Information Asymmetry and Obstacles on SMMEs growth in the Rural Areas of uThungulu District Municipality of KwaZulu-Natal

By
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A Dissertation submitted in fulfillment of the requirements for the degree of Master of Commerce in the Department of Business Management in the Faculty of Commerce, Administration & Law at the University of Zululand

2012
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Date…………………… Date…………………… Date……………………
DECLARATION

I, Nkonde Sipho David, declare that the work on the topic “Information Asymmetry and obstacles on SMMEs growth in Rural Areas of uThungulu District Municipality of KwaZulu Natal” is my original work, that I am the owner of the copyright thereof and that I have not previously in its entirety or in part submitted it for obtaining any qualification and that all the sources that I have used or quoted have been indicated and acknowledged by means of complete references.

Researcher:

Nkonde Sipho David

Date:
DEDICATION

I would like to dedicate this dissertation to my loving parents for their unconditional love, permanent care and presence in my life. I dedicate this study to them, acknowledging them for being the strong pillars of my life and the lives of my brother and sisters.
ACKNOWLEDGEMENTS

I would like to express my heartfelt gratitude to the following individuals, who have supported me spiritually, morally and financially in fulfilling my dream of achieving a master’s degree:

Almighty God for giving me ability and strength to overcome all the challenges on the way.

I thank my supervisor, Prof. Contogiannis, who shaped and supported me to complete my M.Com degree. I thank my co-supervisors Dr. Kaseeram and Ms Vezi for their innovative input into this research. I thank the faculty Research Committee with financial support throughout the study. “Ndiyabulela’.

I express my sincere thanks to my family and friends who supported me throughout this journey and wish to take this opportunity to thank and acknowledge everyone who contributed to the success of this study.

And last but not least, UThungulu SMMEs for allowing me to conduct the research in their premises. I thank you.
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ABSTRACT

Information asymmetry is regarded as factors that affect SMMEs and issues hindering SMMEs growth which include management skills, market access and lack of training. This is supported by Rogerson (2008) that several challenges facing SMMEs development in South Africa have been unapproachable. Number of factors have been identified which relate to markets access and marketing, business management skills, training, finance and inadequate institutional support.

The SMME sector is regarded as a potential employment creator and contributes significantly to the economic growth of South Africa. SMMEs have the major share of the development and almost half of the total employment in the economy. While argument still exists about the comparative contribution of SMMEs to the economy, this sector contributes a massive share of employment which contributes significantly in the economy. However, SMMEs are facing challenges that prevent them from growing, and causing a large percentage of SMMEs to shut down in their first two years of operation.

This study aims to discover the information asymmetry and obstacles on SMMEs growth in uThungulu district municipality. An investigation was conducted among owners in all local SMMEs in the district to identify obstacles perceived as central to SMMEs growth. Structured questionnaires were used to collect data. The research findings indicate that lack of training and management skills are one of the challenges faced by SMMEs since the majority of entrepreneurs have only matric qualifications. The use of technology was also identified as an obstacle on SMMEs growth.
LIST OF ACRONYMS

BOSS Business Opportunity Support System
CIPRO Companies and intellectual Property Registration office
CSBP Centre for Small Business Promotion
DTI Department of Trade and Industry
GDP Gross Domestic Product
GEM Global Entrepreneurial Monitor
GSS Ghana Statistical Service
LBSC Local Business Support Centres
LE Large Enterprises
NYDA National Youth Development Agency
SA South Africa
SEDA Small Enterprise Development Agency
SMMEs Small, Medium and Micro Enterprises
TAC Tender Advisory Centres
UYF Umsobomvu Youth Fund
UNIZUL University of Zululand
VAT Value Added tax
WWW World Wide Web
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1.1 INTRODUCTION

In this study the researcher aims to determine the asymmetries and obstacles faced by small, medium and micro Enterprises (SMMEs) in the uThungulu district municipality, KwaZulu-Natal. There are various government programmes that provide support to SMMEs, such as Seda, Ntsika Enterprise Finance Agency and Khula Enterprise Finance Limited.

The SMME sector is globally regarded as the driving force in economic growth and job creation. The South African Department of Trade and Industry (DTI) estimates that small businesses employ almost half of formally employed persons, and contribute to 42% of the country’s gross domestic product (Allison, 2000).

In South Africa the importance of Small business as a creator of jobs, particularly to those with a low skills level, is widely recognized. SMMEs contribute 36.1% of the country’s GDP and employ 68.2% of the workforce in the private sector. In the agriculture, construction and retail sectors, SMMEs employ more than 80% of the total workforce. Over the last few years, the growth in employment by SMMEs has exceeded the growth in their contribution to GDP, highlighting the job creation potential of this sector of the economy (Arendse et al., 2006).
SMMEs are playing a significant role, both locally and globally and simplifying socio-economic growth by absorbing the labour force and penetrating niche markets. These enterprises are small ventures that perform their activities across various sectors such as services, construction, retail and so forth, and hence providing employment for themselves and fellow citizens. They are either formal (i.e. registered to operate, registered for tax and also with certain bodies in their sector) or informal (not registered at all) in nature. However, compliance of SMMEs, in most cases, is dependent on the type of sector in which they operate. For example, the financial services and construction sectors in South Africa are highly regulated, in comparison with manufacturing and other sectors. SMMEs are dynamic in nature because they vary in size, structure and level of formalisation.

The importance of SMMEs is cited in the literature, including government’s policies, reports and guideline documents. SMMEs have been identified as businesses that can improve the socio-economic conditions of their countries. It is said that SMMEs can assist in achieving parity in terms of economic redistribution and giving women a chance to contribute to economic growth (Lee 2004; SEDA 2007).

The development of SMMEs contributes significantly to job creation, social stability and economic welfare across the globe (Ladzani and van Vuuren, 2002). In the United States of America (USA), for example, SMMEs have introduced innovative products and services, created new jobs, opened foreign markets, and in the process ignited the USA’s economy in the global economy (Zimmerer and Scarborough, 2004). Small, medium and micro enterprise (SMME) development was identified by the new
government as a priority in creating jobs to solve the high unemployment rate (Nieman, 2001).

The South African government developed SMMEs as a priority in creating jobs to solve the high unemployment problem. There is evidence that the national unemployment level currently estimated at 28.4% is increasing at a shocking rate (Statistics South Africa 2009). According to the Ntsika Annual Review (2001), SMMEs constitute 97.5% of all businesses in South Africa. This sector generates 42% of the Gross Domestic Product (GDP), contributes 42.7% of the total value of salaries and wages paid in South Africa, and employs 54.5% of all formal private sector employees (Diederichs, 2001). The gap between high and low income groups is increasing over time. The development of SMMEs and entrepreneurship serves as an initiator in satisfying these economic gaps.

The government has dedicated major resources to support the SMMEs sector. However, the study of small enterprises conducted in 2002 provides, for the first time, overwhelming agreement that the government is inadequate to reach most small enterprises (Global Entrepreneurship Monitor, 2008). The study indicates that SMMEs are either unaware of or do not use the services obtainable from the government.

Van Eeden (2004) explains information asymmetry as factors hindering SMMEs growth. They include management skills, market access and lack of training. This is supported by Rogerson (2008) who says that several challenges facing SMMEs development in South Africa have been unreachable. A number of factors have been
identified which relate to markets access and marketing, business management skills, training, finance and inadequate institutional support.

The GEM 2008 gives many reasons for business failure. The study highlighted that entrepreneurs in South Africa fail because they have poor business and management skills (Herrington, 2009). In addition it was found that poor access to finance and regulations create enormous administrative burdens on entrepreneurs.

Timmons (1997) refers to a study conducted in the United States among small businesses to determine the failure rate. It was found that 23.7% of new businesses fail within two years of operation, while 51.7% of businesses fail within four years and 62.7% within six years. The major reasons were found to be the following: 47.5% failed for economic reasons, 38.4% failed as a result of financial trouble (insufficient working capital), 7.1% failed because of negligence of the owner (business conflicts and family problems), 3.4% failed because of management in experience and 3.6% failed for several other reasons, such as disaster and fraud.

Diederichs (2001) suggests that most small businesses from the 32 small firms studied in Nigeria failed because of the lack of training and lack of acquired foreign capital to purchase machinery and small parts. The Nigerian government officials also frequently harassed firms by extorting money from the businesses. Other additional obstacles comprise poor infrastructure, including bad roads, inadequate water shortage, erratic electricity supply, and poor telecommunications systems. Van Aardt et al (2008) identified eight major reasons for small business not to grow. These reasons are poor management skills, poor record-keeping, poor money management,
too little effort to market the business, poor planning, poor pricing practices, poor human resource management and the business owner’s inability to adapt to the changing demands of a business.

The Department of Trade and Industry indicates that this sector accounts for almost 75 % of all employment in South Africa and contributes approximately 28 % to Gross Domestic Product (Wadala, 2005). SMMEs play a particularly important role in a country’s economy, because of their number and because of this large share of the workforce involved. The government has for many years carried out a variety of programmes to support these enterprises, although not a great deal about these programmes is known by SMMEs. In South Africa, SMMEs lag well behind in terms of know-how, skill levels, capital investment to support their activities, and access to ability to take advantage of modern technologies. As in most countries, they find it difficult to obtain financing. Apart from the lack of funding, SMMEs appear to suffer from a lack of information and efficient production technologies, limited use of management and control systems, incompetence in accessing consulting services, and other related shortages (Wadala, 2005).
1.2 PROBLEM STATEMENT

The SMME sector plays a significant role in the economic growth and development of any economy. It contributes to the goals of economic growth, economic empowerment, job creation and poverty reduction in different ways (DTI, 2003). Given the importance of the SMME sector, governments throughout the world, including the South African government, have focused their attention on the development of the SMME sector to promote economic growth, income distribution and employment opportunities. The department of Trade and Industry discovered a high degree of inability for small, medium and micro enterprises to grow in South Africa. The central cause of this originates from factors such as lack of managerial skills, lack of support from the government, training and access to proper technology.

1.3 RESEARCH OBJECTIVES

The main objective of the study is to determine the information asymmetry on Small, Medium and Micro enterprises’ inability to grow. A large percentage of SMMEs fail in their first two years of operation, therefore the study focused on SMMEs to identity factors perceived to contribute to the inability of SMMEs to grow. The study will focus on the critical issues relating to lack of SMMEs growth in uThungulu district municipality.
Therefore the objectives of this study are to:

- Determine the information asymmetry on SMMEs’ growth failure in the area of uThungulu district municipality.
- Identify the challenges faced by these businesses (SMMEs);
- Evaluate the effectiveness of government support agencies on SMMEs.
- Establish whether SMME’s entrepreneurs are aware of government initiatives and support structures which are available for them;
- Identify specific areas of possible intervention that could stimulate entrepreneurship; and
- Recommend appropriate action plans.

1.4 HYPOTHESES FORMULATION

According to Finn and Creswell (2000), hypothesis refers to the assumptions about something until the researcher discovers the fact about the particular thing believed to exist.

**H1:** Information asymmetry is the main cause of SMMEs’ inability to expand.

**H1 a:** Information asymmetry is not the main cause of SMMEs’ inability to expand.

**H2:** Government-sponsored information helpdesks are ineffective in providing appropriate information to SMMEs.

**H2 a:** Government-sponsored information helpdesks are effective in providing appropriate information to SMMEs.
1.5 SIGNIFICANCE OF THE STUDY

This study will be useful to the SMME sector since challenges are addressed and future recommendations are made. The results of the survey of SMMEs’ failure to grow will be documented for future reference. The study identifies basic factors such as lack of managerial skills, lack of support from the government; training and access to proper technology which play a major role in impeding SMMEs’ growth. The study is further intended to increase the confidence and awareness of SMMEs in using government support initiatives. In fact the findings of this study should be helpful to both SMMEs and individual entrepreneurs. The results of the study will be made available to the Zululand Chamber of Commerce to additionally explore the possible challenges of SMME growth.

1.6 RESEARCH METHODOLOGY

A research is the procedure that includes the application of several systems and techniques in order to generate precise knowledge by using independent methods and procedures (Welman and Kruger, 2001). Business research can be defined as a systematic and orderly investigation of phenomena of interest to business decision makers. Scientific business research is a specialized type of investigation characterized by the accuracy of the analytical tools and techniques applied.

The study subject was formal SMMEs registered with uThungulu district municipality. The quantitative method was used, and cross-sectional study was advisable since data was collected and gathered once. Questionnaires were administered in the collection of data. Text books, journals and electronic means were used to collect secondary data.
1.6.1 Study area

UThungulu district is the third largest municipality in the KwaZulu-Natal province and it was estimated to have a population of about 885 935 in 2009 (which is 7.7 % of the provincial total population of 10 259 230) as compared to 835 581 in 2007 (Statistics SA, 2009).

1.6.2 Sampling

According to Trochim & William (2006), sampling is the process of selecting units from the population of interest so that by studying a sample we may fairly generate results back to the population they were chosen from.

The study focused on the formal small, medium and micro enterprises registered with the district municipality. UThungulu district municipality consists of six local municipalities, namely uMhlathuze, Umlalazi, Nkandla, Mbonambi, Ntambanana and Mthonjaneni. The population comprised 285 formal SMMEs registered with the district municipality.

Table 1.2: SMMEs in uThungulu district municipality

<table>
<thead>
<tr>
<th>Name of the local municipality</th>
<th>Number of SMMEs</th>
</tr>
</thead>
<tbody>
<tr>
<td>uMhlathuze</td>
<td>120</td>
</tr>
<tr>
<td>Umlalazi</td>
<td>42</td>
</tr>
<tr>
<td>Nkandla</td>
<td>28</td>
</tr>
<tr>
<td>Mbonambi</td>
<td>44</td>
</tr>
<tr>
<td>Ntambanana</td>
<td>27</td>
</tr>
<tr>
<td>Mthonjaneni</td>
<td>24</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>285</strong></td>
</tr>
</tbody>
</table>

Source: UThungulu SMME development strategy (2010)
The municipal database was used to extract the sampling frame, and the formula recommended by Krejcie and Morgan (1970) was used to calculate the sample size. To address the research questions relating to information asymmetry and obstacles to small, medium and micro enterprises, stratified sampling was employed. The population of SMMEs comprised six clusters of local municipalities (uMhlathuze, Umlalazi, Nkandla, Mbonambi, Ntambanana and Mthonjaneni). Each local municipality had formal and registered small enterprises comprised of several restaurants, coffee shops, salons, butcheries and internet cafes. A stratified sampling method was employed to administer questionnaires to the owners of these SMMEs.

1.6.3 Sample size

Sample size is the number of observations used for calculating estimates of a given population. The sample size will be calculated using the formula suggested by Krejcie and Morgan (1970):

\[
S = \frac{X^2 NP (1-P)}{d^2 (N-1) + X^2 P (1-P)}
\]

Where:

- \( S \) = required sample size.
- \( X^2 \) = the table value of chi square for 1 degree of freedom at the desired confidence level (3.841).
- \( N \) = the population size.
- \( P \) = the population proportion (assumed to be 0.50, since this would provide the maximum sample size).
- \( d^2 \) = the degree of accuracy expressed as proportion (0.05).
\[ S = X^2 NP (1-P) \]
\[ d^2 (N-1) + x^2 P (1-P) \]
\[ = 3.841 \times 285 \times 0.5 (1-0.5) \]
\[ 0.05^2 (285-1) + 3.841^2 \times 0.5(1-05) \]
\[ = 3.841 \times 285 \times 0.5 (0.5) \]
\[ 0.05^2 (284) + 3.841^2 \times 0.5(05) \]
\[ = 273.67 \]
\[ 0.5575 + 3.688 \]
\[ = 273.67 \]
\[ 4.398 \]
\[ = 62 \]

### 1.6.4 Data collection method

Stratified sampling was chosen as it ensured that it represented not only the overall population but also the key sub-groups of the population. Questions were quantitative in nature, so a quantitative research method was used. A structured questionnaire was designed using levels of measurement (Normal, Ordinal, Interval and Ratio scales). Closed-ended questions were included in the questionnaire to make sure that questions were clear, relevant to the point. Piloting of the questionnaire was employed, where ten questionnaires were piloted to the respondents to check if the approach was appropriate and would function effectively. Then the questionnaire was reworked. Permission to conduct research was requested from uThungulu district municipality. The municipality’s database was used to extract a sample, and then a questionnaire was distributed to respondents and collected after a week.
1.6.5 Data analysis techniques

Business Dictionary (2010) explains that data from various sources is gathered, viewed and then analyzed to form some sort of findings or conclusion. The statistical programme used to analyze data was SPSS. Descriptive statistics were used to describe the basic features of data in the study. Frequency distributions, measures of central tendency and dispersion were used to give an evident picture. Inferential statistics were also used together with bivariate distributions to create correlations and to execute chi-squared.

1.7 LIMITATIONS OF THE STUDY

1.7.1 Limited geographical scope

The study was only focused on a specific geographical area: UThungulu district municipality in KwaZulu Natal Province. This was a limitation in the sense that the findings of the study cannot be taken as a general representation of SMMEs within all the districts in the Province and within the whole of South Africa.

1.7.2 Limited sample size

The study focused on the views of only 62 SMMEs entrepreneurs in UThungulu district municipality. A larger sample could have given a better understanding to the study.
1.8 LAYOUT OF THE STUDY

The study is divided into six chapters; the chapter layout is presented in figure 1.1:

Figure 1.1: Study layout

Chapter One
Background and setting of the study

Chapter Two
Theoretical perspective of SMMEs

Chapter Three
Entrepreneurship and factors contributing to failure of SMMEs

Chapter Four
Research Methodology and Design

Chapter Five
Research Findings

Chapter Six
Conclusions and Recommendations

Source: Own contribution

A brief overview of the chapters is given below:
Chapter one

Background and setting of the study

This chapter presented the background of the research, followed by a problem statement definition and research objectives. The chapter was concluded with a research structure and discussion on the chapter layout.

Chapter two

Theoretical perspective on SMMEs

This chapter provided a broad literature review on SMMEs in developing countries, the significance of SMMEs in South Africa, definition of terms, the role of SMMEs, characteristics and the contribution of SMMEs to the South African economy.

Chapter three

Entrepreneurship and factors contributing to failure of SMMEs

This chapter reviewed the suitable literature and theories of entrepreneurship in the SMME segment. The elements regarded as having impact on SMMEs unable to grow both internally and externally were presented.

Chapter four

Research design and methodology

This chapter provided a brief explanation of the research methodology used to conduct the research. The design of questionnaires, instruments of collecting data, the population and the sampling were presented. The chapter also discussed the validity and reliability of the methodology used in the study.
Chapter five

Research findings

This chapter presented the research findings and discussions of the study which focused on examining the information asymmetry and obstacles to SMMEs growth in uThungulu district municipality. The analysis of the results of the study was presented. The SPSS statistical package was used to analyze the data.

Chapter six

Research conclusions and recommendations

Chapter 6 is the last chapter of the research study, designed to draw conclusions and make recommendations for future studies on SMMEs.

1.9 SUMMARY

The first chapter has given a summary of the study and some insight as to what to expect in the following chapters. The next chapter is organized as to examine the theoretical framework of SMMEs in African countries, the business theory of growth, the global perspective of SMMEs, the contribution of SMMEs to the economy, the role of SMMEs to the economy, and SMMEs’ support in boosting the economy.
2.1 INTRODUCTION

The small business industry has a vast role to play in the South African economy regarding employment formation and economic growth. SMMEs contribute approximately 60% of all employment in the entire economy and more than 42% of South Africa’s gross domestic product (GDP) (Ntsika, 2002). SMMEs give poorer people an opportunity to gain access to the economy. Access to finance remains a massive problem to entrepreneurs and SMMEs at large and according to (Ntsika, 2002).

This chapter holds a comprehensive literature study on the significant role played by the SMME sector to the South African economy. It further looks at the information asymmetries and obstacles faced by SMMEs thus resulting in failure to grow and shutdown. The government has support agencies that are meant to assist SMMEs access funds and access the market where they operate; hence the study will also check the reliability of these agencies in assisting the SMME sector.
2.2 DEFINITION OF TERMS

2.2.1 Small Medium Micro Enterprises (SMMEs)

SMMEs are multifaceted enterprises that are flexible, and whose business processes are not as inflexible as those of Large Enterprises. In this section, the objective is to define SMMEs in order to understand them since there is no single definition of an SMME (Storey 1994). SMME definitions differ from country to country, and depending on the type of industry they are affiliated with (STATSSA 2005). An SMME in the construction industry will not be defined in the same way as an SMME in the services sector. SMMEs can in general be defined as small businesses that have a small number of employees. The number of employees will also be determined by the category into which they fall.

The National Small Business Act 102 of 1996 describes SMMEs based on the annual revenue that such businesses are capable of achieving, the total gross asset value, and the total number of permanent employees that the business is able to employ, and pay at an adequate living standard. The Act outlines SMMEs as a separate and individual business entity.

Different authors define small business differently based on where they are and the requirements of that country. For example, the definition of small business in the United States is not necessarily the same as in South Africa, especially in terms of size. This study will follow the definition of small business as defined by the National Small Business Act of 1996 of South Africa.
2.2.2 Small Enterprises

Small enterprises create the majority of recognized businesses, with employment ranging between five and about fifth people. The enterprises will usually be owner-managed or directly controlled by the owner community. Small enterprises operate from business or industrial premises and they are tax registered to meet the formal registration requirements. It is difficult to classify small enterprise in terms of assets and turnover (The National Small Business Amendment Bill of South Africa, 2003).

2.2.3 Medium Enterprises

The National Small Business Amendment Bill of South Africa of 2003 indicates that in terms of employment the maximum number of employees in medium enterprise is 100, and the mining, electricity, manufacturing, and construction sectors have a maximum number of 200 employees. Although these enterprises are still owner-manager controlled, the ownership and management structure is more complex.

2.2.4 Micro Enterprises.

The National Small Business Act 102 of 1996 describes micro enterprises as the smallest enterprises in the small business sector. They can be found in both formal and informal economies, but because of their size they usually do not register for value added tax (VAT). They have informal procedures and are not obliged to comply with legislation. Most of them are owned and managed by black entrepreneurs. They can be categorized into the following fields: spaza-shops, home-based enterprises, and mini taxis.
2.3 THE POTENTIAL ROLE OF SMMES IN THE ECONOMY OF KZN

Bannock et al (2002) recognize three potential roles that SMMEs can play in a market economy: they may develop markets, accumulate capital through trading, and develop commercial culture and skills within a region. They may also diversify an economy dominated by agriculture, create jobs and complement larger firms in raising productivity (Liedholm et al., 1994). Successful SMMEs have the potential to stimulate demand for investment or capital goods (Brunetti et al., 1998), and to upgrade human capital when large enterprises in the secondary and tertiary sectors release unskilled labour that SMMEs may employ. A South African study of 2000 shows that people employed in SMMEs are more likely to start their own businesses (World Bank Task Team, 2000). Micro enterprises may increase the productivity of labour in the economy by engaging previously unemployed, low-skilled labour at little or no opportunity cost, but their productivity has a relatively low ceiling and they typically operate in the informal sector; they may achieve poverty alleviation at most but not necessarily expansion of the middle class (Liedholm et al., 1994). It is, therefore, important to distinguish between an increase in micro enterprise 'start-ups' and the growth of existing SMMEs or the graduation of micro enterprises into small and medium size enterprises.
2.4 THE ROLE OF THE SMME SECTOR IN THE ECONOMY

2.4.1 Contribution to the Gross Domestic Product

The economic structure of the formal sector in South Africa resembles that of many industrialized or developed countries (DTI Annual Review, 2009). This is particularly evident and can easily be seen by comparing the relative importance of each of the nine main industrial sectors to each other in terms of their contribution to GDP. The SMME industry contributes 34.8% while 65.2% of GDP is generated by large enterprises.

Table 2.1 Percentage contribution of SMMEs to the GDP in the industrial sectors

<table>
<thead>
<tr>
<th>Industry</th>
<th>Small</th>
<th>Medium</th>
<th>Micro</th>
<th>Large</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>8,67</td>
<td>43,71</td>
<td>4,13</td>
<td>43,49</td>
<td>100,00</td>
</tr>
<tr>
<td>Mining</td>
<td>1,74</td>
<td>2,55</td>
<td>1,01</td>
<td>94,70</td>
<td>100,00</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>7,37</td>
<td>21,02</td>
<td>5,27</td>
<td>66,34</td>
<td>100,00</td>
</tr>
<tr>
<td>Trade</td>
<td>23,41</td>
<td>17,12</td>
<td>2,27</td>
<td>57,21</td>
<td>100,00</td>
</tr>
<tr>
<td>Transport</td>
<td>18,50</td>
<td>20,30</td>
<td>7,07</td>
<td>54,13</td>
<td>100,00</td>
</tr>
<tr>
<td>Business &amp; Other Services</td>
<td>12,90</td>
<td>2,90</td>
<td>14,90</td>
<td>69,30</td>
<td>100,00</td>
</tr>
<tr>
<td>Average: All Sectors</td>
<td>13,90</td>
<td>15,05</td>
<td>5,82</td>
<td>65,23</td>
<td>100,00</td>
</tr>
</tbody>
</table>

Source: DTI Annual Review (2009)

2.4.2 Contribution to Employment

Irrespective of the importance of SMMEs in terms of their contribution to GDP, perhaps their biggest single contribution to the South African economy is in terms of employment (DTI Annual Review, 2009). The role of SMMEs as an agency for employment in the country cannot be overemphasized, especially within the context of a developing nation. Within South Africa this also implies incredible socioeconomic challenges, predominantly as a result of the racially biased policies followed under apartheid (DTI...
Annual Review, 2009). SMMEs employ 54.5% of all the formal private sector enterprises, compared to 45.5% in the large enterprises.

In South Africa, SMMEs account for 33% of the GDP in 1999. SMMEs are prominent in community, social and personal services and the finance, real estate, wholesale and agriculture sectors. 23% of the population in SMMEs is economically active as illustrated below (DTI 2009).

Table 2.2: SMMEs contribution to the economy

<table>
<thead>
<tr>
<th>%</th>
<th>Survivalist</th>
<th>Micro</th>
<th>Very Small</th>
<th>Small Enterprise</th>
<th>Medium enterprise</th>
<th>Large</th>
</tr>
</thead>
<tbody>
<tr>
<td>Numbers of Firms</td>
<td>19.6</td>
<td>19.8</td>
<td>20.5</td>
<td>6.8</td>
<td>1.3</td>
<td>0.7</td>
</tr>
<tr>
<td>Employment</td>
<td>2.2</td>
<td>6.5</td>
<td>13</td>
<td>15.7</td>
<td>13</td>
<td>46.1</td>
</tr>
<tr>
<td>GPD</td>
<td></td>
<td>5.8</td>
<td>13.9</td>
<td>15</td>
<td>65.2</td>
<td></td>
</tr>
</tbody>
</table>


The World Bank (2006), however, estimated that the SMMEs contribution to employment generation was 39% in South Africa. China’s SMME sector contributed 78% to its total employment.
Table 2.3: SMME participation and contribution to the economy (selected countries)

<table>
<thead>
<tr>
<th>Country Name</th>
<th>Structure of the SMME sector (% of all SMMEs)</th>
<th>SMME participation in the Economy</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Small</td>
<td>Medium</td>
</tr>
<tr>
<td>Brazil</td>
<td>93.9</td>
<td>5.6</td>
</tr>
<tr>
<td>China</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Egypt</td>
<td>92.7</td>
<td>6.1</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>95.4</td>
<td>3.9</td>
</tr>
<tr>
<td>Ghana</td>
<td>55.3</td>
<td>42.0</td>
</tr>
<tr>
<td>India</td>
<td>94.0</td>
<td>3.3</td>
</tr>
<tr>
<td>Mexico</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Malawi</td>
<td>91.3</td>
<td>8.5</td>
</tr>
<tr>
<td>Russian Federation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>United States</td>
<td>78.8</td>
<td>19.7</td>
</tr>
<tr>
<td>South Africa</td>
<td>92.0</td>
<td>7.0</td>
</tr>
</tbody>
</table>

*Source: World Bank (2006)*

SMMEs represent an important vehicle which addresses the challenges of job creation, economic growth and equity in South Africa. Globally, SMMEs are playing a critical role in absorbing labour and generally expanding economies in creative and innovative ways.
2.5 CONTRIBUTIONS OF SMALL BUSINESS TO ECONOMIC DEVELOPMENT

There is a general agreement that the performance of small businesses is imperative for both economic and social expansion of developing countries. From the economic perspective, SMMEs provide a vast number of benefits (Advani, 1997). SMMEs have been noted to be one of the major areas of concern to many policy makers in an attempt to accelerate the rate of growth in low-income countries. These enterprises have been recognized as the engine through which the growth objectives of developing countries can be achieved. They are regarded as a potential source of employment and income in many developing countries. SMMEs seem to have advantages over their large-scale competitors in that they are able to adapt more easily to market conditions, given their broadly skilled technologies. They are able to withstand adverse economic conditions because of their flexible nature (Kayanula and Quartey, 2000). SMMEs are more labour concentrated than larger firms and therefore have lower capital costs associated with job creation (Kayanula and Quartey, 2000). They perform useful roles in ensuring income stability, growth and employment. Since SMMEs are labour intensive, they are more likely to succeed in smaller urban centres and rural areas, where they can contribute to a more even distribution of economic activity in a region, and can help to slow the flow of migration to large cities. Due to their regional dispersion and their labour intensity, it is argued, small-scale production units can promote a more equitable distribution of income than large firms. They also improve the efficiency of domestic markets and make productive use of scarce resources, thus facilitating long-term economic growth (Kayanula and Quartey, 2000).
The SMMEs sector contributes to a country’s national product by either manufacturing goods of value, or through the provision of services to both consumers and/or other enterprises. This encompasses the provision of products and, to a lesser extent, services to foreign clients, thereby contributing to overall export performance. SMMEs account for about 91% of the formal business entities in South Africa, contributing between 52% and 57% of GDP and providing about 61% of employment (Ntsika, 1999; Berry et al., 2002). From an economic perspective, however, enterprises are not just suppliers, but also consumers; this plays an important role if they are able to position themselves in a market with purchasing power: their demand for industrial or consumer goods will stimulate the activity of their suppliers, just as their own activity is stimulated by the demands of their clients. Demand in the form of investment plays a dual role, both from a demand-side (with regard to the suppliers of industrial goods) and on the supply side (through the potential for new production arising from upgraded equipment). In addition, demand is important to the income-generation potential of SMMEs and their ability to stimulate the demand for both consumer and capital goods (Berry et al., 2002).

2.6 SMMEs IN KENYA, SOUTH AFRICA AND GHANA

2.6.1 Kenya

The small, medium and micro enterprises (SMMEs) play an important role in the Kenyan economy. According to the National Small Business Act (1996), the sector contributed over 50% of new jobs created in the year 2005. Despite their significance, past statistics indicate that three out of five businesses fail within the first few months of
operation (Kenya National Bureau of Statistics, 2007). According to Amyx (2005), one of the most significant challenges is the negative perception towards SMMEs. Potential clients perceive small businesses as lacking the ability to provide quality services, and unable to satisfy more than one critical project simultaneously.

Education is one of the factors that impact positively on growth of firms (King and McGrath, 2002). Those entrepreneurs with larger stocks of human capital, in terms of education and vocational training, are better placed to adapt their enterprises to constantly changing business environments (King and McGrath, 2002). Infrastructure as it relates to provision of access roads, adequate power, water, sewerage and telecommunication has been a major constraint in the development of SMMEs (Bokea, Dondo and Mutiso, 1999). Amyx (2005) observes that the health of the economy as a whole has a strong relationship with the health and nature of the small, medium and micro enterprise sector. When the state of the macro economy is less favourable, by contrast, the opportunities for profitable employment expansion in SMMEs are limited. This is true especially for those SMMEs that have linkages to larger enterprises and the economy at large. Given this scenario, an understanding of the dynamics of SMMEs is necessary not only for the development of support programmes for SMMEs, but also for the growth of the economy as a whole. Given the importance of small businesses to the Kenyan economy and the exposure to risks owing to their location, there was a need to conduct an empirical enquiry to investigate the challenges SMMEs in Nairobi face and how they manage those challenges.
2.6.2 South Africa

Small, medium and micro enterprises (SMMEs) are progressively seen as playing an imperative role in the economies of many countries. Thus, governments all over the world focus on the expansion of the SMME sector to promote economic growth. The contribution of SMMEs in the South African economy is 56% of private sector employment and 36% of the gross domestic product (Ntsika, 2002). South Africa is facing high unemployment with an official estimate of approximately 24.5% of the economically active population being unemployed (Statistics South Africa, 2009). One of the best ways to address unemployment is to leverage the employment creation potential of small businesses and to promote small business development (FinMark Trust, 2006).

Berry et al (2002) argued that new SMMEs in South Africa are unlikely to be a solution for South Africa’s economic problems. Regardless of the best effort of the South African government, new SMMEs have achieved limited growth. The Accelerated and Shared Growth Initiative of South Africa (2009) indicates that on average a growth rate of 5% between 2004 and 2014 is needed to achieve the social objective of the government and expects SMMEs to contribute significantly to the expected growth rate.

According to Mass and Herrington (2006) new SMMEs are seen as a significant component of the solution to South Africa’s development issues. The creation and sustainability of new SMMEs are vital to the economic prosperity of South Africa. Without the creation of new SMMEs, South Africa risks economic stagnation. Given the failure of the formal and public sector to absorb the growing number of job seekers in
South Africa, increasing attention has focused on entrepreneurship and new firm creation and its potential for contributing to economic growth and job creation (Herrington, 2009).

**Table: 2.4 SMMEs in South Africa**

<table>
<thead>
<tr>
<th>Enterprise category</th>
<th>Number of personnel</th>
<th>Balance sheet total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small</td>
<td>50</td>
<td>&lt;= 10 Million</td>
</tr>
<tr>
<td>Medium</td>
<td>250</td>
<td>&lt;= 50 Million</td>
</tr>
<tr>
<td>Micro</td>
<td>10</td>
<td>&lt;= 5 Million</td>
</tr>
</tbody>
</table>

*Source: Government Gazette of the Republic of South Africa (2009)*

**2.6.3 Ghana**

There is a growing recognition and acknowledgement of the vital role SMMEs play in economic expansion. They are often described as efficient and productive job creators, the sources of big businesses and the fuel of national economic engines. Even in the developed industrial economies, it is the SMME sector rather than the multinationals that is the largest employer of workers (Mutezo, 2005). Interest in the role of SMMEs in the development process continues to be in the forefront of policy debates in most countries. Governments at all levels have undertaken initiatives to promote the growth of SMMEs (Herrington, 2009).

There have been various definitions given for small-scale enterprises in Ghana, but the most commonly used criterion is the number of employees of the enterprise (Kayanula and Quartey, 2000). In applying this definition, confusion often arises in respect of the unpredictability and cut-off points used by the various official sources. In its Industrial Statistics, the Ghana Statistical Service (GSS) considers firms with fewer than 10
employees as small-scale enterprises and their counterparts with more than 10 employees as medium and large-sized enterprises. Ironically, the GSS in its national accounts considered companies with up to nine employees as SMMEs (Kayanula and Quartey, 2000).

It is important, firstly, to caution that the process of valuing fixed assets poses a problem. Secondly, the continuous depreciation of the local currency as against major trading currencies often makes such definitions outdated (Kayanula and Quartey, 2000). In defining small-scale enterprises in Ghana, Steel and Webster (1991), and Osei et al (1993) used an employment cut-off point of thirty employees. Osei et al (1993), however, classified small-scale enterprises into three categories. These are: (i) micro employing fewer than six people; (ii) very small employing six to nine people; (iii) small between ten and twenty nine employees. The survey report classified firms into: (i) micro enterprise, fewer than five employees; (ii) small enterprise, five to twenty nine employees; (iii) medium enterprise, thirty to ninety nine employees; and (iv) large enterprise with one hundred and more employees (Kayanula and Quartey, 2000).

2.7 THE IMPORTANCE OF THE SMME SECTOR

SMMEs play an important role to address the problems of unemployment, job creation, innovation and long-term economic development (Baard & van den Berg 2004; Molapo 2007; white paper 1995; Storey 1994). Their role is to provide jobs for the unemployed and entrepreneurial opportunities for individuals who want to venture into businesses.

In highlighting the importance of this sector, Macqueen (2005) distinguishes between the advantages and disadvantages of having SMMEs in our communities. The advantages
address issues of social, economic and environmental importance. The table below groups these advantages as follows:

**Table 2.5 Advantages of SMMEs**

<table>
<thead>
<tr>
<th>Dimensions of a well-being</th>
<th>Economic</th>
<th>Social</th>
<th>Environmental</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Basic survival</strong></td>
<td>Provide l without local outlets for inputs and outputs without externally imposed standards</td>
<td>Strengthen connectedness to and responsibility of production</td>
<td>Negative environment problems are local – more quickly spotted and dealt with</td>
</tr>
<tr>
<td><strong>Livelihood security</strong></td>
<td>Reduce external dependency with greater local resilience in uncertain times</td>
<td>Provide flexible working hours, which is especially important for child caregivers</td>
<td>Multi-functionality especially at a micro level, builds environmental resilience</td>
</tr>
<tr>
<td><strong>Affiliation and relationships</strong></td>
<td>Profits accrue locally, are often reinvested locally with local economic multipliers</td>
<td>Greater social equity, which humanizes relationships in buying and selling – building community</td>
<td>Shorter travel distances to reduce pollution and human risk</td>
</tr>
<tr>
<td><strong>Creative endeavors</strong></td>
<td>Distribute economic opportunities and returns fairly across multiple owners</td>
<td>Use local knowledge and skills – with ownership over business outcomes</td>
<td>Increased options to use and consequent vested interest in conserving local resources</td>
</tr>
<tr>
<td><strong>Aesthetic awareness</strong></td>
<td>Exploit local niches and maintain diversity in available products</td>
<td>Understanding of local testes fosters craftsmanship</td>
<td>Diverse enterprises at landscape level creates space for biodiversity</td>
</tr>
<tr>
<td><strong>Cultural identity</strong></td>
<td>Locally accountable with less power to capture and corrupt power and policies</td>
<td>Provision of culturally sensitive options to empower marginalized groups</td>
<td>Local product or service design strengthens cultural landscapes</td>
</tr>
</tbody>
</table>

*Source Macqueen (2005)*
The disadvantages of SMMEs identified by Macqueen (2005):

- lack of collateral in most cases makes them suffer from high input transaction and investment costs whereby they have to pay more for the funds loaned from a financial institution;
- transaction costs make engaging with SMMEs costly as they are in most cases geographically dispersed over many areas, and this makes it difficult for support providers to reach them;
- support for informal SMMEs risks strengthening production in the economy because the government revenues cannot be collected due to lack of records of their business activities;
- their diverse nature makes it impossible to create generalized policy prescriptions; and
- with their diversity, there can never be a ‘one-size-fits-all’ support for SMMEs as the priorities of a small enterprise will not be the same as those of a medium enterprise.

Even though these are valued points, one cannot eliminate SMMEs because of the mentioned disadvantages. Macqueen’s disadvantages have more to do with the exclusive features of SMMEs. It is, therefore, vital that policy makers and financial institutions consider the nature of SMMEs when designing suitable products designed for small businesses. Macqueen states that because of the complicated scales of SMMEs, support intended for them might end up in the hands of Large Enterprises. Support for SMMEs
should be targeted at all scales of SMMEs. This means that even micro enterprises should be able to benefit.

Molapo (2007) states that this sector will contribute in addressing the following if it is considered as a whole:

- creating more jobs and reducing unemployment;
- increasing competition with LEs, which is good for lowering consumer prices;
- leading to innovation within our economy (introducing new ways of doing things effectively and efficiently); and
- freeing the public resources being spent on SMMEs to assist emerging ones and other needs within the economy.

2.8 FACTORS HIGHLIGHTING THE SIGNIFICANCE OF SMMEs

1. Purely from a numerical point of view, the value of SMMEs cannot be underestimated. Besides their numbers, SMMEs play an important part in the provision of jobs, gross domestic product and turnover.

2. As an employment provider and creator of job opportunities, SMMEs conflict with big enterprises, which are branded by mass production, and are capital intensive, SMMEs are particularly labour intensive. They take a very big percentage of the labour force, particularly in remote areas, where circumstances do not justify large enterprises. Employment and job creation by the SMME sector is beneficial for socio-economic development in remote rural areas and ensures a healthy balance of economic growth in urban and rural areas.
3. With economic stability and better distribution of activities with effective economic business strategy, business cycle fluctuations could be limited. A large number of SMMEs which offer a wide variety of products and services could make an important contribution to a decrease in business cycle fluctuations.

4. SMMEs are innovative and initiative, have more freedom and initiative to realize their aims, and lend themselves well to the role of innovator of new products, ideas and techniques. They serve their own interest, and strive to improve. So they are obviously motivated.

5. SMMEs are sub-contractors for big industries. All enterprises big and small, are dependent on SMMEs for the serving and distribution of their products. SMMEs promote free competition: The large number of SMMEs makes a particular contribution to healthy price competition.

6. SMMEs fulfil a socio-economic role that contributes to community development in two ways:

- They offer a wide choice, with a high standard of personal service and products
- Not only are they willing, but they are also able to put back into the community what they have taken out. It is often easier for the owners of SMMEs to serve in local governments, and in welfare, cultural, service and social institutions.
7. SMMEs are flexible and adaptable. Because of their smaller size and simplicity, they are able to adapt quickly and effectively to environmental change and make timeous decisions. They are usually able to adapt to changes in demand, and new production techniques. They offer entry to many new entrepreneurs into the business world (Phillip, 2004).

2.9 CHARACTERISTICS OF SMMEs

2.9.1 Characteristics of SMMEs developing countries

Fisher and Reuber (2000) document a number of characteristics of SMMEs in developing countries under the broad headings: labour characteristics, sectors of activity, gender of owner and efficiency. Given that most SMMEs are one-person businesses, the largest employment category is working proprietors. This group makes up more than half the SMME workforce in most developing countries; their families, who tend to be unpaid but active in the enterprise, make up roughly another quarter. The remaining portion of the workforce is split between hired workers and trainees or apprentices.

Ghana categorizes SMMEs into urban and rural enterprises. The former can be subdivided into “organized” and “unorganized” enterprises. The organized ones mostly have paid employees with a registered office, whereas the unorganized category is mainly made up of artisans who work in open spaces, temporary wooden structures, or at home, and employ few or in some cases no salaried workers (Kayanula and Quarley, 2000). They rely mostly on family members or trainees. Rural enterprises are largely made up of family groups, individual artisans, women engaged in food production from local crops. The major activities within this sector include: soap and detergents, fabrics, clothing and tailoring, textile and leather, village blacksmiths, ceramics, timber and mining, bricks and
cement, beverages, food processing, bakeries, wood furniture, electronic assembly, agro processing, chemical-based products and mechanics (Osei et al., 1993; Kayanula and Quartey, 2000).

The majority of small businesses are female-owned businesses, which more often than not are home-based compared to those owned by males; they are operated from home and are mostly not considered in official statistics. This clearly affects their chances of gaining access to financing schemes, since such programmes are designed without sufficient consideration of the needs of businesses owned by females. These female entrepreneurs often get the impression that they are not capable of taking advantage of these credit schemes, because the administrative costs associated with the schemes often outweigh the benefits. Prior empirical studies in Ghana have shown that female-owned SMMEs often have difficulty accessing finance. Females are mostly involved in sole-proprietorship businesses which are mainly microenterprises, and as such may lack the necessary collateral to qualify for loans (Osei et al., 1993).

Measures of enterprise efficiency (e.g. labour productivity or total factor productivity) vary greatly both within and across industries. Firm size may be associated with some other factors that are correlated with efficiency, such as managerial skills and technology, and the effects of the policy environment. Most studies in developing countries indicate that the smallest firms are the least efficient, and there is some evidence that both small and large firms are relatively inefficient compared to medium-scale enterprises (Berry et al., 2002). It is often argued that SMMEs are more innovative than larger firms. Many small firms bring innovations to the market place, but the contribution of innovations to
productivity often takes time, and larger firms may have more resources to adopt and implement them (Osei et al., 1993).

2.9.2 Characteristics of SMMES in South Africa

This section explores features that provide a framework for understanding SMMEs in South Africa in terms of their characteristics. Such characteristics form the basis for identifying particular challenges that affect SMMEs; this section briefly addresses the characteristics of SMMEs such as formality, informality and business operations.

2.9.2.1 Formality of SMMEs

Participation of SMMEs in the economy is coupled with the support from various government agencies and private institutions. This support, however, whether it is financial or operational, can only be obtained if an enterprise is formal. An SMME is only formal if its name is recognized. It has to be legally registered with the Companies and Intellectual Property Registration Office (CIPRO), tax revenue, value added tax (VAT) and other bodies, depending on the type of industry within which an SMME operates. RIA (2006) supports this by stating that the formality of an enterprise depends on its legal status. They further point out that issues such as the level of skills of employees in that enterprise influences the enterprise’s formality. This could be based on the assumption that if an enterprise does not have skilled personnel, the service will not be professional, thus affecting the formality of the business.
2.9.2.2 Informality of SMMEs

Informal SMMEs include aspects such as a lack of business license, VAT registration, formal business premises, operating permit and accounting procedure (STATSSA 2005). If SMMEs fail to comply with registration procedures that automatically means that an enterprise is informal and cannot get support from government and private institutions.

Informal SMMEs are those that are not registered at all. Von Broembsen (2008) defines informal SMMEs as unregistered and unregulated enterprises. The majority of informal SMMEs operate in a survivalist mode, which means that the entrepreneur engages in business in order to survive. These enterprises do not aspire to grow their business except to survive till the next day. Informal SMMEs are in most cases micro enterprises (Macqueen 2005). The owners of these SMMEs find the processes of company and tax registration to be expensive and difficult (CDE 2007).

According to Von Broembsen (2008), informal SMMEs comprise 57 percent women, of which 49 percent are black. Out of this, 55 percent are domestic workers and 26 percent own and manage their informal businesses. Furthermore, the informal industry has been found to be contributing at least between 7 and 12 percent to the GDP of the country’s economy (Von Broembsen, 2008).
Table 2.6 The differences between formal and informal SMMEs:

<table>
<thead>
<tr>
<th>Formal SMMEs</th>
<th>Informal SMMEs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employ 0-50 people</td>
<td>Employ less than ten people</td>
</tr>
<tr>
<td>Have formal contracts with employees</td>
<td>No formal contracts with employees</td>
</tr>
<tr>
<td>Pay taxes</td>
<td>Do not pay taxes</td>
</tr>
<tr>
<td>Are registered with relevant authorities</td>
<td>Are not registered with any authority</td>
</tr>
<tr>
<td>Have a business account that is separate from personal funds</td>
<td>Use one account for business and personal finances</td>
</tr>
<tr>
<td>They envision growth of the business</td>
<td>No growth ambitions for the business</td>
</tr>
<tr>
<td>Have a business address and contact details</td>
<td>No business address or contact details</td>
</tr>
</tbody>
</table>

Sources: (Macqueen 2005; SA 1995)

The characteristics listed in Table 2.6 relating to the informal business sector demonstrate that the conditions of the informal SMMEs need to be developed. The SMME sector could be further strengthened if the majority of informal enterprises were formalized, which would indeed influence a range of economic indicators such as GDP, employment rate, and social upliftment.

2.9.2.3 Business operations

SMMEs have a dynamic and diverse nature that does not only make them different, but that also determine their business operations. The operations of a business are dependent on the type of business that an SMME is operating. Business operations have particular functions that attend to issues such as marketing, human resources (HR), customer relations and so forth. The smooth operation of a business relies on various functions that
are relevant to that enterprise. The management functions that are imperative for SMMEs include the following (Macqueen, 2005):

- inventory
- purchasing
- marketing
- human resources
- information management
- financial systems and accounting

According to Perk and Mazibuko (2009) SMMEs do not differentiate their marketing from public relations. Handling labour and processes involved in hiring personnel was found to be another dilemma affecting SMMEs (Maier & Nair-Reichert, 2007). This is due to their inability to recruit skilled personnel and the fact that in cases where they manage to secure them, they find it hard to retain them. SMMEs need more employees when they have many business contracts coming through. This means that if they have more orders they will have to hire additional employees.

2.10 THE SOUTH AFRICAN GOVERNMENT INITIATIVES FOR SMME SUPPORT

SMMEs play a central role in the informal sector in South Africa. There is a larger direct relationship between the SMMEs’ standard of living and the customer; the survival of SMMEs depends on the buying of customers; if they don’t buy, the SMMEs fail to survive. Driver et al (2001) suggest that the link of SMMEs and economic growth
remains complex, and that entrepreneurial ability remains a necessary factor of a country’s capacity to sustain economic growth.

Entrepreneurship plays a vital role in the survival and growth of any developing economy. Owing to low economic growth and high unemployment in South Africa, SMMEs become a solution. People are either choosing SMMEs as their career path, or they are forced to create their own employment (Driver et al., 2001).

There are different types of support services and programmes that the government has come up with to stimulate small business development. Among others they include:

- financial support;
- development and adoption of a relevant legislative framework;
- capacity building programmes;
- market linkages; and
- provision of physical infrastructure.

The government initiatives are aimed at achieving the following goals:

- dealing with the unemployment problem;
- transformation in the South African economy;
- poverty alleviation (youth empowerment, rural communities, developing income generation, BEE, employment creation); and
- business growth.
2.10.1 The National Small Business Act No 29 of 2004.

The promulgation of the National Small Business Act, no. 29 of 2004, was intended to amend the National Small Business Act of 1996, and brought about the following measures:

- to repeal all provisions regarding to Ntsika Enterprise Development Agency (NTSIKA);
- to provide for the establishment of the Small Enterprise Development Agency (SEDA);
- to make provision for the incorporation of NTSIKA, the National Manufacturing Advisory Centre (NAMAC) and any other designated institution into the SEDA;
- to promote the needed transitional arrangements to this effect; and
- to promote small enterprise development and effect sustainability.

2.10.2 The Department of Trade and Industry

In the Department of Trade and Industry Report (2004) the following aspects were listed as a way of promoting and developing SMMEs in general. The DTI has implemented a number of incentives targeting SMMEs. These include the following (Berry et al., 2002):

- standard leased factory building scheme: makes general purpose factory buildings available for lease to SMMEs;
- small-medium manufacturing development programme: consists of a tax-exempted establishment grant as a percentage of the investment for the first
two years, and a skills support programme for business with approved training programmes in terms of the Skills Development Act;

- import finance scheme: credit and guarantee facilities for the importation of capital goods and services;
- short-term export finance guarantees facility: pre- and post-shipment export finance guarantees for SMMEs through the Credit Guarantee Insurance Corporation;
- export marketing and assistance scheme: funding for primary market research, outward selling, and inward buying trade missions, as well as assistance to participate in exhibitions; and
- Ntsika’s trade and investment development programme: technical expertise to help entrepreneurs to become exporters.

The Department of Trade and Industry aims to grow the economy in a sustainable manner, to create employment for the presently unemployed and to create a fair, effective, and conducive business environment for SMMEs and consumers. As a result of the strategy development processes, including the small business conference, the four key government institutions were created and tasked with various aspects of the implementation of the strategy.
2.10.2.1 Centre for Small Business Promotion (CSBP)

The Centre for Small Business Promotion (CSBP) is based in the Department of Trade and Industry (DTI): The main aim of this centre is to implement, monitor and evaluate the effectiveness of the National Small Business Strategy, which aims to contribute to job creation, income generation redistribution of wealth, economic growth, and eventually the eradication of poverty.

2.10.2.2 Khula Enterprise Finance Limited

Khula Enterprise Finance Limited was established in 1996 under the Companies Act, in terms of a Department of Trade and Industry initiative. It is an independent, limited liability company with its own board of directors, and is dedicated to improving access to finance for the SMMEs in South Africa. This implementing agency for providing capital for small business is a response to the failure of banks to support small enterprises, especially those in disadvantaged communities. Khula took over the credit guarantee facility from the former Small Business Development Corporation (now Business Partners). Its main role is to maximize access to finance for SMMEs in a way that leads to the development of sustainable small and medium business, job creation, economic growth and equity. The other main activity of Khula is to provide ‘wholesale’ finance to the NGOs that offer micro loans to starter entrepreneurs. This is done through the development of retail financial intermediaries (RFIs) that are financially sound, with the commitment and the capacity to serve the SMME sector.
2.10.2.3 Ntsika Enterprise Promotion Agency

Ntsika was established after 1994 under the national SMME strategy. It rendered an efficient and effective promotion and support service to SMMEs in order to add value to South African economic growth. In partnership with relevant stakeholders that promoted the development of SMMEs, Ntsika was mainly focusing on identifying SMMEs’ priorities and designing interventions that could assist in developing and promoting SMMEs. Ntsika could provide information to policy-makers, business-development practitioners and emerging entrepreneurs to create and develop SMMEs’ enabling environment. Ntsika also established an effective Service Provider Network to implement and deliver efficient and appropriate services to SMMEs, while liaising with the SMMEs’ stakeholders and entrepreneurs to achieve a coordinated approach to the implementation of the National Small Business Strategy. Moreover, Ntsika promoted the development of an entrepreneurial culture in South Africa and encouraged self-employment and business growth. Lastly, Ntsika continually developed the internal capabilities of the agency to enable it to render efficient and proactive services to the SMMEs (DTI, 2003; Chalera, 2007).

2.11. SEDA

SEDA is the Department of Trade and Industry Agency for supporting small businesses in South Africa. It was initially established in 2005 in the provinces of Eastern Cape, Western Cape, Limpopo and Mpumalanga. It became active in KwaZulu-Natal later in 2006. Seda was formed out of Khula, NAMAC, and CPPP. All these institutions were established in the post-1994 era with the aim of assisting previously disadvantaged groups of SMMEs. The agency was established with a mandate of assisting entrepreneurs
to start their businesses, while also creating jobs (DTI, 2002; Seda Agency business plan, 2008).

The Department of Trade and Industry gave Seda permission to design and implement one standard national delivery network for the entire country, as well as to provide non-financial support and to promote small enterprises, especially in rural areas. In fulfilling this directive, Seda’s vision of being a centre of excellence for small enterprises and its mission of developing, supporting and promoting these SMMEs to grow and be sustainable, seemed to be the driving force. Therefore Seda is focusing on empowering SMMEs and assisting them to access finance as well as market opportunities for specific categories of small enterprises (DTI, 2004; Agupusi, 2007).

2.12 PROVINCIAL SMME DESKS

The provincial SMME Desks were established to ensure provincial representation of SMME interests as well as contribute to a disseminated implementation of the National Strategy. Their main task is to link national or sectorial programmes with local or regional implementation bodies and establish a comprehensive SMME database on which national policy changes can be based. The capacity of these desks varies. In 1997 Mpumalanga’s SMME desk had established a comprehensive database and a synergistic network of SMME providers, while the North West had undertaken no such action. In 2000, only two of the nine provinces in South Africa organised annual Service Provider Forums for SMMEs (Berry et al., 2002).
I. The role of the Department of Trade and Industry

The Department of Trade and Industry (DTI) has been set up to facilitate the most critical function of economic growth, which includes wealth and job creation. The DTI had to establish an implementation strategy for the delivery of programmes that would contribute to economic growth. This has resulted in the establishment of the institutional framework for supporting SMMEs. The institutions established for SMME development are the Ntsika Enterprise Promotion Agency, Khula Enterprise Finance and the Small Business Council (Nieman et al., 2009).
II. The role and functions of Ntsika

The objectives of Ntsika are clearly set out in the National Small Business Act of 1996. It states that Ntsika shall:

- formulate and coordinate a national programme of policy research;
- collect and disseminate information concerning small business;
- facilitate the strengthening of small business service providers;
- channel finance to small business service providers to deliver accredited services; and
- facilitate increased demand-side interventions.

Ntsika promotes mainly business support centres, and the government’s three major efforts in entering into the market:

- local business service centres (LBSCs);
- manufacturing advice centre; and
- techno-entrepreneur programmes designed to concentrate on manufacturing support for SMME (Nieman et al., 2009).

III. The Local Business Service Centre (LBSC) programme

The local business service centre (LBSC) programme is a vehicle for local partnerships development, and a mechanism for encompassing and directing SMME development activities within a national development framework. This is achieved through practical programme partnerships between all three levels of government, local communities, and
the private sector (Nieman et al., 2009). At the national level, the LBSC programme contributes to a number of national development priorities which include:

- job creation;
- wealth creation; and
- transformation and empowerment.

According to Nieman et al (2009), the core services of the LBSC programme are set out below:

- information;
- training;
- counseling and advisory services; and
- networking and linkages.

### 2.13. FINANCIAL INSTITUTIONS

According to Radebe (2008), it is generally accepted that SMMEs have a significant role to play in job and wealth creation. Unluckily, this is a sector that continues to be underserviced by commercial banks. In response to economic development challenges facing most developing economies including SA, significant resources are directed at larger sophisticated clients, leaving the SMMEs underserviced. This has left many SMMEs facing obstacles in accessing both business finance and non-financial support services. This means that a portion of the gross domestic product (GDP) contribution to be made by SMMEs is foregone. Internationally, SMMEs contribute up to 90% of GDP, while in SA their contribution is estimated at 40% (DTI Annual Review, 2009). The
government has sought to address this market failure by establishing institutions such as the body.

The role of Khula is to maximize access to finance for SMMEs in a way that can lead to the development of sustainable SMMEs, job creation, growth and equity. Khula does not have direct contact with its market, rendering the success of its product purely dependent on its intermediary partners (Radebe, 2008). Khula also provides mentorship services to SMMEs, in various aspects of managing their businesses. Khula Enterprise Finance Limited was established in 1996, in terms of a DTI initiative and operated as an independent, ‘limited liability’ company. The importance of Khula is to promote economic liberation and to provide support and incentives to both small and large enterprises.

Khula is a wholesale agency which provides financial support to small business through intermediaries. Its financial products include loans, a national credit guarantee scheme, grants and institutional capacity building. Its roles and functions are categorized into support for financial intermediaries as retail distribution networks, and direct services to SMMEs. Khula was launched as a micro lending scheme, Khula Start, to meet the needs of SMMEs mainly, in the rural areas of the country. It provides loans of up to R3000 to survivalist entrepreneurs (Nieman et al., 2009).
2.14. SUMMARY

The chapter gave an overview on the literature on SMME development programmes. The background of SMMEs in the national government and SMMEs in developing countries was discussed. Government initiatives intended at developing and promoting SMMEs so that they can contribute positively to economic growth and create jobs were also presented. The next chapter will outline the entrepreneurship and factors contributing to the failure of SMMEs.
3.1 INTRODUCTION

The role played by the SMME Sector in the overall performance of the economy is the reason that motivates researchers to explore the key factors that contribute to the failure of the SMME sector. Small businesses face thousands of challenges and obstacles that hinder and hamper their growth. However, few small businesses are able to overcome those challenges and achieve growth (Alasadi and Abdelrahim, 2007).

Rogerson (2008) argues that lack of technical skills and management skills restricts business development and contributes to the failure of SMMEs. The significance of SMMEs reflects the need to provide employment, improve economic growth and generate additional capital for large-scale operation in less developed countries. Muma (2002) argues that SMMEs contribute to self-sustained growth and development of the nation’s economy.

The SMME sector is of crucial significance in addressing the challenges of job creation, economic development and equity in the country. SMMEs play a critical role in absorbing labour, penetrating new markets and generally expanding economies in creative and innovative ways. The SMME sector must be seen as motivations bring to about an increase the economy which is diversified and productivity enhanced (Manuel 1995).
3.2 DEFINITIONS

According to Kambikambi (2003), in order to minimize ambiguity, words and concepts used in the literature review, it is important that the words and concepts are defined correctly as words mean different things to different people.

3.2.1 Entrepreneurship

Entrepreneurship is the process of creating something new with value by devoting the necessary time and effort, assuming the accompanying financial, psychic and social risks, and receiving the resulting rewards of monetary and personal satisfaction and independence (Pfeifer, 2003).

Entrepreneurship is one of the rare subjects that attract specialists from such a wide range of disciplines, leading them to discuss and observe what others are doing in related disciplines, and to question how they are doing it. In fact confusion seems greatest if we compare the definitions of an entrepreneur between disciplines (Fillion, 1991).

- Entrepreneurship can be defined as the act of forming a new organisation of value (Bateman and Snell, 1996).
- Entrepreneurship is the process that causes change in the economic system through innovations of individuals who respond to opportunities (Nieman et al., 2009).
- Entrepreneurship is the process of conceptualizing, organizing, launching and through innovation nurturing a business opportunity into a potentially high growth venture in a complex, unstable environment (Rwigema and Venter, 2004).
Entrepreneurship is the dynamic process of creating incremental wealth. The wealth is created by individuals who assume the major risks in terms of equity, time and career commitment, or provide value for some product or service, and it also creates and builds something of value from practically nothing (Timmons, 1997).

Nieuwenhuizen et al (2003), defines an entrepreneur as a person who identifies the need and develops a method of meeting the need. The method usually leads to the creation or expansion of a small business enterprise. The relationship between an entrepreneur and a small business enterprise is that an entrepreneur plans, establishes and is responsible for healthy development and growth of the enterprise.

Kuratko and Hodgetts (1998), defines an entrepreneur as one who undertakes to organize, manage, and assume the risk of a business. He is an innovator or developer who recognizes and seizes opportunities, converts those opportunities into work marketable ideas, adds value through time, effort, money, or skills, and assumes the risk of the competitive marketplace to implement these efforts.

3.3 ENTREPRENEUR AND DEVELOPMENT

Nieman et al (2009) describe an entrepreneur as an individual who establishes and manages the business for the main purpose of profit and growth. Hisrich and Peters (1998) argue that an entrepreneur is someone who creates something new with value by devoting time and effort, assuming the accompanying financial, physical and social risks, and receiving the resulting rewards of monetary and personal satisfaction and
independence. Entrepreneurs can impart highly communicable interest in an enterprise. They deliver a sense of purpose and determination, and, by so doing, convince others they are where the action is. They demonstrate a unique combination of energy, innovation and perceptiveness. Okpara (2007) suggests that entrepreneurs are the main driving force in an enterprise.

Okpara, (2007) suggests an interesting way of explaining the origins of an entrepreneur. Entrepreneurs are invented in institutions of learning, for example, tertiary institutions (Nieman et al., 2009). Furthermore, these institutions provide students with knowledge that will be used post-tertiary, either as employees or in creating their own enterprises. Students, through the knowledge that they have accumulated during their studies, are likely to be influenced to commercialize their ideas by starting a business (Nieman et al., 2009). Moreover, the knowledge that they have obtained assists them in identifying business opportunities. The knowledge spill-over theory used by Nieman et al. (2009) states that entrepreneurial activities will be greater in contexts where new knowledge is relatively high, implying that individuals respond to opportunities created by new knowledge by starting an enterprise. They state that entrepreneurship is an endogenous response to the need to invest in knowledge gained. The figure below illustrates the entrepreneurship process, as explained by Nieman et al (2009).
3.3.1 Characteristics of an entrepreneur

There are certain characteristics that an individual must have in order to differentiate him or her as an entrepreneur (Nieman et al., 2009). Entrepreneurs are not necessarily born with these characteristics, but they can be acquired through life experience. The characteristics typical of successful entrepreneurs are the ability to take risk, innovativeness, knowledge of how the market functions, manufacturing know-how, marketing skills and business skills (Littunen, 1997).
3.3.1.1 Passion

Entrepreneurs should be passionate about establishing a business. Being passionate helps individuals act more decisively to reach their goals. It shows willingness to pursue business activities for which they have a passion.

3.3.1.2 Risk taking

Risk taking, whether financial, social, or psychological, is part of the entrepreneurial process (Hisrich and Peters, 1998). All entrepreneurs face personal risks because they might lose valuable time with their families. Okpara (2007) divides risks into five types, four of which are clearly relevant to any potential entrepreneur: economic risk, risk in social relations, and risk in career development plus psychological and health risk (Littunen, 1997).

3.3.1.3 Locus of control

Entrepreneurs’ personality traits have also been identified to have impact on organisational performance (Robinson and Sexton, 1996). Studies have also found that personality traits such as locus of control influence business success directly. It does appear that entrepreneurs have a higher locus of control than non-entrepreneurs, which means that they have a higher desire to be in control of their own fate. This has been confirmed by many surveys which have found that entrepreneurs say that independence is their main reason for starting their businesses (Bygrave, 2002). One concern people have when they consider forming an enterprise is whether they will be able to sustain the drive and energy required, not only to overcome the inertia in forming something new but also to manage the new enterprise and make it grow.
3.3.1.4 Need for independence

Entrepreneurs are known for their autonomy. Need for autonomy is associated with entrepreneurs’ avoidance of restrictive environments; they prefer to make decisions independent of supervisors, to set their own goals and develop their own plans of actions and to control goal achievements themselves (Rauch and Frese, 2007). They reveal a high need to be their own boss. Many of them leave their traditional jobs to become entrepreneurs (Nieman et al., 2009). An entrepreneur is generally the type of person who needs to do things in his or her own way, and has a difficult time working for someone else (Hisrich and Peters, 1998).

3.3.1.5 Creativity and innovation

Creativity is marked by the ability to create, bring into existence, to invent into a new form, to make or bring into existence something new. It is an attitude, the ability to accept change and newness, willingness to play with ideas and responsibilities. No entrepreneur or enterprise, however successful, big can continue to hold a place of leadership unless it recognizes that modern business operates in a world of change which creates new problems, risks and opportunities and for which they have to mobilize the enterprise resources before changes make their impact felt (Okpara, 2007). Mihaly, cited by Okpara (2007), stipulates that creativity is the process by which a symbolic domain in the culture is changed. New songs, new ideas, new machines are what creativity is about. It is the ability to make or bring into existence something new, whether a new solution to a problem, a new method or device, or a new artistic object or form (Okpara, 2007).

Pretorius et al (2006) contend that innovation plays an important part when it comes to the growth potential of a small business venture. Apart from innovation, the other
important aspect is creativity, which is a prerequisite for survival. Pretorius et al (2006) postulate that the determination of the entrepreneur to execute the idea and the entwined capacity to act is the cornerstone of achieving success.

Creativity is the act of seeing things that everyone around us sees while making connections that no one else has made. It is moving from the known to the unknown. Similarly, innovation is also considered to play an important role in enterprises. It is defined as adding something new to an existing product or process (Okpara, 2007). Innovation is the process of bringing the best ideas into reality, which triggers a creative idea, which generates a series of innovative events. When something is changed so that it works better or fulfils a different need, then there is innovation on what already exists. Innovation is the successful exploitation of new ideas. It begins with creative ideas and is the implantation of creative inspiration.

3.4 ENTREPRENEURIAL CHALLENGES

The optimum performance of a business can be realized when a business is equipped with the necessary resources. According to Berry et al (2002), SMMEs’ inability to access resources prevents them from being productive. The challenges pointed out are attributed to management problems, indicating that there is a greater need for management skills among women. The need for training in cash management and financial skills was also reported by Rwigema and Karungu (1998). Mass & Herrington (2006) also stress that it is important for SMMEs to have accounting and financial management skills. This will enable them to keep and manage their sales records efficiently.

Bannock et al (2002) assert that higher educational levels assist in marketing and management capabilities. In order for an SMME to qualify for tender opportunities, there
are application forms that need to be filled in. These forms require other accompanying documents to enable the applicant to be short-listed for the advertised tender. This means that an SMME applying for a particular tender should be knowledgeable enough to complete the tender document. The following is a brief explanation of labour, regulations and quality control as entrepreneurial challenges.

3.4.1 Labour

According to Berry et al (2002), SMMEs have problems in attracting and maintaining suitable employees to meet their productivity demands. In addition to the difficulties involved, these SMMEs also have the business challenges of dealing with the unknown demand and supply of products/services, which also determine how long they should hire other employees. When employees with relevant skills have been secured, women experience problems in managing them (World Bank 2006). According to Agupusi (2007) SMMEs would cope better if labour laws were flexible.

3.4.2 Regulations

Regulations refer to how the business industry is regulated locally and internationally in terms of trade licences. It is argued that regulations maintain and enhance the conditions that enable the functioning of an advanced market economy (Lall, 2000). Regulations can break the economy, depending on how favourable they are. An entrepreneur has to have knowledge of how to navigate the regulatory and legal aspects of the export trade (Hossain, 1998).
3.4.3 Quality control

The quality of products/services is one of the issues that will keep the customers pleased. Quality is seen as something with the notion of distinctiveness, something special or high class (Berry et al., 2002). Brunetti et al., 1998, on the other hand, see quality as something with multiple meanings, which leads people to view it differently.

3.5 ENTREPRENEURIAL SKILLS

The ability of entrepreneurs to combine resources effectively depends on educational policies that emphasize practical business skills. Education has been observed to be one of the factors that impact positively on growth of firms (Reed et al., 2000). Those entrepreneurs with larger stocks of human capital, in terms of education and vocational training, are better able to adapt their enterprises to constantly changing business environments (Duchesneau & Gartner, 1990) and John, (2007) also highlighted the need for education in businesses.

Duchesneau & Gartner, 1990 distinguish two types of entrepreneurs; the ‘slowpokes’ running un-dynamic firms, and those having dynamic firms. The difference between the two entrepreneurs is in the level of educational qualification attained by the entrepreneur. The 1999 Baseline Survey also shows incomes of enterprises to differ with levels of education, being highest for postgraduate group and lowest for those with no education.
3.6 ISSUES PERTAINING TO SMME FINANCE IN SOUTH AFRICA

A diversified financial sector capable of meeting the full range of demand for financial services is needed to raise the ability of the self-employed to sustain the economic activities essential for their survival. The challenge for the SMME sector is now to establish good practices for SMME financing and the provision of non-financial services to the SMMEs.

Although the SMME sector has been hailed for creating jobs and improving economic conditions in South Africa, lack of financial support is widely viewed as the main problem facing entrepreneurs. The sources of funding for start-ups in South Africa include:

Table 3.1 Source of funding

<table>
<thead>
<tr>
<th>Self-finance</th>
<th>Owner’s savings and income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal network</td>
<td>Owner’s family, relatives, friends and neighbors, colleagues and employer</td>
</tr>
<tr>
<td>Institutional finance</td>
<td>Banks, other financial institutions and government programmes</td>
</tr>
</tbody>
</table>

*Foxcroft et al (2002)*

3.7 FACTORS AFFECTING BUSINESS PERFORMANCE

One way of reinforcing the need to develop management skills is to look at studies identifying reasons why small firms succeed or fail. The two studies conducted by Ibrahim and Goodwin (1986), provided evidence that management skills are critical factors in both the failure and success of businesses (Lichtenstein & Brush, 2001). They illustrated that accounting, cash flow, and marketing need management skills and lack of
them is a major cause of failure. Weaknesses in these areas are found to influence on all other areas of the business. The factors are summarized in Table 3.2 below.

Table 3.2: Factors affecting Success and Failure in Small Business

<table>
<thead>
<tr>
<th>Factors affecting Failure</th>
<th>Factors affecting Success</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Factor 1 Entrepreneurial</strong></td>
<td><strong>Factor 1 Entrepreneurial perception</strong></td>
</tr>
<tr>
<td>Bad judgment</td>
<td>Extrovert</td>
</tr>
<tr>
<td>Lack of entrepreneurship values</td>
<td>Risk taker</td>
</tr>
<tr>
<td>Risk avert</td>
<td>Creative</td>
</tr>
<tr>
<td></td>
<td>Flexible to change</td>
</tr>
<tr>
<td></td>
<td>Sense of independence</td>
</tr>
<tr>
<td></td>
<td>High value of time</td>
</tr>
<tr>
<td><strong>Factor 2 incompetence</strong></td>
<td><strong>Factor 2 Competence</strong></td>
</tr>
<tr>
<td>Lack of experience</td>
<td>Effective cash flow management</td>
</tr>
<tr>
<td>Lack of accounting skills</td>
<td>Niche strategy</td>
</tr>
<tr>
<td>Cash flow problem</td>
<td>Pre-ownership experience</td>
</tr>
<tr>
<td>Lack of marketing skills</td>
<td>Educational level</td>
</tr>
<tr>
<td>Lack of education</td>
<td>Delegation</td>
</tr>
<tr>
<td>Lack of strategic planning</td>
<td>Simple organisational structure</td>
</tr>
<tr>
<td><strong>Factor 3 Poor interpersonal skills</strong></td>
<td><strong>Factor 3 Interpersonal skills</strong></td>
</tr>
<tr>
<td></td>
<td>Good customer and employee relations</td>
</tr>
<tr>
<td></td>
<td>Good relations with a credit officer</td>
</tr>
<tr>
<td></td>
<td>Good interpersonal skills</td>
</tr>
<tr>
<td><strong>Factor 4 Non-controllable (less important)</strong></td>
<td><strong>Factor 4 Environmental values (less important)</strong></td>
</tr>
<tr>
<td>Government regulations</td>
<td>Interest rates</td>
</tr>
<tr>
<td>Taxes</td>
<td>Taxes</td>
</tr>
<tr>
<td>-----------------------------</td>
<td>-----------------------------</td>
</tr>
<tr>
<td>High interest rates</td>
<td>Government assistance</td>
</tr>
<tr>
<td>Economic recession</td>
<td></td>
</tr>
<tr>
<td>Competition</td>
<td></td>
</tr>
</tbody>
</table>

Source Ibrahim and Goodwin (1986)

Successful businesses were identified as effectively managing their cash flow, having a niche marketing strategy delegating responsibility and having a simple organisational structure. If many of the failure and success factors are skill sets built into the competency blocks then the chances of success should improve using these performance measures. Several factors have been mentioned above in relation to performance of small businesses and their effects analysed by different researchers. Moreover, Storey (1994) identified several factors, which influence the probability of business failure. Storey, 1994 cited size, age, and ownership, sector, past performance, macroeconomic conditions, people/management, location, business in receipt of state subsidies type of firm and ‘it was ever so’ (issues difficult to categorise). These factors were summarized by Taylor and Murphy (2004) into 3 categories as functional knowledge, managerial skill and managerial behaviour. Shonesy and Gulbro (1998) also summed the major factors as owner/manager characteristics, demographics and strategic planning.
3.8 THE NATURE OF ENTREPRENEURIAL ACTIVITY

Zimmerer and Scarborough (2004) envisage the scope of innovation as follows, Although entrepreneurial management is concerned primarily with the internal environment of the company (tactical decisions), entrepreneurial strategy is concerned with matching the company’s internal capabilities and activities to the external environment in which the company must compete, that is, with strategic decision-making (Zimmerer and Scarborough, 2004). The described entrepreneurial actions are intended to reduce the gap between the firm’s goals and its realized performance.

3.8.1 Internal factors

These are factors that affect the business internally; businesses have control over these factors.

3.8.1.1 Lack of Management skills

The main reason for the failure of SMMEs is inadequate management performance (Alasadi and Abdelrahim, 2007). Hence training for small business owners as well as their subordinates allows them to obtain the prerequisite skills to ensure the prolonged existence and accomplishment of their business.

Van Aardt et al (2008) suggest that of all the trials and obstacles business experiences, about 80% are instigated by management. Most business owners are not business positioned. They lack the critical business skills and experience needed to run their businesses effectively and efficiently. Training must be provided to the unskilled and inexperienced owners to run their businesses successfully.
3.8.1.2 Access to markets

Access to markets contributes significantly to the long existence of an enterprise. It is an important factor in a competitive economy. The government has an imperative role to play by ensuring that a favourable regulatory environment prevails for entrepreneurs. Different markets will grow at different rates, and this is significant for SMMEs in South Africa to predict precisely the market of the future to survive in a changing South Africa. Due to the dynamics of marketing, the entrepreneur will have to be a person proficient in developing a clear marketing vision. To adapt and achieve sustained growth in the next decade, SMMEs need to address this market successfully. Entrepreneurs will have to think and operate globally with a transactional economy; they must be able to locate various phases of the firm’s activities in different markets (Visagie, 2000).

Visagie (2000) indicated that markets have many reasons for failure. The researcher discovered that the following mistakes are associated with poor market activities:

- **Poor timing** – in 40% of the observations made, a premature entry into the market-place contributed to failure.

- **Product design** - product design and development became key factors at earlier stages of the venture; when the essential make-up of the product or service was changed, failure resulted.

- **Inappropriate distribution strategy** - the distribution strategy had to be geared toward the product and customer.
3.8.1.3 Mismanagement of resources

It is common practice in businesses for entrepreneurs or managers to reward themselves with huge amounts of money before realizing the prospects and projections of the business. This characteristic is prevalent especially in small enterprises. It is the responsibility of business owners and managers to avoid using assets of the business for personal use at the expense of the business (van Aardt et al., 2008). Business managers and owners must try to keep the affairs of the business separate from their personal affairs at all costs.

3.8.1.4 Lack of capacity

Some small businesses do not build capacity to sustain their future (van Aardt et al., 2008). Business owners themselves have to strike progressive contracts with big organisations they go into consortiums with. The best way for the emerging businesses to grow is by transferring technology and expertise so that they are able to execute future contracts without help from the bigger companies over time (van Aardt et al., 2008).

3.8.1.5 Overtrading

Growth is necessary to the business even though it has to be consistent with the age of the business. Many businesses grow rapidly at a faster rate than can be sustained by the working capital. One of the reasons could be overtrading. Most entrepreneurs are delighted when their ventures grow faster than anticipated, especially during the start-up and growth stage. This could, however, land them in difficulties as well (Nieman et al., 2009).
Overtrading comes about when the business tries to support too large a volume of trade with too small a working capital base (Van Aardt et al., 2008). Feasible signs that indicate that a company is overtrading include:

- Rapid growth of sales over a relatively short time
- Rapid growth of current assets other than cash
- Poor stock and debtors ratios
- Declining liquidity
- Lack of cash

### 3.8.1.6 Poor cash management and financial control

Knowledge of Generally Accepted Accounting Practice (GAAP) is a requirement. A well-qualified accountant should be employed to carry on this task. He or she should have proper knowledge to control cash as liquidity is the key to the success of any business. Knowing how to interpret financial statements is imperative, as are preparing cash budgets and maintaining cash flow projections. A strong capital base should be built before huge drawings can be made from the business (van Aardt et al., 2008).

Nieman et al (2009) likewise point out that a further sign of a continuum of failure is a problem with irregular cash flow, which indicates underperformance. There could be several reasons for negative cash levels that are persistent, and only the most common are mentioned below:

- fixed expenses that are out of proportion.
- low level of sales.
- slow payments by credit customers.
• more debts.
• slow stock turnover.

3.8.1.7 Poor costing and pricing

Pricing is all about setting the correct price as part of the concept offering. If the pricing is wrong, the target market may not be interested and demand will drop. Pricing should be considered as part of the overall marketing strategy. Many entrepreneurs, even after marketing research is conducted, are unsure of how to price their product or service (Kuratko and Hodgetts, 2004). A number of factors affect this decision: the degree of competitive pressure, the availability of sufficient supply, seasonal or cyclical changes in demand, distribution costs, the product life-cycle stage, changes in production costs and prevailing economic conditions. Obviously, the ultimate price decisions will balance many of these factors, and usually will not satisfy all the conditions. However, awareness of various factors is important.

3.8.2 External factors

These are factors that affect the business externally; businesses do not have control over these factors.

3.8.2.1 Access to finance

According to Orford et al (2003), a lack of access to financial support is widely viewed as the main problem facing entrepreneurs in South Africa. In a survey done by these authors, it was found out that 18% of the national experts in South Africa identified lack of adequate financial support as a major weakness in the national environment for
entrepreneurial activity. Mutezo (2005), in a study conducted in Tshwane, identified that one of the obstacles that hinder the creation of new ventures is lack of capital financing for small business initiatives on the part of banks and other financial institutions.

The common thread running through the findings of small enterprise surveys in South Africa is that inaccessibility to finance is the major external constraint. One of these surveys in South Africa revealed that working capital is the most required type of finance at start-up (Berry et al., 2002). South African banks are characteristically accused of lending only to older, larger or white companies, or requiring collateral that is too expensive for the small business person, particularly the previously disadvantaged individual entrepreneurs.

Most new businesses receive initial support from informal investments, from family, friends, business associates and other personal contacts (Reynolds et al., 2002). Access to appropriate finance is a major constraint in the thriving development of SMMEs in South Africa (Nieman et al., 2009). Too many creative ideas are not developed into viable new ventures due to the lack of finance.

3.8.2.2 High competition

Competition consists of firms that fulfil the same customer needs or have the potential to serve those customers. In perfectly competitive markets, buyers or customers have no power other than to accept or reject the product offered. In many instances, it is common knowledge that businesses offer similar products, which tightens the level of competition. All products are the same, so there is no shopping around for quality, service, or other
characteristics. The implication of this is that businesses are forced to lower their prices and therefore profit margins decline.

Understanding the elements and the processes of the competitive market enables us to discover the forces that make an industry attractive to the entrepreneur (Dollinger, 2002). These forces are the power of buyers, the power of suppliers, the threat of substitutes, the height of the entry barriers and the nature of rivalry between competitors. When buyers and sellers are powerful, when goods substitutes exist for the firm’s products, and when entry barriers are low and rivalry intense, the industry is not attractive because profits are likely to be low (Dollinger, 2002).

3.8.2.3 High taxes

At national level, the primary factor facing the entrepreneur is high taxation. At present the tax rate stands at 29% for registered small businesses. This is because the government requires large amounts of money to promote the public good and to carry out the will of the people. Taxation reduces the cash available to the firm for reinvestment. Thus, the entrepreneur is able to invest or reinvest not the economically rational amount, but an amount somewhat less. Taxation affects not only business individually, but also the relationship between businesses.
3.9 SUMMARY

The chapter illustrated the literature on issues pertaining to SMMEs, the entrepreneurship and factors contributing to the failure of SMMEs growth. The next chapter will outline the research methods used in the collection of data for the study. The data collection methods will be outlined as well as the kind of instruments to be used in the collection of data.
CHAPTER FOUR
RESEARCH METHODOLOGY AND DESIGN

4.1 INTRODUCTION
The aim of this chapter is to discuss the research design and techniques used in the collection of data for SMMEs’ inability to grow and factors that lead to failure in u’Thungulu district municipality in KwaZulu-Natal. Methodology is the concept of how the study should be undertaken. According to Babbie and Mouton (2001), methods are techniques that are common to all sciences, or to most of them. Thus, methods include such techniques that form part of concepts and hypotheses, making observations and measurements, performing experiments, building models and theories, providing explanations, and making predictions.

4.2 RESEARCH METHODOLOGY AND DESIGN
Research is the procedure that includes the application of several systems and techniques in order to generate precise knowledge by using independent methods and procedures (Welman and Kruger, 2001). Business research can be defined as a systematic and orderly investigation of phenomena of interest to business decision makers. Scientific business research is a specialised type of investigation characterised by the accuracy of the analytical tools and techniques applied.
4.2.1. Research Design

The research design is the strategy and structure in terms of which the study is carried out so as to acquire answers to the research problems. According to McMillan and Schumacher, 1993, the plan establishes the global pattern or program of investigation. It has also been argued that the different research problems lead to different research designs and methods which in turn result in the collection of different types of data and different clarifications of that data. The researcher selected the survey design to conduct the study, using the quantitative research approach.

The major purpose of a survey study is to obtain information from or about a defined set of people or population. The quantitative research is used to answer questions about relationships among variables with the purpose of explaining, predicting and controlling phenomena (Bless and Hinson-Smith, 1995). According to Hopkins (2000), quantitative research is about quantifying relationships between variables, expressing the relationships between variables using statistics such as correlations, relative frequencies, or difference between means or medians.

This study used a questionnaire as an instrument of collecting data. The research instrument was specifically designed for the targeted population. The questionnaire was administered to owners and managers of SMMEs in the rural area of uThungulu district municipality of KwaZulu-Natal. The following advantages of the questionnaire were identified:
• It is possible to survey a large population
• Questionnaires are cheaper
• They are easier to analyse

However, there are disadvantage of using this research method. Questionnaires have the disadvantage of not allowing the researcher to interact with the respondents.

4.2.2. Research Methodology

Bless and Hinson-Smith, 1995 state that to extract meaning for the data collected one employs what is commonly called research methodology. They further argue that the methodology to be used for a particular research problem should always consider the nature of the data that will be collected in resolution of the research problem.

4.2.2.1 Research hypotheses

According to Finn and Creswel (2000), hypothesis refers to the assumptions about something until the researcher discovers the fact about the particular thing or something believed to exist.

H1: Information asymmetry is the main cause of SMMEs’ inability to expand.

H1a: Information asymmetry is not the main cause of SMMEs’ inability to expand.

H2: Government-sponsored information helpdesks are ineffective in providing appropriate information to SMMEs.

H2a: Government-sponsored information helpdesks are effective in providing appropriate information to SMMEs.
4.3 POPULATION AND SAMPLING

The population is defined as a collection of all the observations of a random variable under the study and about which one is trying to draw conclusions in practice. A population must be defined in very specific terms to include only those units with characteristics that are relevant to the problem (Wagner, 2003). The population targeted by this study is the SMME sector in rural areas of uThungulu district municipality in KwaZulu-Natal. Zikmund (1997) describes the target population as the complete group of specific population elements relevant to the research project.

According to Trochim & William (2006), sampling is the process of selecting units from the population of interest so that by studying a sample we may fairly generate results back to the population from which they were chosen from. Cooper & Schindler (2003) describe sampling as the procedure by which some elements of a given population are selected as representative of the entire population. A sampling frame is the listing of all the elements in a population, and the actual sample is drawn from this listing.

The primary purpose of sampling is that by selecting some elements of a population, the researcher can draw conclusions about the entire population. A sampling method can be classified as probability or non-probability. The following section examines the sampling method selected by the researcher for the study, and the motivation for selecting the sampling method. It also examines the sample size that was used for the study and explains how the sample size was calculated.
4.3.1. Probability sampling

The researcher used the probability sampling method for the study. Probability sampling includes selection methods in which all the participants of a sample are chosen through a random process. The researcher chose the probability sampling method because with probability sampling everyone in the population of the 285 SMMEs in the district has a knowledgeable chance of being included in the sample.

4.3.1.1. Simple random sampling

The researcher used simple random sampling to select the 62 respondents from the population. Cooper & Schindler (2003) define simple random sampling as a probability in which each population element has a known and equal chance of selection. The researcher used the simple random sampling method for the study because each element of the population had an equal chance of being selected. Hence, bias was eliminated.
4.3.1.2. Sample size

The sample size was calculated using the formula suggested by Krejcie and Morgan (1970):

\[
S = \frac{X^2 NP (1-P)}{d^2 (N-1) + X^2 P (1-P)}
\]

\(S = \) required sample size.

\(X^2 = \) the table value of chi-squared for 1 degree of freedom at the desired confidence level (3.841).

\(N = \) the population size.

\(P = \) the population proportional (assumed to be 0.50, since this would provide the maximum sample size).

\(d^2 = \) the degree of accuracy expressed as proportion (0.05).
The researcher contacted the Richard’s Bay municipality and ZCBF, uMhlathuze municipality to get the number of SMMEs registered in uThungulu district municipality.

4.3.1.3. Target population

Babbie and Mouton (2001) define population as the full set from which a sample for research is taken. The target population of this study is all registered SMMEs in uThungulu district municipality.

The target population of the study consists of all formal SMMEs registered with uThungulu district municipality. uThungulu is one of the ten district municipalities (DM) of KwaZulu-Natal province in South Africa. The seat of uThungulu is Richards Bay. The DM is located in the north-eastern region of the KwaZulu-Natal province on the eastern
seaboard of South Africa. It consists of six local municipalities which are Umhlathuze, Umlalazi, Nkandla, Mbonambi, Ntambanana and Mthonjaneni. The district is home to the current President of the Republic.

The majority of the survey was completed within the Umhlathuze local municipality, owing to the number of enterprises clustered in that area.

4.3.1.4. Population size

Table: 4.1. SMMEs in uThungulu district municipality

<table>
<thead>
<tr>
<th>Name of the local municipality</th>
<th>Number of SMMEs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Umhlathuze</td>
<td>120</td>
</tr>
<tr>
<td>Umlalazi</td>
<td>42</td>
</tr>
<tr>
<td>Nkandla</td>
<td>28</td>
</tr>
<tr>
<td>Mbonambi</td>
<td>44</td>
</tr>
<tr>
<td>Ntambanana</td>
<td>27</td>
</tr>
<tr>
<td>Mthonjaneni</td>
<td>24</td>
</tr>
<tr>
<td>Total</td>
<td><strong>285</strong></td>
</tr>
</tbody>
</table>

*Source: UThungulu SMME development strategy (2010)*

UThungulu district municipality consists of six local municipalities, namely Umhlathuze, Umlalazi, Nkandla, Mbonambi, Ntambanana and Mthonjaneni. The population size comprises of 285 formal SMMEs registered with district municipality. The sample size was 62 SMMEs and the unit of analysis was owners and managers of SMMEs. The sample was surveyed through the administration of a questionnaire to address the research questions concerning information asymmetry and obstacles to SMMEs’ growth in the area of uThungulu district municipality.
4.4. DATA COLLECTION METHOD

Data collection methods refer to the tools or techniques that are used by the researchers to collect data. A researcher can use different mechanisms to gather research information. A questionnaire was used in the process of collection of data. Entrepreneurs of SMMEs were used as units of analysis. The purpose of collecting data from this group was to gather information on the quantity of support SMMEs receive from the government in an attempt to answer the research questions as outlined in Chapter One of this study.

4.4.1. Questionnaire

A questionnaire is a printed list of questions which respondents are asked to answer. A questionnaire was developed and distributed to a sample of 62 SMMEs in the district municipality. Close-end questions were used to obtain data (see Appendix C). The questionnaire was divided into the following sections:

- **Section A: Biographical details**

  This section consisted of information which analyses the respondents according to gender, cultural group, age, educational background, location of the business, years of business operation, and the sector of their businesses.

- **Section B: Knowledge of government support programmes**

  Knowledge of SMME supporting initiatives which includes government support programmes such as SEDA that assist SMMEs to get financial assistance, monitoring and couching programmes and access to the market.
Section C: Managerial skills and subordinates training

Obstacles faced by SMMEs which includes lack of staff training, lack of government support and lack business management skills.

The questionnaire was designed in line with the aims and objectives of the study indicated in Chapter One of the study. The questionnaires were completed by the respondents.

4.4.2. Distribution of questionnaires

The questionnaire was hand-delivered under a covering letter which clearly explained the main aim of the research. Questionnaires were personally delivered to the respondents and collected after completion. In the covering letter an assurance was made of confidentiality and anonymity. An offer was made to respondents that a copy of a summary of the study would be available on request.

4.4.3. Questionnaire pre-testing

Pre-testing refers to the testing of the questionnaire on a small sample of respondents to identify and eliminate potential questions. All the aspects of the questionnaire should be tested, including wording sequence and layout. The respondents in the pre-test should be similar to those who will be included in the actual survey (Roberts-Lombard, 2002). Pre-testing is critical for identifying questionnaire problems. The questionnaire was pre-tested in a pilot study involving SMMEs in UThungulu district municipality. A pilot study is described as the using of a questionnaire on a trial basis. Pre-testing was used in the study to identify flaws in the questionnaire and to determine the time required by a respondent
to complete the questionnaire. Additionally, in the study at hand pre-testing the questionnaire was to test its content validity, and to identify and correct problems.

4.4.4. Covering letter

A covering letter was collected from the Department of Business Management Research Committee of the University of Zululand, explaining the nature of the research, and indicating that information collected from the respondents would be kept in strict confidence. The covering letter was provided to the respondent to read before answering the questionnaire (see Appendix D). A covering letter was used to motivate the respondents to cooperate in the study by dedicating their time for answering the questionnaire. The researcher proposed the study, and it was accepted by the Faculty Board and then ratified by the Higher Degrees Committee. The University of Zululand Research and Ethics Committee formally issued an ethical clearance certificate, which indicates that the committee is satisfied that the researcher will take the necessary measures to abide by the ethical standard set by the government and followed by the university (see Appendix E). All information will be reported in a general anonymous fashion and will abide by the strict code of conduct.

This study involves people, and it was required that before the data collection phase started, the researcher had to comply with the ethics of the scientific research. Babbie (1992) stated that social research involves an interruption of people’s lives and additionally it involves people revealing personal information that might not be known by their friends and associates. The researcher, therefore, asked permission from the participants to conduct the research with them. An informative letter was given to the
participants *(see Appendix B)*, and it was signed by all parties. The letter explained that their participation was voluntary and that the information they gave would be treated confidentially.

**4.5. DATA ANALYSIS**

In quantitative research, data analysis is typically used to refer to the process of breaking down collected data into fundamental parts in order to obtain answers to research questions. Mouton (1996) indicates that in quantitative approaches, analysis refers to the stage in the research process where the researcher, through the application of various statistical and mathematical techniques, focuses separately on specific variables. The researcher used the SPSS statistical package for Windows version 19 (IBM SPSS Statistics) to analyse and interpret the data. Excel was also used for data analysis. At the end the researcher was able to produce charts and tables from which summaries were drawn.

**4.6. VALIDITY AND RELIABILITY OF THE DATA**

Leedy (1997) states that validity and reliability are terms used in connection with measuring instruments. The integrity of the research is based on the validity and reliability of that piece of work and, as such, it is important that the work conform to the validity and reliability requirements.

**4.6.1. Validity**

The validity of the measuring device depends on whether it measures what it is intended to measure. In this study, does the questionnaire measure what it was intended to measure? (Leedy, 1997). The study revealed accurate researches in the requirements of a
valid research were satisfied. Leedy describes validity as trustworthiness of results from an assessment tool, and adds that the researchers should be able to establish how well, how comprehensively, and how accurately the instrument measures. Irrelevant questions and inaccuracy of the test may cause any inferences drawn from the research design to become invalid. It was therefore necessary for the researcher to take great care in the study to evaluate the content, construct and validity of the questionnaire by subjecting it to a pilot study (Leedy 1997).

Content validity is regarded as a degree to which measurement covers a variety of meanings involved within the concept (Babbie, 1992). Construct validity tests the relationship between instruments used in the study and the general theoretical background. A construct validity test certifies that the measurements are logically related to other concepts in the background. The measurement of construct validity is through the use of a correlation coefficient. When the correlations are strong, instruments are reflected as valid (Twycross and Shields, 2004).

4.6.2. Reliability

The reliability in a research project refers to the consistency with which the measuring device performs. Apart from delivering accurate results, the measuring instrument must deliver similar results consistently. Reliability refers to the degree to which the measurements produce trustworthy and reliable results. (Hopkins, 2000).

The researcher selected quantifiable questions which related to the literature study performed in the previous chapters. Leedy 1997 describes reliability in terms of whether the measuring instrument, in this case the questionnaire, consistently measures what it is
intended to measure. The control and construction of the test as well as the method of assessing/evaluating and personal factors determine reliability of the research (Leedy 1997).

4.7. SUMMARY

This chapter illustrates the research method used in the process of collecting data for the current study. The data collection methods were discussed, as well as the data analysis procedures engaged. The next chapter will indicate the analysis of data, and the interpretation of the collected data. The analysed data will be presented in the form of tables, charts and graphs.
5.1 INTRODUCTION

This chapter presents the research findings and discussions of the study which focused on examining the information asymmetry and obstacles on SMMEs growth in UThungulu district municipality. The analysis is based on responses from 53 out of 62 questionnaires that were distributed to SMMEs owners, indicating a response rate of 85.5%.

The entrepreneurs’ results are presented. Section A presents the results of sample in terms of the demographics using the tables. In section B, government support programmes are discussed using the tables and figures, and section C discusses the factors influencing SMMEs inability to grow in a five-point Likert scale. The outcomes indicate the significance necessity of government involvements in assisting the SMME sector and improvement innovative ideas from entrepreneurs. The SMME sector can take part in creating jobs and stabilizing the economy.
Section A

5.2 DESCRIPTIVE RESULTS OF THE STUDY

5.2.1 Demographic profile of respondents

The sample is described in terms of gender, culture, age, education level, and location of business, year of business operation and sector of business.

Question 1:

Table 5.1 Gender composition (n=53)

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>31</td>
<td>58.5</td>
</tr>
<tr>
<td>Female</td>
<td>22</td>
<td>41.5</td>
</tr>
<tr>
<td>Total</td>
<td>53</td>
<td>100.0</td>
</tr>
</tbody>
</table>

*Source: Own calculations*

The sample consisted of 53 respondents. Of the 53 respondents 31 (58.5%) were male and 22 (41.5%) were female, as shown in table 5.1 above. It is clear from the statistical representation above that males are more entrepreneurially active than females.

Question 2:

Table 5.2 Cultural group (n=53)

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>English</td>
<td>7</td>
<td>13.2</td>
</tr>
<tr>
<td>Zulu</td>
<td>39</td>
<td>73.6</td>
</tr>
<tr>
<td>Other</td>
<td>7</td>
<td>13.2</td>
</tr>
<tr>
<td>Total</td>
<td>53</td>
<td>100.0</td>
</tr>
</tbody>
</table>

*Source: Own calculations*

The sample consisted of 53 respondents. Of the 53 respondents 7 (13.2%) indicated that their cultural group is English, 39 (73.6%) were of the Zulu cultural group, and 7 (13.2%)
indicated that they belonged to other cultural groups. Table 5.2 above indicates that the Zulu cultural group is more involved in SMME sector than others.

Question 3

Table 5.3 Age composition (n=53)

<table>
<thead>
<tr>
<th>Age Range</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>16-20</td>
<td>2</td>
<td>3.8</td>
</tr>
<tr>
<td>21-30</td>
<td>21</td>
<td>39.6</td>
</tr>
<tr>
<td>31-40</td>
<td>18</td>
<td>34.0</td>
</tr>
<tr>
<td>41-50</td>
<td>8</td>
<td>15.1</td>
</tr>
<tr>
<td>51-60</td>
<td>4</td>
<td>7.5</td>
</tr>
<tr>
<td>Total</td>
<td>53</td>
<td>100.0</td>
</tr>
</tbody>
</table>

*Source: Own calculations*

The largest percentage of respondents (39.6%) fell in the 21-30 year age range, followed by the 34.0% who fell in the 31-40 year age range, 15.1% in the 41-50 year age range, 7.5% in the 51-60 year age range, and 3.8% in the 16-20 year age range. This question was completed by 53 respondents.

Question 4

Table 5.4 Educational level (n=53)

<table>
<thead>
<tr>
<th>Education Level</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grade 5-11</td>
<td>18</td>
<td>34.0</td>
</tr>
<tr>
<td>Matric</td>
<td>17</td>
<td>32.1</td>
</tr>
<tr>
<td>Certificate</td>
<td>5</td>
<td>9.4</td>
</tr>
<tr>
<td>Diploma</td>
<td>5</td>
<td>9.4</td>
</tr>
<tr>
<td>Degree</td>
<td>6</td>
<td>11.3</td>
</tr>
<tr>
<td>Honours degree</td>
<td>2</td>
<td>3.8</td>
</tr>
<tr>
<td>Total</td>
<td>53</td>
<td>100.0</td>
</tr>
</tbody>
</table>

*Source: Own calculations*
The largest percentage of respondents of the study sample is 34.0%, indicating that the largest group of SMME entrepreneurs does not have a matric qualification, 32.1% indicated entrepreneurs with a matric qualification, 11.3% indicated entrepreneurs with a degree, 9.4% indicated entrepreneurs with certificates, 9.4% indicated entrepreneurs with diplomas and 3.8% indicated entrepreneurs with honours. This response indicates that the study sample was dominated by entrepreneurs without a matric qualification.

Question 5

Table 5.5 Business location (n=53)

<table>
<thead>
<tr>
<th>Location</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>uMhlathuze</td>
<td>18</td>
<td>34.0</td>
</tr>
<tr>
<td>uMalalazi</td>
<td>10</td>
<td>18.9</td>
</tr>
<tr>
<td>Nkandla</td>
<td>6</td>
<td>11.3</td>
</tr>
<tr>
<td>Mbonambi</td>
<td>8</td>
<td>15.1</td>
</tr>
<tr>
<td>Ntambanana</td>
<td>5</td>
<td>9.4</td>
</tr>
<tr>
<td>Mthonjaneni</td>
<td>6</td>
<td>11.3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>53</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

*Source: Own calculations*

The largest percentage of respondents per business location of the study sample indicates that 34.0% of SMMEs are based in uMhlathuze, followed by 18.9% from uMalalazi, 15.1% from Mbonambi, 11.3% each from Nkandla and Mthonjaneni and 9.4% from Ntambanana. This question was completed by 53 respondents.
Question 6

Table 5.6 Years of business operation (n=53)

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-2</td>
<td>27</td>
<td>50.9</td>
</tr>
<tr>
<td>3-4</td>
<td>21</td>
<td>39.6</td>
</tr>
<tr>
<td>5-6</td>
<td>3</td>
<td>5.7</td>
</tr>
<tr>
<td>+7</td>
<td>2</td>
<td>3.8</td>
</tr>
<tr>
<td>Total</td>
<td>53</td>
<td>100.0</td>
</tr>
</tbody>
</table>

*Source: Own calculations*

The largest percentage of respondents in a year of business operation indicates that half of the sample which is 27 (50.9%), have operated for more than a year, 21 (39.6%) of SMMEs have operated for 3-4 years, 3 (5.7%) operated for 5-6 years and lastly 2 (3.8%) have operated for seven years.

Question 7

Table 5.7 Business sector (n=53)

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>5</td>
<td>9.4</td>
</tr>
<tr>
<td>Communication</td>
<td>7</td>
<td>13.2</td>
</tr>
<tr>
<td>Transport</td>
<td>6</td>
<td>11.3</td>
</tr>
<tr>
<td>Construction</td>
<td>1</td>
<td>1.9</td>
</tr>
<tr>
<td>Retail</td>
<td>17</td>
<td>32.1</td>
</tr>
<tr>
<td>Beverages and liquor store</td>
<td>6</td>
<td>11.3</td>
</tr>
<tr>
<td>Other</td>
<td>11</td>
<td>20.8</td>
</tr>
<tr>
<td>Total</td>
<td>53</td>
<td>100.0</td>
</tr>
</tbody>
</table>

*Source: Own calculations*
Table 5.7 gives a brief description of different economic sectors that respondents were engaged in. In this study, the survey findings reveal that the largest economic sector was retail with 32.1% of the sample classifying their businesses in this sector. 11 entrepreneurs represented by 20.8% indicated that they were engaged in ‘other’ business sectors. Communication sector have representation in the sample of 13.2%. Transport and beverages emerged as the fourth best with 11.3%, followed by manufacturing at 9.4%, and construction with 1.9%. As shown in table 5.7 above that the largest groups of SMMEs were based in the retail economic sector.

Table 5.8 Cross-tabulation between gender and education level (n=53)

<table>
<thead>
<tr>
<th>Highest educational level</th>
<th>Gender</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Male</td>
<td>Female</td>
</tr>
<tr>
<td>Grade 5-11</td>
<td>32.3%</td>
<td>36.4%</td>
<td></td>
</tr>
<tr>
<td>Matric</td>
<td>32.3%</td>
<td>31.8%</td>
<td></td>
</tr>
<tr>
<td>Certificate</td>
<td>9.7%</td>
<td>9.1%</td>
<td></td>
</tr>
<tr>
<td>Diploma</td>
<td>6.4%</td>
<td>13.6%</td>
<td></td>
</tr>
<tr>
<td>Degree</td>
<td>12.9%</td>
<td>9.1%</td>
<td></td>
</tr>
<tr>
<td>Honours</td>
<td>6.4%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td>100%</td>
<td></td>
</tr>
</tbody>
</table>

Source: Own calculations
Figure 5.1 Gender and Education (n=53)

<table>
<thead>
<tr>
<th>Chi-Square Tests</th>
<th>Value</th>
<th>Df</th>
<th>Asymp. Sig. (2-sided)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Chi-Square</td>
<td>2.358a</td>
<td>5</td>
<td>.798</td>
</tr>
<tr>
<td>Likelihood Ratio</td>
<td>3.074</td>
<td>5</td>
<td>.689</td>
</tr>
<tr>
<td>Linear-by-Linear Association</td>
<td>.427</td>
<td>1</td>
<td>.513</td>
</tr>
</tbody>
</table>

N of Valid Cases 53

a. 8 cells (66.7%) have expected count less than 5. The minimum expected count is .83.

Source: Own calculations

Table 5.8 above indicates the difference between males’ and females’ educational qualification levels. The table shows that 32.3% of males had no matric qualification compared to 36.4% of females, 32.3% of males had a matric qualification compared to 31.8% of females, and 12.9% of males had degrees compared to 9.1% of females. The p-value is greater than 0.05, hence there is a strong relationship and significant link between the education and gender of SMME owners, both males and females (chi-square=2.358; p=0.798) Education has impact on the small business industry.
Table 5.9 Cross-tabulation between gender and cultural group (n=53)

<table>
<thead>
<tr>
<th>Gender</th>
<th>Male</th>
<th>Female</th>
</tr>
</thead>
<tbody>
<tr>
<td>English</td>
<td>16.1%</td>
<td>9.1%</td>
</tr>
<tr>
<td>Zulu</td>
<td>67.7%</td>
<td>81.8%</td>
</tr>
<tr>
<td>Other</td>
<td>16.1%</td>
<td>9.1%</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

*Source: Own calculations*

There is a significant difference between cultural group distribution of males and females as the significance value is not below the set level of significance of 0.05 (chi-square =1.312; p=0.519).

Section B

5.3 GOVERNMENT SUPPORT PROGRAMS

5.3.1 Hypothesis statement

**H1:** Information asymmetry is the main cause of SMMEs’ inability to expand.

**H1a:** Information asymmetry is not the main cause of SMMEs’ inability to expand.

**H2:** Government-sponsored information centres are ineffective in providing appropriate information to SMMEs.

**H2a:** Government-sponsored information centres are effective in providing appropriate information to SMMEs.
The sample consisted of 53 respondents. Of the 53 respondents 73.8% marked option ‘No’, they were not aware of government programmes offering assistance to SMMEs, and 26.2% marked ‘Yes’, they were aware of government programmes assisting SMMEs. The figure above indicates that owners of SMMEs are not aware of the support from the government (DTI).
Figure 5.3 Government agencies offering SMMEs assistance (n=53)

Source: Own calculations

The question was answered by 53 respondents. Of the 53 respondents 57% responded that DTI agencies are not applicable to them, 23% were approached by Seda offering them assistance, 4% by provincial SMMEs desk, 11% by the Khula Enterprise Finance Agency, 2% by the National Youth Development Agency, 2% by UYF and 1% by DTI. Based on the figure above, SMME owners indicate that government agencies are not appropriate in providing assistance to their businesses.
Figure 5.4 Government approach in assisting SMMEs (n=53)

Source: Own calculations

The sample consisted of 53 respondents. Of the 53 respondents, 67.6% marked option ‘No’, they were never approached by government agencies offering assistance, and 32.4% marked ‘Yes’. Figure 5.4 indicates that government (DTI) agencies do not meet the needs of SMMEs.
Table 5.10 Seda programmes on assisting SMMEs (n=53)

<table>
<thead>
<tr>
<th>Service</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Developing business plan</td>
<td>3</td>
<td>5.6</td>
</tr>
<tr>
<td>Training</td>
<td>8</td>
<td>15.1</td>
</tr>
<tr>
<td>Coaching and mentoring</td>
<td>4</td>
<td>7.5</td>
</tr>
<tr>
<td>Marketing materials</td>
<td>2</td>
<td>3.8</td>
</tr>
<tr>
<td>Other</td>
<td>36</td>
<td>67.9</td>
</tr>
<tr>
<td>Total</td>
<td>53</td>
<td>100</td>
</tr>
</tbody>
</table>

*Source: Own calculations*

Based on the table above, 67.9% of respondents marked the ‘other’ option which was ‘not applicable’, Seda never assisted them with a business plan, it assisted 15.1% with training, and 5.6% with developing a business plan, 7.5% with mentoring and 3.8% with marketing materials to market their businesses. Table 5.10 above indicates that Seda is ‘not appropriate’ for SMMEs.

Table 5.11 UYF programmes on assisting SMMEs (n=53)

<table>
<thead>
<tr>
<th>Programme</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>BOSS</td>
<td>1</td>
<td>1.9</td>
</tr>
<tr>
<td>Coaching and mentoring</td>
<td>6</td>
<td>11.3</td>
</tr>
<tr>
<td>Voucher system</td>
<td>1</td>
<td>1.9</td>
</tr>
<tr>
<td>Other</td>
<td>45</td>
<td>84.9</td>
</tr>
<tr>
<td>Total</td>
<td>53</td>
<td>100.0</td>
</tr>
</tbody>
</table>

*Source: Own calculations*

The participation of this question involved 53 respondents. 84.9% marked the ‘other’ option, indicating that it was not applicable to them, 11.3% went with mentoring, 1.9%
with business opportunity support system and 1.9% with a voucher system, Table 5.11 above indicates that UYF does not contribute to SMME development.

**Table 5.12 Evaluation of Seda and UYF programmes on SMMEs (n=53)**

<table>
<thead>
<tr>
<th>Questions</th>
<th>Seda Programmes</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Yes</td>
</tr>
<tr>
<td>1. Did the coaching and mentoring programmes from UYF assist your business in identifying business opportunities?</td>
<td>11.3%</td>
</tr>
<tr>
<td>2. Did the programmes developing a business plan from Seda assist your business in obtaining funding?</td>
<td>19.5%</td>
</tr>
<tr>
<td>3. Did the training programmes from Seda assist your business staff with necessary skills?</td>
<td>15.8%</td>
</tr>
<tr>
<td>4. Is your business fully marketed through the programmes obtained from Seda?</td>
<td>11.8%</td>
</tr>
</tbody>
</table>

*Source: Own calculations*

**Question 1**

The participation consisted of 53 respondents of which 11.3% marked option ‘Yes’, 1.9% marked ‘No’ and 86.8% marked ‘not applicable’, indicating the minimal impact of UYF programmes.

**Question 2**

The participation consisted of 53 respondents of which 19.5% marked option ‘Yes’, 1.9% marked ‘No’ and 78.6% marked ‘not applicable’ indicating the minimal impact of Seda programmes.
Question 3

The participation consisted of 53 respondents of which 15.8% marked option ‘Yes’, 3.8% marked ‘No’, and 80.4% marked ‘not applicable’, indicating the minimal impact of Seda programmes.

Question 4

The participation consisted of 53 respondents of which 11.8% marked option ‘Yes’, 5.7% marked ‘No’, and 82.5% marked ‘no applicable’, indicating the minimal impact of Seda programmes.

Section C

5.4 FACTORS INFLUENCING SMME ENTREPRENEURS

Table 5.13 provides the question statements as well as the percentages of respondents per question. The five-point Likert scale was used with a view to presenting the results in a simpler and easier form. It consisted of ‘strongly agree’, ‘agree’, ‘neutral’, ‘disagree’ and ‘strongly disagree’.
Table 5.13 Question statements (n=53)

<table>
<thead>
<tr>
<th>Statements</th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Neutral</th>
<th>Strongly disagree</th>
<th>Disagree</th>
<th>Total %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. SMMEs performance will improve if government subsidizes staff training</td>
<td>69.8%</td>
<td>30.2%</td>
<td></td>
<td></td>
<td></td>
<td>100%</td>
</tr>
<tr>
<td>2. Managerial skills improve the performance of the business</td>
<td>54.7%</td>
<td>35.8%</td>
<td>7.5%</td>
<td>1.9%</td>
<td></td>
<td>100%</td>
</tr>
<tr>
<td>3. SMMEs need to use technology to keep abreast of environmental changes</td>
<td>39.6%</td>
<td>39.6%</td>
<td>17.0%</td>
<td>3.8%</td>
<td></td>
<td>100%</td>
</tr>
<tr>
<td>4. It is easy to acquire finance from government financial institutions</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>24.0%</td>
<td>62.9%</td>
</tr>
<tr>
<td>5. Entrepreneurs are aware of the DTI’s services</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>15.1%</td>
<td>77.4%</td>
</tr>
<tr>
<td>6. Lack of support from the DTI has an impact on the success of SMMEs</td>
<td>40.3%</td>
<td>43.4%</td>
<td>16.3%</td>
<td></td>
<td></td>
<td>100%</td>
</tr>
<tr>
<td>7. SMMEs need government intervention and support for them to grow</td>
<td>20.8%</td>
<td>43.4%</td>
<td>32.1%</td>
<td>3.8%</td>
<td></td>
<td>100%</td>
</tr>
<tr>
<td>8. Government imposed reasonable tax on SMMEs</td>
<td>5.7%</td>
<td>7.5%</td>
<td>62.3%</td>
<td>18.9%</td>
<td>5.7%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Own calculations
All the statements above will be discussed in detail below.

5.4.1 SMMEs performance will improve if government subsidizes staff training

The findings of the study reveal that 69.8% strongly agreed that the performance of the SMME sector will improve if the government provides training for their staff, and 30.2% agreed. The majority of SMME owners do not have matric qualifications, therefore formal training must be provided to improve their management skills. They believe it will be easy to manage challenges if they are well trained.

5.4.2 Managerial skills improve the performance of the business

The respondents to this question strongly agreed that management skills play a significant role in improving the performance of SMMEs. 54.7% strongly agreed, 35.8% agreed, 7.5% were neutral and 1.9% strongly disagreed with the statement. Based on the findings of the study, management skills play an important role in developing and improving the SMME environment.

5.4.3 SMMEs need to use technology to keep abreast of environmental changes

Technology is growing on a daily basis. SMMEs need to produce innovative and quality product or render quality service in the market. Technology can give SMMEs an advantage in keeping more innovative. Government has developed technological programmes to assist SMMEs through Seda.

79.2% of the respondents strongly agreed and agreed that SMMEs need to use technology in their environment to survive, 17.0% respondents were neutral and 3.8% strongly
disagreed. The findings indicate that technology is a significant tool in giving SMMEs a competitive advantage.

5.4.4 It is easy to acquire finance from the government financial institutions

The major objective of the South African government is to assist SMMEs since they are considered to be engines in creating employment, contributing to the gross domestic product, and sustaining the economy of the country. The findings reveal that 62.8% of the respondents strongly disagreed that it is easy to acquire credit facilities from government financial institutions, 24.0% were neutral and 13.2% disagreed. The findings reveal entrepreneurs were not aware of government support, and they strongly disagreed that was easy to obtain funding from government. This matter must be addressed to enable financial access for entrepreneurs.

5.4.5 Entrepreneurs are aware of the DTI’s services

Based on the findings, 77.4% of the respondents strongly disagreed that they know about the DTI’s services, 15.1% were neutral and 7.5% disagreed. The Department of Trade and industry needs to intervene in this situation to make sure that SMMEs are aware of the DTI can offer to them.

5.4.6 Lack of support from the DTI has an impact on the success of SMMEs

43.4% of respondents agreed that lack of support from the Department of Trade and Industry has a greater impact in the sustainability of the SMME sector, 40.3% strongly agreed and 16.3% were neutral. Some respondents were not aware of any government support, therefore there is a great need for government to address this matter.
5.4.7 SMMEs need government intervention and support for them to grow

The findings indicate that the largest group of respondents (43.4%) agreed that the government through the department of Trade and Industry needs to intervene and support the SMMEs so that they will grow and last for a longer period of time. 32.1% were neutral, 20.8% strongly agreed, and 3.8% strongly disagreed.

5.4.8 Government imposed reasonable tax to SMMEs

The study reveals that 62.3% of the respondents were neutral about the tax imposed by the government on SMMEs, 18.9% strongly disagreed, 7.5% agreed, 5.7% strongly agreed and 5.7% disagreed.

5.5 SUMMARY

This chapter has presented the findings of the research study. The results of the study were analysed using the SPSS statistical package for Windows version 19 (IBM SPSS Statistics), which presented the statistical results in terms of frequencies and percentage. Data was collected using a structured questionnaire for this study. The data has been analysed using techniques such as tabulation, correlation and statistical graphs. Chapter 6 provides conclusions and recommendations based on the findings.
6.1 INTRODUCTION

The purpose of this study was to explore information asymmetry and obstacles at SMMEs growth in uThungulu district municipality in KwaZulu-Natal. Its primary focus was to evaluate the support of government agencies, i.e., whether they were effective in providing appropriate information to SMMEs. In previous chapters SMMEs theories and problem statements were presented. Chapter 6 discusses the conclusion from the results based on data collected in the current study. Recommendations for future studies and SMME growth and development are presented, and the limitations of the study are discussed. From the research findings, conclusions could be drawn that uThungulu district municipality SMMEs are not sustainable. The government through the DTI has introduced a lot of initiatives to improve and develop SMMEs, but their implementation remains a challenge.

The objective of the government is to sustain the SMME sector since it is regarded as a key player in creating employment, and contributing to the GDP and economic growth of the country.

It is clear, based on the results of the study, that SMMEs need government support to grow and to last for long period in the market. The respondents believed that government agencies are ineffective, and this results in complete failure of SMMEs.
6.2 SUMMARY AND OVERVIEW OF THE RESEARCH

Chapter One
Background and setting of the study

This chapter presented the background of the research, followed by a problem statement definition and research objectives. The chapter was concluded with a research structure and discussion on the chapter layout.

Chapter Two
Theoretical perspective on SMMEs

This chapter provided a broad literature review on SMMEs in developing countries, the significance of SMMEs in South Africa, definition of terms, the role of SMMEs, characteristics and the contribution of SMMEs to the South African economy.

Chapter Three
Entrepreneurship and factors contributing to failure of SMMEs

This chapter reviewed the suitable literature and theories of entrepreneurship in the SMME segment. The elements regarded as having impact on SMMEs unable to grow both internally and externally were presented.

Chapter Four
Research design and methodology

This chapter provided a brief explanation of the research methodology used to conduct the research. The design of questionnaires, instruments of collecting data, the population and the sampling were presented. The chapter also discussed the validity and reliability of the methodology used in the study.
Chapter Five

Research findings

This chapter presented the research findings and discussions of the study which focused on examining the information asymmetry and obstacles to SMMEs growth in uThungulu district municipality. The analysis of the results of the study was presented. The SPSS statistical package was used to analyze the data.

Chapter Six

Research conclusions and recommendations

Chapter 6 is the last chapter of the research study, designed to draw conclusions and make recommendations for future studies on SMMEs.

6.3 STUDY OBJECTIVES

The objective of the study is to determine the information asymmetry and obstacles to SMMEs growth in uThungulu district municipality, and to recommend the appropriate plans. Based on the findings of the study, it is clear that lack of knowledge about government support is one of the challenges faced by SMMEs, as is lack of training and management skills since majority of entrepreneurs do not have matric qualifications. The use of technology is also identified as an obstacle to SMMEs growth.

The objective of the study has been met. The study has shown that asymmetry and obstacles to SMMEs’ growth are regarded as lack of knowledge about government support, training, lack of management skills and the need to make use of technology.
6.3.1 Hypothesis testing

**H1:** Information asymmetry is the main cause of SMMEs’ inability to expand.

**H1<sub>a</sub>:** Information asymmetry is not the main cause of SMMEs’ inability to expand.

H1<sub>a</sub> is rejected based on the findings illustrated in table 5.13. The complications of acquiring financial support from government institutions have an impact on SMMEs’ growth, Managerial skills play a significant role in SMMEs’ growth and lack of knowledge about government support has impact on SMMEs growth.

**H2:** Government-sponsored information helpdesks are ineffective in providing appropriate information to SMMEs.

**H2<sub>a</sub>:** Government-sponsored information helpdesks are effective in providing appropriate information to SMMEs.

Based on the findings displayed in table 5.2, 5.3 and 5.4, hypothesis H2 is accepted. The results indicate that government agencies such as Seda are ineffective in providing appropriate support to SMMEs. Figure 5.2 indicates that 73.8% of SMME owners are not aware of government agencies; figure 5.4 indicates that 67.6% of SMMEs were never approached by government agencies offering support.
6.4 CONCLUSIONS ON LITERATURE REVIEW

The improvement of small, medium and micro enterprises was acknowledged by the new government as a priority in creating jobs to solve the high unemployment rate (Nieman, 2001). The statistics from the Department of Trade and Industry indicates that this sector contributes 75% of employment in South Africa and approximately 28% to Gross Domestic Product (Wadala, 2005).

The SMME sector plays a central role in stabilizing the country’s economy; this sector contributes a large share to the workforce. The department of Trade and Industry has established a variety of programmes to support the SMMEs; however, these programmes are not branded enough to SMMEs.

The findings of the current study indicate that government programmes are not effective in giving appropriate support. Rankhumise findings (2009), reveal that SMMEs owners are not always aware of the support provided by the Department Trade and Industry.

6.5 CONCLUSION ON THE METHODOLOGY

A structured questionnaire was used to collect quantitative data and the study used descriptive research design. The development of the data collection technique and sampling procedures were all presented in Chapter 4. The methodology of the study and findings were presented in Chapter 5.
6.6 SUMMARY OF THE RESULTS

The questionnaire was used to study the aspects listed below.

6.6.1 Demographic profile of respondents

This first section of the survey covered the general characteristics of the respondents such as gender, culture, age, education level, and location of business, year of business operation and sector of business.

- The findings indicate that males are more entrepreneurially active than females.
- Most of the SMMEs are owned by the Zulu culture group, 73.6% of SMMEs are Zulu owned, 13.2% are owned by English speakers and 13.2 are owned by other cultural group.
- The largest percentage of entrepreneurs was 39.6%, between the ages of 21-30 years, 34.0% of SMME entrepreneurs do not have matric qualifications, and 32.1% have matric qualifications.
- The largest percentage of respondents per business location of the study sample indicates that 34.0% of SMMEs are based in uMhlathuze.
- The majority of SMMEs in this study were less than three years and the findings revealed that 32.1% of SMMEs were in retail sector.

6.6.2 Government support programs

The study has further shown that most SMME entrepreneurs indicated that government agencies are not supportive in providing assistance in the SMME sector. 73.8% of SMME owners revealed that they are not well informed about government agencies, and
67.6% of SMMEs indicated that they were never approached by government agencies offering support.

6.6.3 Factors influencing SMME entrepreneurs

The study has revealed that lack of knowledge about government support is one of the challenges faced by SMMEs, as is lack of training and management skills since the majority of entrepreneurs do not have matric qualifications. The use of technology is also identified as an obstacle to SMMEs’ growth.

- The findings of the study reveal that 69.8% of SMME entrepreneurs strongly agreed that the performance of the SMME sector will improve if the government provides training to their staff.
- Based on the findings, 54.7% of respondents strongly agreed that management skills play a significant role in improving the performance of SMMEs.
- The findings indicate that technology is the significant tool to give SMMEs a competitive advantage. 79.2% of respondents agreed that SMMEs need technology to compete in the market.

6.7 LIMITATIONS OF THE STUDY

Limitations were uncounted during the study. It was not easy to persuade the respondents to participate in the study even though the confidentiality clause and information sheet were provided to them. All this delayed the investigation. Furthermore, most of the time the participants were not in their businesses or they were too busy to answer the questionnaire, thus further delaying the study. The study took place in uThungulu district
municipality in KwaZulu-Natal province, not in other districts so the results cannot be generalized to any other district and provinces.

6.8 RECOMMENDATIONS

- The Department of Trade Industry must establish an evaluation system that will evaluate all SMME support agencies in South Africa.
- The government needs to have managerial skills workshops to assist SMME owners in managing the businesses.
- The government needs to make sure that SMMEs have access to financial institutions.
- The government must create relationships with the private sector to subsidize the SMME sector.
- Potential researchers need to conduct a study of this nature in the whole province of KwaZulu-Natal.
- SMMEs need to be encouraged to work collectively in order to continue creating jobs.
- SMMEs need to develop the technology they use to be more productive.

6.9 SUMMARY

The purpose of this research was to determine the information asymmetry and obstacles to SMMEs growth in uThungulu district municipality in KwaZulu-Natal. The findings of the research study and discussions were briefly summarized and recommendations were made for what needs to be done to change the SMME sector.
REFERENCES


116


Appendices
APPENDIX A

Letter to the respondent
University of Zululand
Faculty of Commerce, Administration and Law

Information asymmetry and obstacles to SMMEs growth in the rural areas of uThungulu district municipality

Researcher: S.D Nkonde
Nkondessd@gmail.com
0737934347

Supervisor
Prof Terry Contogiannis
econtogi@pan.uzulu.ac.za
035 902 6431

Co-supervisor
Ms M.F Vezi
Mvezi@pan.uzulu.ac.za
035 902 6121

Co-supervisor
Dr I Kaaseram
ikasera@pan.uzulu.ac.za
035 902 6433

Masters project in Business Management

Dear Respondent,

The purpose of this questionnaire is to collect information regarding asymmetry and obstacles to SMMEs growth in the rural areas of uThungulu District municipality. You are kindly requested to spend few minutes of your time to fill this questionnaire. All information obtained will be used for the purpose of my research study at University of Zululand. I assure you that all the information will be treated with strict confidentiality and the reports pertaining to personal information will be reported in an anonymous fashion. Moreover in all the reports none of your personal information will be displayed. The questionnaire will be kept under lock and only the researchers who comply with the
conditions of anonymity and confidentiality will have access to the information purely for academic purpose.

Thank you for participating in this research process.

Researcher:

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

Nkonde S.D
(200702103)
APPENDIX B

Information asymmetry and obstacles to SMMEs growth in the rural areas of uThungulu District municipality

<table>
<thead>
<tr>
<th>Supervisor</th>
<th>Co-supervisor 1</th>
<th>Co-supervisor 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prof Terry Contogiannis</td>
<td>Ms M.F Vezi</td>
<td>Dr I Kaaseram</td>
</tr>
<tr>
<td><a href="mailto:econtogi@pan.uzulu.ac.za">econtogi@pan.uzulu.ac.za</a></td>
<td><a href="mailto:Mvezi@pan.uzulu.ac.za">Mvezi@pan.uzulu.ac.za</a></td>
<td><a href="mailto:ikasera@pan.uzulu.ac.za">ikasera@pan.uzulu.ac.za</a></td>
</tr>
<tr>
<td>035 902 6431</td>
<td>035 902 6121</td>
<td>035 902 6433</td>
</tr>
</tbody>
</table>

INFORMED CONSENT LETTER

I hereby confirm that I have been adequately informed by the researcher about the nature, conduct and benefits of the study. I have also received, read and understood the above written information. I am aware that the results of the study, including personal details regarding my age, business profile and educational level will be anonymously processed into a research report. I understand that my participation is voluntary and that I may, at any stage without prejudice, withdraw my consent and participation in the study. I had sufficient opportunity to ask questions and out of my free will, declare myself prepared to participate in the study.

Finally the researcher promises to allude by the confidentiality and anonymity clause as contained in the research ethics guidelines of the University of Zululand.

Research participant’s name: ______________________________ (please print)

Research participant’s signature: ______________________________

Date: ______________________________

Researcher’s name: ______________________________ (please print)
APPENDIX C

Questionnaire

Section A:

Biographical details

Please answer each question by filling an X in the suitable box provided.

a. What is your gender?
   - Male
   - Female

b. What is your cultural group?
   - English
   - Zulu
   - Afrikaans
   - Other

If other; please specify...........................................

c. What is your Age?
   - 16 – 20 years
   - 21 – 30 years
   - 31 – 40 years
   - 41 – 50 years
   - 51 – 60 years
   - Over 60 years

d. What is your highest educational qualification?
   - Grade 5 - 11
   - Matric
   - Certificate
   - Diploma
   - Degree
   - Honours degree
   - Master’s degree
   - Doctorate

e. Location of your business
   - uMhlathuze
   - Umlalazi
   - Nkandla

f. Years of business operation


g. Sector of your business

<table>
<thead>
<tr>
<th>Sector</th>
<th>Duration</th>
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</thead>
<tbody>
<tr>
<td>Manufacturing</td>
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</tr>
<tr>
<td>Communication</td>
<td>3-4 years</td>
</tr>
<tr>
<td>Transport</td>
<td>5-6 years</td>
</tr>
<tr>
<td>Construction</td>
<td>+ 7 years</td>
</tr>
<tr>
<td>Retail</td>
<td></td>
</tr>
<tr>
<td>Beverages and liquor store</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
</tr>
</tbody>
</table>

If other; please specify……………………………

Section B:

Government Support programmes

Please answer each question by filling an X in the suitable box provided (YES/NO).

1. Are you aware of any government programmes offering SMMEs assistance?
   - Yes
   - No

   A: If yes, which

   1: [ ] 2: [ ] 3: [ ] one’s

B: How did you hear about it? .................................................................

2. Have you ever heard of any of the following government programmes that offer assistance to SMMEs?
3. Have you ever been approached by any government agency offering any type of support to your business?

Yes  No

A. If yes, which support did they offer?

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

B. Was the support helpful to your business?

Yes  No

4. Which programmes did SEDA assist your business with?

Developing Business plan  Marketing materials
Training | Contribute to poverty alleviation
Couching and mentoring | Other

If other, please specify ……………………………..

5. Which programmes did UYF assist your business with?

| Business opportunity support system (BOSS) | Voucher system |
| Couching and mentoring | Loan provision to SMMEs |

If other, please specify ……………………………..

6. Did the couching and mentoring programmes from UYF assist your business in identifying business opportunities?

Yes | No | Not applicable

7. Did the programmes developing business plan from SEDA assist your business in obtaining finding?

Yes | No | Not applicable

8. Did the training programmes from SEDA equip your business staff with necessary skills?

Yes | No | Not applicable

9. Is your Business fully marketed through the programmes obtained from SEDA?

Yes | No | Not applicable
Section C:

Factors influencing SMMEs entrepreneurs

<table>
<thead>
<tr>
<th></th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Neutral</th>
<th>Strongly disagree</th>
<th>Disagree</th>
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<tbody>
<tr>
<td>1.</td>
<td>SMMEs performance will improve if government subsidize with staff training</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.2</td>
<td>Managerial skills improve the performance of the business</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.3</td>
<td>SMMEs need to use technology to keep abreast of environmental changes</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>1.4</td>
<td>It is easy to acquire finance from the government financial institutions</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>1.5</td>
<td>Entrepreneurs are aware of the DTI’s services</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>1.6</td>
<td>Lack of support from the DTI has an impact on the success of SMMEs</td>
<td></td>
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<tr>
<td>1.7</td>
<td>SMMEs need government intervention and support for them to grow</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.8</td>
<td>Government imposed reasonable tax to SMMEs</td>
<td></td>
<td></td>
<td></td>
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</table>

Thank you for your participation in this study
APPENDIX D

Faculty of Commerce Administration & Law Research Committee (FCALRC)

The Managers & Officials of the following Institutions:

UThungulu district municipality (UMhlathuze, Mbonambi, Eshowe, Nkandla, Gingindlovu and Ntambanana local municipalities SMME Owners and Managers in the UThungulu District

Dear Sir/Madam

Mr Nkonde Sipho David: a bona fides research masters student

I the undersigned, hereby confirm that Mr Nkonde Sipho David, student number 200702013 is bona fides research masters student in in the Business Management discipline pursuing M Com degree.

27/6/2012

University of Zululand
Private Bag X1001, Kwadlangezwa, 3886
Committee Members..................
Prof N Van den Bergh nvande@pan.uzulu.ac.za
Prof E Contogiannis econtogi@pan.uzulu.ac.za
Prof A Banjo abanjo@pan.uzulu.ac.za
Ms V Mnathambo vmnthambo@pan.uzulu.ac.za
Mr A Williams awilliam@pan.uzulu.ac.za
Ms T Oosthuizen toosthui@pan.uzulu.ac.za
Mr C Van Heerden cvanhe@pan.uzulu.ac.za
Dr I Kaseeram (chair) ikaseera@pan.uzulu.ac.za
On 16 August 2011 the research proposal titled: *Information Asymmetry and Obstacles to SMMEs Growth in the Rural Areas of uThungulu District Municipality of KwaZulu Natal*, was accepted by the Faculty Board and then it was subsequently ratified by the Higher Degrees Committee. On the 5 June the University of Zululand Research and Ethics Committee formally issued an ethical clearance certificate (see attachment), which indicates that the committee is satisfied that the researcher will take the necessary measures to abide by the ethical standard set by the government and followed by the university.

The said student’s study requires him to interview all local economic development and related managers/officials of the mentioned municipalities as well as identified SMMEs situated in the uThungulu District. The interviews will be in the form of structured interviews where tape recorders will be used. In addition questionnaires will be distributed to participants. The actual recordings and the questionnaires will be accessed only by the researcher and the supervisor who have pledged in writing not to divulge any personal information that will be detrimental to any persons related to the mentioned institutions and SMMEs. All information will be reported in a general anonymous fashion and will abide by the strict code of conduct.

We will be most grateful if you could grant him the necessary permission to conduct his study.

Should you require further information do not hesitate to contact me. Thank you.

Yours faithfully,

Dr Irrshad Kaaseram

Research Committee Chairperson:

Faculty of Administration, Commerce and Law
## ETHICAL CLEARANCE CERTIFICATE

<table>
<thead>
<tr>
<th>Certificate Number</th>
<th>UZREC 171110-030 PGM 2012/7</th>
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<table>
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<th>Project Title</th>
<th>Information Asymmetry and Obstacles on SMMEs’ Growth in the Rural Areas of uThungulu District Municipality of KwaZulu Natal</th>
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<tr>
<td>Principal Researcher/Investigator</td>
<td>S D Nkonde</td>
</tr>
<tr>
<td>Supervisor and Co-supervisor</td>
<td>Prof E Contogiannis</td>
</tr>
<tr>
<td>Department</td>
<td>Business Management</td>
</tr>
<tr>
<td>Nature of Project</td>
<td>Honours/4th Year</td>
</tr>
</tbody>
</table>
The University of Zululand’s Research Ethics Committee (UZREC) hereby gives ethical approval in respect of the undertakings contained in the above-mentioned project proposal and the documents listed on page 2 of this Certificate. Special conditions, if any, are also listed on page 2.

The Researcher may therefore commence with the research as from the date of this Certificate, using the reference number indicated above, but may not conduct any data collection using research instruments that are yet to be approved.

Please note that the UZREC must be informed immediately of:

- Any material change in the conditions or undertakings mentioned in the documents that were presented to the UZREC
- Any material breaches of ethical undertakings or events that impact upon the ethical conduct of the research

The Principal Researcher must report to the UZREC in the prescribe format, where applicable, annually and at the end of the project, in respect of ethical compliance.

The table below indicates which documents the UZREC considered in granting this Certificate and which documents, if any, still require ethical clearance. (Please note that this is not a closed list and should new instruments be developed, these may also require approval.)

<table>
<thead>
<tr>
<th>Documents</th>
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<td>Project proposal</td>
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<td>Informed consent from participants</td>
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<td>Informed consent from parent/guardian</td>
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<tr>
<td>Permission for access to sites/information/participants</td>
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<tr>
<td>Other data collection instruments</td>
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<td>Only if used</td>
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</table>
Special conditions: Documents marked “To be submitted” must be presented for ethical clearance before any data collection can commence.

The UZREC retains the right to

- Withdraw or amend this Certificate if
  - Any unethical principles or practices are revealed or suspected
  - Relevant information has been withheld or misrepresented
  - Regulatory changes of whatsoever nature so require
  - The conditions contained in this Certificate have not been adhered to

- Request access to any information or data at any time during the course or after completion of the project

The UZREC wishes the researcher well in conducting the research.

Professor Rob Midgley
Deputy Vice-Chancellor, Research and Innovation
Chairperson: University Research Ethics Committee
5 June 2012