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Insufficient Non-financial Development Assistance: A Barrier to SMMEs Performance in South Africa

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Abstract: The purpose of this study is to investigate why non-financial assistance has not been sufficiently provided for small and medium enterprises (SMMEs) in Buffalo City Municipality (BCMM) – Eastern Cape of South Africa; and to identify the types of non-financial assistance that were not sufficiently provided. The necessity of this study is due to a gap that in this field of research, studies have not shown why the non-financial development assistance have not been sufficiently given to SMMEs in South Africa. Qualitative data was collected from the entrepreneurs and business development assistance providers in King Williams Town and East London with the use of an interview guide. Results showed that only ten out of thirty-five SMMEs benefited from non-financial assistance; and non-financial assistance like training and workshops, consultancy services by development assistance providers, after-care/after loan services, skills development advice and capacity building services were not sufficiently provided. The scope was directed to SMMEs operators and development assistance providers in BCMM (Eastern Cape Province). In addition, this study did not focus on financial assistance but non-financial assistance because it is an essential aspect that could contribute immensely to promoting SMMEs.

Keywords: consultancy, entrepreneurship orientation, training, poor performance, development assistance, non-financial

INTRODUCTION

Small, medium and micro enterprises (SMMEs) serve as the pillar that uphold economies of the developing nations; contributing significantly to employment generation and poverty reduction (Mahembe, 2011). Even in the developed nations such as United States of America (USA) and United Kingdom (UK), history showed that their economies were built through SMMEs. In other words, the significance of SMMEs has

a global recognition (Mahembe, 2011). Its contributions to economic growth, social development and job creation cannot be ignored. SMMEs have longtime been considered a crucial formula for accomplishing economic growth (Vosloo, 1994). Other authors like (Ahiawodzi & Adade, 2012) argued that 70% of the gross domestic product (GDP) of Ghana was generated from SMMEs. Agbor & Quartey (2010) established that in South Africa and Nigeria the formal businesses sector is made up of 97.5% and 70% respectively.

In some past studies Thompson (1991); Ladzani & Van Vuuren (2002); Tlhomola (2010) denoted that development of SMMEs contributes significantly to social stability, economic welfare, job creation and improving quality of lives of the people universally. For example, in the USA, the innovation of new products and services has been achieved through SMMEs. New jobs were created, opportunities were created for foreign markets and importantly, the economy of USA was ignited into a more competitive edge of the gloouth bal economy (World Bank, 2007). Similarly, SMME sector serves as the mechanism for providing employment, promoting local economies and increasing the quality of lives of the Japanese (The Ministry of International Trade and Industry, 1997). It is also a similar situation in Taiwan, Scarborough & Zimmerer (1996) tells that roughly 98% of Taiwan's GDP was generated from SMMEs. Even though the SMMEs are quite small in scale, basing on their definitions, yet they are making substantial contributions to both local and national economies in both developed and developing world.

The South African democratic government has discovered the value of SMMEs after the 1994 independence The government has since then adopted the tradition of promoting SMMEs across the country in order to establish and maintain a stable economy both at the local and national level, and to combat the long-due unemployment predicament that has already been estimated at 24.2% of 52.98 million (Statistics South Africa, 2013) citizens. Berry *et al.* (2002) confirmed that about 75% of all formalised enterprises in South Africa are SMMEs, and they are the grease that lubricates the wheels for employment creation. The finding also confirmed that 52% to 57%of GDP in South Africa is from the SMMEs sector.

All kinds of SMMEs in South Africa contribute greatly to the economy and are considered as unemployment-reducing drivers, therefore that aspect of relying on formal sector as the sole job creator is old-fashioned (National Credit Regulator (NCR), 2011). Despite the social and economic contribution of SMMEs across the globe and to South Africa in particular, the sector still encounters many challenges that impede its growth (Mahembe, 2011); resulting in the alarming rate of SMMEs deterioration and thereby making South Africa the poorest region for SMMEs survival worldwide (Ahiawodzi & Adade, 2012; Mahembe, 2011). Most of the challenges identified by many scholars include lack of access to credit and finance, lack of appropriate technology, building entrepreneur-customer relationships, lack of managerial skills (Thwala & Mvubu, 2008; Ahiawodzi & Adade, 2012; Agbor & Quartey, 2010).

Having understood the significance of SMMEs, the democratic government of South Africa fashioned a framework that supports SMMEs growth across the coutry. A series of initiatives are therefore directed to the promotion of SMMEs in South Africa; these include National Business Act of 1996 which actually prompted the establishment of SMMEs in the country and also natured the creation of the National Small Business Council as well as Ntsika Enterprises Promotion Agency (Republic of South Africa – National Small Business Act, 2004).

Although, most of these initiatives are basically established to provide financial support for SMMEs for instance, Khula Enterprise Finance was established to pioneer SMMEs access to finance; there is

also another initiative known as Skills Development Programme, launched in 1998. According to Thwala & Mvubu (2008) the Khula Enterprise Finance initiative was established to assist SMMEs to acquire all relevant business skills (by attending workshops, training and getting after-loan monitoring) in order for them to deal with the non-financial challenges such as building entrepreneurs-customers relationships and acquiring management skills and maintaining business sustainability. Even though researchers have identified several challenges facing the SMMEs sectors which they categorised under two headings – the financial and non-financial challenges (Thwala & Mvubu, 2008), most of those studies focused more on the financial challenges. Even few researchers that identified lack of non-financial assistance as a challenge to business development are yet to ascertain the reason why non-financial assistance remain insufficient to SMMEs despite all the development assistance initiatives from the government. Therefore, the study at hand seeks to explore reasons for the insufficient non-financial assistance to SMMEs. The study started by debating the overview of SMMEs definition in South Africa, it also analysed the non-financial development assistance using the entrepreneurship orientation theory considering the availability of development assistance agencies, followed by discussion on the study area; and thereafter the methodology. Findings are presented and discussed; and finally, conclusion was drawn and recommendations were made.

OVERVIEW OF SMMEs IN SOUTH AFRICA

Even as the importance of SMMEs is globally recognised, having a definite definition for SMMEs remain a challenge irrespective of any country, this is because the meaning of SMMEs defers from country to country (Mahembe, 2011). Storey (2003); Mutezo (2005) informs that there is no common global definition for SMMEs, because business levels of sales, employment, capitalisation and size are different. However, definitions that include turnover, number of employees, net worth and profitability in one sector could make all firms being categorised as small, while a definition with same number of employees, when used for different sector, may give different result (OECD, 2000).

Meghana *et al* (2003) established that there are various groups of SMMEs which exist in different business activities ranging from large agricultural production to a sole farmer, and a computer center in a small towns to a small modernised engineering business. It does not matter whether the owner is rich or not, such businesses operates at different market levels – local, rural, urban, regional, national and international; symbolising levels of capital, skills, complexity, growth orientation which could be in the informal or formal system (Meghana *et al*. 2003; Mboniyane, 2006).

Mahembe (2011) emphasised that there are two broad categories of SMMEs definitions – the economic category and statistical category. To identify businesses under the economic category, such businesses must meet up with the following standards: managed by owners, having a relatively small market share, be independent and not part of any larger firm. On the other hand, businesses under statistical category are quantified by size and contribution to GDP, cross-country economic contributions and the rates of change in the economy contribution of such small firms (Brijlal, Visvanathan, & Ricardo, 2013). However, these definitions have some weaknesses, for instance, the economic definition which advocates for a sole ownership and management is not compatible with that of statistical definition of a small manufacturing company whose size could be up to two-hundred. Although, these definitions are in sometimes indispensable, yet are not adequate to understand a dynamic sector whose realities are complex.

In the South African context, referring the 1996 Small Business Act 102, SMMEs are businesses owned and managed by one or more persons. Such business entities include non-governmental organisations, co-operative societies or any business subsidiaries (Rwigema & Venter, 2004). In addition, SMMEs in South Africa are defined based on different classifications. The table below best describes the summary of the generally accepted definition of SMMEs in South Africa:

Table 1
SMMEs categories in South African context

<i>Size/ category</i>	<i>Number of employees</i>	<i>Total annual turnover (in Rand)</i>	<i>Total gross asset value (in Rand)</i>
Micro	5	500 thousand	100 thousand
Very small	10	2.5 million	700 thousand
Small	50	10 million	3 million
Medium	200	25 million	8 million

Source: (National Credit Regulator (NCR), 2011).

The focus of this study was on the micro and very small enterprises classification which was adopted for data collection purpose.

NON-FINANCIAL DEVELOPMENT ASSISTANCE

Literally, non-financial business assistance refers to any form of effort or endeavour undertaken for the purpose of improving the performance of a business entity; such efforts include giving training to individual entrepreneurs, orientation for the potential business persons, provision of market links to business enterprises, development and extension of modern technologies for entrepreneurs (Storey, 2003). The management and sustainability of SMMEs does not depend on financial resources alone, but also on having adequate knowledge of business and possessing managerial skills. This therefore, necessitate the adoption of the theory of entrepreneurship orientation to underpin this study. The theory of entrepreneurial orientation emphasised that for sustainability to be achieved in the SMMEs sector of any economy, sufficient non-financial support must be made available to entrepreneurs (Lumpkin & Dess, 1996).

The term “orientation” was concisely defined by Hornby (2010) as the training and information that is given to an individual before starting a new job or course. The above definition shows that there is positive relationship between entrepreneurial orientation and SMME performance. Entrepreneurial orientation is therefore strategic orientation through which firms are expected to behave entrepreneurially and improve their performances (Wiklund, 1998).

Although, only limited empirical indications show that entrepreneurial orientation affects the performance of SMMEs, there are some scholarly arguments that show the relationship between both. For example, Zahra & Covin (1995) argued that businesses with entrepreneurial orientation are liable to direct the best market segments, fix high prices and browse markets before their competitors and thereby improve their performance. Such firms are able to observe changes in the market and respond fast, thus taking advantage of new opportunities and through innovation; they are always ahead of competitors. Nieman, Hough, & Nieuwenhuizen (2009); Kuratko & Hodgetts (2002:409) also argued that the combination of

financial and non-financial assistance contribute to successful business operations. Anderson, Covin, & Slevin (2009) and Wales (2016) emphasised on the importance of entrepreneurial orientation that, firms are considered to be entrepreneurial oriented when they have shown a sustained behavioural pattern over a period of time. However, Driver et al. (2001) informs that, most entrepreneurs in the South African SMMEs sector lack adequate experiences like managerial skills, customer relations, market opportunities, among others.

In South Africa, there are many initiatives which are meant to cater for the non-financial support of SMMEs such as Small Enterprise Development Agency (SEDA), Industrial Development Corporation (IDC), Enterprise Development Business Unit (EDBU). These agencies are national agencies that have their offices in every province all across the country, plus other provincial agencies like the Eastern Cape Development Corporations (Thomola, 2010). But the high failure in SMMEs sector despite many initiatives for non-financial support necessitated this study.

Buffalo City Metropolitan Municipality as the Study Area

The Buffalo City Metropolitan Municipality (BCMM) is a municipality in the Eastern Cape Province, South Africa, it is located on the east coast of the province. It is made up of King Williams towns, Bisho and East London and large townships like Zwelitsha and Mdantsane. BCMM was separated from Amathole District Municipality in 2011 and recognised as metropolitan municipality, of which its establishment was dated back in 2000. Its population stood at 701,873 (2001 census), with statistical data of 85% Black, 8.4% White and 5.7% Coloured as well as very little percentage of Indian community of 0.6%. Most of the manufacturing and automobile companies in the municipality are located in King Williams town and East London mainly because those are the two major commercial towns in BCMM.

METHODOLOGY

The study adopted qualitative research method by using an interview guide for data collection. The targeted participants for the study were SMMEs in King Williams town and East London. These are the two major towns where commercial activities are greater in BCMM. Data collection process involved thirty-five SMMEs that have existed more than five years and fifteen development assistance officials. The sampling process was staged. In the first sampling stage, SMMEs were sampled into size groups considering the list of all SMMEs in the population that contain assisted and non-assisted enterprises. The SMMEs in the sampling frame were later divided into three clusters (groups) of Small, Medium and Microenterprise. According to (Galway, et al., 2012) cluster sampling is used as a technique with a mark of heterogeneous grouping in a statistical population. The technique suggests the division of total population into groups (clusters) and randomly select sample in the group. SMMEs were therefore divided into category/cluster (Micro, Small and medium); and seven businesses interviewed from each category as the unit of analysis.

SMMEs categories in this study include manufacturing, pharmacies/surgery, wholesale/retail trade, transportation service, finance and business services that have operated for at least five years and above. This was done in order to confirm the literature assertion that SMMEs in South Africa usually collapse within their first five years of operation (Ladzani & Van Vuuren, 2002, p. 115; Van Eaden, Viviers, & Venter, 2003, p. 13).

FINDINGS AND DISCUSSION

Findings from the interviews relating to the nature of business and years of operation revealed that ten out of thirty-five businesses have been in existence for ten years, eleven have existed for eight years and only two of them have existed for six years. This result contradicts the argument of other authors like Ladzani & Van Vuuren (2002) and Van Eaden, Viviers, & Venter (2003) who said SMMEs in South Africa usually collapse within their five years of operation. The reason may be because the result in this study does not represent the whole SMMEs sector in South Africa but part of the Eastern Cape province; or may be prove that those studies are outdated.

Table 2
Non-financial assistance and SMMEs beneficiaries in BCMM

<i>Types of non-financial development assistance</i>	<i>Number of beneficiaries</i>	<i>Percentage</i>
General business ethics training/workshop	2 out of 35	5.7%
After care/after loan services	1 out of 35	2.9%
Skill development training	2 out of 35	5.7%
Consultancy service	0 out of 35	0%
Capacity building training	0 out of 35	0%
Total	5	14.3%

Source: Own calculation from survey, October 2015

The presentation from the findings in table 2 revealed that non-financial assistance is insufficient to SMMEs in the BCMM. Only five (14.3% in total) out of thirty-five SMMEs received non-financial assistance. The result shows that there is poor outreach in terms of non-financial assistance given to SMMEs in BCMM. The finding agrees with the result of a study conducted by Drivers et al. (2001) which argued that entrepreneurs in South Africa lacks managerial and other entrepreneurship skills which contributes to SMMEs poor performance. Meanwhile, for sustainability and efficient performance to be achieved in the SMMEs sector of any economy, sufficient non-financial support must be made available to entrepreneurs (Lumpkin & Dess, 1996).

Even though, very few percentage (14.3%) received certain non-financial assistance like, after loan/care assistance (2.9%); general business ethics training (5.7%) and skills development training (5.7%), zero percentages were recorded for consultancy services and capacity building respectively. Although, the respondents were not interviewed together, they all shared similar experiences in terms of non-financial development assistance. The following speech of a wholesaler in East London provides an idea of their experiences:

“I received business loan but after I had received the loan and started my business, things were not going well. I approached the financial providers for advise but my appointments with them were always rescheduled, I got depressed and stop going there. I have been struggling for the past five years now to grow the business. I need some enlightenment from experts in terms of new business opportunities out there. I believe that I could have done better if they assisted me”.

One of the objectives of this study is to identify the types of non-financial assistance that are not sufficiently provided for SMMEs in BCMM, and basing on the findings, the objective was achieved.

Lack of Non-financial Development Assistance: responses from assistance agencies

The development assistance providers formed the second part of the interview. These agencies indicated that financial services are given to qualified entrepreneurs. However, they admitted being guilty of not performing to expectation in terms of providing consultancy services, training and workshops. Meanwhile, nine of fifteen officials claimed that their failure to provide better service is due to shortage of qualified staff and inadequate funds in the agency. The head of Eastern Cape Development Corporation (ECDC) King Williams' Town office said:

“We are trying our best to provide necessary assistance to support the development of SMMEs in Eastern Cape in so many ways. We have funded about 330 SMMEs so far. Although, we also provide non-financial support like training and workshops, we need to do more in that aspect, presently we are short of manpower, but we will do something about it”.

From the above finding, it was recorded that the assistance providers focused more on funding businesses financially but giving less attention to the non-financial assistance. This therefore, may have been the reason for poor performance of SMMEs in the BCMM. Even though, most of these agencies admitted that they have put less effort on non-financial assistance provision, some of them tried to justify their failures. For example, a spokesperson from the SEDA office in EL said:

Most entrepreneurs mix pleasure with business. so we try to give proper counselling before we award loans and we also pay prompt visits to them to see how well they are doing and to see if there is any way we can still assist. Yet, on our own side we also face the challenge of staff shortage, and undedicated staff in most cases. This has been the reason for not doing so well in aspect of non-financial assistance to our clients, but we know how to deal with that within the organisation”.

The finding revealed that the provision of non-financial development assistance to SMMEs in BCMM is insufficient and that has perpetuated the poor performance in the sector.

SUMMARY

Findings from this study have shown that very little non-financial development assistance has been provided to SMMEs in BCMM. Entrepreneurs lamented that development agencies are not available enough to provide them with counselling when needed. Accordingly, development agencies confirmed that they are not performing to expectation in non-financial assistance, which has led to poor performance of SMMEs. This shows that financial assistance (loans) alone are not enough to keep SMMEs on track, but prompt business advice plays a crucial role on business sustainability. Although, the majority of respondents revealed that they enjoyed more financial assistance and responses from the assistance providers also proved that to be true, however the major concern of this study was on non-financial assistance. Importantly

CONCLUSION

This study set out to investigate the reason behind insufficiency of non-financial development assistance, and to identify types of non-financial assistance that was insufficient for SMMEs in BCMM; those objectives have been achieved. Shortages of manpower and insufficient funds have been identified as the factors that hindered the development assistance agencies to provide sufficient non-financial assistance to SMMEs. Also, all types of non-financial assistance are insufficiently available to SMMEs in BCMM, but notably,

assistance like consultancy service, capacity building training, as well as after loan care were not made available. The entrepreneurs consequently established that the insufficiency of those non-financial assistance have led to their poor performances. Though, the sample in this study was limited, yet findings indicated that insufficient non-financial assistance to SMMEs results to poor performance. Hence, results established from this study serves as an eye opener that effective performance of SMMEs cannot be achieved through financial assistance alone but also with sufficient non-financial assistance. Therefore, business development assistance agencies should endeavour to provide sufficient and prompt non-financial assistance in order to improve SMMEs performance. For subsequent study, researchers may explore more on non-financial assistance for SMMEs performance using larger samples in other province of South Africa.

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