

Selected Key External Factors Influencing the Success of Rural Small and Medium Enterprises in South Africa

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Small businesses are critical to improving economic development in rural areas of South Africa. However, rural entrepreneurs are still faced with challenges and problems which make the success of small businesses, especially in rural areas, uncertain. This paper investigates business environmental, financial and infrastructural factors that influence the success or otherwise of Small and Medium Enterprises (SMEs) in rural areas. Primary data was collected in five rural areas of KwaZulu-Natal (KZN) from a sample of 374 business owners/managers, with respondents completing a questionnaire. Access to finance and skills shortages were the factors that most significantly differentiated between more successful and less successful rural businesses in KZN. The majority of respondents indicated that poor roads/transport and access to electricity were major problems.

Keywords: Finance; infrastructure; business environment; small business; rural; South Africa; SME; KZN.

INTRODUCTION

Small and medium enterprises (SMEs) are critical to improving economic activity, job creation, poverty alleviation and generally improving living standards in South Africa (Nieman, Hough and Nieuwenhuizen, 2003:4). However, SME development and business creation is constrained by poor access to finance (Rogerson, 2008; Okpukpara, 2009), lack of education in entrepreneurship, business skills and leadership (Fieldsend and Nagy, 2006; Rogerson, 2008), lack of marketing knowledge (Lekhanya and

Mason, 2013), inflexible regulations (Rogerson, 2008), and lack of access to business resources, high taxes and poor market access (Ishengoma and Kappel, 2008). Fatoki and Garwe (2010) identified internal factors (access to finance, management skills, networking, investment information technology and cost of product) and external factors (economic environment, markets, infrastructure, crime, corruption and labour) that can impact on a business and cause obstacles to growth for new SMEs.

Clearly factors influencing entrepreneurship and small businesses is a well-researched area, but relatively little work has been done on rural businesses in South Africa, and especially in KwaZulu-Natal (KZN). This is important because lack of development are major problems in rural areas (Ashley and Maxwell, 2001), and well-focused programmes to empower rural entrepreneurs are necessary (Okpukpara, 2009; Lekhanya and Mason, 2013). Nidheesh (2008) believes that business creation is a vital tool to improve rural communities and underdeveloped countries. Therefore research is required in this area in the South African context, particularly regarding the rural areas of KZN considering the role that SMEs and entrepreneurship can play in reducing poverty and developing growth (Isaacs *et al.*, 2007; Myeza *et al.*, 2010).

Lekhanya and Mason (2013) investigated marketing factors effecting SME business performance in rural KZN. To further understand the problem of SME performance in rural areas, this study set out to investigate some key external factors influencing the success, or lack thereof, of SMEs with specific reference to rural KZN. Lekhanya (2010), in addition to marketing factors, identified business environmental, financial and infrastructural factors as of significance to rural SMEs. Thus the objective of this study was to investigate these factors in more detail and to identify which are most important and play a significant role in the success or otherwise of SMEs in rural KZN.

In achieving this objective, the study will make a contribution towards knowledge of rural SMEs and be able to make suggestions for steps that can be taken to improve the likelihood of success and continued sustainability of rural SMEs, thus contributing to improved rural development.

LITERATURE REVIEW

South Africa is a democratic country with an estimated population of 50.7 million. South African GDP per capita has been growing at an average rate of 2.7 percent for the past five year and currently stands at US\$ 11 500

(OECD, 2013). The South African economy is highly concentrated and anti-competitive trade practices are widespread. South Africa dominates the sub-Saharan Africa region economically, accounting for 41 percent of Southern African Development Community's (SADC) total trade and about 63 percent of SADC's GDP. It has the requisite economic capability and levels of diversification that are required to drive economic integration in a manner that is mutually beneficial to the region—namely technology transfer, poverty reduction, fostering social development and promoting collective protection of the environment, particularly in the case of shared natural resources (African Development Bank, 2012). *Poverty and Inequality Report (2013)* indicates that 41.4 percent of South Africans live below the poverty line. Van Vuuren and Greonewald (2007) indicate that SMEs form 97.5 percent of all businesses in South Africa. They generate 34.8 percent of the gross domestic product (GDP), contribute to 42.7 percent of total value of salaries and wages paid in South Africa, and employ 54.5 percent of all formal private sector employees. Although a common definition of SMEs includes registered businesses with less than 250 employees (IFC, 2009), according to the South African National Act for Small Business of 1996, amended 2003 and 2004, in South Africa:

- Small enterprises have fewer than 50 employees, less than R2 m sales revenue, or R25 m depending on industry, and less than R2 m, in assets, or R4.5 m depending on industry.
- Medium enterprises have fewer than 100 employees, or 200 depending on industry, less that R4 million in sales revenue, or R50 m depending upon industry, and less than R2 m in assets, or R18 m depending on Industry.

Perret (2004) stresses that, in South Africa, a number of factors hinder efficient development in, and delivery of services to, rural areas. Using rural resources is essential for such rural development (McDonough and Commins, 2000), because development in rural areas remains a high priority for South African SMEs (Lewis, 2001). As mentioned previously there are numerous possible reasons for SMEs' lack of success in rural areas, but this paper, as spelt out above, will focus only on business environment, financing and infrastructural issues.

Business Success

Beaver (2001) contends that many small firms in the UK fail within the first year because of the lack of product demand and customer support. Small firms tend to suffer from a limited customer base and smaller market share,

which could mean a lower profit. However, because a small firm has a smaller output than its larger competitor, it is particularly vulnerable to the decline or loss of an important customer. In addition, *Simpson et al. (2004)* maintain that by adopting business continuation as the basis of success, the assumption is that profitable entrepreneurs decide to stay in business and those making a loss decide to exit. Since a business making more sales is likely to make more profits, it is likely to have more chances of staying in business. Furthermore, amongst other factors, *Mavondo (1999)* suggests that success can be measured in terms of sales. Therefore, 'sales' was used as a measure of business success.

Business Environment Factors

Deller et al. (2001) point out that several factors, such as local government support for small firms, attitudes toward entrepreneurs, the population density of communities, closeness to urban areas, business networks and services, training of small business and financial resources, are important for rural vitality. *Chatman et al. (2008)* indicate that SME owners' perceptions of their treatment by their community, the amount of local patronage, and the availability of business networks and high-speed internet influence the entrepreneurial climate. Other factors falling within the classification of the business environment include expertise, scale of production units, reliance on guaranteed prices for commodities and the undifferentiated nature of products (*McDonough and Commins, 2000*).

A further factor influencing SME performance is the lack of skills (*Khumalo, 1994*). *Skuras (2005:7)* maintains that it is very important to create human capital through entrepreneurial education and training for the growth of rural business owners/managers. Accordingly, *Kristiansen (2007:53)* stipulates that government institutions need to play a major role to improve limited information and knowledge, and thus improve skills, in the rural areas.

Thus, factors such as lack of customer demand, government regulations, competition from other businesses, lack of guidance on business development, lack of skills, inflation, high labour costs and high interest rates were identified as possible factors inhibiting SME success.

Finance Factors

Small firms face the difficulty of limited availability of financial resources (*Clow and Baack, 2004*). This was supported by *Ladzani and Netswera (2009)* who indicated that finance is perceived to be inaccessible for

rural SMEs. The shortage of finance comprises the major obstacle to growth of SMEs (Pissarides, 1999; Tesfayohannes, 2006). SMEs are excluded from some financial sources (e.g. stock exchange), and find raising finance, such as long-term loans difficult because of the higher risk associated with firms who have little equity in the form of share capital (Deakins, 1996). Venturella and Erickson (2004) report that, globally, 80% of all new businesses fail due to their inability to secure sound long-term financing and to the high cost of such financing that they do secure. This means that small firms often need more frequent refinancing, and are more highly leveraged, which exacerbates the problem. Otero and Rhyne (1994, in Makombeshamu, 2001) point out that wider access to financial services is attainable through better credit delivery, but finances available for SMEs from lending banks and financial institutions are more restricted than for big companies (Butler, 2006). Therefore, numerous financial institutions and support bodies have been established in South Africa to assist small businesses with finance, for example Khethani Business Finance, Khula Credit Guarantee, People's Bank and Sizanani (MacLeod and Terblanche, 2007).

The access to, and source of, funding is also a potential problem for SMEs. Ishengoma and Kappel (2008) point out that SMEs' growth potential in rural areas is negatively affected by lack of financial support. Literature indicates that in the rural areas, service infrastructure and business environment have not yet been well developed, and face problems such as the inaccessibility of financial institutions (Liedholm and Mead, 1999), and the inability to get the necessary financing to support their businesses (Romanian Commercial Bank, 2008). Van Auken (2001) states that the characteristics of small firms influence their ability to raise capital. Factors such as the stage of product development, risk level, capital availability, type of firm, ownership structure and sales history affect the type and amount of capital that an SME could try to obtain (Van Auken, 2001). SMEs, by definition, are small. Internally, SMEs are limited by a shortage of financial resources, which reduces their potential growth. Similarly, they do not have the benefit of functional specialists but must rely on generalist 'jack-of-all trades' individuals, usually the owner or manager.

Thus limited access to funds and the source of funds were identified as factors that could influence SME success.

Infrastructural Factors

Some of the biggest problems facing South Africa are unemployment (45%) and rural poverty (71%) (Aliber, 2002). To attempt to survive and earn a

living, some rural people start their own small businesses, but many of these end up failing (Watson, 2005). Mezher *et al.* (2008) indicate that entrepreneurs operate in an unstable environment, facing many different kinds of difficulties, including infrastructural problems. Watson (2005) states that many South African rural areas are characterized by sparse populations, remoteness, poor infrastructure, poor or no access to markets, and other infrastructural factors that restrict rural economic development. Kinda and Loening (2008) indicate that improvements in the rural investment climate are important for growth, as business people like to invest where there is good infrastructure. In South Africa, research shows that efficiency and sustainability are more important for rural development than equity is (Booth and Protais, 2000). Dieden (2007) stresses that there are considerable links between rural development and improved access to modern energy in South Africa, and Kirubi *et al.* (2008) believe that rural electrification can contribute to rural development by increasing productivity and growth in revenue.

Rural business owners consider the values and the quality of the living environment when taking business location decisions (Johnson and Rasker, 1995), which is supported by Deller *et al.* (2001) who suggest that quality of life and quality of infrastructure in non-metropolitan areas plays a major role in terms of business creation.

Reasons that lead to failure include insufficient resources, inexperience in managing one's own business, poor management of cash and poor marketing (Watson, 2005).

Thus, factors such as access to electricity, telecommunications and health services, roads & transportation and quality of housing were identified as possible infrastructural factors that could influence SME success.

This brief review of literature has stressed the importance of SMEs to rural development, and highlighted the potential role of the business environmental, financial and infrastructural factors in the success or failure of rural SMEs, justifying the need for research in these areas in South Africa. As a result, the study objective of assessing the influence, on rural SME success or otherwise, of various business environment, financial and infrastructural factors was set.

METHOD

To achieve the above objective, the research followed a quantitative approach, namely a survey, to collect primary data from rural SMEs in KZN. The research design was descriptive and cross-sectional in nature.

Respondents

The target population of the study was SMEs that were formally registered with the South African government's Department of Trade and Industry (Department of Trade and Industry, 2002) and that were located in rural areas of the KZN province. It is estimated that there are about 800 SMEs in KZN province as a whole (KNZ YouthBiz Database, nd), but the number of SMEs specifically located in rural areas or that are not formally registered is not known.

Since a suitable sampling frame was not available from which to draw a probability sample, a quota sampling approach was used to select respondents from five areas in rural KZN, namely from Empangeni, Escourt, Kwa-Nongoma, Nquthu and Ulundi. These areas were selected as they have relatively large rural populations, allowing sufficient SME owners/managers to be identified. The sample quotas were based on geographic area and number of employees (as per Department of Trade and Industry's definition of SMEs). The specific sample elements in each quota group were selected using convenience sampling. A final usable sample of 374 respondents was obtained and is shown with the sample characteristics in Table 2.

Questionnaire

The measuring instrument used was a questionnaire, consisting mainly of closed-ended questions identified and derived from the literature. Respondents were asked to indicate which of the identified factors affects their business the most. Since most SME owners/managers are relatively unsophisticated in South Africa, response categories were kept simple. Each question also allowed for comment via an open-ended response alternative. The main questions are summarised in Table 1.

Data Collection

Teachers who were recruited and trained as fieldworkers from the selected areas administered the questionnaires at the respondents' business premises, on weekdays and over weekends. They distributed and collected self-completion questionnaires, according to the quota plan, which required an even split across the five geographic areas of rural KZN as spelt out above. In addition, interviewers were requested to ensure a spread of respondents across the control characteristics as specified in Table 2, so as to ensure the sample was reasonably representative of the population.

Table 1. Summary of key questions.

| Research Area | Questions |
|---------------------------------|--|
| <i>Dependent variable</i> | |
| More vs less success | What have been the main sales trends for your business in the past 12 months? Response Alternatives: An increase; Stayed the same; Decreased; and Do not know. |
| <i>Independent variables</i> | |
| Factors affecting business most | Which of the following factors affect your business most? Response Alternatives: lack of customer demand; government regulations; competition from other businesses; lack of guidance on business development; Limited access to finance; Lack of skills; Inflation; labour costs high; Interest rate high. |
| Source of Funding | From which of the following sources do you obtain funding for your business? Response Alternatives: Bank; Own funds; Finance companies; and ROSCAS (Rotational Savings and Credit Associations). |
| Infrastructure | Which of the following affects your business the most? Response Alternatives: Electricity access; Access to telecommunications; Roads and transportation; quality of housing; and Access to health services. |

Table 2. Control characteristics (N = 374).

| Age of Business | Annual Turnover | Number of Employees |
|-------------------------------|-----------------|---------------------|
| Very young (less than 1 year) | R0–500 | 0 |
| Young (1–5 years) | R 501–1000 | 1–9 |
| Established (6–10 year) | R 1001–2500 | 10–19 |
| Mature (over 10 years) | Over R2500 | 20–49 |
| | | 50–99 |
| | | 100–199 |
| | | 200–249 |

To improve response rate and validity, instructions were provided throughout the questionnaire, and the interviewers were on hand to explain any uncertainties where necessary. Inconsistencies in coding of the closed-ended questions were avoided by having all questionnaires pre-coded.

Analysis

Questionnaires were checked for completion and missing information, and data was then captured using SPSS version 16.0. The first analysis involved frequencies, which was also used to check the coding of data. Variables were then screened, identifying those that were influential on the dependent variables of the study. Finally, descriptive statistics were used to describe and compare the collected data. In order to test relationships, cross-tabulations with the appropriate inferential statistics (Z test) were used.

Validity and Reliability

Content and construct validity were assessed by careful comparison of the questionnaire with the research objectives, and by pre-testing it with a small sample similar to the population. No significant changes were required. Reliability was tested using Cronbach's coefficient alpha, achieving a coefficient of 0.773, thus concluding that the reliability of the study was acceptable.

FINDINGS

The SME firms that participated in the survey reflect considerable diversity according to types of industry, number of years in existence, ownership method and size of business. The profile of the participating firms is presented in Table 3.

This profile reflects a suitably heterogeneous sample that is not biased towards any specific type of firm. In the remainder of this section, the results will be presented for each of the questions related to the issues or variables being investigated, as identified in the research objectives.

Differences Between More and Less Successful Businesses

The sample was split into a dichotomous sample based on the respondents' perceptions as to whether their business was 'growing', 'static' or 'declining'. Businesses classed as 'growing' were defined as 'more successful' and 'static' or 'declining' were classed as 'less successful'. This resulted in about 60% ($n = 221$) being classified 'more successful' and 40% ($n = 152$) being 'less successful'. To compare these two categories, a Z test for a two-sample proportion test was conducted to test for differences

Table 3. Profile of participating SMEs (*N* = 374).

| Variable | Categories | No | % of Sample |
|---------------------------------------|---|-----------|--------------------|
| Type of business | Joint ownership | 179 | 47.9 |
| | Sole ownership | 195 | 52.1 |
| Nature of business | Agriculture | 26 | 7.0 |
| | Mining and quarrying | 12 | 3.2 |
| | Manufacturing | 26 | 7.0 |
| | Construction | 15 | 4.0 |
| | Retail, motor trade & repair services | 104 | 27.8 |
| | Wholesale trade, commercial agent | 52 | 13.9 |
| | Catering, accommodation and other trade | 60 | 16.0 |
| | Transport, storage and communications | 33 | 8.8 |
| | Finance and business services | 21 | 5.6 |
| | Community, social and personal services | 25 | 6.7 |
| Number of years in existence | Less than 1 year | 36 | 9.6 |
| | 1–2 years | 104 | 27.8 |
| | 3–5 years | 93 | 24.9 |
| | 6–8 years | 71 | 19.0 |
| | More than 8 years | 70 | 18.7 |
| Annual sales turnover of the business | R0-5000 | 24 | 6.4 |
| | R5001-10000 | 67 | 17.9 |
| | R10001-15000 | 51 | 13.6 |
| | More than R15000 | 209 | 55.9 |
| | Don't know | 23 | 6.2 |

between the more successful and less successful groups for each multiple response item within ‘business environment’, ‘source of funding’ and ‘infrastructure’ factors. The proportions of respondents who responded to each factor were compared between the more successful and less successful businesses.

Business Environment Factors

Table 4 reflects the relationships between success and the business environment factors affecting the business as identified through the cross tabulation and Z tests.

‘Competition’ is, unsurprisingly, given as the most common factor (59.2%) influencing respondents’ business. The next most common was ‘Limited access to finance’ (35.7%), with the remainder having similar

Table 4. Cross tab — success vs business environment.

| Business Environment Factor | More Successful | | Less Successful | | Total n | Z | p |
|---|----------------------------|----------|----------------------------|----------|----------------|----------|----------|
| | n | % | n | % | | | |
| Lack of customer demand | 24 | 10.9 | 20 | 13.2 | 44 | -0.676 | 0.251 |
| Government regulations | 28 | 12.7 | 24 | 15.8 | 52 | -0.855 | 0.195 |
| Competition from other businesses | 131 | 59.3 | 90 | 59.2 | 221 | 0.013 | 0.496 |
| Lack of guidance on business development | 51 | 23.1 | 44 | 28.9 | 95 | -1.279 | 0.100 |
| Limited access to finance | 67 | 30.3 | 66 | 43.4 | 133 | -2.596 | 0.005* |
| Lack of skills | 35 | 15.8 | 35 | 23.0 | 70 | -1.747 | 0.041* |
| Inflation | 49 | 22.2 | 24 | 15.8 | 73 | 1.527 | 0.063 |
| Labour costs high | 34 | 15.4 | 33 | 21.7 | 67 | -1.564 | 0.059 |
| Interest rate high | 48 | 21.7 | 26 | 17.1 | 74 | 1.098 | 0.138 |
| Number of respondents | 221 | | 152 | | 373 | | |

frequencies, between about 12 and 18%. The two-sample Z test for proportions indicates significant differences with respect to ‘Limited access to finance’ and ‘Lack of skills’ between more successful and less successful businesses ($p < 0.05$) — the proportion is higher amongst less successful business. In other words, the less successful businesses tend to be influenced by these two problems more than the more successful businesses are. ‘Inflation’ and ‘Labour costs’ are significant at the 90% level ($p < 0.10$). The findings for the remainder of the factors were not significant, indicating no difference between more and less successful businesses.

Source of Funding

Table 5 reflects the relationships between success and the source of funding as identified through the cross tabulation and Z tests.

Approximately three out of four respondents are funded via their ‘own funds’ and about half have ‘bank’ funding. Funding through ‘finance companies’ and ‘ROSCAs’ are less popular. The two-sample Z test for proportions shows significant differences between more successful and less successful businesses with respect to Bank & ROSCA funding ($p < 0.05$). As can be seen from the percentages, more successful businesses are more

Table 5. Cross tab — success vs source of funding.

| Funding Source | More Successful | | Less Successful | | Total <i>n</i> | Z | <i>p</i> |
|------------------------------|-----------------|------|-----------------|------|----------------|--------|----------|
| | <i>n</i> | % | <i>n</i> | % | | | |
| Bank | 121 | 55.0 | 65 | 43.6 | 186 | -2.144 | 0.018* |
| Own funds | 160 | 72.7 | 112 | 75.2 | 272 | 0.523 | 0.302 |
| Finance Companies | 8 | 3.6 | 4 | 2.7 | 12 | -0.506 | 0.309 |
| ROSCAs* | 13 | 5.9 | 2 | 1.3 | 15 | -2.180 | 0.015* |
| Number of respondents | 220 | | 149 | | 369 | | |

*Rotating Savings and Credit Association

Table 6. Cross tab — success vs infrastructure.

| Infrastructure Factors | More successful | | Less successful | | Total <i>n</i> | Z | <i>p</i> |
|------------------------------|-----------------|------|-----------------|------|----------------|--------|----------|
| | <i>n</i> | % | <i>n</i> | % | | | |
| Electricity access | 87 | 43.3 | 50 | 37.0 | 137 | -1.142 | 0.127 |
| Access to telecommunications | 27 | 13.4 | 27 | 20.0 | 54 | 1.607 | 0.054 |
| Roads & transportation | 109 | 54.2 | 77 | 57.0 | 186 | 0.508 | 0.291 |
| Quality of housing | 17 | 8.5 | 10 | 7.4 | 27 | -0.347 | 0.366 |
| Access to health services | 8 | 4.0 | 4 | 3.0 | 12 | -0.493 | 0.312 |
| Number of respondents | 201 | | 135 | | 336 | | |

likely to have bank or ROSCA funding than the less successful businesses. The other factors are not significant.

Infrastructure

Table 6 reflects the relationships between success and selected infrastructural factors as identified through the cross tabulation and Z tests.

‘Roads and transportation’ (55.4%) and ‘electricity access’ (40.8%) were the most frequently cited problems experienced by respondents, which makes sense considering the respondents’ location in rural areas. The two-sample Z test for proportions shows significant differences between successful and less successful businesses only at the 90% level ($p > 0.10$) with respect to ‘Access to telecommunications’, while all other factors are not significantly different. Thus these problems are experienced by all respondents and are not different between successful and less successful businesses.

DISCUSSION OF FINDINGS

The objectives of the study were to assess the role of various factors in the success or otherwise of rural SMEs in KZN. Splitting the sample into more and less successful businesses, according to the respondents' own assessments of their business growth, status or decline, enable such a comparison to be made. The following discussion of the findings relative to the literature indicates that the study's objectives have been satisfactorily achieved.

Business Environment Factors

Regarding the various business environment factors as listed in Table 3, only 'Limited access to finance' and 'Lack of skills' were found to be statistically significant. The literature highlights the lack of finance as one of the major problems faced by SMEs (Pissarides, 1999; Vinturella and Erickson, 2004; Tesfayohannes, 2006), and, in rural areas, the inaccessibility of finance makes it an even greater problem (Ladzani and Netswera, 2009). Our study confirmed these findings, as is shown by the lack of accessibility to finance being a factor that significantly differentiates between more and less successful SMEs. Regarding the latter factor (lack of skills), our finding was consistent with the findings of Khumalo (1994) and McDonough and Commins (2000), confirming that available skill levels are important in differentiating between more and less successful SMEs. Some of the other factors were nominated by many respondents as important (e.g. competition, lack of guidance, inflation, high interest rates) and they do undoubtedly impact on rural SMEs. However, the lack of statistical significance indicates that they affect all firms equally, and do not play a role in the success, or otherwise, of rural SMEs.

Source of Funding

'Bank' and 'own funds' were the most important sources of funds mentioned by the majority of respondents, but only 'Banks' was statistically significant in differentiating between more and less successful SMEs. This finding is consistent with the importance of bank finance consistently mentioned in the literature (Liedholm and Mead, 1999; Van Auken, 2001; Ishengoma and Kappel, 2008; Romanian Commercial Bank, 2008), and confirms that access to bank finance does play a role in the success or otherwise of rural SMEs in KZN. Although ROSCA funding was also

statistically significant, the proportion of respondents using it was small (7.2%), and so it would be unwise to draw important conclusions from this finding.

Infrastructural Factors

The findings in Table 5 indicate that 'Access to electricity' and 'Poor roads and transportation' were experienced by almost all respondents, with almost none not mentioning these as problems. As a result they are not statistically significant and do not differentiate between more and less successful SMEs. These findings do support the importance that the literature places on these infrastructural factors for SME development (Watson, 2005; Kirubi *et al.*, 2008; Kinda and Loening, 2008). Thus, although not playing a role in differentiating between successes or otherwise of SMEs, these factors are critical to general improvements of SME activities in rural KZN.

LIMITATIONS

A number of limitations apply to this study and therefore generalizing from these findings should be done with care. First, the sample was small and limited to five rural areas in KZN. Other big areas within KZN, such as Nkandla, Jozini and Vryheid, were not covered, and so many SMEs were not researched. Furthermore, many SMEs were not registered even though they may have had all the other characteristics that would qualify them to be regarded as SMEs. However, this study was limited to SMEs formally registered with the Department of Trade and Industry. Second, the study used a structured questionnaire which limited respondents to the chosen factors, despite in some cases, their wanting to discuss other issues and constraints.

MANAGERIAL IMPLICATIONS

The first managerial implication resulting from the findings is for SME owners/managers in rural South Africa who are trying to sustain business growth. Our study offers some useful understanding of the external, financial and infrastructural factors that influence the success of rural SMEs in South Africa. Our study shows that financial factors such as source of

funding, infrastructural factors such as roads and transportation and access to electricity, and business environment factors such as lack of skills and labour costs, are major factors influencing the level of success of rural SMEs.

A second managerial implication is that, in general, SME owners/managers should pay particular attention to, and improve, their funding strategies and source of income for the sustainability of their businesses.

Finally, the results indicate that many of the most important aspects, such as roads, transport and electricity access, are influenced and controlled by the South African government, KZN provincial government or local municipalities. Thus working together with these different levels of government is critical for success and SME owners/managers.

CONCLUSION

This study attempted to identify the most significant factors affecting the success of SMEs in rural KZN. We found that ‘access to funding’ is a significant problem, with about three quarters of respondents having to rely on own funding. ‘Limited access to funding’ and having ‘bank funding’ were factors that significantly differentiated between the more successful and the less successful businesses. Therefore increasing the access of SMEs to bank funding could be an important factor for increasing SME success and sustainability. It was also found that poor infrastructure, specifically ‘roads’ and ‘electricity’, were experienced by large numbers of respondents, but they did not differentiate between success levels. It can be concluded that this is a factor that influences all businesses and as such needs attention from the relevant governmental and developmental bodies.

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