

# **SME PERCEPTION OF GOVERNMENT ASSISTANCE WITHIN SOUTH AFRICA**

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## **Abstract**

Small and medium enterprises (SMEs) play a vital role in the economies of countries throughout the world. They contribute to the creation of jobs, economic upliftment as well as the gross domestic product (GDP). It is of great concern however to note that the majority of SMEs fail within their first few years of operation which could be due to many factors such as management skills, finance, access to markets and appropriate technology. With the National Development Plan's objective to create 11 million jobs by 2030, it is crucial that the government provides assistance needed by SMEs to achieve this goal. Although government assistance may be evident, SMEs and their perceptions regarding this assistance is unclear. The purpose of this paper was therefore to investigate the perception of SME owners of the various government assistance and initiatives that are offered to them. The authors feel that the findings will be universally applicable to SMEs in most countries. The study followed a quantitative research approach, whereby a self-administered online questionnaire was used to collect primary data. The results indicate that SMEs feel that local government and municipalities are not doing enough to support and assist them.

**Keywords:** SME, Development, Government Initiative, Finance, Skills, Regulation, Marketing, South Africa

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## **1. Introduction**

The impact and influence of small and medium enterprises (SMEs) on a country's total economy, as well as the total sphere of the global business environment has proven itself time and time again (Kraja & Osmani, 2013: 76). Establishing SMEs in any country, and even more so in a developing country such as South Africa, does not come without its challenges. Global, national and local governments have taken it upon themselves, through various programmes and initiatives, to bring solutions to the many challenges faced by SMEs which includes socio-economic challenges, access to financing, flexible regulations and skills development (Rogerson, 2008: 61). In many instances governments are of the opinion that they are making valuable contributions to the establishment of sustainable SME's while this may not always be true. This article focuses on the perception of SME owners of the various government assistance programmes and initiatives offered to SMEs. It is assumed that the problems faced by SMEs in South Africa will be similar to ones faced in other countries and that the findings will be universally applicable.

## **2. Literature review**

### ***2.1 Small and medium enterprises (SMEs) defined***

According to the National Small Business Act of South Africa of 1996, as amended in 2003, an SME is classified as a "...separate and distinct business entity, including co-operative enterprises and nongovernmental organisations, managed by one owner or more which, including its branches or subsidiaries, if any, is predominantly carried on in any sector or sub sector of the economy" (National Credit Regulator, 2011). The European Commission (2005: 5) defines SMEs as "...the category of micro, small and medium-sized enterprises (that) is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding 50 million euro, and/or an annual balance sheet total not exceeding 43 million euro".

The importance of SMEs in the creation of jobs and economic upliftment is clear from the employment created by these businesses. SMEs in the United States of America for example, provide over 50% of employment and enterprises are made up of less than 500 employees (Biondi & Iraldo, 2002). In the European Union, SMEs represent about 90% of all businesses (European Commission, 2015). This figure is quite similar to South Africa whereby SMEs account for approximately 91% of formal businesses,

contributing between 51-57% of the country's gross domestic product (GDP) and providing approximately 60% of employment (Kongolo, 2010:2288; Abor & Quartey, 2010:219). The White Paper on National Strategy for the Development and Promotion of Small Business in South Africa highlights the fact that SMEs signify an important means to address the challenges of job creation, economic growth and equity in the country (Department of Trade and Industry, 1995).

It is clear that SMEs are the life line of many local and international economies as they are vital in decreasing unemployment levels, stimulating technological innovation and advancement as well as ensuring long term economic stability (Ardic, Mylenko & Saltane, 2011: 1). SMEs play an even more critical role in developing countries and therefore the South African economy relies heavily on the contributions made by SMEs, and especially those SMEs who are birthed by true entrepreneurs (Business Environment Specialists, 2013: 1). This is evident in the research done by the South African Chamber of Commerce and Industry (2013) which

states that "more than 30% of the total gross domestic product of South Africa is attributed to SMEs" (Worku, 2013: 67).

Failure rates of SMEs are however, a point of concern. It is estimated that more than 72% of all SMEs fail in the first 3 to 4 years and in South Africa this is no different. According to Van Scheers (2011:5048), 40% of new SMEs within South Africa fail within their first year, 60% within their second year, and 90% within their first 10 years of operation. Such high failure rates may due to a number of factors including management skills, finance, access to markets and appropriate technology (Kongolo, 2010:2293). It is due to these high levels of failure of SMEs that government assistance is so important – as long as it is used correctly and properly.

South Africa's government can be divided into three domains, namely: the national government, provincial government and local government. Furthermore, the government gear is made up of three parts including legislatures, executive and administration (ETU, 2015). This is represented in table 1.

**Table 1.** Government domains

<b>Sphere</b>	<b>Legislature</b>	<b>Executive</b>	<b>Administration</b>
<b>National</b>	Parliament	President and Cabinet	Directors General and departments
<b>Provincial</b>	Legislature	Premier and Executive Council	Heads of Department and staff
<b>Local</b>	Council	Mayor and Mayoral Committee	Municipal Manager, HoDs and staff

Source: ETU (2015)

The domains of government have been considered as distinctive, inter-related and inter-dependent. They all however, operate according to the Constitution and laws and policies made by national Parliament (ETU, 2015). The development of SMEs and providing assistance forms an imperative element of all domains to create jobs and ensure a better life for all.

## **2.2 Government assistance**

SMEs operate in a time where there is growing uncertainty in terms of global economic and political stability, accelerating change in technology, new laws and regulations are all obstacles a new SME owner needs to overcome (Abor & Quartey, 2010:224). The assistance provided by national and local governments to SMEs can therefore not be denied and is crucial in not only decreasing the SME failure rate as proposed by Robert (2010), but also ensuring the success of new and growing SMEs. For example, organisations such as the Small and Medium Industries Development Corporation (SMIDEC) in Malaysia, the Soros Economic Development Fund which operates internationally, the World Bank Group and SEDA (Small Enterprise Development Agency) (SEDA, 2013) in South Africa are all

focused on providing assistance in developing nations (Hung & Effendi, 2011:50; Gstraunthaler & Cramer, 2012:56; SEDA, 2013).

In South Africa, the government has focused on reducing the gap between rural, micro-enterprises and rich, high-end SMEs by fostering an environment where both can flourish (Nehen, 2012:3368). In 2004, SEDA was founded with the mission to "...develop, support and promote small enterprises to ensure their growth and sustainability in coordination and partnership with other role players" and to focus on nurturing innovation, customer service and ethical behaviour with all the SMEs it comes into contact with (SEDA, 2013). The ultimate goal of SEDA and its New Growth Path is to create 5 million jobs by 2020, and this new strategy sees this organisation focus on SMEs which employ between 21 and 200 individuals whereas the National Development Plan aims to create 11 million jobs by 2030 (SEDA, 2013). While employment in South Africa can be seen as a key driving force for the development of SMEs, this reasoning can be universally seen, for example the UK SMEs have planned to create a record of 737,000 jobs and spend around £37.9 billion by May 2016 (GE, 2015).

Rogerson (2008: 62) explains that three of the most significant areas addressed by governments in

terms of SME development include access to financing, training and development as well as creating more flexible laws and regulations. These areas are seen as the ones that contribute largely to SMEs battling to survive and grow. According to Olawale and Garwe (2010:733) a lack of education and training in business in South Africa seems to be the main reason for “low new firm creation and failure”, while insufficient levels of financial support and assistance is a close second. Smit and Watkins (2012:6326) are of the opinion that entrepreneurs who have had managerial and business skills training are more likely cope and overcome the challenges in a changing business environment.

SMEs are finding it very difficult to not only raise capital, but also to get access to debt financing (Fatoki, 2012:22). Herrington, Kew and Kew (2009:90) explain that despite the fact that organisations such as the Khula Enterprise Finance, Small Enterprise Development Agency (SEDA), the Industrial Development Corporation (IDC) and the National Youth Development Agency (NYDA) are committed to assist with financing entrepreneurial activities, they are not reaching their “target markets” as many entrepreneurs are unaware of their existence (Olawale & Garwe, 2010:732). It is therefore crucial that awareness is created and SME owners are made aware of the support available to them (Fatoki, 2012:28). If they do not know about it they cannot use it, and if they do know about it then it must be made possible to make use of the assistance in an effective manner

Finally, according to Herrington *et al.* (2009:90) South Africa suffers from “inefficient government bureaucracy, restrictive labour regulations and a lack of suitable tax breaks for smaller businesses” and this creates colossal barriers for growth. The high cost of taxes and SME licencing fees is another area of key concern (Olawale & Garwe, 2010:732). It is crucial for regulators to create an environment that uplifts new and growing SMEs and this can only be done with equally supportive business and trading laws. Jeppesen (2005:470) points out that national government cannot carry all the responsibility and obligations for SME development, the obligation must be spread amongst local municipalities as well.

Many organisations have stepped in and are offering SMEs the assistance they require in order to succeed, especially in terms of non-financial support such as workshops on entrepreneurial skills development, networking opportunities, mentoring and coaching, advisory services and assistance with regulatory and legal compliance (ABSA, 2015; Malherbe, 2015; Dlodla, 2014).

It is essential that the perception of SMEs regarding the available assistance and the regulatory requirements are established in order to clarify and determine where further assistance can be provided to SMEs, which may further influence or change these

perceptions to have a more positive approach towards these efforts.

### 3. Aim and research methodology

The main aim of this study was to investigate the perception of SME owners in South Africa regarding the assistance provided to them by government. It specifically focused on:

- Whether SME owners in South Africa believe that local government/ municipalities are doing enough to assist and support small businesses?
- Which small business issues do SME owners in South Africa believe local government/ municipalities should be assisting with?

A self-administered online questionnaire consisting of quantitative questions was used to collect primary data. The questionnaire was divided into two major sections. The first section is the demographic section which describes the profile of the respondents in terms of position, involvement, level of education, gender and age. The second major section of the questionnaire investigates the perception SME owners have of SME government assistance and what SME owners believe to be the most important issues government should assist SMEs with.

The questionnaire was administered to small business owners operating in the provinces of Gauteng and KwaZulu-Natal who registered their small businesses at an official state institution for SMEs. The combined contribution of these provinces to the national GDP is 50% (Gauteng 33.9%; KwaZulu-Natal 16.1%) (Gauteng Online, n.d) and can therefore be regarded as representative of SMEs in South Africa. The sampling methodology utilised was that of non-probability, convenience sampling, which enabled the researcher to collect data quickly and easily. A sufficient number of questionnaires were distributed to achieve a confidence level of 95% and an error margin of 5% at 50% response distribution. A total of 105 usable responses were received which is an error margin of 9.26%. Given the small sample size, the results will give a general indication as to the perceptions held by SME owners towards the assistance that government offers to them. The quantitative data was analysed using IBM SPSS Statistics V22. The data was checked, coded, corrected and descriptive statistics (frequency counts) were used to describe the findings.

### 4. Research findings

This section reports on the key findings from the research conducted.

#### 4.1 The demographic profile

The demographic profile of the respondent group is presented in Table 2 below. More than half (56.9%)

of SME owners were older than 40 years of age. The gender split for the respondent group is female dominated (58.62 %). Almost half (46,1%) of the respondents own the business and a third (34,2%) took the role of both owner and manager which implies that the owner is directly involved in the day to day running of the SME. Almost two thirds

(63.1%) of the respondents hold a post matric qualification. A large proportion (60,8%) of the respondents' businesses have existed for less than five years. The largest proportion (41,8%) of the respondents reported an annual turnover of less than R100 000.

**Table 2.** Demographic profile

Demographic Profile of respondents		%of Total
Gender	Female	58.62
	Male	41.38
Age	18-24	8.62
	25-29	17.24
	30-34	6.90
	35-39	10.34
	Older than 40	56.90
Qualification	No matric	7.9
	Matric	28.9
	Certificate/diploma	31.6
	Degree	19.7
Position in organisation	Post-graduate degree	11.8
	Owner	46.1
	Manager	19.7
How long has the business been running for?	Both	34.2
	Less than 5 years	60.8
	6 – 10 years	25.7
	11 – 25 years	9.5
Annual turnover	Over 25 years	4.1
	<R100000	41.8
	R100000 – R200000	16.4
	R200000 – R500000	11.9
	R500000 – R1000000	16.4
	>R1000000	13.4

**4.2 Descriptive analysis of the perception of small business owners on whether local government/ municipalities are doing enough to assist and support SME's**

The participants were asked whether they believe that local government is doing enough to assist and support SMEs. Frequency analysis of the responses of

yes, no and uncertain shows that the majority of the respondents (74.6%) do not believe (coded "2") that local government is doing enough to support SMEs (Figure 1) (M = 1.94, SD = .504). The relative low standard deviation indicates that the responses were very similar with most of the respondents selecting "No" as an answer.

**Figure 1.** Frequency analysis of the belief of respondents regarding sufficient support to SME's from local government and municipalities



### 4.3 Descriptive analysis of which small business issues do SME owners in South Africa believe local government/ municipalities should be assisting with

The respondents were asked to indicate their level of disagreement or agreement (from Strongly Disagree (1) to Strongly Agree (5)) with six statements about possible support and assistance areas by local

government. From the descriptive statistics for the questions on the importance of the different marketing tools, it is clear that the frequencies are significantly skewed from a normal distribution and therefore non-normally distributed (Table 3). The relative low standard deviations show that the responses to each of the questions were very similar by the various respondents.

**Table 3.** Descriptive statistics of the level of disagreement or agreement with statement about support and assistance areas by local government

Statement	N		Mean	Median	Mode	Std. Deviation	Skewness	Std. Error of Skewness	Kurtosis	Std. Error of Kurtosis
	Valid	Missing								
Government and local municipalities should provide subsidised interest rates to small business owners	89	2	4.24	4.00	4	.798	-1.277	.255	2.615	.506
Government and local municipalities should mentor and provide learnerships to small business owners and entrepreneurs	90	1	4.16	4.00	4	.982	-1.704	.254	3.189	.503
Government and local municipalities should assist small business owners in paying salaries to employees who live in their community	90	1	3.59	4.00	4	1.253	-.574	.254	-.799	.503
Government and local municipalities should assist small business owners to provide jobs to those in their community	90	1	4.16	4.00	4	.898	-1.266	.254	1.643	.503
Government and local municipalities should give small business owners a platform to voice their suggestions and make contributions to the passing of trading laws etc	90	1	4.33	4.00	4 <sup>a</sup>	.734	1.141	.254	1.579	.503
Government and local municipalities should assist in training and skills development	83	8	4.46	4.00	5	.570	-.440	.264	-.768	.523

a. Multiple modes exist. The smallest value is shown

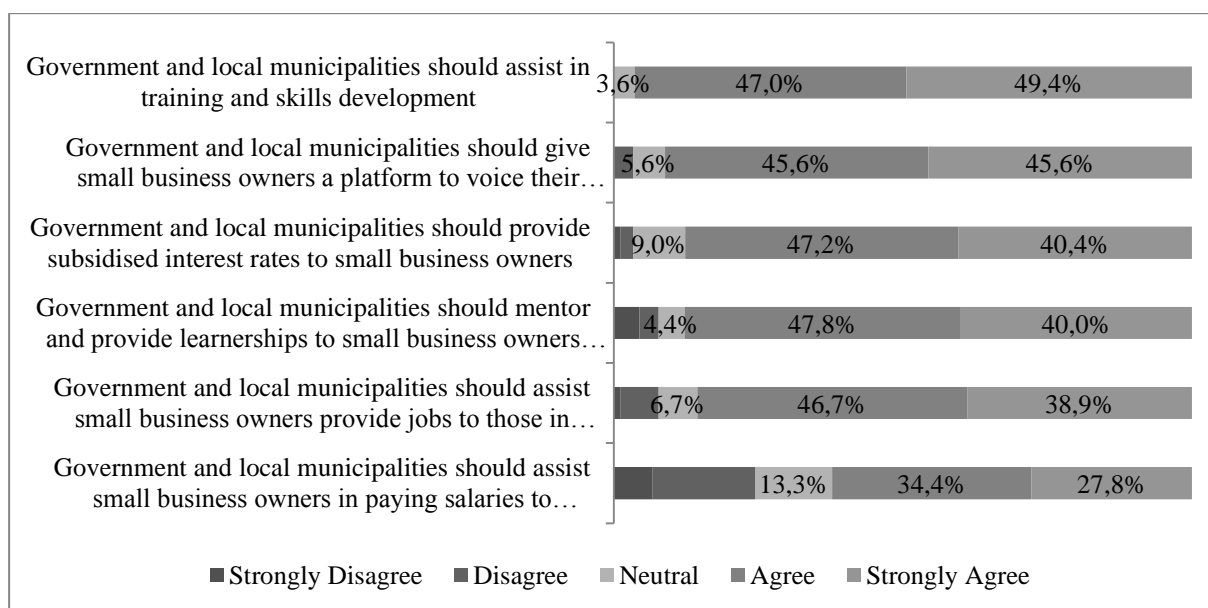
The frequency analysis of the level of agreement/disagreement shows that the majority of the respondents (from 62.2% to 96.4%) strongly agree or agree with all of the six areas (Figure 2).

responses to each of the questions were very similar by the various respondents.

### 4.4 Descriptive analysis of which is the most important small business issues SME owners in South Africa believe local government/ municipalities should be assisting with

The respondents were asked to rate the six statements regarding support areas from local government from most important (1) to least important (6). From the descriptive statistics for the ratings of the statements, it is clear that the frequencies are not significantly skewed from a normal distribution (Table 4). The relative low standard deviations show that the

**Figure 2.** Frequency analysis of the level of agreement of the respondents with six statements on support by local government



**Table 4.** Descriptive statistics of the rating of importance of statements regarding support by local government

Statements	N		Mean	Median	Mode	Std. Deviation	Skewness	Std. Error of Skewness	Kurtosis	Std. Error of Kurtosis
	Valid	Missing								
Provide subsidised interest rates to small business owners	46	45	2.48	2.00	1	1.616	.784	.350	-.558	.688
Mentor and provide learner-ships to small business owners and entrepreneurs	46	45	3.46	3.50	1	1.735	-.030	.350	-1.264	.688
Assist small business owners in paying salaries to employees who live in their community	46	45	4.22	4.00	6	1.413	-.058	.350	-1.295	.688
Assist small business owners who provide jobs to those in living in their community	46	45	3.74	4.00	4 <sup>a</sup>	1.527	-.517	.350	-.768	.688
Give small business owners a platform to voice their suggestions and make contributions to the passing of trading laws etc.	46	45	4.09	4.00	5 <sup>a</sup>	1.561	-.297	.350	-1.150	.688
Assist with training and skills development	46	45	3.07	2.00	2	1.855	.578	.350	-1.199	.688

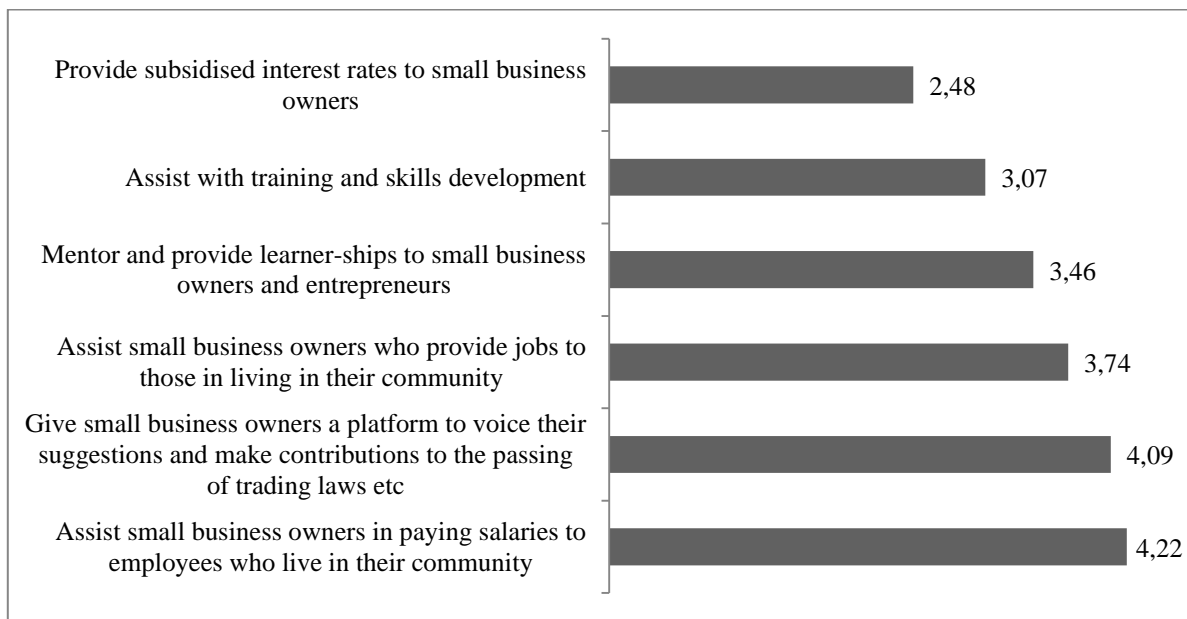
a. Multiple modes exist. The smallest value is shown

The mean rating scores was calculated for each of the six areas of support, using the responses from the 90 respondents. The lower the mean rating score, the more important the support area is regarded for SMEs. The order of importance of the issues that local government should address is identified as follow: (Figure 3).

1. Provide subsidized interest rates to small business owners.
2. Assist with training and skills development.

3. Mentor and provide learner-ships to small business owners and entrepreneurs.
4. Assist small business owners who provide jobs to those in living in their community.
5. Give small business owners a platform to voice their suggestions and make contributions to the passing of trading laws etc.
6. Assist small business owners in paying salaries to employees who live in their community.

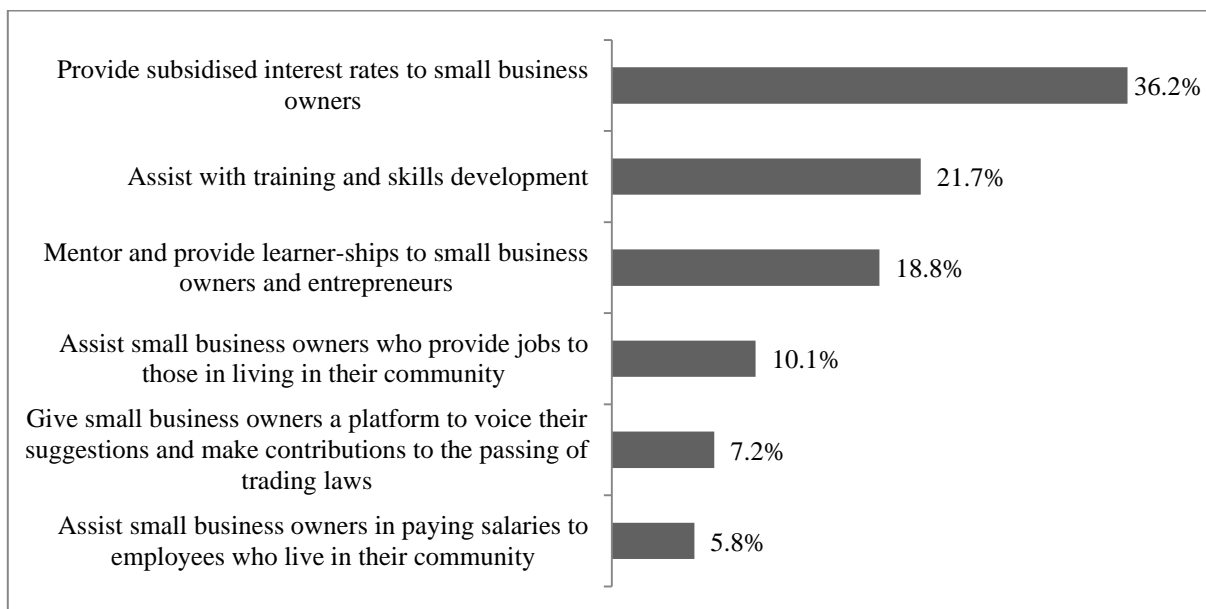
**Figure 3.** Mean ranking scores of the six areas of support from local government



The respondents were also asked to select the one most important of the six areas of support. Frequency analysis of the most important support area from local government shows that the order of the most important to least important areas are the same as for the previous question (Figure 4) (M =

2.99, SD = 2.011). The relative high standard deviation indicates that the most important issues selected varied a lot among the respondents. The rating of the most important support area was non-normally distributed, with skewness of -.467 (SE = .289) and kurtosis of -1.439 (SE = .570).

**Figure 4.** Frequency analysis of the selected most important area of local government assistance



## 5. Discussion and conclusions

SMEs play a critical role in the growth and development of countries, as it represents an important vehicle to address job creation, to generate sustainable and equitable growth (Department of Trade and Industry, n.d.) In order to stimulate and

promote SMEs governments tender assistance in various forms which include preferential procurement and BEE codes, tax incentives, provision of grants and soft funding (Khan, 2014).

The main aim of this study was to establish the perception that SME owners in South Africa have of the assistance provided to them by local government

with regard to whether SME owners believe that local government/ municipalities are doing enough to assist and support small businesses, which small business issues do SME owners believe local government/ municipalities should be assisting with and which are the most important small business issues SME owners believe local government/ municipalities should be assisting with.

The study shows that the majority of the respondents are of the opinion that local government and municipalities are not adequately doing enough to support and assist SMEs. The respondents agree with all of the proposed areas of support by local government and rate the areas in the following order of importance:

1. Provide subsidized interest rates to small business owners
2. Assist with training and skills development
3. Mentor and provide learner-ships to small business owners and entrepreneurs
4. Assist small business owners who provide jobs to those in living in their community
5. Give small business owners a platform to voice their suggestions and make contributions to the passing of trading laws etc.
6. Assist small business owners in paying salaries to employees who live in their community.

The contribution of SME to regional and national growth and development shouldn't be taken lightly. It is therefore recommended that the government assistance available to SMEs be aggressively promoted and local government and municipalities mastermind regional and local SME support mechanisms to facilitate local and regional growth. Given the small sample size, the results will give a general indication as to the perceptions held by SME owners towards the assistance that government offers to them.

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