AN INVESTIGATION INTO CAUSES OF SUCCESS AND FAILURE IN SMALL BUSINESSES WITHIN THE DEPARTMENT OF SOCIAL DEVELOPMENT IN THE EASTERN CAPE:

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Student: Henry George Petrus
ABSTRACT

The failure rate of small business initiatives in South Africa is phenomenal, and much is needed to unravel the causes contributing to such failures. Yet small businesses are playing a vital part in our global economy and in particular in terms of job creation and poverty eradication.

There are internal as well as external factors that play a significant role in determining the success of these small businesses. In South Africa much emphasis is placed by national, provincial and local governments on small and medium enterprises (SMEs) to drive wealth creation and black economic empowerment. Therefore, an investigation into the factors contributing to the success and failure of SMEs is of vital importance. The South African government’s poverty eradication strategy, which is driven by the Department of Trade and Industry (DTI), allocated funds for job creation programmes as a method to combat poverty and more importantly, to develop young entrepreneurs. Among the seven departments mandated by DTI was the Department of Social Development. Since the birth of the new democracy, this department has transformed from offering a traditional remedial method of service delivery to an integrated developmental approach. This approach included extensive community work, which includes job creation and economic empowerment through the establishment of small businesses.

Given the availability of funding, the inability to spend fiscal budgets as per allocation as well as the charity element of receiving involved, it is important to explore whether factors contributing to the success of these SMEs are any different to the traditional business strategies. In this study, the researcher gave special consideration to the social capital element and its contribution in the context of community support as well as the ability of SMEs to become sustainable business ventures over time.

The research study aims to highlight unique factors contributing to the success and failures of SMEs established by the Department of Social Development and in doing so hopes to manifest an improved understanding of the management of these SMEs. In chapter one, the
researcher gives a brief description of the activities of the Department of Social Development and its mandate to establish SMEs for job creation. A brief explanation regarding the context of the problem that was investigated is also given. Chapter two provides a detailed theoretical overview of the study, focusing in particular on factors contributing to the success and failure of small businesses. In chapter three, the research design and the various instruments used are discussed. Here, emphasis is placed on procedural issues and ethical considerations. The validity and reliability of the research is strongly motivated. In chapter four the research results are discussed. Chapter five aims to discuss the findings of the research with reference to the theoretical overview outlined in chapter two. Lastly, chapter six makes recommendations to the various stakeholders who may benefit from this research. These recommendations are the most important objectives of the research and should add value with regards to the management of SMEs in future, with special reference to the Department of Social Development in the Eastern Cape.
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CHAPTER 1

Introduction

1.1 Background

The new South African government that came into power during 1994 was faced with the serious challenge of economic development. In an attempt to address the socio-economic disparities in which many South Africans were trapped, the Department of Trade and Industry (DTI) was mandated by government to unlock the potential of entrepreneurs. It is clear that the government had realized the pivotal role the SMME (small, medium and micro enterprise) sector can play in addressing large scale poverty. As a result the Poverty Alleviation Fund, which was an initiative of the Department of Finance during 1997, was established (Parenzee: 2003). According to Parenzee (2003), this fund was intended for community based poverty relief programmes and was rolled out as an additional assistance to various departments. Along with this funding came the Local Economic Development Fund (LEDF) that focused in particular on local municipalities. The LEDF also has the same objectives as the Poverty Alleviation Fund, i.e. to tackle poverty through the establishment of SMMEs.

The Department of Social Development was among the first four departments to receive funding allocations from the Poverty Alleviation Fund (Parenzee: 2003). The Department of Social Development’s rationale was to target women as the major beneficiaries of this fund. It is believed that women suffer more from poverty than men. The poverty alleviation programmes took the form of either cooperatives and or small and medium enterprises (SMEs) and was key to the services rendered by the Department of Social Development in order to address large scale unemployment and income re-distribution (Rogerson: 2004). The Small Business Act of 1995 refers to cooperatives as a minimum of six shareholders. Cooperatives therefore replace micro enterprises. Thus, for the purpose of this study, the researcher will refer to small and medium enterprises (SMEs).

In an attempt to expedite the poverty eradication programme, the Department of Social Development made funding available to non-governmental organisations (NGOs). This
collaborative move was an acknowledgement of the human resources capacity limitations experienced within the Department of Social Development (Parenzee: 2003). However, the Department of Social Development drafted new funding criteria for NGOs as they were capitalizing on this funding opportunity to strengthen their position in accessing funding. Simultaneously, the Department of Social Development transformed their services from a remedial to an integrated developmental approach. This integrated developmental approach allows for extensive community development work combined with traditional social work. This approach is congruent with the goals of the White Paper on Social Welfare of 1997, which was founded within a social development paradigm (Triegaardt: 2005).

1.2 Problem Statement

May (1998, in Triegaardt, 2005:251) defines poverty as the “inability to attain a minimal standard of living, measured in terms of basic consumption needs or the income required to satisfy them”. As the majority of South Africans are living in abject poverty, the Department of Social Development has a strategic role to play in the poverty alleviation strategy. Therefore, the transition of the South African welfare approach (from remedial to a more developmental one) was necessary as it allows for the creation of employment opportunities, which is a key driver for the poverty alleviation strategy. However, Du Toit (2005) contends that there are a number of challenges that prevent the poor from exploiting these opportunities within the social welfare context. These challenges are among other:

- Funding: Government usually allocate insignificant amounts to social services programmes. As a result funding does not address the real need as many of these social services programmes need considerable and constant funding to prevent discontinuation and subsequent job losses.

- Training: Du Toit (2005: 669) argues that many social services programmes fail to undertake training, which is important to ensure effective service delivery and at the same time secure “sustainable longer-term employment”.

- Monitoring and evaluation: Monitoring and evaluation is a fundamental tool to assess the impact of social services programmes and to ascertain difficulties the
programmes may experience. Government will have more assurance to nationalise such social services programmes if yardsticks have been set.

- Sustainability of employment: The duration of social services programmes should be carefully planned so that participants are able to distinguish between long and short term employment. Participants may then exit short term employment when acquiring long term employment. Social services programmes should re-direct its focus to become sustainable and have a long term impact.

The Department of Social Development’s ability to spend allocated funds was one major stumbling block to access such opportunities and came under serious scrutiny (Parenzee: 2003) However, according to Parenzee (2003) this Department managed to spend R254 million of the R634 million allocated for the 1999 to 2001 fiscal period. Despite this under-spending, many small businesses were created. Among these SMEs, however, many have failed to become sustainable (Rogerson: 2004). These figures are devastating for the Eastern Cape in particular because according to Binns and Nel (2002) the Eastern Cape is among the poorest provinces in the country with the highest unemployment rate and infant mortality statistics in 1996. The researcher has focused on the western part of the Eastern Cape as it is more advanced in terms of development and delivery of services as compared to the former Ciskei and Transkei areas.

According to a recent report released by the Department of Social Development, a total of 1070 SMEs were established in the Eastern Cape since poverty alleviation funds were made available during 1999 and onwards. These SMEs had a total number of 22 539 beneficiaries, which is on average 21 beneficiaries per SME. Beneficiaries can be referred to as the shareholders, participants or members of a particular SME who received funding from government. The real concern is that only 69 SMEs (6%) are currently operational and therefore receive funding (Social Development Report: 2008).

In addition to the above report by the Department of Social Development, there is a general trend that poverty allocations are not spent in the financial year for which it is budgeted (Mingo and Claassens: 2002). The problem therefore is twofold:
• Departments are unable to utilise allocated funds to implement the poverty alleviation strategy effectively.

• The management of SMEs at operational level. This includes the Department and community’s involvement in the successful implementation of SMEs. The researcher focused on the latter problem, investigating factors contributing to the success and failure of SMEs. It is the long-term sustainability and survival of these SMEs that will provide employment opportunities to the targeted poor.

Most analysis focuses on the internal factors causing the under-spending of allocated funds, such as Parenzee (2003) and Rogerson (2004). Only a few researchers have tried to dig deep into the real factors contributing to the success and failure of SMEs within a social welfare context.

1.3 Rationale of the Study

The social welfare service delivery model has drastically transformed since 1994 with much more emphasis on prevention coupled with economic empowerment. With this new integrated service delivery model, social services in general can be divided into three categories:

i. The bulk of the spending revolves around the national grants programme. This includes all old age, disability, foster care and other newly introduced grants such as the child support grants.

ii. Secondly, government has committed itself to funding institutionalized care such as children’s homes, special care centres, early childhood development, home-based care programmes and the subsidization of non-governmental organizations rendering vital social services.

iii. The poverty alleviation programme consists of employment creation, wealth distribution and empowerment of the poorest and suffices as many people’s destiny. The potential of creating long-term employment lies within the second and third categories, of which the latter can be regarded as the most significant programme for addressing unemployment.
The ambit of this research project falls within the third category and focuses on the following objectives:

- To identify the key factors contributing to the success of SMEs established by the Department of Social Development.
- To examine key factors contributing to the failure of SMEs.
- To understand the management of SMEs within a social developmental context and identify possible unique characteristics pertaining to this function.
- To make recommendations to the Department of Social Development regarding the future implementation of small business programmes.

It is believed that empowerment, commitment and caring are fundamental values attached to rendering social services. Apart from providing SME beneficiaries with the general drive to establish SMEs, as well as with entrepreneurial skills to accomplish success, it is generally expected that social welfare services will be more successful in their job creation endeavours than any other department, because of these social values. Job creation programmes implemented by social welfare organizations or state welfare departments embrace the concept of reciprocated community support because of characteristics that evolve, such as empowerment, solidarity and inclusion (Mayer and Rankin: 2002). The study also looked at whether reciprocated community support is one of the unique contributions to SMEs’ success.

The study was conducted within small communities although part of a larger metropolitan, which according to Besser (1999) is conducive for social capital characteristics such as reciprocated community support. In identifying unique characteristics, the study is of a significant value for the Department of Social Development for establishing future SMEs. It is unknown whether similar typical research studies have been conducted.

1.4 Important Considerations

Part of the study is a theoretical overview of the economic factors contributing to small business success. It is crucial for the study to distinguish between traditional economic
factors identified and unilateral social capital characteristics that contribute to the success of SMEs. Unilateral social characteristics refer to various dimensions of social capital such as social networks, reciprocated community support, cohesiveness and teamwork. The research focused on the internal as well as the external factors, although the first are more controllable by management. External factors are important to guide the Department of Social Development from a strategic perspective. The factors causing the failure of some SMEs as well as those contributing to the success of others are of equal importance to the study. The study does not emphasize the specific life cycle phases of the SMEs as no distinction is made between the years of existence of SMEs selected for the sample. Financial performance indicators were used to determine whether an SME was successful or not. Therefore, the supplementary goals of this study are to:

- Draw up a comprehensive profile of the unique factors contributing to the success of SMEs within the social welfare context and subsequent practical guidelines.
- Clarify important factors identified during the research process, which will enable the Department of Social Development to play an effective strategic role.

1.5 Chapter Summary

This chapter highlights the pivotal role of the small business sector with relevance to the South African government’s mission to empower SMMEs. The chapter briefly touched on the economic empowerment strategy that filters through to various governmental departments with special reference to the Department of Social Development. Furthermore, the capacity of the Department of Social Development is placed under the spotlight as far as the spending of allocated funds is concerned. Most importantly, the success rate of SMEs forms the basis of the problem statement. The chapter also depicts the historical context of the poverty alleviation strategy and the subsequent transformation of social welfare services. Limitations of the study are highlighted, which is important for the reader to evaluate the validity of the research. The rationale of the research study is also stipulated, including four key objectives. These
objectives concentrate on factors contributing to the success and failure of SMEs within a social welfare context.

CHAPTER TWO

Literature Review

2.1 Introduction

This chapter will attempt to outline all possible factors contributing to small business success and failure. As noted in chapter one, this study will make no distinction in terms of the life cycle stages of small business. It envisages investigating all factors across these stages due to the fundamental objectives of this research. According to Hall and Young (1991) the spread of factors contributing to failure are indifferent at the rudimentary or the mature phase of any small business. Furthermore, they argue that SMEs experience problems that are more diverse and more severe than larger organisations. Among these problems cited by Hall and Young (1991) are the disadvantage SMEs encounter when linking with the capital market as compare to larger companies. According to them, personal problems are another factor that contributes toward the failure of SMEs and is ranked higher among the smallest SMEs. According to Curren, Stanworth and Watson (1986) it is important to note that when establishing new business ventures, co-operatives (another type of SMEs) are no different from other businesses in terms of the problems they have to overcome. The sample of this research study consists of co-operatives.

The success or failure of small business can under no circumstances be compared with larger companies as they are unique in terms of the economic pressures (Watson and Everett: 1993) such as rising oil prices and their sensitivity to other factors, i.e. adequate financing, economies of scale and adaptation to new business model in order to survive.

A qualitative definition of a small business is given by the Wiltshire Committee (1971, in Watson and Everett, 1993:7):
A small business in which one or two persons are required to make all critical management decisions... without the aid of internal specialists and with specific knowledge in only one or two functional areas.

The National Small Business Act 102 of 1996 defines a small business as ‘a separate and distinct business entity, including co-operative enterprises and non-governmental organisations, managed by one owner or more...’ In terms of size, the National Small Business Amendment Act No. 26 of 2003 classifies a small business as having 50 or less employees while micro is having 5 or less employees. Industry Canada also defines a small business in terms of size having fewer than 50 employees only if the business is a service-based business (Ward: 2008). In defining small business, Gibb (1994) profiles a business owner or entrepreneur who performs most of the managerial tasks with an employee size of ten people. Furthermore, they highlighted the need to distinguish between the management skills of this type of a person as compared to what is required in a medium or large company. Taking the above definitions in perspective, it is evident that the size of a firm and management tasks or responsibilities is among the criteria used to define a small business. However, Warren, Payne and Hodgson (2008) contends that turnover of the business is the most commonly used criterion throughout the world. They also list the following criteria when defining a small business: turnover, gross income, taxable income, net assets, concentration of ownership, equity, number of employees, stage in life cycle of business and industry-based size relativity.

In view of the above definition one can clearly understand the vulnerability of small business to factors that could impact negatively to its growth. Mbogoro (2006) stated that this vulnerability of SMEs needs to be reduced in order to create an enabling environment. On the other hand, small business can use their size to their advantage when sudden changes in the customer market erupt and the supply of products needs to be adjusted (Durand: 2005).

Although the SME sector is characterized by its labour intensiveness, which is conducive for employment creation in South Africa, the high failure rate casts doubt on this sector’s ability to create sustainable employment in the long term (Lighthelm and Cant: 2003). Enslin (2006) confirms that the total number of registering SMEs is equal or surpassed by those failing or being liquidated.
2.2 Defining small business success

Durand (2005) recognizes the difficulties in defining small business success and states that success in itself is a constant progression. According to Durand (2005) there are three fundamental requirements any small business should meet in order to become successful:

- Firstly, a business needs to break even, i.e. neither making a profit nor a loss.
- The second important requirement is that it covers its labour cost.
- Lastly, the business needs to make a profit. This is vital when considering future growth of the business, maintaining a stable financial atmosphere and the increase of resources or investments necessary for future security.

Another important factor is growth, especially within the social welfare context where job creation is of the essence. Durand (2005) contends that growth is among the four cornerstones of small business success and is crucial to accommodate the South African surplus labour market. Before growth of a small business the other three cornerstones need to be set, i.e. acquire break-even point, remunerate staff members and making a profit (Durand: 2005). However, profitability will enable any small business to secure long-term employment, which is the desirable outcome for the South African government. It is indeed not all businesses that are pursuing ‘financial gain’, yet they need to be successful in order to survive. For some small businesses, creating employment is fundamental and perhaps the only source of reference for success (Walker and Brown: 2004). In the context of social welfare, SMEs are meant to create jobs and economic empowerment for the poorest of the poor communities and include mostly women. A study conducted by Walker and Brown (2004) finds that both financial and non-financial measures are viewed as significant in measuring small business success and that in some instances the non-financial measures may be of more value. Walker and Brown (2004) contend that especially in businesses where expansion and profit are not the primary drivers but are preceded by employment satisfaction and independence. They argue that both types, i.e. those who want to grow and those who want to stay small add value to the socio-economic conditions and bring about personal satisfaction.
Gadenne (1998) asserts that return on investment (ROI) is the most consistent method to determine small business success due to its precise reflection of the effectiveness of resource provisioning. According to Correia, Flynn, Uliana, and Wormald (2005), ROI reflects efficiency in terms of the utilization of the business assets. Correia et al., (2005) state that management practices play a key role to ensure that a good return on investment is generated and that management is often evaluated according to this ratio, i.e. the ROI. However, Correia, et al., (2005) contend that the ROI has one significant limitation, i.e. that it ignores long term investment options and primarily focuses on management performance within a short term period.

In view of the context and purpose of this study, the researcher will apply the following criterion to classify SMEs as successful: the ability to remunerate staff or shareholders for daily operations and the ability to show a profit.

Generating an income especially for women headed households is a significant target reached within a social welfare context. According to Bjorkman (2003) women need a secure income as more than 42% of women are most likely to be widowed when they reach their 50s. It is generally accepted that women are poorer than their male counterparts (Numes: 1998). According to Numes (1998: 2), the South African women have a “fifty percent higher poverty rate than males”. Distinguishing between males and females, many factors are taken into consideration, such as access to markets, employment opportunities, gender bias that affects women’s access to land and social responsibilities towards the family (Harrison, 1993 in Numes, 1998). Within the Department of Social Development, job creation for women is essential, which has led to the focus on women cooperatives as a key driver for economic empowerment.

### 2.3 Success factors
This section outlines some of the factors that contribute to the success of SMEs in general. Different factors have been identified as fundamental to the success of SMEs. No special reference is made to the social welfare context as these factors are generic for small business development in principle. It is important to note that the factors outlined below are not the only contributors to SME success and that there might be many other factors unknown to the researcher.

2.3.1 Entrepreneurship

Timmons (1989, in Kirby, 2003:1) defines entrepreneurship as follows: the ability to create and build something from practically nothing. It is initiating, doing, achieving, and building an enterprise or organization, rather than just watching, analyzing or describing one. It is the knack for sensing an opportunity where others see chaos, contradiction and confusion.

Pretorius, Millard, and Kruger (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 (Kirby: 2003). 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.

Entrepreneurial quality is critical for any SME’s ability to overcome hurdles and secure sustainable growth (Darrich and Clover: 2005).

Creating an atmosphere to encourage entrepreneurial thinking is therefore necessary. This equates to the availability of finance for these entrepreneurs (Wadula: 2002). Nieman (2006) boldly states that the South African government’s involvement in small business development should be cautiously managed, as many SMEs are merely “copy cats” and heavily dependent on government’s preferential procurement opportunities for their survival. Innovative and creative thinking needs to be encouraged and supported in order to move away from the above-mentioned problem scenario. Most SMEs established by the Department of Social Development are accessing a market share in the private sector and should strive to adopt an innovative and creative approach. Just like any private business, these SMEs must have the ability to find their niche successfully with little or no help from government. However, the ability to survive is a growing concern as many SMEs are not
‘natural entrepreneurs’. One of the biggest challenges of the South African entrepreneurs is their entrepreneurial talent (Gauteng Business: 2007). The characteristics that underpin entrepreneurship are a strong drive for accomplishment, “inner locus of control”, patience, and being prepared “to accept a certain degree of risk” (Ennew, Robbie, Wright, and Thompson, 1994: 30). These characteristics need to be fostered and nurtured among young South Africans (Ennew et al., 1994). Darrich and Clover (2005) identified four components of entrepreneurial quality, namely, (a) self-employment (b) the nature of the entrepreneur’s motivation, (c) factors in the personal environment of the entrepreneur and (d) factors in the global environment of the entrepreneur. Schumpeter (1934, in Mienie, 2000) sees entrepreneurship as the primary economic driving force that disturbs the normal flow in order to initiate and stimulate the development processes within the business. Economic development in South Africa is delayed due to a serious shortage of entrepreneurs (Mienie: 2000).

2.3.2 A ‘Value for Money’ factor

The ability to price products correctly is considered to be the most important strategy in order to advance ahead of competitors (Gadenne: 1998). Through this pricing strategy the ‘value for money’ factor is accomplished, which according to Gadenne (1998: 42) is a measurement for business success. According to Gadenne (1998:42) the following management practices underpin the ‘value for money’ factor:

- ‘Pricing products lower than competitors’
- ‘Emphasising high sales turnover’
- ‘Emphasising cost reduction’
- ‘Checking quality of products’

Pricing decisions impact significantly on any business and constitute multiple sensitive aspects that need careful planning before pricing decisions can be made as the price may result in a decrease in sales volumes (Lamb, Hair, McDaniel, Boshoff and Terblanche, 2004). According to Gadenne (1998) the following organization practices should be embraced in order to become successful:
• A trend to increase sales volumes: Fast growing sales volumes are among the remedies to keep a business out of trouble, especially if you need to turn around fast (Nieman: 2006). SMEs in the retail and manufacturing industries in particular can use this strategy to their advantage.

• High pervasiveness of cost management: Operational costs are distinct from cost of sales and should be managed in this manner, as business managers need to test the economic viability of the product or service (Nieman: 2006). Therefore SMEs need to understand the cost dynamics as high volumes of products or services have a significant relationship in controlling operational costs in general (Pycraft, Singh, and Philela, 2004). It is therefore vital to be constantly aware of the sales volumes and the fluctuating costs.

• Continuous attentiveness to quality improvement: This organizational practice is a basic requirement for success (Gadenne: 1998). A systematic approach to quality management in any business is paramount, but the intangible value attached to products and services steer SMEs on their path of success. The extent to which the employee and business owner manifest ‘pride in their products and services’ is among the finest measure of success (Durand: 2005:52). Quality can be regarded as the cornerstone of every SME’s success and it is necessary to adopt total quality management (TQM) as a norm within the business, which will ensure that staff is empowered and are participating (Nieman: 2006).

2.3.3 Financial Leverage

According to Gadenne (1998: 42) financial leverage comprise of the following activities:

• The utilization of external ‘borrowed funds’.
• Exploring more efficient financial resources.
• Making use of ‘trade credit’.

Flynn and Koornhof (2005: 21-14) refer to financial leverage as the ‘relationship between equity and debt’. According to them, when a company engages in borrowing funds, exposure to financial risk kicks in. We then find a relationship between business and financial risk. Financial leverage is used to increase shareholder value, especially using long
term debt (Flynn and Koornhof 2005). In South Africa black economic empowerment
groups are in a more favourable position to borrow funds due to the economic policies of
this country. More so are SMEs operating at a local and rural level that also enjoys the
support of their local municipality. In the case of SMEs established by the Department of
Social Development, funding invested is not repayable by these SMEs in the long run.
However, the assets of these projects remain the property of the Department of Social
Development (Service Level Agreement document). In view of the above SMEs operating
within the social welfare context enjoy low levels of debt if any. However, in cases where a
shortage of capital is experienced, external but inexpensive funding should be sourced as a
last resort from the government agencies such as Business Partners and others (Gadenne:
1998). Nieman (2006) outlines the following several factors that need to be considered
when sourcing financing and states that equity capital investment is perhaps the best
choice, although there is also an element of risk involved: . In a South African context this is
not applicable to the majority of entrepreneurs as most of them do not have their own
funding to start (Nieman: 2006). Trade credit has evolved as a common practice with
security in the form of cessionary deeds (a legal agreement that the manufacturer or
supplier of goods/products will be paid directly by the department concerned instead of
the SME), which safeguard the supplier/manufacturer from the high risk of no payment
and has become the major alternative for many SMEs who rely heavily on government
tenders. Nieman (2006) warns against high interest repayment rates that could be to the
detriment of the SME.

2.3.4 Competitive Advantage

Duermeyer (2008) defines competitive advantage as something that differentiates between
the abilities of your competitors and those of your own business. It gives reason as to why
customers should engage in business with you rather than your competitors. The Business
Dictionary emphasizes the provisioning of the same value of products or services at a lower
price compare to your competitors. It also allows you to ‘charge higher prices for greater
value by means of differentiation’. 
Gadenne (1998: 45) cited that it is important for firms to maintain a competitive advantage as their success sometimes depends on this activity, which comprises of ‘a combination of acquiring knowledge of competitors’ activities and pricing products lower than competitors’.

Hitt, Ireland and Hoskisson (2005: 84) outlined four criteria that underpin sustainable competitive advantage:

(i) ‘Valuable capabilities’: This criterion assists a company to defuse threats or take advantage of opportunities.

(ii) ‘Rare capabilities”: These capabilities are hard to find in many companies.

(iii) ‘Costly-to-Imitate capabilities’: ‘Historical: A unique and valuable organizational culture or brand name’.

‘Ambiguous cause: The causes and uses of a competence are unclear’.

‘Social complexity: Interpersonal relationships, trust, and friendship among managers, suppliers and customers’.

‘Costly-to-imitate capabilities are capabilities that other firms cannot easily develop’.

(iv) ‘Non-substitutable capabilities’: ‘No strategic equivalent’.

Steiner and Solem (1998, in Gadenne, 1998: 45) contend that small manufacturing firms can have the same competitive advantage as large firms through the ‘specialisation of products/customers and the ability to compete on the basis of price/cost’. In order for them to do so, Gadenne (1998: 45) mentions that gaining ‘knowledge from the competitors’ activities is critical to the success of smaller firms competing with larger firms within the same market who may wish to establish a market niche to minimise any competitive disadvantage arising from their competitors’ economies of scale’.

Doeschef (1996) also highlights the knowledge of competitors’ factor by identifying and comparing their products and services with one’s own and conducting regular promotions. The above action is important if a business wants to move closer to success or stay on this path (Doeschef: 1996).

2.3.5 Professional Advice
Professional advice is associated with minimizing risks or advancing performance (Gadenne, 1998). According to a Canadian small business research survey, SMEs who have constantly utilized expert guidance enjoyed a relatively large percentage increase (76%) in total turnover compared to those who did not utilize external expertise (CMA Management, January 2005). A serious lack of certain managerial skills leaves little room other than to consult with expert knowledge in this area of small business operations.

Seeking assistance means moving closer to success, but owners also need to be introspective in an attempt to acknowledge their managerial deficiencies (Khan: 2007).

The above helps to address the problem of vast inexperience in the small business sector and in particular in South Africa. With the establishment of the DTI (Department of Trade and Industry), the focus of their approach to SMEs changed from spokesperson to advisor on small business issues, which is an important role to play for many struggling SMEs (Terblanche: 2006).

2.3.6 Risk Reduction

The introduction of the government tendering programme to support SMEs had serious ramifications for many small business owners. Their risk has increased due to government bureaucracy and red tape and resulted in serious cash flow and other related problems. Doeschef (1996) emphasizes the importance of operating reliable credit guidelines, which will reduce the risk considerably. He states that good administration is extremely important in ensuring swift debtor communication immediately after goods or services have been delivered. However, the South African situation differs to the above statement as many SMEs have become dependent on government tenders.

2.3.7 Progressive Cash Flow Management

According to Logenecker et al., (2003, in Nieman, 2006) the irregular characteristic of cash inflow and cash outflow requires the SME manager to manage these with utmost delicacy and caution. It is important for the SME manager to have an understanding of the various cash inflows and out flows as well as the difference between profit and net cash flow (Nieman: 2006). Cash estimations assist SME managers to reach gainful targets from
adjustments made; more important is to engage in a daily, weekly and monthly practice of cash projection in an attempt to prevent unexpected shocks or surprises (Cooley and Pullen: 1979). Nieman (1998) in Mienie (2000) contends that cash flow planning should form an integral part of the business plan that serves as a guide for the owner. According to Nieman (2000), owners should conduct a cash flow projection on a daily and weekly basis in order to stay abreast of their financial position.

The second function of cash management is cash investment (Cooley and Pullen: 1979: 5), which needs to be handled, with minimum risk and a higher level of assurance, i.e. that cash can be exchanged with ‘little fear of loss’. Small business needs to make investments with surplus cash and so buffer themselves by means of short-term investment periods (Cooley and Pullen: 1979).

The third function of cash management outlined by Cooley and Pullen (1979) is the process of speeding up of cash income and effective control of expenditure. It is important for small businesses not to engage in heavy debt policies as this will constrain them from exploiting future opportunities. SMEs in South Africa, where government empowers them through tender programmes, are experiencing regular problems of anticipating long overdue payments, which limit their operations from time to time.

Cash needs to be managed effectively as cash flow problems have other repercussions such as affecting credibility with suppliers, loss of opportunity in accessing inexpensive resources and goods as well as the inability to carry operational expenditure, which may cause the ceasing of operations. According to Nieman (2006), one of the success indicators is a strong cash position, which can be achieved by embracing streamlined cash management principles. However, with SMEs heavily engaged in supplying goods and services on credit, the above seems impossible to maintain due to external capacity problems experienced by many governmental departments, including the Department of Social Development.

SME managers should also be aware of the “growth factor”, which is linked to cash flow management, as many SMEs may be pursuing an increase in sales volumes, which could lead to the mismanagement of cash flow and ultimately contribute to their downfall (Nieman: 2006).
Another important managerial aspect is the reduction of the inventory which helps to make more cash available (Nieman: 2006). Consistent monitoring of the inventory levels is therefore required. Extending accounts payable is another way of building up a good cash flow, while avoiding harming the SME’s credibility.

2.3.8 Debt Collection Timeframes

As mentioned earlier, credit sales are sometimes the only method to increase sales and ensuring some SMEs survive (Nieman: 2006) and this may subsequently enforce a more sensitive management style in the area of debt owed to the enterprise. Therefore, strong debt policies should be embraced and debtors should be made aware of these. Where SMEs engage in business ventures for the first time and do not have the required capital to purchase goods or services, the parties sometimes enter into a cessionary agreement, which secures the service or goods provider from any delay in payment or possible bad debt. The SME’s administration should be punctual in handling invoices so that no delays occur, while on the other hand debtors should be encouraged by various gains when making prompt payments (Nieman: 2006).

2.3.9 Training

Pretorius et al. (2006) emphasize the importance of ensuring that “implementation skills” receive serious attention when it comes to the preparation and improvement of entrepreneurs. The value of training cannot be over-emphasized if one takes the illiteracy rate into consideration, especially among the poorest provinces, which includes the Eastern Cape. The sample for this study will result in the majority of beneficiaries being semi-skilled and half literate. Mason (2006) argues that training should not be forced on SMEs, as they are able to accommodate official training only to a certain extent, but they should rather be encouraged to conduct in-service training. Therefore, legislation enforcing training in the SME sector should be introduced with great circumspection as it can become a constraint for SME development (Mason: 2006). Furthermore, Mason (2006) states that SMEs are making a valuable contribution to the economic sector by supplying experienced talent. This statement is preceded by Bannock (2005, in Mason, 2006) who argues that SMEs
accommodate the unemployed youth and provide in-service training for them. In this way SMEs are fostering experienced staff that is available for the broader economy.

Within the South African SME sector, one can expect to find a relatively low level of education, especially among the young and previously disadvantaged group. Training here is therefore paramount for facilitating managerial skills. In a study conducted in Canada, it was found that SMEs operated by people with a recognized tertiary education earned double the amount that people without a recognized tertiary education (CMA Management: 2005).

Training is a vital source for any employee, as it presents them with information, expertise and capabilities to execute duties to perfection within a specific job profile (Nieman: 2006). Training is also a prerequisite for employee development, which according to Nieman (2006) has an extended period focus and prepares the individual for his/her aspirations.

2.3.10 Social Capital and the Success of SMEs

(i) Introduction

Fukuyama (1999, in Saxton and Benson: 2005: 18) defines social capital “as an instantiated set of informal values or norms shared among members of a group that permits them to cooperate with one another”. While Fukuyama places emphasis on network norms, Portes (1998, in Saxton and Benson: 2005: 18) refers to social capital as “the ability of actors to secure benefits by virtue of membership in social networks or social structures”. Social capital is also referred to as the creation of economic opportunities that is rooted in relationships, which can be utilised to leverage resources (Somaya, Williamson, Lorinkova: 2001). Social groupings and the subsequent establishment of acceptable norms generate united action, which bring about group cooperation in the form of truthfulness, long-standing dedication, executing of tasks and a give-and-take culture (Castona: 2007). If group dynamics is an essential ingredient for managing SMEs, one can therefore argue that social capital is a resource, although in its abstract form it is the direct opposite of the traditional methods that contribute to the success of SMEs.
Within the Department of Social Development’s service scope, group dynamics certainly play an important role, as the department’s key focus is on women empowerment within group set-ups. Most of the established SMEs consist of about six to twelve members and some cases more, where teamwork is essential for smooth operations. Because social capital is a very complex concept, i.e. accommodating individualistic, team and organizational aspects, the researcher will only focus on certain aspects that are believed to have a unique contribution to the success of SMEs within the social welfare context.

(ii) Social Capital and Social Welfare Services

When analyzing the social welfare services as outlined in the White Paper for Social Welfare, addressing community problems is a prerequisite for reaching the desired outcome, which is self-sustainable communities. Over the past few decades there has been an increased collaborative effort to address poverty at a global level through economic activities (Rogerson: 2004), yet the perception still exists that this problem is the responsibility of welfare service structures and networks, especially at a local level. When addressing community problems, the ability of individuals to ‘work together in initiating group responses’ is essential for ‘coordination, increased trust and communication’ in forming a non-profit organisation, which will respond to community needs (Saxton and Benson: 2005: 17). One can therefore argue that social welfare services are embedded in the elements of social capital and should be more successful if these values are embraced. One can make an example of volunteerism as an expression of commitment, which is a common phenomenon in the social welfare field. Commitment itself is one of the vital components of group dynamics (Castona: 2007). On the other hand, volunteering can be described as an unmatched case of community involvement and as such exhibits the function of social capital (McDonald, and Warburton: 2003).

(iii) Social Capital and SME Performance
In order to ascertain whether social capital within an organizational setup can be linked to performance, Smerek and Denison (2007: 2) used the following four dimensions for measuring performance linked to traditional methods:

- **Involvement**: This dimension measures empowerment, capacity improvement and group orientation.
- **Consistency**: Here, core aspects such as management and integration, intensity of the agreement and the stage of important principles are reflected.
- **Adaptability**: This dimension refers to the organization’s potential to be responsive to the targeted consumer market, bring about transformation and become highly skilled. ‘Organisations scoring high in this dimension are flexible, create new and improved ways to do work, and are connected to the needs of the consumer’.
- **Mission**: This is a very important dimension as it involves activities around strategic management, such as determining the future outlook of the business.

In their study Smerek and Denison (2007: 3) found that there is a strong relationship between ‘adaptability and involvement’ as forms of social capital and that these dimensions can positively influence the ‘future performance patterns of organisations’.

Overall, all four dimensions indicated that they are positively contributing to the good performance of the organization in the short term. It can be therefore concluded that if social and cultural resources are improved and mastered over time, social capital could be interpreted as a future competitive advantage for SMEs in particular.

Knack and Keefer (1997) used trust and public norms as indicators to measure economic performance. In their findings, they indicate that there is a strong relationship between communities that are operating well and trust and public norms. Arrow (1972, in Knack and Keefer, 1997: 1252) states that nearly every business transaction has an ‘element of trust’ and argues that ‘much of the economic backwardness in the world can be explained by the lack of mutual confidence.’ Knack and Keefer (1997) also emphasize the influence of trust and norms within the political sphere. They, Knack and Keefer (1997: 1254) state that trust and public norms may result in an ‘improved government performance and quality of economic policies’. Therefore, they argue that economic improvement of these
communities can also be linked to trust and norms. Within group dynamics, trust and norms play an important part for team work and relationship building among team members.

(iv) The Role of Reciprocated Community Support

Reciprocated community support is another type of social capital due to its unrelated characteristic of market substitution (Kilkenny, Nalbarte, and Besser: 1999). According to Kilkenny, et al., 1999 there are two supportive situations; one is when the community supports the business and the other when the business supports the community. Prior to this occurring, expertise and individual support need to exist to achieve business success.

The advantage of small towns and SMEs based in these towns is that everyone is aware of the business venture, and closer social networks lubricate the relationship of giving and taking, which enables these SMEs to prosper. Taking the SMEs established by the Department of Social Development into consideration, the community’s political, social and economic structures play a significant role in the success of these SMEs. Saxton and Benson (2005) postulate that social capital plays a catalytic role in the development of these structures. Indicators of such positive impact are evident in the level of cooperation and coordination activities within these small towns in an attempt to overcome their problems.

Saxton and Benson (2005) assert that where people gather in a level social capital environment, they are more likely to engage in events that may help to alleviate constraints to their wellbeing. This means that SMEs are more likely to survive and become successful in these types of environments as the social element is significant.

On this note, one can therefore argue that the Department of Social Development should establish a high number of successful SMEs if social capital is to be found to be a significant contributor to small business success.

Besser (1999) focuses in particular on social responsibility, i.e. SMEs providing support and manifesting dedication to their communities as well as their success in relation to the latter. According to Besser (1999) the result of such good commercial residency enhances a good civic reflection, which in turn may result in economic spin offs leading to business advantages over other SMEs. The ability of SMEs established by the Department of Social
Development to support the general public may be affected by financial and other constraints. Therefore, reciprocated community support as a business strategy might not be desirable for these SMEs. On the other hand, the high level of social capital in these small communities may serve as a platform for achieving business success or desired outcomes.

(v) Extended Social Capital Networks

Work (2008: 2) defines extended social capital networks as ‘networks that extend out two or more degrees, and that enable trust exchanges between two people who may not have known each other before at all or at least not well’. According to Work (2008: 2) these networks are important as they perform the following functions:

- It can be utilized by businesses and organizations ‘to obtain intelligence, influence, and introductions to’;
- ‘Find funding’
- ‘Find and build new partnerships’
- ‘Help locate best candidates and reference-check them before hiring’
- ‘Get crucial inside information and influence’
- ‘Get trusted expertise to help plan or implement new projects’
- ‘Share knowledge more effectively’

Nieman (2006) emphasizes the importance of the various types of networks within a broader customer field and macroeconomic sector, especially in a turbulent socio-economic market. Nieman (2006) depicts the starting entrepreneurs where a general scarcity of resources occurs, the process of networking is therefore vital for their growth and survival. Apart from personal and social networks, the importance of extended networks cannot be underestimated, especially in poor rural areas where much needed support on professional advice and other business expertise is required. In most instances in personal and social networks, buying power and support is the main focus. Venkataraman and Van de Ven (1998, in Lechner and Dowling, 2003: 2) contend that ‘the survival and growth of an entrepreneurial firm depend on its ability to maintain and extend its network of inter-firm relationships’. Research conducted by Lechner and Dowling (2003: 10) indicated that firms
utilized various ‘types of networks to realize growth’ and that these networks are of significant importance for the development of entrepreneurial firms.

2.4 Factors contributing to SME failure

2.4.1 Poor Business Planning

Richardson and Richardson (1989: 2) define planning as ‘the design of a desired future and of effective ways of bringing it about and as examining the future and drawing up a plan of action’. Mockler (1972) contends that the purpose of business planning is to ascertain the most profitable way to allocate limited company resources among competing alternative profit opportunities. Furthermore, Richardson and Richardson (1989: 2) identify the following key characteristics of planning:

- ‘Planning designs and precedes action;
- It attempt to fit appropriate actions to something we have to make sense of before it happens, i.e. in the future;
- Is directed at achieving desired results;
- Is a response to the pessimistic believe that unless something is done a desired future state will not occur, and to the optimistic belief that we can do things to improve our chances of achieving the desired state’.

Nieman (2006) describes planning as a critical managerial function, as it helps one to identify the objectives or targets and develop suitable action or implementation plans. According to Nieman (2006) there are two terms of references for planning, which are the construction of a business plan and budget. Nieman (2006) contends that these two sources in turn help to create a strategic view of the business and in doing so, reduces the business risk.

There are eight types of business planning outlined by Richardson and Richardson (1989), i.e. aspirations planning; corporate planning; contingency planning; administration planning; productivity planning; team culture planning; innovation planning and shock event planning.: Holland (1998) emphasizes the importance of contingency planning when things do go wrong, and highlights the importance of planning for success as it buffers oneself against
business failure. Many SME managers do not have the time to plan because of the intensity of daily operations (Megginson, Byrd, Scott and Megginson: 1994).

2.4.2 Poor Financial Planning

Financial management is a very broad term and entails “planning, organizing, activating and control” (Nieman: 2006: 95) of this important division of the business. For SMEs in the start-up phase, the two critical areas are the financial needs and control of such funding as well as accountability of such start-up capital. SMEs within the social welfare context will increase their chances of obtaining more funding if they maintain their accountability status. Therefore, accurate record keeping is vital as a task under the organizing function (Nieman: 2006).

2.4.3 Poor Marketing

Key to the success of SMEs is the access to markets, yet many SMEs rely heavily on government tender programmes to find a market for their products or services. Nieman, in Business Report (2007) asserts that privileged acquirement is not healthy for any small business as they need to establish their own markets in order to sustain themselves on the long term. Nieman (2006: 2) warns against confined traders, i.e. SMEs without a ‘sustainable market’ that will increase the failure statistics in South Africa’s SME economic sector.

In order to be successful, a leading role in marketing is required to efficiently convert the business concept to the target market and maintain a constant search to identify their needs and desires (Khan: 2007). From a survey conducted by Khan (2007), business managers tend to diminish the importance of marketing of their services or products and pay no attention to the competitive environment. In other words, marketing has become an unfamiliar terrain and as a result insufficient time is allocated to this vital function (Giffen: 2004). A study conducted by Lighthelm and Cant (2003: 43) suggests that an improved insight into market-related issues (such as ‘increased competition, limited market size, low demand for products and ineffective marketing’) is an important factor for business success.
2.4.4 Poor Management

Curran, Stanworth and Watkins (1986) identified insufficient management and business skills as the second reason for business failure among co-operatives in the UK.

Cornforth (in Curran et al.: 1986) states that cooperatives misjudges the profit-making problems experienced by any new SME and subsequent skilfulness required to successfully steer the business. Furthermore, linking to the above problem, Cornforth (in Curran et al.: 1986) states that there tend to be a social need and obligation to direct social equality more than profit making. This is perhaps a discouraging factor to becoming profitable and competing with other businesses.

2.4.5 Access to Funding

Bannock (2005, in Mason, 2006) asserts that governments are making an insignificant contribution when it comes to the financing of innovative small businesses and that their policies are problematic. This may also be the case in the Department of Social Development where government wants to create new jobs but also address income distribution levels. In some countries such as the UK, a lack of political support makes it very difficult for SMEs to access the necessary resources. Although the SA government encourage SMEs to prosper, there are other internal governmental problems causing SMEs to fail. Apart from inadequate finance, there is the issue of access to finance. Numes (1998) view the lack of financial support as the most difficult stumbling block for up-and-coming entrepreneurs as well as for those who wish to develop their business venture. Not having access to financial support is therefore a major constraint to growth and development of women-owned SMEs.

2.4.6 Regulations

Bannock (2005, in Mason, 2006) argues that the tax system is not conducive for the growth of SMEs and has a detrimental effect on their opportunities to increase their wealth. The degree and difficulty of tax legislation and subsequent paperwork is among the major hurdles for SMEs (Delport: 2005). The introduction of a tax relief system and the inclusion of the personal services sector on condition to employ more than four non-family member
employees, signals government’s realization of the need to create a more conducive atmosphere for small businesses (Annual Review of Small Business in South Africa, 2003). Other incentives were introduced to encourage small business development, i.e. increasing the annual turnover target from five million to six million, lowering of the privileged tax rate and the ‘wear and tear’ claim benefits on manufacturing assets.

Another division is the labour laws which are affecting small business development in general. More discouraging is the fact that there is no distinction made between a private SME and an SME operating within a social welfare context, of which its major purpose is job creation. Although there are certain ministerial determinations to accommodate a few labour activities, overall people are reluctant to hire labour because of the strict labour laws. According to Delport (2005), SMEs are prepared to become highly technologically advanced in order to avoid labour intensiveness because of stiff regulations and bureaucracy that impedes growth. Schwenke (2000, in Mienie, 2000) believes that SMEs can still play a significant role in economic development and wealth creation if entrepreneurship is encouraged by legislation.

### 2.4.7 Gender

Gender is a major concern when it comes to the causes of SMEs’ failure due to the disadvantages women were placed at in terms of the stereotyping role within the household and their subsequent low level of education. Government has not only realized these disadvantages of the past, but has also attempted to bring women into the centre of political power. This will ensure that women enjoy the many opportunities in future and be in a position to empower themselves economically. The perception that women manage businesses that are not successful is indeed false as they are the minority heads of SMEs (Walker and Brown: 2004).

As mentioned earlier, the Department of Social Development is in particular mandated to ensure that women are the majority beneficiaries when establishing small business. This is strongly outlined in the White Paper on Social Welfare (1995), where women and children are prioritised.
The fundamental gender question here is whether the managerial role of women in SMEs is any different to those of their male counterparts, and does this managerial role impact on the success of the SME?. A study conducted by Spilling and Berg (2000), indicates that women in Norway are significantly outnumbered in top managerial positions as they account for only 21% in total. They also assert that there is a similar trend in Europe with a more improved scenario in the United States. It is therefore assumed that the managerial role of women in small business is weak (Spilling and Berg: 2000). Another issue cited by Numes (1998) is the cultural and community set-up which contributes to the gender bias relating to the access of land resources. According to Harrison (1993) the access to land resources impacts negatively on the participation of women entrepreneurs in economic activities.

2.4.8 Inadequate Financing

Undercapitalization is the major cause of failure for many new business ventures as they do not have the ability to acquire the necessary resources and this impedes them from managing their operational expenses effectively (Megginson, et al.: 1994). Inadequate financing can be interpreted as a more restrictive budget than which was previously planned. Undercapitalization occurs when there is an insufficient capital contribution by the owner or a shortage of capital for expanding the business (Mienie: 2000). A study conducted by Hall and Young (1991) identified factors causing insolvency among small businesses, indicating that a lack of operational funds was among the most important problems encountered. Out of a sample of 175 SMEs, about 72.6% were experiencing problems with the daily operations because of a shortage of working capital.

The Department of Social Development allocated pre-determined funding to SMEs, budgeting accordingly is vital. This may cause among other factors a change in the original entrepreneurial thinking that will steer the business in a new direction and may cause low levels of motivation and ultimate failure due to little knowledge in this area. Curran, et al. (1986) found in their study of SMEs in the UK that member contribution is relied upon heavily and that it increases their susceptibility to the rise and fall of the market place. Part of this study will be to utilize the business plans as a source of reference in all SMEs in an
attempt to identify whether there is evidence of inadequate financing and whether that can be linked to failure.

2.4.9 Government’s Role

The administration capacity of the governmental departments in steering SME development plays a major role in the success of many SMEs. At times has government’s administration capacity has come under the spotlight, as this significantly impacts on the business operations of SMEs, in particular the cash flow. The provisioning of tenders to SMEs as an attempt to create more jobs has empowered many SMEs despite criticism of non-sustainability. The Department of Trade and Industry (DTI) has recognized the need to empower SMEs and has established SEDA (Small Enterprises Development Association), whose role is to provide non-financial support to SMEs (Finance Week: 2005).

2.4.10 Teamwork

According to Cornforth (1983 in Curran et al.: 1986), the weak relationships between management and workers is one of the reasons SMEs fail. In another study conducted by Pickering, Kajura, Katongole, and Whitworth (1996) in Uganda, it was found that vital business decision making was delayed to maintain good relationships with members of the SME. Another interesting aspect emanating from this study is the deliberate creation of barriers for new membership. This means that teamwork can be destructive as it may exclude innovativeness and skills necessary for success.

More vulnerable are the cooperatives which can be easily destroyed by their inability to enhance teamwork and solve problems (Nieman: 2006).

2.4.11 Globalisation

Globalisation is defined by Hough and Neuland (2007) as the move toward a more integrated and inter-dependent world economy, which includes the globalization of markets and production. With the formation of comparative cost benefits in international trade comes technological renewal and production expertise which are fundamental components for SMEs to understand. International competition is at the increase and SMEs will soon be
forced to trade globally when trade limitations are lifted (Wadula, 2000 in Mienie: 2000). In order for SMEs to manage the many challenges of global competition, they should focus on better service delivery and greater competition (Mienie 2000). If many SMEs enter the global market arena, this would mean higher exports that could ultimately increase the living standards of South Africans (Wadula, 2000 in Mienie: 2000). The Centre for Development and Enterprise states that developing countries cannot afford to ignore globalization as it has an economy which is market driven.

2.4.12 Inability to Manage Growth

Growth in any business put severe pressure upon its resources and sometimes necessitates SMEs to acquire more resources, which plunge them in many instances into severe cash flow problems (Mienie :2000). Mienie (2000) argues that the latter prohibits the SME from growing to its fullest potential as it is unable to acquire the necessary resources. Durand (2005) states that growth alone is no indicator of success, while Mckenna (2001) warns that growth should be a mindful decision making process as it is sometimes to the business’s advantage to stay small. Growth also means testing the managerial capacity for planning and the recreation of new managerial and administration styles (Mckenna 2001).

2.4.13 Access to Markets

One of South Africa’s fundamental empowering obstacles is women’s lack of access to sufficient markets (Numes: 1998). Numes (1998:11) postulates that women operate in heavily overcrowded market conditions where the “copy cat” syndrome is prevalent. She argues that unless policy makers are able to improve the accessibility of women to markets, women will remain trapped in less favourable market conditions. Market-based growth has been identified as a very successful engine to reduce poverty (Centre for Development and Enterprise). The expertise of companies should be utilized to develop real abilities in the market place for SMEs, increasing innovative ideas, which bring about price reductions and help create a customer-oriented approach (Numes: 1998).
2.4.14 Access to Information

Numes (1998) contends that gender and cultural differences affect women empowerment negatively and that effective distribution of information is important for their survival as this provides them with information about new initiatives, opportunities and new developments. Access to information is therefore a vital source for women entrepreneurs as this provides them with new knowledge and profitable opportunities (Numes: 1998).

2.5 Chapter Summary

This chapter identified factors which contribute to the success and failures of SMEs. These factors emanate from both traditional methods and the human capital aspect. Many of these factors fall within the internal operations of the SME and can be prevented or controlled by their managers. Government plays a major role in providing finance for many SMEs and helping them to find a suitable market for their products or services. SMEs need to carefully select their market due to the tendency to obtain government tenders and risk experiencing serious cash flow problems.

However, marketing and strategies to shield off competition are two very important success contributors. Profitability and subsequent costing and pricing decisions contribute to the short-term success of the SME in general as this practice impacts on the sales volumes and cost management strategies.

One of the major reasons for SME failures is the lack of sufficient capital, coupled with cash flow problems. This alone will prevent them from growing their business venture or to become more competitive with bigger enterprises.

The question of whether gender does play a role in SME success is also highlighted. While the majority of factors contributing to failure are embedded in financial management, training, teamwork and entrepreneurial skills, these factors do contribute to the effective management of both the business operations and competitive market. Entrepreneurship is a fundamental component for small business success and need to be encouraged on a much larger scale.
Professional advice is a non-financial method of support that can be regarded as equally important as financing. Although government is introducing empowering legislation, this is still an area that is burdensome and constrains SMEs from growing.

Social capital does play a role and therefore contributes to maintaining certain markets and in this way ensures the survival of the business. In this chapter, the essence of social capital as opposed to the traditional methods is emphasized as a cornerstone of business success. Understanding the social, political and economic structures is a requirement for analyzing the degree of social capital and understanding how it can work to the advantage of the business.

Social capital is a very broad subject that needs perhaps deeper analysis, yet it is evident that it does contribute to the success of small businesses in small towns or communities generally. Irrespective of the environment, networking is a basic requirement for business success and can be enhanced to gain an advantage over other businesses.

More important is the degree of social interaction within a specific community. The higher the level of social capital, the more likely small businesses can use it as a strategy to achieve their desired outcomes. Therefore, reciprocated community support is fundamental to enhance the corporate image of the SME, which in turn will strengthen and enable the expansion of networks necessary for future survival.

When taking into account the ability of communities to organize themselves and find solutions to their problems, commitment stemming from volunteerism is a central feature of the social welfare services sector. The success rate of SMEs within this department should therefore be higher in relation to other departments.
CHAPTER THREE

Research Methodology

3.1 Introduction

This chapter aims to provide a comprehensive overview of the research methodology within which the research has been conducted. Therefore, the methods, techniques, and procedures applied in the execution of the research plan will be discussed. Other related issues such as the underlying principles and ethical considerations pertinent to the research plan will also receive attention.

The first goal of this research study was to add value to the field of small business management and implementation of such activity within the Department of Social Development. The second goal was to investigate the contemporary phenomenon of small and medium enterprises (SMEs) with particular reference to factors contributing to the success and failure of SMEs within the operational scope of the Department of Social Development. The research also aimed to ascertain whether there are similarities between small business failures and successes as outlined within the broad SME sector of South Africa and globally. The literature review was the medium to achieve the above goals. During the process of conducting the research, the researcher hoped to identify factors that are unique within the social welfare field. If the above goals were realized, the external validity of the research study has been enhanced. Furthermore, it has enabled the researcher to make recommendations regarding the success rate of SMEs in future. Therefore the importance of this research study cannot be over-emphasized.

3.2 Approach and Methodology

According to Remenyi (1996) there are two approaches to the research method, i.e. empirical and theoretical approaches. Remenyi (1996:25) defines empirical research as research that is guided or based on the outcomes of observations, while on the other hand theoretical research is regarded as “deep in thought” and therefore relies on the writings of others to study the subject. While it is necessary for the empiricist to engage in the practical world to conduct observations of events, it is necessary for the empirical researcher to have
a theoretical understanding with regards to the subject to be researched (Remenyi: 1996). In view of the above, the researcher has followed an empirical approach to the study, which is often associated with a positivist view due to the fact that the researcher has engaged with an observable social reality and believes that he was an objective analyst and interpreter of events unfolding (Remyeni: 1996).

Poggenpoel and Myburgh (2006:304) define qualitative research as a “deep holistic exploration and description of an identified phenomenon” and argue that the rationale of qualitative research is to provoke realization and not to examine theory. The above definition intertwines with that of Handwerker (2006) who defines qualitative research by highlighting the need for the researcher to understand and explain the events of a specific set of people. Putting the above definition into perspective, the researcher conducted the research within a qualitative approach, as hypothesis testing is not the essence but rather a comprehensive understanding of the problem which was investigated.

The use of written texts and semi-structured interviews during the research process were clear indicators of the qualitative research approach (Mason 2002 in Handwerker). The qualitative research paradigm is appropriate for this research study because the researcher evaluated the normal set-up in which events occurred (Babbie and Mouton, 2003). Therefore, a qualitative and empirical philosophical viewpoint was held in this research study.

Babbie and Mouton (2003: 279) outline three types of qualitative research designs:

a) Ethnographic studies: ‘are qualitative research studies aimed at describing and understanding different cultures and societies.’

b) Life history: ‘...is an in-depth account of one person’s life in his or her own words’.

c) Case study: ‘...is an investigation of a single unit: This unit can vary: from individual people, families, communities, social groups, organizations and institutions, events and countries’.

Galliers (1991, in Remenyi, 1996) also outlines various approaches of research of which the case study methodology seemed most suitable for the current research study. Yin (1984 in Remenyi: 1996: 29) defines a case study approach as follows: ‘a case from a research strategy point of view may be defined as an empirical inquiry that investigates a
contemporary phenomenon within its real life context, when the boundaries between phenomenon and the context are not clearly evident, and in which multiple sources are used”. Remenyi (1996: 29) contends that the case study research method is ‘a way of establishing valid and reliable evidence for the research process. It is a research strategy for the social scientist in a similar sense as experiments are a research strategy for the natural scientist ’. According to Remenyi (1996), case study research is highly applicable for business and management researchers as it enables them to demarcate their specific focus as well as to obtain a comprehensive view of events.

Babbie and Mouton (2003) stipulate that one of the common phenomena of case study design is the investigation of a variety of variables. Welman, Kruger, and Mitchell (2005) postulate that in the case study research method the units of analysis are limited to allow for a more intensive investigation. They contend that this will enable the researcher to understand the uniqueness of a particular case in its total complexity. This was applicable in this study. The researcher looked at multiple factors influencing the success or failure of SMEs. According to Yin (2003) the use of multiple case study designs increase the analytical benefit and this will result in obtaining more substantial information. In this design, the researcher attempted to identify important patterns and themes in the data and linked these to broader issues of vital importance. Furthermore, case studies explore the details and meaning of experiences, which suited this research study well (Yin, 1994).

An in-depth analysis and description of the data gathered is necessary in order to understand why SMEs failed or succeeded. Therefore, the research paradigm will be a constructivist case study as the researcher will describe and understand his findings (Remenyi: 1996).

3.3 Data Collection Procedures and Techniques

Qualitative evidence contains opinions and viewpoints of people and therefore has a high degree of subjectivity (Remenyi, 1996). However, Remenyi (1996) states that this subjectivity or bias can be reduced by applying triangulation, i.e. a technique in data collection. According to Poggenpoel and Myburgh (2006:310) triangulation has, by definition, three integral parts:
• Making use of more than one researcher.
• Apply various sources for information gathering and conduct data-analyses.
• Utilizing different methods of data collection and data analysis.

The above components of triangulation are vital as they strengthen the accuracy of the research results in different ways. Not only is triangulation important to limit subjectivity, but it also helps to make meaning out of certain patterns of information (Welman et al, 2005). According to Riley, M., et al (2000), using a multi method approach increases the validity of the research study. The researcher used three data gathering sources:

➢ Interviewing the beneficiaries of the small businesses who are engaged in small business development.
➢ Gathering information from the Department of Social Development employees involved in small business development and the SME’s concerned.
➢ Assessing the relevant documents, i.e. the business plans, financial statements, implementation plans, minutes of meetings, bank statements and progress reports as well as other relevant documents of the SMEs concerned.

However, the multiple case study approach followed by the researcher, has secured substantial information. In addition, the researcher has also made observations of the operational activities of the SMEs. Remenyi (1996) further emphasizes the value of observing the actual situation, i.e. the operations of the business. He argues that only by viewing the situation can a complete viewpoint be obtained of the interaction of the different variables or events. Similarly, Denzin (1989 in Mathews, 2005) argues that information gathered by observing research participants is the best form of qualitative research. In a nutshell, applying triangulation enabled the researcher to accommodate a wide range of personality, historical and behavioural aspects (Yin: 2003).

Semi-structured interviews have been the main technique for data collection due to their flexibility in accommodating all data collection sources, in particular the SME beneficiaries. The researcher believes that this technique (semi-structured interviews) suited the SME beneficiaries best due to their level of education. Secondly, by using semi-structured interviews, the respondents were allowed the freedom to respond easily and in a relaxed atmosphere. Furthermore, the semi-structured interviews have secured a high response
rate and simultaneously avoided confusion (Babbie and Mouton: 2003). In addition, unstructured interviews can be a time consuming exercise (Welman et al., 2005). The researcher has to extract data from the respondents that reflects how the respondent sees the world (Mathews: 2005). The questions were structured in such a way that they allow the respondent to give a full picture of their views. In this way the analysis will go beyond simply reporting what the respondents said. According to Mathews (2005) this will allow the researcher to effectively assemble a credible case. The construction of the questionnaire was based on the literature review and experience of the researcher, which is also stated by Babbie and Mouton (2003) as a basic requirement. Furthermore, the researcher made use of conjectures in some questions to allow flexibility for the respondents. According to Babbie and Mouton (2003) the above is a common practice for qualitative researchers as it acts as guidance during the interviewing.

**Table 3 (a) Questionnaire:**

<table>
<thead>
<tr>
<th>Number</th>
<th>Actual Questions Asked</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>The establishment of small businesses by the department of Social Development is a method to eradicate or reduce poverty in poorest communities, yet it demands business management skills. What is your viewpoint on this?</td>
</tr>
<tr>
<td>2.</td>
<td>In view of your experience regarding the management of small business projects, are there any factors hampering the success or growth of such businesses? Please discuss.</td>
</tr>
<tr>
<td>3.</td>
<td>What do you think are the success factors giving rise to the growth and sustainability of small businesses established within the Department of Social Development?</td>
</tr>
<tr>
<td>4.</td>
<td>Do you think that small businesses established by the Department of Social Development have a higher or lower survival rate as compare to other small businesses in the private sector? Does social capital play a role? Discuss.</td>
</tr>
<tr>
<td>Question</td>
<td></td>
</tr>
<tr>
<td>----------</td>
<td></td>
</tr>
<tr>
<td><strong>5.</strong> The Department of Social Development are among the few governmental departments to been granted funds for small business development. What are your views on the effectiveness of implementing small businesses to fight poverty?</td>
<td></td>
</tr>
<tr>
<td><strong>6.</strong> What are your views on inter departmental collaboration in order to strengthen resources for the successful establishment of small businesses?</td>
<td></td>
</tr>
<tr>
<td><strong>7.</strong> What do you think are the challenges that the Department faces in increasing the success rate of small businesses?</td>
<td></td>
</tr>
<tr>
<td><strong>8.</strong> People perhaps view the Department of Social Development in a more helping and welfare mandatory context. Do you think that the relationship with the Department and communities play a significant role in ensuring the sustainability of small businesses?</td>
<td></td>
</tr>
<tr>
<td><strong>9.</strong> Can you share your views on how the Department of Social Development can play a more effective role in ensuring the future sustainability of small businesses?</td>
<td></td>
</tr>
<tr>
<td><strong>10.</strong> Small business development is a major arena for the South African government to fight poverty. Do you think that the Department of Social Development has made a significant contribution in this area? Please discuss.</td>
<td></td>
</tr>
</tbody>
</table>

The above questionnaire was only a guideline for interviewing the ten beneficiaries from the four SMEs. Interviewees were allowed to move forward and backwards during the interviews. According to Mathews (2005) this will enable the analysis of data to go beyond simply reporting what respondents disclosed. After the researcher had chosen the appropriate technique for data collection, the second step was to get access to the appropriate SMEs, i.e. the sample. This includes both successful SMEs as well as failures established by the Department of Social Development in the Eastern Cape. The researcher visited the Department of Social Development at the Nelson Mandela Metropolitan area in Port Elizabeth after making an appointment. The visit was followed by a formal letter
requesting permission to have access to the SMEs and their respective members as well as staff members from the Department of Social Development and relevant documentation. Poggenpoel and Myburgh (2006:308) warn about “unplanned initial contact” and the establishment of a good understanding.

The researcher drafted an information sheet which indemnifies the participants from any harm or damage resulting from the research study. However, no individual consent forms were used as this can diminish confidentiality and perhaps threaten the good rapport between researcher and participant (Van Den Hoonnaard: 2000). Welman et al., 2005 stated that in light of the research subject, it is crucial for the researcher to gain the trust of the respondents.

Babbie and Mouton (2003: 282) underpins the importance of using multiple sources of data and state that this entails applying ‘...more than one method, multiple interview or observation occasions and a variety of informants when the research questions call for them’. The researcher has used semi-structured interviews in interviewing all beneficiaries of the SMEs involved and made use of field notes in addition to tape recordings. The tape recorder was used after permission was granted by the respondents. Six employees from the Department of Social Development were used to answer the same questions asked to the SME beneficiaries. This was an attempt by the researcher to get a more balanced view although the necessary documents were also accessed. Three of these employees are directly involved in the SMEs sampled, while others are working closely together within the same service programme, i.e. poverty eradication through the establishment of small businesses. Welman et al., 2005 underline the significance of writing down everything that is disclosed during the interview, including any non-verbal behaviour. The interviews were scheduled over a three month period including the visits to SMEs and observations. Documents for the applicable SMEs were sourced, such as business plans, financial statements, implementation plans, and minutes of meetings, bank statements and progress reports as well as other relevant documents.
3.4 Case Study Protocol

A case study protocol will increase the reliability of the case study research and is necessary during this research because the investigator will engage in a multiple-case study design (Yin: 2003). Many interviewees may be sensitive to the question of SME failures and successes so the interviews need to be managed with great circumspection. Another aspect of concern is the experience gained by the researcher in this field of study. The researcher has extensive knowledge and experience in the social field of small business development. Therefore it is important to construct field procedures and keep to the specific questions in mind across all case studies. The researcher will aim to achieve replication and convergence, as these are two fundamental aspects of increasing reliability (Babbie and Mouton: 2003).

Applying a multi-case study design will also enhance reliability and allow the researcher to feel confident when convergence and replication is reached during the data analysis (Yin: 2003). This means that planning for the interview, and framing and structuring the questions to be posed is important. Consistency must be maintained throughout the investigation in respect of all case studies. This will ensure that good data is obtained.

In this research, it is extremely important that the researcher remains focused in compiling unbiased findings, while simultaneously subscribing to substantial, traceable evidence to confirm the findings (Babbie and Mouton: 2003). Collecting information from multiple angles will enhance credibility of the research. In this case, four SMEs were sampled.

Remyeni (1996) postulates that especially in business and management studies, the participants need a high degree of reassurance. According to Remyeni (1996) this can be achieved if the researcher is open about the goals of the research and the other important ethical issues. The following aspects are important and should be attended to by the researcher Remyeni (1996:111):

- The participants should be made fully aware of why the research are been conducted and what will happen with the information after the research process.
- The researcher should declare whether there is any conflict of interest, which could affect the participants.
• The participant’s right to remain anonymous should be respect by the researcher.
• Information should not be gathered under pressure by using higher authority to get information from informants.

In addition to the above, Welman et al. (2005) warn the researcher to guard against manipulation of respondents and advises treating them in a human and dignified manner. The researcher addressed all of the above aspects by means of the research information sheet, which was signed and explained by the researcher before being handed out to all participants. In this way the respondents were assured about the confidentiality of the interviews. The researcher respected the interviewees request not to disclose their names in any form of writing. During the interviewing process some of the interviewees requested that the tape recording be discontinued while the researcher was allowed to make field notes. The officials from the Department of Social Development preferred to complete the questionnaire via email and have follow-up correspondence if necessary. According to Riley, Wood, Clark, Wilkie, and Szivas (2000), confidentiality can enhance the reliability and truthfulness of the participants’ responses during the research process.

3.5 The Sample

Remyeni (1998) emphasises the critical relationship between the results of the research and the selection of the sample. He points out that the sample selection process can become an ethical issue when the influence of the researcher becomes evident. Selecting samples is a difficult process as the researcher should stipulate clearly how this process unfolded to give the reader the opportunity to critically evaluate the findings (Mathews: 2005). According to Babbie and Mouton (2003) there are two types of sampling, i.e. non-probability and probability sampling. Under the latter, Babbie and Mouton (2003) identified the following sampling designs:

• Simple random sampling, which is a fundamental sampling method for statistical calculations of social research. Babbie and Mouton (2003) postulate that this method is rarely used by researchers because it lacks efficiency.
• Systematic sampling is also problematic as the possibility of drawing a biased sample exists.
• Stratified sampling decreases the error of probability and simultaneously obtains a greater degree of representativeness.

• Multistage cluster sampling is a technique used to decrease the sampling error by increasing the number of clusters and decreasing the number of elements within a cluster.

The following non-probability sampling techniques are outlined by Babbie and Mouton (2003):

• Reliance on available subjects. This method is inexpensive and very convenient but prevents the researcher from generalizing from the data.

• Purposive or judgmental sampling. Here the researcher selects a sample based on his/her judgment and the purpose of the study.

• Snowball sampling. This is the process of accumulation, as each located subject suggests other subjects.

• Quota sampling. This method requires a detailed description of the characteristics of the total population in order to select the sample members.

• Selecting informants. Here informants are selected in such a way that they represent a broad, diverse view of the group under study.

In view of the above sampling methods, the most appropriate methods for this study are reliance on available subjects and purposive or judgmental sampling. The researcher experienced difficulty in finding a variety of the sample, i.e. the SMEs that are successful and on the other hand knowledgeable staff members in the area of SME management operating within the context of the social welfare field. Business successes and failures are a very broad topic and were narrowed down to the social developmental context. A sample of two successful income generation projects (SMEs) and two unsuccessful projects were selected. This was done in consultation with the Department of Social Development employees as the researcher did not have knowledge of the SMEs progress. The two successful SMEs are engaged in multiple business initiatives. Measurements of financial management as described in the literature review have been used as a criterion for defining successes and failures. The four SMEs were located in the Nelson Mandela Metropolitan Municipal district in the Eastern Cape. The Nelson Mandela Metropolitan Municipal district is a well-
developed and advanced region in comparison with other district municipalities in the Eastern Cape and is thus able to accommodate the researcher’s sampling strategy. The researcher selected the ten most experienced beneficiaries or members involved in SME management. The documents analyzed were obtained from the SME members and also from the Department of Social Development employees.

3.6 Data Analysis

Mathews (2005: 804) describes the data analysis process as a ‘creative process that requires spending a great deal of time with the data, reading and rereading, coding and recoding, writing memos and rewriting memos and then making connections among them, until an argument emerges that is grounded in the data’. Babbie and Mouton (2003) outline two analytical approaches to qualitative research:

- Content analysis enables the researcher to make conclusions about the philosophical assumptions of a text or writer through the examination of repetition of certain words and phrases. Babbie and Mouton (2003) state that this approach is not favourable for qualitative researchers and is not commonly used.
- Discourse analysis is one method which allows researchers to move beyond the obvious so as to become empowered to reconstruct the meaning of all things. Discourse analysis is valued by Babbie and Mouton (2003) as a multifaceted process, but they maintain it is very complicated to learn. The researcher is of the same opinion and is not in favour of the appropriateness of the content analysis approach.

Due to the high degree of subjectivism of qualitative approach, the researcher applied multiple case study method (Remyeni: 1996). Thus, interviews were the main method of data collection together with observations and document analysis as well as sorting email data gathered from departmental employees.

The grounded theory approach will be applied in this study as no research hypothesis testing will be conducted. Strauss and Corbin, 1990 in Babbie and Mouton (2003: 498) describe the key aspects of grounded theory as something ‘that is discovered, developed, and provisionally verified through systematic data collection and analysis of data pertaining
to the phenomenon’. Furthermore, Straus and Corbin, 1990 in Babbie and Mouton (2003) cited that coding procedures and adjunctive procedures are the two main processes to grounded theory. They stated that coding entails asking questions and making comparisons. Straus and Corbin (1990) identified three types of coding, namely open coding, axial coding and selective coding. Although Shank and Villella (2004) contend that qualitative researchers have the freedom to sort through their data and should not feel obliged to account for every single aspect of meaning, they assumed that all aspects of meaning in qualitative research study should be coded and that all these coded elements must be accounted for. Boyatzis (1998) outlines five steps in developing themes and codes:

(i) Step 1 entails the task of reducing the raw data by reading, listening and watching raw material of each unit of analysis.

(ii) In step 2, the researcher identifies themes within samples. Here similarities among the pieces of information within a subsample should be compared.

(iii) Thirdly, the researcher compares the themes or items identified. The similarities between subsample groups are been identified.

(iv) Creating a code is the fourth step. This involves writing, rewriting and constructing statements that carry differentiation through.

(v) Lastly, the researcher must determine the reliability or consistency of judgement of the coders. Here the degree of consistency of the researcher’s judgement is tested by another person.

The researcher grouped each SME’s respondents separately and analyse the data as per single interview conducted. This means that four groups of interviews were grouped separately, while each interview was analysed individually. During the analyses, the researcher used the questions asked during the interviews to create themes where under data was sorted. In this way, the researcher was able to identify linkages and issues of mutual agreement among interviewees and highlight distinctive characteristics between SMEs themselves. In addition, the data gathered from the Department of Social Development employees via email was also analysed and grouped under themes. This
enabled the researcher to outline similarities in responses as well as divergent views. The latter information was compared with the information gathered from the SMEs. All documents sourced were also analysed and interpreted in the light of the comparisons and divergent views stated. In view of the above data analysis process followed, it can be argued that the researcher has adopted the Cross-Case Synthesis technique from Yin (2003). In this technique each case study is treated individually, i.e. as a separate study. Word tables were used to sort data, which enabled cross-case conclusions and identification of similarities. According to Yin (2003), having more than two case studies could strengthen the results even more under this technique. The sample consisted of four SMEs. The researcher needs to be careful not to be overwhelmed by statements from these interviewees or to misinterpret findings (Remyeni: 1998). After research was conducted, the researcher reflected on the experience of formal and informal data collection.

### 3.7 Ethical Considerations

The qualitative researcher must strive by all means to conduct him/herself in an ethical manner and manifest a thorough understanding of his/her actions and efforts during the research process. Participatory accountability holds the qualitative researcher accountable for all forms of participation (Shank and Villella: 2004). Fielding (2000) believes that it is difficult to maintain objectivity but emphasizes the importance of a continuous attempt to achieve objectivity.

Confidentiality is another important ethical aspect in qualitative research. Brown (2003) notes that it is important for the researcher to assure the interviewees that the information disclosed will not be linked back to them. In other words, no one would be able to trace them through the information given. Welman et al., (2005) interpret the above as the right to privacy and mentioned that it is important to inform the respondent that his/her name will remain anonymous. The researcher assured participants of their anonymity in the research information sheet, and reaffirmed this during the interviews.

Honesty is another important ethical consideration and should be implemented from the start when the researcher gives a careful explanation about the purpose of the research.
(Brown 2003). From the start, the researcher communicated in an open and honest manner to all the relevant people as well as the participants.

Welman et al., (2005) highlight trust as key factor to increase validity. The researcher should gain the trust of the respondents so that they feel at ease and disclose information accurately. Remenyi, 1998 also emphasises the need for trust between the researcher and the university as well as the general public as key for the setting of ethical standards. Furthermore, Welman et al (2005) note that especially male researchers should be cautious not to act in a paternalistic way towards female respondents. Oakely (1981, in Welman et al., 2005) suggests that in order for the discussion of the subject to be value free, both the researcher and interviewee should remain faceless and invisible. The majority of the sample was females and the researcher was very cautious not to act in a dominant or paternalistic manner. The researcher has also assured the respondents of indemnity from any harm or damage in the research information sheet and communicated this again during interviewing.

3.8 Chapter Summary

This chapter investigated the research methodology process that guided the researcher during the investigation. Essential elements of the research design were discussed with much emphasis on the substantive grounds for following this particular research design. Due to the qualitative nature of the research study, descriptive tables are used to easily explain statistical results. Issues such as the multiple case study design and enhancing the reliability of the study were also discussed. Special attention has been given to the selection of the sample due to the complexity of the subject under investigation. Much attention was given to the protocol the researcher should adhere to as well as other fundamental ethical considerations. The approaches to the data analyses were discussed, as well as the technique applied in the research study.
CHAPTER FOUR

Research Findings

4.1 Introduction

Chapter three outlined the research process that was followed, i.e. semi-structured interviews were used for the beneficiaries of four different SMEs. These SMEs are part of the Department of Social Developments’ poverty alleviation program and were established by them in conjunction with the members of the various communities. The researcher refers to the project members as beneficiaries as they are the community members that benefit from the operational proceeds of these particular SMEs. The appropriate documents were accessed and correlated to verify certain information gathered. Choosing a multiple case study design approach increased the reliability of the research data and enhances the confidence of the researcher when convergence and replication is reached during data analysis (Yin: 2003). The data gathered were analyzed and the factors leading to the success and failure of SMEs are presented in this chapter.

The fundamental issue in the data analysis is the distinction between the responses gathered from the ten interviewees involved in the four SMEs studied and observations and data obtained from all four different SMEs. Equally important is the information gathered from five Departmental officials that will be correlated with those responses from the SME beneficiaries. The researcher’s interpretation of what the respondents disclosed about the issues at hand is important in this chapter (Mathews: 2005).

Therefore in this chapter, the researcher hopes to convey to the reader the findings of the research while chapter five contains in-depth discussions linked to the literature.

4.2 Interviews Conducted

The researcher conducted ten interviews among the four different SMEs selected. The SMEs are divided into two categories, namely successful and unsuccessful SMEs. The interviewees comprised of two males and eight females who are all between the ages of 30 and 62 years of age. All participants seemed to have more than two years experience in community work and small business management activities. The following is a biographical outline of the
interviewees of the four SMEs. Each colour represents one SME:

<table>
<thead>
<tr>
<th>Interviewee no.</th>
<th>Experience</th>
<th>Gender</th>
<th>Age</th>
<th>Language</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>3 ½ years</td>
<td>Male</td>
<td>33 years</td>
<td>Xhosa</td>
</tr>
<tr>
<td>2</td>
<td>3 years</td>
<td>Male</td>
<td>54 years</td>
<td>Xhosa</td>
</tr>
<tr>
<td>3</td>
<td>2 years</td>
<td>Female</td>
<td>57 years</td>
<td>Afrikaans</td>
</tr>
<tr>
<td>4</td>
<td>5 years</td>
<td>Female</td>
<td>51 years</td>
<td>Xhosa</td>
</tr>
<tr>
<td>5</td>
<td>19 years</td>
<td>Female</td>
<td>62 years</td>
<td>Xhosa</td>
</tr>
<tr>
<td>6</td>
<td>10 years</td>
<td>Female</td>
<td>40 years</td>
<td>Xhosa</td>
</tr>
<tr>
<td>7</td>
<td>4 years</td>
<td>Female</td>
<td>57 years</td>
<td>Afrikaans</td>
</tr>
<tr>
<td>8</td>
<td>2 years</td>
<td>Female</td>
<td>42 years</td>
<td>Afrikaans</td>
</tr>
<tr>
<td>9</td>
<td>9 years</td>
<td>Female</td>
<td>52 years</td>
<td>Afrikaans</td>
</tr>
<tr>
<td>10</td>
<td>3 years</td>
<td>Female</td>
<td>38 years</td>
<td>Afrikaans</td>
</tr>
</tbody>
</table>

**Table 4 (a) Biographical profile of interviewees**

The ten interviews lasted approximately 12 hours and varied in time depending on the participants’ responses during the interviews. The researcher allowed the respondents to flow freely during the interviews, but ensured that focus around the different questions is maintained. In this way the researcher attempted to see the story told through the eyes of
the respondent (Mathews: 2005). Although the researcher made use of a tape recorder, field notes were also taken during the interviews. Apart from the above, observations of the operational activities of these SMEs were made and additional information was recorded in the form of field notes. The total time devoted to observations was approximately 150 minutes. The following table represents a service profile of each SME:

Table 4(b) Profile of SMEs

<table>
<thead>
<tr>
<th>SME 1</th>
<th>SME 2</th>
<th>SME 3</th>
<th>SME 4</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Projects running at the time of research</strong></td>
<td><strong>Projects in the pipeline</strong></td>
<td><strong>Funding</strong></td>
<td><strong>Operational activities</strong></td>
</tr>
<tr>
<td>• Catering</td>
<td>• Sewing project</td>
<td>• Cleaning services</td>
<td>• Daily operations</td>
</tr>
<tr>
<td>• Confectionery</td>
<td>• Bangle Ubuntu</td>
<td></td>
<td>• Daily operations</td>
</tr>
<tr>
<td>• Hiring</td>
<td>• Home Based Care</td>
<td></td>
<td>• Intensive</td>
</tr>
<tr>
<td>• Candle making</td>
<td>• HIV/AIDS</td>
<td></td>
<td>• Daily operations</td>
</tr>
<tr>
<td>• Sewing service</td>
<td>• Food Security</td>
<td></td>
<td>• Intensive</td>
</tr>
<tr>
<td>• Hall decorations</td>
<td>• Pre-school</td>
<td></td>
<td>• Daily operations</td>
</tr>
<tr>
<td>• Functions and events planning</td>
<td>• Vegetable gardens</td>
<td></td>
<td>• Depends on orders</td>
</tr>
<tr>
<td>• Adult basic education</td>
<td>• Woodwork</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Projects in the pipeline</strong></td>
<td><strong>Funding</strong></td>
<td><strong>Amount allocated</strong></td>
<td><strong>Operational activities</strong></td>
</tr>
<tr>
<td>• Laundry service</td>
<td>• Capital funding</td>
<td>R500 000.00</td>
<td>• Daily operations</td>
</tr>
<tr>
<td>• Welding service</td>
<td>• Sales</td>
<td>R704 000.00</td>
<td>• Daily operations</td>
</tr>
<tr>
<td>• Cleaning service</td>
<td>• Annual funding</td>
<td>R500 000.00</td>
<td>• Daily operations</td>
</tr>
<tr>
<td><strong>Funding</strong></td>
<td><strong>Projects in the pipeline</strong></td>
<td><strong>Amount allocated</strong></td>
<td><strong>Operational activities</strong></td>
</tr>
<tr>
<td>• Capital funding</td>
<td>• Agriculture</td>
<td>R500 000.00</td>
<td>• Daily operations</td>
</tr>
<tr>
<td>• Sales</td>
<td>• Counselling services</td>
<td></td>
<td>• Daily operations</td>
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<tr>
<td>• Donations</td>
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<td>• Daily operations</td>
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<tr>
<td><strong>Amount allocated</strong></td>
<td><strong>Projects in the pipeline</strong></td>
<td><strong>Funding</strong></td>
<td><strong>Operational activities</strong></td>
</tr>
<tr>
<td>R500 000.00</td>
<td>• Building cleaning</td>
<td>• Sales</td>
<td>• Daily operations</td>
</tr>
<tr>
<td><strong>Funding</strong></td>
<td>• Road repairs</td>
<td>• Capital funding</td>
<td>• Daily operations</td>
</tr>
<tr>
<td><strong>Market</strong></td>
<td>• Waste management</td>
<td></td>
<td>• Daily operations</td>
</tr>
<tr>
<td>• Very well established</td>
<td>• Recycling</td>
<td></td>
<td>• Daily operations</td>
</tr>
<tr>
<td>• Government tenders</td>
<td>• Polish making</td>
<td></td>
<td>• Daily operations</td>
</tr>
<tr>
<td>• Very good support</td>
<td>• Vaseline production</td>
<td></td>
<td>• Daily operations</td>
</tr>
<tr>
<td><strong>Profitability</strong></td>
<td><strong>Employment</strong></td>
<td><strong>Operational activities</strong></td>
<td><strong>Operational activities</strong></td>
</tr>
<tr>
<td>• Very good</td>
<td>• 15 members fully employed and shareholders</td>
<td>• Daily operations</td>
<td>• Daily operations</td>
</tr>
<tr>
<td></td>
<td>• More than 800 temporary workers per annum</td>
<td>• Intensive</td>
<td>• Daily operations</td>
</tr>
<tr>
<td></td>
<td><strong>Profitability</strong></td>
<td><strong>Employment</strong></td>
<td><strong>Operational activities</strong></td>
</tr>
<tr>
<td>• Maintain positive balance</td>
<td>• 23 care givers</td>
<td>• 16 staff members</td>
<td>• Daily operations</td>
</tr>
<tr>
<td></td>
<td>• Local municipality</td>
<td>• Volunteers only</td>
<td>• Daily operations</td>
</tr>
<tr>
<td></td>
<td>• Local communities</td>
<td></td>
<td>• Daily operations</td>
</tr>
<tr>
<td></td>
<td>• Well supported</td>
<td></td>
<td>• Daily operations</td>
</tr>
<tr>
<td><strong>Profitability</strong></td>
<td><strong>Employment</strong></td>
<td><strong>Operational activities</strong></td>
<td><strong>Operational activities</strong></td>
</tr>
<tr>
<td>• Operating at a loss</td>
<td>• 4 staff members</td>
<td>• Daily operations</td>
<td>• Daily operations</td>
</tr>
<tr>
<td></td>
<td>• Governmental departments</td>
<td></td>
<td>• Daily operations</td>
</tr>
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<td></td>
<td>• Not well supported</td>
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<td>• Daily operations</td>
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<tr>
<td><strong>Profitability</strong></td>
<td><strong>Employment</strong></td>
<td><strong>Operational activities</strong></td>
<td><strong>Operational activities</strong></td>
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<tr>
<td>• Ability to be profitable</td>
<td>• Shops</td>
<td>• Daily operations</td>
<td>• Daily operations</td>
</tr>
<tr>
<td></td>
<td>• Governmental departments</td>
<td></td>
<td>• Daily operations</td>
</tr>
<tr>
<td></td>
<td>• Not well supported</td>
<td></td>
<td>• Daily operations</td>
</tr>
<tr>
<td><strong>Profitability</strong></td>
<td><strong>Employment</strong></td>
<td><strong>Operational activities</strong></td>
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<tr>
<td><strong>Employment</strong></td>
<td>• 15 members fully employed and shareholders</td>
<td>• Daily operations</td>
<td>• Daily operations</td>
</tr>
<tr>
<td>• 15 members fully employed and shareholders</td>
<td>• More than 800 temporary workers per annum</td>
<td>• Intensive</td>
<td>• Daily operations</td>
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<tr>
<td>• More than 800 temporary workers per annum</td>
<td><strong>Operational activities</strong></td>
<td>• Intensive</td>
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<tr>
<td>• Daily operations</td>
<td>• Intensive</td>
<td>• Intensive</td>
<td>• Daily operations</td>
</tr>
<tr>
<td>• Highly Intensive</td>
<td>• Intensive</td>
<td>• Intensive</td>
<td>• Daily operations</td>
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<tr>
<td><strong>Operational activities</strong></td>
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</tbody>
</table>
All interviews were conducted at the convenience of the respondents. In some instances interviews were conducted on site in separate rooms from their business activities, which ensured that the confidentiality and privacy of the interviewees was maintained. Other respondents felt more comfortable at their homes, after work. These interviews were conducted between 16h00 and 19h00.

The following sections disclose information from the respondents in different themes as per questions asked:

### 4.2.1 The Need for Business Management Skills

The importance of business management skills for the successful implementation of small business activities is highly emphasized in the South African SME sector. Taking the Eastern Cape with the lowest literacy rate into perspective, one can link education to poverty. Fairlie and Robb (2007) suggest that government programs should provide mentors, internships or apprenticeship type training to reduce historical inequalities.

The first question attempted to ascertain whether there is a need for the business management skills for the successful establishment of SMEs by the Department of Social Development.

#### (a) Successful SME beneficiaries: (SME 1 & 2)

In response to the first question, all four respondents agreed that business skills are important for the sound managing and survival of SMEs. Respondent 7 stated that none of their members have formal education yet they were fortunate to have a group with such diverse skills. According to the respondent these practical skills were gained through their past experiences and previous employment history. However, respondent 8 (from the same SME) stated that there is a need for more training in order to enable them to improve on current service delivery.

| Total beneficiaries | • 12 | • 14 | • 16 | • 4 |
The following issues regarding business management skills also emerged from the interviews:

- Different skills are needed such as practical skills, which include handwork, beading, candle making, woodwork and farming.
- Business skills bring capacity and knowledge vital for the survival of the SME.
- The educational background of the beneficiaries is important and should be viewed as a criterion for acceptance to the business initiative.
- The Department of Social Development should consider who the beneficiaries are during the recruitment process for the establishment of the SME, as people with basic skills and integrity are important for the successful operation of the SME.

(b) Unsuccessful SMEs: (SME 3 & 4)

“We got the idea but we’re not perfect in doing it. To grow we need to know exactly what we are doing”. This particular respondent (no. 4) mentioned that they are struggling with the marketing of their products and bookkeeping tasks, yet they carry on for the sake of survival. The above statement can be linked with the response of her fellow colleague (respondent 5) who expressed her concern about monitoring as a method of in-service training to ensure the correctness of their duties. From the scrutiny of their business plan (Annexure ‘C’) training was scheduled for 15 women in business management skills by March 2007. It is also evident that no provision is made for follow-up training and that training is not specified in the various functional categories, such as marketing and bookkeeping. Other expressions are as follows:

- People need to be trained to understand ‘business itself’.
- There is a need for skills training on how to work with money and with people.
- Different educational levels cause problems when executing tasks, need training in managing the overall operations of the business.
- Need skills in order to work with money and with people.
(c) Employees from the Department of Social Development:

All five officials agreed that business management skills are important for the sustainable development of SMEs. Official 1 stated that business management skills are only infused at a later stage in the business process. According to him, this caused improper management of funds allocated by the Department of Social Development to the beneficiaries. Both officials 1, 2 and 4 emphasized skills development as an integral part of running the business. According to official 4 the highest level of education among beneficiaries is matric and stated that these beneficiaries have never learned how to run a business. Some of the respondents emphasized project management, financial management and business management skills as subjects for training. Official 5 also acknowledged the vital role of the Department of Labour in providing training for those SMEs who qualify in accordance with their standards. Other important information disclosed:

- The Department of Social Development focus on operating business initiatives and therefore engage with people who are already business orientated. The Department of Social Development’s aim is to empower them in such a way that these beneficiaries are able to take their business to the next level, i.e. from a cooperative to a close corporation.

- According to official 4, although community based initiatives are targeted by the Department of Social Development, where no business ventures exist, communities are encouraged and provided assistance to start such business initiatives.

Taking all three samples of respondents into perspective, one can conclude that there is a consistent outcry for training and more training, that the need for business management skills is experienced and that training should be in the beginning phase of the business venture. This is in line with Nieman (2006) who states that training is a vital source for any employee, as it presents them with information, expertise and capabilities.
4.2.2 Factors Hampering Growth and Success

The responses to the second question reflected constraints within the Department of Social Development (DSD) and the SMEs sampled, which could be regarded as contributing factors to failure.

(a) Successful SME beneficiaries:

Respondent 7 mentioned that a positive attitude among the beneficiaries is fundamental in addressing the many challenges they are facing. One overriding factor that causes a delay in the implementation of the small business is lack of education. The respondent is of the opinion that education will enable their SMEs’ beneficiaries to undertake more than one business venture and run it effectively. This particular SME beneficiaries want to engage in literacy classes, apply their new knowledge to the business and in doing so secure a stable income.

According to respondent 8, communication and attitude among the beneficiaries of SMEs are important factors for building the business. The respondent noted that attitude among their members nearly ruined the teamwork necessary for production. A mentor intervened and resolved the situation, which steered them towards success. Another respondent indicated that they have to replace the whole committee (board of trustees) because of a serious attitude problem and different viewpoints as it had a negative effect on their relationships and affected production.

Respondent 9 mentioned recognition as an important aspect as they are all equal shareholders within the SME. The same value was referred to by respondent 1 when mentioning that they are all “directors” of the SME. Communication was re-emphasized by Respondent no. 8 who said that they nearly lost their customer market because one of their members failed to communicate properly to customers.

Respondent 9 is convinced that SMEs will thrive or at least survive if the Department of Social Development recruit people with integrity who can ensure accountability and have the necessary basic skills.

Other issues that were expressed as inhibiting growth are:
People leave the SME when they are not treated in a dignified manner.

A lack of assertiveness causes misunderstanding among members. Support among members is necessary as everyone is not assertive as their fellow member.

People with bossy attitudes are problematic to the group.

Different views and opinions delay the progress of the business.

(b) Unsuccessful SMEs:

Respondents 4 and 6 agreed that a lack of commitment among beneficiaries threatens the survival and growth of the SME. According to respondent 2, members also experience a lack of skills to approach people to market their services. This intertwines with the response from respondent 6 who stated that they are experiencing a lack of marketing skills and as a result are unable to market their products.

The following are all diverse viewpoints reflected by members of the two unsuccessful SMEs:

- According to respondent 4 there is a lack of understanding of ‘seed money’. This cause conflict and mistrust among members, which in turn destroys teambuilding.
- Respondent 1 stated that beneficiaries lack understanding of profit making and simultaneous fail to take ownership of the business.
- The latter part of the above statement is linked to the response of respondent 2 who mentioned that members fail to take initiative.
- No workshops are conducted by the Department of Social Development prior to the allocation of funding.
- Lack of the ability to understand operations in such a way that a profit can be made.
- Competition in the market exists with two national companies.
- Lack of team building (This particular respondent mentioned that they started off with 20 women and dropped to four).

(c) Employees from the Department of Social Development:

Under this theme, there were quiet a diverse response from all five officials. Correlations could only be drawn from the following three aspects:
A lack of understanding among beneficiaries in terms of procedures to be followed and accountability lacks. Official 2 mentioned that beneficiaries’ behaviour change as soon as the funding is allocated. There seems to be an expectation for reward for labour input, yet the funding is for capital expenditure. Official 1 also stated that the temptations to use funds for other purposes than budgeted for increase when funding arrives. According to official 5, the above situation is urged when budgets are allocated late and expenditure needs to be rushed in order to comply with the financial period deadlines. As a result officials are under pressure and monitoring on expenditure collapse.

The late transaction of funds hampers business progress (official 3). This was also mentioned by official 5, stating that budgets are been released very late. As a result the value of experience to be gained in financial expenditure and protocol by SMEs is lost.

Both officials 1 and 3 agreed that a lack of skills and financial management skills in particular are hampering the growth and survival of SMEs.

Other views also mentioned under this section are as follows:

- Not all beneficiaries have the entrepreneurial flair necessary to succeed.
- A lack of understanding between the Department of Social Development and the beneficiaries.
- There seems to be mistrust among beneficiaries that cause serious problems.
- A lack of commitment among members of cooperatives (SMEs).
- Non adherence to governing documents by beneficiaries.
- Assistance available from other departments is very minimal, yet the Department of Social Development view them as vitally important to ensure the survival of SMEs.
- Low level of education is a fundamental stumbling block.
- Ignorance of beneficiaries, although trained, no improvement as far as following the right procedures is noticeable.
- Lack of commitment from local municipalities in assisting these SMEs.
The understanding of the SME’s budgets and responsibility to ensure accurate expenditure is highlighted by officials as factors hampering growth. This is also indicated by respondent 4, stating the lack of understanding of ‘seed funding’. The Department of Social Development implemented an “Agreement for Project Funding” policy document (see Annexure ‘D’), which stipulates the importance of financial recording and subsequent procedures to be followed. This agreement also compels beneficiaries to spend the allocated funding in accordance with the business plan and subsequent agreement.

4.2.3 Factors Contributing to Success

Under this section the respondents were asked about their experiences in view of factors contributing toward success. There are a number of factors contributing to the success of SMEs outlined in the literature review chapter. It is important to note that these factors or a combination of these differ from business to business. The following factors highlighted were perceived by the respondents as contributors toward success:

(a) Successful SME beneficiaries:

Respondent 7 states that unity and commitment among the members enabled them to be successful. Another value that was mentioned by this respondent is the “passion to serve the community”. As stated earlier that all interviewees have some experience in community involvement, even if it is on a voluntary basis.

A very interesting point came from respondent 8, who said they perform the tasks that directly affect the quality of the product themselves and delegate other less important duties to the general labourers. For this respondent, feedback from the customers is very important. The respondent is the only member in the group who goes back to the customers and asks for feedback regarding services rendered. This respondent also believes that pride is an important concept in her work. Through pride she managed to maintain good quality standards of her products and strive to improve on it.

Very little competition in the market was mentioned as another success factor by respondent 8 apart from the overwhelming support provided by the Department of Social Development.
(b) Unsuccessful SMEs:

The six respondents from the two unsuccessful SMEs reflected diverse responses regarding their viewpoint on factors contributing towards success:

- Respondent 5 is from the opinion that multi skilled people are lacking within their SME, which hamper them from producing a variety of products.
- The ability to create opportunities to link up with trading companies and establish new markets and supply chain.
- The fact that communities are making use of their services.
- Also, the Department of Social Development are making use of their services.
- Contract with local municipality.
- Seed funding provided by the Department of Social Development.
- Conflict resolution by departmental officials. This helps to bring stability and peace among members.
- Monitoring by the Department of Social Development.

(c) Employees from the Department of Social Development:

Intense monitoring is highlighted by officials 2, 3 and 4 as a key driver towards success.

Official 4 is of the opinion that the Department of Social Development ‘must offer support
and space for members to learn and take lead’. The idea of implementing a meaningful after
care services also ties in with the above response. All of the above are in line with the
business plan (section under monitoring and evaluation) where it is expected from the
Departmental officials to conduct weekly visits. Taking the responses from the SMEs into
consideration, it appears that weekly visits are not been conducted.

In addition, the following aspects were also indicated:

- Commitment and determination by beneficiaries.
- Honesty and respect among beneficiaries are very important.
- Capacitating beneficiaries.
- Availability of community development practitioners within the Department of Social
  Development.
- Sound selection processes by the Department of Social Development. This entails the
  selection of the right business people as well as the determination and
  implementation of the business idea. This links up with one of the respondent’s
  opinion, that the Department should ensure a market before implementing the
  business idea.
- Employees within the Department of Social Development must develop a sound
  appreciation for business processes, i.e. they must ensure that business principles
  suffice in their attempt to establish SMEs.

4.2.4 Social Capital

Lin (1999) argues that investments in social relations have expected returns and that social
networks strengthen social capital as an asset. The researcher shared the same viewpoint
and valued social capital in small businesses. Yunus (1998) states that some entrepreneurs
with a social conscious will invest to maximise their social returns, provided that their
business remains viable.

(a) Successful SME beneficiaries:

The researcher explained the concept of social capital to all respondents before they
attempted to answer the question. Respondent 7 is of the opinion that SMEs established by
the Department of Social Development have an advantage over the private business sector. The respondent mentioned that the communities are aware that the focus is not on the individual but on women empowerment as a collective and job creation. What is of great value for this respondent is the number of beneficiaries provided with an opportunity to become their “own business managers” and seek independence. Furthermore, the respondent stated that they are receiving good support by government departments and held over 700 functions in two years, which generated a profit in excess of R500 000. These functions include special events, 21st birthdays, weddings, meetings by government officials and workshops. The respondent is of the opinion that their status as a community-driven SME links them with all relevant departments.

Respondent 8 said their community involvement is the key to their success, saying: “We plough back to the community.” Apart from their business activities to generate an income, the respondent mentioned the many social events and initiatives they have undertaken to help the communities, such as helping the prisoners, hosting events, and recruiting illiterate people for ABET classes and males for training in welding. The 9th respondent values their relationships with the schools and community members as one of the key factors towards their success. One interviewee mentioned that they also attract the customer market through their individual relationships with various community members.

(b) Unsuccessful SMEs:

On the question of whether the survival rate of SMEs established by the Department of Social Development have a higher or lower survival rate, only respondents 1 and 6 are from the opinion that they have a lower survival rate due to the following reasons:

- Private SMEs are already well established while cooperatives are at rudimentary phase.
- Cooperatives have big numbers of shareholders as compare to private businesses. Too many people seem problematic and often lack understanding.
- The majority of members are unskilled and are easily persuaded by educated people.
The other four respondents (2, 3, 4 and 5) all agree that the survival rate of SMEs established by the Department of Social Development is higher. The following are their opinions in this regard:

- Respondent 2 believes that there is a general trend by all departments to assist cooperatives and mentioned Telkom as an example who requested their services. Also the positive attitude of the local community and their market support they are currently enjoying.
- Tenders are often obtained from governmental departments.
- Respondent 3 mentioned that support will increase if more marketing is conducted.

(c) Employees from the Department of Social Development:

Three officials indicated that SMEs have a lower survival rate as oppose to private SMEs. Official 1 stated that there has been no success since the introduction of this poverty alleviation initiative mainly due to the fact that no business procedures are been followed. The official is of the opinion that this program is designed in a more social assistance paradigm than proper business development.

The 5th official indicated that the “free giving of money” is attracting community members and that people do not truly appreciate capital funding, from here the lack of commitment and low survival rate. This perhaps ties in with one respondent who indicated: “When people messed up, they receive money from scratch by the department”. One official felt that SMEs do have a higher survival rate because the approach of the department has changed. According to him, people now get training first before project implementation. The 2nd official indicated that the survival of SME initiatives is entirely dependent on the beneficiaries themselves.

4.2.5 Effective Implementation of SMEs by the Department of Social Development

(a) Successful SME beneficiaries:
One respondent views the Department of Social Development as more successful than the other departments. Apart from the Department of Public Works who supported them with a building, other departments have not contributed much by comparison. In view of the overall responses gathered, the respondents are of the opinion that the Department of Social Development is making progress in addressing poverty. However, three respondents expressed their realization of the massive task in alleviating poverty. Respondent 7 stated that “third degree poverty” needs to be addressed first in order for government to be effective. She referred to third degree poverty as crime, gangsterism, alcohol and drug trafficking.

Only respondent 9 stated outright that the Department of Social Development failed to address poverty effectively. The respondent contends that there is a high degree of overlapping services within the departments and those departmental officials are sometimes in competition among each other to render services. According to her, the latter is caused by the inability to be innovative and create new service delivery models. The respondent also mentioned that the department has adopted their business model for service rendering for implementation elsewhere.

(b) Unsuccessful SMEs:

Whether there has been a positive experience regarding service delivery by the Department of Social Development, the interviewees had mix responses. Respondent 1 indicated that the department is effective as far as the accessing of funding is concerned. On the other hand the respondent felt that due to a lack of monitoring, the department cannot be rated effective. In comparison with other departments, respondent 4 stated that the Department of Social Development is effective and that programmes, implemented by other departments are “too slow”. Respondent 6 indicated that the Department of Social Development are “doing a good job” as long as the beneficiaries manage their budgets according to the prescribed procedures.

(c) Employees from the Department of Social Development:
“It works..., it does not work. There is certain small percentage of people in society who are businessperson material. Where the group has been formed by skilled/ experienced focussed individuals, success has been noted”. This is the response from official 1 who is from the overall opinion that the Department have not been effective as they are trying to reach too many unemployed and poor people as far as possible. The 5th official stated that no measures are working within the Department i.e. that includes grants for business initiatives, social grants, child support grants and pension income. Official 4 stated that the idea of establishing SMEs is great but the problem lies with the implementation. According to this official, there is red tape with the utilisation of funds and because of this, the success rate is low. Official 2 and 3 are from the opinion that the Department is effective with its implementation of SMEs strategy. From their responses it can be interpreted that the Department has change the lives of many people.

4.2.6 Strengthening Resources through Collaboration

Inter departmental collaboration refers to the ability of the various governmental departments to utilize their various resources in such a way that they are able to assist SMEs more effectively.

(a) Successful SME beneficiaries:

Respondent 9 mentioned that although there is collaboration among the departments, there is still a lot of “in-fighting” and fierce competition due to a lack of innovation within government themselves. The respondent is also of the opinion that not all departments are involved as a collaborative movement. Special mention was made of the Department of Justice and Agriculture as well as the strategic role that the Department of Social Development should play, i.e. taking initiative to easily network services for the beneficiaries.

Respondent 7 reflected on their experience of collaboration with all the various departments and said that it is a very good strategy to assist SMEs. When they started the business venture, the following departments were involved in providing assistance to them: Department of Social Development (Funding of R500 000); Public Works (building to operate the business); Department of Economic Affairs (workshop on business ideas); Department of
Trade and Industry (registered the SME with all relevant departments in order to supply services and products to them); Department of Education (negotiated the building from Public Works) and lastly the local municipality who facilitated all processes as far as possible. Despite their real life experience of interdepartmental collaboration, the respondent stated that there are still people in the communities who have a negative perception about interdepartmental collaboration.

Respondent 10 confirmed the importance of collaboration and said that it would be to the advantage of the community over the private sector. The respondent felt that collaboration is a way of securing the survival of the SMEs as they are linked to render services and sell their products much easier than other private SMEs.

(b) Unsuccessful SMEs:

“When they are talking, their promises are too high. Politicians sign agreements but officials don’t deliver”. These are some of the frustrations expressed by the 4th respondent. Respondent 6 made it clear that departments are not collaborating; “they rather let SMEs suffer by not paying them for service delivery”. According to respondent 1, it is important for one department to understand what the other one is doing. He stated that SMEs get funded for the same business venture by different departments. One of these SMEs’ business report (February to October 2007) highlighted outstanding monies owed by the various departments totalling R396 755.00. These orders were delivered after an exhibition was held in Bisho where all the departments ordered products. Another report indicated debtors amounting to R363 255.00 (period of January to March 2008). Comparing to their cash sales of R33 500.00 for the same period, it appears that this SME is experiencing cash flow problems. Furthermore, they started with insufficient funding (as stated in their report) for the requirements of the project. They also experienced incapacity due to big orders from government departments and simultaneous lack of machinery.

(c) Employees from the Department of Social Development:
All officials are in agreement that collaboration can work and that it is a wonderful idea. However, the current scenario is painted bleak by three of the official’s responses:

- Duplicate funding in certain areas, overtraining of individuals and lot of misdirected investment.
- Officials should put aside their fears, competition spirit and selfishness.
- Processes and procedures are different but common ground among all departments should be found.

4.2.7 Challenges

(a) Successful SME beneficiaries:

Under this question, respondents had diverse opinions regarding the challenges faced by the Department of Social Development. Respondent 9 stated that one of the biggest challenges the Department of Social Development is facing is the employment of staff, which only focus on SME development. This, according to the respondent, should be a separate sector apart from Social Work services division.

Another challenge identified was the formulation of a strategy for training of SME beneficiaries. One respondent regard them as ‘fortunate’ to have a group with such diverse skills. Respondent 8 mentioned that another challenge lies in the establishment of a national market and view Social Development as a key role player in unlocking this market for them.

Other challenges identified were:

- To ensure that people have a good understanding of what business entails.
- The Department should be able to assist people with the necessary paperwork.
- The necessary funds required in terms of the Business Plan should be considered based on the budget and not a standardized allocation.

(b) Unsuccessful SMEs:
The challenges mentioned hereunder, reflect the problems experienced by these respondents.

- The Department of Social Development must ensure that the right people are recruited for the business venture.
- Training should be provided first.
- Only officials that are ‘strict professionals’ in business should attend to SMEs.
- Mentors must be made available for all SMEs.
- Stricter regulations should be imposed by the Department regarding the expenditure of funds.
- Teamwork between the departmental officials and SMEs should be enhanced.

(c) Employees from the Department of Social Development:

Three officials mentioned that the current insufficient human resources are a great challenge for the department of Social Development. The 5th official stated that community development is a very rare skill not yet realised in the Eastern Cape. The scarcity of business skilled staff will only be recognized once the program is operating sufficiently. Systems to implement the program are not in place. Systems referred to here as the normal resources needed to operate a business. According to official 4, the Department must ensure that policies are understood by ordinary communities. Another challenge is the timorously response to the community needs, i.e. there are too many delays by the Department of Social Development with regard to the implementation of business initiatives.

4.2.8 A Welfare Perception

(a) Successful SME beneficiaries:

Respondent 9 is convinced that people view funding from the Department of Social Development as a ‘must’. According to her this perception of people causes problems such as unbudgeted expenditure. Respondent 10 is from the opinion that the department has a ‘responsibility’ to assist the people with funding for SME development.
The relationship between SMEs and the Department of Social Development, according to respondent 7 causes fear among private SMEs for their current market.

(b) Unsuccessful SMEs:

All respondents agreed that there exist a perception among people that funding for business initiatives is seen as a welfare grant. This viewpoint is also evident from the issues disclosed regarding member conflict and mistrust among members. The lack of understanding among beneficiaries identified, which hampers progress evolved around the expenditure of funding. From a financial report submitted by one of these SMEs to the department regarding the renting of their truck, reflected an income for 12 truck hiring occasions while 11 times are unaccounted for.

(c) Employees from the Department of Social Development:

All five officials are in agreement that people view the business funding as a social grant. Some of the officials emphasized the dual responsibility the beneficiaries and the Department has, i.e. to change the welfare approach to a more developmental one.

4.2.9 Ensuring Sustainability of SMEs

(a) Successful SME beneficiaries:

When the researcher asked how the Department of Social Development could ensure future survival of SMEs, respondent 10 highlighted the importance of involvement by the department. The respondent further stated that monitoring, supervision and evaluation are key activities in ensuring success. The above statement is a confirmation of respondent 9’s response when stating that there is ‘no monitoring and evaluation tool’. The alleged absence of such monitoring motivates the outcry from beneficiaries to the Department of Social Development to increase their involvement. According to respondent 7 the department should build more effective relationships with other departments in order to assist SMEs more effectively.

Respondent 8 viewed the ability of the Department of Social Development to link the SMEs with the customer market as an important factor for survival. The respondent stated that
much need to be done by the Department of Social Development in referring people to SMEs and recommending services from these SMEs.

The following are other important issues that emerged from the interviews:

- The Department of Social Development should embark on a faster payment method. According to respondent 9, the department has failed to make payments timorously and as a result they experienced cash flow problems.
- Another aspect raised is the allocation of funding. The Department of Social Development should spread the funding allocation equally. One interviewee mentioned that payments are different and was sometimes reduced without warning. This causes uncertainty among members and is experienced as a discouraging factor.
- Capital funding for the business should arrive in time, as budgets are set and some activities already performed.
- Crime must be tackled more seriously. The Department of Social Development should build more effective relationships with the communities at large and other departments. The respondent is also of the opinion that Department of Social Development should address other communities more intensively in comparison to others. The respondent mentioned neighbourhoods such as Helenvale, Booysen Park, Arcadia, Jacksonville and Kleinskool who need more resources to effectively address the social issues such as drug abuse, gangsters, rape, alcohol abuse and teenage suicides.
- The Department of Social Development can play a more effective role in mobilizing all the stakeholders in the community. These stakeholders must take a firm stance on service delivery.

On a more general note, one interviewee felt that the Department of Social Development has made a significant contribution but can do more to tackle the factors that contribute to “third degree poverty”. Funding should be allocated to conduct intensive moral regeneration activities with special focus on the youth.

(b) Unsuccessful SMEs:
In response to how what the Department should do to ensure that SMEs survive, training was highlighted as a fundamental issue. Respondent 1 indicated that follow-up training is necessary to ensure that people have mastered the desired skills. Another key factor is marketing. According to respondent 2, the Department of Social Development should assist in marketing and in this way secure service and product delivery for SMEs. Funding should also be allocated according to the needs of the SMEs. From the funding allocations made to SMEs, it is evident that prescribed amounts are allocated to all SMEs, i.e. in totals of R500 000’s; R250 000’s and in some cases R750 000’s. Here, respondent 1 refers to the need for stipends as well as other budgetary needs. Regular monitoring was emphasized again as a vital important task. Respondent 1 stated that “they only come to fetch reports”, i.e. the departmental officials.

(c) Employees from the Department of Social Development:

The following are quiet diverse views on how the Department can ensure the future survival of SMEs:

- Provide more training for SMEs.
- Redesign the program so that it is based on business development essentials. In view of the business plan (see Annexure ‘A’) framework used by the Department of Social Development, no viability testing is evident, nor are projections with regard to operating cash flow as well as profit and loss statements reflected. According to Lionel Billings, chief operating officer of Business Partners Eastern Cape (December, 2008): “Providing financial statements and projections is a vital part of presenting any business plan...”. Billings emphasizes the importance of including operating budgets, cash flow projections, income statements, and pro forma balance sheets for at least three years. He also values the inclusion of the costing methodology employed or to be employed with full analysis of cost of sales.
- Consistent user friendly policy interpretation and procedures with supervised mentorship.
- Stipends should be provided for beneficiaries for a period of three years until the project is able to generate salaries for its own members.
• Employ officials that are knowledgeable in terms of community practises.
• Redefine the target market.
• Establish meaningful partnerships.
• Garner requisite resources.
• More intense focus on the outcome and evaluation of funding allocations and its impact.
• Viability testing of projects prior to funding implementation. From the documents obtained, it is evident that a participatory urban appraisal report is normally conducted (see Annexure “E”). The purpose of this participatory appraisal is to identify priority needs on a consensus level and not a viability study. No marketing strategy is therefore drawn up to indicate sustainability of the project in future.

4.2.10 Significance of Contribution

(a) Successful SME beneficiaries:

Only one of the four respondents is of the opinion that the Department of Social Development has made a significant contribution. The other three felt that much still needs to be done. One views the departments program implementation as taking the ‘wrong angle’, while the other one is of the opinion that poverty should also be tackled at a much broader level, such as moral regeneration, crime busting and other social issues.

(b) Unsuccessful SMEs:

Four of the six respondents are of the opinion that the Department of Social Development did make a significant contribution towards alleviating poverty through business initiatives. Two respondents felt strongly that no difference has been made in the improvement of their livelihoods.

(c) Employees from the Department of Social Development:
Two officials indicated that no significant contribution is made. One stated that very few projects have seen the light while the other official emphasized the lack of creativity, innovativeness and entrepreneurial spirit. The other three officials felt that a contribution has been made although not significant. They value the many business initiatives funded by the Department of Social Development but realize the importance of teamwork among beneficiaries and all governmental departments in order to be successful.

4.2.11 Concluding remarks:

As mentioned at the beginning of this chapter, the researcher observed some of the operational activities of the SMEs and read financial statements and other relevant documents to gain a better insight into all activities conducted by the SMEs.

A profile of each SME was therefore obtained by the researcher in order to distinct between those operating successfully and those that can be regarded as a failure. Referring to chapter two, where small business success was defined, the researcher made mention of the criteria that determine success. However, within the social welfare paradigm the essence is job creation. This is supported by Rogerson (2004) who contends that employment creation is the primary goal for poverty alleviation.

The following distinctions were identified during the researcher’s observations and scrutiny of the documents obtained:

- The successful SMEs manifest the ability to remunerate their staff members and maintain a stable cash flow. This is realized due to their market portfolio, which includes cash customers. On the other hand the unsuccessful SMEs heavily rely on government departments for ordering their product and have a very limited cash market.

- One major problem with one of the unsuccessful SMEs is that they have under quote for services rendered to the municipality. This was also a concern of one interviewee. As a result they hardly break even and cannot afford to pay their members’ shares.
➢ It also appears that the successful SMEs are better skilled in terms of the drafting of their financial documents (costing, pricing, budgets and income statements).

➢ The overall support within their customer market seems far more developed in terms of their marketing and branding strategy. These successful SMEs are rendering services within these communities and have developed a strong relationship with the various communities. One can conclude that the social capital element is effective in this context.

In view of Table 4(b) above, SME 1 is the most successful. One of the respondents from SME 1 indicated their overwhelming support from the communities at large as well as from the various governmental departments. Since the beginning of their functions, they managed to remunerate all members. These members are aware of the peak months (when the demand for services are high) and plan well for the other few remaining months with a lower demand rate. Yet, according to one respondent, they are busy every day due to the demand for services.

Pricing is one of their advantages. One respondent explained how they are able to cater for the customer at an amount of R15 000 compared to other services which could amount to R35 000. From the demonstrations observed, this SME embarked on an effective cost reduction strategy, for example, they sew their own clothes, bake the confectionery themselves, make their own candles and have their own transport. In this way they became highly profitable. Profit before dividends exceeded R500 000 for the two years prior to the research. More than 700 functions were hosted in this period and over 800 temporary jobs created.

The respondent from SME 2 depicts a scenario of vulnerability and dependence on funding from the Department of Social Development. Although the Bangle Ubuntu project is doing well in terms of providing an income to its members, funding to render non-profitable services is required. A delay in funding causes cash flow problems although not of major concern. In essence, this SME is able to provide employment to its professional staff and a monthly income to the various project members.
SME 3 is operating on a daily basis; however the staff members must first sell the paintings and purchase materials before taking stipends. These activities depend entirely on the voluntary effort of staff members. Judging from the pricing of various art works, i.e. paintings, pottery and other related products, the SME can become highly successful if a market is established. Furthermore, the opportunity exists to conduct classes for learners and teachers on a contractual basis with remuneration from the Department of Arts and Culture and Education.

4.3 Chapter Summary

The research results of the interviews conducted are presented in this chapter. The results reflected information that is pertinent to the social welfare paradigm in establishing SMEs. The semi-structured interviews facilitated by the researcher enabled an in-depth understanding of the participants’ experiences, knowledge and history. The interviews also created an opportunity for the researcher to understand the numerous factors that contribute to the success and failure of SMEs established by the Department of Social Development.

Apart from the latter, the respondents made recommendations to the Department of Social Development on how they can improve on their current service delivery and ultimately ensure a higher success rate among SMEs. Many emotions flowed from the interviews, such as “serve with a passion; When they are talking, their promises are too high. Politicians sign agreements but officials don’t deliver; When people messed up...” that are of semantic value to SMEs.

Interviewees’ frustrations with the Department of Social Development were also highlighted. At one stage during the interview, one respondent requested that the recording of the interview be discontinued when sensitive information was disclosed.

The following chapter will entertain theoretical discussions linked to the research results presented in this chapter.

CHAPTER FIVE
Discussion of Results

5.1 Introduction

Chapter four depicted the findings of the research and stated the opinions and meanings of the respondents as far as possible. This chapter aims to discuss the above findings of the research with reference to the theoretical overview outlined in chapter two.

5.2 The Need for Business Management Skills

All three sample categories view business management skills as key for the smooth running of the operations and in doing so secure the survival of the business. Curran et al., 1986 identifies insufficient management and business skills as contributing to the failure of SMEs. This can be linked with the unsuccessful SMEs who experienced a greater need for training as compare to SME 1. According to Pretoria et al., (2006) the value of training cannot be underestimated, as it prepares and improves entrepreneurship. The fact that SME 1’s beneficiaries have already mastered the skills necessary to fulfil their production and service delivery requirements can be linked to their profitability and ability to retain a big cash customer market. Mason (2006) stated that a low level of education can be expected among SMEs. This was confirmed in this research study, in particular by official 2. Some of the respondents are of the view that the Department of Social Development (DSD) staff should also be trained to acquire the necessary business skills. Training will allow them to execute duties well, as it will provide them with the necessary information, expertise and capabilities (Nieman, 2006).

Respondent 9 mentioned that the Department of Social Development started from the ‘wrong angle’ when implementing projects. This means that training should be provided prior to the implementation of the project, which will empower the trainee to perform the duties necessary to ensure the smooth functioning of the SME. This response was supported by the majority of departmental officials. The latter is congruent with Nieman (2006) who contends that training is a prerequisite for staff development. One respondent contends that basic skills training is a priority and thus agree with Mason’s (2006) view that official training should be encouraged to a certain extent with an option for in-service training.
Some of the respondents felt that formal training should be a criterion for entrance to the SME. Others have emphasized that a recruitment process be implemented.

5.3 Factors Hampering Growth and Success

5.3.1 Communication

Respondent 7 highlighted proper communication as a key factor without which business can be stifled. Misunderstanding among members can cause serious relationship problems, as in the case of SME 1 where the whole committee was dissolved. SME 1 resolved their crisis by using a mentor. In the case of the unsuccessful SMEs a lack of understanding can be interpreted as a lack of communication, firstly among beneficiaries and secondly between the officials and SMEs. Cornforth (1983, in Curran et. Al., 1986) maintains that weak relationships between management and workers are one of the reasons why SMEs fail. Assertiveness was also identified as a stumbling block in resolving issues among members.

5.3.2 Lack of Teamwork

Teamwork was a key factor in obtaining a spirit to work in harmony despite communication problems in SME 1. Unity and teamwork carried them through. Business Report (1 February 2007) warns that cooperatives in particular can easily be destroyed due to their inability to enhance teamwork and solve problems. This inability of beneficiaries to enhance teamwork has been confirmed by the beneficiaries of SME 3 and 4 who highlighted a lack of commitment among their members.

5.3.3 Poor access to markets

The ability to retain and access markets as well as marketing skills was among the stumbling blocks indicated by SMEs. There is an expectation from the Department of Social Development to play a more effective role in securing the market for SMEs. This was also suggested by one of the officials as a measure to ensure sustainability of SMEs. Nieman (2006) emphasized the importance of establishing own markets and warns SMEs not to confine themselves to government tenders. Maintaining a relative customer market size is one of the factors leading to the success of SME1 and the survival of SME 4, although to a
very limited extent. This is in line what Lighthelm and Cant (2003) underpin, i.e. an improved insight in market related issues such as limited market size and customer competition. SME 4 indicated that they face stiff competition from two national companies.

5.3.4 Delay in payments from Governmental Departments

The concern about the delay in payments by the Department of Social Development was raised by respondents from both SME categories as well as the departmental officials. In cases where monthly or annual funding allocations are due, payments should arrive on time. This also applies to all other departments. The income statement for July (2008) of SME 1 reflected debtors of more than 50% of the total income. These debtors consist of services rendered to various departments. The income statement also showed a surplus in excess of R45 000. Nieman (2006) warns that SMEs should manage their debtors sensitively although increasing debtors is a method to increase sales. Where SMEs have a high dependency rate on government to supply goods and services (like in the case of the unsuccessful SMEs), they need to establish a strong cash position (Nieman: 2006). In the case of SME 1, a delay in payments has not seriously affected their operations as compare to the unsuccessful SMEs.

5.3.5 Lack of access to sufficient funding

Although the Department of Social Development received a good response in terms of the accessibility of funding by SMEs, insufficient funding was indicated across all three sample categories. Suggestions were made in terms of budget allocations that allow for stipends for beneficiaries for a period of two to three years. This confirms Bannock’s assertion (in Mason 2006) that governments are making an insignificant contribution when it comes to the financing of SMEs. SME 4 indicated that they are incapacitated due to a need of certain machinery and cannot supply government departments with big orders.

5.3.6 Poor business management

The uncertainty and need for direction as far as the daily operations of the business is concerned was identified by the two unsuccessful SMEs. Despite the lack of training, it is evident that there is a lack of cost management and financial management skills. One SME
has under quoted their biggest customer as a result they hardly break even. Although managing to cover labour expenses, they are unable to pay their beneficiaries. The above problems mentioned is congruent with Cornforth in Curren et al., 1986, who contends that cooperatives misjudges their profit-making problems and skilfulness to successfully steer the business.

5.3.7 Relationships and Personality

SMEs 1 and 2 viewed management style, attitude, integrity and equality as important in establishing good teamwork. During the interviews, it was gathered that members sometimes leave if not treated in the right manner. SMEs 1 and 2 are headed by females and gender certainly plays an important role when it comes to the fulfilment of managerial tasks of operating SMEs. Spilling and Berg (2000) assumed that the managerial role of women in small business is weak. One of the members in SME 1 was labelled as “bossy” who assumes the leading administrative role. One can therefore agree with Numes (1998) that the cultural and community setup contributes to the gender bias we are experiencing.

5.3.8 Lack of human resources

It is clear from the interviews that a lack of skilled departmental personnel cause many stumbling blocks for SMEs. This was also acknowledged by some of the departmental officials. SMEs felt helpless and frustrated when there is no monitoring from the Department of Social Development. The need to empower SMEs was recognised by the government through the establishment of development agencies to render the necessary empowerment services. The administration capacity of all governmental departments plays a major role in steering SMEs to success (Delport: 2005).

5.4 Factors Contributing to Success

5.4.1 Entrepreneurship

When the researcher observed the operational activities of SME 1 in particular, the concept of entrepreneurship came to mind. Timmons’s definition (1989:1 in Kirby 2003) of entrepreneurship is “the ability to create and build something from practically nothing” which was evident in the creativity of the group members. They have combined all their
skills to build a competitive SME with strong capacity to deliver. Furthermore, among their operations they innovated ways to reduce cost and in doing so were able to advance ahead of competitors in terms of pricing of their services and products. This innovativeness was important for the group to overcome certain hurdles, such as establishing a cash market and secure the growth potential of the business (Pretorius, Millard and Kruger: 2006). The SMEs’ creativity prevented them from being “copy cats” and enabled them to find a niche market. Creativeness is a prerequisite for survival (Kirby: 2003).

5.4.2 Pricing of Products and Services

Gadenne (1998) outlines three organisational practices that are the cornerstone of business success:

(i) A high degree of cost management. This is surely one of the characteristics of the most successful SME who manifests the ability to test the economic viability of their services. Pycraft, Singh and Philela (2004) mentioned that SMEs need to understand the cost dynamics of their sales in relation to the management of their operational costs. SME 3 acknowledges the lack of cost management skills that resulted to under quoting for services.

(ii) Continuous attentiveness to quality improvement. One respondent who is responsible for the operational division stated that they have to set high standards and strive to improve on a daily basis. The researcher interpreted the behaviour of this particular person as one who takes pride in her duties. This is in line with Durand’s view (2005) that pride in products and services are among the finest measures of success.

(iii) A trend of increasing sales volumes. According to Nieman (2006), this is a way to keep businesses out of cash flow troubles. The high volumes of functions and events hosted by SME 1 certainly keep their cash flow stable, apart from the debtors’ list. More important, they manifest the ability to maintain their high volume activities even during the off-peak period.

It can be noted that the above-mentioned three organisational practices significantly influence pricing, if ignored (as in the case of SME 3) it can cause financial losses.
5.4.3 Ability to Compete

After the interviews conducted, the researcher was shown a presentation about the decorative display regarding catering for meals of SME 1. During this presentation it was explained how the various components and activities complement one another. This created a better understanding of the ability of the SME to render services and provide products at a price of R15 000, compared to other businesses with a price of R35 000. The mere fact that they were able to analyse their competitor’s product and service and outcompete them, leads to the creation of a competitive advantage factor (Doeschef: 1996). The researcher also established a link between the above activity and maintaining high standards. It appears that the market share environment is quite demanding for innovative and creative service delivery as well as good customer advice. Venkataraman and Van de Ven (1998, in Lechner and Dowling, 2003) argue that a firm’s ability to maintain and extend its networks is necessary for its growth and survival. SME 1 in particular used the skills of their beneficiaries and the various relationships they have build up in different communities to strengthen and expand their market.

5.4.4 The Right Business Idea

On the issue of engaging in the right business idea, it was mentioned that the Department of Trade and Industry assisted SME 1 in terms of providing professional advice on the business idea. As it took the cultural and community activities into account, this business idea led to the establishment of a strong market with very little competition. Gadenne (1998) associates such advance performance and the minimization of risks (in this case increasing the survival rate) with professional advice. Although it appears that the utilisation of professional advice by this SME is not continuous, it brought about the desired results. Khan (2007) emphasises the importance of introspection in order to acknowledge managerial deficiencies. This group certainly took cognisance of the importance of their managerial deficiencies despite their basic skills being of just a basic standard. They expressed the need for more training.
5.4.5 Social Responsibility

The two successful SMEs are involved in social responsibility activities and strongly agree with the concept of reciprocated community support. One respondent said that “We need to plough back...”, meaning that they invest in their communities and acknowledge the community’s support in return. The researcher wanted to establish whether social capital contributes to the success of SME 1 and 2. In response, one respondent from SME 1 disagreed with the other respondents, stating that there is a constant demand for their services. Another respondent stated that all members have links in the communities due to their intensive community involvement and are well known to all stakeholders. This level of relationships is to be believed part of their success in establishing a good market. This is congruent with Nieman (2006) who contends that networks within broader community sector are vital for the survival and growth of the business. One of the unsuccessful SMEs also associates their existence and survival through their relationship with the communities. One respondent indicated that private businesses are fearful of their (SMEs) success. As a result, these private businesses have developed a negative perception with regards to government’s job creation initiatives. The same respondent mentioned that the reason for the support of their business is the community’s positive perception of women empowerment.

The researcher can therefore conclude that the high level of community involvement of these members, there group orientation and social cultural resources resulted in their community support and could be interpreted as a future competitive advantage. Involvement is one of the four dimensions used by Smerek and Denison (2007) to link social capital with organisational performance. According to Saxton and Benson (2005) where a high level of social capital environment exists, SMEs are more likely to engage in events that may help to alleviate constraints. SMEs 1 and 2 are actively involved in these kinds of events apart from their business activities.

5.4.6 Planning
None of the respondents and departmental officials mentioned planning as a contributing factor towards business success. However, intervention planning was evident in SME 1 & 2 during scrutiny of their documents. The intervention logic together with a cost plan matrix gives the SMEs clear direction in terms of their services and cost implications for the year ahead. It also serves as a measurement tool as it includes the desired results the SME hopes to achieve. From the interviews, it can be noted that all four SMEs are planning activities, such as the expansion of the type of business activities they would like to engage in, in the near future. The section on projects in the pipeline in table 4 (b) reflects this information gathered during the interviews. Taking all SMEs’ planning in perspective, it evolves around expanding their current activities and service delivery. These planned projects mean generating more income and the strengthening of their ability to survive in future. The above planning is congruent with Mockler’s (1972) view that the purpose of business planning is to find most profitable ways to allocate limited company resources among competitive profit opportunities. The researcher can also conclude that the successful SMEs have taken a strategic view to buffer them against business failure. Holland (1998) emphasizes the importance of planning for success in order to buffer the business against possible business failure.

5.5 Chapter Summary

In this chapter the researcher attempted to bring theoretical relevance to the research findings. Special mention was made of the factors contributing to the success of SMEs. It is important to note that success factors emanating from reciprocated community support came from the respondents of the two successful SMEs. Entrepreneurship and entrepreneurial qualities is linked to the success of SME 1. Social capital also features as one of the contributors to small business success. Quite a number of human aspects play a fundamental role in team work and the subsequent success of the SME. These are attitude, relationships among each other, assertiveness and good communication, personality traits and integrity.

CHAPTER SIX
Recommendations and Conclusion

6.1 Introduction

The previous chapter discussed the research results and links the theory to the results. In chapter six, the researcher makes certain recommendations to the relevant stakeholders and various appropriate role players. A conclusion of the overall research study is made in an attempt to give a brief summary of understanding. Certain limitations were experienced during the research process, and these are also highlighted in this chapter.

6.2 Conclusion of this Study

The research study attempted to establish a deeper understanding of the factors contributing to the success and failure of SMEs established by the Department of Social Development, which is part of the South African government’s poverty alleviation strategy. Entrepreneurship plays a vital role in terms of the type of business idea, creative thinking and small business success. Establishing and maintaining a competitive advantage depends on entrepreneurial skills, yet the establishment of a good market also depends on other factors such as community involvement and social responsibility. There are many factors that can play a role to increase the success rate of SMEs within the social welfare context.

The significant contribution of the small business sector across the globe cannot be underestimated, nor the role that government departments in South Africa are playing in an attempt to expedite the poverty eradication process. The stable South African economy together with the significant role of government in driving the black economic empowerment programme is a favourable combination to the overall fight to overcome poverty and realize wealth creation. This allows a steady platform for any researcher to focus on the internal as well as the external factors that contribute to the success and failure of SMEs.

In addition to the many factors of the traditional methods of business administration, the social capital element has been introduced in chapter two as a major role player due to the unique environment of the sample group, i.e. the social welfare field. Therefore, all possible factors contributing to the success and failure of SMEs have been explored within the scope
of this research. Within the social capital element, the fundamental relationship between the community involvement and small business support was identified.

In the literature review, the reasons for small businesses’ success and failure were discussed. Recommendations pertinent to the overall management of SMEs established by the Department of Social Development were made by the respondents in an attempt to ascertain a deeper understanding of factors contributing toward success or failure of the respective small business ventures. In chapter five, the findings of the research were discussed and linked to the theory outlined in the literature review. One outstanding feature of the successful groups is their basic skills in producing the necessary products and delivering the required services. The study has also discovered the distinctive role of both managerial skills and basic production skills.

In conjunction with the latter, training overall plays a pivotal role in enhancing beneficiaries’ or members’ ability to execute business operations. Training should include both managerial and production aspects. From the research it is clear that training prior to start-up, as well as advance training during operations is significant in determining the success of the business. Also emanating from this study is the outcry for business experts to be employed by the Department of Social Development and not Social Work staff.

Overall, the delay in funding allocations, the type of budget and subsequent approval according to Departmental policy and the incapacity to expedite second tranches and/ or follow-up funding are major barriers for business growth. Once the above impediments are removed, more SMEs will be able to take a step towards becoming successful.

Finally, viewing the intensity of the monitoring and supportive role that needs to be fulfilled by the Department of Social Development against the current scenario that unfolds at SME level, it becomes clear that working on this empowerment mechanism within the department should be a serious future consideration.

6.3 Limitations of the study
The scope and nature of this research, i.e. involving a governmental department and its delivery of services, meant that there were certain stumbling blocks. During the research process, the following limitations were discovered:

- The population sample was so small that the researcher experienced difficulty in identifying two successful SMEs.
- Although 50% of the SMEs’ beneficiaries interviewed, expressed their convenience to conduct the interviews in English, this was not their mother language and could have been an obstacle during information sharing.
- Only two of the SMEs beneficiaries interviewed were males. Gender difference could also have influenced the data collection process as the researcher is a male.
- The study was confined to only one department of the state, although other departments are also involved in poverty eradication programmes such as the Department of Trade and Industry, Agriculture, Public Works and Land Affairs.
- The researcher experienced problems interviewing senior officials from the Department of Social Development, although permission was granted to the researcher by the district manager. From the nine officials, only five manage to respond.
- The possibility exist that the responses of the officials from the Department of Social Development are highly contestable in terms of objectivity and could have influenced the reliability of the research. However, the researcher is of the opinion that it could have enhanced the validity of the research based on their actual responses.

6.4 Recommendations
The research study is essential as it uncovers some of the causes of the success and failure of SMEs and in particular within a social welfare context. Under this section the rationale of the research study is entertained, i.e. among other to make recommendations to the Department of Social Development about the future implementation of small business initiatives in an attempt to eradicate poverty.

6.4.1 Recommendations to the SME beneficiaries/members

- Business management is a separate division that is distinct from the production activities of the small business. Staff members and beneficiaries need special training in these divisions as they are dealing with important issues of pricing and unit costing as well as the strategic management of the overall business. The researcher would like to refer to SME 3 and 4 who have the production skills, but cannot be successful as they lack business management skills.

- Beneficiaries should embrace open and honest communication in striving towards building a good team that can perform activities in a unit.

- Members and beneficiaries should not be confined only to training as such, but attention should be given to career development, which will buffer the business against potential loss of talent in future. Training should be treated as the absolute minimum requirement to perform duties and be perceived as a prerequisite for career development.

- Marketing skills are a separate but vital component to ensure the survival of the business. Recruitment of talented staff in this area should also be a prerequisite.

6.4.2 Recommendations to the SME managers and mentors

- Managers, mentors and leaders of SMEs should ensure a high level of understanding among members of important motivational aspects such as team work, equality and leadership roles.
• Continuously improve knowledge about business management skills such as strategic management, cost management as well as cash flow management by attending short courses.

• Expand social networks within the community of operation and abroad. The outcome of this activity should be the strengthening of human resources capacity to give practical advice and support.

• Strategically ensure collaborative action from all relevant stakeholders and governmental departments. Manage such collaborations to strengthen resources for the SME to secure growth and survival.

• Take part in recruitment and selection of members or beneficiaries when the need arise. The focus here should be accommodating diversity in terms of the motivation for becoming part of the SME, such as experience and skills. SME 1 is an example of diverse skills in its membership that contributed tremendously to the success of the business.

• Take a leading role and act proactively when dealing with the selection of the type of business activity, as this decision could mean the success or failure of the business from the onset. Professional advice should also be utilised such as the Department of Trade and Industry (DTI) and the Small Enterprise Development Agency (SEDA).

6.4.3 Recommendations to the Department of Social Development

• The implementation of a constant monitoring and evaluation system is necessary to render supportive services. This will enhance the smooth functioning of SMEs and prevent unnecessary internal relationship problems.

• Payments should be made in accordance with the planned time frames of business activities and budget specification. This will avoid a negative influence on business operations and, to a certain extent, cash flow problems.

• Collaboration with the various other departments and in particular with the Department of Labour should be effectively managed to ensure that training is
conducted prior to business start-up. Training should include production and managerial skills.

- Recruitment of business staff to implement such small business initiatives is pivotal to ensure the overall successful management of these SMEs.

- SMEs must be engaged in programmes that foster entrepreneurial thinking and enhance the level of entrepreneurship. This will enable SMEs to become highly independent and increase their survival rate.

- Employ business experts and business orientated personnel, not Social Work staff to implement poverty programme through the establishment of SMEs.

- Allocate funding as per the budget specification of each SME and not a general grant to start the business.

- Stipends for a period of at least two years should be considered until the business is profitable to remunerate its staff.

**6.4.4 Recommendations to the government policy makers**

- The funding criteria need to be reviewed in the light of training needs and skills of the beneficiaries.

- Feasibility studies should be introduced where huge capital allocations are been made. This will reduce the risk of business initiatives.

**6.4.5 Recommendations for future research**

- The dependency of certain SMEs on government tenders and business activities should be investigated out of concern for their long-term sustainability.

- Aspects of social capital contributing to the success of SMEs, in particular established by the Department of Social Development, need thorough investigation as well as the success rate of SMEs within this department as opposed to other departments.
The impact and effectiveness of the introduction of more improved systems, resources of empowerment and social networks also need exploration to link them with small business success and failure.

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ANNEXURE “A”

Research Information Sheet

- The aim of the research is for the fulfilment of a Masters Degree in Business Administration at the Rhodes University.

- The subject is the investigation of factors which contribute to the success and failure of SMME’s with reference to the Department of Social Development.

- The researcher undertakes that all participants will remain anonymous and will be noted as respondent no.1, 2 etc.

- Furthermore, the researcher gives assurance that all interviews conducted will be treated with strict confidentiality.

- All participants are guaranteed that they are indemnified from all possible harm or damage which may arise from the research process.

- The researcher also undertakes not to use the information to his commercial advantage but for the sole purpose of obtaining the MBA.

Signed on this ......day of September 2008 at Somerset East.

Researcher: H.G. Petrus (Rhodes Investec Business School Student)

Signature: [Signature] 12/Aug/2008
ANNEXURE “B”

Interview Conducted with one of the Beneficiaries of a SME 2

Respondent No. 2

Date: 12 August 2008

Time: 12h30 to 13h45 (75 minutes)

The respondent is a 51 year old female and is the manager of the organisation. She has extensive experience in community work and a good background of working with government departments.

Response to the 1st question: The respondent fully agrees that the Department of Social Development staff and beneficiaries of SMEs need more business skills to eradicate poverty more effectively. She states that a more holistic approach should be followed in striving towards addressing poverty. According to her, there are many challenges that can be overcome through support groups, technical skills, handwork, beading, candle making, woodwork and vegetable gardens for the elderly. The Ubuntu Bangle project is one of their projects that are important for developing skills. The interviewee is of the opinion that the survival rate of cooperatives is 100% if established by people with the necessary knowledge.

Response to the 2nd question: People must have an educational background of the business they engage into. For the interviewee, it is also important who the Department of Social Development go into business with. She stated that SMEs need people with some business skills and integrity. People with integrity seem to be very important for the interviewee as she stated that integrity goes along with honesty and dignity. According to the interviewee, people should be able to account for monies they received. She then disclosed a problem experienced during her leave of absence from work, which was for a two-year period, where monies in excess of R200 000.00 seems to be unaccountable. She also showed the researcher an affidavit undertook by her that confirms her absence from work in an attempt to indemnify her from accounting for these monies. The interviewee is strongly from the opinion that people with some basic skills and integrity are required to successfully run the business.
Response to the 3rd question: The respondent found it difficult to answer the third question stating: “It is difficult to answer...the Department don’t have a tool for monitoring and evaluation”. The interviewee stated that the Department of Social Development does not fund members to evaluate and monitor their SME’s. (This means that the Department of Social Development does not make funding for such monitoring and evaluation activities available for community members). According to the interviewee nobody monitors the performance and daily activities of those SMEs established by the Department of Social Development. “We are a model organisation that has been replicated by others”, are meaning that they were visited from Departmental officials from national and provincial level. “The Department use us as an example to establish similar organisations”. The respondent states that despite the services rendered by them, the organisation experience pressure because of the do not receive the necessary funds. The Department only funds them for one specific area of service delivery while they render services to three other areas.

Response to the 4th question:

“There is a buy-in from the communities”. The respondent stated that their relationship with the schools is in particular very good. They run satellite offices from schools and strive to expand on their current service delivery program. The respondent is of the opinion that the response from the various communities to assist them with unbudgeted expenditure helps them to survive. She stated that one business is making a monthly cash donation, which they use for telephone and stationary expenses.

Response to the 5th question: Since the respondent started the organisation, they engaged in a comprehensive program of service delivery. “When you submit your Business Plan to the Department, they should look at it holistically...” The respondent is from the opinion that the Department for Social Development should follow an integrated approach in order to fight poverty more effectively. According to her the departments (including Social Development) are too fragmented and that a more integrated approach is necessary with all departments. She stated that the Department of Social Development has failed to take the responsibility to view Business Plans strategically. This means that the Department has failed to give a strategic response to the beneficiaries of the SME’s through networking and
collaborating with other departments on behalf of the applicant or SME. Another aspect that hampers effective service delivery by the Department of Social Development is competition among the various departments. There seems to be overlapping of services and duplication. The respondent stated that Departments are trying to establish similar types of projects and service programs and cause duplication of services in the process. The respondent mentioned that the above duplication results in monies been “rolled over and corruption”.

Response to the 6th question: In response to the question around departmental strengthening of resources, the respondent boldly stated that there is no innovation in government. There is a lot of in-fighting and competition among departmental officials.

Response to the 7th question: When responding to the challenges face by the Department of Social Development, the respondent is from the opinion that the Department of Social Development should employ people who only focus on small business development. “They need a separate sector and then walk the road”. “If they don’t walk the road, they encourage corruption”. According to the respondent people are not trained and basic things are not in place. She also stated that the Department need to ensure that people have a good concept of what business entails. People must draw up Business Plans for themselves. “The department is not interested in the administrative side of things”, (not-assisting the beneficiaries with paperwork). Other challenges mentioned were the fact that people are not receiving enough guidance from the Department and that there is no mentor for SMEs.

Response to the 8th question: According to the respondent people view that it is a must for the Department of Social Development to give funding for poverty alleviation projects. The respondent is from the opinion that this perception of the people can cause business failure.

Response to the 9th question: The following views on how the Department of Social Development can play a more effective role in ensuring the future sustainability of SMEs were expressed by the respondent: The Department of Social Development must spread funding equally to SMEs. The respondent showed their funding for the fiscal year and how it was reduced over the last two tranches by the Department of Social Development. The respondent mentioned that there is no answer and this creates uncertainty for future funding. Equal opportunities should be given to all people by funding all groups of
communities. The Department of Social Development can refer people for services and products to SME’s and recommend these SME’s for future services. (This means that the Department of Social Development can play a significant role to secure a market for products and services).

The Department of Social Development should “pay the people immediately”. “When the job is delivered, they need to get their money immediately”. According to the respondent, the Department of Social Development causes cash flow problems because funding is not paid on time. “The Department put people in a very precarious position because people expect payment from the manager of the organisation”.

Response to the 10th question: In response to whether the interviewee thinks that the Department of Social Development has made a significant contribution, the interviewee stated that the Department of Social Development has “started at the wrong angle”. Furthermore, “they are doing things that they don’t know much about”. The respondent expresses her disappointment in the Department of Social Development for failing to provide SME’s with guidelines in terms of operations. In addition to the above, the respondent stated that there is no mentor to empower people with the necessary skills. “The Department first give the money then ask questions”. The respondent is from the opinion that people receive money because of the political agenda of government. The lack of small business skilled staff within the Department of Social Development was stated as another aspect that contributed to the insignificant contribution of poverty alleviation by this department.

Other important aspects and factors mentioned for SME success are: A passion for the work is a vital requirement, it is not always necessary for education. The application criteria for funding are a problem. The opportunity to access funding by the poorest of the poor is not allowed by the Department of Social Development. The respondent is of the viewpoint that not only educated people must get funding. The interviewee stated that people who are doing “genuine work” can be successful when provided with proper training.

Other views include: When there is partial funding, timeframes should be set and adhered to. More assessments and evaluations should be conducted. Funding must start on time. No promises for funding should be made to SME’s by the Department of Social Development.
There is no support for managers of SME’s. They are supposed to be supervised, yet there is nothing in place. Duplication of services stir uncertainty among SME’s who are delivering the services. The need for collaboration is great to ensure effective service rendering. Unity among the departments is needed in order to implement an integrated approach.

Stakeholders in the communities also need to cooperate among each other for basic service demarcation. Services to be rendered are too massive. The Department chases quantity and neglect quality. As a result no difference is made in terms of service delivery to the client.

"Let people speak for themselves-do something different". Allowing a degree of freedom brings out the innovative ideas in people. The organisation needs four skilled managerial staff members to manage all four projects. There is no funding to address this shortage of staff.

**Information gathered from documents and follow-up discussions:**

The organisation received R704,000 for setting up an office and operational cost for the SMEs during their first year. Funding allocations for the last two consecutive years were reduced to R565,000 and R556,800 respectively. It appears that the Department of Social Development allocated funds on a cost matrix basis and that only R292,000 is available for staff salaries, which is a serious threat for this organisation. What was gathered from the financial reports, no serious cash flow problems are experienced and that financial scenarios are depicted on graphic scales. This gives a clear indication on the monies spend and available funding for the current month.

Besides funding from the Department of Social Development, the organisation received a small amount for a particular business project. The organisation has secured a market in Mexico for one of its SMEs’ products and is in the process of securing a national market within the South African accommodation sector. The organisation is hampered by a skills shortage at managerial level and lacks four project managers to ensure the smooth running of SMEs.
ANNEXURE “C”

BUSINESS PLAN

FOR

ITHUBA LABAFAZI
WOMEN CO-OPERATIVE

KWANOBUHLE

NELSON MANDELA METROPOLE DISTRICT
BUSINESS PLAN
FOR
ITHUBA LABAFAZI
WOMEN CO-OPERATIVE

BACKGROUND

KwaNobuhle, located ±10km from Uitenhage, is the biggest, fast-growing township of Uitenhage. In the olden days, members of the communities were guaranteed jobs in the local big companies, namely VW, Goodyear, Hella, etc. However, with the influx of job seekers to the town, it has become more difficult to find employment. The situation of unemployment has now reached crisis levels, hence Ithuba Labafazi has resorted in establishing a co-operative that would generate an income to sustain them. Funding is requested to make this vision a reality.

Origins and Reasons for Existence

In 1986 the urban foundation recruited unemployed women in KwaNobuhle Township with the purpose of training them in manufacturing skills. The women were trained in production of vaseline, polish and soya-based foodstuff. After they completed the training, they decided to start an income-generating project, Ithuba Labafazi, meaning “women opportunity”. The 30 members contributed R50.00 each to buy stock/material to start project operations. The project had proved to be viable in the community, because there was great demand for their products. However, due to cash flow problems and inability to secure funding, the project collapsed.

Ithuba Labafazi Project was revived by fifteen of its original members in 2006. The concept was changed from a project one to a more business or entrepreneur orientated one, namely Women Co-operative Venture. The levels of unemployment have escalated at an alarming rate in Uitenhage. Youths who leave school are struggling to find employment. The objective of establishing the Women Co-operative is to provide employment to unemployed women and young people.

Features of the Area of Operation

History of the Area

KwaNobuhle Township was built in 1966 to accommodate Blacks who were forcefully removed from Kabah and Langa Location by the Group Areas Act Laws.

The people received a raw deal from this resettlement because they were moved from large properties, they had full ownership rights to small matchbox rented council houses. They termed their first new resettlement area of KwaNobuhle “Angole”.

Informal settlements mushroomed thereafter within KwaNobuhle. In 1986 Tyovikwe was the first one, followed by Silvertown, Gunguluzi, Chris Hart, Peace Village, etc. The inhabitants came from the neighbouring small areas and farms to seek work at the local large companies like VW, Goodyear, etc.

Leadership / Community Set-up Structures in the Area

KwaNobuhle Township is a Black residential urban area which falls under the jurisdiction of the Nelson Mandela Metropole Municipality. It is divided into 6 wards and in each ward there is an elected Councillor who is the leader at local government level. There are ward committees who represent
different structures in the community. There are strong community structures that are actively involved, e.g. CPF's for maintenance of law and order, Phaphani Rape Crises, FBO's, Welfare Forums, Amadlozi (informal crime investigating agents), NPO's, private and community-based.

Information on the number of people, ages and gender distribution

A rough estimation population figure given of KwaNobuhle by the local municipality is ±125 000. Each ward of the 6 wards has ±20 000 people.

Age Distribution:

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 – 25 years</td>
<td>9.3%</td>
</tr>
<tr>
<td>25 – 35 years</td>
<td>34.3%</td>
</tr>
<tr>
<td>36 – 45 years</td>
<td>24.6%</td>
</tr>
<tr>
<td>56 – 69 years</td>
<td>19%</td>
</tr>
<tr>
<td>60 – over</td>
<td>12.7%</td>
</tr>
</tbody>
</table>

Gender Distribution:

<table>
<thead>
<tr>
<th>Gender</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>37.6%</td>
</tr>
<tr>
<td>Female</td>
<td>62.4%</td>
</tr>
</tbody>
</table>

This information was supplied by the Port Elizabeth Tourism Board.

Education and Literacy within the Area

According to 2000 census figures, 11 396 people were illiterate.

Major Health issues and the Standard of Health Services available

The prevalence of HIV & AIDS is very high, especially among youths, followed by TB, Hypertension, Diabetes, Epilepsy and Mental Illnesses (Stress, Depression, Schizophrenia, etc.).

KwaNobuhle is well-resourced insofar as health services are concerned. There is a Day Hospital, five Clinics and one Mobile Clinic.

Social Problems facing the Community

High unemployment rate which breeds poverty. The majority of KwaNobuhle households live below the poverty line. Other common social problems are Alcoholism and Drug Abuse, Promiscuity, Child Abuse, Rape, Domestic Violence and Crime.

ENVIRONMENTAL ISSUES FACING THE COMMUNITY

Littering of rubbish by some irresponsible residents and unattended animals (donkeys, cattle, goats, etc.) in public roads encumbering motorists are the major environmental issues facing the community.

Sources of Employment and Levels of Unemployment

Uitenhage is the home of the giant VWSA Car Manufacturing Company. As an anchor it has given rise to other car components manufacturing companies are Goodyear (tyres), Hella (car lights), Gearmax, Schellecke, Dorby, SKF and Johnson Control.
Despite the above-listed available sources of employment, unemployment levels are high in KwaNobuhle. Limited skills and relevant academic qualifications are contributory factors that prevent many local people from securing employment.

**Other Sources of Income for the Community**

Community enterprises such as spaza shops, vegetable and fruit vending, taverns, shebeens, stokvels, saving clubs, etc.

**Facilities available to the Community**

The following are some of the facilities that are available in KwaNobuhle:

- 26 Schools
- 4 Creches
- 1 Day Hospital
- 5 Clinics
- 1 Mobile Clinic
- 2 Stadiums
- 2 Libraries
- 1 Police Station
- 1 Special Offence Court
- 1 Fire Station
- 52 Churches
- 3 Community Halls
- 1 Spar Shopping Centre
- 1 ABSA Bank
- ATMs
- 1 Post Office
- 3 Filling Stations (garages)

**AVAILABILITY OF OTHER SOCIAL SERVICES**

The vast area of KwaNobuhle is supplied with social services such as running water, sanitation, electricity, refuse disposal, etc. A small section of the shanty area is still using the bucket system and communal water taps.

**No. of NGO’s and Social Welfare Programmes**

The following NGO’s render services at KwaNobuhle:

- Child & Family Welfare
- FAMSA
- NICRO
- SANCA
- SHARE
- Mental Health
- Red Cross
- Salvation Army
- SA Council for the Aged
- Mfesane
There are community-based NPO’s who render social services to this community, such as Thanci Youth HIV & AIDS Home-based Care, Phaphamani Rape Crises that renders care and support to rape victims.

**Cultural And Religious Activities In The Area**

The Kwamokuhle community are passionate about their culture. Various cultural events take place in all areas of the community. Religion also plays an important role in their spiritual lives. Gospel music is popular and there are many gospel groups in the community.

**Community Strengths and Assets**

The community is unified and the people are supportive of community building initiatives. It is easy to mobilize the community when community action is required.

The government's infrastructure development programme has benefited the Kwamokuhle community immensely in the past 12 years. The housing backlog was addressed by building of RDP houses. There are few shack houses that exist in this area. There are tarred roads in the greater part of the location and drains to prevent flooding. The health, education, recreation, welfare, religion, industry, infrastructure discussed above are the cornerstone assets of the community.

**Dominant Community Values / Support**

The strong spirit of Ubuntu is a dominant feature among the people of Kwamokuhle. They are supportive of one another.

**Problem to be addressed / Problem Statement**

Unemployment is the problem that Lhube Labafazi Women Co-operative seeks to address.

The unemployment rate is escalating, the majority of young people who leave school every year are unable to enter the job market because of limited qualifications and skills. They add to the already high numbers of the unemployed people in the community.

Adults who are 40 years and above are discriminated by the labour sector. The restrictive age limit for jobs they advertise in the print media is usually 35 years and below.

**Need Identification**

A public meeting was held at Ward 43 Kwamokuhle which was attended by 62 members of the community. The Councillor of this ward, namely Mr M. Bomvana, was part of this gathering. The community was given an opportunity to identify their needs and to prioritize these according to the order of their importance, using the Participatory Urban Appraisal Method.

**Beneficiaries and Parties Involved**

The beneficiaries of this co-operative are the 15 members. Other stakeholders that will be involved are the Department of Social Development, Local Government, Department of Labour, African Business and Manufacturers Development Association (ABUMDA) and USEC (Uitenhage Self-Employment Centre).
### Intervention Logic Matrix

**OVERALL OBJECTIVE / DEVELOPMENTAL GOAL**

Women in KwaNobuhle are able to access sustainable employment by June 2011

<table>
<thead>
<tr>
<th>PROJECT PURPOSE</th>
<th>OBJECTIVE VERIFIABLE INDICATORS</th>
<th>MEANS OF VERIFICATION</th>
<th>ASSUMPTIONS</th>
<th>ALTERNATIVE STRATEGY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Create job opportunities for the unemployed women in KwaNobuhle by June 2008</td>
<td>15 Women are gainfully employed in the Co-operative by March 2007</td>
<td>No. of women employed</td>
<td>Members produce poor quality products</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Attendance Register</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Production</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Contracts</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**RESULT / OUTPUT**

| 15 Women of KwaNobuhle receive an income by March 2007 | Improved standard of living by March 2007 | Remuneration Records | Low level of commitment |
| 15 Women are capacitated in Business Management Skills by March 2007 | No. of trained women employed by March 2007 | Attendance Register Training Report Certificates | Poor quality training by service provider |
| Ifihila Labafazi Women Co-operative is adequately managed and sustainable by March 2007 | Quality products produced by the Co-operative by March 2007 | Sales records | Internal conflicts between members resulting to resignations |

---

**Log Frame Matrix – Results – Activities – Inputs / Resources – Responsibilities – Budget**

(Related to each Activity)

<table>
<thead>
<tr>
<th>RESULTS</th>
<th>ACTIVITIES</th>
<th>INPUTS / RESOURCES</th>
<th>RESPONSIBILITIES</th>
<th>BUDGET</th>
</tr>
</thead>
<tbody>
<tr>
<td>15 Women of KwaNobuhle receive income by March 2007</td>
<td>Conduct job orientation with 15 women</td>
<td>Training service provider</td>
<td>Management Committee</td>
<td>R305 370</td>
</tr>
<tr>
<td>Placement of women to their respective jobs</td>
<td>Production equipment / material</td>
<td>Dept of Labour COMMUNITY LINKS OFFICER</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchase of equipment &amp; material</td>
<td>Equipment &amp; material inventories</td>
<td>Project Co-ordinator</td>
<td></td>
<td></td>
</tr>
<tr>
<td>RESULTS</td>
<td>ACTIVITIES</td>
<td>INPUTS / RESOURCES</td>
<td>RESPONSIBILITIES</td>
<td>BUDGET</td>
</tr>
<tr>
<td>---------</td>
<td>------------</td>
<td>--------------------</td>
<td>------------------</td>
<td>--------</td>
</tr>
<tr>
<td>105 Women are capacitated in business management skills by March 2007</td>
<td>Recruit training service providers</td>
<td>Training service provider database</td>
<td>Department of Labour Committee</td>
<td>R100 000</td>
</tr>
<tr>
<td>105 Women are capacitated in business management skills by March 2007</td>
<td>Select training service provider</td>
<td>Tender System Training service provider</td>
<td>COMMUNITY LIAISON OFFICER Project Co-ordinator</td>
<td></td>
</tr>
<tr>
<td>105 Women are capacitated in business management skills by March 2007</td>
<td>Training of 15 women implemented</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Illubla Labafazi Women Co-operative is adequately managed and sustainable by March 2007</td>
<td>Organizational structure in place Bookkeeper appointed Production records monitored</td>
<td>Monthly Report Financial Report Sales Record</td>
<td>Committee COMMUNITY LIAISON OFFICER Project Co-ordinator</td>
<td>R64 730</td>
</tr>
<tr>
<td>Illubla Labafazi Women Co-operative is adequately managed and sustainable by March 2007</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td></td>
<td></td>
<td>R500 000</td>
</tr>
</tbody>
</table>

Assumptions
The only impediment that would prevent the envisaged co-operative to implement its vision / service is finance.

Target Group Participation in Planning

The beneficiaries consulted the community broadly by holding a public meeting which was led by the Ward Councillor, Mr Bonavama, on 08/06/2006 at Jeff Masemola Community Hall. Out of the 62 community members that attended, the majority were unemployed women, unemployed young people and unemployed men. Therefore, the target group had participated actively in the need assessment and identification. They have bought in to the idea of establishing the service.

IMPLEMENTATION

Physical Means and Non-Physical Means

Physical Means

The co-operative requires the following physical equipment to enable them to implement their operations:
- Stationery
- Steel Filing Cabinet
- Steel Tables
- Computer
- Measuring Scales
- Food Containers
- Industrial Wrapping Machine
- Industrial Seal Machine
- Fax Machine
Non-Physical Means:

Human Resources:

- Project Manager
- Management Committee
- 15 Beneficiaries
- Accredited Training Provider
- Department of Social Development

Organizational Structure & Staff Capacity to Implement

The organizational structure of the Management Committee according to the constitution consist of the following members:

- Chairperson
- Vice-Chairperson
- Treasurer
- Secretary
- Vice Secretary
- Marketing Officer
- Production Officer
- Stock Control Officer

Implementation Procedures

The beneficiaries will be guided by their business plan and terms and conditions set down in the Service Level Agreement Document they had committed themselves to, as their implementation guidelines.

COST ESTIMATE AND FINANCIAL PLAN

Cost Plan Matrix

<table>
<thead>
<tr>
<th>COST ITEM</th>
<th>COST PER ITEM</th>
<th>BUDGET</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Physical Investment:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 x Computer</td>
<td>R5 000.00</td>
<td>R5 000.00</td>
<td></td>
</tr>
<tr>
<td>1 x Fax Machine</td>
<td>R2 000.00</td>
<td>R2 000.00</td>
<td></td>
</tr>
<tr>
<td>2 x Desks</td>
<td>R300.00</td>
<td>R720.00</td>
<td></td>
</tr>
<tr>
<td>5 x Food Containers</td>
<td>R5 100.00</td>
<td>R5 500.00</td>
<td>70%</td>
</tr>
<tr>
<td>Steel Cupboards</td>
<td>R1 800.00</td>
<td>R1 800.00</td>
<td></td>
</tr>
<tr>
<td>10 x Steel Tables</td>
<td>R400.00</td>
<td>R4 000.00</td>
<td></td>
</tr>
<tr>
<td>1 x Manual Scale</td>
<td>R3 000.00</td>
<td>R3 000.00</td>
<td></td>
</tr>
<tr>
<td>5 x Kitchen Scales</td>
<td>R250.00</td>
<td>R1 250.00</td>
<td></td>
</tr>
<tr>
<td>Hand Sealing Machine</td>
<td>R5 000.00</td>
<td>R5 000.00</td>
<td></td>
</tr>
<tr>
<td>Industrial Seal &amp; Wrapping Machine</td>
<td>R27 000.00</td>
<td>R27 000.00</td>
<td></td>
</tr>
<tr>
<td>Chemicals for Vaseline</td>
<td>R50 000.00</td>
<td>R50 000.00</td>
<td></td>
</tr>
<tr>
<td>Chemicals for Polish</td>
<td>R50 000.00</td>
<td>R50 000.00</td>
<td></td>
</tr>
<tr>
<td>Royal Mixe Material</td>
<td>R120 000.00</td>
<td>R150 000.00</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Non-Physical Investment</td>
<td>Administration Costs</td>
<td></td>
</tr>
<tr>
<td>----------------------</td>
<td>-------------------------</td>
<td>-----------------------</td>
<td></td>
</tr>
<tr>
<td>Training &amp; Capacity Building</td>
<td>R100 000.00</td>
<td>R100 000.00</td>
<td>18%</td>
</tr>
<tr>
<td>Stationery</td>
<td>R5 000.00</td>
<td>R94 750.00</td>
<td>12%</td>
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<td>Transport</td>
<td>R50 000.00</td>
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<td></td>
</tr>
<tr>
<td>Rental</td>
<td>R20 000.00</td>
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</tr>
<tr>
<td>Municipal Services</td>
<td>R3 730.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cleaning Materials</td>
<td>R1 000.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Telephone</td>
<td>R10 000.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Audit Services</td>
<td>R5 000.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Insurance</td>
<td>R10 000.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>R500 000.00</strong></td>
<td><strong>R500 000.00</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

**FACTORS ENSURING SUSTAINABILITY**

The products that will be manufactured will be sold at affordable prices to the community, because the production costs will be minimal. Presently local hawkers travel to Johannesburg to buy floor polish and Vaseline in order to sell it to consumers in the community. There is great demand for these products, they sell like hot cakes in the community. To attract buyers, the co-operative plans to sell these products at competitive prices.

The project members will be trained in business management skills to ensure that they are able to manage their business effectively and efficiently so that it is sustainable.

**Policy Support**

The S.A. Constitution 1996 – Previously disadvantaged communities are supported through government development programmes. This initiative of Ithuba Labatsazi is in line with the Government’s plan of encouraging people to do things for themselves – “Vukuzenzela”.

**Appropriate Technology**

The project do not utilize any technology.

**Environment Protection**

The activities that will be undertaken during the project’s operations are environmentally friendly.

**Socio-Cultural Aspects – Women, Youth In Development**

The establishment of the Women Co-operative was welcomed and received blessings from the Ward Councillor, community structures and the community at large.

**Human Resource Development (Training & Support)**

The project members individual training needs will be assessed and the appropriate training provided.

There are some project members who had received training in the past on the manufacturing of the products in question.

**Special Condition**
All the terms and conditions of the funding that would be provided by the Department of Social Development will be thoroughly read and explained in the Service Level Agreement Contract Document. The signing of the document binds them to adhere to all the conditions.

MONITORING AND EVALUATION

The Department of Social Development Community Liaison Officer will be responsible for monitoring the programme by conducting weekly visits. The project’s Management Committee will be required to provide the Department with monthly reports on the project’s performance.

Proper records of all expenditures, profits and inventory of equipment should be properly filed and easily available when required.

CONCLUSION

Ihthuza Lufiufi Women Co-operative have tried and tested the project they want to do in the past from their own humble resources. They have a clear knowledge of its challenges and have experience on the management of this business venture. They are determined this time around with the help of funding from the Department to make the project a success story that the Department of Social Development will be proud of.

The implementation of the programme in KwaNobuhle will have an impact to the community as it would alleviate the level of unemployment among women. The saying that says “When you feed a woman, you feed the nation” will be realized.
ANNEXURE “D”

AGREEMENT FOR PROJECT FUNDING

BETWEEN

THE GOVERNMENT OF EASTERN CAPE IN ITS DEPARTMENT
OF SOCIAL DEVELOPMENT

Represented by: ..........................................................
   in his/her duly authorised capacity as:

And ..........................................................
   (Project Name)

Represented by (Full name): ..................................
   In his/her capacity as ..................................
   of the Project Committee

Whereas the Business Plan for the Project was submitted and approved by the
Department on the ............................................ (date) and

Whereas the Business Plan will be amended at the instance of and approval of the
Department.

NOW THEREFORE THE PARTIES AGREE AS FOLLOWS:


1. Definitions

In this agreement, unless otherwise required or indicated by the context, the singular shall include the plural and vice versa. Any reference to any gender shall include all other genders and vice versa.

1.1. The Committee
duly elected body to represent the Project as a legal entity.

1.2. The Business Plan
documentation and budgets described as such, attached and forms part of this agreement.

1.3. The Subsidy
the sum to be subsidized by the Department to the Recipient.

1.4. Founding Documents
includes the memorandum and articles of association of a company, a trust deed, the constitution of a voluntary association and a founding statement of a close corporation.

1.5. The Project
the activity or activities to be implemented by the Recipient with the proceeds of the grant as referred to in the Business Plan.

2. The Subsidy

2.1. The Department undertakes to subsidise Recipient to the sum of

........................................................................................................
........................................................................................................
...........................................................................................................which sum is stipulated in the Schedule and referred to in this agreement as "the Subsidy".

2.2. The Subsidy will be paid to the Recipient by the Department of Social Development, in tranches whose sum as shall be determined, on the dates or on the periods contemplated in the Schedule attached hereto.

2.3. The Department may insist that no portion of the Subsidy will be paid to the Recipient unless the Recipient furnishes the Department with a duly adopted resolution, similar in all material respects to the precedent attached as Document 1 of the Recipient’s Executive Committee, authorizing and adopting this Agreement, the Schedule fully completed, a completed and adopted constitution.

2.4. The Department may insist that no payment of the transfer will be made to the Recipient unless the Recipient furnishes the Department with a proof of application to register as a Non-Profit entity.
3. The Project

3.1 The Recipient agrees and understands that the validity and the Project income is to be used only to meet the reasonable and necessary costs and commitments of the Project and strictly in accordance with this Agreement and the Business Plan.

3.2 The Project may comprise one or more loans, grants and other support with those obligated to be conducted by the Recipient.

3.3 If the Recipient wishes to utilize any portion of the Validity of Project income for any purpose other than the implementation and expansion of the Project, the Recipient must obtain prior written approval from the Departmental Accounting Officer or his delegated officer.

3.4 The Recipient must implement the Project and utilise the whole of the Validity and for the purposes stipulated in this agreement. The Recipient must comply strictly with all written requests or instructions that may be notified to the Recipient by the Department concerning the use and administration of funds or Project income. Any aspect of the implementation of the Project, or any other matter contemplated in this agreement, the Recipient shall in particular allow the Department to inspect their records, including the bank statements of the project and any other linked account, which the Recipient shall keep in an updated form and make available to the Department at request.

4. Duration of the Project

4.1 The Project shall be in operation for a period of

4.2 If the Recipient wishes to apply for an extension of the Project Period, the Recipient’s written application for such extension must be submitted to the Department at least three (3) months prior to the termination date, and shall estimate the time required for the completion of the Project and any other matters.

4.3 Extension of the Project Period, if approved, shall be subject to the conditions and requirements of the Department.

5. Offsets

5.1 The Recipient understands and agrees that the Project shall be subject to offsets.
Executive Committee are [or will be] within Sixty (60) days of the Commencement Date at least those persons whose names, offices and details are recorded in the table set out in the Schedule and that the names, offices and details of all successors to such persons will be notified to the Department in writing within ten (10) days of their appointment.

5.2. To the extent that any office bearer or member of the Executive Committee signs this Agreement, in doing so he warrants that he has been [or will be] within Sixty (60) days of the Commencement Date duly and properly elected and appointed in terms of the Recipient’s Founding Documents. The Recipient must, in any event, ensure that any person who may be appointed from time to time as a member or office bearer of the Executive Committee, is appointed and elected strictly in accordance with such Founding Documents.

5.3. 5.3. The Recipient must ensure that any person who may (from time to time) be appointed as member or office bearer of the Recipient’s Executive Committee, is informed that he must notify the Department in writing if he has any personal financial interest in or dealings with any third party with whom the Recipient may intend concluding a contract in connection with the Project.

5.4. 5.4. The office bearers will be jointly and severally liable for the proper performance and the implementation of the Project and each member will remain liable after resignation, for all transactions and omissions during his term of office until a new member has been elected and his signature has been recorded as an annexure to this agreement.

6. Meetings of the Recipient’s Executive Committee

6.1. Despite anything to the contrary, which may be contained in the Founding Documents of the Recipient:

6.2. The Recipient must ensure that its Executive Committee meets at least once every calendar month during the Project Period.

6.3. The Department will be entitled to appoint any person as its representative to attend any and all meetings of the Recipient’s Executive Committee.

6.4. Within fourteen (14) days after the Commencement Date, the Recipient must inform the Department in writing of the proposed dates of all the monthly Executive Committee meetings to be held during Project Period and must immediately notify the Department in writing of any change to

6.5. At each meeting of the monthly meetings the Recipient’s Executive Committee must review and consider all transactions, including all the received and disbursements made in relation to the Project since the date of the last meeting.
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8.1.1. Open and maintain a separate interest-bearing fund account within their books of account to account separately for moneys subsidized by the Department.

8.1.2. The recipient should seek consent from the Accounting Officer of the Department for the utilization of the accumulated interest.

8.1.3. Monthly fund account statements to be produced by recipients and submitted to the accounting officer not later than 15 of every month for analysis purposes.

8.2. Although the Fund Account may be operated by the Recipient independently of the Department and the Provincial Treasury.

8.2.1. The Recipient must not make any cash withdrawals from the Fund Account. All payments made out of the Fund Account by the Recipient must be by way of the Recipient’s cheques signed by at least the chairperson and other office bearers of the Recipient’s Executive Committee. All such cheques must be marked and crossed “not transferable”, the words “for bearer” must be deleted and no such cheque may be made out to cash. If there have to be any cash withdrawals, the Executive Committee must Authorise Approve all withdrawals and minute such decisions and keep records of such approvals.

9. Contractual arrangements with third parties

9.1. Before concluding any contract with any third party for the procurement of goods or services in connection with the Project, the Recipient must obtain, if possible, quotations from at least three (3) potential suppliers. If it is not possible then the circumstances and reasons thereof must be forwarded in writing to the Department and it must be recorded at the Recipient’s next formal meeting and must be minute accordingly.

9.2. No such supplier may have any personal, family, business or financial relationship of any kind whatsoever with any member or office bearer of the Recipient’s Executive Committee.

9.3. All contracts with any such suppliers must be concluded in the name of the Recipient.

9.4. The Recipient must pay suppliers within thirty (30) days of receipt of the relevant invoice provided that no payment may be made to any supplier until the relevant invoice has been signed by a member or office bearer of the Recipient’s Executive Committee, thereby certifying that the relevant goods or services were properly supplied or rendered in accordance with the contract concluded with the supplier.
9.5 The recipient must give full details to the Department of any other grants, funds or donations that may result from the same project from other sources, immediately after notification of the commencement of receipt of such monies.

10. Audit Review and Reporting

10.1 The Department will have the right at any time to visit the premises of the Recipient, its sub-contractors and any agent or partners of the Project, to interview any person or contractor affected by monitoring them or participating in the Project, to inspect and make copies of all and any books and records of the Recipient and generally to obtain and verify such information as the Department may deem relevant, to ensure that the Recipient has complied and is complying with the terms of this Agreement and for such purposes.

10.2 The Recipient must prepare and submit to the Department regular written reports reflecting accurately and completely the progress of performance of the Project and its implementation. Such reports must be submitted within seven (7) days of the end of each calendar month during the project period and a final report within seven (7) days after the Termination Date provided that the Department may, at any time request the Recipient to prepare and submit a report on any matter contemplated in this Agreement.

10.3 The Department may, in its discretion, instruct the Internal Auditor and/or General to perform investigation and/or audits in the event of suspected irregularities.

11. The Department’s Representative

11.1 The Department will be entitled at any time to appoint any one or more third parties, including but not limited to the Provincial Treasurer, the provincial and local departments or the representative to exercise any or all of the rights and perform any or all of the obligations under this Agreement.

11.2 The Department shall indemnify the Recipient in defence of any action or起诉 arising from.
12.1.1. to order suspension of further disbursement of funds to the Recipient;

12.1.2. to require immediate refund of all funds previously paid to the Recipient and/or to withdraw all funds held in the separate bank account and be deposited to the Provincial Revenue Fund;

12.1.3. to take immediate possession of all books, records, equipment, stock, premises or other assets then under the control of the Recipient which relate to or form part of the Project, or which were acquired with funds or Project Income;

All such books and assets, to the extent that they are not owned by any third party, will be deemed to vest in the Department immediately on taking of such possession;

12.1.4. to cancel this Agreement, or to enforce strict compliance with its terms and conditions.

13. Indulgences

13.1. No extension of time, latitude or other indulgence which may be given or allowed by either Party to the other, will constitute a waiver or novation of this Agreement, or affect such Party’s rights or prevent such Party from strictly enforcing due compliance with such and every provision of this Agreement.

14. Variation

14.1. No amendment to or consensual termination of this Agreement will be of force or effect unless reduced to writing and signed by both Parties.

15. Limitation on Cession

15.1. Subject to Clause 8, the rights and obligations of the Parties in terms of this Agreement are personal and are not capable of being ceded, assigned, delegated or transferred by either of them to any other person, except with the prior written consent of the other.

16. Domicilium Curandi Et Executandi

16.1. The Department, in exercise of its domicilium curandi and executandi for the purposes arising from this Agreement for the services of legal documents and notices, The Head of the Department: Department of Social Development, Room 146, 1st Floor, Bukumbana Building, Bisho.
16.2. The Recipient chooses as its domicilium viandi et executandi for all purposes arising from this Agreement, the physical address recorded in the Schedule.

16.3. Either Party may change its domicilium viandi et executandi by means of a written notice to other Party; provided that such domicilium must be a physical address within the Republic.

16.4. All notices contemplated under this Agreement must be delivered by hand or sent by prepaid registered post, in which latter event such notice will be deemed to have been received by the addressee seven (7) days after the proven date of posting.

17. Dispute Resolution Procedure

17.1. The parties agree that, in the event of any dispute arising between the Department and the Recipient with regard to the performance, terms, conditions, termination, cancellation, validity, rectification of this agreement, non-compliance with service levels, or any breach of any nature which cannot be settled or effectively remedied between the parties must be referred for settlement or remedied in accordance with this dispute resolution procedure.

17.2. The arbitration shall be conducted in terms of the Arbitration Act No.42 of 1965, as amended from time to time and with due consideration of the following specific stipulations as allowed for in such Act.

17.3. Any party shall be entitled to demand in writing that the dispute be referred for arbitration within ten (10) days after agreement could not be reached.

17.4. The Arbitrator appointed by the Accounting Officer of the Department who shall, if the matter is of technical complexity, be entitled to appoint an expert in the field of that complexity to assist.

17.5. Within thirty (30) days after the notice in subsection 17.4 each party shall submit a comprehensive written statement to the Arbitrator containing all evidence, sworn statements, records, submissions, or expert witnesses, etc., on which their case is based, a copy of which is to be served on the other party.

17.6. Within fourteen (14) days after receipt of a copy of the above-mentioned documents the other party may reply in writing and submit a supplementary document to the Arbitrator, a copy of which is to be served on the other party.

17.7. The Arbitrator shall provide the dispute and based on the document before him, without appearance of the parties or any legal representative before him, decide on the issue. Should the Arbitrator be unable to decide the issue of the documents...
he may request the parties to present further evidence or to call witnesses to testify in the presence of the parties. These witnesses must be questioned by the Arbitrator and may be questioned by those parties.

7.8. The Arbitrator may announce any decision or make a finding of the intention of the parties and reach a decision on the South African Law. He is not strictly bound by the rules of law but must be guided by the principles of justice.

7.9. The findings of the Arbitrator shall be final and binding on the parties and may be made in court order should one of the fail or refuse to give effect to the Arbitrator's finding or award.

7.10. The Arbitrator shall fix in his own discretion and as part of the making of the award, reasonable costs between the parties with regard to the arbitration and all arbitration-related costs.

7.11. The above resolution procedure mentioned above does not prohibit either party from seeking relief in a dispute where urgency can be proved and where, as a result, application can be made for an urgent interdict, declaratory order or urgent relief to any Court with competent jurisdiction.

SIGNED by the Head of DEPARTMENT ...

.......................... this day of ......... 2006.

AS WITNESSES

Witness

.......................... Signature

.......................... Signature

For the DEPARTMENT

Witness
SIGNED by the RECIPIENT.......................... at..........................................................his..............
...day of.........................................................2006.

AS WITNESS

Witness
.................................................................Capacity
.................................................................Signature

Witness
.................................................................Capacity
.................................................................Signature

For the RECIPIENT they being duly authorised thereto
SCHEDULE TO THE GRANT AGREEMENT

For official use only
Ref No

Full Name of Recipient: ____________________________

Postal address of Recipient: ____________________________

Physical Street Address of the Recipient: ____________________________

Telephone No. of Recipient: ____________________________ Fax No.

Full names of the two (2) persons who will sign the agreement on behalf of the Recipient: ____________________________ and ____________________________

The Project starting date is: ____________________________ Termination date: ____________________________

The total amount of the Subsidy will not exceed: R ____________________________

The transfer will be paid as follows:
First payment of ______ % on: ____________________________
Second payment of ______ % on: ____________________________
Third payment of ______ % on: ____________________________
Fourth payment of ______ % on: ____________________________
Fifth payment of ______ % on: ____________________________
Sixth payment of ______ % on: ____________________________

Project Banking details (the account in which the grant funds must be paid):
Name under which account is registered at the bank: ____________________________

Name of the Bank where the account is held: ____________________________

Type of account (e.g. savings, current) ____________________________

Branch code: ____________________________

Account Number: ____________________________
ANNEXURE A

ASSURANCE IN TERMS OF SECTION 38(1)(J) OF THE PUBLIC FINANCE MANAGEMENT ACT, 1999 (ACT 1 OF 1999)

(In terms of Section 38 (1) (J) of the Public Finance Management Act, 1999 (Act 1 of 1999), the Department of Social Development requires a written assurance, that your entity implements effective, efficient and transparent financial management and internal control systems)

I, the undersigned _____________________________ in my capacity as _____________________________ of _____________________________ hereby declare that _____________________________ (entity) implements effective, efficient and transparent financial management and internal control systems.

Signed at _____________________________ on this __________ day of _____________________________ 20________

SIGNATURE

______________________________

WITNESSES

______________________________

ANNEXURE B
CONDITIONS AND REMEDIAL MEASURES TO COMPLY WITH THE PUBLIC FINANCE MANAGEMENT ACT (Section 38(1) of Act 1 of 1999)

In the case where written assurance cannot be obtained from the entity that effective, efficient and transparent management and internal control systems exist, the following conditions and remedial measures will apply:

- The Committee will not use any funds allocated by the Department and paid into their bank account until the Department gives them written permission to do so.
- The Committee will attend and subject itself to training in business management and financial control systems provided by the Department.
- The Committee will implement and adhere to the financial control system prescribed by the Department.
- The Committee will subject itself to monitoring and inspection of financial records on a regular basis as conducted by the officials of the Department, or its representatives.
- The Committee will submit monthly financial expenditure and progress reports as prescribed by the Department.

I, the undersigned, __________________________ in my capacity as __________________________ of ________________, hereby declare that __________________________(entity) will adhere to the conditions as stipulated above in order to ensure effective, efficient and transparent financial management and internal control systems.

SIGNED AT _________________________, on the __________________________, 20__. [Signature]

SIGNED AS WITNESSES

[Signature]

[Signature]
ANNEXURE “E”

PARTICIPATORY URBAN APPRAISAL REPORT
UNDERTAKEN AT
KWANOBUHLE, UITENHAGE
08/09/2006

<table>
<thead>
<tr>
<th>PROJECT NAME</th>
<th>Ithuba Labafazi Women Co-operative</th>
</tr>
</thead>
<tbody>
<tr>
<td>PROJECT LOCATION</td>
<td>KwaNobuhle Township, Uitenhage</td>
</tr>
<tr>
<td>No. OF PEOPLE PARTICIPATED</td>
<td>62</td>
</tr>
<tr>
<td>PROJECT DESCRIPTION</td>
<td>Product Manufacturing Venture</td>
</tr>
<tr>
<td></td>
<td>(Floor polish, Vaseline, soya mince)</td>
</tr>
</tbody>
</table>

PURPOSE OF THE INITIATIVE

To conduct a need assessment of the area by involving the community to participate by providing information on different aspects of their community, according to their own perspective. The participatory urban appraisal method was used in this exercise.

The aim is to reach a community consensus on the priority needs.

INTRODUCTION

In a meeting attended by 62 community members at Jeff Masemola Community Hall, KwaNobuhle, on 08/09/2006, the community members were given an opportunity to identify community needs and to prioritize them according to the order of importance using the Participatory Urban Appraisal Method.

Participatory Urban Appraisal Technique (PUA) : Six PUA techniques were applied in small community groups of 10 members.

1. **VENN DIAGRAM – GROUP 1**

   The community was asked to identify their needs and to rank them according to the order of importance. They were required to give reasons for the ranking of their top 3 priority needs / problems and how these affect them.

   **Identified Needs**

   Unemployment
   HIV & AIDS level high
   Alcohol / Substance Abuse
   Domestic Violence
   Crime
   Skills Shortage
   Recreation Facilities limited
Priority Needs

Unemployment
HIV & AIDS
Limited Skills

Reasons given to justify 3 Priority Needs

Unemployment

The population of KwaNobuhle and Uitenhage has increased at an alarming rate, because of people who immigrate from other towns to Uitenhage to seek work in the local industries. This resulted to more supply (job seekers) versus less demand (available employment). Women are the most affected by the unemployment.

The majority of the 1500 employees who were fired from VW in 2000 following an industrial strike, were KwaNobuhle Community male residents. This had an adverse effect on the economy of this community as most of them were sole breadwinners in their families. The co-operative that is to be established will be able to provide work to the women of that community.

HIV & AIDS Pandemic

The scourge of HIV & AIDS is taking its toll in the KwaNobuhle Community. There is a high rate of people, especially youth, who suffer from AIDS-related illnesses in the community. The death rate is also high, with ± 20 funerals of victims taking place every week. The soya-base food stuff that will be manufactured by the Co-operative is high in nutritional value, therefore it would be of great benefit to the infected.

Limited Skills

Young people who leave school are unable to find employment as they do not have the necessary skills. The co-operative has among its members young women who have matriculated, but cannot find work. These members will be able to acquire skills in product manufacturing and business skills that would be provided by the co-operative.

2. TRANSECT WALK – GROUP 2

The second group took a systematic walk around their community and on their way they observed, discussed and identify different forms and local technologies. They engage in informal discussion about the new technologies they came across, their uses, problems, solutions and opportunities they create in their community. All the infrastructure that was there was diagrammed.

3. MAPPING – GROUP 3

The third group were engaged in map drawing of the different aspects of KwaNobuhle location, e.g. houses, facilities, roads, vegetation, etc.

4. TIME LINE – GROUP 4

This technique involves the gathering of information from the communities about important major historic events that had an impact in their lives.

“Building a caring society, together”
This group selected to participate in the time line technique were mostly senior citizens, who were born and bred in the old Kabah / Langa Location. The time line events were reported in 10 years interval.

1956:
Black women from Uitenhage marched from Kabah to New Brighton Station in protest against the Pass Laws.

1968:
Forceful removals of Kabah / Langa Location residence in terms of the abhorrent Group Areas Act and were resettled in the newly established KwaNobuhle Location.

1976:
Black schools rioted against Bantu Education System. Children were injured and some killed by the Police who were assisted by Defence Force Soldiers.

1985:
Uitenhage massacre of 36 people who were shot dead for defying an order not to attend a mass funeral of shot victims by Police.

1991:
Halla Company retrenched many people due to privatization. Their work force consisted mainly women. They could not find work in other companies as they were middle-aged.

2000:
Volkswagen Company fired 1500 employees who were engaged in an illegal labour strike.

The Company replaced these employees by employing mostly people from Port Elizabeth. This had an adverse effect on KwaNobuhle's economy as the people of this area were given first preference for jobs.

5. TIME TREND – GROUP 5

People account on their past, changes in customs, practices in and trends in population, migration, fuel used, education, health, cost of living, etc.

Refer to Time Trend Matrix.
<table>
<thead>
<tr>
<th>DATE</th>
<th>EDUCATION</th>
<th>HEALTH</th>
<th>SOCIO-CULTURAL</th>
<th>EMPLOYMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950-1960</td>
<td>There were few people who had formal education in the Black community of Uitenhage via Langa. There was one primary and high schools for Black people.</td>
<td>There was only one hospital in Uitenhage, i.e. Provincial and Langa / Kabah Community had one clinic at Middle Street. Traditional medicines were used for treatment. People enjoyed good health and lived longer.</td>
<td>Houses were custom built in mud and some with corrugated iron sheets. Marriages were conducted according to customary rites with lobola paid in cash. Donkey carts were used as mode of transport at Langa.</td>
<td>Employment opportunities were good for Whites only. Husbands were breadwinners and most wives did not work, but looked after their families. Few women were employed.</td>
</tr>
<tr>
<td>1960-1970</td>
<td>More people got educated. Additional schools were built.</td>
<td>There were more health facilities that were built.</td>
<td>Forced removals of people from Langa to KwaNobuhle township. Urbanization started.</td>
<td>Growth of industries. Economic growth. Job Reservations Act prevented Blacks to be employed in certain jobs.</td>
</tr>
<tr>
<td>1970-1980</td>
<td>Black children were admitted in previously White only schools (Model C).</td>
<td>Day hospital was established at KwaNobuhle Location.</td>
<td>KwaNobuhle population grew. Demand for houses. Long waiting lists.</td>
<td>More companies established. Blacks were employed in inferior positions.</td>
</tr>
<tr>
<td>1980-1990</td>
<td>Level of Blacks admitted to tertiary institutions increase.</td>
<td>More clinics were built.</td>
<td>Informal settlements mushroomed.</td>
<td>Self-employment in diverse business by Blacks started, e.g. Taxi's</td>
</tr>
</tbody>
</table>
6. MATRIX – GROUP 6

The matrix ranking technique is undertaken to learn about the weather conditions or climate of the area, where the intended project is to be implemented. It would have a bearing on the services to be rendered in that community.

Knowledge about the rainfall season for a crop production project is for example of vital importance. A graph indicating weather conditions and rainfall distribution as well as income and expenditure trends.

<table>
<thead>
<tr>
<th>ACTIVITY</th>
<th>JAN</th>
<th>FEB</th>
<th>MAR</th>
<th>APR</th>
<th>MAY</th>
<th>JUN</th>
<th>JUL</th>
<th>AYG</th>
<th>SEP</th>
<th>OCT</th>
<th>NOV</th>
<th>DEC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Climatic Conditions</td>
<td>Very Hot</td>
<td>Very Hot</td>
<td>Hot</td>
<td>Mild</td>
<td>Mild Rain</td>
<td>Cold Rain</td>
<td>Very Cold</td>
<td>Strong Wind</td>
<td>Mild</td>
<td>Mild</td>
<td>Hot</td>
<td>Hot Rainy</td>
</tr>
<tr>
<td>Income</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Expenditure</td>
<td>School Fees, Uniform</td>
<td>Food</td>
<td>Food</td>
<td>Food</td>
<td>Food</td>
<td>Food</td>
<td>Food</td>
<td>Food</td>
<td>Food</td>
<td>Food</td>
<td>Bonus &amp; Xmas expenditure high</td>
<td></td>
</tr>
</tbody>
</table>