Chapter 6
The Influence of Government Support Interventions on the Growth of African Foreign-Owned SMMEs in South Africa

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ABSTRACT

Foreign-owned SMMEs contribute positively to national economic growth. Foreign-owned SMMEs are sources of direct foreign investment and create employment opportunities for local citizens. Although the South African government has instituted several interventions to promote SMMEs growth, very little research has investigated the impact of such interventions on the growth of foreign-owned SMMEs. This study is an attempt to address this gap by investigating government-related support interventions that have an influence on the growth of African foreign-owned SMMEs. Using quantitative research methods and a sample of 60 African foreign SMMEs owners conveniently sampled from the Pietermaritzburg city, findings reveal that training support from the government is the only single intervention that significantly influences the growth of African foreign-owned SMMEs. Thus, this chapter proposes a regression model that depicts how receiving training support from the government influences the growth of African foreign-owned SMMEs in the South African context.

DOI: 10.4018/978-1-7998-1169-5.ch006

INTRODUCTION

Small and Medium Enterprises (SMEs) play a vital role in developed and developing economies (Ayandibu & Houghton, 2017; Blackburn & Jarvis, 2010; Cant, 2016; Hassan & Mohamed, 2015; OECD, 2017; Toma, Grigore, & Marinescu, 2014). In South Africa, SMEs known as Small, Medium and Micro Enterprises (SMMEs) generally employ up to 200 employees (Goldstuck, 2012). They are viewed as a significant engine to tackle the issues of economic growth, employment creation and poverty reduction (Herrington, Kew, & Mwanga, 2017; Labour, 2017). They represent 98 percent of the registered businesses in the country and contribute 47 percent to the total workforce. In terms of the economic value, SMMEs contribute 42 percent to the Gross Domestic Product (GDP) of South Africa (DSBD, 2016). Thus, the South African government through public and private supporting institutions has designed interventions to promote the growth of the SMME sector in an attempt to promote national economic growth. SMMEs have access to both financial and non-financial support (SEDA, 2017).

In South Africa, there are several African foreigners who have established small businesses (Khosa & Kalitanyi, 2014). According to Garg and Phayane (2014), immigrant entrepreneurs are a source of foreign direct investment ('micro' foreign direct investment) and contribute to the local economy. Fatoki and Patswawairi (2012) state that foreign entrepreneurs generally employ local South Africans, hence contributing to the reduction of unemployment in the country. Thus, there is a need to support foreign-owned businesses due to their potential contribution to the host economies, in this case the South African economy.

In South Africa, there is scanty research that specifically focuses on supporting foreign-owned SMMEs despite their notable contribution to the country's economic growth. It is against this background that this study attempts to identify government-related interventions that may influence the growth of African foreign-owned SMMEs. Identifying these interventions will assist in devising adequate strategies to enhance the performance of foreign-owned SMMEs. It is anticipated that assisting foreign-owned businesses to grow will have a positive impact on the growth of the SMMEs sector and potentially increase the employment rate in South Africa.

LITERATURE REVIEW

Definitions of SMMEs

In the context of South Africa, SMMEs is the acronym for Small, Medium, Micro Enterprises. In other contexts, SMMEs are generally referred to as SMEs (Small and Medium Enterprises). There is no unique, universally accepted definition of SMEs. Two approaches are commonly used to define SMEs, that is, quantitative and qualitative approaches (Berisha & Shiroka Pula, 2015; Storey & Greene, 2010). The Bolton Report (1971) defined three critical qualitative characteristics of small businesses: ownership and management by its owner(s), legally independent, and relatively small share of the marketplace (Berisha & Shiroka Pula, 2015; Storey & Greene, 2010). The Bolton Report (1971) used the above criteria to distinguish small businesses from the large businesses. The quantitative approach on the other hand, refers to the quantitative criteria such as annual turnover, total value of assets and number of employees (Berisha & Shiroka Pula, 2015; Storey & Greene, 2010).

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