SUSTAINABLE GROWTH OF SME’S

By

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Promoter: Dr M. Cullen
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DECLARATION

I, Patrick Monks student number S186087400, hereby declare that:

- This treatise for “Masters in Business Administration” has not previously been submitted for assessment to another University or for another qualification;
- The content of this treatise is my own original work; and
- All sources used or referenced have been documented and recognised.

__________________________
P.G.S. Monks
Port Elizabeth
November 2010
ACKNOWLEDGEMENTS

This study was conducted with the direct and indirect contributions of various individuals. I wish to sincerely acknowledge and thank all those who committed their time and effort in order to provide me with support, advice, guidance and encouragement.

The following individuals need specific reference:

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- Douglas Govender and Andre Brink for their unselfish support and encouragement; and
- My wife Maria, whose positive attitude and encouragement has driven me to achieve more than I ever thought was possible.
ABSTRACT

South Africa and more specifically Port Elizabeth is faced with many challenges with regard to economic growth and unemployment. It is generally acknowledged that the “Small to Medium Enterprises” (SME) are the largest employers in any economy, additionally SME’s are large contributors to the gross domestic product. Successful SME’s are the catalysts of the economy and over time they can develop into large enterprises.

It is clear that in order for a country to have a strong and sustainable economy it needs to have a strong and successful SME sector. Unfortunately the South African SME sector performs relatively poorly in comparison with the SME sectors around the world (Herrington, Kew & Kew, 2009).

With the knowledge of the importance of the SME sector to the economy and the knowledge that the South African SME’s are generally underperforming, this study will identify how to improve the relative success rate of the SME sector in Port Elizabeth South Africa. In order to achieve this, this study needs to identify why the SME sector is not performing on a par with other SME sectors from around the globe and what initiatives need to be implemented in Port Elizabeth that will enable its SME sector to perform at the same level or better than other SME sectors from around the globe.

This study identifies that the South African SME’s are provided with a number of support initiatives. Some of these support initiatives have been very effective, while other support initiatives have been unsuccessful or have failed.

This study concludes by identifying a number of areas that need improvement; of these areas two are identified as being critical to SME’s success and sustainability, these two areas are:

- The need to make SME’s more aware of the government / business initiatives that are available; and
- Establish more effective mentoring and coaching.

In order to address these critical areas, the study suggests the use of an internet portal that can be used to coordinate all the activities between the mentors and the SME’s. This internet portal will be expanded to become the core information hub and...
collaboration centre for the flow of information between the SME’s and any of their stakeholders. Once all this information is centralised it will be a relatively simple process to measure the success rate of the SME’s and the effectiveness of the different mentors.
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CHAPTER ONE

INTRODUCTION, PROBLEM DEFINITION AND OUTLINE OF STUDY

1.1 BACKGROUND TO THIS STUDY

The success of SME’s within a nation is an important field of study. This relative success or lack of success of SME’s within any national economy is fundamental to the performance of that national economy. SME’s are recognised as being the growth engine behind most economies (Fan, 2003). Generally this sector is the largest contributor of employment in most countries. This is especially relevant for new job creation. The SME sector is a major contributor to technical innovation and new product developments (Ou, 2006; Office for national statistics, 2009; Ergas & Orr, 2007; Organisation for Economic Co-operation and Development, 2005; National Development and Reform Commission, 2007).

1.2 IMPORTANCE OF SME TO THE GLOBAL ECONOMY

SME’s often employ poor and low-income workers. This is specifically relevant in rural areas where this may be the only sector offering any form of employment. When focusing on the small or micro organisation, self-employment may be the only source of income for many of the poor. This poverty reduction is specifically relevant to developing countries where poverty is most severe (Fan, 2003).

From the statements above it is clear that firstly SME’s are generally large contributors to national employment and secondly they are often the catalyst for innovation and economic growth. The employment contribution as indicated above is backed up with the following information:

- In the USA the SME’s are responsible for over 50 percent of the private employment (Ou, 2006); and
• The SME’s in Austria contribute approximately 56 percent of all employment (Organisation for Economic Co-operation and Development, 2005).

1.3 IMPORTANCE OF SME TO THE SOUTH AFRICAN ECONOMY

In South Africa the SME’s are even larger contributors to employment, Ntsika (2001) and Statistics South Africa (2000) estimated that the SMME’s accounted for 66.4 percent of total employment within South Africa (Berry, von Blottnitz, Cassim & Kesper, 2002). The report highlighted that of the 66.4 percent 26.1 percent were in fact self employed and categorised as subsistence SME’s. These were SME’s only out of necessity because they were not able to find work. Additionally Ntsika (2001) and Statistics South Africa (2000) estimated that the SME’s contributed 34.8 percent to the total South African Gross Domestic Product (Berry et al., 2002).

Due to the South African SME’s having such a huge impact on the South African economy it is critical that the South African SME’s are successful in order to grow the South African economy. Additionally South Africa has an unemployment rate of 25.3 percent for 2010 (Statistics South Africa, 2010). With this in mind and the fact that SME’s contribute 66.4 percent of employment within South Africa it is fundamental that the South African SME’s are successful.

From the above information it can be concluded that as the success rate of SME’s increase within South Africa so will the Gross Domestic Product increase and the unemployment will decrease.

1.4 MAIN PROBLEM STATEMENT

The primary focus of this research treatise is to address the research problem statement which is defined as follows:
Develop a support model that will promote the success rate and business growth of SME’s within Port Elizabeth.

1.5 SUB-PROBLEMS

In order to develop the model as described in the main problem statement a number of sub-problems need to be solved:

1. Determine the global support initiatives that have enabled the growth and sustainability of SME’s;
2. Identify the catalyst for business growth of the successful SME’s within the Port Elizabeth metropole;
3. Identify South African support initiatives that will lead to SME’s being more successful; and
4. Develop a model for the implementation of the identified support initiatives.

These sub-problems develop a road map in order to solve the main problem statement; once the fourth and final sub-problem is solved the main problem statement will also be solved.

1.6 GEOGRAPHICAL DEMARCATION OF STUDY

This study will extract information with regard to SME success and SME initiatives from around the globe. However this study will focus on the SME’s within South Africa and more specifically the SME’s within Port Elizabeth and the surrounding area.

1.7 ASSUMPTIONS

It is assumed that the challenges experienced by SME’s globally will have similarities to the challenges faced by SME’s within Port Elizabeth South Africa. Additionally it is assumed that the successful support initiatives that have been
implemented globally in order to circumvent these challenges will have similar success if implemented in Port Elizabeth South Africa.

1.8 RESEARCH DESIGN AND METHODOLOGY

In order to solve the main problem and the sub-problems the research is divided into two areas of research.

Firstly a comprehensive literature review will be conducted; during this literature review the following fields will be explored:

- Economic importance of SME’s;
- SME’s being the driving force behind the economy;
- Identify why South African SME’s perform poorly relative to SME’s from other countries;
- Identify successful SME support initiatives in developed countries;
- Identify successful SME support initiatives in developing countries;
- Identify successful SME support initiatives in South Africa; and
- Identify SME support initiatives or policies that are currently missing in South Africa that would lead to growth and development of the South African SME’s.

The second area of research will be to conduct a qualitative research study by making use of a case study methodology. Yin (2003) stated that case studies could be “used to document and analyse the outcomes of public or privately supported interventions, such as the programs sponsored by federal agencies or the initiatives supported by private foundations”. Successfully supported government initiatives are the core focus of this treatise.

The case study methodology will be explorative by nature. The intention will be to interview a number of SME’s and during the interview process identify what has restricted or prevented the growth of their business. In order to obtain and not limit the information that is supplied by the SME’s a number of open ended questions will be used during the interview process.
The data retrieved from the above interviews will then be organised and correlated. These finding will then be triangulated with the findings from the literature review in order to solve the main research problem.

1.9 OUTLINE OF THE STUDY

The treatise will consist of the following chapters.

Chapter 1 sets the scene for the study. The chapter first introduces the study and provides some background as to the importance of the study. The chapter proceeds to specify the main problem and the sub-problems that this study plans to address. The intended research methodology is specified and briefly explained. The chapter then concludes by supplying an outline for the study.

Chapter 2 is the first of two chapters that are focused on conducting a literature review. The chapter begins by explaining the challenges related to the definition of an SME and what the fundamental characteristics an enterprise needs in order to qualify as an SME. The chapter also emphasises the fundamental differences between the qualifying criteria in developed nations as opposed to developing nations. The chapter proceeds to illustrate the importance of SME’s to the global / local economy. SME’s are identified as the engine that drives the economy; they enhance competition and are fundamental to poverty reduction. The SME’s economic contribution to individual countries is examined and once again the countries are grouped into countries that form part of the developed nations, countries that form part of the developing nations and lastly South Africa are examined. The chapter concludes by examining the Global Entrepreneurship Monitor South Africa report of 2008.

Chapter 3 is the second of the two chapters that focus on the literature review. In this chapter the focus is shifted to identify what could cause SME’s to fail or on the positive side what policies stimulate and encourage SME growth and
development. The chapter begins by highlighting “access to finance” as one of the common causes for SME failure (Ricupero, 2001). The chapter proceeds to identify what policies have been implemented around the globe that have resulted in high-growth entrepreneurial firms. These policies are divided into policies that have been implemented in developed countries and also policies that have been implemented in developing countries. The final section of this chapter identifies what policies have been implemented in South Africa and what their primary goal is. This section goes on to identify what challenges the SME’s were faced with from the years 2001 to 2007. The section concludes by identifying the private SME support initiatives that have been implemented in South Africa.

Chapter 4 specifies what research and design methodology this treatise will follow. The chapter opens by stating the research problem statement as well as the research sub-problem statements. With these problem statements in mind the chapter proceeds to identify that this treatise will conduct qualitative research as opposed to quantitative research. The chapter highlights that a “multiple case study” methodology will be utilised in order to conduct this qualitative research. The importance of validity and reliability is emphasised and a number of factors are taken into account in order to ensure that the research instrument is valid and reliable. The chapter proceeds to specify the criterion that needs to be met in order to qualify as a case study participant. Next the format of the questionnaire or interview guide is defined. The chapter concludes by giving a brief description of each of the case study respondents.

Chapter 5 will consolidate and summarise the findings from the different case study interviews that were undertaken as part of the treatise. The consolidated findings are used to assist the researcher to identify a number of factors that could be addressed in order to improve and stimulate the success rate of SME’s in the Port Elizabeth Metropolitan area. The chapter concludes by listing all the support initiative that could assist Port Elizabeth SME’s to become more successful.
Chapter 6 is the final chapter and concludes the treatise. This chapter makes use of the findings identified in chapter five and correlates these findings with the literature review conducted in chapters two and chapters three. Using this triangulation this chapter will provide recommendations in order to solve the four sub-problems as specified by this research treatise. By solving the four research sub-problems the main research problems will also be solved.

1.10 CONCLUSION

This chapter defines the road map that will be followed by this research treatise. The chapter begins by introducing the study to be undertaken by this treatise and provides some background as to the importance of the study. The chapter proceeds by specifying the main problem and the sub-problems that are presented in this treatise. Next the chapter highlights the intended research methodology and briefly explains why this research methodology has been chosen. The chapter then concludes by supplying an outline for the study.

Chapter two will introduce the first of the two literature review chapters.
2.1 INTRODUCTION

Chapter one introduces the study and defines why it is important to conduct this study. Chapter one proceeds to present a brief roadmap of how the research will be conducted during this treatise. The main research problem and sub-problems are also presented in the chapter.

Throughout this chapter (chapter two) the different characteristics of SME’s are researched and identified. In order to identify this information, individual countries are selected and researched. Additionally these individual countries are grouped into countries from developed nations, countries from developing nations and finally South Africa is examined.

The chapter begins by explaining the challenges related to the definition of an SME and what the fundamental characteristics an enterprise needs in order to qualify as an SME. In order to identify these different characteristics a number of countries are examined.

The chapter then goes on to illustrate how the SME’s contribute positively to a country’s economy.

Finally the chapter examines the Global Entrepreneurship Monitor (GEM) South Africa report of 2008. This report identifies how well the SME’s within South Africa perform in relation to the other 42 countries that have been included in the GEM report.
2.2 GLOBAL DEFINITIONS OF SME’S AROUND THE WORLD

The acronym SME stands for Small and Medium Enterprise, some countries have extended the definition to be SMME which stands for Small, Medium and Micro Enterprise.

There are a number of challenges around the definition of what size organisation constitutes an SME. Almost every country around the world has a different criteria for the size of an SME. Then even within individual countries there are different definitions depending on the type of organisation. For example in Australia (Organisation for Economic Co-operation and Development, 1997) a small enterprise for services needs less than twenty employees, however in manufacturing the small enterprise needs less than one hundred employees. Additionally within a country there may be different requirements for different purposes, an example of this is the South African Revenue services. The SARS website states “SARS does not have one single description for small business; instead there are several definitions utilised for different purposes:

- For Amnesty purposes, a small business is any business with a turnover of up to R10m;
- For Income Tax purposes (Section 12E), a Small Business Corporation (SBC) is defined as a business having a turnover of less than R14m, over and above other qualifying criteria; and
- For Capital Gains Tax, a Small and medium Enterprise (SME) is described as a business having total net assets of under R5m."

From this it is clear that it will be rather difficult to specify a single definition for a SME (SARS, 2007; Organisation for Economic Co-operation and Development, 1997).

Since the fundamental concept behind this treatise is in essence a comparison of the SME’s in South Africa to the SME’s in the rest of the world. It is imperative to try and establish a baseline that can be used when comparing the SME’s from different countries. To this end, the author has attempted to group the SME definition into three categories. The first category being for developed nations. The
second category being for developing nations. The final category being for SME’s within South Africa. These three categories will be used throughout the treatise. Ideally the definition for a SME should include one or more of the following factors:

- Maximum number of employees;
- Maximum turnover;
- Maximum balance sheet total; and
- Maximum amount of capital.

2.2.1 GENERIC DEFINITION FOR SME’S IN THE DEVELOPED NATIONS:

In general the criteria for SME’s in developed nations range from a low maximum of 200 employees in Australia up to a high maximum of 500 employees for majority of the countries see table 2.1 below. The author has standardised on a maximum of 500 employees for this treatise. This category will cover small, medium and micro enterprises. With regard to turnover and annual balance sheet total, the European Union have specified a turnover not exceeding €100 million (R1017 million at R10.17 to €1) or an annual balance sheet total not exceeding €86 million (R864.62 million at R10.17 to €1) (Deloitte, 2008; Linx Africa, 2010).
CHAPTER TWO

2.2.2 GENERIC DEFINITION FOR SME’S IN THE DEVELOPING NATIONS:

When researching the definition for SME’s in developing nations it is clear that the criteria are substantially lower. Generally the maximum number of employees must be less that 300 and the turnover must be less than about R55 million. Total assets need to be less than R45 million. This results in the enterprises moving out of the SME category sooner and no longer benefitting from the SME concessions. It will also result in the total contribution from the SME’s in these nations being relatively lower than in developed nations. This results in a skewed interpretation of the information. The other important fact is that generally the large businesses in the developing nations are not as large as large businesses in developed nations. As a result the lowering of the criteria may well result in a more relative
size for the SME’s in the developing nations. The table 2.2 below represents a number of developing counties and there different definitions for the SME (Hall, 2007; Hor, 2003; Rivera, 2007).

**Table 2.2: Developing nations SME criteria**

<table>
<thead>
<tr>
<th>Country</th>
<th>SME criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>Varies with industries, less than 500 employees</td>
</tr>
<tr>
<td>People Republic of China</td>
<td>Varies with industries, less than 100 employees</td>
</tr>
<tr>
<td>Egypt</td>
<td>Less than 100 employees (definition of the Ministry of Finance)</td>
</tr>
<tr>
<td>Indonesia</td>
<td>Less than 100 employees</td>
</tr>
<tr>
<td>Korea</td>
<td>Manufacture industry: less than 300 employees Service industry: less than 300 employees</td>
</tr>
<tr>
<td>Malaysia</td>
<td>Varies, turnover: less than RM 25 million (R55.75 million) and 150 employees. (1 MYR = 2.23432 ZAR)</td>
</tr>
<tr>
<td>Mexico</td>
<td>Less than 250 employees</td>
</tr>
<tr>
<td>Philippines</td>
<td>Less than 200 employees, less than P 40 million (R6.4 million) assets (1 PHP = 0.161813 ZAR)</td>
</tr>
<tr>
<td>Thailand</td>
<td>Less than 200 employees, less than baht 200 million (R45.44 million) assets (1 THB = 0.227245 ZAR)</td>
</tr>
</tbody>
</table>

Source: Hall (2007); Hor (2003); Rivera (2007)
2.2.3 GENERIC DEFINITION FOR SME’S IN SOUTH AFRICA:

In order to define a SME from a South African perspective three sources have been utilised. South African revenue services since certain concessions are given to the different SME’s based on their definition. Next is Act 102 of 1996: National small business act and finally SAITIS, this organisation assisted the department of trade and industry with the definition.

SARS does not have one single description for a SME; instead there are several definitions utilised for different purposes (SARS, 2007):

- For Amnesty purposes, a small business is any business with a turnover of up to R10m;
- For Income Tax purposes, a SME is defined as a business having a turnover of less than R14m, over and above other qualifying criteria; and
- For Capital Gains Tax, a SME is described as a business having total net assets of under R5m.

Table 2.3 lists the criteria for a SME as defined by the act 102 of 1996. SAITIS define a SME as employing less than 200 people and having capital assets valued at less than R60 million (SAITIS Initiatives, 2002).

In general, for an organisation to be classified as a SME in South Africa it must employ less than 200 people, have an annual turnover of not more than between R30 million to R50 million and assets valued at less than R18 million. It is important to remember that the act 102 of 1996 is fourteen years old and the rand values in the act would have increased substantially since then (SAITIS Initiatives, 2002; Presidents Office, 1996).

When making a comparative analysis between the definition of SME’s in developed nations, in developing nations and in South Africa, it is clear that the South African definition relates very closely with the developing nations definition. It is also clear that the threshold for a SME in South Africa and in the developing nations is substantially lower than the threshold for SME’s in developed nations.
This results in SME’s wanting to grow in developed nations and still receiving SME benefits. On the other hand if the SME’s in South Africa grow beyond the relatively low SME threshold they will lose the SME benefits.

### Table 2.3a: Act 102 of 1996

<table>
<thead>
<tr>
<th>Sector or sub-sectors</th>
<th>Size or class</th>
<th>Number of employees</th>
<th>Max annual turnover</th>
<th>Gross asset value</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Agriculture</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medium</td>
<td>100</td>
<td>R 4.00 m</td>
<td>R 4.00 m</td>
<td></td>
</tr>
<tr>
<td>Small</td>
<td>50</td>
<td>R 2.00 m</td>
<td>R 2.00 m</td>
<td></td>
</tr>
<tr>
<td>Very small</td>
<td>10</td>
<td>R 0.40 m</td>
<td>R 0.40 m</td>
<td></td>
</tr>
<tr>
<td>Micro</td>
<td>5</td>
<td>R 0.15 m</td>
<td>R 0.15 m</td>
<td></td>
</tr>
<tr>
<td><strong>Mining and Quarrying</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medium</td>
<td>200</td>
<td>R30.00 m</td>
<td>R18.00 m</td>
<td></td>
</tr>
<tr>
<td>Small</td>
<td>50</td>
<td>R 7.50 m</td>
<td>R 4.50 m</td>
<td></td>
</tr>
<tr>
<td>Very small</td>
<td>20</td>
<td>R 3.00 m</td>
<td>R 1.80 m</td>
<td></td>
</tr>
<tr>
<td>Micro</td>
<td>5</td>
<td>R 0.15 m</td>
<td>R 0.10 m</td>
<td></td>
</tr>
<tr>
<td><strong>Manufacturing</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medium</td>
<td>200</td>
<td>R40.00 m</td>
<td>R15.00 m</td>
<td></td>
</tr>
<tr>
<td>Small</td>
<td>50</td>
<td>R10.00 m</td>
<td>R 3.75 m</td>
<td></td>
</tr>
<tr>
<td>Very small</td>
<td>20</td>
<td>R 4.00 m</td>
<td>R 1.50 m</td>
<td></td>
</tr>
<tr>
<td>Micro</td>
<td>5</td>
<td>R 0.15 m</td>
<td>R 0.10 m</td>
<td></td>
</tr>
<tr>
<td><strong>Electricity, Gas and Water</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medium</td>
<td>200</td>
<td>R40.00 m</td>
<td>R15.00 m</td>
<td></td>
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<tr>
<td>Small</td>
<td>50</td>
<td>R10.00 m</td>
<td>R 3.75 m</td>
<td></td>
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<tr>
<td>Very small</td>
<td>20</td>
<td>R 4.00 m</td>
<td>R 1.50 m</td>
<td></td>
</tr>
<tr>
<td>Micro</td>
<td>5</td>
<td>R 0.15 m</td>
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<td>200</td>
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<td>Micro</td>
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<tr>
<td><strong>Retail and Motor Trade and Repair Services</strong></td>
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<tr>
<td>Medium</td>
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<td>Very small</td>
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<td>Micro</td>
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Table 2.3b: Act 102 of 1996 (continue)

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<th>Sector or sub-sectors</th>
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<th>Number of employees</th>
<th>Max annual turnover</th>
<th>Gross asset value</th>
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<td></td>
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<td>Micro</td>
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<td>R 0.15 m</td>
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<tr>
<td>Catering, Accommodation and other Trade</td>
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<td>100</td>
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<td>Micro</td>
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<td>R 0.15 m</td>
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<td>Transport, Storage and Communications</td>
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<td>100</td>
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<td>Finance and Business Services</td>
<td>Medium</td>
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<td>Micro</td>
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<td>R 0.15 m</td>
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<tr>
<td>Community, Social and Personal Services</td>
<td>Medium</td>
<td>100</td>
<td>R10.00 m</td>
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2.3 ECONOMIC IMPORTANCE OF SME’S TO THE NATIONAL ECONOMY.

Below are a number of key economic factors that identify how the SME’s contribute towards a country’s economy (Fan, 2003):

- SME’s are the growth engine behind most economies.
  Generally this sector is the largest contributor of employment in most countries. This is especially relevant for new job creation. The SME sector
is a major contributor to technical innovation and new product developments;

- SME’s are essential for a competitive and effective market.
  Due to adaptability, SME’s play a major role in removing regional and sector imbalances in an economy. Easy entry and exit of SME’s make economies more flexible and more competitive. Due to the large number of SME’s competition is created in the market place. SME’s also play an essential role as subcontractors in the downsizing, privatisation and restructuring of large companies; and

- SME’s are important for poverty reduction.
  SME’s often employ poor and low-income workers. This is specifically relevant in rural areas where this may be the only sector offering any form of employment. When focusing on the small or micro organisation, self-employment may be the only source of income for many of the poor. This poverty reduction is specifically relevant to developing countries where poverty is most severe.

It is clear from the literature that SME’s contribute significantly to the national economy. Firstly SME’s are generally large employers and secondly they are often the catalyst for innovation and economic growth. In this treatise, the significance of SME’s is categorised into effects on developed nations, effects on developing nations and finally the effects on South African economy.

2.3.1 SME’S ECONOMIC CONTRIBUTION TO DEVELOPED NATIONS

There is substantially more information on the economic importance of SME’s to the economy in the developed nations as opposed to the developing nations and also South Africa. However due to this treatise needing to identify what differentiates the success of SME’s in some countries as opposed to the relative
non performance of SME’s in South Africa, it is important to identify which countries have been successful in SME development.

2.3.1.1 Australia

The SME contribution in Australia is significantly less than both the UK and the US. In Australia the SME’s account for 73 percent of the businesses, these SME’s in turn contribute 46 percent of the Australian Gross Domestic Product (GDP) in 2006. However between 2004 and 2006 there was a significant growth in the SME contribution to the Australian economy, resulting in an increase to GDP contribution of $23.8 billion in real terms (Ergas & Orr, 2007).

2.3.1.2 Austria

Austria has a very successful SME program. Small businesses (fewer than 50 employees) contribute to 98 percent of all businesses within Austria and approximately 56 percent of all employees are employed by these small businesses. Between 1995 and 2003 the number of SME’s within Austria rose by 11.6 percent. This increase was directly attributed to several initiatives that support the establishment and expansion of new ventures within Austria (Dana, 2006). Austria has a very high survival rate of newly established businesses, approximately 83 percent of businesses are still operational after three years and 72 percent of new businesses are still operational after five years (Organisation for Economic Co-operation and Development, 2005).
2.3.1.3 European Union (EU)

SME’s have a significant contribution to the EU economy. In total the SME businesses contribute 99.9 percent of all the businesses in the EU. However due to the EU consisting of a number of different countries each with their own statistic the relative significance of the EU statistics is less important than the individual countries statistics within the EU (United Nations Economic Commission for Europe, 2010).

2.3.1.4 United Kingdom

In 2007 small businesses in the United Kingdom constituted 99.3 percent of all businesses and medium size businesses constituted 0.6 percent (Anon., 2009). This results in SME’s contributing 99.9 percent of the total businesses in the United Kingdom. In 2008 there were 270,000 new businesses established and 219,000 businesses were closed down. SME’s have a relatively high survival rate in that 80.7 percent of new businesses will still be operating after two years and 54.7 percent of businesses will still be operating after four years (Office for national statistics, 2009).

2.3.1.5 United States of America

SME’s contribute significantly to the US economy. Within the US 99.7 percent of all firms are categorised as SME and these firms are responsible for the employment of over 50 percent of the private sector employees. With regard to job creation, between 60 percent and 80 percent of new jobs are directly related to SME’s. On average over half a million small businesses are started every year, of these 66 percent will last for two years and 50 percent have a chance of lasting
more than four years. This is a significantly high successes rate. On average only fifty thousand SME’s are declared insolvent per annum, these insolvent firms have very little impact on creditors. From these statistics it is clear the SME’s have a very positive impact on the US economy (Ou, 2006).

2.3.2 SME’S ECONOMIC CONTRIBUTION TO DEVELOPING ECONOMIES

As already specified there is not as much statistical information with regard to the economic importance of SME’s and SMME’s in the developing economies. A few countries that fall into this category have been selected and the relative economic importance of SME’s within these countries is specified below.

2.3.2.1 China

China has experienced substantial growth in both exports and GDP during the past two decades. The Chinese SME sector account for 68 percent of all the Chinese exports. There has been a substantial increase in the number of SME’s in the past decade. Majority of the SME’s were founded in the past decade. Prior to 1980 the SME sector did not exist, in 1980 the Chinese opened the private economy and the private SME’s were officially recognised. One decade later in 1990 there were one million officially recognised SME’s in China. However now seventeen years later there are forty million SME’s that are officially recognised. It is important to note that according to the (National Development and Reform Commission, 2007) data, China had 3.65 million private sector firms in 2004 and the number of private sector firms grew by 30 percent per annum. However the (National Bureau of Statistics of China, 2006) estimated ten times the number, their estimate was 39 million. The difference in the numbers is explained by the different definitions and data collection methods. The National Bureau of Statistics of China includes firms with less than eight employees (Hall, 2007).
2.3.2.2 India

The SME and specifically the Small and Micro Enterprises play a significant role in the Indian industrial economy. This sector accounts for 33 percent of the country’s total export value. Additionally the SME sector over the past years has consistently registered higher growth rates compared to the rest of the industrial sector. This sector comprises of 12.8 million organisations that in turn employ an estimated 31 million people (Simple Business Ideas, 2008).

2.3.3 SME’S ECONOMIC CONTRIBUTION TO SOUTH AFRICA

The primary sources for the impact of the SME’s on the South African economy have come from Ntsika established in 1996 in order to promote small business within South Africa (Presidents Office, 1996) and the Small Enterprise Development Agency (Seda). Seda is an agency of the South African Department of Trade and Industry (DTI). Seda was established in December 2004, through the National Small Business Amendment Act, Act 29 of 2004 (Presidents Office, 2004). The other challenge is that the data related to the SME economic importance is relatively dated.

In 2000 Ntsika and Statistics SA estimated that the SMME’s accounted for 66.4 percent of total employment within South Africa. This contribution is relatively high, this being directly related to the fact that 26.1 percent of these employees are employed by Micro or Survivalist businesses. This indicates the majority of the 26.1 percent will in fact be self employed. Once this segment is removed, the SME’s account for 54.5 percent of total employment within South Africa.

In 2000 Ntsika and Statistics SA estimated that the SME’s contributed 34.8 percent to the South African total GDP (Berry et al., 2002).
At the end of 2001 Ntsika published an Annual review of the State of Small Business Development in South Africa. Even though this review is dated some of the important trends are listed below (Free State business Bulletin, 2003):

- SMME’s account for 95.3 percent of all enterprises in South Africa, of this 70.2 percent are made up from survivalist enterprises (Survivalist activities are carried out by people who are unable to find a paid job or get into an economic sector of their choice);

- SMME's employ 53.9 percent of people in the private sector - up from 44 percent in 1995. Employment by SMME’s is growing much faster than SMME contribution to GDP, which only increased by two percent between 1995 and 2000;

- The number of CC’s registered in 2001 increased dramatically from 78 730 CC's in 2000 to 94 696 in 2001. In contrast the number of Pty Ltd registrations declined dramatically from 32 419 Pty Ltd's in 2000 to 25 669 Pty Ltd’s in 2001; and

- Of the total number of SMME's in S.A. of 1 079 627, 38.4 percent are in Gauteng, 18.4 percent in KwaZulu Natal, 13.4 percent in the Western Cape, 8.7 percent in the Eastern Cape, 5.2 percent in North West, 5.0 percent in Mpumalanga, 4.6 percent in Limpopo Province, 4.6 percent in the Free State and 1.7 percent in the Northern Cape.

2.4 FINDINGS OF THE GLOBAL ENTREPRENEURSHIP MONITOR SOUTH AFRICA REPORT OF 2008

2.4.1 LINKING ENTREPRENEURSHIP TO SME GROWTH

The Global Entrepreneurship Monitor South Africa report of 2008 also referred to as the GEM report refers to the Total Entrepreneurial Activity (TEA) index, this index is the proportion of working-age adults in the population who are either
involved in the process of starting a business or are active as owner-managers of enterprises less than 42 months old (Herrington, Kew & Key, 2008). The report also refers to “Overall entrepreneurial activity”, this gives a clear indication of SME activity within a country.

The GEM report of 2008 clearly highlights the direct relationship between entrepreneurship and SME growth within a country. Entrepreneurs are generally the founders of new businesses and these businesses always begin as SME’s. Over time these SME’s can migrate and eventually become large businesses. This process of creating new businesses drives the economy. (Herrington et al., 2008).

Fan explained the economic importance of the SME’s to the economy. All the factors that are specified are directly related to the entrepreneurs that create and drive their new businesses. One of the fundamental characteristics that Fan identified is the ability of the entrepreneur to be inventive. A few large organisations are innovative, but generally the innovation comes from the entrepreneurs that are able to respond very quickly to the changing market demands (Fan, 2003).

2.4.2 SOUTH AFRICA’S ENTREPRENEURIAL PERFORMANCE RELATIVE TO THE GLOBAL ECONOMY

The GEM report of 2008 clearly indicates how South Africa is performing in relation to other countries with regard to entrepreneurship.

In 2008 South Africa ranked 23rd out of 43 countries on the TEA index. The TEA rate for South Africa was 7.8 percent which is lower than the average of 10.6 percent for all the 43 GEM counties. More importantly within the “Efficiency-driven economies” South Africa was 14th out of 17 and substantially lower than the average of 11.4 percent. The “Efficiency-driven economies” are predominantly countries who’s SME’s have opportunities for the development of small-scale and medium-sized manufacturing sectors. (Herrington et al., 2008).

When considering the “Overall entrepreneurial activity” on the GEM report for 2008, South Africa achieved a significantly low value of only 9.9. This resulted in
South Africa being placed 36th out of 43 counties. South Africa achieved only slightly better than half the average for all 43 countries which was 17.8. When limiting the comparison to the countries in the “Efficiency-driven economies” South Africa came 14th out of 17 participating countries (Herrington et al., 2008).

2.5 CONCLUSION

This chapter begins by explaining the challenges around the definition of an SME and what the fundamental characteristics an enterprise needs in order to qualify as an SME. In order to identify these different characteristics a number of countries are examined. These countries are grouped into developed nations, developing nations and specifically South Africa. The chapter also emphasis’s the fundamental differences between the qualifying criteria in developed nations as opposed to developing nations.

The chapter then goes on to illustrate the importance of SME’s to the global / local economy. SME’s are identified as the engine that drives the economy; they enhance competition and are fundamental to poverty reduction. The SME’s economic contribution to individual countries is examined and once again the countries are grouped into countries that form part of the developed nations, countries that form part of the developing nations and lastly South Africa is examined.

The chapter concludes by examining the Global Entrepreneurship Monitor South Africa report of 2008. The report highlights the fact that South Africa is performing relatively poorly in relation to the other countries listed in the report. It is clear from this report that South Africa needs to implement policies that will encourage the development of the SME’s within South Africa.

Chapter three will focus on the different policies implemented around the world in order to stimulate the growth of SME’s. Specific reference will be made to countries that have been successful in developing SME’s; their policies will be identified in order to determine similarities. These similar policies may well be the catalyst needed in order to stimulate the growth of SME’s within South Africa.
3.1 INTRODUCTION

Chapter two set the foundation and explains why it is so difficult to define an SME. The chapter then goes on to explain why the SME’s are fundamental to any economy and how they are the driving force behind the economy. The chapter concludes by summarising the GEM South African report of 2008 and highlights that South Africa is performing relatively poorly with regard to SME growth and development.

In this chapter the focus is shifted to identify what could cause SME’s to fail or on the positive side what policies stimulate and encourage SME growth and development. The chapter begins by highlighting “access to finance” as one of the common causes for SME failure (Ricupero, 2001). The chapter continues and identifies a number of factors that can be implemented in order to limit this resource problem. Next the chapter identifies firstly what policies have been implemented in developed nations and then secondly what policies have been implemented in developing nations that have resulted in SME growth and development. The chapter concludes by focusing on SME’s within South Africa. A number of South African government policies are identified that have supported SME’s to some degree. In order to identify these policies a few GEM South African reports from 2001 to 2007 are examined in order to establish a roadmap of what policies are missing or simply not effective. In contrast to the government policies, the private initiatives within South Africa are identified as being relatively successful.
3.2 COMMON CAUSE FOR SME FAILURE

Access to the necessary financial reserve has been determined as a critical factor in determining the success or failure of SME’s both in developing and developed countries. Moreover these financial resources often determine the rate of growth of a SME’s. Access to finance enables SME’s to invest in productive assets and the latest technology that enable the business to expand and ensures the competitiveness of the organisation and the nation as a whole. Poorly functioning financial systems can seriously undermine the microeconomic fundamentals of a country, resulting in lower growth in income and employment (Ricupero, 2001).

SME’s are generally faced with difficulties in obtaining credit or equity. More often than not when an SME is able to secure finance, the terms for the finance are not at all aligned with the business model that the SME’s use to run their businesses. These terms generally require the SME to repay the loan within a limited time period and / or interest rates that are substantially higher than the interest rate charged to more established businesses. The only sector that actively finances SME’s is the venture capital funds, however these are generally limited to the high technology sectors.

A number of key reasons have been identified as the cause of this phenomenon (Ricupero, 2001; Ou, 2006; Abor & Biekpe, 2004):

- SME’s are regarded by creditors and investors as high-risk borrowers due to insufficient assets and low capitalisation and high mortality rates;
- Additional uncertainty is introduced due to SME’s not having or only having a limited credit history;
- Inadequate financial statements and business plans makes it difficult for creditors and investors to assess the creditworthiness of potential SME proposals; and
- High administrative/transaction costs of lending or investing small amounts do not make SME financing a profitable business.
The additional risk introduced by doing business with an SME increases the cost of finance for the SME. This increase in cost may be in the form of interest rates, commission, transaction fees, administration fees or bank charges (Ricupero, 2001).

Over the years, governments and international financial institutions have tried to address the additional cost of credit that has resulted from the additional risk of financing an SME. The solution has been to create subsidised credit programs and/or provide loan guarantees. Unfortunately these programs have been unsuccessful and created a culture of non-payment or failed to reach the target group. In some countries the share of non-performing loan values rose to 90 percent of the banks’ portfolios (Nissanke, 2001).

Globalisation and increased competition has resulted in the financial institutions having their profits eroded when financing non-risk larger organisations. This has forced the financial intuitions of developed nations to re-look at the financial model when financing the SME sector. With this in mind, banks in developed countries have launched a number of initiatives that both improve the profitability of lending to SME’s and also provide SME’s with better access to finance and to financial products that are better tailored to their needs. With this new focus, a number of leading banks have turned the financing of SME’s into highly profitable businesses (Ricupero, 2001; Ou, 2006; Abor & Biekpe, 2004).

Although the business environment in developed nations differs from the business environment of developing nations, the financial institutions face the same challenges when financing SME’s, namely the increased perceived risk, lack of information and high administration costs (Ricupero, 2001).

The following initiatives were implemented by a number of banks in the European Union and the United States in order to ensure a profitable business model when extending credit to SME’s (Ricupero, 2001):

- Reducing information asymmetry of SME’s and high perceived risks by using credit scoring systems; using external information providers; Risk self-assessment for the SME entrepreneurs; Pricing to the level of risk; Sharing risk with third parties; using covenants as an alternative to loan
guarantees; and setting up special support units for high risk customers such as start-ups;

- Reducing costs of lending by applying latest information technologies; streamlining the organisation and simplifying the lending process;
- Developing products better adapted to SME’s needs;
- Improving financial services for SME’s through training of bank staff and the segmentation of SME customers; and
- Cooperating with the SME organisations and other business development providers in order to reduce risks and costs and combine financial with non-financial services.

The initiatives listed above are all market driven; they assist the SME’s without the need to give them a handout. The SME’s remain totally accountable and are able to secure finance on similar terms to that of larger organisations. This allows the SME to be more competitive and grow his business. The only challenge with regard to implementing the above initiative is that the institutions need to have innovative and sophisticated information systems. In developing nations the information systems are generally not as advanced and generally the information is not as readily available as it is in developed nations (Ricupero, 2001).

Globalisation has resulted in foreign financial institutions investing in South Africa. This investment is in the form of mergers or acquisitions and has resulted in technology transfer and new methodologies moving into the South African financial sector (ABSA Bank, 2010).

### 3.3 Policies and Innovations that have Contributed Positively to High-Growth in SME’s.

In 2007 the Finnish Minister of trade and industry commissioned a study to identify the high-growth SME initiatives that have a direct impact on entrepreneurial growth (Autio, Kronlund & Kovalainen, 2007). This entrepreneurial growth leads to new job creation. The process of job creation and organisational growth leads to
economic growth. In this study nine participating GEM countries were selected and the different SME policies within the nine countries were identified. Even though seven of these countries are developed countries and only two are developing countries, the findings are still relevant to SME’s within South Africa. The policies may need to be adapted in order to be effective in South Africa. The summarised finding of this study follows (Autio et al., 2007).

3.3.1 SME POLICIES WITHIN DEVELOPED NATIONS:

3.3.1.1 SME policies within Australia:

According to the GEM report of 2000 (Reynolds, Hay, Bygrave & Camp, 2000), 1 in 9 adult Australians are engaged in entrepreneurial activity, making Australia one of the most entrepreneurially active countries that participated in the GEM report.

3.3.1.1.1 Commercialising Emerging Technologies (COMET):

The COMET program was started by the Australian department of industry, tourism and resources in 1999. This very successful program sponsors organisations by subsidising business development services for technology-based organisations. The program provides an 80 percent subsidy for business development activities, such as marketing, commercialisation, and IPR management services to individuals and small firms. The targeted individuals or small firms need to commercialise a new technology and target significant growth. This support would include business plan market research, product trials, and patenting. The program makes use of private sector advisors. Applicants are judged on the following criteria (Autio et al., 2007):

- Are looking to grow substantially through commercialisation of an innovative product, process or service;
• Have identified weaknesses that are preventing them from implementing a commercialisation strategy; and
• Are unable to fund activities to address these weaknesses.

The annual budget for the COMET project is €6.5 million, this has contributed to a total of 300 organisations being assisted in the first eight years of operation. This program has been rated as being very successful in an independent review (Department of Innovation, Industry, Science and Research, 2009; Autio et al., 2007).

3.3.1.1.2 Co-Operative Research Centres (CRC):

The Australian Department of Education, Science and Training started the Co-Operative Research Centres program in 1990. The program establishes joint private-public research partnerships in selected strategic sectors and technologies. There are approximately 70 established co-operative research centres in six sectors. The end goal of the project is to ensure that academic research is converted into innovation and marketable products and services.

The Australian government is the main financial sponsor of the research, but there is also considerably participation by private firms. Over 12 years, €5.8 billion has been committed to the program and approximately 600 firms and projects have been supported.

In a review of the program it was identified that the Australian economy’s overall performance had been considerably enhanced when compared to the performance that would have incurred in its absence (Co-Operative Research Centre, 2010; Autio et al., 2007).
3.3.1.1.3 Innovation Investment Fund:

The Innovation Investment Fund was established in 1998 by the Australia Department of Industry Tourism and Resources. Through this venture capital scheme, the government has licensed nine private sector venture capital managers to provide venture capital to small technology-based firms at the seed, start-up or early expansion stages of development. The funding for the scheme is provided by private investors and government. This scheme has three primary objectives:

- To encourage the growth and development of new technology-based firms through the supply of venture capital;
- To develop a self-sustaining early-stage VC market in Australia; and
- To develop experienced fund managers that are knowledgeable in early-stage VC investments.

Up until 2006 a total of 75 firms had received funding to a value of €65 million (€44 million from government). This scheme has been recognised as being successful, which has resulted in the government turning a profit on its investment (The Department of Innovation, Industry, Science and Research, 2009; Autio et al., 2007).

3.3.1.1.4 Commercial Ready Program:

The Commercial Ready Program was started in 2004 by the Department of Industry Tourism and Resources. This program provides grants for research and development that has a high commercial potential. The program supports both new ventures and established SME’s that are researching new innovations. The Commercial Ready Program focuses on the technology sector in order to develop innovative products. The annual budget of the program is €120 million. During the years 2005 and 2006 the program supported 600 firms with an average of €200 000 per firm. One of the conditions of the grant is that the receiving SME’s are required to match the grant with their own funds. The program is generally
accepted as being very successful, especially for the SME’s that are in their expansion stage (Department of Innovation, Industry, Science and Research, 2008; Autio et al., 2007).

3.3.1.1.5 Summary for Australia:

Australian policies are focused on business development, “research and development” and growing the venture capital market within Australia. All these policies have a financial support bias.

3.3.1.2 SME policies within Finland:

In order to determine how well Finland performs with regard to entrepreneurship as opposed to South Africa’s performance, the “Overall entrepreneurial activity” measure has been extracted from the “GEM South African report of 2008” for each of the countries. South Africa had a rating of 9.9 and Finland had a rating of 16. This is an indication that Finland is substantially more successful at promoting entrepreneurial growth than South Africa (Herrington et al., 2008).

3.3.1.2.1 Growth Firm Service:

The Finnish Ministry of trade and industry introduced the “Growth Firm Service” in 2003. The goal of this program is for a business consultant to identify firms with a high growth potential. Public services are offered to these high growth potential firms. Depending on the specific needs of the high growth firm, public services are sourced from four institutions namely:

- Finpro (Internationalisation services);
- Finnvera (State-owned financing company);
- SITRA (Finnish National Fund for Research and Development); and
- TE-keskus (Regional Employment and Development Centres).
The four institutions listed above offer more than one hundred different support services. Majority of these services have a financial focus. This program has been considered to be successful, but with plenty of room for expansion. In the first year 300 growth firms were identified and assisted, this equates to only one firm per business consultant. In 2003 – 2004 the annual budget for this program was €0.5 million (Autio et al., 2007).

3.3.1.2.2 INTRO Program:

The Finnish National Fund for Research and Development (SITRA) started the INTRO program in 2002. This program takes on a facilitation role between SME’s and private investors (business angels). In order to do this the program makes use of an internet based online market place / contact forum. Once a year a tradeshow is presented where SME’s can present their business ideas to potential financial backers. For specific investments the program will make available a co-investment of up to 50 percent of the total investment. In general the program focuses on the knowledge-based sectors, such as service or technology. Majority of the SME’s involved in the program are typically in the seed or start-up stage of the firm. The program has an annual budget of €1.2 million for the facilitation role and an additional €1 million for the co-investment funding. This €1 million funding is matched by €4 million from private investment. So far, 150 firms have participated in the program, with the program taking on 40 additional firms every year. This program has been identified as being successful (Tuli, 2010; Autio et al., 2007).

3.3.1.2.3 Summary for Finland:

It is clear that the Finnish SME incentives are focused not only on assisting from a financial aspect, but rather as a facilitator in order to assist the up and coming SME’s to be in contact with the firms or institutions that can assist them with their needs.
3.3.1.3 SME policies within Hong Kong:

In order to determine how well Hong Kong performs with regard to entrepreneurship as compared to South Africa’s performance, the “Overall entrepreneurial activity” measure has been extracted from the “GEM Hong Kong report of 2007”. South Africa had a rating of 9.9 and Hong Kong had a rating of 15. This is an indication that Hong Kong is substantially more successful at promoting entrepreneurial growth than South Africa is (Thomas, Au, Leung & Suen, 2007).

3.3.1.3.1 Hong Kong Applied Science and Technology Research Institute (ASTRI):

The Innovation Technology Commission of the Hong Kong Government founded the Applied Science and Technology Research Institute (ASTRI) in 2000. The institute performs research and development with the aim of transferring technology so that it can be used commercially. This research is focused on five specific areas namely:

- Photonic technologies;
- Integrated circuit design;
- Internet software;
- Wireless communications; and
- Biotechnology.

The methodology implemented is that institutes will conduct the research and development; once new products or initiatives have been identified they will be licensed. The licenses are then transferred to industry in order for them to be commercially implemented. One of ASTRI’s goals is to register over 100 new licenses every year. ASTRI’s primary focus as stated above is to perform the research and development. Its secondary focus / goal is to enhance Hong Kong’s human resource development, and be a focal point for attracting outside research and development personnel to work in Hong Kong. The institute has an annual
CHAPTER THREE

budget of €9.5 million. ASTRI is quite similar to the Cooperative Research Centres program in Australia in that it brings together researchers from public institutions and collaborates with private firms in order to target innovation in a number of select sectors (Applied Science and Technology Research Institute, 2010; Autio et al., 2007).

3.3.1.3.2 Hong Kong Science & Technology Parks (HKSTP) - Incubation Program:

Several incubation centres and technology parks in Hong Kong merged in 2001 in order to form the Hong Kong Science and Technology Parks (HKSTP). The HKSTP Corporation is funded and owned by the Hong Kong government. The corporation purpose is to run the incubation centre and a science park. Currently there are 306 tenants, 216 of the tenants are in the science park and 90 of the tenants are in the incubation centre. A number of industries are represented, however the focus is on the following industries:

- Electronics;
- Biotechnology;
- Precision engineering; and
- Information and communications technology.

The corporation is structured in such a way that the incubation centre targets firms in the start-up and early growth phases, and the science park caters to firms that are already in the expansion or maturity stages of development. This methodology allows the corporation to grow its tenants from small start-up SME’s into well established mature SME’s. The services offered to the tenants extend to assistance in management, marketing, and consultancy services. HKSTP receives majority of funding from rentals, however in 2004 the HKSTP incurred an operational loss of €4 million. Despite this operational loss this corporation has been relatively successful in supporting the growth of young firms, between 10 to 15 percent of the incubators do quite well. Some important lessons that were learn during this program were that all services should be charged appropriately or they
would be abused by tenants, additionally the incubators should be monitored on a continues basis in order to ensure that they are performing at the required standard (Hong Kong Science and Technology Parks, 2009; Autio et al., 2007).

3.3.1.3.3 Summary for Hong Kong:

The SME support policies within Hong Kong are focused on two areas, firstly with a financial flavour in the assistance for research and development and secondly the incubation centre that provide assistance in the form of support.

3.3.1.3.4 SME policies within Italy:

In order to determine how well Italy performs with regard to entrepreneurship as compared to South Africa’s performance, the “Overall entrepreneurial activity” measure has been extracted from the “GEM South African report of 2008”. South Africa had a rating of 9.9 and Italy had a rating of 11. This is an indication that Italy is more successful at promoting entrepreneurial growth than South Africa (Herrington et al., 2008).

3.3.1.3.5 I3P (Incubator of the Turin Politecnico):

In 1999 the I3P incubator was established at the Turin Politecnico. The I3P incubator is linked to the university and is targeted at the students, graduates and employees of the university. The primary focus sector is knowledge-based firms with an emphasis on ICT. These firms are provided with seed capital through a venture capital fund, office space, professional business services and visibility. The venture capital fund does not form part of the incubator, but rather the facilitation around securing the venture capital. All the professional business services are provided at a subsidised price and firms may benefit from these
services for a maximum of three years. Funding for the incubator is split equally between six public or non-profit organisations. In the first seven years the incubator assisted 69 firms, this incubator is regarded as a success and in 2004 it received the “Best Science-Based Incubator Award” by the Dutch Science Alliance organisation. To date participating firms have a very high survival rate; during the period from 2000 to 2005 fifty firms were part of the program with a survival rate of 92 percent. These firms have employed 220 employees and have a turnover of €8 million per year. The success of the program has been linked to its association with the university and also the high level of selectivity before being allowed into the program (I3P - Society for management of Innovative Enterprise Incubator of the Politecnico di Torino, 2010; Autio et al., 2007).

3.3.1.3.6 Piemontech VC Fund:

The Piemontech VC fund was established in 2004 in order to support ICT start-ups; this fund is the primary venture capital fund that invests in the SME’s making use of the I3P incubator. Fondazione Torino Wireless is the single largest contributor to the fund. The funds success is directly related to very strict acceptance criteria and its network of private and public partners. The fund supplies start-up SME’s with venture capital in exchange for equity in the firm. In addition to the venture capital the fund also provides advice and consulting support, in the form of strategy formulation, customer identification and human resource management. In order to qualify for funding the start-up SME’s must demonstrate high growth potential and must also be aimed at international markets. The fund only employees two full time employees and has an annual budget of €2.5 million (Piemontech, 2010; Autio et al., 2007).
3.3.1.3.7 Summary for Italy:

The policies discussed for Italy were focused on incubators, subsidised services and financial support in the form of a venture capital fund.

3.3.1.4 SME policies within the Netherlands:

In order to determine how well the Netherlands performs with regard to entrepreneurship as compared to South Africa’s performance, the “Overall entrepreneurial activity” measure has been extracted from the “GEM South African report of 2008”. South Africa had a rating of 9.9 and the Netherlands had a rating of 11.8. This is an indication that the Netherlands is more successful at promoting entrepreneurial growth than South Africa. (Herrington et al., 2008)

3.3.1.4.1 Mastering Growth Program:

The Mastering Growth Program is financed by the Ministry of Economic Affairs and was established in 2006. The program focuses on the management and initiation of growth from a managerial perspective. This is achieved by presenting a number of different training events for entrepreneurs who have growth expectations. Often these events are facilitated in a manner in which the ambitious entrepreneurs learn from each other by sharing experiences on how to achieve high growth. The aim of the program is to improve the motivation “to grow” and the management skills of the entrepreneurs attending. All attendees need to pay €2000 to attend, however the training is subsidised with an annual budget of €250000 (Autio et al., 2007).
3.3.1.4.2 Techno Partner Program:

In 2004 the Dutch Ministry of Economic Affairs and the Ministry of Education, Culture, and Science ventured into a joint initiative in order to establish the Techno Partner program. The program’s primary goal is to improve access to venture capital and business angels. This is achieved through the implementation of four subprograms:

- Knowledge Exploitation funding program – this program provides grants for research;
- Seed facility – this facility provides co-investment in order to improve the risk-return ratio for private investors;
- Certificate – upon assessment can provide loan guarantees of up to 80 percent in order to reduce the risk for banks to finance high-growth SME’s; and
- Business Angel Program – provides an information service for new angel investors that want to invest in young SME’s.

The Techno Partner program employs seven staff members and has a four year budget of €85 million. This initiative has been very successful and has resulted in SME’s receiving venture capital even when the risk-return ratios are not ideal. This has been directly related to the fact that the program improves the risk ratio when investing in the young SME firms (Technopartner, 2010; Autio et al., 2007).

3.3.1.4.3 Summary for the Netherlands:

The SME policies in the Netherlands are focused primarily in two areas:

- Management mentoring; and
- Reducing the risk of investing in an SME.
3.3.1.5 SME policies within Spain:

In order to determine how well Spain performs with regard to entrepreneurship as compared to South Africa’s performance, the “Overall entrepreneurial activity” measure has been extracted from the “GEM South African report of 2008”. South Africa had a rating of 9.9 and Spain had a rating of 14.8. This is an indication that Spain is substantially more successful at promoting entrepreneurial growth than South Africa is (Herrington et al., 2008).

3.3.1.5.1 Contest of Ideas for the Creation of Technological or Science-Based Industries:

This is an annual contest where Carlos III University students compete to be selected as having the best technology-based business idea. The competition is targeted at final year MBA students, with the first competition being run in 2004. The aim of the competition is to promote entrepreneurship and stimulate the commercialisation of research and development. The prizes consist of three different aspects:

- First four contestants receive a cash prize;
- The top contestants are offered free incubation services at the Leganés Technological Park for six months. This includes the services of legal consulting, tax assessments, training and access to financial investors; and
- The top contestants also receive substantial media coverage.

The annual prize money is €30000 in addition to the free incubator services. Generally the competition promotes between 2 to 4 business ideas per year. This competition is seen as being very important in Spain, as there are very few young entrepreneurs in Spain (University Carlos III, 2007; Autio et al., 2007).
3.3.1.5.2 Embryo Project - Program for University Entrepreneurs:

The Embryo Project was established in 2000 by the University of Miguel Hernandez and the European Commission. The project is aimed at stimulating the young technology entrepreneurs at the university by providing them with training, advice, seed funds, and access to entrepreneurial networks. This program is recognised as being very successful; it has already supported 74 young SME’s. The 7412 students that are enrolled in the entrepreneurial club is an indication of the programs acceptance. Once again due to very few young people wanting to become entrepreneurs, this program simply changes the mindset of the students in order for more of them to become entrepreneurs. The program identified the fundamental importance of developing and identifying a local network of entrepreneurs (University Miguel Hernandez, 2006; Autio et al., 2007).

3.3.1.5.3 Prestecs Participatius del CIDEM – Participative Loans:

Six Spanish universities joined forces in order to establish the “Prestecs Participatius del CIDEM” fund. The fund receives its financing from the Catalonia Investment Promotion Agency. The funds primary target market is start-up SME’s in the high-growth technology sector. This fund provides two different forms of start-up capital to young (not older than two years) SME firms:

- A loan up to a maximum value of €100 000; and
- Seed capital to the value of €300 000.

The fund receives an equity stake in the SME in return for the seed capital. The fund has an annual budget of €2.6 million and involves more than 25 employees. The ultimate objective of the fund is to assist 26 young SME’s per year (Niederbach, Alexander & Furlani, 2007; Autio et al., 2007).
3.3.1.5.4 Summary for Spain:

All the Spanish initiatives listed in this treatise are supported by the universities and focus on stimulating the young university students to become entrepreneurs.

3.3.1.6 SME policies within the United Kingdom (UK):

In order to determine how well the UK performs with regard to entrepreneurship as compared to South Africa’s performance, the “Overall entrepreneurial activity” measure has been extracted from the “GEM South African report of 2008”. South Africa had a rating of 9.9 and the UK had a rating of 11.7. This is an indication that the UK is more successful at promoting entrepreneurial growth than South Africa is (Herrington et al., 2008).

3.3.1.6.1 Gateway2Investment (g2i):

In 2005 Grant Thornton a business and financial advisory firm along with 42 universities in London established the Gateway2Investment (g2i) program. Funding for this program is supplied by the London Development Agency. The aim of the program is to promote the “investment readiness” of innovative technology sector firms. The program identified that there is not a lack of investment funding in London, but that the knowledge and skill on how to access the funds is the stumbling block. The “investment readiness” is promoted through a three-stage program, where after each stage some firms are selected for more support in the following stage. The three stages are as follows:

- Self-assessment, this consists of a diagnostic software package that assesses a firm investment readiness;
- Training, this is presented through individual and group sessions; and
- Mentoring, where business plans are developed.
This program does not provide grants or investments directly to the participating firms, but rather makes the firms more attractive to potential private investors. The g2i has only two full time staff members and contract an additional 20 when needed. For the three year period from 2005 – 2008 the total financial budget for the program was €2 million. The program is recognised as being very successful and predicts that over the next three years it will facilitate €75 million in investment funding for SME’s (Understanding Finance for Business Programme, 2010; Autio et al., 2007).

3.3.1.6.2 High-Growth Start-up:

The Business Link organisation initiated the “High-growth Start-up” program in 2001. This program focuses on assisting high-growth start-up firms in the technology sector; this is financed by the European Union and the Yorkshire Forward Development Agency. The assistance is not investment capital, but rather in the form of mentoring and coaching. These mentors are experts in the relevant business sector, they have hands on experience in having started and grown their own businesses. The use of these experienced entrepreneurs is seen as one of the major contributing factors to the success of the program, often in other programs the mentors are academics without the required practical expertise. The mentors assist the start-up firms by developing a plan for growth and obtain the required support in ordered to overcome specific business challenges. The “High-growth Start-up” program has been seen as a success in that before the program, the South Yorkshire region had a low rate of entrepreneurship. From 2001 to 2004 the program supported 595 start-up firms, these firms in turn created 2010 jobs. This is achieved by the program employing seven full time staff and with an annual budget of €2.5 million (Yorkshire Forward Programme, 2010; Autio et al., 2007).
3.3.1.6.3 Mustard.uk.com:

Two public organisations namely Advantage West Midlands and Business Link established the “Mustard.uk.com” program in 2000. This program is very similar to the “High-growth Start-up” program specified above. The “Mustard.uk.com” program also provides business coaching to growth focused start-ups, additionally the program also subsidises private consulting services (e.g. in management consulting, law, accounting) to these young start-ups. The program provides workshops, access to business opportunities database and mentoring services to young high-growth start-ups, these services are all coordinated through a dedicated business coach. Assistance is offered to young SME’s for a period of 18 to 36 months.

The program employs 18 full time employees (three administrative, 15 business coaches) and has an annual budget of €2.6 million. The program is financed by European Regional Development Fund. This very successful project supports on average 300 firms per year. One of the reasons for this success is due to the program independently branding itself. A second reason for success is the requirement for co-payment of the services; this motivates SME’s and ensures that they are committed to the success of the program. The final success factor being that the support is tailored for each individual SME; this is coordinated through the dedicated coach (UK IT Association, 2006; Autio et al., 2007).

3.3.1.6.4 West Yorkshire Ventures:

The West Yorkshire Enterprise Partnership organisation established the “West Yorkshire Ventures” program in 2005. Once again this program is similar to the “High-growth Start-up” program in South Yorkshire, with one major difference in that the “West Yorkshire Ventures” program uses its own consultants for coaching and the “High-growth Start-up” program contracts private organisations for coaching. SME’s are provided mentoring and coaching for up to 24 months,
additionally financial support for professional services is provided for 12 months to SME’s. Assistance is provided in the form of training and networking events for entrepreneurs. The primary purpose of the program is to assist high-growth potential SME’s resulting in job creation within the region (WY Ventures, 2008; Autio et al., 2007).

The current annual budget for the “West Yorkshire Ventures” program is €1.78 million which is co-financed between the Yorkshire Forward agency and the European Regional Development Fund. This program has been very successful and has already assisted 566 SME’s, which have in turn created 920 jobs (WY Ventures, 2008; Autio et al., 2007).

3.3.1.6.5 Summary for the UK:

The SME policies in the UK are focused primarily in two areas:

- Management mentoring; and
- Reducing the risk of investing in an SME.
3.3.1.7 Summary of SME policies within developed nations:

Table 3.1a and 3.1b below presents the SME policies that have been presented above in a consolidated tabular format.

**Table 3.1a: SME Policies within developed nations**

<table>
<thead>
<tr>
<th>Country</th>
<th>Program Name</th>
<th>Program Objective</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>Commercialising Emerging Technologies (COMET)</td>
<td>The program sponsors organisations by subsidising business development services for technology-based organisations.</td>
</tr>
<tr>
<td></td>
<td>Co-Operative Research Centres (CRC)</td>
<td>The program establishes joint private-public research partnerships in selected strategic sectors and technologies.</td>
</tr>
<tr>
<td></td>
<td>Innovation Investment Fund</td>
<td>The program appoints venture capital managers to provide venture capital to small technology-based firms at the seed, start-up or early expansion stages of development.</td>
</tr>
<tr>
<td></td>
<td>Commercial Ready Program</td>
<td>The program provides grants for research and development that has a high commercial potential.</td>
</tr>
<tr>
<td>Finland</td>
<td>Growth Firm Service</td>
<td>The goal of this program is for a business consultant to identify firms with a high growth potential. Public services are offered to these high growth potential firms.</td>
</tr>
<tr>
<td></td>
<td>INTRO Program</td>
<td>This program takes on a facilitation role between SMEs and private investors (business angels).</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>Hong Kong Applied Science and Technology Research Institute (ASTRI)</td>
<td>The institute performs research and development with the aim of transferring technology so that it can be used commercially.</td>
</tr>
<tr>
<td></td>
<td>Hong Kong Science &amp; Technology Parks (HKSTP) - Incubation Program</td>
<td>The corporation purpose is to run the incubation centre and a science park.</td>
</tr>
</tbody>
</table>
### Table 3.1b: SME Policies within developed nations (continue)

<table>
<thead>
<tr>
<th>Country</th>
<th>Program Name</th>
<th>Program Objective</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Italy</strong></td>
<td><strong>I3P (Incubator of the Turin Politecnico)</strong></td>
<td>Knowledge-based firms are provided with seed capital through a venture capital fund, office space, professional business services and visibility.</td>
</tr>
<tr>
<td></td>
<td>Piemontech VC Fund</td>
<td>This fund is the primary venture capital fund that invests in the SMEs making use of the I3P incubator.</td>
</tr>
<tr>
<td><strong>Netherlands</strong></td>
<td><strong>Mastering Growth Program</strong></td>
<td>The program focuses on the management and initiation of growth from a managerial perspective.</td>
</tr>
<tr>
<td></td>
<td><strong>Techno Partner Program</strong></td>
<td>The program’s primary goal is to improve access to venture capital and business angels.</td>
</tr>
<tr>
<td><strong>Spain</strong></td>
<td><strong>Contest of Ideas for the Creation of Technological</strong></td>
<td>This is an annual contest where Carlos III University students compete to be selected as having the best technology-based business idea.</td>
</tr>
<tr>
<td></td>
<td><strong>Embryo Project - Program for University Entrepreneurs</strong></td>
<td>The project is aimed at stimulating the young technology entrepreneurs at the university by providing them with training.</td>
</tr>
<tr>
<td></td>
<td><strong>Prestecs Participatius del CIDEM – Participative Loans</strong></td>
<td>The fund provides start-up capital to start-up SMEs in the high-growth technology sector.</td>
</tr>
<tr>
<td><strong>United Kingdom (UK)</strong></td>
<td><strong>Gateway2Investment (g2i)</strong></td>
<td>The aim of the program is to promote the “investment readiness” of innovative technology sector firms.</td>
</tr>
<tr>
<td></td>
<td><strong>High-Growth Start-up</strong></td>
<td>This program focuses on assisting high-growth start-up firms in the technology sector.</td>
</tr>
<tr>
<td></td>
<td><strong>Mustard.uk.com</strong></td>
<td>The program provides business coaching to growth-focused start-ups, additionally the program also subsidises private consulting services.</td>
</tr>
<tr>
<td></td>
<td><strong>West Yorkshire Ventures</strong></td>
<td>This program is similar to the “High-growth Start-up” program in South Yorkshire, with one major difference in that the this program uses its own consultants for coaching.</td>
</tr>
</tbody>
</table>
3.3.2 SME POLICIES WITHIN DEVELOPING NATIONS:

3.3.2.1 SME policies within Brazil:

In order to determine how well Brazil performs with regard to entrepreneurship compared to South Africa’s performance, the “Overall entrepreneurial activity” measure has been extracted from the “GEM South African report of 2008”. South Africa had a rating of 9.9 and Brazil had a rating of 26.4. This is an indication that Brazil is substantially more successful at promoting entrepreneurial growth than South Africa is (Herrington et al., 2008).

3.3.2.1.1 Pappe – Program for Supporting Research in Enterprises:

The Brazilian Financing Agency for Studies and Projects established the Pappe Research Support Program in 2004. The purpose of this program is to instil collaboration between researchers and small firms. Through this program researchers are provided with grants when they collaborate their efforts with small firms in the technological sector. The end result of this relationship is that these small firms can be used as vehicles for bringing innovations to market. This has been a successful program with an annual budget of €66 million. During the years 2004 and 2005 the program supported 537 firms. This program is different from other similar programs in that the support is given to the researcher and not the small firm (Ministry of Science and Technology, 2010; Autio et al., 2007).

3.3.2.1.2 PROGEX – Export Technology Support Program:

In 2001 the Brazil Ministry of Science and Technology established the PROGEX export technology support program. The PROGEX is a federal program established to stimulate Brazilian exports through SME’s by improving the technological capacity of these firms. The purpose of the program is to increase
exports and to substitute imports; this is achieved by reducing the barriers to trade by subsidising various technological costs related to entering foreign markets. Currently this program has an annual budget of €7.8 million and has assisted more than 270 firms to date. The program has been deemed to be successful, as a direct result of the program exports have increased by participating SME’s (Institute for Technological Research (IPT), 2010; Autio et al., 2007).

3.3.2.1.3 Summary for Brazil:

The Brazilian SME policies are aimed at increasing the SME’s involvement in research and development and stimulating exports by improving the technological capacity of SME’s.

3.3.2.2 SME policies within Hungary:

In order to determine how well Hungary performs with regard to entrepreneurship compared to South Africa’s performance, the “Overall entrepreneurial activity” measure has been extracted from the “GEM South African report of 2008”. South Africa had a rating of 9.9 and Hungary had a rating of 11.8. This is an indication that Hungary is more successful at promoting entrepreneurial growth than South Africa (Herrington et al., 2008).

3.3.2.2.1 Corvinus International Investment Ltd:

The Corvinus International Investment program was established in 1997; in 2005 the Hungarian Development Bank took control of the program. The program is focused on assisting Hungarian firms that want to expand internationally. This assistance is made available by the foundation co-funding international investments or assisting with the appropriate business strategies. The end goal is
to encourage foreign direct investment by Hungarian companies. The target market for this assistance is high-growth SME’s that have a registered patent. The intention is for the fund to be self funding and thus only finances “economically feasible projects” at “market conditions”. The project has an annual budget of €6.8 million and plans to assist eight to ten projects per year. The program hopes that by increasing the availability of venture capital, more firms will be motivated to grow and register innovative patents that can be marketed internationally. This will result in long term positive spin-offs for the countries “current account” (Corvinus Group, 2009; Autio et al., 2007).

3.3.2.2.2 Information Technology Venture Capital Fund:

The Regional Development Holding Company founded the Information Technology Venture Capital Fund in 2002. This fund is state owned and is focused to provide venture capital fund for investment in ICT firms, in return for the investment the ICT sign over some equity in their firm to the fund. Part of the criteria when selecting firms to invest in, is that there should be potential for export opportunities or to create employment or to improve technology. Even though the fund is intent on providing assistance, it is a profit-orientated fund. The Technology Venture Capital Fund is relatively small in that it only employs four people, but since 2002 €10.7 million has been invested in the ICT firms. The fund is regarded as being relatively successful and on average provides assistance to 4 firms per annum (The Regional Development Holding Co., 2009; Autio et al., 2007).

3.3.2.2.3 VIVACE Program of the Hungary Patent Office:

The Hungary Patent Office founded the VIVACE in 2004, this initiative is funded by the Hungarian government. The VIVACE program provides guidance and advice on patenting by intellectual property experts for SME’s. The assistance has extended with the use of a telephone help-line on intellectual property protection.
The goal is to create an awareness of the intellectual property system among the SME’s. The intention is to remove the obstacles that prevent growth due to SME’s not having adequate protection of intellectual property rights. The program has a limited annual budget of €419000 and employs 5 staff members. However on average 500 SME’s are assisted per annum. The program has increased the patenting rate among SME; this in turn leads to the investment of venture capital. An example of this being the “Corvinus International Investment” program that requires a registered patent before the program will provide funding (Hungarian Patent Office, 2010; Autio et al., 2007).

3.3.2.2.4 Summary for Hungary:

The Hungarian SME policies are primarily focused on growing the technology sector; this is achieved by assisting with patenting process and also assisting with venture capital only once a patent has been registered. Additionally there is a focus on supporting SME’s that intend to improve Hungary’s foreign direct investment.
3.3.2.3 Summary of SME policies within developing nations:

Table 3.2 below presents the SME policies that have been presented above in a consolidated tabular format.

**Table 3.2: SME Policies within developing nations**

<table>
<thead>
<tr>
<th>Country</th>
<th>Program Name</th>
<th>Program Objective</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>Pappe – Program for Supporting Research in Enterprises</td>
<td>The purpose of this program is to instil collaboration between researchers and small firms.</td>
</tr>
<tr>
<td></td>
<td>PROGEX – Export Technology Support Program</td>
<td>The program's purpose is to stimulate Brazilian exports through SME's by improving the technological capacity of these firms.</td>
</tr>
<tr>
<td>Hungary</td>
<td>Corvinus International Investment Ltd</td>
<td>The program is focused on assisting Hungarian firms that want to expand internationally.</td>
</tr>
<tr>
<td></td>
<td>Information Technology Venture Capital Fund</td>
<td>This fund focused to provide venture capital fund for investment in ICT firms.</td>
</tr>
<tr>
<td></td>
<td>VIVACE Program of the Hungary Patent Office</td>
<td>The program provides guidance and advice on patenting by intellectual property experts for SMEs.</td>
</tr>
</tbody>
</table>

3.4 SME'S IN SOUTH AFRICA

This next section identifies what policies are in place in South Africa with regard to the development of SME's and also identified some of the challenges facing young SME's in South Africa. The primary source for this information has been the GEM South African report of 2009, titled “Tracking entrepreneurship in South Africa from a GEM perspective” (Herrington et al., 2009).
3.4.1 POLICIES INTRODUCED BY THE SOUTH AFRICAN GOVERNMENT IN ORDER TO STIMULATE SME GROWTH:

3.4.1.1 Small Enterprise Development Agency (SEDA).

SEDA was established in 2004 by merging three organisations, namely the Ntsika Enterprise Promotion Agency, National Manufacturing Advisory Centre (NAMAC), and Community Public Private Partnership Programme (CPPP). Prior to this merging the NAMAC was identified in the 2002 GEM Report as being one of the few initiatives that are successful in South Africa. The SEDA focuses on business development and support services such as advice, business planning, entrepreneurship promotion, training, franchise awareness, access to local and international markets, access to finance and access to technology. They have established a network of 42 branches in eight provinces, through this network the agency has delivered various programmes to over 185000 SME’s in the years 2007 - 2008. The SEDA is part of the department of trade and industry (DTI) (Department of trade and industry (DTI), 2004; Herrington et al., 2009).

3.4.1.2 Khula Enterprise Finance Ltd:

Khula was established in 1996 and operated as an independent agency while falling under the auspices of the Department of Trade and Industry. The agencies primary purpose is to assist with the funding of SME’s and SMMEs, often in cases where the commercial financial institutions are not comfortable with the risk. The Khula SME fund is specifically focused on black owned SME’s in rural and peri-urban areas of South Africa (Khula Enterprise Finance Ltd., 2009).

3.4.1.3 Export Marketing & Investment Assistance (EMIA):

The EMIA offers exporter financial assistance and is administered by the Department of Trade and Industry (DTI). The purpose of assistance is focused on
two specific areas, firstly to partially compensate exporters for costs incurred in order to get their product or service to the export market; and secondly to attract new foreign direct investment into South Africa. The financial assistance includes the following:

- Primary export market research - reimburses the costs incurred in order to distribute to international clients (airfares, car rental, daily allowances);
- Individual Exhibitions and Instore Promotions - reimburses a percentage of the costs of participating in international trade fairs;
- Outward-selling trade missions – assistance is provided to South African exporters to make contact with foreign buyers; and
- Inward-buying trade missions – assists prospective international buyers with establishing contact with South African exporters

(SouthAfrica.Info, 2010; Department of Trade and Industry (DTI), 2010).

3.4.1.4 Industrial Development Corporation (IDC):

The IDC was established in 1940 in order to promote economic growth and industrial development in South Africa. On the IDC’s website they list their objectives as follows (Industrial Development Corporation (IDC), 2010):

- To contribute to the goals of the Shared and Accelerated Growth Initiative of South Africa (ASGISA) by providing financing that will stimulate job creation, investment activity and economic growth;
- To be a catalyst for economic change through our Leadership in Development Strategy;
- To develop economies that are viable, sustainable and environmentally and socially responsible;
- To develop Small and Medium Enterprises (SME’s);
- To accelerate Black Economic Empowerment (BEE);
To further the aims of the New Partnership for Africa’s Development (NEPAD); and

To maintain our financial independence and apply sound business principles to everything we do.

From these objectives it is clear that the IDC is very focused on providing financial support for South African SME’s. From table 3.3 it is clear that less than 50 percent of SME’s know about the IDC and only seven percent of the SME’s make use of their services (Industrial Development Corporation (IDC), 2010).

3.4.1.5 Business Partners Limited:

Business Partners Limited is an organisation that focuses on supplying support to South African and selected African SME’s. The support packages are specifically designed for the small and medium enterprises; as such the products are tailored for their unique needs. This support is offered in three different areas of the business (Business Partners Limited, 2010):

- Business Finance.
  The core focus of the company is to provide finance to SME’s that meets their qualification requirements. The financing deals are structured using the SME’s equity, shareholders’ loan accounts, royalties and term loans or any combination of these. Every case is unique and the deal is structured accordingly to suit their specific requirements (Business Partners Limited, 2010).

- Mentorship and Consulting Services.
  Business Partners offers mentorship and consulting by making use of highly skilled business and industry specialists. These services include (Business Partners Limited, 2010):
    - General business assistance;
    - Specialist mentoring and consulting;
    - Industry-specific technical assistance; and
CHAPTER THREE

- Turnaround management.
- Property Management Services.
  Property Management Services sources and secures the ideal business premises for SME’s. These properties are offered to the SME’s at market related prices for rental or for purchase. In addition this division will also provide property management services to SME’s that have invested in property, either for own use or rental (Business Partners Limited, 2010).

3.4.1.6 East Cape Development Corporation (ECDC):

In 1996 the East Cape Development Corporation was formed with the purpose to develop business in the Eastern Cape. The East Cape Development Corporation provides services to businesses that have their headquarters in the Eastern Cape or are planning to implement major developments that will impact the Eastern Cape. These services are listed below:

- Development Investments.
  Finance is offered to businesses at competitive rates via short-term and long-term product offerings. In order to qualify for the finance the businesses need to demonstrate adequate management capacity and business viability.

- Investment Promotion.
  The Investment Promotion Programme is aimed at attracting international medium and large investors to the Eastern Cape. The ECDC will assist these potential investors to identify business opportunities within the Eastern Cape.

- Trade Promotion.
  The ECDC Trade Promotion Unit is focused on supporting SME’s to accesses global markets. The unit is aligned to ensure growth in the value of exports from the Eastern Cape by providing access to international markets.
- Enterprise Development Services.
The Enterprise Development unit offers advice and support in business advice, information technology support, product and market development and business linkages. These services of a non-financial nature.

- Project Development.
The Project Development unit will assist businesses to establish strategic projects that are sustainable. This is achieved by providing advice on establishing the projects; additionally the unit will consider funding a number of business-related studies.

- Property Management and Development.
Property Management and Development Unit provides SME’s suitable industrial and commercial premises at market related rates.

3.4.1.7 Port Elizabeth Regional Chamber of Commerce and Industry (PERCCI):

The Port Elizabeth Chamber of Commerce (established in 1864) and the Midland Chamber of Industry (established in 1927) amalgamated in 1994 to form the Port Elizabeth Regional Chamber of Commerce and Industry (PERCCI). Majority of PERCCI’s membership consist of SME’s. A SME Hub has been established in order to service the needs of the start-up and established SME’s. SME’s are provided access to information, advice, training and mentorship via the SME Hub (Port Elizabeth Regional Chamber of Commerce and Industry, 2010).

With the assistance of Standard Bank, PERCCI has established a SME help desk. This help desk provides the following services (Port Elizabeth Regional Chamber of Commerce and Industry, 2010):

- Access to information on how to access finance;
- Access e-mail and internet;
- Administrative functions like photocopying and scanning;
- A number of business publications;
• Access to a local database of SME’s;
• A board for SME’s to display their brochures and other business opportunities;
• Workshops aimed at improving business skills;
• Enabling SME’s to network with each other; and
• Mentorship programme.

3.4.1.8 SME Toolkit – Build your business:

The SME Toolkit is a website that is a project that is operated jointly by the International Finance Corporation (IFC) and International Business Machines (IBM). This website provides the SME with a wealth of information. Via this website the SME can retrieve information with regard to:

• Accounting and finance;
• Business planning;
• Human resources;
• International business;
• Legal and insurance;
• Marketing and sales;
• Operations;
• Technology; and
• Women-owned businesses.

Even though this website is customised for the South African SME, the website is the result of an international incentive. As such, the South African SME’s will not be able to use this website to differentiate themselves from other SME’s around the world. The other limitation of this website is that it only presents the information and does not offer any form of collaboration between the different stakeholders that would make use of the website (SME Toolkit, 2010).
3.4.1.9 Eastern Cape Provincial Administration (ECPA) Business Partnership:

In a joint venture between the National Business Initiative (NBI) and the Eastern Cape Provincial Administration (ECPA) the “ECPA Business Partnership” has been established. The purpose of the partnership is to establish a formal collaboration between the business sector and the ECPA. This will enable the ECPA to fulfil its role and responsibility to the people of the province more effectively. Via this partnership, mentorship and coaching expertise are provided to the ECPA by the business sector. Often the mentors and coaches are retired “C” level managers (e.g. CEO’s, CIO’s or CFO’s) from business. This innovative initiative provides highly skilled mentors and coaches that have the spare time to assist the ECPA (National Business Initiative, 2010). This initiative has been included in the treatise as it is innovative, even though SME’s are not the recipients of this initiative.

3.4.2 FINDINGS OF THE ANNUAL SOUTH AFRICAN GEM REPORTS (2001 – 2009):

The 2002 GEM Report found that there is limited government support focused on the informal sector, while government initiatives directed at the formal sector are too generic and have had limited success. (Herrington et al., 2009). This fact is confirmed by the government policies listed above, as most of the support policies are focused on providing support for the formal sector. It is however important to note that the formal sector generally creates more employment than the informal sector.

Another important finding was that many SME’s are unaware of the government initiatives to support them; on the other hand some SME’s are aware of the government support and decide not to make use of them (see table 3.3).
Table 3.3: Effectiveness of South African government initiatives

<table>
<thead>
<tr>
<th>Initiative</th>
<th>Heard of</th>
<th>Used</th>
</tr>
</thead>
<tbody>
<tr>
<td>SETAs</td>
<td>61%</td>
<td>32%</td>
</tr>
<tr>
<td>Competitiveness Fund (Terminated 2004)</td>
<td>32%</td>
<td>11%</td>
</tr>
<tr>
<td>Industrial Development Corporation</td>
<td>45%</td>
<td>7%</td>
</tr>
<tr>
<td>Export Incentives</td>
<td>12%</td>
<td>2%</td>
</tr>
<tr>
<td>Manufacturing Advisory Centres (Terminated 2004)</td>
<td>11%</td>
<td>1%</td>
</tr>
<tr>
<td>Ntsika Promotion Agency (Terminated 2004)</td>
<td>13%</td>
<td>1%</td>
</tr>
<tr>
<td>Khula Enterprise Finance</td>
<td>9%</td>
<td>1%</td>
</tr>
<tr>
<td>Brain</td>
<td>9%</td>
<td>1%</td>
</tr>
<tr>
<td>Umsobomvu Youth Fund</td>
<td>4%</td>
<td>1%</td>
</tr>
</tbody>
</table>

Source: Herrington et al., (2009)

In 2004 the South African government identified that additional measures needed to be taken to support SME’s and that they would need to significantly improve their communication with regard to the support services available. To this end in 2004 the South African government disbanded a number of support initiatives and created new support initiatives. SETA is one of these new agencies. When one studies (table 3.3) it is very apparent that the SETA agency has been the most successful with regard to both awareness and “being made use of”. However it is important to note that one of the major compositions of SETA was the National Manufacturing Advisory Centre, this agency was highly successful before it was disband in 2004.

Over the past ten years the different annual South African GEM reports have identified specific areas where the South African government needs to focus in order to improve the effectiveness of the support for SME’s. Below follows a brief explanation of the problem areas that were identified and whether the remedies that the South African government put in place were effective or not:

- The 2001 GEM report identified that there was a lack of suitable entrepreneurial and business training. In order to address this, the South
African government promoted the “Umsobomvu Youth Fund” and the “Youth Commission” in 2005, by 2008 this was proven to be unsuccessful and the agencies were abandoned. Additionally the standard of matric passes has been declining significantly over the past four to five years (Herrington et al., 2009; Driver, Wood, Segal & Herrington, 2001);

• The 2002 GEM report identified that there is a distinct difference between the formal and informal businesses and both need direct targeting from a support perspective. The Khula Enterprise Finance institution embraced this challenge and moulded their offerings in order to direct support at each of these sectors. This has been identified as a good start, however substantially more support is required for the informal poorer and more rural areas (Herrington et al., 2009; Foxcroft, Wood, Kew & Herrington, 2002);

• The 2003 GEM report identified a lack of good administration and financial management of SME’s within South Africa. A number of organisations have been established in order to provide adequate training for SME’s and SMMEs (for example “The Business Place”, SEDA and universities offering entrepreneurship). Even though some successes have been achieved, the impact on the general SME has been insignificant. The report suggested that e-learning be investigated in order for the training to penetrate the masses (Herrington et al., 2009; Herrington & Wood, 2003);

• In the 2004 GEM report the extremely high cost for regulatory compliance was identified. This is probably one of the largest stumbling blocks for any young SME. To date the government has accepted that there is a problem in this area, but has done very little to rectify the situation. One small step in the correct direction is the recent introduction of “Turnover Tax”. This is a very simple form of taxation that substantially reduces the administration burden that is placed on a SMME (South African Revenue Services (SARS), 2010; Herrington et al., 2009; Orford, Herrington & Wood, 2004);

• The 2005 GEM reported that new SME’s in the formal sector create more jobs than necessity-based entrepreneurs in the informal sector. The key
requirement was identified as the government support agencies having adequately educated and experienced mentors. Unfortunately to date the government agencies still make use of unqualified and inexperienced mentors (Herrington et al., 2009; Von Broembsen, Wood & Herrington, 2005);

- The 2006 GEM report highlighted that there is a lack of entrepreneurial activity amongst women in South Africa, once again the government has done very little in order to promote women within business (Herrington et al., 2009; Maas & Herrington, 2006); and

- In 2007 the GEM report focused on the unemployed youth in South Africa. Prior to 2008 the “Youth Commission” and the “Umsobomvu Youth Fund” were established, however neither of these funds were successful and in 2008 they were both disbanded. In April 2009 the South African government launched the “National Youth Development Agency (NYDA)”, at this stage it is still too early to determine if this agency will be successful or not (Herrington et al., 2009; Maas & Herrington, 2007).

3.4.3 PRIVATE SECTOR INITIATIVES THAT STIMULATE SME GROWTH WITHIN SOUTH AFRICA:

As identified by the annual GEM reports over the past ten years, the government policies with regard to SME support have been relatively unsuccessful. However on the other hand, the GEM report of 2009 identified that the private sector support had been more successful than the government policies. These initiatives are generally in the form of business partnership models. The report suggests that private-public partnerships or using the Business Partners model as a blue-print should be investigated (Herrington et al., 2009).
3.5 CONCLUSION

This chapter is introduced by identifying that the lack of finance or access to finance is a common cause for SME’s to fail. This factor is common across most countries around the world. In the past governments have attempted to subsidise the cost of credit or stand guarantees for the credit, unfortunately these policies have not been successful. However in recent years due to competition the banks have been forced to reconsider the costs charged to providing SME’s with credit. This has resulted in banking systems that are more flexible and adaptable to the needs of the SME.

The chapter proceeds to identify what policies have been implemented around the globe that has resulted in high-growth entrepreneurial firms. These policies are divided into policies that have been implemented in developed countries and also policies that have been implemented in developing countries. By analysing these successful policies South Africa can identify what policies are tried and tested and consider implementing them in South Africa.

The final section of this chapter identifies what policies have been implemented in South Africa and what their primary goal is. This section goes on to identify what challenges the SME’s were faced with from the years 2001 to 2007. For each year the largest challenges are identified and the effectiveness of the government policies are evaluated. The section concludes by identifying that in South Africa the private initiatives to support SME’s have been relatively successful.

In Chapter 4 the different research methodologies are identified and analysed in order to select the most appropriate research method to be utilised for this treatise. Once the analysis is complete a qualitative research methodology is identified as being the most appropriate methodology to be used. The chapter then proceeds to identify what the questionnaire will consist of. The chapter concludes by identifying the composition and identification of the sample population.
CHAPTER FOUR

RESEARCH AND DESIGN

4.1 INTRODUCTION

The previous chapter begins by establishing a few common causes as to why SME’s fail. The chapter proceeds to identify what governments and organisations from around the world do in order to stimulate SME growth within their countries. This research separates the initiatives implemented in developing countries from the initiatives implemented in developed countries. Finally the chapter identifies what initiatives have been implemented in South Africa in order to stimulate the SME growth within South Africa.

This chapter will focus on what research methodologies are available and what research methodologies will be utilised in order to conduct this research. Firstly the qualitative and quantitative research methodologies are identified and compared. Next the case study research methodology is analysed. During this investigation the differences between single case research and multiple case research is examined in order to determine the best form for this treatise.

This chapter will then identify how the participants for this research will be identified and finally how the questionnaire or interview guide will be constructed and utilised in order to retrieve the required data.

4.2 DEFINITION OF RESEARCH AND DESIGN

According to Collis & Hussey (2003) “research design is the science (and art) of planning procedures for conducting studies so as to get the most valid findings”. Cooper & Schindler (2001) refer to research design as being “the blueprint for fulfilling objectives and answering questions”. Cooper & Schindler (2001) proceed to identify the essentials of research design being:

- The design is an activity and time-based plan;
The design is always based on a research question; The design guides the selection of sources and types of information; The design is a framework for specifying the relationship among the study’s variables; and The design outlines procedures for every research activity.

The most fundamental statement is that research and design’s primary objective is to answer questions. This question is defined as the research problem statement. According to Cooper & Schindler (1998) “The problem statement contains the need for the research project.” “It is followed by a more detailed set of objectives”. These objectives as specified by Cooper & Schindler are often referred to a “Sub problems”.

4.3 PROBLEM STATEMENT

The primary focus of this research treatise is to address the research problem statement which is defined as follows:

Develop a support model that will promote the success rate and business growth of SME’s within Port Elizabeth.

In order to develop the model as described in the problem statement a number of sub-problems need to be solved:

1. Determine the global support initiatives that have enabled the growth and sustainability of SME’s;
2. Identify the catalyst for business growth of the successful SME’s within the Port Elizabeth metro;
3. Identify South African support initiatives that will lead to SME’s being more successful; and
4. Develop a model for the implementation of the identified support initiatives.
4.4 QUANTITATIVE AND QUALITATIVE STUDIES

At the outset of the research it is imperative to identify the type of research that the researcher is intending to conduct. The two distinct study methods that the researcher may choose are quantitative and qualitative research studies.

Qualitative research is defined as ‘research that seeks to provide understanding of human experience, perceptions, motivations, intentions, and behaviours based on description and observation and utilising a naturalistic interpretative approach to a subject and its contextual setting’ (Encyclopedia.com, 2008).

Quantitative research is defined as ‘research based on traditional scientific methods, which generates numerical data and usually seeks to establish causal relationships between two or more variables, using statistical methods to test the strength and significance of the relationships’ (Encyclopedia.com, 2008).

In order to select between qualitative or quantitative, the researcher needs to consider the following questions:

- What is the research problem?
- Is the research explorative, descriptive, causal or predictive study?
- What is the objective (i.e. what kind of outcome is to be expected)?
- What type of information / data will be obtained (Blumberg, Cooper & Schindler, 2008)?

The research conducted in the treatise will be of an explorative nature. The intention will be to interview a number of SME’s and during the interview process identify what has restricted or prevented the growth of their business. In order to obtain and not limit the information that is supplied by the SME’s a number of open ended questions will be used during the interview process. This process clearly aligns itself to a qualitative style of research.

4.5 CASE STUDY RESEARCH

In order to retrieve the data from a small number of SME’s, a case study methodology will be utilised. Yin (2003) stated that Case studies could be “used to
document and analyse the outcomes of public or privately supported interventions, such as the programs sponsored by federal agencies or the initiatives supported by private foundations”. Successfully supported government initiatives are the core focus of this treatise, as illustrated by the literature review in chapters two and three.

Case studies are well recognised at answering “Why” and “How” questions (Cooper & Schindler, 2001; Yin, 2003). When answering the problem statement for this treatise, one is fundamentally needing to answer “Why” the SME’s in South Africa and specifically Port Elizabeth are not as successful as similar SME’s around the world? Once this is identified one needs to determine “How” to rectify this.

It is noted that there are three primary criticisms of case study research. Firstly case studies can be known to lack rigour. Often biased views are allowed to influence the direction of the findings. Secondly there may be little scientific generalisation for case study research, especially when only one case is utilised. Finally case studies are often labelled as being too long and producing a large amount of information (Yin, 1984).

The research for this treatise will make use of multiply case studies; this will limit the effects of the first two critical points. With regard to the final point, this case study will be very detailed in a specific direction in order to reduce the breadth of the research (Yin, 1984).

Once a case study methodology has been selected one needs to determine whether to use a single case study or to select multiple case studies. Single case studies are appropriate for investigating extreme or unique cases. Due to single case studies only involving a single case the results are often biased. On the other hand the results from multiple case studies are considered more robust (Cooper & Schindler, 2001).

In order for the multiple case study approach to be effective it is imperative that the correct cases are chosen. When choosing the ideal cases one is not able to apply sampling logic as with survey research, one needs to select the cases based on replication logic. The fundamental concept behind replication logic is that one
expects the same phenomenon to occur in the same circumstances or that the phenomenon will change when the circumstance changes (Cooper & Schindler, 2001).

Case study research offers the researcher a number of different sources of information (Cooper & Schindler, 2001):

- Interviews;
- Documents and archives; and
- Observations.

This treatise will focus on the first two sources. The interviews will be “one on one” with the SME owner. This will allow the researcher the time and latitude to extract all the relevant information from the interviewee. Documents and archives may also be used in order to support the data received during the “one on one” interviews.

4.6 VALIDITY AND RELIABILITY

Validity is the extent to which the research findings accurately represent what is really happening in a situation (Collis & Hussey, 2003). Cooper & Schindler (2001) categorise validity into external validity and internal validity. External validity refers to the data’s ability to be generalised across the dimensions of people, location and time. Internal validity is defined as being the ability of a research instrument to measure what it is supposed to measure.

In order to ensure external validity, techniques like cross-examination and within-case examination need to be utilised, along with literature reviews. The use of case study design helps to ensure that the procedures can be repeated with the same results again and again (Cullen, 2007).

Reliability is the degree to which a measure supplies consistent results. Reliable instruments are known to be robust and work at different times and in different conditions (Cooper & Schindler, 2001). Cooper & Schindler offer a number of activities that will improve the reliability of the research measuring instrument (Cooper & Schindler, 2001):
• Minimise the external sources of variations;
• Standardise conditions under which measurement occurs;
• Improve investigator consistency, ensure the person doing the research is well trained and motivated;
• Broaden the samples of the measurement questions used by adding similar questions to the data collection instrument; and
• Exclude data from questions eliciting extreme responses, this will improve the internal consistency.

During the creation of the measuring instrument these points have been noted and applied in order to improve the reliability of the questionnaire.

4.7 PROFILE OF THE PARTICIPANTS.

In order to identify the participants of the research, it is important that the correct cases are chosen. This will reduce the potential biases from the resulting research data (Cooper & Schindler, 2001). Replication logic, as defined earlier in this chapter has been applied in order to limit the number of potential participants. Participants that have been included in this research need to meet the following criteria:

• They need to be a SME as defined in chapter two of this treatise;
• The SME needs to have its head office or its main business office in the Port Elizabeth or surrounding area;
• The SME needs to have been in operation for at least one year; and
• The SME needs to have employees and not be a one man business.

4.8 QUESTIONNAIRE / INTERVIEWS

Qualitative interviews can be conducted in three different styles. These styles are the structured interview, the semi-structured interview and the unstructured interview. The structured interview follows a very detailed interview guide similar to
that of a questionnaire in quantitative studies. The semi-structured interview will start with rather specific questions, but will allow the interviewee to follow his or her own thoughts later on. Finally the unstructured interview will normally start with an introduction, but may not have any specific questions to be asked. The unstructured interview allows the researcher access to data that is not at all referred to in a questionnaire; however interpreting the data from the unstructured interviews can be more challenging (Cooper & Schindler, 1998).

The research instrument that will be used for this treatise will be interviews with the participating SME’s. These interviews will be semi-structured and conducted based on a questionnaire. The questionnaire will form the base of the interview, but the interview will not be limited to the questionnaire. This flexibility will allow the researcher to extract data from the interviewee that may not be explicitly mentioned in the questionnaire.

The questionnaire or interview guide will ensure the following (Cooper & Schindler, 2001):

- The guide needs to contain questions on all the topics that will be important to this research. These questions need to be ordered so that they flow from one question to the next;
- The language used in the guide must be of such a nature that the interviewee easily understands it;
- The questions must not be too specific and allow the interviewee ample opportunity to reflect on the issue at hand;
- Avoid any leading questions; and
- Record some general demographic facts about the interviewee.

Bearing these important facts in mind the researcher has elected to construct the interview guide as follows (see appendix B):

- The first section will consist of an introduction of the researcher and why the research is being conducted;
- The next section will consist of specific questions. These questions will be used in order to define the demographics of the SME. The questions will be of the following nature:
CHAPTER FOUR

- Business owners name;
- Owner’s demographics;
- Type of business;
- etc..

- The next section will consist of open ended questions. These questions will allow the interviewee to respond with a fair amount of latitude; however the questions will still have some form of direction. These questions will be of the following nature:
  - Are any family members entrepreneurs? If so please discuss.
  - Why are you an entrepreneur as opposed to being employed?

- The final section will summarise the process, thank the interviewee and offer to make the research findings available to the interviewee once the research is complete.

4.9 CASE PARTICIPANT PROFILES

4.9.1 CASE ONE FW1 (BILTONG DELIGHT)

Biltong Delight was started as a biltong manufacturing company by Baasie Skoltz in 1997. Prior to starting Biltong delight Mr. Skoltz was working for his father in a meat processing business. Due to bad financial management, the meat processing business was closed down and Mr. Skoltz exercised his option to purchase the biltong manufacturing division from his father.

Originally the primary focus of Biltong delight was the biltong manufacture, marketing and distribution to retailers. In order to add some diversity to his business Mr. Skoltz decided to offer additional products to his clients. These products are generally purchased in bulk and repackaged into smaller packaging and sold to the retailers. Examples of the additional products are nuts, fruit and candy floss (Biltong Delight, 2009).
4.9.2 CASE TWO FW2 (HITGEHEIM COUNTRY LODGE)

Hitgeheim Country Lodge is a luxurious country lodge and eco reserve that opened its doors to the public in October 2003. Mr. and Mrs. Hitge build the lodge from the ground up. They purchased the land, cleared the bush and built the eight chalets. It took them four years from when the project started until the day they opened their doors to the public.

The lodge is positioned in pristine “Uitenhage Bushveld”, each chalet has a truly magnificent view. Hitgeheim Country Lodge is marketed to the more affluent South African or preferably the overseas tourist. The pricing is intentionally more expensive than the other lodges in the area. Hitgeheim offers a unique relaxing experience while you are surrounded by five star service (Hitgeheim Country Lodge, 2010).

4.9.3 CASE THREE FW3 (PIZZA GUYS)

In 1991 Guy Thomson opened a Pizza Hut restaurant in “The Bridge Shopping Centre”. This restaurant was run under a franchise licence for eight years until Guy decided to break away and start his own brand of restaurant. Pizza Guys was founded by Guy and Lindsay Thomson in 1999, this newly branded restaurant retained the same premises that were previously occupied by the Pizza Hut.

Pizza Guys restaurant offers the client the option of enjoying the meal in the comfort of their restaurant or the client may order the meal as a “Take away”. Pizza Guys has built up a national reputation for serving “Legendary Pizzas in a Fun Atmosphere with Wow Service and Classic Value” (Pizza Guys, 2009).

4.9.4 CASE FOUR FW4 (SAGEKITCHEN)

Sagekitchen was first established under the name of Soulkitchen in 2004 by Brenda Addison and her partner Mrs. Wyatt. A few years later Collin Addison
replaced Mrs. Wyatt as a partner in the business. Recently Mr. and Mrs. Addison were informed by a very well established fast food company that they may not use the word “Soul” in their companies name as the word “Soul” had been copywrited by the fast food company. Due to legal pressure the Addison’s were forced to change the businesses name to Sagekitchen. Sagekitchen’s core business is the manufacture and distribution of quality preserved foods. Their products range from traditional marmalades to innovative pestos. Sagekitchen’s aim is to ensure a hygienic manufacturing environment; while ensuring that only the best quality ingredients are used during the manufacturing process.

4.9.5 CASE FIVE FW5 (IBAYI PC SALES AND REPAIRS / IBAYI BOLT AND NUT)

Roshan Nathoo and his wife started Ibayi pc sales and repairs in 2004. Then a few years later in 2007 Roshan Nathoo and his wife started Ibayi Bolt and Nut a one hundred percent black empowerment company. These businesses share the same premises with the Nut and Bolt business being situated on the ground floor and the PC Sales and Repair trading on the first floor. The businesses are both run and managed with the same core set of values.

Ibayi Bolt & Nut’s objective is to be a viable and dominant supplier of fasteners, providing service excellence and customer satisfaction through motivated employees. The company’s policy is to give its customers better pricing and also the correct tools / components for the job. The focus is on quality, reliability, full technical support and competitive prices (Ibayi Bolt and Nut, 2010).

Ibayi PC Sales and Repair’s core business is repairs, support, network installations and supplying of quality I.T. products within the Eastern Cape. This is achieved by providing customers with excellent quality products that are competitively priced (Ibayi PC Sales and Repair, 2010).
4.10 CONCLUSION

This chapter opens by stating the research problem statement as well as the research sub-problem statements. With these problem statements in mind the author proceeds to identify that this treatise will conduct qualitative research as opposed to quantitative research.

In order to conduct this qualitative research the author has selected the case study methodology. In an attempt to reduce the probability of biased data multiple case studies will be utilised.

The importance of validity and reliability is emphasised and a number of factors are taken into account in order to ensure that the research instrument is valid and reliable.

The chapter proceeds to specify the criteria that need to be met in order to qualify as a case study participant. Next the format of the questionnaire or interview guide is defined. The chapter concludes by giving a brief description of each of the case study respondents.

In chapter five the data that has been received during the interviews with the participants will be organised, analysed and interpreted.
5.1 INTRODUCTION

Chapter four examines the different research methodologies that are available. The chapter examines the differences between qualitative and quantitative research and explains why the research opted for the qualitative approached. The multiple case study approach is identified as the specific type of methodology that will be utilised within qualitative research. The chapter then specifies how the participants are identified and exactly what the requirements are for being selected as a participant. Once this has been established the chapter focuses on the questionnaire (research instrument); the general structure of the questionnaire is explained. The chapter concludes by giving a brief description of the participants. This chapter will focus on the responses received during the case study interview process. Each of the questions is examined in the chapter and the different response from the respondents is correlated, analysed and interpreted. The correlated data is then presented as the findings from the multiple case study approach.

5.2 RESULTS FROM THE QUESTIONNAIRE

The responses to each of the questions as defined in the questionnaire are correlated, analysed and interpreted in this section. The first section simply addresses the demographics of the different respondents. The second section lists the responses to a number of open ended questions. Common trends are highlighted and explained. The findings below are reported in the same order that was used in the questionnaire.
5.2.1 QUESTIONNAIRE SECTION B (DEMOGRAPHICS)

**State the name of owner and business.**

In order to report the findings of the questionnaire the coding system below has been followed:

<table>
<thead>
<tr>
<th>SME Name</th>
<th>Owner</th>
<th>URL</th>
<th>Code</th>
</tr>
</thead>
<tbody>
<tr>
<td>Biltong delight</td>
<td>Baasie Skoltz</td>
<td><a href="http://www.biltongdelightec.co.za">www.biltongdelightec.co.za</a></td>
<td>FW1</td>
</tr>
<tr>
<td>Hitgeheim</td>
<td>Hitch family trust</td>
<td><a href="http://www.hitgeheim-addo.co.za">www.hitgeheim-addo.co.za</a></td>
<td>FW2</td>
</tr>
<tr>
<td>Pizza Guys</td>
<td>Guy Thomson</td>
<td><a href="http://www.pizzaguys.co.za">www.pizzaguys.co.za</a></td>
<td>FW3</td>
</tr>
<tr>
<td>Sage Kitchen</td>
<td>Mr &amp; Mrs Addison</td>
<td><a href="http://www.sagekitchen.co.za">www.sagekitchen.co.za</a></td>
<td>FW4</td>
</tr>
<tr>
<td>Ibayi (PC sales and repairs / bolt and nut)</td>
<td>Mr &amp; Mrs Nathoo</td>
<td><a href="http://www.ibayipc.co.za">www.ibayipc.co.za</a> <a href="http://www.ibayibolt.co.za">www.ibayibolt.co.za</a></td>
<td>FW5</td>
</tr>
</tbody>
</table>

**What is the age of the owner/s?**

<table>
<thead>
<tr>
<th>SME</th>
<th>FW1</th>
<th>FW2</th>
<th>FW3</th>
<th>FW4</th>
<th>FW5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age</td>
<td>41</td>
<td>45, 50</td>
<td>48</td>
<td>46, 47</td>
<td>38, 38</td>
</tr>
</tbody>
</table>

**What is the race of the owner/s?**

<table>
<thead>
<tr>
<th>SME</th>
<th>FW1</th>
<th>FW2</th>
<th>FW3</th>
<th>FW4</th>
<th>FW5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Race</td>
<td>White</td>
<td>White</td>
<td>White</td>
<td>White</td>
<td>Indian</td>
</tr>
</tbody>
</table>

**What is the gender of the owner/s?**

<table>
<thead>
<tr>
<th>SME</th>
<th>FW1</th>
<th>FW2</th>
<th>FW3</th>
<th>FW4</th>
<th>FW5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender</td>
<td>Male</td>
<td>Male / Female</td>
<td>Male</td>
<td>Male / Female</td>
<td>Male / Female</td>
</tr>
</tbody>
</table>
What is the age of your business?

Table 5.5: Age of SME / Business

<table>
<thead>
<tr>
<th>SME</th>
<th>FW1</th>
<th>FW2</th>
<th>FW3</th>
<th>FW4</th>
<th>FW5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age</td>
<td>13 years</td>
<td>7 years</td>
<td>19 years</td>
<td>6 years</td>
<td>6 Years</td>
</tr>
</tbody>
</table>

How would you categorise your business (e.g. IT, transport, agriculture etc)?

Table 5.6: Business category

<table>
<thead>
<tr>
<th>SME</th>
<th>Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>FW1</td>
<td>Meat manufacture, food packaging and distribution and sales</td>
</tr>
<tr>
<td>FW2</td>
<td>Hospitality</td>
</tr>
<tr>
<td>FW3</td>
<td>Hospitality / Retail (Food restaurant)</td>
</tr>
<tr>
<td>FW4</td>
<td>Manufacturing, distribution to wholesalers, retailers and hospitality</td>
</tr>
<tr>
<td>FW5</td>
<td>Retail</td>
</tr>
</tbody>
</table>

How many employees does your business employ?

Table 5.7: Number of employees

<table>
<thead>
<tr>
<th>SME</th>
<th>FW1</th>
<th>FW2</th>
<th>FW3</th>
<th>FW4</th>
<th>FW5</th>
</tr>
</thead>
<tbody>
<tr>
<td># Employees</td>
<td>30</td>
<td>15</td>
<td>30</td>
<td>4</td>
<td>15</td>
</tr>
</tbody>
</table>

5.2.2 QUESTIONNAIRE SECTION C (OPEN ENDED QUESTIONS)

5.2.2.1 Entrepreneurship:

What was the first business you started?

Two of the respondents (FW1 and FW3) indicated that this was the first business that they had started. FW1 had purchased the business from his father and FW3 started the business as a franchisee and broke away from the franchisor to become independent.

The balance of the respondents had all either started other businesses or purchased other businesses. FW2 and FW5 had started and run a number of
businesses before settling on their current business. FW4 became an entrepreneur by purchasing their first business, later they sold this business and started their current business.

Two of the respondents had previously had businesses that had failed.

**What drives you to be successful?**

Two of the respondents believed that they did not believe that they were successful, even though they had been running their businesses successfully for a number of years. This belief of not being successful is one of the drivers of their success. As soon as these entrepreneurs achieve their goals they simply set new goals. This results in them never being complacent and always striving for improvement.

The remaining respondents indicated that their drivers for success were:

- Survival or money, if not successful then no income;
- Independence, a number of respondents indicated that they did not wish to be employed; and
- Challenge, this often stimulated the entrepreneur.

**What is our level of education?**

Four of the respondents indicated that they only had a matriculation qualification or less. In fact one of the respondents did not receive a matriculation pass and then later went on to read for his MBA.

One of the respondents indicated that they had received a graduate degree.

**Are any family members entrepreneurs? If so please discuss.**

Four of the entrepreneurs had family members that were / are entrepreneurs. These were the role models that directed them to start their own businesses. Three of the respondents had a father that was an entrepreneur, their father was a pivotal figure that had directed and encouraged them to become entrepreneurs. Often at family gatherings they would discuss different business opportunities.
Only one of the respondents had no family member that was an entrepreneur.

Why are you an entrepreneur as opposed to being employed?
For the majority of the respondents there were a number of reasons and contributing factors for becoming an entrepreneur:

- Necessity / Circumstance, three of the respondents ended up in a situation where either they were unhappy in their current employment or were out of work. At this stage they had the choice of being employed or creating employment and being their own “boss”. They all chose the latter.
- Being their own “boss”, majority of the respondents felt that they wanted to be the master of their own destiny. A number of respondents indicated that if they were going to work long and hard hours they would rather do so for their own business, than for someone else’s business.
- The desire to create employment as opposed to being employed.
- A motivating factor for a number of respondents was that an opportunity presented itself.

Did you work for a business before starting your own business?
All of the respondents were employed at some stage before starting their own business. A number of them worked for their father, with the intention of starting their own business.

5.2.2.2 Finance:

What is the annual turnover of your business?

<table>
<thead>
<tr>
<th>SME</th>
<th>FW1</th>
<th>FW2</th>
<th>FW3</th>
<th>FW4</th>
<th>FW5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover</td>
<td>R6 mil</td>
<td>R7 mil</td>
<td>R5 mil</td>
<td>&lt; R500 k</td>
<td>Not disclosed</td>
</tr>
</tbody>
</table>
How long did it take to breakeven or how long until forecasted breakeven.

Two of the respondents (FW3 and FW5) indicated that it took between one to two years before breaking even. Two other respondents indicated that they were profitable from the outset (due to no debt). One respondent was not sure how long it took to break even.

What is your businesses gross profit%?

Table 5.9: Gross profit %

<table>
<thead>
<tr>
<th>SME</th>
<th>FW1</th>
<th>FW2</th>
<th>FW3</th>
<th>FW4</th>
<th>FW5</th>
</tr>
</thead>
<tbody>
<tr>
<td>GP%</td>
<td>35%</td>
<td>Loss</td>
<td>62%</td>
<td>40% – 60%</td>
<td>30% - 40%</td>
</tr>
</tbody>
</table>

What is your businesses net profit%?

Table 5.10: Net profit %

<table>
<thead>
<tr>
<th>SME</th>
<th>FW1</th>
<th>FW2</th>
<th>FW3</th>
<th>FW4</th>
<th>FW5</th>
</tr>
</thead>
<tbody>
<tr>
<td>GP%</td>
<td>2%</td>
<td>Loss</td>
<td>Not Disclosed</td>
<td>Not known</td>
<td>Not Disclosed</td>
</tr>
</tbody>
</table>

What was the initial start-up capital from owner/s?

Table 5.11: Start-up capital from owners

<table>
<thead>
<tr>
<th>SME</th>
<th>FW1</th>
<th>FW2</th>
<th>FW3</th>
<th>FW4</th>
<th>FW5</th>
</tr>
</thead>
<tbody>
<tr>
<td>GP%</td>
<td>R100 K</td>
<td>R600 K</td>
<td>R500 K</td>
<td>R20 K</td>
<td>R100 K</td>
</tr>
</tbody>
</table>

All the respondents invested their own capital in order to establish their business. FW3 and FW4 had partners, resulting in a portion of the investment capital being supplied by their partner.

Did your business have any other initial capital, besides the owners’ contribution?

Two of the respondents (FW3 and FW4) initially had partners in the business and these partners also had initial capital investments in the business. One of the respondents (FW5) referred to a bank overdraft facility. None of the respondents received any capital to assist with establishing the business.
Where did you source the initial capital?
All the respondents supplied their own capital in order to establish the business.

Were there challenges around receiving external investment capital?
Four of the respondents (FW2, FW3, FW4 and FW5) did not try to get access to external finance as they did not believe that it would be possible to get access to external finance. FW1 did try and the banks would not assist as they deemed the credit risk was too high. FW1 also approached SBDC at the time and was not able to get finance. The processes were very complicated and the finance being offered was only for larger organisations.

Did your business have any cash flow problems during the start-up phase?
Cash flow problems were reported by four (FW1, FW2, FW3 and FW5) of the five respondents as being one of the major challenges with regard to running their business. Most of the respondents reported that the beginning years were especially challenging with regard to cash flow. One of the respondents (FW1) indicated that at one stage he needed to sell most of his furniture in order to improve his cash flow for a short term. Another respondent (FW3) indicated that he would have gone out of business had his partner not loaned the business additional funds during the first year of operation.
Some of the respondents still find cash flow a major challenge. FW5 is currently having cash flow challenges, mainly due to government or local government not settling their debt on time.

Did you receive any assistance from government with regard to where you could source funding?
None of the respondents received any assistance from the government during the start-up phase of their business. None of them knew that this was an option. Only after some of the respondents had been operating for a number of years did they receive some assistance from the government.
5.2.2.3 Support Initiatives:

What support initiatives did you receive?

FW1 and FW5 have only received support from their family. FW5 did receive support from the bank in the form of an overdraft facility.

FW3 received support from the franchisor, but this is standard for the franchisers model.

Both FW2 and FW4 have received some form of support from government. This support was only received after they had been in business for a number of years. FW2 received support in the form of a tax free grant from Tourism enterprise program (TEP). This grant was supplied to FW2 during years three, four and five of operation. FW4 received support from SEDA after FW4 had been in operation for five years. FW4 reported that SEDA have been very helpful and have assisted with co-financing a number of projects, SEDA have also sponsored one oversees trip to Barcelona and are in the process of sponsoring a trip to Paris.

The findings above are supported by chapter 3 (Herrington et al., 2009), where the 2002 GEM report found that many SME’s are not aware of the government initiatives. Additionally FW2 and FW4 only received their government support after they had been in business for a number of years.

When did you receive the support initiatives?

Of the respondents interviewed only two (FW2 and FW4) received any form of support initiatives from the government. The rest of the respondents did not receive any form of support.

FW2 received support during years three, four and five of operation. FW4 received support in years five and six of operation.

The fact that the respondents did not receive any support in the first few years of operation needs to be noted. Chapter 2 highlighted that there is a high failure rate for SME’s during their initial years of operation. The following statistics were identified in chapter 2:
• In the United States of America 66% of businesses last longer than two years and only 50% of businesses last longer than 4 years (Ou, 2006);
• In the United Kingdom 80.7% of businesses last longer than two years and only 54.7% of businesses last longer than 4 years (Office for national statistics, 2009); and
• In Austria 83% of businesses last longer than three years and 72% of businesses last longer than 5 years (Organisation for Economic Co-operation and Development, 2005).

It is clear that South Africa needs to equip itself so that it can provide support to SME’s during the first few vulnerable years of operation.

**Were there any costs relating to these support initiatives?**

FW4 received support from SEDA on a number of projects; all these projects required a co-payment from FW4. FW2 intends to make use of some of the support initiatives that are provided by “Business Partners”. FW2 understands that this will entail giving “Business Partners” some equity and the finance will be at a high interest rate. However FW2 believes that by partnering with “Business Partners” he will receive added value in the form of mentoring, business guidance and financial services.

**What prevented you from receiving support initiatives?**

None of the respondents received any form incentive during their start-up phase; this was due to them not having any knowledge of what incentives were available.

After FW1 had been in operation for a number of years; FW1 identified that they had the option to make use of training incentives via the Skills development levy; however FW1 did not make use of these incentives due to the training not being flexible for his business requirements. He felt that training should be offered on-site, this way his employees and business would not be disrupted. Small businesses can’t afford to have their staff off-site for a number of days at a time.
FW5 had challenges with regard to securing credit from some of the suppliers during the start-up years of the business. The main cause for not receiving credit was that his opposition companies contacted the suppliers and told them not to provide FW5 with credit facilities.

**What support initiative would assist you to grow your business?**

Three of the respondents (FW1, FW2 and FW5) felt that access to finance would enable them to grow their existing business. However they all felt that the finance needed to be supplied in a controlled manner.

Two of the respondents (FW1, FW2 and FW4) felt that support in the form of mentoring, expert in the field and business guidance would assist them in growing their current business.

FW1 felt that access to market research would assist him when growing in the correct direction.

Both FW4 and FW5 felt that assistance with the export or import process would be of great benefit. FW4 is more focused on exporting and FW5 is more focused on importing.

**What support initiatives should be implemented to support a new SME?**

Every respondent (FW1, FW2, FW3, FW4 and FW5) felt that mentoring was fundamental for any new SME. Similar findings were mentioned in Chapter 3, where the 2005 GEM reported that the South African government support agencies needed to employ adequately educated and experienced mentors (Herrington et al., 2009; Von Broembsen et al., 2005). Chapter 3 also identified a number of initiatives in the UK that are focused on mentoring and business coaching:

- The Gateway2Investment (g2i) program focuses on mentoring and training for SME’s (Understanding Finance for Business Programme, 2010; Autio et al., 2007);
• The High-Growth Start-up program focuses on mentoring and training SME’s in the south Yorkshire region: (Yorkshire Forward Programme, 2010; Autio et al., 2007);

• The Mustard.uk.com program provides business coaching to young SME’s (UK IT Association, 2006; Autio et al., 2007); and

• The West Yorkshire Ventures program provides mentoring, coaching and networking events for entrepreneurs in the west Yorkshire region (WY Ventures, 2008; Autio et al., 2007);

As previously noted a number of the respondents reported that it could be lonely being an SME. Initiatives similar to West Yorkshire Venture program mentioned above would address this; the networking of SME’s would assist them by talking to people in similar situations.

Management training was also identified as a catalyst to assist new SME’s. Chapter 3 referred to management training programs that are conducted in the Netherlands under the “Mastering Growth Program:” (Autio et al., 2007). Chapter three also referred to the 2001 GEM report; that identified that there was a lack of suitable entrepreneurial and business training within South Africa. (Herrington et al., 2009; Driver et al., 2001). The 2003 GEM report emphasised the fact that some successes have been achieved with regard to adequate training for SME’s; however the impact on the general SME has been insignificant (Herrington et al., 2009; Herrington & Wood, 2003).

Most of the respondents (FW2, FW3 and FW5) believed that some form of financial assistance would stimulate the new SME’s and assist with cash flow shortages during the start-up phase of the SME. These respondents also felt very strongly that this financial assistance needed to be controlled and only provided along with financial mentoring. FW2 felt that it was important that the financial institutions understood and were prepared to accommodate for the different types of SME business. FW2 illustrated as an example the seasonal effects that some SME’s need to contend with. Chapter three identified a number financial support programs:
• Finland has an incentive (Growth Firm Service) to provide financial support to SME’s that have a high growth potential (Autio et al., 2007);
• Netherlands has the Techno Partner Program, this program is aimed at reducing the risk of investing in an SME (Technopartner, 2010; Autio et al., 2007); and
• The Hungarian government has the Corvinus International Investment that support SME’s financially that intend to expand internationally (Corvinus Group, 2009; Autio et al., 2007).

FW4 felt that it was important that new SME’s had access to computers, computer systems and received some form of training on these systems. FW5 added that new SME’s needed assistance with establishing the business finding premises.

What advice would you give to other SME’s?

The respondents FW1, FW3 and FW5 all indicated that a fundamental characteristic for a SME is to have perseverance. At times business will be tough, but it is important to stick it out. Also once you have established a plan of action it is very important to implement that plan.

Planning was also identified as an action that should be performed by an SME. FW3 suggested that an SME should plan for failure; the intention of this planning is not to encourage failure, but rather to be prepared in the event of failure. For example one should ring fence the new SME so that in the event of failure one does not lose other assets.

Other advice that was only listed by one of the respondents is as follows:

• FW1: Only focus on one aspect at a time. Passive income should be the primary objective of an SME.
• FW2: Don’t extend the SME financially beyond what it can afford.
• FW4: Do plenty of research on the product that the SME is planning to sell and on the market the SME is planning to sell into. Prior to starting the SME find out what support initiatives are available.
What will enable an SME to be successful?

Majority of the respondents listed a number of characteristics that will enable an SME to succeed. These characteristics were determination, dedication, passion for your product or service, hard working, customer focused and personal attention.

FW3 also believed that the correct business model and business location were a very important contributor to a successful business.

FW4 emphasised the importance of effective marketing.

What support initiatives are available to support innovation?

Three of the respondents (FW1, FW3 and FW5) were not aware of any government supported initiatives. This was also highlighted in Chapter 3 where the 2002 GEM report found that many SME’s were not aware of government initiatives (Herrington et al., 2009).

FW2 referred to the Tourism enterprise program (TEP) and “Business Partners.

FW4 was aware of the Technology transfer fund that enable SME’s to make use of technology in order to become more innovative.

What support initiatives are available to support or commercialise “research & development”?

Respondent FW3 spoke of the initiatives at NMMU business school, the remainder of the respondents were not aware of any initiatives. This once again emphasises that SME’s are not aware of the different initiatives available to SME’s.
5.2.2.4 Strategy:

Why did you start the business?
Three of the respondents (FW1, FW4 and FW5) started their business out of necessity. Most of them did not have a job and elected to start a business as opposed to becoming employed.
The remaining two respondents (FW2 and FW3) saw an opportunity and decided to start their business.
A similar trend with all the respondents was that they started their businesses due to the circumstances being right for them to start.

When you first started your business how did you gain access into markets or your target market?
Most of the respondents (FW1, FW2 and FW5) had prior knowledge of the market and had already established relationships in the market.
FW3 gained access into the market by being located in a mall. FW4 had to make use of cold calling, mail shots and luck.

What is your strategic direction / strategy of where, when and how to grow the business?
Respondents FW1, FW4 and FW5 all had a primary strategy of growth. FW1 and FW4 both had spare capacity and are attempting to grow sales so that they can make use of this spare capacity. This would result in economies of scale and improve the net profitability of the business.
The recent recession had affected respondents FW2 and FW3 and they felt that their short term strategy was to stay afloat. FW2 mentioned that it was difficult to establish a long term strategy due to the current market volatility.
FW4 would like to diversify her business and become a manufacturing outsourcer to other manufacturers or other SME’s that do not have the required infrastructure.
What is the prime objective of your business?
FW1 and FW2 listed growth as the businesses prime objecting. FW4 and FW5 were more focused on the financial aspects and their prime objecting was to make money and to be profitable. Respondent FW3 had a prime objective to stay in business.

Is growth an objective?
All the respondents reported that growth was one of their key objectives.

What business strategy do you follow?
Four of the respondents (FW1, FW2, FW3 and FW4) followed a strategy of focused differentiation. Respondent FW5 followed a “Best cost” strategy.

How do you differentiate yourself from your competition?
All the respondents believed that their customer service was one of the factors that differentiated them from their competitors.
FW2 and FW3 differentiated themselves by offering the customer a unique experience, FW2 also differentiated by being the most expensive.
FW1, FW3, FW4 and FW5 all felt that their quality product differentiated themselves from their competition.
FW3 and FW4 emphasised the fact that they were hands on and the client could talk directly to the owner.
FW1 and FW3 referred to themselves as having high standards of hygiene.

Does your business have any innovative competitive advantage?
Respondents FW3, FW4 and FW5 listed actions that they had implemented in order to achieve an innovative competitive advantage. These activates ranged from flexible business models to flexible pricing to ensure that the ideal solution is presented to the client at the correct price.
One of the respondents (FW1) did not feel that he had any innovative competitive advantage.
The final respondent (FW2) believed that his innovative competitive advantage was making the optimal use of his environment and establishing the ideal setting.

What internal capabilities does your business have?
Respondents FW2 and FW3 believed that their main internal capability was directly related to the level of training of their staff, having the correct staff for the correct job was critical to their success.
Respondents FW1 and FW5 focused on their internal controls and systems. FW1 believed that his internal controls with regard to hygiene would enable his product to have an extended shelf life and quality. FW5 specified that his computer systems allowed him to be in total control of his business. These systems also offered him additional flexibility, for example he can create an order while out visiting a client.
Respondent FW4 has a substantial flexibility and is able to expand their operation as is needed.

Have you developed a strategic business plan?
None of the respondents had developed any form of formal business plan. FW1 had discussed strategy informally during meetings and FW3 had a business plan in his mind, but nothing committed to paper.

Do you have budgets and forecasts?
Four out of five of the respondents do create some form of budget and forecast. However these budgets are not always followed.

Are there any support initiatives that assist you with defining your business strategy?
All the respondents reported that they had not received any support initiatives from government that would assist them with defining their business strategy. However FW4 confirmed that the SEDA website did provide some information with regard to business strategy. FW3 reported that he had received formal
business training from the NMMU business school, but this was not part of any government initiative.

5.2.2.5 Government regulations:

When you first started your business did you understand all the requirements for establishing a business?

The responses were fairly split between the respondents, with two out of five specifying that they definitely did not understand the requirements. One of the respondents did understand some of the requirements, but not all of the requirements. The final two respondents did have a full understanding of the requirements.

Discuss the challenges around establishing your business with regard to the categories below:

- **Paperwork**
  
  Only responded FW4 specified that they had severe difficulties in receiving a customs clearance. The balance of the respondents reported no challenges with regard to “Paperwork”

- **Regulations**
  
  The major problems with regard to regulations were identifying exactly what regulations were applicable. This problem was reported by four of the respondents. Respondent FW2 was informed that he was in violation of regulations, he was then informed that he was require to demolish some of his constructions. In response to this he requested what he needed to do in order to conform to the regulations. To date, seven years later he has still not received the requirements. FW3 reported minor problems with regard to regulation while establishing the business in 1991.
In more recent years he has received challenges with regard to the labour regulations.

- **Forming the company**
  None of the respondents reported any issues with forming their company; however FW4 did report a number of challenges with regard to changing their businesses name.

- **Registering for tax**
  Majority of the respondents reported no issues around registering for tax when they first established their businesses. All of them made use of an accounting firm to assist with this task. However FW5 reported that recently he had attempted to establish a new business and register this business for VAT. This process had presented a number of challenges, additionally if this business was not a VAT vendor it would not be able to respond to local government tenders.

- **Licences etc.**
  FW2 reported a number of problems with regard to licensing; the local authority lost the paperwork three times. These issues have still not been resolved. FW1’s made use of his auditors to assist with the licensing process; this resulted in additional start-up costs. The remaining respondents did report any issues with regard to licensing.

**How have the labour laws affected your business?**
Generally the respondents reported that labour laws did not negatively affect their business. The following were a few issues that were reported:

- No bargaining council for specific industry, this resulted in no clear indication of the laws that should be applied;
- Restrictions around hiring and firing. The laws make it very costly to fire an employee that is not performing; and
The requirement to pay flexible workers for public holidays increases the running costs of the business.

Has the South African regulatory environment encouraged or limited the growth of your business?
Two of the respondents (FW1 and FW2) felt that the South African regulatory environment limited and restricted growth. The major problems being that the business is not able to receive finance until the business has complied with all the regulations. This is amplified by the situation when the local authority is not able to assist the business to comply with the regulations.
The remaining respondents felt that the regulatory environment had not affected the growth of their business.

Describe how the regulations have impacted on the administrative costs of running your business?
Four of the respondents (FW1, FW2, FW3 and FW4) felt that the regulatory requirements had increased their administrative costs to some degree. These costs were generally due to accountants, bookkeeper or owners needing to perform more administration.
The final respondent FW5 felt that the regulatory requirements had not influenced his administrative costs.

5.2.2.6 Education, Training and Mentoring:

Did you have any management experience before starting your business?
Three of the respondents (FW3, FW4 and FW5) did have management experience before starting their own business. Respondents FW1 and FW2 did not have any management experience before starting their business.
When you first started your business what challenges did you have with regard to running the business?

The major problem identified by three of the respondents (FW1, FW2 and FW3) were all related to finance. Cash flow was cited as being one of the biggest challenges. Lack of industry knowledge was listed by FW1 and FW4 as also being a challenge.

Mentoring and shortage of staff were also specified as creating a challenge.

Did you receive any mentoring from private or public business?

None of the respondents received any form of formal mentoring from private or public business. This specific shortfall was also mentioned in Chapter 3 were the 2005 GEM report stated that the government support agencies needed to have adequately educated and experienced mentors (Herrington et al., 2009; Von Broembsen et al., 2005).

FW2 and FW5 did receive support and some mentoring from their family.

When you first started your business did you receive any training and mentoring on running a business (management & entrepreneurship training)?

Respondent FW3 was the only respondent that received some form of management or entrepreneurship training and this was supplied by the franchisor as part of the franchise contract. The remaining four respondents (FW1, FW2, FW4 and FW5) received no training for management or entrepreneurship.

5.2.2.7 Marketing:

What form of marketing does your company utilise?

Majority of the respondents (FW2, FW3, FW4 and FW5) indicated that one of the main forms of marketing that they adopted was “word of mouth”. Sales promotions were reported as being relatively successful by FW3 and FW4.
Expo's of some form or other have been used by FW1 and FW2. The three common forms of marketing “word of mouth”, sales promotions and expo's all allow for a form of personal marketing were people are engaging with each other. The other forms of marketing that were utilised by the respondents were:

- E-Marketing used by all respondents;
- Strong brand marketing (FW3);
- Cold calling (FW4); and
- Advertising in local newspapers, advertising on vehicles and buildings (FW5).

**Do you utilise e-marketing?**

All the respondents made use of some form of e-marketing. As a minimum all the respondents had a website or had made use of a website in the past. FW1 and FW4 were considering making better use of email to distribute news letters or product information. FW2 had extended his e-marketing to make use of Google advertisements and FW5 included Facebook and Twitter as part of their e-marketing drive.

**Do you utilise mobile marketing?**

To date very few of the respondents made any use of mobile marketing, in fact FW5 has made limited use of SMS and send messages to clients when stock has arrived. FW3 is planning to consider mobile marketing in the future.

**Have you been provided any form of assistance with regard to marketing?**

FW2 and FW4 have received assistance with marketing from government in some form or another. To date FW1 had received no assistance for marketing from government or business. FW3 received assistance when he started the business and he was part of the franchise, however no assistance since then. FW5 received assistance from suppliers when marketing their products.
Have you been provided any form of assistance with regard to market research?

Most of the respondents (FW1, FW2 and FW5) have to date received no assistance with market research, however they all feel very strongly that this assistance would be of substantial benefit to their business.

FW3 has received assistance through “Bridge centre” and has found the market research valuable.

Finally FW4 has made use of some statistics with regard to exports; this information was made available on the Department of Trade and Industries (DTI) website.

5.2.2.8 Current business challenges:

**Once your business was established what were / are the challenges?**

There were two key challenges that were common to a number of the respondents. The first common (FW1, FW2 and FW4) challenges were related to “the market”, these were in the form of market penetration, volatility of the market and the challenges around growing the market. The second common (FW3 and FW5) challenges were related to cash flow issues, the businesses did not have the required cash reserves when they needed them. Related to the cash flow challenge were challenges related to capital and access to finance.

One of the respondents (FW3) referred to the fact that at times he felt lonely without support.

**What prevents you from growing your current business?**

The response to this question was very similar to the previous question. The two issues that were identified were “access to additional markets” and “finance, capital or access to the correct finance”. The reference to the correct finance is finance that is structured in such a way that it aligns with the SME’s business. For example if the SME operates in a seasonal market, then the finance must
accommodate this. Additionally the SME must not be penalised and have to pay high interest rates in order to receive his finance.

5.2.2.9 Future sustainability of your SME:

What will enable you to grow the revenue and profit of your business?
Marketing was identified by three of the five respondents (FW3, FW4 and FW5) as the key behind revenue and profit growth. The other key factors that were identified were “access to suitable of finance” and the requirement to “grow from within”.

What will enable you to grow your number of employees?
Majority of the respondents (FW1, FW2, FW4 and FW5) all felt that the one certain way to grow the number of employees would be to grow the business. FW3 has no intention to create more employment.

What will ensure that you have a sustainable business in the future?
Two of the respondents (FW1 and FW2) to this question listed factors outside of their control that would ensure their business sustainability. These factors were access to finance, soft loans, tax relief, actions in the market and no predatory pricing from competitors.
Respondents FW3, FW4 and FW5 focused internally on what they needed to do in order to ensure sustainability into the future.
FW3 felt that it was important to keep costs in line with revenue; this would result in maintaining good operating margins. FW3 felt that it was also important to grow the revenue stream.
FW4 needed to focus on large orders; these larger orders would enable FW4 to obtain economies of scale.
FW5 identified the need to focus on the clients with regard to servicing and finding new clients and markets.
5.3 SUMMARY OF FINDINGS

After drafting and analysing the responses to the questionnaire above there were a number of key factors that were identified that need to be addressed in order for the Port Elizabeth SME’s to be more successful. These factors are listed below:

- **Knowledge of the government / business initiatives that are available:**
  Without a doubt the one area that needs considerable attention is the fact that most SME’s are not aware of what initiatives are available. This point was identified in the literature review and also in the responses from the case studies.

- **Challenges with regard to receiving finance:**
  This was a common issue with a number of respondents; one of the key aspects of this point is that the finance needs to be flexible in order to complement the SME’s business. Additionally the finance must not be too expensive.

- **Challenges with regard to receiving credit from suppliers:**
  Often new SME’s don’t have any form of credit history; this makes it very difficult if not impossible to get credit from supplier. The end result is that the SME needs to purchase his goods and services for cash. This negatively affects the SME cash flow and makes it very difficult to grow the business.

- **Issues with regard to cash flow during start-up:**
  All the respondents reported cash flow issues during the start-up phase. In fact some of the respondents are still experiencing cash flow problems. These cash flow problems certainly have a negative effect on the growth of the SME’s.

- **The need for mentoring and coaching:**
Every respondent at some time and in some way expressed a dire need for sophisticated mentoring and coaching. The respondents felt that experts in the field could assist them; this guidance would result in the SME’s growing their business and increase the probability of success for the SME.

- Establish SME networks:
  Often SME feel that they are alone and it would be beneficial to have other SME’s in similar industries that they can talk to and discuss their issues with. Additionally these SME networks will encourage business between the SME’s within the network.

- Management training:
  A number of respondents felt that management training would enable them to be more effective. This training would be specifically beneficial for SME’s that did not have management training before establishing their business.

- Support with regard to understanding the finances:
  A number of respondents stated that it would be beneficial if they could have a better understanding of their finances. This support would assist them in a number of areas.

- Assistance with regard to strategic planning:
  None of the respondents performed any formal strategic planning for their businesses. Understanding that the importance of strategic planning is critical to any business. Assistance in this regard would be substantially beneficial to the sustainability and success of the SME’s.

- Access to market research:
  Majority of the respondents believed that access to market research would enable them to be better positioned for the market demands and requirements.
5.4 CONCLUSION

This chapter presented a detailed and consolidated response to all the questions that were proposed in the questionnaire. This enabled the researcher to identify a number of factors that could be addressed in order to improve and stimulate the success rate of SME’s in the Port Elizabeth Metropolitan area. These factors are listed below:

- Knowledge of the initiatives that are available;
- Challenges with regard to receiving finance;
- Challenges with regard to receiving credit from suppliers;
- Issues with regard to cash flow during start-up, even mature businesses experiencing cash flow issues;
- The need for mentoring and coaching;
- Establish SME networks
- Management training;
- Support with regard to understanding the finances;
- Assistance with regard to strategic planning; and
- Access to market research.

The final chapter will make use of the findings listed above in order to propose a number of recommendations and suggestions. These recommendations and suggestions will then form part of the proposed model that will be required to implement the suggested recommendations.

The next chapter will then conclude the treatise with suggestions for further research.
6.1 INTRODUCTION

The previous chapter presented a detailed and consolidated response to all the questions that were proposed in the questionnaire. Using this response the researcher was able to identify a number of factors that need to be addressed in order to improve and stimulate the success rate of SME’s in the Port Elizabeth Metropolitan area.

This chapter will make use of the findings identified in the previous chapter and correlate these finding with the literature review conducted in chapters two and chapters three. Using this triangulation this chapter will provide recommendations in order to solve the four sub-problems as specified by this research treatise. By solving the four research sub-problems the main research problems will also be solved.

The chapter concludes by identifying the additional research that could be conducted on this topic.

6.2 STUDY OBJECTIVES

The primary focus of this research treatise was to address the research problem statement **Develop a support model that will promote the success rate and business growth of SME’s within Port Elizabeth.**

In order to solve the research problem a number of sub-problems were posed that needed to be solved. The sub-problems were defined as follows:

- Determine the global support initiatives that have enabled the growth and sustainability of SME’s;
• Identify the catalyst for business growth of the successful SME’s within the Port Elizabeth metro;
• Identify South African support initiatives that will lead to SME’s being more successful; and
• Develop a model for the implementation of the identified support initiatives.

Once these sub-problems have been solved the main research problem would also have been solved.

6.3 RECOMMENDATIONS

6.3.1 SUB-PROBLEM ONE

The first sub-problem that needed to be solved was “Determine the global support initiatives that have enabled the growth and sustainability of SME’s”

In order to solve this sub-problem a comprehensive literature review was undertaken as follows:

• Chapter two began by establishing the benchmark with regard to the definition of an SME, this definition was used throughout this research treatise. The chapter proceeded to identify the economic importance of SME’s within developed nations, developing nations and finally South Africa. Next the chapter identified the direct relationship between entrepreneurship and SME growth. Finally the South African entrepreneurial performance was evaluated relative to the global economy. This chapter did not directly solve sub-problem two, but was fundamental in order to set the scene with regard to the relative importance of the SME’s around the globe and specifically in South Africa.

• Chapter three identified a number of policies that have been implemented around the globe that have resulted in high-growth entrepreneurial firms. These successful policies are summarised as follows:
  o Service related initiatives:
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- Subsidise business development services;
- Offer services to organisations with high growth potential;
- Incubation centre's that provide assistance in the form of support; and
- Subsidise the initial services required by the SME’s.

  o Research and development related initiatives:
    - Projects to ensure that academic research is converted into innovation and marketable products and services;
    - Grants for research and development that has a high commercial potential; and
    - Financial assistance for research and development.

  o Core financial initiatives:
    - Provide venture capital to small technology-based firms; and
    - Reducing the risk of investing in an SME.

  o Networking initiatives:
    - Facilitation in initiating relationships between "up and coming" SME’s and firms or institutions that can assist the SME’s with their needs.

  o Mentoring initiatives:
    - Management mentoring.

  o Entrepreneurship related initiatives:
    - Stimulate young university students to become entrepreneurs; and
    - Support with regard to the patenting process.

  o Balance of trade initiative:
    - Develop and stimulate exports by improving the technological capacity of SME’s; and
    - Supporting SME’s that intend to improve foreign direct investment.
6.3.2 SUB-PROBLEM TWO

The second sub-problem was specified as "Identify the catalyst for business growth of the successful SME’s within the Port Elizabeth metro". Chapter five identifies the key catalyst factors that will enable the growth and success of the SME’s within the Port Elizabeth area. This sub-problem simply addresses the key factors that need to be considered, this sub-problem does not address the suggested government initiatives in order to satisfy these catalyst factors. These catalyst factors are listed below:

- Need to make SME’s more aware of the government / business initiatives that are available;
- Need to address the challenges with regard to SME’s receiving finance;
- Need to address the challenges with regard to SME’s receiving credit from suppliers;
- Need to address the issues with regard to cash flow during start-up;
- Establish more effective mentoring and coaching;
- Establish SME peer networks;
- Establish effective management training;
- Offer support initiatives with regard to understanding the finances;
- Assistance with regard to strategic planning; and
- Access to market research.

6.3.3 SUB-PROBLEM THREE

The third sub-problem that needs to be solved is “Identify South African support initiatives that will lead to SME’s being more successful”. The initiatives that need to be identified and expanded on for sub-problem three; result directly from the catalyst factors that were identified by sub-problem two. As a result each of the catalyst factors identified by sub-problem two has been listed
Recommendations and Conclusion

below and a number of recommended support initiatives have been listed in order to achieve these catalytic factors:

6.3.3.1 Need to make SME’s more aware of the government / business initiatives that are available

The lack of awareness has been identified during research as being the most important initiative that needs to be addressed. Firstly the literature review identified this lack of awareness in chapter 3; where the 2002 GEM report found that many SME’s are not aware of the government initiatives (Herrington et al., 2009). During chapter five these findings were reiterated by the fact that none of the respondents were aware of any of the support initiatives during their start-up phase.

This lack of awareness needs to be dealt with at source. The following initiatives will make new and rapidly growing SME’s aware of the different support initiative:

- Establish a single support initiative electronic database. This database will consist of all national and local government initiatives as well as the business initiatives that are available to SME’s within Port Elizabeth and the surrounding area. This will be similar to the “SME Toolkit” referred to in chapter three, however this database will consist of South African initiatives.

- This database will be hosted on the internet and accessed via mobile devices and personal computers. The need for mobile device access is of utmost importance since many of the “new” SME’s may not have personal computers with internet access. Mobile devices on the other hand are relatively inexpensive. This database needs to be the core of a substantially larger internet based system, referred to as the “SME Portal”. The “SME Portal” would be similar to the “SME Toolkit” referred to in chapter three; however the “SME Toolkit” only offers a portion of the functionality that would be offered by the “SME Portal”. The “SME Portal” will consist of extensive functionality that will equip the SME’s to be more
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successful. The additional functionality will be mentioned in the remainder of this chapter.

- Change all administrative forms that are related to applying for licences or for registering new legal entities; these forms need to include a section that specifies the “WEB” address of the “SME Portal” referred to above. This section will describe that the database will be the SME’s “one stop shop” in order for them to find any information with regard to their business.

- The forms specified above will also include a mandatory field for the SME’s mobile number. The government systems that currently capture the information on these forms will be amended so that once a new SME is loaded. The SME will also automatically be registered on the “SME Portal” referred to above. Additionally the SME will be SMSed the “WEB” address of the “SME Portal” along with his registration details.

- Administrative personnel at the government departments that deal with start-up SME’s will be informed and trained on the importance of the central database. Whenever these personnel interact with the start-up SME’s, the personnel will inform the start-up SME’s of the “SME Portal” and explain to the SME how to access the portal. The administrative personnel will also supply marketing material in the form of pamphlets to the start-up SME’s.

6.3.3.2 Establish more effective mentoring and coaching

The sub-standard of the South African Mentoring and coaching was identified in chapter three where the GEM report of 2005 found that South Africa had not addressed the fact that the government agencies mentors were unqualified and inexperienced (Herrington et al., 2009; Von Broembsen et al., 2005). The need for quality mentoring was mentioned by majority of the case study respondents in chapter five. However it is also important to note that South Africa and specifically
Port Elizabeth have a number of support initiatives that are targeted to supplying mentorship programs to SME’s (Port Elizabeth Regional Chamber of Commerce and Industry, 2010; Business Partners Limited, 2010).

The first initiative with regard to mentoring and coaching is that the existing mentors and coaches that are being utilised need additional training and industry expertise. The training could be conducted by the Nelson Mandela University Business School. A different approach and a faster way to address the lack of “industry expertise” would be to make use of retired “C” level managers (e.g. CEO’s, CIO’s, COO’s or CFO’s). These managers would have the required industry expertise, along with substantial business knowledge and the free time required to offer their assistance. This initiative would be very similar to the “ECPA Business Partnership” initiative identified in chapter three (National Business Initiative, 2010).

The second initiative that should be implemented with regard to mentorship is the communication between the mentors and the SME’s that they mentor. This communication will all be controlled and coordinated by the central “SME Portal”. A social network will be implemented on the “SME Portal” and the mentor will communicate with the SME’s assigned to him via this social network. This will ensure that all the correspondence between the SME’s and the mentor will be recorded and stored centrally. If a mentor is not available for any reason, this central “SME Portal” will make it very simple to assign a temporary mentor to the SME’s. This temporary mentor will have access to all previous correspondence.

The mentor also needs to form a pivotal relationship with the SME. The mentor must be assigned a number of SME’s and these SME’s will be his / her responsibility at all times. The mentor needs an awards program that is directly related to the success of the SME’s in his network. This will incentivise the mentor to ensure that the SME’s are successful.
6.3.3.3 Need to address the challenges with regard to SME’s receiving finance

The challenges with regard to receiving finance are from two primary factors; these factors were identified in chapter five during the case studies and also in chapter three during the literature review (Ricupero, 2001). Firstly there are complications around the application process and secondly start-up SME’s are high risk and traditional financial institutions do not want to invest in them. The first factor will be addressed to some degree by having all the SME’s information already loaded into the “SME Portal”. This will result in the SME not needing to provide information that has already been provided. The additional information that is required can be retrieved from the SME’s by making use of government consultants. Once this information has been received it will need to be captured in the “SME Portal”.

One of the ways to encourage venture capital investments in an SME would be to follow the example specified in chapter three with the Finland “INTRO Program”. The ”INTRO Program” provides up to fifty percent co-investment in the SME. This results in a reduced risk for the private investor (Tuli, 2010; Autio et al., 2007).

In addition to the primary factor, the case study research identified that it is of utmost importance that the finance is flexible and able to address the needs of the SME. For example if the SME’s revenue fluctuates then the payment terms need to be flexible and align with the revenue fluctuations.

6.3.3.4 Need to address the challenges with regard to SME’s receiving credit from suppliers

The research identified in chapter five that the ability or rather the lack of ability to receive credit during the start-up phase of the SME places additional pleasure on the SME’s cash flow. However chapter three highlighted that subsidised credit programs and / or loan guarantees often created a culture of non-payment or failed to reach the target group. In some countries the share of non-performing loan values rose to ninety percent of the banks’ portfolios (Nissanke, 2001). As a result, South Africa needs to be creative when addressing this factor.
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The South African government should consider providing a percentage of the credit guarantee, where the SME provides the balance of the guarantee from his/her own personal funds. This will ensure that the SME feels responsible and will suffer a personal loss if the credit is not re-paid. This will also reduce the risk that the suppliers are exposed to and should enable the supplies to offer the SME the required credit facility.

6.3.3.5 Need to address the issues with regard to cash flow during start-up

Cash flow was identified by all the respondents in chapter five as being a major challenge with regard to growing and at times simply running the business.

The first initiative that will improve cash flow was addressed under the SME’s receiving credit facilities from their suppliers. Clearly if the SME’s can take longer to pay their debt then their cash flow will be in a better position.

The second key initiative with regard to cash flow is the payment terms to the SME. Other SME’s transact with government or local government. At times both government and local government can take a substantial amount of time to settle their debt. The process of paying SME’s needs to be streamlined in order to ensure that they do not need to wait for their money. Additionally the government could put pressure on big business to encourage them to reduce their payment period when dealing with SME’s.

The final initiative would be to have the required finances so that the SME’s have access to cash when needed. This initiative has already been addressed under section “6.3.3.3 Need to address the challenges with regard to SME’s receiving finance”.

6.3.3.6 Establish SME peer networks

The importance for networking between SME’s was identified by the literature review in chapter three where both the “Embryo Project - Program for University
Entrepreneurs” and “West Yorkshire Venture” projects specified the importance to establish a facility for the different SME’s to network with each other (University Miguel Hernandez, 2006; Autio et al., 2007; WY Ventures, 2008). During the case study process FW2 indicated that he felt alone and that some form of networking facilitation would assist him.

The coordination of the SME peer networks will all be conducted through the “SME Portal”; once again the SME’s will communicate with each other via a social networking type of tool. This will enable the different SME to get immediate response to any queries they may have. Additionally any events involving the SME’s that need to be scheduled will be administered via the “SME Portal”.

6.3.3.7 Establish effective management training

Management training was identified as a catalyst to assist new SME’s. Chapter 3 referred to management training programs that are conducted in the Netherlands under the “Mastering Growth Program:” (Autio et al., 2007). Chapter three also referred to the 2001 GEM report; that identified that there was a lack of suitable entrepreneurial and business training within South Africa. (Herrington et al., 2009; Driver et al., 2001). The 2003 GEM report emphasised the fact that some successes have been achieved with regard to adequate training for SME’s; however the impact on the general SME has been insignificant (Herrington et al., 2009; Herrington & Wood, 2003).

The results from the case studies as reported in chapter five were that four of the five respondents had received no formal business training.

Even though chapter three did identify that South Africa does have some initiatives with regard to training; namely PERCCI does provide workshops to improve business skills and SEDA also provides some form of training (Department of trade and industry (DTI), 2004; Herrington et al., 2009; Port Elizabeth Regional Chamber of Commerce and Industry, 2010).
Due to the findings from the different GEM reports this training needs to be of a higher quality. The best approach would be for the different government initiatives to partner with the Nelson Mandela University’s Business school to deliver this training to the SME’s. It is important that this training is partly funded by the SME. If the SME does not invest personally it will not be as committed. The importance of co-funding was also identified in the literature review with regard to support initiatives supplied by the Hong Kong Science and Technology Parks (Hong Kong Science and Technology Parks, 2009; Autio et al., 2007).

6.3.3.8 Offer support initiatives with regard to finances and understanding finances

This catalyst is very similar to the previous catalyst that develops business training for SME’s. One clear factor that resulted from the case study respondents in chapter five was that the SME’s needed a better understanding of finance. This was illustrated in two areas. The first area was that most of the SME’s reported that they did not have a clear understanding and visibility of their finances. Often the systems that they used would not give them all the required information. The second area was that they all struggled with cash flow at some stage or another. Good solid financial training would go a long way to address these issues. This training should be implemented with the assistance of the Nelson Mandela University’s Business school. As per the previous point this training should not be provided for free, however this training should be subsidised by the government to some degree.

Additionally a simple fully functional financial application will be made available to the SME’s via the SME Portal. This financial application will be secure and only the SME’s will have access to their financial information. This financial application will generate a fully automated set of financials for the SME’s to submit their annual tax returns.
6.3.3.9 Assistance with regard to strategic planning

As reported in chapter five, none of the case study respondents conducted any form of strategic planning. In order to increase the sustainability and long term success it is imperative that the SME’s conduct some form of strategic planning. The strategic planning needs to be addressed by utilising two approaches. Firstly the partnership with the Nelson Mandela University’s Business school needs to be extended to include workshops where the SME’s are taught the importance of strategic planning, along with the tools needed to conduct the strategic planning. The second approach will make use of the mentor to assist the SME with developing a strategic plan for his / her business.

6.3.3.10 Access to market research

The final catalytic factor “market research” was identified by a number of the respondents as a tool that would be helpful to better position themselves. Respondent FW3 reported that the market research that he had been exposed to had been invaluable to him making the correct business decisions. The “SME Portal” needs to include a market research module that will give the SME’s free access to any relevant market research that would benefit their business in the Port Elizabeth area.

6.3.4 SUB-PROBLEM FOUR

The forth sub-problem that needs to be solved is “Develop a model for the implementation of the identified support initiatives”. Once this sub-problem has been solved, the treatise main problem statement “Develop a support model that will promote the success rate and business growth of SME’s within Port Elizabeth” would also have been solved.
Figure 6.1: Model for the implementation of the identified support initiatives

The model that is presented by the author in Figure 6.1 consists of two categories of components. Firstly the components A through to C are the core components and are the fundamental backbone of the model. The second set of components, D through to K are the support initiatives that will be made available to the SME’s with the use of the core components.
6.3.4.1 Core components

The three core components listed below have been explained in section “6.3.3 Sub-Problem three”; however this section briefly explains each of these components and specifies why they are referred to as core components and not simply support initiatives.

(A) SME Portal

The central component that the model is based on is the SME Portal. The SME Portal is an integrated software suite that will be hosted via an internet website. The SME’s, mentors, customers and suppliers will be able to access the SME Portal via a personal computer or any mobile device. The SME Portal will serve as a central storage point for all the information needed by the SME’s or any information relating to the SME’s. The SME Portal has been described to some degree in the previous section; as a result the following is a summary of the functionality that will be provided to the SME’s and their stakeholders by the SME Portal:

- Storage and retrieval of any information relating to SME initiatives;
- Simple online application for SME initiatives and support;
- Ability to measure what SME’s have received support and the effectiveness of the support;
- Storage and retrieval of any information about the different SME’s;
- A collaboration tool that allows the sharing of information and documentation between SME’s, mentors, customers and suppliers;
- Scheduling tool for SME’s, mentors, customers and suppliers to co-ordinate events;
- Email services offered to the SME’s;
- Web hosting services offered to SME’s;
- A measuring tool to allow the mentors and different role players to measure the success rates of the different SME’s; and
- A social media environment to allow all the different role players to communicate with each other.
(B) SME Awareness

The second core component is referred to as SME Awareness. The lack of awareness has been identified a number of times during this research. The SME Portal specified under (A) will provide the platform where current and new SME’s will be able to find any information with regard to SME support and incentives that they may require. The next step will be to ensure that any existing or new SME’s are aware and know how to access this portal. These awareness initiatives have been mentioned before; however they will be summarised below:

- SME Portal marketing material will be display at government departments where companies are registered, licence application centres and the receiver of revenue;
- Administrative personnel at the government departments above will be trained to inform the current / new SME’s of the SME Portal;
- These administrative personnel will also supply pamphlets to the current / new SME’s.
- A link to the SME Portal will be SMSed to all current SME’s;
- The following advertising will also be used to create awareness:
  - Television;
  - Radio;
  - Newspaper;
  - Magazine;
  - Billboards; and
  - Busses.

(C) Mentorship assistance

Mentorship assistance is the final core component. The mentorship assistance is specified as a core component and not a support initiative due to the accountability that the mentor has with regard to the SME’s that he / she is responsible for. This assistance has already been referred to in section “6.3.3.2 Establish more effective mentoring and coaching”. The important aspect with regard to mentorship
assistance is that not only will the mentors assist the SME’s, but they will be rewarded and incentivised on the success of the SME’s that they are responsible for. This is the key differentiator and will drive the mentors to ensure that the SME’s that they are responsible for are in fact successful.

6.3.4.2 Support initiatives

All the support initiatives listed below have been explained in some detail in the section “6.3.3 Sub-Problem three”. These support initiatives will all be provided to qualifying SME’s via their mentors’, while making use of the SME Portal. Using this method will enable the different authorities to measure the effective deployment of the different support initiatives. The support initiatives have been listed as follows:

- (D) Access to the correct finance;
- (E) Credit rating / receiving credit from suppliers;
- (F) Assistance with cash flow;
- (G) Establish SME peer networks;
- (H) Establish effective management training;
- (I) Offer support initiatives with regard to finances and understanding finances;
- (J) Assistance with regard to strategic planning; and
- (K) Access to market research.

6.4 SUGGESTIONS FOR FUTURE RESEARCH

This treatise concluded by presenting a model that will promote the success and business growth of SME’s. This model was based on a core SME Portal being developed and made available to SME. Before this SME Portal can be developed additional research needs to be conducted in the following areas:
CHAPTER SIX

- Identify how the SME Portal could be self funding, possible revenue streams could be:
  - Revenue from advertising on the SME Portal;
  - Directed marketing campaigns;
  - Consider charging for some of the services being offered (for example email and web hosting).
- Identify what software and hardware will be required to deploy this solution to mobile devices;
- Identify how confidential information will be protected;
- Identify how to get all the different government departments involved in support initiatives to agree to use the SME Portal as their base data repository; and
- Test the model that has been described in Figure 6.1.

6.5 CONCLUDING COMMENTS

The research clearly indicates that there are a number of support initiatives available to South African SME’s; however the research has also shown that due to a number of reasons the South African SME’s are not as successful as SME’s from other countries. Almost all the support initiative being offered to the SME’s in successful nations are also being offered to the SME’s in South Africa, yet the South African SME’s are not as successful as some of the SME’s from other developed and developing nations. Until an effective awareness program is created and a tool is developed that measures the effectiveness of South African mentors and South African support initiative; South African SME’s will struggle to be as successful as their international counterparts.
REFERENCES

SOURCE OF REFERENCE


REFERENCES


REFERENCES


REFERENCES

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REFERENCES


Appendix A: COVER LETTER

August 2010

Thank you for agreeing to participate in this research.

Previous research has identified that the performance of SME’s within South Africa and specifically Port Elizabeth is of a substantially lower level than the SME’s from other countries around the world. The objective of this research is to identify initiatives that would result in the sustainable growth of our current and new SME’s in Port Elizabeth.

In order to achieve the above this research will address the following research statement:

**Develop a support model that will promote the success rate and business growth of SME’s within Port Elizabeth.**

The research method used for this research will be a case study method. Where in-depth interviews will be conducted on a number of SME’s that fit a predefined criteria. The results from these interviews will be correlated in order to identify areas where SME’s need stimulation and what initiatives need to be implemented in order achieve this stimulation.

Please indicate whether your name / business name can be mentioned in the research findings or if you would prefer to remain anonymous.

Please also indicate whether you would like the research findings to be sent to you once the research is complete.

Yours sincerely

Patrick Monks

Monks.patrick@gmail.com
Appendix B: QUESTIONNAIRE

This questionnaire has two sections. In section one the questions are relatively specific and the responses will assist with identifying the demographics of the respondent. The second section consists of open ended questions with the intention to create discussion. These questions are only intended to be pointers; you are welcome to add any other issues that you feel are important. If you have any supporting documentation, please include it as it will be of assistance.

A. SME DEFINITION:

‘In general, for an organisation to be classified as a SME in South Africa it must employ less than 200 people, have an annual turnover of not more than between R30 million to R50 million and assets valued at less than R18 million.’ Additionally this research is focussing on SME’s that have been in operation for more than one year and that have their head office or only office in Port Elizabeth or surrounding area. The final requirement is that the SME must employ at least two employees.

Does your business comply with the above definition of an SME?

| Yes | No |

If you answered yes to the above question please proceed with the questionnaire.
B. SECTION ONE (DEMOGRAPHICS)

1. State the name of owner and business.

2. What is the age of the owner/s?

3. What is the race of the owner/s?

4. What is the gender of the owner/s?

5. What is the age of your business?

6. How is your business categorised (e.g. IT, transport, agriculture etc)?

7. How many employees does your business employ?

C. SECTION TWO (OPEN ENDED QUESTIONS)

a. Entrepreneurship:
   1. What was the first business you started?
   2. What drives you to be successful?
   3. What is our level of education?
   4. Are any family members entrepreneurs? If so please discuss.
   5. Why are you an entrepreneur as opposed to being employed?
   6. Did you work for a business before starting your own business?
b. Finance:
   2. What is the annual turnover of your business?
   3. How long did it take to break even or how long until forecasted breakeven.
   4. What is your business’s gross profit%?
   5. What is your business’s net profit%?
   6. What was the initial start-up capital from owner/s?
   7. Did your business have any other initial capital, besides the owners’ contribution?
   8. Where did you source the initial capital?
   9. Were there challenges around receiving external investment capital?
  10. Did your business have any cash flow problems during the start-up phase?
  11. Did you receive any assistance from government with regard to where you could source funding?

c. Support Initiatives:
   12. What support initiatives did you receive?
   13. When did you receive the support initiatives?
   14. Where there any costs relating to these support initiatives?
   15. What prevented you from receiving support initiatives?
   16. What support initiative would assist you to grow your business?
   17. What support initiatives should be implemented to support a new SME?
   18. What advice would you give to other SME’s?
   19. What will enable an SME to be successful?
   20. What support initiatives are available to support innovation?
   21. What support initiatives are available to support or commercialise “research & development”?

d. Strategy:
   22. Why did you start the business?
   23. When you first started your business how did you gain access into markets or your target market?
24. What is your strategic direction / strategy of where, when and how to grow the business?
25. What is the prime objective of your business?

5. Is growth an objective?
6. What business strategy do you follow?
7. How do you differentiate yourself from your competition?
8. Does your business have any innovative competitive advantage?
9. What internal capabilities does your business have?
10. Have you developed a strategic business plan?
26. Do you have budgets and forecasts?
27. Are there any support initiatives that assist you with defining your business strategy?

e. Government regulations:
28. When you first started your business did you understand all the requirements for establishing a business?
29. Discuss the challenges around establishing your business with regard to the categories below:
   • Paperwork
   • Regulations
   • Forming the company
   • Registering for tax
   • Licences etc.
30. How have the labour laws affected your business?
31. Has the South African regulatory environment encouraged or limited the growth of your business?
32. Describe how the regulations have impacted on the administrative costs of running your business?

f. Education, Training and Mentoring:
33. Did you have any management experience before starting your business?
34. When you first started your business what challenges did you have with regard to running the business?
35. Did you receive any mentoring from private or public business?
36. When you first started your business did you receive any training and mentoring on running a business (management & entrepreneurship training)?
   - When did you receive this training?
   - How did you get to know about the training?
   - Was there a cost associated with the training?

37. What form of marketing does your company utilise?
38. Do you utilise e-marketing?
39. Do you utilise mobile marketing?
40. Have you been provided any form of assistance with regard to marketing?
41. Have you been provided any form of assistance with regard to market research? Would this be beneficial?

42. Once established what were / are the challenges?
43. What prevents you from growing your current business?

44. What will enable you to grow the revenue and profit of your business?
45. What will enable you to grow your number of employees?
46. What will ensure that you have a sustainable business in the future?

Once again I would like to thank you for participating in this questionnaire; your contribution has been invaluable.