

SMME BUSINESS MANAGEMENT: THE ROLE OF INSTITUTIONS AND GOVERNMENT

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Abstract

The role and importance of small, medium and micro-enterprise (SMME) all over the world cannot be disputed. It is a known fact that SMMEs are responsible for the creation of jobs in all economies, and that in Africa, specifically poverty alleviation, economic growth and job creation is in the hands of SMMEs. Many organisations - local and international - invest billions of dollars in the upliftment of SMMEs by means of various actions, interventions and activities. It is also evident that most of these initiatives result in a lot of wastage, or does not reach its potential due to a variety of reasons. Although many of the reasons for this can be laid at the door of the SMMEs themselves, much blame can be appropriated to the institutions themselves. Staff employed to implement these actions are either not committed, or not trained, or not qualified to assist these SMMEs. This has led to the study conducted amongst 946 SMMEs in South Africa, using non-probability sampling regarding their experiences dealing with organisations providing assistance to SMMEs. The focus was on aspects such as: how queries were handled by the various management levels of the institutions, types of queries submitted, type of assistance received, and how problems were overcome by SMMEs. There was a clear indication that there is a lack of commitment from staff of these support organisations, their level of knowledge and their willingness to assist. The majority of respondents indicated that small businesses were not seen as important enough to warrant sufficient and dedicated attention. The net effect is that the assistance offered to SMMEs is ineffective or not sufficient to address the needs of SMMEs - resulting in a culture by organisations to "just tick the boxes". Recommendations are made on how the needs of SMMEs can be better addressed by organisations that aim to support and assist SMMEs.

Keywords: Small Business, Small, Medium and Micro-Enterprise (SMME) Sector, SMME Needs, Support Organisations SMME, Problems Faced by SMMEs

1. INTRODUCTION

SMMEs are not only important in some countries, but are rather seen as crucial in all countries worldwide (Bosch, Tait & Venter, 2011:576). This is mainly attributed to the fact that SMMEs make a large contribution to the GDP of countries, impacts on economic growth, alleviate poverty and create employment opportunities (Mahadea & Pillay, 2008:431 in Kruger, Rootman, & Saunders). Small, micro, and medium size enterprises (SMMEs) can therefore be considered to be the drivers of any economy as they steer sustainable growth and are major contributors to the economy (Caan, 2013; Chimucheka, 2013:784).

According to Caan (2013), there are over 7,9 million SMMEs in the UK, employing more than 24,3 million people, while SMMEs in the EU represents 25 million small businesses that provide more than 70 million jobs (European Commission, 2005:5). In developing countries, such as Nigeria, more than 90% of enterprises are SMEs, contributing 10% to the country's Gross Domestic Product (GDP) (Ghandi & Amisah, 2014:329). Furthermore, Abor and Quartey (2010:218) estimated that 91% of formal business entities in South Africa consist of SMMEs, while research also suggests that SMMEs contribute between 52% and 57% to the GDP of South Africa, and 61% to the creation of jobs within the country

(Notcutt & Habberton, 2014). As can be seen from the above figures, SMEs contribute positively to a country's economic growth, poverty alleviation, social stability and job creation. Hence, it cannot be disputed that SMMEs play an important role in all countries' economies, and therefore the interest in assisting these businesses to survive.

Unfortunately the mortality rate of SMMEs is very high. It is reported that 72% of SMMEs fail within the first two years of operation. Olawale and Garwe (2010:729 in Kruger et al., 2015) however, reported that the rate of failure of SMMEs in South Africa could even be as high as 75%. The effect of this high mortality rate is a cause for concern and various attempts are made to assist these businesses to survive. These attempts can either have a positive or negative effect on the perceptions of SMMEs at whom these actions are aimed. These attempts can include mentoring, financial assistance, events and competitions, advice and facilities.

The diverse nature of the SMME sector have resulted in huge challenges to institutions and governments alike in order to decide what and which services to provide to SMMEs. It is also not always possible to meet each SMMEs needs or provide exclusive attention to one specific SMME. In most cases, the assistance is provided in a more general fashion by business advisors who may or may not be qualified in the particular field.

With the survival and failure of SMEs being topical in research worldwide, due to developmental roles, such as job creation and poverty alleviation (Hove & Mashocha, 2014:254; Van Scheers, 2011:5056), research of whether SMME owners and managers have the necessary skills and knowledge, and whether they are receiving the assistance to make a difference, justifies further investigation.

The remainder of the article consists of a brief literature review of SMMEs, followed by a literature review that will discuss segmentation and target marketing. The aim of the study is then presented, followed by the methodology, results, discussion, conclusion and recommendations.

2. LITERATURE REVIEW

There are diverse definitions for SMMEs in different countries as a variety of factors influence the perception and classification of an SMME - this includes the economy, government policies and regulations of the country (Etuk, Etuk & Baghebo, 2014:656). The definition as to what is deemed a small business are also not universal, as a small business in the USA for instance, may be regarded as a medium or even large business in South Africa. In South Africa, SMMEs are defined by the National Small Business Act 102 of 1996 as "a business enterprise that employs no more than 100 employees" (Abor & Quartey, 2010:222). They further define SMMEs as "a separate and distinct entity including cooperative enterprises and non-governmental organisations managed by one owner or more, including its branches or subsidiaries if any is predominantly carried out in any sector or sub-sector of the economy mentioned in the schedule of size standards and can be classified as a SME by satisfying the criteria mentioned in the schedule of size standards" (Government Gazette of the Republic of South Africa, 2003).

Small to medium size enterprises (SMEs) are considered to be the backbone of any economy as they drive sustainable growth and are major contributors to employment in any economy (Caan, 2013; Chimucheka, 2013:784). The White Paper on National Strategy for the Development and Promotion of Small Business in South Africa highlights the fact that SMMEs signify an important means to address the challenges of job creation, economic growth and equity in the country (Department of Trade and Industry, 1995).

There are various challenges that SMMEs face in South Africa, and indeed internationally, which include macro and micro environmental challenges. Some of the macro environmental obstacles that SMMEs are battling with include a lack of access to markets, availability of infrastructure in areas of operation, no finance, high interest rates, poor economic climate, unemployment and high levels of crime, lack of support from government, and government legislation (Brink, Cant & Ligthelm, 2003; Cant & Wiid, 2013:713; Olawale & Garwe, 2010:734). There is, however, a great deal that can be done to assist these SMMEs to adapt to the challenges in this environment.

It can therefore be accepted that SMMEs are of strategic importance to all 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). The role that SMMEs play

in developing countries is even more critical and developing countries - including South Africa - rely heavily on the success of SMMEs (Business Environment Specialists, 2013: 1).

Challenges in the micro environment include the location of the business, the proper segmentation of the market, selecting the correct market offerings, financial management in the business, the development of a marketing plan, conducting marketing research, and development of skills through training (Brink, Cant & Ligthelm, 2003; Cant & Wiid, 2013:713; Mpofu & Chingwede, 2013:90; Van Scheers, 2011:5050). Bresciani and Eppler (2010:365) concur with this statement and point out that SMMEs are in many instances responsible for their own demise as they only focus on one or two of these areas. This results in many SMMEs not focusing on all issues of importance. Many institutions therefore focus on these areas in order to assist SMMEs to address these issues and to become successful.

With the high failure rates of SMMEs - attributable to a range of factors - including management skills, finance, access to markets and appropriate technology (Kongolo, 2010:2293), the pressure is on to assist these businesses to be successful. It is due to these high levels of failure of SMMEs that government assistance is so important - as long as it is used correctly and properly.

Limited research unfortunately exists on the effectiveness of this assistance given to SMMEs and what can be done to assist them to survive. The reason why this may be the case lie in the fact that many institutions, especially government, focus on projects to be completed and not the evaluation of these projects or interventions afterwards. As a result, this article focussed on establishing to what extent SMME owners feel their needs are addressed by institutions who proclaim to be assisting them.

2.1. Government assistance

South Africa's government can be divided into three domains, namely: the national government, provincial government and local government. 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 SMMEs and providing assistance forms an imperative element of all domains to create jobs and ensure a better life for all.

It is a fact that SMMEs in very unstable and a volatile environment, where uncertainty and scepticism of politics and the economy is at the order of the day, and where technological advancement is making today's systems obsolete, and constantly changing laws and regulations are all obstacles SMME owners need to contend with (Abor & Quartey, 2010:224). These issues are of concern to SMMEs and by implication also to government institutions. Hence, the focus on assistance programmes for SMMEs, by national and local governments, are crucial in an attempt to reduce failures by SMMEs (Robert, 2010). For instance, 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) 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 there has been an emphasis on reducing failures in all SMME categories by aiming to secure a nurturing environment where these businesses can be supported and assisted in a positive and constructive way (Nehen, 2012:3368). One such an institution that was established by government is the Small Enterprise Development Agency (SEDA), which has as its 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 SMMEs it comes into contact with (SEDA, 2013).

Rogerson (2008: 62) indicates that governments tend to focus on three main areas when it comes to SMME development, namely; access to financing, training and development, as well as reducing red tape in terms of laws and regulations. These areas are addressed by numerous institutions, including government, but would generally seem to not execute these interventions well. According to Olawale and Garwe (2010:733), an area to focus on is education and training of SMMEs, but the question arises if this assistance is effectively executed. 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.

It is also unfortunate that institutions and governments tend to constantly focus on the same areas and that no attempt is made to focus on other areas or delving deeper in the real issues and problems (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, or the interventions provided are not up to the expectations of the SMME owner (Olawale & Garwe, 2010:732). It is therefore crucial that the level of satisfaction as experienced by the SMME owner in the capability of the institution, to meet their needs is investigated, and to see how this links with the support available to them (Fatoki, 2012:28). It is one thing to be aware of the services on offer, to use or try to use it, and to be satisfied that their needs are met satisfactorily.

At the same time Herrington et al., (2009:90) points out that South Africa suffers from "inefficient government bureaucracy, restrictive labour regulations and a lack of suitable tax breaks for smaller businesses", which is an impediment for success for SMMEs. The regulations, which focus more on the legal requirements of businesses, differ from government assistance in the sense that the assistance refers to mentor services, funding, business services and so forth. This assistance takes place within the regulatory framework of the government. It is in these areas that SMMEs must be assisted by knowledgeable staff from these

institutions on national and local level (Jeppesen 2005:470).

Many organisations are offering SMMEs a range of services, but it would seem that the execution is lacking to make it effective (ABSA, 2015; Malherbe, 2015; Dlodla, 2014). It is therefore important to establish whether government and other institutions are meeting the needs in terms of their requirements in such a way that it contributes to the SMME's body of knowledge.

3. AIM AND RESEARCH METHODOLOGY

The main aim of this study was to investigate the extent to which the advisory needs of SMME owners in South Africa are met in terms of the service provided by government institutions. It specifically focused on:

- the specific queries SMME owners had;
- the extent to which these queries were adequately addressed by government officials;
- the categories of queries addressed to business advisors at these institutions;
- to what extent problems were solved; and
- the type of training attended.

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 included 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 addressed the objectives indicated above.

The questionnaire was administered to small business owners nationally. 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 764 usable responses were received. Given the sample size, the results will give a good indication as to the perceptions held by SMME owners towards the meeting of their information and assistance needs 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 1. The majority of respondents fell in the age group 26 to 30 years (26,5%), while the gender split was 65,3% male and 34,7% female. A total of 37,9% of respondents held a certificate or diploma, with a further 25,8% who only have a matric qualification. All the respondents were African as the research was conducted in African townships.

Table 1. Demographic profile of respondents (n=764)

<i>Demographic Profile of respondents</i>		<i>% of Total</i>
Gender	Female	34,7%
	Male	65,3%
Age	18-25	18,5%
	26-30	26,5%
	31-35	19,1%
	36-40	12,5%
	Older than 40	23,4%
Qualification	No matric	5,4%
	Matric	25,8%
	Certificate/diploma	37,9%
	Degree	12,3%
	Post-graduate degree	12,0%

4.2. Descriptive analysis

The respondents were asked to indicate the type of queries they have asked to the institutions regarding their assistance offered. Frequency analysis of the 436 responses received showed that the majority of the respondents (24,3%) had queries of a general

nature, (Table 2), while 22,2% had questions not related to assistance available, 19,3% had business plan related questions; and 18,3% had finance related queries. The relative low standard deviation indicates that the responses were very similar with most of the respondents selecting "No" as an answer.

Table 2. Specific queries respondents had posed to the institution (n=436)

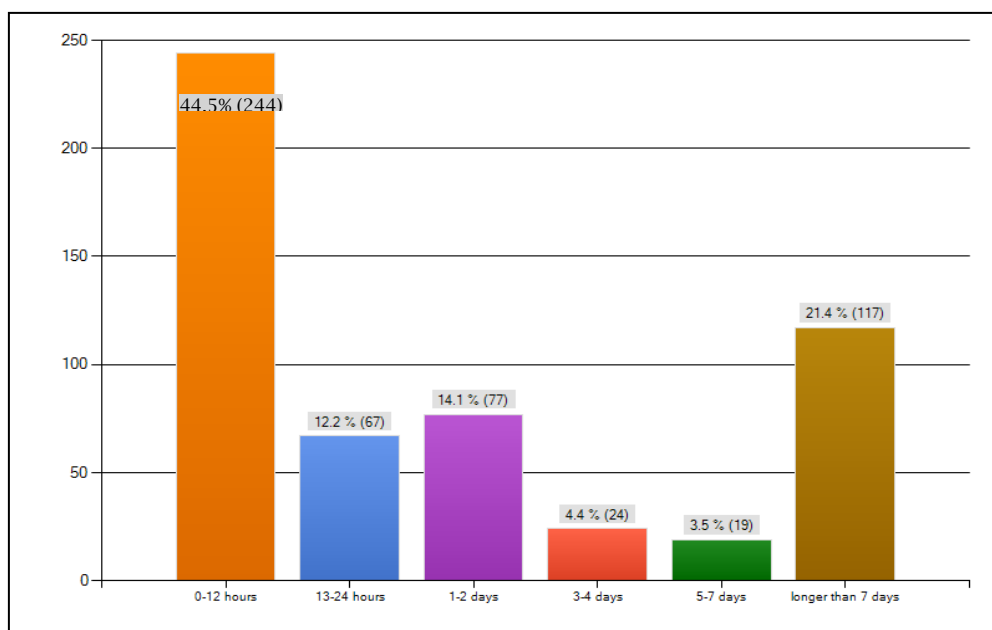
<i>Category</i>	<i>Percentage</i>	<i>Frequency count</i>
Application/ registration	10,6%	46
Business plan related	19,3%	84
Finance related	18,3%	80
General enquiries	24,3%	106
Internet/computer related	7,3%	32
Marketing related	4,8%	21
Answers not related	22,2%	97
Institution related	1,4%	6
Training and workshops	4,4%	19

* Total responses do not equal n as this question was a multiple-choice multiple-response question. Percentage was calculated using the frequency count per category divided by n.

The respondents indicated a number of areas in which they had a need for information. As expected, the largest number of queries was around general issues regarding the assistance offered (24,3% or 106), followed by questions directly related to a business plan (19,3% or 84), and finance related questions (18,3% or 80). The general queries

included questions such as application processes, type of businesses that they were interested in, the criteria used for assistance, etc.

Descriptive analysis of the responses of the small business owners regarding the waiting time for answers from staff of the institution are shown in figure 1.

Figure 1. Waiting period for a response regarding queries (n=548)

From the frequency analysis in Figure 1, it can be seen that the majority (44,5%) of respondents waited “0 to 12 hours” for a response, whereas 12,2% waited “13 to 24 hours”. This indicates a turnaround time of 24 hours in 56,7% of queries, which is impressive, and 70,8% of queries answered within 2 days. However, 24,9% of respondents said staff members took longer than 5 days to respond to

their queries. This is an area that needs to be addressed as it is inconceivable that it takes so long to answer queries and can be negative to SMMEs.

Descriptive analysis of the responses of the small business owners regarding the characteristics of staff members of the institution, are indicated in Figure 2

Figure 2. Respondents' general feelings towards the characteristics of staff members, Mean scores (n=578)

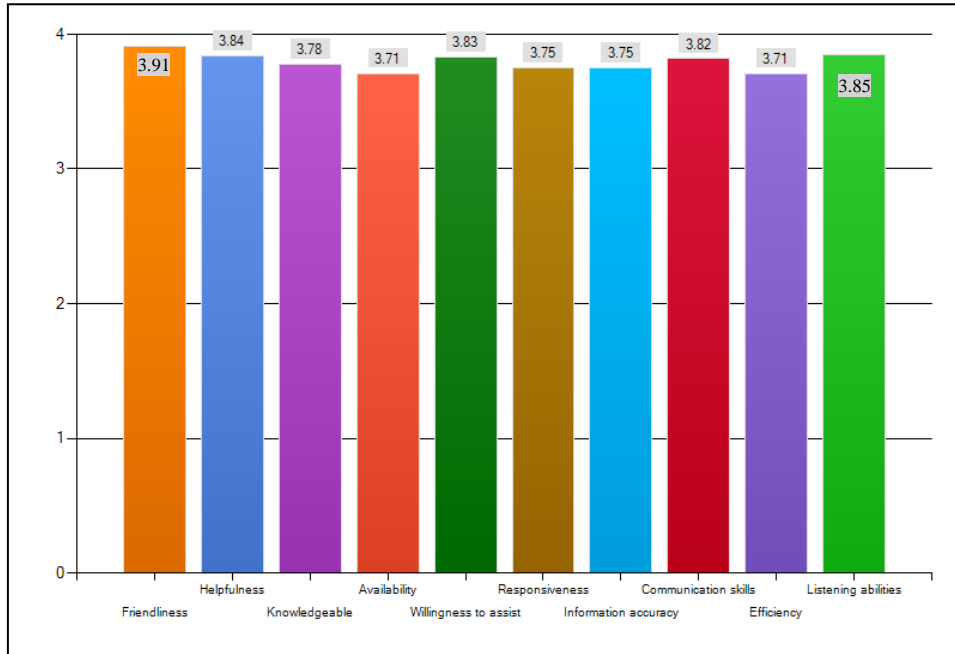
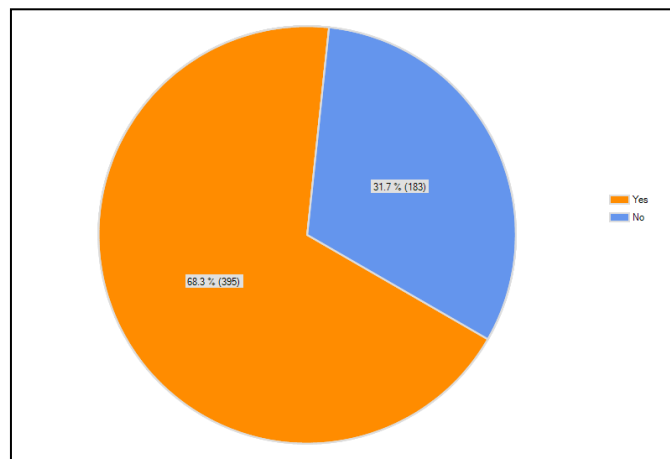


Figure provides the mean scores as indicated by the respondents. The higher the mean score, the more positive the respondent deemed the particular characteristic related to employees. Hence, it is evident that staff members were overall regarded as being friendly (M=3.91), these staff members were also deemed to be knowledgeable (M=3.78), willing to assist (M=3.83), in possession of accurate information (M=3.75), had good communication

skills (M=3.82), efficient (M=3.71) and had good listening abilities (M=3.85). In addition, respondents who answered this question agreed that the staff members were responsive (M=3.75) and helpful (M=3.84).

Descriptive analysis of the responses of the small business owners regarding their satisfaction with support received from staff at the institutions is shown in Figure 3.

Figure 3. Sufficient support and up to date information regarding their queries (n=578)



From the frequency analysis as indicated in Figure 3, it is clear that the majority (68,3%) of

respondents felt that staff members had provided them with sufficient support and up to date

information based on their queries, while 31,7% did not agree. The fact that such a high number of respondents are not satisfied implies that corrective action is required.

Descriptive analysis of the responses of the small business owners regarding their satisfaction

with support received from business advisors to the institutions are indicated in Figure 4.

The frequency analysis shows that the business advisors/service providers to the institutions were generally seen as delivering a satisfactory service. Of the 383 respondents who had queries, 76% were satisfied with the way their queries were handled.

Figure 4. Satisfaction with service providers (consultants) service to respondents queries (n=879)

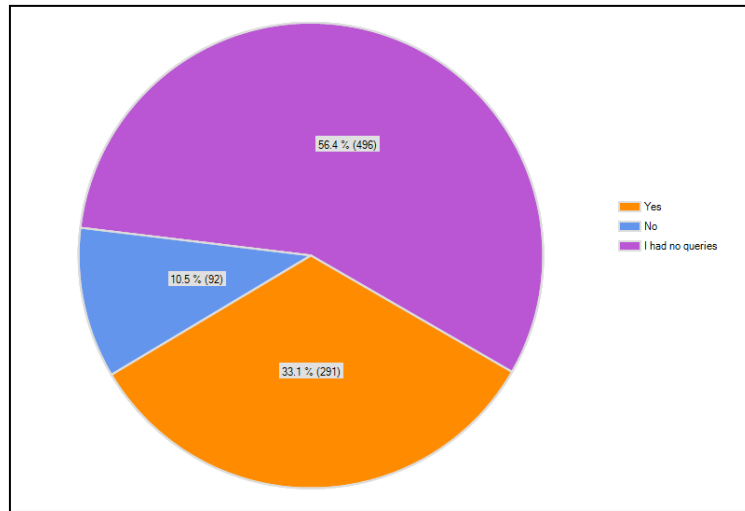


Figure 4 implies that of those respondents who had queries, a total of 10,5% (92) were not satisfied with the service of service providers. This is a significant number and is in line with the responses received regarding satisfaction with the institutions staff. In total 56,4% (or 496) of the respondents said they had no queries directed towards the consultants. It is concerning that respondents have

these professionals at their disposal for their use but do not make use of these opportunities.

Descriptive analysis of the responses of the small business owners regarding the characteristics of the institutions service providers are indicated in Figure 5.

This question provides an overview of how respondents perceived the consultants to be effective.

Figure 5. Mean scores of expected characteristics that a service provider should possess. (n=341)

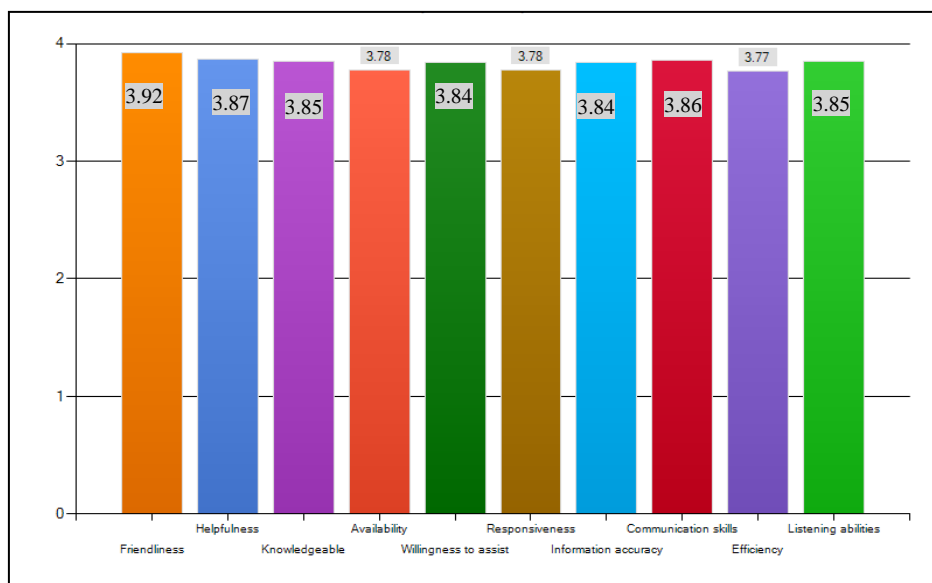
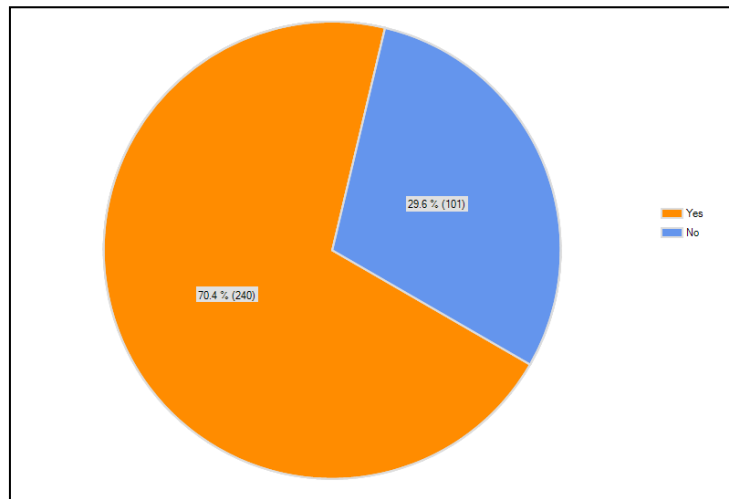


Figure provides the mean scores as indicated by the respondents. The higher the mean score, the more positive the respondent deemed the particular characteristic related to service providers. From the above figure, it is evident that the respondents agreed that the consultants were friendly (M=3.92), helpful (M=3.87), knowledgeable (M=3.85), available (M=3.78), willing to assist (M=3.84), responsive (M=3.78), provided accurate information (M=3.84),

had good communication skills (M=3.86), efficient (M=3.77) and had good listening skills (M=3.85). From a holistic point of view, respondents did in fact perceive the consultants to be efficient and competent.

Descriptive analysis of the responses of the small business owners perception regarding the competence of the service providers/consultants of the institutions are shown in Figure 6.

Figure 6. Competent consultants/service providers (consultants) (n=341)

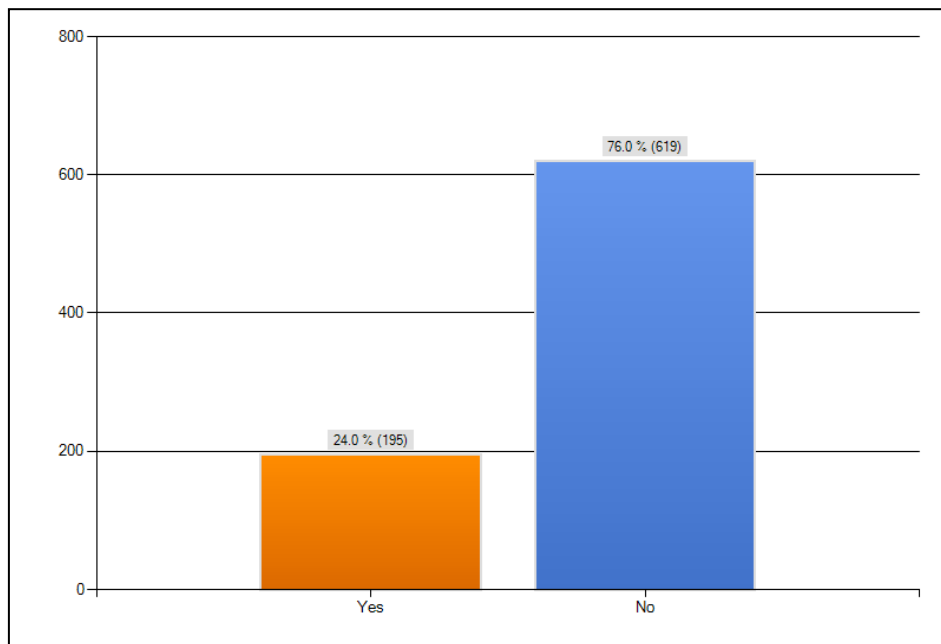


As seen from Figure 6 above, 70,4% (240) of those who responded to the question indicated that the service providers (consultants) provided ample support and up to date information regarding their queries, while 29,6% (101) of the respondents had a negative perception as they believe that they did not

receive sufficient support from the consultants and therefore see them as not very competent.

Descriptive analysis of the responses of the small business owners regarding the attendance of training sessions offered by the institutions are illustrated in Figure 7.

Figure 7. Training attended as offered by institutions (n=814)



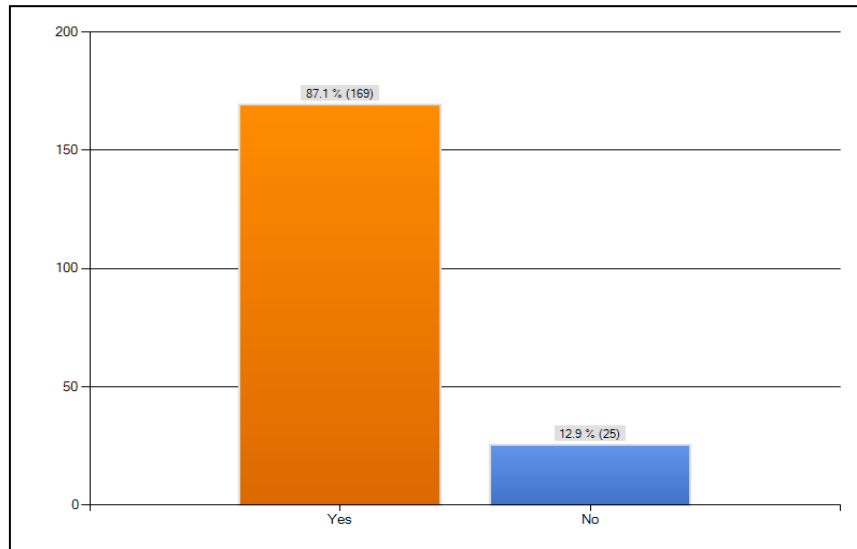
The frequency analysis shows that only 24% of the respondents attended a training course offered

by the institution while 76% did not as yet attend any training courses offered.

A possible reason for the lack of attendance by respondents could be due to low awareness levels of the training being offered, it may also be due to a lack of access to the training presentations or that respondents felt they did not need to attend training sessions.

Lastly, the descriptive analysis of the responses of the small business owners regarding the helpfulness of the training sessions attended is indicated in Figure 8.

Figure 8. Helpfulness of the training sessions (n=194)



The overwhelming number of respondents that attended the training sessions (169 or 87,1%) indicated that the training sessions were helpful, while only 12,9% (25) did not find the training sessions helpful. This is encouraging and an indication that more SMME owners should be encouraged to attend these courses.

5. DISCUSSION AND CONCLUSIONS

It has been proven that SMMEs play a critical role in the growth and development of countries, and that it serves as a feeder for job creation and economic growth. In order to stimulate and develop SMMEs, governments and other institutions offer a range of services in various forms to assist these businesses.

The main aim of this study was to establish the extent to which SMMEs are of the opinion that these institutions meet their needs in terms of the services that the staff and service providers of these institutions offer. That is to what extent do SMME owners believe that local government/municipalities/institutions are doing enough to assist and support small businesses, and how competent they are.

The study shows that the majority of the respondents are of the opinion that in general the assistance they receive from government institution staff and service providers from these institutions are acceptable, but that there are still much room for improvement on many levels.

The contribution of SMMEs to regional and national growth and development should not be taken lightly and it is therefore recommended that the government assistance and other institutions available to SMMEs be aggressively promoted. Given the large sample size, the results will give a good indication as to the value SMME owners see in

assistance they receive to meet their needs. Some recommendations are as follows:

The response time of staff members should be addressed, so that all queries are answered within a reasonable time frame. From the responses it would seem that there are room for improvement in this regard.

- It is important for management to investigate why some SMME owners were not satisfied with the feedback they received from staff members. These findings can assist in reducing the levels of dissatisfaction which in turn can have a detrimental effect on the organisation. Further investigation is therefore called for in these areas.

- The institutions staff members were perceived to have the characteristics that a good employee should possess, and the majority of respondents felt that they were helpful. This behaviour should be encouraged and perhaps incentivised.

- 30,1% of the respondents said that the staff members did not provide sufficient and accurate information. From this, it is important that the institutions investigate what information the respondents perceived to be insufficient. By knowing this, it can be determined whether such additional information was made available through other communication tools.

- Business advisors/service providers should follow-up with SMME owners that they have assisted. This may ensure that any further challenges are resolved.

- Awareness and accessibility of training should be improved in order to increase the percentage of SMME owners that attend training sessions, especially since this training is a fundamental service offered by these institutions in all areas of the business. One option may be to make the attendance of these training sessions compulsory to

all SMME owners who request assistance for finance or other services. It must be noted that numbers do not mean success but rather the value the participants receive from the training.

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