

Chapter 7

Factors Hindering Small, Medium, and Micro Enterprise Business Growth in South Africa

Sfiso Nxele

Management College of Southern Africa, South Africa

Muhammad Ehsanul Hoque

Management College of Southern Africa, South Africa

ABSTRACT

Small, medium, and micro enterprises (SMMEs) are critical contributors to the gross domestic product (GDP) rise and the creation of employment opportunities. In South Africa, SMMEs receive funding for sustainability and job creation. The current SMMEs' contribution to the country's GDP and employment creation has, over the years, been on a decline. Therefore, the study aimed to explore the factors hindering SMME business growth. SMMEs experienced challenges of lack of financial assistance, lack of information, unavailable mentorship, unskilled administration, limited assessment within the various institutions, and access to financial support. Significant priority is placed on support institutions and government to create sector specific SMME assessment criterion instead of applying a blanket approach to all business sectors' support.

INTRODUCTION

The high unemployment rate, Gini eco-efficiency and continued dependence on state support as reported by Stats SA (2021) has sparked the need for an assessment of the role of a funding mechanism and support for SMMEs and their intended solution. South Africa's growth potential has been linked to SMME development as a measure to reduce unemployment, increase GDP, and increase business growth, yet little impact and contribution are currently evident. SMME development has the potential to elevate the nation's status quo from a developing to a developed country whilst actively participating in the global market. The research sought to obtain clarity behind the delayed growth of SMMEs by

DOI: 10.4018/978-1-6684-5727-6.ch007

Factors Hindering Small, Medium, and Micro Enterprise Business Growth in South Africa

exploring financial support systems within the Ugu District area. An assessment of the SMME funding mechanism to determine the reasons behind their delayed growth and influence on reducing unemployment is imperative for this research.

A need to assess the delayed SMME growth in reducing unemployment has been influenced by numerous challenges experienced by SMMEs. Firstly, the slow growth rate is a result of the high concentration of power sitting within the government and large corporates that are creating more employment opportunities than SMMEs. Secondly, the challenges on access to funding by SMMEs, the shortage of skills and the red tape from regulatory bodies. (Small Business Institute, 2019). Mbedzi and Simatele (2020) revealed that microfinance and privately-owned development financial institutions still have high rationing levels as commercial banks with credit rationing decreasing with the size of the firm and amplified by race. This is a factor mainly contributing to the delayed growth of SMMEs and later reduced unemployment levels leading to the need to assess SMME funding mechanisms through this study.

Thirdly, SMMEs further experience challenges in business growth and creating employment which has resulted in the need for research on business finance as well as the intended contribution to a company gaining a competitive advantage. The barriers to entry by monopolistic or oligopoly firms and minimum wage regulations hinder any possible growth. The assessment of SMMEs sought to confirm such reports within the Ugu District Area. Another challenge faced by SMMEs is the limited innovative business programmes available for SMMEs to capitalise on their competitive advantages (OECD, 2015). Finally, international and national interests in promoting small business development, through an incubation strategy to tackle the high mortality rates are prevalent amongst start-up enterprises according to Masutha et al. (2014) which makes it critical to assess the SMME funding mechanism and its impact on employment opportunities.

The Ugu District Municipal vision states that "... by 2030 the Ugu District will be a leading tourism destination and the agricultural and manufacturing hub where jobs are created and everyone benefits equally from socio-economic opportunities and services" (Ugu DGDS, 2012: 05). The Ugu Growth and Development Strategy commits all stakeholders (public, private and civil society) to achieve a shared vision as well as address the challenges faced by the district. The district's underperformance towards GDP contribution has been linked with the growing unemployment and declining business growth and investment. The district area is characterised by a distinct spatial divide of a coastal zone that is resilient, comprising a diversified formal economy as well as a largely impoverished rural hinterland. The agriculture sector is the main economic contributor within the rural hinterlands of the district and recently experienced a high shed of jobs due to restrictive legislation on labour. The tourism sector is perceived to be the leading sector but has declined due to the inability of the district to offer attractive packages when compared to the northern and midland regions (Ugu DGDS, 2012).

The funding mechanism and support within the district have been established to respond to the status quo and the triple challenges of unemployment, poverty and inequality. Currently, the District Institutes (Local Municipalities and District Municipality) offer assistance through the purchasing of inputs and materials aimed at improving productivity as well as profits. Capacity building through training sessions and mentorship, business incubation and workshops are provided for SMME development whilst, business indabas and forums are held for networking purposes and support. Business fares are hosted within the districts to advertise and market local SMMEs and their product packages. Finance packages are offered through finance by the Small Enterprise Development Agency. Grants are offered to SMMEs for a maximum of R800 000 for tools, machinery and equipment. Business development and training intervention grants amounting to R200 000 are offered per eligible enterprise. The Black

16 more pages are available in the full version of this document, which may be purchased using the "Add to Cart" button on the publisher's webpage:

www.igi-global.com/chapter/factors-hindering-small-medium-and-micro-enterprise-business-growth-in-south-africa/314723

Related Content

The Effects of Russia's 2022 Invasion of Ukraine on Global Markets: An Analysis of Particular Capital and Foreign Exchange Markets

Pedro Pardal, Rui Teixeira Dias, Nuno Teixeira and Nicole Rebole Horta (2023). *Handbook of Research on Acceleration Programs for SMEs* (pp. 262-280).

www.irma-international.org/chapter/the-effects-of-russias-2022-invasion-of-ukraine-on-global-markets/315915

Agile SPI: Software Process Agile Improvement—A Colombian Approach to Software Process Improvement in Small Software Organizations

Julio A. Hurtado, Francisco J. Pino, Juan C. Vidal, César Pardo and Luis Eduardo Fernández (2008). *Software Process Improvement for Small and Medium Enterprises: Techniques and Case Studies* (pp. 177-192).

www.irma-international.org/chapter/agile-spi-software-process-agile/29628

E-Records Management and Freedom of Information for SMEs

Stephen M. Mutula (2010). *Digital Economies: SMEs and E-Readiness* (pp. 211-235).

www.irma-international.org/chapter/records-management-freedom-information-smes/36112

Responsibility and Sustainability Choices in the Animal Feed Industry: Evidence From an Italian Family SME

Carlo Mari and Olimpia Meglio (2022). *Research Anthology on Strategies for Maintaining Successful Family Firms* (pp. 721-736).

www.irma-international.org/chapter/responsibility-and-sustainability-choices-in-the-animal-feed-industry/288285

Challenges for Innovation Due to Firm Size: The Case of Brazilian Industrial Firms

Graziela Ferrero Zucoloto and Mauro Oddo Nogueira (2020). *Start-Ups and SMEs: Concepts, Methodologies, Tools, and Applications* (pp. 1288-1308).

www.irma-international.org/chapter/challenges-for-innovation-due-to-firm-size/245509