant on advertising to purchase? Cross tabulation*

| | | Are your customers reliant on advertising to purchase? | | Total |
|---|-----|--|----|-------|
| | | Yes | No | |
| Do you ever receive feedback from your customers concerning your products and services? | Yes | 123 | 26 | 149 |
| | No | 10 | 21 | 31 |
| Total | | 133 | 47 | 180 |

Table 5.52 Correlations

| | Are your customers reliant on advertising to purchase? | Do you ever receive feedback from your customers concerning your products and services? |
|---|--|---|
| Are your customers reliant on advertising to purchase? | 1 | .432** |
| Sig. (2-tailed) | | .000 |
| N | 180 | 180 |
| Do you ever receive feedback from your customers concerning your products and services? | .432** | 1 |
| Sig. (2-tailed) | .000 | |
| N | 180 | 180 |

Table 5.51 illustrates whether feedback received from customers with regard to products and services offered is determined by reliability of customers on advertising to purchase. It can be concluded from the table that a majority (123) of respondents receive feedback and their customers rely on advertising to purchase relative to those

whose customers do not rely on advertising to purchase but still do receive feedback with regard to their products and services (26). We can also conclude that there is large number of SMMEs whose customers do not rely on advertising to purchase and who do not receive feedback from their customers (21) as compared to those whose customers rely on advertising to purchase but do not receive feedback from customers (10).

A correlation was computed in Table 5.52 to determine the relationship between customers' reliability on advertising to purchase and the feedback received from customers. There is a moderate, positive relationship between the two variables ($r=.432$, $n=180$). The correlation was significant at 1% level of significance, ($p=.000$).

CHI SQUARE TEST FOR GOODNESS-OF-FIT

Table 5.53 Are your products targeted to a specific age group?

| | Observed N | Expected N | Residual |
|-------|------------|------------|----------|
| Yes | 34 | 90.0 | -56.0 |
| No | 146 | 90.0 | 56.0 |
| Total | 180 | | |

Table 5.54 If yes, please clarify your target market?

| | Observed N | Expected N | Residual |
|----------------|------------|------------|----------|
| Under 12 years | 7 | 8.0 | -1.0 |
| Working class | 16 | 8.0 | 8.0 |
| Youth | 3 | 8.0 | -5.0 |
| Above 35 years | 6 | 8.0 | -2.0 |
| Total | 32 | | |

Table 5.55 Test Statistics

| | Are your products targeted to a specific age group? | If yes, please clarify your target market? |
|-------------|---|--|
| Chi-Square | 69.689 ^a | 11.750 ^b |
| df | 1 | 3 |
| Asymp. Sig. | .000 | .008 |

Table 5.53 provides the observed frequencies of respondents whose products and services offerings were targeted to a specific age group (34) and those whose products were not (146), as well as the equal proportion of the expected frequencies of 90 in both categories. From this table, it is clear that most SMME owner-managers sell homogenous products for all age groups as compared to only a few who have a specific age group as their target market.

Table 5.54 provides the observed frequencies of respondents with clarification of their target market, the working class (16) being the most targeted group, followed by customers under the ages of 12 (7), those above 35 years of age (6) and lastly the youth (3), as well the equal proportion of the expected frequencies of 8.0 in all categories.

Table 5.55 provides the grouped actual results of the chi-square test for goodness-of-fit. From the table, it can be concluded that there was a statistically significant difference in the proportion of SMMEs with a targeted age group and those who do not have a target age group: $\chi^2(1, n=32) = 69.69, p = .000$, as well as a statistically significant difference in the proportion of the clarified target market: $\chi^2(3, n=32) = 11.75, p = .008$.

T-TESTS

Table 5.56 One-Sample Statistics

| | N | Mean | Std. Deviation | Std. Error Mean |
|---|-----|------|----------------|-----------------|
| Is there substantial evidence that advertising increases sales? | 180 | .14 | .347 | .026 |

Table 5.57 One-Sample Test

| | Test Value = 0 | | | | | |
|---|----------------|-----|-----------------|-----------------|---|-------|
| | t | df | Sig. (2-tailed) | Mean Difference | 95% Confidence Interval of the Difference | |
| | | | | | Lower | Upper |
| Is there substantial evidence that advertising increases sales? | 5.373 | 179 | .000 | .139 | .09 | .19 |

Table 5.56 indicates that the sample mean ‘is there substantial evidence that advertising increases sales’ is .14. The test used follows SMMEs’ t distribution with 179 = degrees of freedom. The p-value for this test is .000. Conclusively, the p-value is compared to the alpha level of significance. In this case, $\alpha = 0.05$. The $p\text{-value} = .000 < 0.05 = \alpha$. The test in Table 5.57 shows a statistical significance, meaning that advertising increases sales and is supported with a positive t-value of 5.373. It is therefore reasonable to conclude that advertising does increase sales of the SMMEs’ products.

5.3.5 OBJECTIVE 5: To determine the extent to which competition impacts on the success of SMMEs.

CHI SQUARE TEST FOR INDEPENDENCE

*Table 5.58 What do you regard as the challenges linked to competition? * Is competition high in the current market? Cross tabulation*

| | | Is competition high in the current market? | | Total |
|---|--------------------------------------|--|----|-------|
| | | Yes | No | |
| What do you regard as the challenges linked to competition? | Loss of customers | 72 | 4 | 76 |
| | Insufficient funds | 23 | 0 | 23 |
| | No/less differentiation | 8 | 7 | 15 |
| | Existence of foreign-owned companies | 9 | 5 | 14 |
| | Cash-in-flow | 7 | 1 | 8 |
| | Substitute products | 32 | 2 | 34 |
| | Competition ignorance | 6 | 4 | 10 |
| Total | | 157 | 23 | 180 |

Table 5.59 Chi-Square Tests

| | Value | df | Asymp. Sig. (2-sided) |
|------------------------------|---------------------|----|-----------------------|
| Pearson Chi-Square | 37.386 ^a | 6 | .000 |
| Likelihood Ratio | 32.551 | 6 | .000 |
| Linear-by-Linear Association | 4.863 | 1 | .027 |
| N of Valid Cases | 180 | | |

Table 5.60 Symmetric Measures

| | | Value | Approx. Sig. |
|--------------------|-------------------------|-------|--------------|
| Nominal by Nominal | Phi | .456 | .000 |
| | Cramer's V | .456 | .000 |
| | Contingency Coefficient | .415 | .000 |
| N of Valid Cases | | 180 | |

Table 5.58 indicates the relationship between competition in the SMME sector and the challenges thought by respondents to be linked to competition. The respondents regard loss of customers to competitors (76) as the most competitive challenge, followed by substitute products (34), insufficient funds (23), less to no differentiation of products and services (15), existence of foreign owned companies (14), competition ignorance (10) and lastly cash-in-flow (8).

A chi-square test for independence was computed in Table 5.59 to assess the relationship between the two variables. The table indicates a statistically significant association between the degree of competition in the market and the challenges linked to competition: $\chi^2(6, n=180) = 37.39, p=.000$, with a moderate strength ($phi=.46$) computed in Table 5.60. This therefore means that the challenges linked to competition by the SMME owner-managers are the result of the high competition in the SMME sector.

CROSS TABULATION

Table 5.61 Is competition high in the current market? * What measures are taken to ensure a competitive advantage is maintained? Cross tabulation

| | | What measures are taken to ensure a competitive advantage is maintained? | | | | | | Total |
|--|-----|--|-------|-----------|-------------------------------|---------------------------|------|-------|
| | | Superior customer service | Focus | Low costs | Quality products and services | Ensuring customer loyalty | None | |
| Is competition high in the current market? | Yes | 15 | 25 | 17 | 52 | 20 | 22 | 151 |
| | No | 2 | 0 | 3 | 7 | 2 | 4 | 18 |
| Total | | 17 | 25 | 20 | 59 | 22 | 26 | 169 |

Table 5.61 indicates that a majority of respondents (151) operate in what they believe to be a competitive market whereas 18 respondents do not regard the market as competitive. In ensuring competitive advantage, a large number (59) of respondents offer quality products and services, followed by 26 respondents who do not take any initiatives to maintain competitive advantage, a further 25 respondents who focus on a targeted segment of the market, 22 respondents who ensure customer loyalty, 20 respondents who keep their costs low, and lastly 17 who ensure superior customer service.

Table 5.62 Is your business negatively affected by high competition? If yes, briefly describe*
Cross tabulation

| | | If yes, briefly describe | | | | | | | Total |
|--|-----|--------------------------|----------------------------|------------------|-------------------|--------------------------------------|-----------------------------------|-------------------------------------|-------|
| | | Low to no profit margin | Less to no differentiation | Decline in sales | Loss of customers | Existence of foreign-owned companies | Decline in SMME quality suppliers | Availability of substitute products | |
| Is your business negatively affected by high competition ? | Yes | 28 | 20 | 7 | 36 | 30 | 21 | 2 | 140 |
| | No | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 4 |
| | | | | | | | | | |
| Total | | 28 | 20 | 7 | 36 | 30 | 21 | 2 | 144 |

Table 5.62 indicates the relationship between the negative impact of competition on SMMEs and the competitive challenges faced by these enterprises. As listed in this table, loss of customers (36) to competitors is the most challenging factor for these enterprises, followed by the existence of foreign-owned enterprises (30), low to no profit margins (28), decline in quality suppliers (21), less to no differentiation between products and services (20), decline in sales (7) and lastly the availability of substitute products (2).

DESCRIPTIVE FREQUENCY STATISTICS

Table 5.63 Any additional suggestions on what it takes to be successful as a small business owner?

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---------|--|-----------|---------|---------------|--------------------|
| Valid | Frequent large-scale advertising | 36 | 20.0 | 21.2 | 21.2 |
| | Standard products | 11 | 6.1 | 6.5 | 27.6 |
| | Customer care/satisfaction | 18 | 10.0 | 10.6 | 38.2 |
| | Products diversity/differentiation | 44 | 24.4 | 25.9 | 64.1 |
| | Government financial support | 43 | 23.9 | 25.3 | 89.4 |
| | Commitment | 8 | 4.4 | 4.7 | 94.1 |
| | Adequate and easy access of customers to products and services | 10 | 5.6 | 5.9 | 100.0 |
| | Total | 170 | 94.4 | 100.0 | |
| Missing | System | 10 | 5.6 | | |
| Total | | 180 | 100.0 | | |

From Table 5.63 above, it is clear that SMMEs' success according to the majority of respondents is rooted in product diversity and differentiation (44) with the next most valued factor believed to contribute to success being government financial support (43).. The third largest group (36%) regarded large advertising as a key to business success with customer care or satisfaction (18%), offering standard products (11%), ease of access to products and services by customers (10%) and commitment (8%) being the least regarded success factors for SMMEs. 10% of all the respondents that took part in this study failed to give suggestions and are therefore not considered for this part of the questionnaire.

5.5 Conclusion

This chapter presented the primary data collected from SMMEs that were randomly selected in Maseru. The research objectives were addressed and research questions answered. It was found that a large majority of respondents resort to their own savings for start-up capital, which limits their ability to engage in vital strategic planning to increase their chances of success. The data also showed that most SMMEs are aware of the training and development workshops available and they feel the need to attend these

workshops for improved strategic planning, growth and development. SMME owner-managers engage in planning due to increased awareness of the importance of business plans. There are increased levels of advertising initiatives, for continual customer retention and large market share, and quality products and services are offered to ensure customer loyalty. The available findings could be used as a basis to suggest that even though the government makes initiatives to increase the success of SMMEs available, extensive action is still required. Most SMMEs are overlooked by the government and supporting institutions which thus deprives them of their potentials for success.

The next chapter discusses the data presented with regard to these enterprises in Maseru.

CHAPTER SIX: Discussion of Findings

6.1 Introduction

This chapter examines and explains the findings obtained from the questionnaires distributed amongst 180 SMME owner-managers in Maseru. Data is discussed in relation to the questionnaire design. Firstly the demographic information obtained from the questionnaire is discussed. Thereafter, the objectives of the study, namely: the extent of dependence on financial assistance by SMMEs, the impact of adequate training and development in these enterprises, the development and practise of strategic plans, the correct use of advertising strategies, as well as the effect of competition relative to the success and failures of SMMEs are examined. The results from the data collected will be linked to the literature from various scholars as discussed in both Chapters Two and Three so as to determine how the findings of this study relate to the discussions of SMMEs in these chapters.

6.2 Demographic Information

This section discusses the demographic issues relative to the environmental factors and strategies impacting on SMMEs. Issues such as gender, age, race, educational level, number of years in business as well as business registration are discussed. Demographic data is crucial in this study as it offers a clear understanding of the respondents' backgrounds.

6.2.1 Gender of respondents

The results from the data collection indicated that of the 180 respondents, 115 were males and 65 were females. The SMME sector, not only in Maseru but in most economies, is known to be male-dominated, with a low level of female involvement in small business ownership in comparison to male involvement. A survey by Langwenya *et al.* (2011) depicted similar results, that a large number of SMMEs in Maseru are male-dominated. It is vital to note that another study by the MTICM (2012) found that business ownership in Lesotho is more or less equally divided between males and females, whereas in Maseru, the SMME sector is male-dominated. Results from this survey however revealed that the reasons for male dominance in the SMME sector may be attributed to socio-cultural customs that usually regard women as minors, as well as the legal constraints which discourage women from obtaining adequate access to

productive resources. This applies mostly to those women in remote areas who encounter extensive difficulties regarding credit access due to the biased nature of financial institutions with regard to gender.

6.2.2 Age of respondents

The results regarding the age of respondents who are owners and/or managers of SMMEs in the city of Maseru indicated that the majority are those between the ages of 21-34 followed by those between the ages of 35-45. This age profile was deemed crucial in order to determine the dominant age group among SMME owner-managers. The Government of Lesotho is promoting youth development with regard to small business establishment in order to reduce the current youth unemployment faced in the city (MTICM, 2012). These results are a clear indication of the successful initiative by the government in enhancing youth employment through training and development in small business establishment and development. According to UNDP (2013) youth employment initiatives have made steady progress, as more than 1,100 young Lesotho citizens have started and completed courses that relate to establishing and enhancing a business. These results therefore symbolise a potential long-term establishment, growth and development in entrepreneurial activities, in view of the current prevailing participation of the young and middle age groups in the SMME sector.

6.2.3 Race of respondents

As previously stated, not only Basotho-owned SMMEs operate in Maseru, but also foreign-owned enterprises who are investors in the city, thus indicating the effectiveness of the government's intervention. Results from this study indicated that a majority of black-owned enterprises, which were 93.3% of all the respondents owned small businesses in the city, with very low representation of other races due to the reluctance to participate in the study. In Maseru, past studies have shown that, foreign-owned enterprises usually have better access to credit facilities, are provided with a more conducive environment compared to Basotho-owned enterprises (Consultancy Africa Intelligence, 2011). However, according to Turner (2013), racial diversity in the SMME sector is also a primary determinant of growth and development. Without the existence of foreign-owned enterprises in the city, foreign investment, which increases competition and creates a path for local small businesses to become more innovative, would be non-existent, hence slowing economic growth.

6.2.4 Educational level of respondents

The question regarding educational background was deemed necessary to determine whether strategic planning in SMMEs requires skills acquired from strong educational background or from business knowledge and experience. The results indicated that a majority of small businesses are owned by people with tertiary qualifications, who comprised 54.4% of the total number of respondents, while 38.3% of the total respondents are those with high school educational level and the least number are those with primary educational level. Overall, this is a clear indication that the SMME sector in Maseru is characterised by individuals who are in possession of tertiary and high school qualifications, which are both acceptable levels of education regarding business knowledge. Ligthelm (2008) shows that, continuous professional developments are crucial to improve business knowledge. It is thus more effective if business owners are in possession of educational qualifications, as the educational level of a business owner is one of the most vital factors resulting in the success of a business.

6.2.5 Number of years in business

The number of years that owner-managers had owned their businesses in this study is very crucial, as it helps in determining the success and failure rates of SMMEs in Maseru. The overall results depicted that a majority of SMMEs in the city have not been operating for more than five years, with a large number being those who have operated for less than two years. This is thus a clear indication of the continued failure rate of these small enterprises, given the unfavourable environment they operate in. A study by Headd (2003) found that it is indeed true that half of all small businesses, usually those with inadequate start-up capital fail to operate for more than two years, while 80% of these businesses fail within the first five years. Lack of basic entrepreneurial and business education is a possible restraint to successful business establishment and development; therefore there is a need to instil a sense of entrepreneurial behaviour at early stages of education, training and development. Head (2003) states that, “many studies have and continue to examine the perceived causes for SMME failure, and therefore, the two primary causes for such increases in failure appear to be a lack of applicable management skills and inadequate capital, both at start-up and on a continuing basis”.

6.2.6 Registration with OBFC

The Ministry of Trade and Industry, Cooperatives and Marketing has established a one-stop shop in order to simplify and centralise formal procedures for business registration. Results from this study indicated a slight difference in the number of registered and unregistered small businesses, with a large number of registered businesses, and the second largest number comprised unregistered SMMEs. Drawing from this database, this is a clear indication of the escalating establishment and operation of informal small businesses, which are discouraged by long registration processes and high tax rates. CBL (2012) states that, “excessive tax rates and oppressive tax administration can hamper the business sector growth such that most small business owners fail to register their businesses to avoid tax.” However, the MTICM (2012) shows that, the establishment of the one-stop shop is mainly to assist small business owners to promptly obtain company registration, so as to reduce transaction costs. From these results nevertheless, it is clear that rapid business registration favours SMMEs in growth phases, specifically small and medium-sized enterprises, as they are characterised by potential for growth and thereby ease of access to assistance from credit facilities. However, there is less consideration of the micro enterprises; hence their reluctance to register their businesses as it is deemed expensive and time-consuming.

6.3 Results in Terms of Objectives

6.3.1 Objective 1: To ascertain the extent to which SMMEs are dependent on assistance from financial institutions.

Start-up capital remains an essential tool for business establishment, sustained growth and development. There is a crucial need for government interventions with regard to stimulating business development through financial support in the SMME sector. The study revealed high rates of self-funding in the SMME sector, with limited use of available financial institutions. SMMEs hardly succeed in economies where the government fails to intervene, as a strong need for adequate support still persists. The results also revealed that a majority of the respondents are aware of the existing financial institutions in the city and have applied for financial assistance, however, a limited number of these respondents' loan requests were approved, which results in their inability to engage in success strategies. Credit access in the SMME sector remains the biggest factor that impacts on the success of these enterprises. Reliance on self-

funding by SMME owners is mainly due to inaccessible credit facilities and thus explains the slow progress in expansion of these enterprises. The processes and requirements for loan approvals must carefully be monitored and evaluated by the government so as to ascertain whether they contribute to the ease of access to financial support for SMMEs, especially the micro and small enterprises.

For the few respondents who are aware of the financial institutions but who have made no efforts to apply for loans, much emphasis is put on high interest rates. Even though some SMMEs may qualify for loan approvals, the fear of interest rates could increase their reluctance to request loans from financial institutions. According to Lesotho Country Monitor (2013) many Basotho heavily rely on informal financial services providers in order to avoid high interest rates. This therefore shows that entrepreneurs rely heavily on start-up capital for business growth, which must be encouraged by extensive government efforts to assist SMMEs with ease of access to financial assistance. There should also be a reduction of the negative effect of high interest rates in the start-up and growth phases of these small businesses.

6.3.2 Objective 2: To establish if all SMMEs have adequate training and development.

This objective sought to determine the level of training and development requirement by SMME owner-managers and whether it results in growth, development and continued sustenance of SMMEs. The results from this study show the significance, awareness and extensive need of training and development activities and workshops made available to SMMEs in Maseru, proven by a majority of 121 respondents who are aware and feel the need for training and development. The remaining 79 respondents do not feel the need for training and development regardless of whether or not they are aware of the existence of these workshops.

Findings revealed that most of these workshops are in favour of and usually target registered and formal SMMEs. Therefore the continued reluctance of business registration common in the SMME sector results SMME owner-managers' failure to attend these workshops, whether or not there is a strong need for business training and development. Such cases thus result in lack of knowledge and practise of fundamental success strategies such as frequent training of employees and bookkeeping, and limited awareness and knowledge management with regard to internal and external forces that

forcefully hamper small businesses' success. This lack of knowledge and awareness results in slow or no growth and thus the constant SMME failure. Training and development activities are subjective to fundamental business strategies, obligation to train employees as well as the precise organization of the work plan (Panagiotakopoulos, 2011).

There are consistent workshop initiatives taking place in Maseru, however, the low levels of attendance by SMME owners-managers needs to be addressed through careful communication and extensive awareness efforts by the Government of Lesotho. The failure to attend workshops aimed at assisting small business owners will almost surely result in slow to no growth of SMME success rates, escalating unemployment rate, slow economic growth and thus increased poverty levels in Maseru. It must be noted that expert training and manpower development are very crucial, as sufficient information needs to be communicated to small business owners in order to upgrade business performance standards (Das, 2001).

Lesotho Country Monitor (2013) showed that training and development plans for SMME owners, managers and sometimes employees are non-existent. This poses a challenge to reaching out to these owners because they often do not regard themselves as business owners and frequently do not show any interest in training. These attitudes of owner-managers revealed by these findings pose a serious threat to the success and sustained growth and development of SMMEs in Maseru, such that it becomes very challenging for such businesses to grow in an unconducive environment. Reynoso et al. (2014) show that, training and development initiatives hardly face difficulties if the facilitation of the programs is flexible and capable of adapting to unconventional situations.

6.3.3 Objective 3: To determine the extent to which SMMEs develop and practise strategic plans.

Business knowledge and strategic planning have proven to be vital for growth and success in businesses. The results from this study have revealed an increased practise of strategic planning in small businesses, with 136 of the 180 participants aware of the significance of business plans and therefore engaging in planning, and 120 of these respondents implementing and achieving those plans. However, the frequency of business planning in these enterprises seems to be rather low, with a majority of SMME

owner and/or managers engaging only in annual planning as opposed to weekly, monthly and quarterly planning. Regarding the feasibility of their businesses for the next 3-5 years, a majority of the respondents (87) wish to have a larger customer base, 49 want stable growth, while 29 of the remaining 40 wish to have their businesses registered, which is likely due to ease of access to finance associated with business registration.

Findings from this study revealed that even though most small businesses in Maseru, mostly micro enterprises, are not registered, hence self-financing resulting in slow growth, they still however engage in strategic planning and are aware of the significance of business plans for the continued growth and sustainability of their respective enterprises. Customer-base in Maseru is very low, and this is more so in the SMME sector, as it targets individual customers. These enterprises may find it challenging to attract customers; however, this factor will be discussed in detail in the discussion of the last objective. Overall, most SMME owner-managers establish and operate their businesses with intentions to grow, either aiming at short-term or long-term goals. Appropriate strategies developed and practised by an enterprise assist in the preparation of future success and better business performance in a competitive environment (Adamoniene and Andriuscenke, 2007a). This nonetheless poses a challenge to the Government of Lesotho, as it has to extensively apply more operational and careful interventions, as this develops an enabling business environment thereby leading to business growth. To improve and sustain an enabling environment, the Government of Lesotho needs to promote the establishment and growth of small businesses to further alleviate poverty and create more jobs.

Regarding a few of the respondents who fail to engage in strategic planning, with no plans to grow their businesses, it is interesting to note that not every business plans to grow. The reason for this may be due to the challenges faced in accessing credit, economic crisis that may be faced in countries, business growth being associated with high taxation or reluctance to be seen owning a large business. Research by Strickland and Thompson (2008) found that reluctance for growth in SMMEs is mainly due to the need to maintain low costs, in order to focus on a specific market segment with considerable needs that are below average (Grant *et al.*, 2002), thereby increasing market share (McGee *et al.*, 2010). Business plans offer a clear description of an enterprise's feasibility for short-term and long-term growth. According to Hormozi *et*

al. (2002) financial institutions require business plans to assess the potential growth of a business, to gain a clear understanding of a detailed analysis of the documented business information, its opportunities and the feasible amount required for financial support. The growth objective and goal of SMMEs must be a result of specific targets based upon the potential market to adapt to any changes deemed possible, so as to ensure long-term profitability (Nieman and Nieuwenhuizen, 2009).

6.3.4 Objective 4: To ascertain the advertising strategies SMMEs commonly use in order to be successful.

A total of 92 respondents, who are the majority of respondents in this study, make use of word of mouth advertising, of which 65 respondents advertise at any given time. This shows that there is a common use of word of mouth advertising, followed by newspaper advertising, relative to radio and TV advertising. Of the 167 respondents who engage in advertising, 133 of them indicated that their customers rely on advertising to purchase, with advertising mostly done on a daily basis. 149 of the 180 respondents revealed that they receive feedback from their customers, and only 34 offer products that are targeted at a specific age group.

SMMEs operating in Maseru seem to encounter difficulties in obtaining enough customers as they mainly target individual customers. These customers sometimes prefer foreign-owned businesses' products and services offerings as they are said to be cheaper. An enabling business environment assists in the ability of small businesses to reach customers easily, with the use of cheaper advertising media. SMMEs opt for word of mouth advertising, as there are no costs associated with it, as well as the use of newspaper advertising as it is said to be cheaper as compared to radio or TV advertising. An enabling environment, with regard to cheaper advertising costs, enables businesses to meet customers' needs. The inability to use advertising media such as radio and TV, which reach a wider audience, is due to high costs associated with these two forms of advertising media. This therefore relates back to the issue of insufficient funds that disable the use of appropriate and effective advertising media. In order to reach a larger target market, there must be adequate finance, marketing knowledge and skills that assist in promoting growth of SMMEs.

The findings of this study confirm Singh's (2010) assertion that SMMEs still regard advertising as a cost-bearing routine since most of these enterprises have insufficient

funds. The growth and development determinant for these enterprises is mainly influenced by access to more customers, which is enabled by effective use of large-scale advertising media and a clear knowledge of the target market. The complexity in implementing advertising strategies in the SMME sector as a result of the sector's informality, chaos and responsiveness is emphasized by Navickas *et al.* (2014). There is limited or no understanding of marketing concepts essential to the growth of a small business and this may be as a result of the level of illiteracy found in the SMME sector in Maseru. According to Fiore *et al.* (2013), marketing expertise and planning behaviour of SMME owner and/or managers is lacking due to low or no levels of formal education and work experience.

6.3.5 Objective 5: To determine the extent to which competition impacts on the success of SMMEs.

With regard to challenges linked to competition in the SMME sector, loss of customers seems to pose a serious threat to the success of these enterprises. 72 of the 157 respondents who are faced with a highly competitive business environment indicated that it is difficult to attract customers so as to increase sales, while substitute products and insufficient funds are the second and third most competitive challenges faced by SMMEs. The results also reveal that most of these small businesses ensure quality products and services offerings for maintaining competitive advantage. The loss of customers is again indicated as the biggest contributor to the negative impact associated with high competition, followed by prevailing emergence and existence of foreign-owned enterprises.

The definition of business success to these enterprises is largely associated with government financial support, product differentiation, large-scale advertising and ensuring customer care and satisfaction. According to Gunasekaran *et al.* (2011) it is important for each enterprise to study competition surrounding them, as the SMME sector is commonly known as the most competitive sector and therefore needs active and well strategized individuals for survival. Most competitive strategies that are strongly recommended for sustained operation of SMMEs also require adequate finance. The existence of a large proportion of foreign-owned enterprises also poses a threat to locally-owned SMMEs, as these enterprises are direct competitors, offering similar products and services at below average costs, and are also able to engage in competitive strategies given their ease of access to credit facilities. Maseru's

competitive environment is said to be very weak (African Development Bank, 2012), thus affecting business growth and resulting in constraints with regard to foreign investors and indigenous SMMEs. The cost of doing business in Maseru is relatively low, however, a challenge does arise in sustaining growth and development given the weak competitive environment, inadequate financial support and decreased levels of customer base.

6.4 Conclusion

This chapter entailed a summative discussion of findings in accordance with the objectives of the study. The discussion of the findings was related to the findings of relevant studies outlined in the literature review, and published material from various sources. This discussion has allowed for the careful analysis of factors leading to the success and failures of SMMEs in Maseru, more especially government financial support, product differentiation, large-scale advertising and ensuring customer care and satisfaction. The next chapter presents the overall conclusions made from the study, proposes recommendations based on the findings in order to improve the prospects for SMMEs in Lesotho, as well as recommendations for future studies.

CHAPTER SEVEN: Conclusion and Recommendations

7.1 Introduction

The previous chapter discussed the findings of the study. This final chapter provides the conclusions and recommendations drawn from the findings of this research. The recommendations are directed at SMME owner and/or managers as well as the relevant stakeholders and role players whose involvement ensures continued success in the SMME sector, in relation to all factors discussed in previous chapters. The benefits of the study and recommendations for further research are also provided.

7.2 Conclusions on the Findings of the Study

The study investigated the impact of environmental factors on SMMEs and the crucial factors and strategies needed for their success. It further assessed some of the challenges that SMMEs in Maseru are faced with, which hinder their growth, development and continued success. Based on the availability of financial institutions in Maseru, there are strong indications that there will be a continued emergence of SMMEs in the city, with a strong need for financial support from such institutions. Despite the ills of favouritism towards medium-sized enterprises with regard to financial support, the majority of respondents showed strong initiatives in engaging in affordable strategic planning, such as utilization of affordable advertising media to reach a larger customer-base, which is said to be a challenging factor for these enterprises. This favouritism is also considered to be a contributing factor as to why most SMMEs, particularly small and micro enterprises, fail within the first two years of establishment. It can therefore be concluded that there are various challenges that these enterprises are faced with, however, there seems to be strong efforts by the owner-managers to try and sustain their enterprises given their limited funds.

The study revealed that one of the factors which lead to slow growth and sometimes even failure for SMMEs is lack of confidence in business ownership, thereby leading to strong reluctance to attend workshops which may create a path for training and development and provide skills pertaining to basic to expert business management tools and strategic planning processes. This was confirmed by respondents in this study. Some respondents do not believe in their abilities to function as responsible SMME owners with the potential to grow and expand their businesses, and as such opt not to engage in business registration. Registration would enable ease of access to financial

support from respective institutions but owner-managers are nevertheless reluctant to register their businesses, even when the government tries to make initiatives in encouraging SMMEs' registrations. SMME owner-managers focus on the negative aspects rather than the positive aspects of their capabilities with regard to growth and development, which would be strongly enabled by the most crucial factor, business registration. High tax and interest regimes are associated with business registration by these owner-managers, which thus results in the prevalence of informal SMMEs failing to operate for more than two years, given the internal and external forces surrounding and impacting on them, including limited funds.

The researcher is of the opinion that despite the efforts by the Government of Lesotho, and financial and support institutions available to mitigate the high failure rates in the SMME sector, a significant number of SMMEs still fail. Some SMMEs in Maseru, mostly medium-sized enterprises, are favoured by the government in terms of financial support; this discourages small and micro enterprise owner-managers from registering their businesses.

Prior work experience and educational background are crucial factors that contribute to effective business management, but formal training is more effective, as academic qualifications are usually not business oriented. Therefore there is a need for constant business empowerment through acquisition of business management skills, which would be beneficial for owner-managers attendance of training and development workshops. Less products and services differentiation is common in the SMME sector in Maseru, showing a lack of innovation and common similar practices, which lead to increased competition and less profit generation, given the present saturation of the sector. Even though competition is regarded as a healthy factor for businesses, SMME owner and/or managers feel that they are exposed to unfair competitive rivalry from large and foreign-owned enterprises. This means that GOL, being the key role player in entrepreneurial activities in the SMME sector, must show acknowledgement and support of small businesses, as most of the strategies seem to fail with regard to serving their intended purposes. However, it is not only the government's responsibility to create an enabling environment for small businesses; SMMEs also have to conform to the set rules and regulations that are intended to develop and sustain their businesses as well as the city's economy.

7.3 Recommendations

7.3.1 Start-up capital

There is a significant need for GOL to re-examine the rules and regulations for obtaining financial assistance as this might simplify compliance by SMMEs. The government must ensure that there is flexibility in rules and regulations regarding obtaining financial support from financial institutions, which is needed not only as the start-up phase but throughout all phases. Inadequate finance is the most challenging factor in the SMME sector, therefore special emphasis on ease of access to finance is essential, as this might increase the participation of potential entrepreneurs and promote access to finance for existing entrepreneurs. GOL's intervention must entail developing human capital through advanced education systems and extensive use of technology. Business and entrepreneurial education, which are key principles to advanced education, must entail training for SMME owner-managers regarding how write a business plan and how to manage a business from start-up to maturity which will thus result in increased business registration and licensing levels.

The laws regarding business licensing and registration procedures, income tax, interest rates and all other policies have strongly hindered, and continue to hinder, SMMEs' success. Such rules and regulations need to be formulated in ways that do not suppress the profitability of different types of SMMEs but facilitate their growth and development. Policies must be reviewed on a continual basis to ensure appropriate approaches in dealing with SMMEs; laws must also be updated, simplified and enacted. A large number of SMMEs, especially micro enterprises, are not integrated into the wider economic context and are therefore not familiar with the set of existing rules and regulations regarding their enterprises, as well as the existing financial institutions. They therefore need to become knowledgeable regarding their markets and form alliances with larger enterprises to gain an understanding of the business environment, in order to familiarize themselves with various forms of assistance offered by the government.

Communication is also a key factor. Regulatory measures that SMMEs need to comply to must be frequently advertised, and drafted in plain language for clarity and understanding, given the illiteracy level in this sector. This will lead to small business owners and/or managers familiarizing themselves and understanding all implications of

regulatory measures, and will thereby encourage them to register and license their respective enterprises. Equal access to credit for both genders must also be carefully considered, so as to continue encouraging women entrepreneurs in the SMME sector, as some households are women-headed.

7.3.2 Training and development

SMME owner-managers need to empower themselves through acquisition of business management and entrepreneurial skills and knowledge by attending small business workshops offered by government bodies such as BEDCO. These workshops will effectively equip them to overcome internal and external challenges that they may face. There is a strong need for frequent communication and awareness initiatives through large-scale advertising regarding the availability of these kinds of workshops targeted to small businesses, both formal and informal, as these workshops will encourage business registrations and licensing. Training offered must not be biased, but must be tailored to the needs of all types of SMMEs. Expert training is very crucial as it offers clear communication to all SMME owner-managers, illiterate or not, to upgrade their performance, so as to enable them to become expert managers, and thereby grow and develop their businesses.

Training and development initiatives should aim at encouraging innovation, which will improve levels of products and services differentiation that currently exist in the SMME sector in the city. Offering unique products and services enables strong competitive advantage and thus ensures sustainable growth and development. However, all of these efforts by the government and supporting institutions will only become successful if SMME owner-managers are willing to show interest in workshop attendance, which will enable an achievement of the national plan of sustaining and improving the economy.

7.3.3 Strategic planning

SMME owner-managers need to understand the importance of strategic planning. They must possess a strategic plan, which clearly sets a path for a way forward and thus has a positive impact on their respective businesses. Planning should cover areas such as advertising and marketing, customer service and relationship management as well as employer-employee relations. Education regarding strategic planning is a very crucial

factor that needs to be considered by the supporting institutions, especially concerning advertising and frequent reviews of plans, given the low customer base in Maseru. Educating these owner-managers on various ways to reach out to more customers will create more awareness of their businesses, thereby increasing customer base and in turn improving sales returns.

In today's competitive and dynamic business environment, it is necessary for SMME owner-managers to review and revise their business plans at least quarterly or on a monthly basis, mostly at start-up phases, as opposed to the annual planning commonly practised in these enterprises. A need for frequent planning assists in determining milestones and strategic tasks, focusing on the strategic direction of an enterprise. Success in attracting a large customer base is achieved by strategizing and planning for periodic milestones that need to be frequently reviewed for growth and development.

7.3.4 Competition

SMME owner-managers need to instil competitive rivalry in the business sector. They need to be active enough and well strategized, enthusiastic to engage in effective competitive strategies such as innovation, learning competitors' weaknesses to ensure sustainable growth and development. The fear of foreign-owned enterprises that is common amongst locally-owned enterprises needs to be dealt with. Local frustration in most owner-managers regarding their loss of customers is associated with the existence of foreign-owned enterprises. However, not much strategic planning and business models which assist in retaining customers is practiced by these enterprises, which therefore results in many local customers heavily and increasingly relying on products and services offerings by foreign-owned enterprises.

Customer service is one crucial factor that needs to be re-examined and instilled in the minds of SMME owner-managers and their employees. Unpleasant customer shopping experience is usually a common practice in these enterprises, which therefore results in the loss of existing customers to larger and foreign-owned enterprises, and decreased sales returns. The government must engage in effective projects that provide technical assistance regarding the implementation of target programmes that would enable relationships between large and foreign-owned enterprises and indigenous SMMEs. This would improve information flow between this set of enterprises, decrease

competitive rivalry, increase business opportunities between them while simultaneously improving the growth and development capacity of local SMMEs.

7.4 Benefits of the Study

The identification of environmental factors and essential strategies that impact on the success and failures of SMMEs in Maseru is a step in the right direction to increasing an awareness of the significance of SMMEs in any given economy. SMMEs cannot succeed or continue sustaining growth and development without support from key stakeholders such as the government, financial and support institutions. The increasing emergence but prevailing failure of these enterprises leads to stagnant economic growth, characterised by increased poverty levels and high unemployment rates. This study is thus beneficial in that it grants individual key stakeholders, especially SMME owner-managers insight into the importance of their enterprises in the economy, offering an understanding of the vital role of strategic planning that must be revised frequently, an awareness of the internal and external forces surrounding small businesses that hinder their success rates, as well as the various kinds of support offered by the government and all supporting institutions. The study is also beneficial in that it creates awareness for the government of its responsibility to SMMEs, the need for practise and careful review of all rules and regulations regarding SMMEs in order to nurture these enterprises and provide a very conducive environment for them, as their success and development also contributes to national success and economic development.

7.5 Recommendations for Future Research

There is limited research regarding SMMEs in Maseru, such that documentation of issues relating to growth, development and failure rates of these enterprises is close to non-existent. This suggests a very strong need for more research to be undertaken, not only in Maseru but in all other nine districts of Lesotho, as these districts may yield noteworthy results in relation to this study.

Further research studies must more fully investigate the challenging factors that these small businesses are faced with, as there seems to be more complexity to the issues that either promote or inhibit the success of SMMEs, including the limited awareness of financial institutions assisting SMMEs, which could not be addressed given the limited time constraints and busy schedules of these owner-managers.

7.6 Conclusion

SMMEs constitute a very crucial component in terms of Maseru's economic growth and development. The contributions of these enterprises to local citizens, the government and the country's development must not be undermined. Having identified the factors that promote or hinder the growth and development of these enterprises in Maseru, as well as the consequent recommendations given, the researcher hopes that a careful consideration and nurturing of these enterprises could strengthen the existence, operations and sustenance of SMMEs, to achieve a common national goal of economic growth.

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APPENDICES

Appendix 1: Research Questionnaire

Research Title:

Environmental Factors and Strategies That Impact on the Success and Failures of SMMEs in Maseru

RESEARCH QUESTIONNAIRE

SECTION 1

A. Gender

- (i) Male ☐
- (ii) Female ☐

B. Age

- (i) Under 21 years ☐
- (ii) 21-34 years ☐
- (iii) 35-45 years ☐
- (iv) 45 years and above ☐

C. Race

- (i) African ☐
- (ii) White ☐
- (iii) Indian ☐
- (iv) Asian ☐
- (v) Other (Specify)

D. Educational level

- (i) Primary School Level ☐
- (ii) High School Level ☐
- (iii) Tertiary Level ☐
- (iv) Other (Specify)

E. Number of years in business

- | | | |
|-------|--------------------|--------------------------|
| (i) | 0-2 years | <input type="checkbox"/> |
| (ii) | 3-5 years | <input type="checkbox"/> |
| (iii) | 6-10 years | <input type="checkbox"/> |
| (iv) | 11 years and above | <input type="checkbox"/> |

F. Registration with OBFC

- | | | |
|-------|-------------------------------|--------------------------|
| (i) | Registered | <input type="checkbox"/> |
| (ii) | Not registered | <input type="checkbox"/> |
| (iii) | Will not register | <input type="checkbox"/> |
| (iv) | In the process of registering | <input type="checkbox"/> |

SECTION 2

A. Assistance from institutions

- (i) How did you obtain the start-up capital for your business?
- | | | | |
|---------------------------|--------------------------|---------------------|--------------------------|
| (a) Own savings | <input type="checkbox"/> | (b) Friends/Family | <input type="checkbox"/> |
| (c) Bank loans | <input type="checkbox"/> | (d) Finance Schemes | <input type="checkbox"/> |
| (e) Other (Specify) | | | |
- (ii) Are you aware of the financial institutions assisting SMMEs? Yes ☐ No ☐
- (iii) If yes, have you tried applying for assistance of start-up capital from such institutions? Yes ☐ No ☐
- (iv) Was your request (loan) approved? Yes ☐ No ☐
- (v) Do you feel that inadequate finance impacts on your ability to undertake strategies that would help your business to grow? Yes ☐ No ☐

B. Training and Development

- (i) Do you require training and development? Yes ☐ No ☐
- (ii) Are you aware of the training and development workshops that are available to SMMEs? Yes ☐ No ☐
- (iii) If yes, have you attended any? Yes ☐ No ☐
- (iv) Did you find the workshop useful? Yes ☐ No ☐
- (v) What areas did you receive training on?.....
.....
.....
.....

(vi) What are the areas of greatest concern regarding training and development?

(vii) How many employees do you have?

(a) None ☐ (b) 1-3 employees ☐

(c) 4-9 ☐ (d) 10-49 employees ☐

(viii) How often do you train them?

(a) Once a week ☐ (b) 2-4 times a week ☐

(c) More than 5 times a week ☐ (d) Never ☐

C. Strategic Planning

(i) Does your organization engage in planning? Yes ☐ No ☐

(ii) Are you aware that a business plan assist in planning Yes ☐ No ☐

(iii) How often is planning carried out?

(a) Weekly ☐ (b) Monthly ☐

(c) Quarterly ☐ (d) Yearly ☐

(iv) Are plans implemented and achieved? Yes ☐ No ☐

(v) Where do you wish to see your business in the next 3-5 years?.....

.....

.....

.....

D. Advertising Strategy

(i) What form of advertising media do you use to inform your customers about your products and services?

- (a) Newspaper ☐ (b) Radio ☐ (c) Magazine ☐
(d) Internet ☐ (e) TV ☐ (f) Word of mouth ☐
(f) None ☐

(ii) How often are your products and services advertised?

- (a) Daily ☐ (b) Weekly ☐
(c) Monthly ☐ (d) Anytime ☐

(iii) Are your customers reliant on advertising to purchase? Yes ☐ No ☐

(iv) Do you ever receive feedback from your customers concerning your products and services? Yes ☐ No ☐

(v) Are your products targeted to a specific age group? Yes ☐ No ☐

(vi) If yes, please clarify your target market

.....
.....
.....

(vii) Is there substantial evidence that advertising increases sales? Yes ☐ No ☐

E. Competition

(i) What do you regard as the challenges linked to competition?

.....
.....
.....

(ii) Is competition high in the current market? Yes ☐ No ☐

(iii) What measures are taken to ensure a competitive advantage is maintained?

.....
.....
.....

(iv) Is your business negatively affected by high competition?

Yes ☐ No ☐

(v) If yes, briefly describe

.....
.....
.....

F. Any additional suggestions on what it takes to be successful as a small business owner?.....

.....
.....
.....
.....

THANK YOU!!!

Appendix 2: Informed consent document

**UNIVERSITY OF KWAZULU-NATAL
COLLEGE OF LAW AND MANAGEMENT STUDIES
SCHOOL OF MANAGEMENT, INFORMATION TECHNOLOGY AND
GOVERNANCE**

Dear Respondent,

Master of Commerce Research Project

Researcher: Liako Priscilla Masupha (0789143071)

Supervisor: Mrs Andrishaharry-Ramraj (0722708274)

HSSREC Research Office: (0312608350)

I, Liako Masupha am an MComm student, at the School of Management, IT and Governance, of the University of KwaZulu Natal. You are invited to participate in a research project entitled:

“Environmental factors and strategies that impact on the success and failures of SMMEs in Maseru.”

The aim of this study is to get information from you regarding the strategic activities and environmental factors that impact on the success and failures of SMMEs in Maseru. The information that you will provide will help in identifying all environmental factors that contribute to the success and failures of small businesses and to establish how SMME owners can be supported for growth and development.

Through your participation I hope to understand all vital strategies crucial to the success of SMMEs, the environmental factors that impact small businesses and effective measures crucial to the growth and development of SMMEs. The results of the survey are intended to contribute to an awareness of the existence of SMMEs in Maseru and the assistance small business need to further their growth and development.

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

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

The survey should take you about 10-15 minutes to complete. I hope you will take the time to complete this survey.

Sincerely

Investigator's signature _____
Date _____

CONSENT

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

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

SIGNATURE OF PARTICIPANT

DATE

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