

# **PUBLIC OUTLOOK ON SMALL AND MEDIUM ENTERPRISES AS A STRATEGIC TOOL FOR ECONOMIC GROWTH AND JOB CREATION IN SOUTH AFRICA**

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## **Abstract**

In spite of the key role played by the Small and Medium enterprises in economic development, there has been little effort to look at what needs to be done to improve survival and growth of SMEs. There is still a general lack of in-depth understanding from policy makers and other relevant stakeholders of how SMEs can be used as a strategic tool for economic growth and job creation in South Africa. These misperceptions and misunderstand leads to continuous failure to SMEs survival and growth. This study seeks to address this research gap. The study investigates the public views on what needs to be done to grow South African economy through the development of SMEs. Quantitative research approach was used to collect and analyse data for the study. Primary data was collected from four (4) provinces of South Africa. 230 people participated in the study. Questionnaires were emailed to each respondent and follow-ups were made via telephone. It was found that many SMEs fail within five years of their existence due to the various reasons. The most critical of these were related to lack of access to finance, lack of management experience as well as human capital. Study further revealed that most the SMEs owners/managers do not have business management related skills but rather they are just ordinary entrepreneurs.

**Key Words:** Economic Growth; Small and Medium Enterprises; Strategic Tool; Job Creation; Public Outlook; South Africa

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## **1. Introduction**

It has been indicated that promotion of small business for poverty reduction in developing countries has been gathering momentum among governments and international development agencies (Patricia Agupusi, 2007). In South Africa, the importance of the promotion of SMEs as a tool for poverty reduction is noted in the strategic framework for small business. According to Provincial Investment Portfolios (2012), South African local government recognises that small businesses are vital contributors to the health of the economy and to diversity of opportunity in the society. Small businesses boost productivity, increases competition and innovation creates employment and prosperity and revitalises communities. Wilson (2008) indicates that the developments of small scale enterprises (SMEs) are both essential driving forces for economic growth in Africa. Furthermore, Department for business Innovation & Skills (2013) reports that SMEs drive economic growth by stimulating innovation, acting as a competitive spur to existing businesses to increase their productivity and by making a disproportionately large contribution to job creation.

## **Problem statement:**

Small and medium-sized enterprises (SMEs) are widely seen as engines of economic growth. In developed countries, they are credited with creating jobs, delivering innovation and raising productivity. But SMEs in developing countries are not currently meeting that promise. While there is no lack of interest in promoting entrepreneurship in poor countries, we do lack evidence about what helps, or even what represent the biggest barriers to growth (Innovation for Poverty Action, 2015). Bowler, Dawood & Page (2007) reveal that 40% of new business ventures fail in their first year, 60% in their second year, and 90% in their first 10 years of existence. The EDGE reports (2013) indicate that South Africa has relatively low levels of entrepreneurship with SMMEs accounting for only 55% of employment to 90% in China, India and Indonesia. The reports also highlight that high failure rate of SMMEs estimated at 70-80% in South Africa. This supported by SEDA report (2012) that there are still a number of general barriers to entry and challenges that are faced by SMEs in South Africa and that cut across the agriculture, manufacturing, ICT and tourism sectors. These include, lack of business planning during start –up, difficulty

accessing finance, difficulty accessing markets or meeting industry requirements or standards, lack of experience among owners and managers, lack of sector specific expertise, inconsistencies in cash flow, lack of entrepreneurial skills and mindset as well as business acumen, lack of capacity to undertake market research, resulting in a lack of understanding of market needs and characteristics, skills shortages, particularly with respect to technical skills and business management skills, Fragmented and uncoordinated support from entities tasked with providing assistance, lack of innovation and creativity, difficulty accessing land or securing operating premises, red tape and cumbersome regulatory processes and procedures.

### **Aims and objectives**

The primary objective of this study is to examine and evaluate public outlook on Small and Medium enterprises as a strategic tool for economic growth and job creation in South Africa and to suggest solutions to the failure growth.

The objectives of this study are:

- To establish various factors contributing to the use of Small and Medium enterprises as a strategic tool for economic growth and job creation in South Africa.
- To examine public knowledge and understand of what needs to be done to improve SMEs economic growth and job creation in South Africa.

## **2. Literature review**

### ***The role of SMEs in the South African Economy***

It has been indicated that in South Africa SMEs account about 91 percent of the formal business entities which contribute 51 – and 57 percent to the GDP and 60 percent of employment (Kongolo, 2010). According to Fida (2008), large number of people relies on the small and medium enterprises directly or indirectly. According to the Banking Association South Africa (2014) SMEs foster diversification through their development of new and unsaturated sectors of the economy. In addition, innovative and technology-based small and medium enterprises can provide a platform for local, regional and international growth, especially in Brazil, Russia, India, China, South Africa (BRICS) economy. However, Martin (2015) highlights that the single biggest challenge South African small and medium enterprises (SME) owner' encountered in 2014 was the perilous state of economy, which resulted in established businesses stagnating, well as a decline in new businesses creation.

### ***The economic context of SMEs***

Small and medium-sized enterprises (SMEs) play an important role in the world economy and contribute substantially to income, output and employment (D'Imperio, 2015). A detailed literature survey shows that small and medium enterprises contribute to economic growth through several pathways that go beyond job creation (USAID – MicroReport, 2008). Previous authors such as Venkatarman (1984) indicate that SMEs have the capacity to generate employment as their mode of operations is more labour intensive which is much higher than of large enterprises. SMEs comprise over 90% of African business operations and contribute to over 50% of African employment and Growth Domestic Products (Mukumba, 2014). There is much data from both the developed and developing countries have established that the SME sector is a dynamic force for economic growth, innovation and job creation (Andzelic, Dzakovic, Lalic, Zrnic & Palcic, 2011).

### ***SMEs as job creation mechanism in South Africa***

There is much evidence that SMEs play a critically important role in economies across the world, thus make them key propellers of job creation more specifically in developing than in developed countries (SBP Alert, 2013). Literature shows that unemployment is one of the pressing issues that attract more attention in South Africa at the moment, with over 25% of the population jobless and the number increase to 40% when including the people who have totally given up the search for work, this despite that South African government effort to support SMEs establishment, however, the sector still characterized by high failure rates and low success, growth and survival rates (Ngek & Smit, 2013). According to Davies (2012) in South Africa, small businesses had good potential when it came to job creation, as the cost to create one job in a small firm was less than it was to create a job at a big firm, as large businesses were more capital intensive. OECD (2015) shows that small and medium sized enterprises (SMEs) employ on average 65% of the workforce and account for 75 % of total gross job creation and 75% of the job destroyed over the period, though with significant variation across countries. However, South Africa's small and medium enterprise (SME) community is shedding rather than rather than employing staff, despite the official expectation that SMEs in line with international trends will drive employment creation in South Africa (Fin24, 2013).

### **Research methodology**

A survey was conducted in the Eastern Cape Province, North West Province, KwaZulu –Natal province and Gauteng province. Questionnaires were

distributed to 230 for primary data. Closed – ended questions were developed from literature review as source of information for the questionnaire. A non-

probability sampling in the form of quota sampling was used to obtain the desired sample. Quota sample was used due to the time and financial constraints.

**Table 1.** Profile of usable sample as per Quota characteristics

<b>Geographical area</b>	<b>Frequency</b>	<b>Percentage</b>
Eastern Cape Province	41	18
North West Province	33	14
KwaZulu –Natal province	89	39
Gauteng province	67	29

**Table 2.** Summary of key questions

<b>Research area</b>	<b>Questions</b>
Entrepreneurial education	<b>Most of South African Small and Medium enterprises owners/managers need entrepreneurial education and training</b> Alternative response: <i>Strongly agree; Agree; Neutral; Disagree; Strongly disagree</i>
Financial support	<b>South African Small and Medium enterprises are not getting enough of financial support</b> Alternative response: <i>Strongly agree; Agree; Neutral; Disagree; Strongly disagree</i>
Human capital	<b>Human capital is the major problem for South African Small and Medium enterprises sector</b> Alternative response: <i>Strongly agree; Agree; Neutral; Disagree; Strongly disagree</i>
Entrepreneurial skills	<b>Lack of marketing skills and knowledge is critical factor for the survival and growth of Small and Medium in South Africa</b> Alternative response: <i>Strongly agree; Agree; Neutral; Disagree; Strongly disagree</i>
Entrepreneurial monitoring and mentorship	<b>South African government should provide monitoring and mentorship for Small and Medium enterprises</b> Alternative response: <i>Strongly agree; Agree; Neutral; Disagree; Strongly disagree</i>
financial borrowings policies	<b>South African commercial banks should make their financial borrowings policies more easy for Small and Medium enterprises owners/managers</b> Alternative response: <i>Strongly agree; Agree; Neutral; Disagree; Strongly disagree</i>
Introduce Entrepreneurial education	<b>South African government should introduce Entrepreneurial education from primary and high school level</b> Alternative response: <i>Strongly agree; Agree; Neutral; Disagree; Strongly disagree</i>

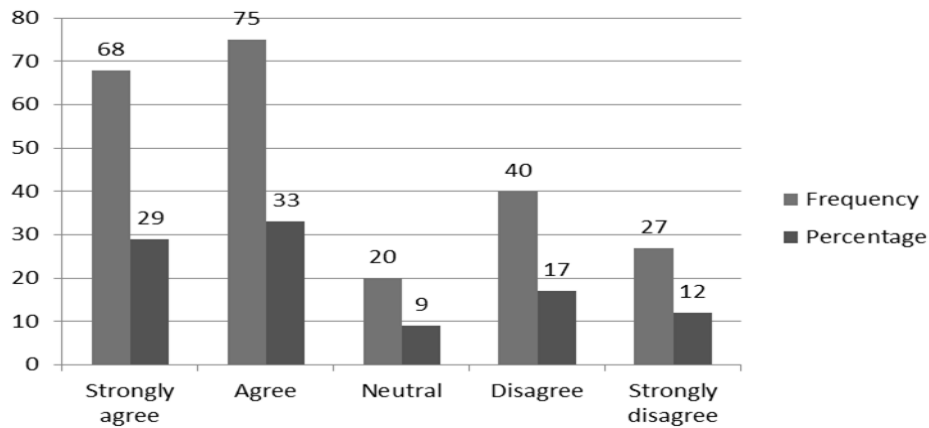
### Research findings

The previous sections provided a review of literature on problems experienced by South African SMEs and the methodology used to collect primary data. This section reports on the key findings from the research conducted. Completed questionnaires were received from 230 respondents (n = 230).

Figure 1 shows that on the question regarding entrepreneurial education and training where respondents were asked to indicate whether they strongly agree (1) agree (2), are neutral (3), disagree (4) and strongly disagree (5) with the statement. The large numbers of the respondents believe that most South African Small and medium enterprises

owners/managers need entrepreneurial education and training. These findings indicated that lack of entrepreneurial education and training have significant impact on the survival and growth of SMEs, 68 (29 percentage) and 75 (33 percentage) agreeing with the statement. There are also 20 (9 percentage) of the respondents who are not sure whether they are agree or not. While less number of respondents 40 (17 percentage) and 27 (12 percentage) of the respondents disagree. A Chi-square goodness of fit test conducted and showed this findings to be statistically significant (std = 1.37901; mean=2.4913; P=.000).

**Figure 1.** Small and Medium enterprises owners/managers entrepreneurial education and training



**Figure 2: South African Small and Medium enterprises financial support**

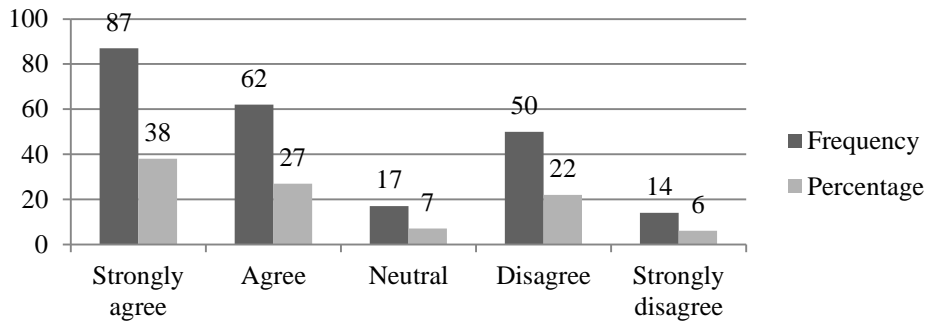
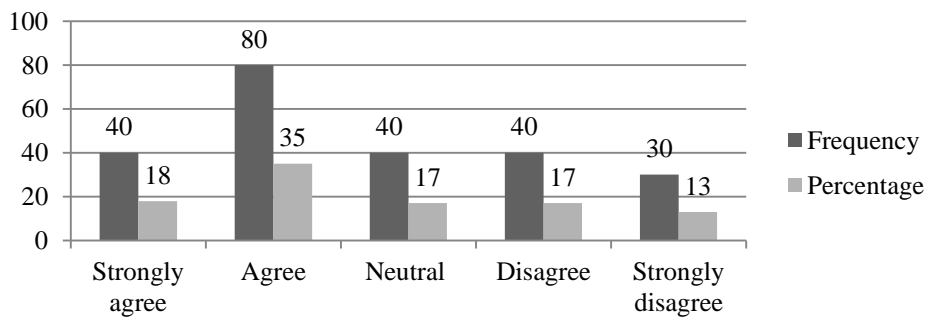


Figure 2 indicates that 87 (38 percentage) and 62 (27 percentage) of the respondents agreed with the statement that South African Small and Medium enterprises are not getting enough of financial support, with 17 (7 percentage ) being neutral, and 50

(22 percentage) and 14 (6 percentage) disagree. A Chi-square goodness of fit test conducted and showed this findings to be statistically significant (std = 1.33391; mean=2.3130; P=.000).

**Figure 3.** Human capital is the major problem for South African Small and Medium enterprises sector

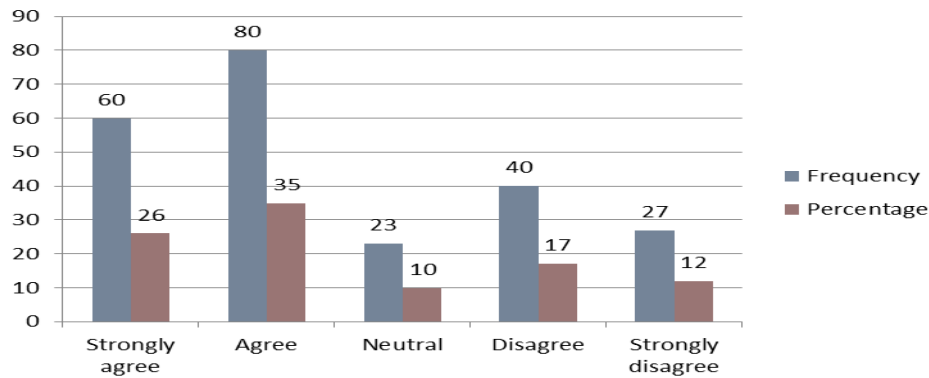


The results displayed in Figure 3 show that, 40 (18 percentage) and 80 ( 35 percentage) are with the statement that human capital is the major problem facing South African Small and Medium enterprises sector, while 40 (17 percentage) still not sure and remain neutral, 40 (17 percentage) and 30 (13 percentage) disagree. A Chi-square goodness of fit test conducted and showed this findings to be

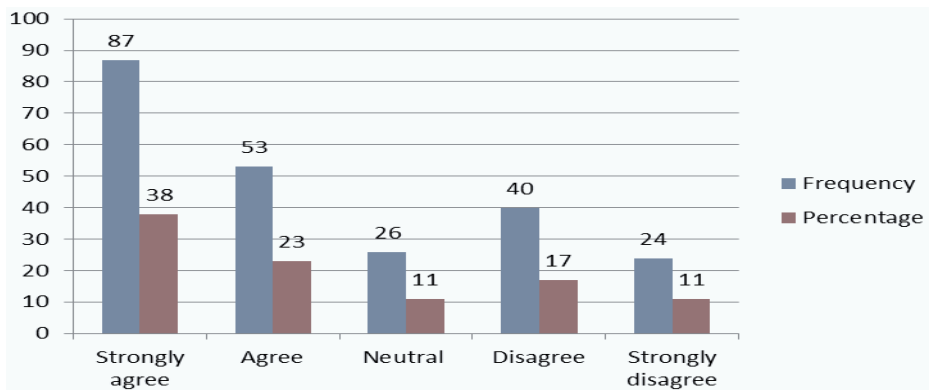
statistically significant (std = 1.29552; mean=2.7391; P=.000).

Figure 4 illustrate that 60 (26 percentage) and 80 (35 percentage) agree, while 23 (10 percentage are neutral, and 40 (17 percentage) and 27 (12 percentage) disagree. A Chi-square goodness of fit test conducted and showed this findings to be statistically significant (std = 1.35290; mean=2.5391; P=.000).

**Figure 4.** Lack of marketing skills and knowledge is critical factor for the survival and growth of Small and Medium in South Africa



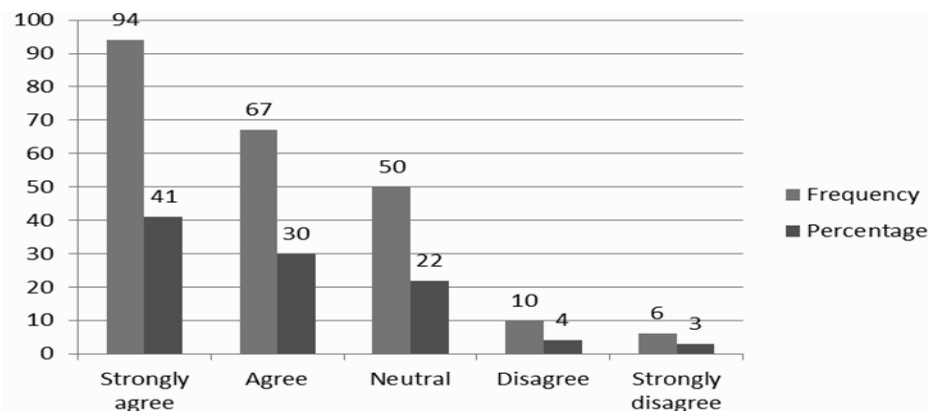
**Figure 5.** South African government should provide monitoring and mentorship for Small and Medium enterprises



As show in figure 5, 87 (38 percentage) and 53 (23 percentage) of the respondents agree that South African government should provide monitoring and mentorship for Small and Medium enterprises. 26 (11 percentage) remain neutral. However, 40 (17

percentage) and 24 (11 percentage) disagree with the statement. A Chi-square goodness of fit test conducted and showed this findings to be statistically significant (std = 1.4030; mean=2.3913; P=.000).

**Figure 6.** South African commercial banks should make their financial borrowings policies easier for Small and Medium enterprises owners/managers



The results, as shown in Figure 6, indicate that 94 (41 percentage) and 67 (30 percentage) of the respondents agree that South African commercial banks should make their financial borrowings policies

more easy for Small and Medium enterprises owners/managers. With 50 (22 percentage) were neutral, while very small number of the respondents 10 (4 percentage) and 6 (3 percentage) disagree. A Chi-

square goodness of fit test conducted and showed this findings to be statistically significant (std = 1.18708; mean=2.1000; P=.000).

**Figure 7.** South African government should introduce Entrepreneurial education from primary and high school level

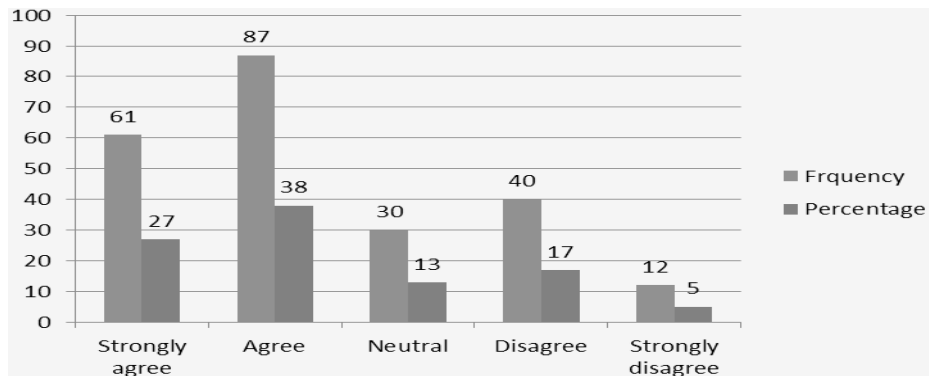


Figure 7 reveals that 61 (27 percentage) and 87 (38 percentage) agree that South African government should introduce Entrepreneurial education from primary and high school level, 30 (13 percentage) being neutral and 40 (17 percentage) and 12 (5 percentage) disagree. A Chi-square goodness of fit test conducted and showed this findings to be statistically significant (std= 1.19604; mean=2.3696; P=.000).

**Limitations:** The study did not include all South African Provinces, and only four (4) provinces were covered in the survey. It was therefore not appropriate to generalise the findings to other provinces.

**Implications:** The implication for this study includes issues related to three variables, being that of managerial, public outlook and what should be done to improve SMEs economic growth in South Africa.

**Managerial implications:** This study provides some use knowledge and understanding of various reasons and contributing factors to the failure of SMEs South African Small and Medium Enterprises. The study shows that there are various aspects leading to the poor permanence of SMEs in South Africa including lack of entrepreneurship mentorship and monitoring as well as lack of entrepreneurial education and training. SMEs owners/managers should improve their human capital with specific reference to marketing knowledge and skills in order to maintain their survival and growth.

**Theoretical implications:** SMEs owners/managers and all relevant stakeholders including South African government must have clear knowledge and understanding of related theories which may be useful to the survival and growth. New theoretical discovery with regard to SMEs economic benefit should be developed and implemented. The important of theoretical frameworks and models for the SMEs economic growth in South Africa is lacking and need more attention. This means that South African SMEs owner/managers need to understand

and acknowledge the important of SMEs industry in South African economy.

### Conclusions

This study investigated the public opinion, feelings about why South African Small and Medium enterprises fail and what they think it should be done to reduce the fail rate. The findings of this survey reveal that lack of entrepreneurial education and training contributes to the high failure rate in South African SMEs, as well as lack of financial support. The study further found that human capital is major problem for the most SMEs in South Africa. This is due to the fact that many SMEs cannot afford to employ professional qualified personnel due to the various reasons.

The findings of this study suggest that are many challenges still need to be addressed by South African business communities including South African government and all the affiliated stakeholders such as commercial banks. Therefore, the following recommendations would be helpful in dealing with identified problems. Government should assist SMEs with mentorship and monitoring in order to enhance performance growth. Government need to provide regular training and business workshops for SMEs owners/managers in all districts as to reduce human capital problem facing SMEs and lack of skills. Free entrepreneurial education and training development should be introduced for all registered Small business in all provinces of the country. Entrepreneurship should be compulsory for all learnings at the high school and tertiary education in South Africa.

This study was aimed at establishing public outlook on Small and Medium enterprises as a strategic tool for economic growth and job creation in South Africa, what needs to be done to improve their performance. Based on the findings and limitations of the study further research could include similar studies with samples and research in other provinces,

which include townships and rural places. In depth, qualitative research would help to better understand the nature of challenges facing survival and growth of SMEs in South Africa.

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