THE IMPACT OF REGULATORY COMPLIANCE ON SMALL, MEDIUM AND MICRO-ENTERPRISES IN THE BUFFALO CITY METROPOLITAN MUNICIPALITY

By

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DATE: 30 NOVEMBER 2011
ACKNOWLEDGEMENTS

This treatise to reach this final form is built on the experiences, knowledge and sacrifices of many people.

I would like to express my gratitude to the following people that had gone an extra mile towards the completion of my study:

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The librarians from Nelson Mandela Metropolitan University for their assistance in data gathering.

All the owners and managers of SMMEs who participated in the study by responding to the questionnaire presented to them.

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May God bless them all.
ABSTRACT

The small, medium and micro-enterprise sector is recognised as being favourable to socio-economic growth since SMMEs have capacity to generate jobs. SMMEs are particularly beneficial for previously disadvantaged communities, and it is particularly clear that SMMEs play a critical role in economic development. It is therefore important to encourage growth of this sector by introducing a favourable and a conducive environment for the sustainability of the SMMEs.

The purpose of this study was to investigate the impact of regulatory compliance on SMMEs in the Buffalo City municipal area in South Africa’s Eastern Cape Province. In other words, this study seeks to find out how SMMEs in the Buffalo City experience regulatory compliance.

Exploratory quantitative and qualitative research methodologies were used in this study. In this instance structured questionnaires were used to collect data. In order to provide a precise presentation of information, face-to-face interviews with the SMME owners were conducted.

The results of this study indicate that the regulatory environment within which the SMMEs operate is not a constraining one. Although the manual registering process is reported to take long, the electronic or online business registration is much quicker. Notwithstanding, the business registration agencies were reported not be too easily and readily available and accessible.

In terms of labour regulations SMME owners and managers indicated that compliance with labour legislation in terms of health and safety was benefiting to their businesses as they learnt how to develop polices and plans. Although the regulatory environment of the SMMEs is not a constraining one, there are costs involved. For example the respondents indicated that the labour laws increased their operating costs. In accordance with labour legislation, employees are entitled to all kinds of paid leave such as annual leave, maternity leave and sometimes study leave; needless to say a right to strike. The labour law regulations were seen to be time consuming and presented an administrative burden for managers.
With regards to tax regulations compliance, there was an indication that due to the extra efforts taken by SARS, it was easy to comply. The SMMEs were exposed to what is required in order to comply fully with tax laws. Some respondents mentioned that they lacked the facilities to deal with VAT issues.

The study recommends that government should ensure that the registration costs of small businesses remain low and that the turnaround time for registration is shortened. The support structures which are to assist small businesses need to be mentioned in all the media for everyone to be aware of them including the rural areas. The government needs to educate SMME owners and managers on how labour laws can benefit small businesses.

Also the business registration process should be streamlined and linked with the South African Revenue Services in order for a ‘one shop stop’, so to shorten the time during formalisation and registration processes. It is also recommended that the South African Revenue Services together with the government simplify the tax issues applying to SMMEs further more especially Value Added Tax which seems not to be easily understood. This will in turn assist SMME owners as they will know more about tax issues, they will also know more how to handle them which should in turn lower the costs of doing business.
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<table>
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<tr>
<th>Acronym</th>
<th>Description</th>
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<tr>
<td>SMME</td>
<td>Small Medium and Micro-Enterprises</td>
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<tr>
<td>SARS</td>
<td>South African Revenue Services</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>VAT</td>
<td>Value Added Tax</td>
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<td>DTI</td>
<td>Department of Trade and Industry</td>
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<td>BEE</td>
<td>Black Economic Empowerment</td>
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<td>HIV</td>
<td>Human Immunodeficiency Virus</td>
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<tr>
<td>ECDC</td>
<td>Eastern Cape Development Corporation</td>
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<tr>
<td>GGDP</td>
<td>Gross Geographic Domestic Product</td>
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<td>GEM</td>
<td>Global Entrepreneurship Monitor</td>
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<tr>
<td>GNI</td>
<td>Gross National Income</td>
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<tr>
<td>CIPRO</td>
<td>Companies and Intellectual Property Commission</td>
</tr>
<tr>
<td>LRA</td>
<td>Labour Relations Act</td>
</tr>
<tr>
<td>CCMA</td>
<td>Commission for Conciliation Mediation and Arbitration</td>
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<tr>
<td>BCEA</td>
<td>Basic Conditions of Employment Act</td>
</tr>
<tr>
<td>ECC</td>
<td>Employment Conditions Commission</td>
</tr>
<tr>
<td>PDI</td>
<td>Previously Disadvantaged Individuals</td>
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<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
</tr>
<tr>
<td>RSC</td>
<td>Regional Services Council</td>
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<td>UIF</td>
<td>Unemployment Insurance Fund</td>
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<td>SDL</td>
<td>Skills Development Levies</td>
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<td>PAYE</td>
<td>Pay As You Earn</td>
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<td>SITE</td>
<td>Standard Income Tax on Employees</td>
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<td>Close Corporations</td>
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INTRODUCTION AND BACKGROUND

1.1 Introduction

In order to deal with poverty and unemployment, the South African government has developed a strategy for accelerated and shared growth. Two departments, the Department of Trade and Industry and National Treasury aim to increase small and medium enterprises. This sector is recognised as being favourable to socio-economic growth since it has greater capacity to generate jobs than when compared to more capital-intensive larger enterprises.

SMMEs are particularly beneficial for previously disadvantaged communities. There is clear evidence that SMMEs play a critical role in economic development (DTI, 1995:3). It is therefore important to encourage growth in this sector by introducing favourable measures such as regulation and suitable taxation methods that create an environment that improves its sustainability and affluence. Lloyd (1999: 18) research shows that the SMME sector in South Africa contributes 35 percent to the country’s gross domestic product (GDP), employs 55 percent of the country’s labour force and contributes approximately 42 percent to the total remuneration figure of the country. Successive research conducted by the Ntsika Promotion Agency has shown that SMMEs account for over 50 percent of the GDP and employment (Netsuke, 2001:38).

The dynamic advancement of SMMEs rests upon the interaction of an extensive range of actors in a wide range of support areas. It ranges from self-help actions of groups of small enterprises to improved co-operation between small and bigger enterprises.

1.2 The problem and its setting

Regulations and bureaucracy constraints are identified internationally as a key restraint to the continued development and growth of this sector. These regulations and bureaucracy constraints take many forms. Numerous studies acknowledge the regulations relating to tax compliance as being particularly burdensome to small
businesses. In South Africa, the impact of tax compliance regulation costs is highlighted in the 2005 Budget Speech (National Treasury, 2005:6).

The factors such as excessive regulations and red tape make running a business excessively burdensome and increase the business costs. As Pillay and Mahadea (2008:436) indicate that investment climate surveys recommend that, when compared with other developing country regions, sub-Saharan Africa is a high-cost, high-risk place to do business. Overall, doing business in Africa costs about 20 percent to 40 percent more than in other developing country regions, as stated by Pillay and Mahadea (2008: 437). The same study by Pillay and Mahadea (2008: 436) goes on to say that “these obstructions scare away foreign investors and dampen the zeal of domestic entrepreneurs for investing”. They may also force many small entrepreneurs into the informal sector or emigration to other safer countries where the climate is more receptive to entrepreneurship, thus resulting in less investment, less growth and higher poverty (Gnyawali and Fogel, 1994:46); World Bank (2005), World Bank (2006).

The SMME compliance cost in South Africa was R79b (about 6.5 percent of South Africa’s GDP) in 2004, whereas in the Organisation for Economic Co-operation and Development, it was less than three percent (Theunissen, 2006:47). It takes about 350 hours (almost nine standard working weekdays) a year for a medium-sized firm to prepare, file and pay taxes in South Africa, which is much higher than when compared with that of the United Kingdom (105 hours) and Botswana (140 hours), (World Bank Doing Business Study, 2007).

1.3 The objectives of the study

The purpose of this study is to investigate the impact of regulatory environment on the SMMEs in the Buffalo City municipal area in South Africa’s Eastern Cape Province. This study seeks to find out how SMMEs in the Buffalo City experience regulatory compliance.
1.4 The importance of the study

Regulations are made in order to resolve social and political issues or to accomplish policy objectives and their implementation in unregulated markets or when unregulated social structures are unable to address. This study can therefore make a contribution to understanding current and future regulatory and tax matters in the SMME sector. The SMME owners and managers can be enlightened on the policies which are regulating the sector and taxation matters affecting the sector as a whole. In this way the findings of the study can be utilised in drafting plans and developing better means that will assist the SMME sector grow. By addressing the rules and regulations of the sector, the South African economy may begin to enjoy the efforts that the sector contributes to the economy; amongst many will be job creating investment growth and economic growth.

Most countries have accepted the crucial role of SMMEs in generating employment and creating a more equal distribution of income. Internationally, it has been demonstrated that SMMEs play a valued role in improving productivity, driving technical change and fostering entrepreneurship. South Africa will also begin to enjoy the benefits of the growth of this particular sector as it is also done internationally. International evidence proposes that the regulatory environment can be a major obstacle to the existence and development of small and new businesses. Entrepreneurs operating in Africa face greater regulatory issues than in any other region. Some African countries like Rwanda, Mauritius, Botswana, Namibia and Nigeria, which have introduced reforms to their business environment, are now registering higher rates of economic expansion as cited by (Pillay and Mahadea, 2008:436). Although the benefits of a less regulated environment are handsome, countries in sub-Saharan Africa has the lowest business environment reform intensity among other groups of countries (World Bank, 2006). According to the World Bank report (2004: 51), regulatory reforms in developing countries could add as much as 1.4 percent to average annual GDP growth in these countries.

The study will give further knowledge into the knowledge which is readily available. This knowledge will enlighten all those that are interested in knowing how the particular field is regulated and how the work has been developed in the past up to the current years.
1.5 Research methodology

Exploratory quantitative and qualitative research methodologies were used in this study. Structured questionnaires were used to collect data. In formulating a conceptual framework of the study, secondary sources such as books, academic journals, conference proceedings, newspapers, magazines and the Internet were used.

1.5.1 Data collection technique

In order to provide a precise presentation of information, face-to-face interviews with the SMME owners were conducted. Ssegawa (2000:20) states that face-to-face interviews provide an opportunity to observe and verify practically the procedures which are in place.

Data was collected by the researcher. The field work was undertaken during June and July 2011.

1.5.2 Sampling size and sampling procedure

A judgmental sampling technique was conducted in this study. Judgmental sampling technique is a form of convenience sampling in which the population elements are selected based on the judgment of the researcher, (Malhotra, 1999:335). The researcher used judgment or know-how skill in choosing the elements that are representative of the population of interest in this study. A total number of 50 businesses were visited and 30 businesses responded. This translates into a response rate of 60 percent. The rest of the businesses (n=20) either refused to complete the questionnaire or the owner was unavailable for the interview.

1.5.3 Data analysis

The data was analysed using descriptive statistics. Where data could not be quantified, the data was reported qualitatively.
1.5.4 Geographical area of the study

The sample was taken from SMMEs in Buffalo City. Buffalo City comprises of the merged municipalities of East London and King William’s Town. The businesses visited were from the following areas: Southernwood, Berea, Vincent, Quigney, Beacon Bay, Gonubie, Amalinda and Mdantsane.

1.5.5 Limitations of the study

The information-gathering was not as widespread as one would have preferred but this was due to a lack of funds and resources. Due to a limited number of respondents, the results of this survey should not be used for generalisation. However the findings of this study do provide some useful insights into the impact of a regulatory environment in the SMMEs in the Buffalo City Metropolitan Municipality.

1.6 Organisation of the study

CHAPTER 1: Introduction and background- An overview of the proposed study, problem statement and definition of some key concepts.

CHAPTER 2: Entrepreneurship theory- This chapter reviews the literature pertaining to the different theories of entrepreneurship and definitions.

CHAPTER 3: The overview of the Small medium and micro-enterprise sector in South Africa- This chapter presents an overview of the regulatory environment of the SMMEs in South Africa.

CHAPTER 4: The regulatory environment of the Small medium and micro-enterprise sector- This chapter presents the challenges encountered by SMMEs and the interventions which help to overcome those obstacles.

CHAPTER 5: Empirical results- This chapter presents the empirical findings of the study.
CHAPTER 6: Summary of main findings, recommendations and conclusions- In the final chapter, summary of the main findings, recommendations and conclusions are provided.

1.7 Definition of terms and concepts

1.7.1 Small, medium and micro-enterprises (SMMEs)
The National Small Business Act of 1995 categorises SMMEs into five groups: Survivalists, micro enterprises, very small enterprises, small enterprises, and medium enterprises.

1.7.1.1 A survivalist enterprise
The income generated is less than the minimum income standard or is below the poverty line. This category is considered pre-entrepreneurial and includes hawkers, vendors and subsistence farmers.

1.7.1.2 A micro-enterprise
The turnover is less than the VAT registration limit (that is, R150, 000 annually). These enterprises usually lack formality in terms of registration and include, for example, spaza shops, minibus taxis and household industries. They employ no more than five people.

1.7.1.3 A very small enterprise
These are enterprises employing fewer than ten paid employees, but excludes the mining, electricity, manufacturing and construction sectors, in which the figure is then limited to 20 employees. These enterprises operate in the formal market and have access to technology.

1.7.1.4 A small enterprise
The upper limit of small enterprises is 50 employees. Small enterprises are generally more established than very small enterprises and exhibit more complex business practices.
1.7.1.5 A medium enterprise

The maximum number of employees in medium enterprises is 100 or 200 for the mining, electricity, manufacturing and construction sectors. These enterprises are often characterised by the decentralisation of power to an additional management layer. (DTI, 1995:6)

1.8 Concluding remarks

Having outlined the problem statement, the objectives of the study, the importance of the study, research methodology, definitions of terms and concepts in this introductory chapter, the following chapter focuses on the literature review relating to the role of SMMEs in the South African economy, which also includes the various theories of entrepreneurship and definitions.
CHAPTER 2

ENTREPRENEURSHIP THEORY

2.1 Introduction

The aim of this chapter is to provide the theory of entrepreneurship as well as the various definitions and approaches towards entrepreneurship. In order to provide appropriate policy recommendation regarding entrepreneurship, it is important to have an appropriate concept of entrepreneurship.

The chapter begins by providing a discussion on the various definitions of entrepreneurship. This is followed by a discussion on the various theories of entrepreneurship. Concluding remarks are provided towards the end of the chapter.

2.2 Definition of entrepreneurship

In conceptualizing an entrepreneur Virtanen (1996:3) states that there are various theories of entrepreneurship. Before discussing the theories of entrepreneurship, a discussion on the definition of entrepreneurship is provided. Carton, Meeks and Hofer (1998:22) have adapted two approaches for defining an entrepreneur, one being the psychological approach; the other being the behavioural approach. A discussion of these approaches follows.

2.2.1 The psychological approach

The psychological approach asks who entrepreneurs are, observes them; and then defines entrepreneurship inductively based on their characteristics as persons and on what they do as entrepreneurs (Carton, et al., 1998:7).

The following traits of an entrepreneur include, amongst others, locus of control; creativeness and innovation, the need for independence and the propensity for risk taking (Dollinger, 2003:87). These traits refer to the person’s mind-set and include self-confidence, persistence, passion and the desire to achieve (GEM, 2001:7). As stated in
the GEM (2001:7), these traits are reliant on the business opportunity, society and the
person’s background. In conclusion; these characteristics are developed through life
experiences. A human is not born with them.

The trait is presumed to be a particular type of personality or a characteristic. The focus
of the research centres on entrepreneurship and the description of entrepreneurial
characteristics. The examples of philosophies which were explored are “fundamental
change”, “innovative, flexibility, dynamic risk taking, creative”, “alertness”, “need for
achievement” and ”ambition” (Kaufmann & Dant, 1998:6).

The following are explanations of the characteristic approach:

- An entrepreneur is an individual who possess qualities of risk taking, leadership,
motivation, and the ability; to resolve crises;
- Entrepreneurs are leaders and major contributors to the process of creative
destruction;
- An entrepreneur is an individual who undertakes uncertain investments and
possesses an unusual low level of uncertainty aversion (Kaufmann & Dant, 1998:7).

The behaviour and attitudes of an entrepreneur include independence, motivation,
taking ownership, flexibility, willingness to embrace new thing, new ideas, new
information and new people, accountability, personal integrity, the capacity to manage,
the capacity to organise, technical know-how, perseverance and a ”bigger picture”
thinker as stated by (Johnson, 2001:137).

The personality trait approach is, however, criticised by other theories, (Eatwell,
proof has been brought forward and no proof exists that there are regular crucial
characteristics which can be linked to entrepreneurship.

The psychological approach is valuable in bringing to the forefront the relevant point
that entrepreneurial capabilities can be directly as a result of education, training and
experience. This may result in a person gathering the entrepreneurial competences,
knowledge and skills that are essential to carrying out all or part of the entrepreneurial processes (Smith, 2000:974). Timmons (1994:24) defines entrepreneurship as follows:

They work hard and are driven by an intense commitment and determined perseverance; they see the cup half full, rather than half empty; and they strive for integrity. They burn with competitive desire to excel and win and are dissatisfied with the status quo and seek opportunities to improve almost any situation they encounter. They use failure as a tool for learning and eschew perfection in favour of effectiveness. They believe they can personally make an enormous difference to the final outcome of their ventures and their life, (Timmons, 1994: 24).

Firstly, an organisation can be created at all times by ordinary people who are not defined as entrepreneurs, for example, friends, associations and social groups. When assessing the ability to become an entrepreneur, nothing suggests that the development of a business would be the distinguishing factor.

If some particular characteristic could suggest and foresee behaviour, what would be different if one could apply only behavioural theories? Behaviours and traits might be those intermediating variables that clarify and foresee entrepreneurial action and behaviour. Several contributors in entrepreneurship literature have tested the existence of personality traits concluding that the traits are common also to several other groups of people (Low & MacMillan, 1988: 147).

2.2.2 The behavioural approach

The behavioural approach deals with the activity of an entrepreneur and explains entrepreneurs as those individuals who participate in that activity. The behavioural approach places emphasis on the entrepreneurial process and not on the characteristics (Carton, Meeks and Hofer, 1998:14). The activity of the entrepreneur is premised on an objective to change the system, by increasing the productivity of the system, decreasing the cost of the part of the system, producing accrual of personal wealth and/or producing an increase of social values, as mentioned by (Shapiro,1983:85). Below Shapiro (1983:44) incorporated assessment measures for such activities:
The magnitude of the attempted change; 
The success of the attempt; 
The cost of the attempt; and 
The risk of the attempt.

Listed below are six common behaviours of entrepreneurs.

- Locating a business opportunity;
- Accumulating resources;
- Marketing products and services;
- Producing the product;
- Building an organisation; and
- Responding to the environment (government and society), (Gartner, 1985:699).

Covin-Slevin (1991:16) incorporates significant concepts and places emphasis on the nature of entrepreneurial behaviour, the locus of entrepreneurship and the link between entrepreneurial posture and the firm performance. As claimed by Kaufmann and Dant (1998:9), the following explanations highlight the actions prospective entrepreneurs:

Entrepreneurship is the purposeful activity to initiate, maintain and develop a profit-oriented business. As such an entrepreneur performs one or more of the following activities:

- Connects different markets;
- Meets/overcomes market deficiencies;
- Creates and manages time binding implicit or explicit contractual arrangements and input transforming organisational structure, and
- Supplies inputs/resources lacking in the marketplace.

Furthermore entrepreneurs perceive profit opportunities and initiate actions to fill currently unsatisfied needs or to do more efficiently what is already being done. Entrepreneurs are also residual claimants with operational control of the organisation. Kaufmann and Dant (1998:9) state that entrepreneurship is an exceptional and sporadic
change presenting activity the mission to forecast, package and specify that process is an irrational task.

On the other hand Hebért and Link (1989: 47) states that entrepreneur is a person, not a team, committee or organisation. Their point of view is that this individual has some relative advantage in decision-making, because he or she has better information or different perception of events or opportunities. Furthermore, Hebért and Link (1989: 47) contend that entrepreneurial actions are achieved in all societies by people whose judgment diverges from the ordinary judgement. Bygrave and Hofer (1991:22) describe entrepreneurship as involving actions associated with the perception of opportunities and the creation of organisations to pursue them.

Pickle and Abrahamson (1990: 9) explains an entrepreneur as someone who organizes and manages a business undertaking, assuming the risk, for the sake of profit. The entrepreneur evaluates perceived opportunities and strives to make the decisions that will enable the firm to realize sustained growth. The statement highlights the decision-making capacity and growth objective of an entrepreneur. Having outlined the definition of entrepreneurship, the following section outlines the theories of entrepreneurship.

2.3 Kirzner’s theory of entrepreneurship

Early researchers on the entrepreneurship theory have focused their observations on the entrepreneur’s actions rather than the qualities and characteristics that they possess. They characterise an entrepreneur as a person who takes action. Kirzner’s understanding is that an entrepreneur brings about equilibrium of supply and demand (Kirzner, 1996:143).

His perspective was that entrepreneurship was a process in which marketers are brought from a state of disequilibrium to a state of equilibrium through opportunistic actions of individuals (Kirzner, 2006:35). Kirzner purports that the economy is in a state of imbalance and through competition in which entrepreneurs partake, the market is brought into state of equilibrium. According to Kirzner, in a market economy, the entrepreneurial element in individual decision-making impacts through attempting to
profit by exploiting price differences of identical or similar financial instruments, on different markets or in different forms, (Gunning, 2000:6).

An entrepreneur observes prices and follows his subconscious hunch to arrange an exchange between a seller who attaches a low dollar value and a buyer who attaches a higher dollar value. Given that his hunch is correct, the result is entrepreneurial or market "profit". Economists, who are accustomed to identifying entrepreneurship with conscious actions, should be careful to avoid misinterpreting these actions (Kirzner, 1996:143). Arbitrage actions are equilibrating in the sense that they narrow what would otherwise be wider price differences. An arbitrage action causes a mutually advantageous exchange that would otherwise not be made. If no arbitrage possibilities existed from the standpoint of superior entrepreneurship equilibrium would already have been achieved (Gunning, 2000:6).

Kirzner states at equilibrium, an entrepreneur can still undertake ground-breaking actions that move the market away from equilibrium. Kirzner mentions that these disequilibrium actions occur much less than equilibrating ones, and opportunities to undertake them may not be available to all firms or all entrepreneurs. The equilibrium theory neglects market processes. If all plans of economic actors match, then there is no need for markets. However, in a state of disequilibrium, “actors” plans do not match (Grebel, Pyka and Hanusch, 2001:6). Their plans have to be revised and adapted to the new market situation (Kirzner, 1973:10). The economic agents have to change their minds continuously and thus generate a dynamic process which Kirzner calls the market process (Grebel, et al., 2001:6).

Kirzner separates the entrepreneurial part by contrasting routine optimising behaviour with what he claims as true individual action by means of a closer inspection claims (Gunning, 2000:1). To Kirzner, a bird’s view review reveals that people impulsively learn to satisfy their wants. For example, people may follow their intuition and this may result in them experiencing an unforeseen gain. Kirzner refers to this impulsive discovery as the entrepreneurial element. Another term he uses is “alertness to hitherto undiscovered opportunities” (Gunning, 2000:1). Kirzner then made a distinction of an entrepreneur which contrasts with all the other theorists.
From the above discussion it is clear that Kirzner calls the state of mind that enables spontaneous learning to occur as “alertness” (Gunning, 2000:2). He explains that just as learning is spontaneous, so is alertness (Gunning, 2000:1). It cannot be created or be enhanced. This state of mind forms a portion of humanity by virtue. Individuals differ in their alertness. People are different in terms of their levels of alertness. If two individuals have identical boat-building experiences, one may learn while the other does not (Kirzner, 1979: 170). Kirzner distinguished an entrepreneur to be an individual who creates equilibrium in the market state and a human being who was attentive to opportunities which could arise in the market.

Kirznerian entrepreneurship draws the economy nearer to stability. This is a state where all evaluations are harmonised, stabilised and regularised by "instinctively" changing the disharmony and instability among principles, strategies and goods. The entrepreneur purchases elements of production at a comparatively minimum fee and processes them into complete goods which he later trades at a comparatively high fee, and so makes profits (Wood, 2005:25). The purchase of factors occurs earlier in time than the sale of products. The Kirznerian entrepreneur sees, and acts, and through time, correctly anticipates the as-yet-unrealised future in which products will be saleable at high prices. This is prefaced by the purchase of "too-cheap" factors of production at a time in the present (Wood, 2005:20).

Where an entrepreneur erroneously forecasts the forthcoming demand, the entrepreneur would fail in selling the new product at the anticipated higher prices and would lose profit. The Kirznerian entrepreneur foresees the forthcoming valuations of trades which do not exist yet but which the entrepreneur trusts will occur in the future, when he pursues to trade the goods that have been developed in the expectation of the variation in customer valuations.

Nevertheless Kirzner’s theory sees the entrepreneur to be an alert individual who profits from taking advantage of differences in price when the same or extremely similar commodity is traded on two or more markets. This is an individual who seeks to make profit and who speculates and reacts on his speculation. According to Kirzner, the opportunities seen in profit are the stimulants of entrepreneurship. Kirzner’s interpretation of an entrepreneur does not cause destruction in the market place and does
not cause any change, his entrepreneur appreciates that a change has taken place and sees profit opportunities.

Kirzner’s theory is criticised by its focus on exchange and its lack of emphasis on production. The model does not explicitly explain what or who develops improvements in the production process if the producers are not capable of such or if the producers are inactive agents. This model does not provide incentives for the production of change in the market system.

2.4 The neo-classical theory of entrepreneurship: Marshallian theory

The neo-classical approach, also known as the Marshallian theory, analyses the conditions of the market under perfect conditions; homogeneous products, perfect competition, free entry and exit, perfect information and knowledge, (Marshall, 1948:298).

Marshall’s analysis clearly shows that markets are under perfect condition and competition. He explains the market place as having homogenous goods with free entry and exit. Marshall’s model shows that under perfect competition the markets clear. There are no excess profit opportunities with any labour exploitation in production; hence everyone is earning marginal contributions.

Marshall makes use of innovations by competitors in the market place and indicates that large scale production is crucial in the economic process and economic innovation (Marshall, 1948:297). He continues to place emphasis on the crucial relation between capital and labour. The producer with the superior abilities receives more income, which results in them making a contribution to national income greater than of labour alone.

According to Loasby (1982:235), Marshall’s analyses entrepreneurship as the normal running of business, although he acknowledges that some businessmen are much more enterprising than other. Marshall refers to the study of a static state as a possibly misrepresentative guide to the study of economic development. He states that the firms should systematise their production and marketing roles in a changing economy which is evolving and full of uncertainties. The uncertainties include:
Approximating consumer preferences patterns;
Forestalling rival’s movements;
Developing responsive techniques to modifications in the consumer preference and;
Developing responsive techniques to emergence of new technologies or to new entry firms (Marshall, 1948:297).

According to Marshall (1948:297), the successful entrepreneur should have the ability to:

- Predict the movements of production and consumer choices;
- Seeing new opportunities for supplying new goods or services;
- Take risks.

Marshall explains that economic development in relation to numerous small enhancements in productivity and in the variety of quality of products existing in the market place. The advantage of having numerous firms in an industry is not based on creating perfect competition but based on the discovery of different ideas and things.

Nevertheless the Marshallian theory is criticised because it does not distinguish between entrepreneurship and routine production processes. Furthermore, the model illustrates the non-existence of excess profits in the market. Marshall’s theory appears to be incongruent in clarifying equilibrium settings. The theory is seen as not being clear on market processes which would clearly explain the role of entrepreneur and how profit is explicated (Loasby, 1982:540). Furthermore, Marshall gives the entrepreneur the responsibility of predicting his or her rival’s actions. A market with perfect competition has no need for anticipating the actions of rivals because the prices are given and production decisions do not affect the market prices.

### 2.5 Schumpeter’s theory of entrepreneurship

Schumpeter (1991:230) explains that an entrepreneur is a person who develops a new product or makes an old product in a new way. The main focus of the Schumpeterian model is the role of the entrepreneur as a socioeconomic leader. The role of a
socioeconomic leader, according to Schumpeter, is to make decisions, give direction and drive matters to completion. These characteristics distinguish Schumpeter’s entrepreneur from others. Schumpeter’s entrepreneur plays a significant role of establishing innovative production roles and systems.

The entrepreneur has the incentive of an accumulation of a surplus, but this is temporary as the followers start to execute matching approaches. These temporary monopoly profits show that the capitalist system is active and forever changing. It also illustrates that each cycle of advances is the main driver of business cycles in the market. Schumpeter’s model, also known as a creative destruction model, is practical under capitalistic market systems. The model, in contrast to Marshall’s models, creates disequilibrium. Schumpeter states “capitalism … is by nature a form or method of economic change and … never could be stationary” (Schumpeter, 1991:82).

In contrary to Marshall and Kirzner, Schumpeter’s analysis progress does not rest on the “great man” but depends on a visionary, economic leader, and social leader. Marshall defines his entrepreneur as a monopolist in a capitalist system. Marshall inspires the encouragement of monopolies as drivers of new innovations. He explains the entrepreneurial skill as being uncommon and rare and the business of entrepreneurs as being too dicey and uncertain. Furthermore, Schumpeter states that entrepreneurial activities and abilities need to be protected. The protection from risk can be decreased by large scale enterprise and restraining practices such as patents. The incentive of innovation and risk-taking by the entrepreneur is profit.

The model is criticised by the insignificance of the divergence between the leader and imitators. Schumpeter places all the responsibility of innovation and invention on the “great man”. However, innovation and the act of pushing innovation commercially are carried out not by individuals, but by a generation, this expands the irrelevance of the contrast between the entrepreneur and the imitators.

2.6 Concluding remarks

The literature gives a foundation for a debate around the entrepreneurship topic. The review is determining a connection amid an individual and the environment where
entrepreneurial activity takes place; and it places emphasis on the actions of the entrepreneur and the characteristics of the entrepreneur.

A few characteristics have been identified for entrepreneurial behaviour. These characteristics are applicable for the purposes of study and are listed as: risk-taking, desire for success, goal focused, locus of control, independence and motivated individual. Entrepreneurs are more opportunity focused and possess a high level of imagination and originality together with a high level of organisational skill and business knowledge.

The review of entrepreneurship first started with a focus on the characteristic approach. Later, research focused on the actions of the entrepreneur rather than their personality characteristics. According to Kirzner, his idea about the entrepreneurship is summarised as:

- Economic agents make mistakes whilst attempting to estimate the true present and future plans of other market participants;
- These mistakes or inaccuracies occur because of over-optimism or over-pessimism; and
- Entrepreneurial developments lead in the direction of a single market price (Kirzner, 1979: 170).

Kirzner’s examination of entrepreneurship is based on disequilibrium which is corrected by alert entrepreneurs who produce and exchange while the emphasis is placed upon the exchange opportunities. Kirzner’s model fails to describe the functionality of the market and the relations of entrepreneurship and profit.

The Marshall theory states that the progress on the market is highly dependent on many men than great men. However, the model does not fully explain exactly how the market structure functions and relationship between entrepreneurship and profit. Marshall’s model only specifies the non-existence of excess profits in the market system.

Schumpeter is capable of clarifying how the system functions and where the profits are generated. The good return for Schumpeter’s analysis is the product of innovation and
also the incentive for improvement which is unique to the capitalist system which permits the prosperous entrepreneur to take profit. He sees and gives all credit to the individual innovation. Schumpeter overlooks the consequence of generations and preceding failures to realise those innovations. Having outlined some theories of entrepreneurship the following chapter presents an overview of the SMMEs in South Africa.
CHAPTER 3

THE OVERVIEW OF THE SMALL MEDIUM
AND MICRO-ENTERPRISE SECTOR IN SOUTH AFRICA

3.1 Introduction

The small, medium and micro-enterprise (SMME) sector is a crucial part of the South African economy. SMMEs provide materials sub-assemblies and various other forms of services to larger businesses and distribute goods to customers. Economies with a high proportion of SMMEs are more resilient to external shocks and more likely to have more firms growing into larger businesses. Furthermore, stimulating the creation of SMMEs enables developing nations to grow a more solid middle class.

The aim of this chapter is to provide an overview of the SMME sector in South Africa. The first section of the chapter provides a definition of SMMEs in accordance with the White Paper on National Strategy for the Development and Promotion of Small Business in South Africa 1995. This is followed by the section which refers to the sector’s contribution to the economy, and its impact on investments, job creation and the Gross Domestic Product. The last part of the chapter presents a profile of the SMMEs in Buffalo City.

3.2 Definition of SMMEs


a separate and distinct business entity, including co-operative enterprises and nongovernmental organisations, managed by one owner or more which, including its branches or subsidiaries, if any, is predominantly carried on in any sector or subsector of the economy mentioned in column I of the Schedule and which can be classified as micro - a very small, a small or a medium enterprise by satisfying the criteria mentioned in column 3, 4 and 5 of the Schedule
opposite the smallest relevant size or class as mentioned in column 2 of the Schedule, (Department of Trade and Industry, 1996:1).

The National Small Business Amendment Act 2004 (Department of Trade and Industry, 2004:2) amended the term “small business” to “small enterprise”. The latter term was defined as:

“a separate and distinct business entity, together with its branches or subsidiaries, if any, including co-operative enterprises, managed by one owner or more predominantly carried on in any sector or subsector of the economy mentioned in column I of the Schedule and which can be classified as micro - a very small, a small or a medium enterprise by satisfying the criteria mentioned in column 3, 4 and 5 of the Schedule”.

According to the South Africa Small Business Sector 2004-2005 Review (Department of Trade and Industry, 2006:22), small businesses are categorised as micro, very small, small or medium enterprises, following a complex set of thresholds.

The National Small Business Act, as revised by the National Small Business Amendment Bill of 2003, defined the thresholds per industry as in Table 1 (Department of Trade and Industry, 2003:83). Compared to developed-country standards, South Africa thresholds are low. Many businesses which Americans or Europeans regard as SMEs would in SA be regarded as large as is stated in the SA Small Business Sector 2004-2005 Review (Department of Trade and Industry, 2006:35).
Table 3.1 – Thresholds for the classification as micro, very small, small or medium enterprises

<table>
<thead>
<tr>
<th>Sector or sub-sectors in accordance with the Standard Industrial Classification (SIC)</th>
<th>Size or Class</th>
<th>Total full-time equivalent of paid employees:</th>
<th>Total annual turnover (Rm)</th>
<th>Total gross asset value (fixed property excluded) (Rm)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Less than:</td>
<td>Less than:</td>
<td>Less than:</td>
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<tr>
<td>Agriculture</td>
<td>Medium</td>
<td>100</td>
<td>5.00</td>
<td>5.00</td>
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<tr>
<td></td>
<td>Small</td>
<td>50</td>
<td>3.00</td>
<td>3.00</td>
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<tr>
<td></td>
<td>Very small</td>
<td>10</td>
<td>0.50</td>
<td>0.50</td>
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<tr>
<td></td>
<td>Micro</td>
<td>5</td>
<td>0.20</td>
<td>0.10</td>
</tr>
<tr>
<td>Mining and Quarrying</td>
<td>Medium</td>
<td>200</td>
<td>51.00</td>
<td>19.00</td>
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<tr>
<td></td>
<td>Small</td>
<td>50</td>
<td>13.00</td>
<td>5.00</td>
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<tr>
<td></td>
<td>Very small</td>
<td>20</td>
<td>5.00</td>
<td>2.00</td>
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<tr>
<td></td>
<td>Micro</td>
<td>5</td>
<td>0.20</td>
<td>0.10</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>Medium</td>
<td>200</td>
<td>51.00</td>
<td>19.00</td>
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<td></td>
<td>Small</td>
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<td>13.00</td>
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<td>Very small</td>
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<td></td>
<td>Micro</td>
<td>5</td>
<td>0.20</td>
<td>0.10</td>
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<tr>
<td>Electricity, Gas and Water</td>
<td>Medium</td>
<td>200</td>
<td>51.00</td>
<td>19.00</td>
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<td></td>
<td>Small</td>
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<td>Very small</td>
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<td></td>
<td>Micro</td>
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<td>0.20</td>
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<tr>
<td>Construction</td>
<td>Medium</td>
<td>200</td>
<td>26.00</td>
<td>5.00</td>
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<td></td>
<td>Small</td>
<td>50</td>
<td>6.00</td>
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<td></td>
<td>Very small</td>
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<td>3.00</td>
<td>0.50</td>
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<td></td>
<td>Micro</td>
<td>5</td>
<td>0.20</td>
<td>0.10</td>
</tr>
<tr>
<td>Retail and Motor Trade and Repair Services</td>
<td>Medium</td>
<td>200</td>
<td>39.00</td>
<td>6.00</td>
</tr>
<tr>
<td></td>
<td>Small</td>
<td>50</td>
<td>19.00</td>
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<td></td>
<td>Very small</td>
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<td>4.00</td>
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<td></td>
<td>Micro</td>
<td>5</td>
<td>0.20</td>
<td>0.10</td>
</tr>
<tr>
<td>Wholesale Trade, Commercial Agents and Allied Services</td>
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<td>200</td>
<td>64.00</td>
<td>10.00</td>
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<tr>
<td></td>
<td>Small</td>
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<td>32.00</td>
<td>5.00</td>
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<td>Very small</td>
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<td>6.00</td>
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<td></td>
<td>Micro</td>
<td>5</td>
<td>0.20</td>
<td>0.10</td>
</tr>
<tr>
<td>Catering, Accommodation and other Trade</td>
<td>Medium</td>
<td>200</td>
<td>13.00</td>
<td>3.00</td>
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<tr>
<td></td>
<td>Small</td>
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<td></td>
<td>Micro</td>
<td>5</td>
<td>0.20</td>
<td>0.10</td>
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<tr>
<td>Transport, Storage and Communications</td>
<td>Medium</td>
<td>200</td>
<td>26.00</td>
<td>6.00</td>
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<td></td>
<td>Small</td>
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<td></td>
<td>Micro</td>
<td>5</td>
<td>0.20</td>
<td>0.10</td>
</tr>
<tr>
<td>Finance and Business Services</td>
<td>Medium</td>
<td>200</td>
<td>26.00</td>
<td>5.00</td>
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<tr>
<td></td>
<td>Small</td>
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<td></td>
<td>Micro</td>
<td>5</td>
<td>0.20</td>
<td>0.10</td>
</tr>
<tr>
<td>Community, Social and Personal Services</td>
<td>Medium</td>
<td>200</td>
<td>13.00</td>
<td>6.00</td>
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<td></td>
<td>Small</td>
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<tr>
<td></td>
<td>Micro</td>
<td>5</td>
<td>0.20</td>
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</tr>
</tbody>
</table>

Source: National Small Business Act of 1996, as revised by the National Small Business Amendment Bill of March 2003 (Department of Trade and Industry, 2003:83)

The three benchmarks arranged for the classification of the businesses as micro, very small, small or medium, are the number of employees which is often the most effective as, with the exception of agriculture, it can be used for comparisons across all sectors and information regarding the number of employees and is generally easy to obtain (Department of Trade and Industry, 2003:83).
From a broad South African economic perspective, the definition of small business or SMME should be clearly defined, in order to differentiate exactly who the government should then support and who should be granted financial support (DTI, 1995:9).

As set out in the White Paper on the National Strategy for the Development and Promotion of Small Business in South Africa (Department of Trade and Industry, 1996:5), a key and clear difference should be made between survivalist activities, micro-enterprises and medium-sized enterprises - "small business or SMMEs" - and big (ger) businesses.

Due to the similarity of obstacles facing them, survivalist and micro-enterprises are often lumped together, whereas many support agencies feel that medium-sized enterprises need not be viewed as a category warranting particular attention. The four categories of small business are defined in the White Paper on the National Strategy for the Development and Promotion of Small Business in South Africa 1995 as:

**Survivalist enterprises** are activities by people unable to find a paid job or get into an economic sector of their choice. Income generated from these activities usually falls far short of even a minimum income standard, with little capital invested, virtually no skills training in the particular field and only limited opportunities for growth into a viable business. Poverty and the attempt to survive are the main characteristics of this category of enterprise. Support strategies should primarily help these people - a large percentage of whom are women - to migrate from this sector. Given the large number of people involved in survivalist activities, this constitutes a vast challenge, which should be tackled within the broader context of the Reconstruction and Development Programme (DTI, 1995:8).

**Micro-enterprises** are very small businesses, often involving only the owner, some family member(s) and at the most one or two paid employees. They usually lack "formality" in terms of business licenses, value-added tax (VAT) registration, formal business premises, operating permits and accounting procedures. Most of them have a limited capital base and only rudimentary technical or business skills among their operators. However, many micro-enterprises advance into viable small businesses.
Earning levels of micro-enterprises differ widely, depending on the particular sector, the growth phase of the business and access to relevant support (DTI, 1995:8).

**Small enterprises** constitute the bulk of the established businesses, with employment ranging between five and about 50 persons. The enterprises are usually owner-managed or directly controlled by the owner or community. These are likely to operate from business or industrial premises, be tax-registered and meet other formal registration requirements. Classification in terms of assets and turnover is difficult, given the wide differences in various business sectors like retailing, manufacturing, professional services and construction (DTI, 1995:8).

**Medium enterprises** constitute a category difficult to demarcate vis-a-vis the "small" and "big" business categories. It is still viewed as basically owner/manager-controlled, though the shareholding or community control base may be more complex. The employment of 200 persons and capital assets (excluding property) of about R5 million are often seen as the upper limit. In terms of this White Paper, it is concerning that obstacles and constraints faced by medium-sized enterprises cannot be solved through normal market forces and private-sector action (DTI, 1995:8).

### 3.3 Contributions of the SMME sector to the economy

Given South Africa’s the domination by big business, constrained competition and unequal distribution of income and wealth, the small business sector is perceived as an important force to generate employment and more equitable income distribution, activate competition, exploit niche markets internally and internationally, enhance productivity and technical change, and through all, this stimulate economic development (DTI, 1995:10).

The small business sector plays an undoubtedly important role in fulfilling at least the minimum needs of the people and in assisting disadvantaged groups, for instance, the female heads of households, disabled people and rural families. Jobs are created by each small business or small enterprise that strives to achieve in conducting business with the disadvantaged group, by doing this the business would have gained credibility in business processes or transactions. Through job creation, the business would not only
have fed the hungry, and contributed immensely to the alleviation of poverty, but would have empowered the disadvantaged, more especially in compliance with the Broad Economic Empowerment (BEE) polices.

Ntsika (1999:16) confirms that the small business sector plays a major role in creating jobs and wealth in any economy. Small organisations have features common with other organisations but also have unique characteristics and attributes that are reflected in the manner in which they are organised and managed. In managing a small organisation, creativity, adaptation, change, ambiguity, flexibility, problem-solving and collaboration occur regularly. Small organisations often break down their tasks into functional subsections and assign employees to the selected task (Ehlers, 2000:43).

According to Kroon and Moolman, (1992:129), small organisations provide economic stability and a better distribution of economic activities. Small businesses are both a vehicle for entrepreneurship and a source of employment and income (Thurik and Wennekers, 2001:50). SMMEs play an important role in improving welfare, alleviating poverty, and also it is a source of wealth and employment creation (Riley, 1993:11).

Small businesses are labour-intensive, need limited capital, and make use of the local resources available (Franz, 2000:44). It is believed that by channelling these scarce capital resources to the small business sector, particularly in a growing and developing economy like South Africa, employment opportunities can be maximised and people will be given the opportunity to contribute to the development of the economy (Ntsika Enterprise Promotion Agency: 2000). As confirmed by the (DTI: 1995, 12), increased productivity and global competitiveness are pre-requisites for job creation and economic growth in South Africa.

Ever since the formal sector’s labour absorption capacity declined sharply over the past decade, (Barker, 2003:91), the development of the SMMEs has become critical for the survival of many poor households (Riley, 1996:799). In addressing and enhancing socio-economic development, government, municipalities, local economic development and other relevant structures make every effort in understanding the needs of SMMEs. Ndu (1997:143) confirms that the thrust of the government’s small business policy is to stimulate and activate the small business sector since it constitutes an important force
for generating employment and more equitable income distribution. Small, medium and micro-enterprises have a potential to make a significant contribution to the economy of South Africa (Kesper, 2001).

3.4 SMME Contribution to the Gross Domestic Product (GDP)

SMMEs’ contribution to the GDP is difficult to analyse because the GDP accounts only for official undertakings. This is problematic since most SMMEs are operating in the informal sector. In addressing the contribution of the SMME sector to GDP, the approaches that are taken into account when assessing their contribution are:

- ignoring the informal sector entirely, which can only give a partial answer to the question of the economic significance of SMMEs,
- or attempting to quantify the value added generated by informal enterprises (Amathole District Municipality 2005:45).
The contribution of the SMME sector to GDP is portrayed in table below:

Table 3.2: Overview of contributions to GDP by firm size

<table>
<thead>
<tr>
<th></th>
<th>Survival</th>
<th>Micro</th>
<th>Very small</th>
<th>Small</th>
<th>Medium</th>
<th>Large</th>
<th>Others</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Ntsika 1995</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>In %</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ntsika in %</td>
<td>21%</td>
<td>12%</td>
<td>67.0%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>100%</td>
</tr>
<tr>
<td>Ntsika in million R</td>
<td>76,020</td>
<td>43,440</td>
<td>242,540</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>362,000</td>
</tr>
<tr>
<td><strong>Abedian, 1997</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Scenario 1, In %</td>
<td>1.2%</td>
<td>13.25%</td>
<td>9.43%</td>
<td>17.24%</td>
<td>15.11%</td>
<td>43.73%</td>
<td></td>
<td>100%</td>
</tr>
<tr>
<td>Scenario 1, In million R</td>
<td>7,622</td>
<td>81,572</td>
<td>58,061</td>
<td>106,153</td>
<td>93,076</td>
<td>269,312</td>
<td></td>
<td>615,796</td>
</tr>
<tr>
<td>Scenario 2, In %</td>
<td>1.24%</td>
<td>11.00%</td>
<td>9.43%</td>
<td>14.99%</td>
<td>15.11%</td>
<td>48.23%</td>
<td></td>
<td>100%</td>
</tr>
<tr>
<td>Scenario 2, In million R</td>
<td>7,622</td>
<td>67,721</td>
<td>58,061</td>
<td>92,302</td>
<td>93,076</td>
<td>297,015</td>
<td></td>
<td>615,797</td>
</tr>
<tr>
<td><strong>Ntsika 1999</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>In percent</td>
<td>25.2%</td>
<td>8.3%</td>
<td>46.3%</td>
<td></td>
<td>21.2%</td>
<td></td>
<td></td>
<td>100.0%</td>
</tr>
<tr>
<td>In million R</td>
<td>170,585</td>
<td>56,024</td>
<td>312,958</td>
<td></td>
<td>136,314</td>
<td></td>
<td></td>
<td>675,881</td>
</tr>
<tr>
<td><strong>Ntsika 2000</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>In percent</td>
<td>5.8%</td>
<td>13.9%</td>
<td>15.1%</td>
<td></td>
<td>65.2%</td>
<td></td>
<td></td>
<td>100.0%</td>
</tr>
<tr>
<td>In million R</td>
<td>247,027</td>
<td>112,314</td>
<td>121,607</td>
<td></td>
<td>527,070</td>
<td></td>
<td></td>
<td>808,017</td>
</tr>
</tbody>
</table>

Sources: Ntsika Enterprise Promotion Agency (2002: 33)

According to the data in table above Abedian made an effort to compute the impact of SMMEs to GDP. The method used by Abedian was to divide gross value added into compensation of employees and gross operating surplus using the Trade and Industrial Policy Strategies (Ntsika, 2002:50). The first part was allocated to the various size categories according to their contribution to employment, while gross operating surplus was allocated to each type of enterprise using assumed weights. Depending on the assumptions, he arrived at a combined 12 to14.5 percent of GDP being generated by informal SMMEs as set in the (Trade and Industrial Policy Strategies, 2002:25).
3.5 SMME Contributions to investments

The contribution to investments is an important measurement of the economic weight of SMMEs. Ntsika (2003:23) mentions that of the total 906,700 firms operating in South Africa. Large enterprises constitute only 6,000 in number or 0.7 percent of the total. The remainder is made up of SMMEs, which includes survivalist and micro-enterprises. In terms of GDP, the large firms contribute a big percentage to their numerical share (more than 65 percent) when compared to small, medium and micro-enterprises. Large enterprises rely heavily on SMMEs’ performance for supply and demand reasons. This means SMMEs should operate efficiently and effectively in order to increase demand from customers and for large firms to determine the supply volumes (Amathole District Municipality, 2003:55).

3.6 SMME Contribution to job creation

According to Statistics South Africa (2002:22), 11,03 million people were employed in South Africa out of an economically active population of 15,87 million. The percentage of people of working age that are economically active was 56.7 percent. Of these employed:

- 7,03 million (or 63.4 percent) were employed in the formal sector;
- 811,000 (or 7.4 percent) were employed in the commercial agricultural sector;
- 520,000 (or 4.7 percent) were employed in small-scale agriculture;
- 1,7 million (or 15.4 percent) were engaged in informal sector activities; and
- 875,000 (or 7.9 percent) were employed in domestic service.
Table 3.3: Contribution of SMMEs to private sector employment by sector

<table>
<thead>
<tr>
<th>Sector</th>
<th>% of total employment in sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, forestry and fishing</td>
<td>81.5</td>
</tr>
<tr>
<td>Mining and quarrying</td>
<td>21.3</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>55.2</td>
</tr>
<tr>
<td>Construction</td>
<td>84.8</td>
</tr>
<tr>
<td>Wholesale trade</td>
<td>72.0</td>
</tr>
<tr>
<td>Retail trade (including motor trade)</td>
<td>89.5</td>
</tr>
<tr>
<td>Catering and accommodation</td>
<td>76.6</td>
</tr>
<tr>
<td>Transport, storage and communication</td>
<td>65.6</td>
</tr>
<tr>
<td>Finance and business services</td>
<td>69.4</td>
</tr>
<tr>
<td>Community, social and personal services</td>
<td>68.4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>68.2</strong></td>
</tr>
</tbody>
</table>

Source: Ntsika Enterprise Promotion Agency: 2002

Table 3.3 gives an analysis of the involvement of SMMEs to private sector employment by sector in 2001. The largest contribution for employment is at the retail trade sector and this includes motor trade, with the lowest contribution from the mining and quarrying sector.

3.7 SMME profile in the Buffalo City Metropolitan Municipality

The Buffalo City Metropolitan Municipality comprises of merged municipalities of East London and King William’s Town. East London and Mdantsane are the areas known for urban economic opportunities, King William’s Town which has Bhisho as the seat of the Eastern Cape Provincial Government. It is expected that this zone will remain a focus for investment, particularly focused on institutional and cultural heritage aspects.

Based on the Buffalo City Metropolitan Municipality (2008:82), Buffalo City is South Africa’s eighth largest city. The estimated population of Buffalo City in 2005 was
Population growth is noticeably smaller than most of South Africa’s other major cities and metropolitan municipalities. Between 1996 and 2005, the Buffalo City population grew by an estimated 83,056 net people. Buffalo City showed the slowest percentage growth in population of South Africa’s nine metropolitan cities due to the outmigration taking place (Buffalo City Metropolitan Municipality, 2008:200).

Poverty according to income level is wide-spread in Buffalo City. More than 28 percent of households report receiving no income while more than half (57 percent) earn R19,200 per annum or less that is R1,600 per month. Hence, 59,3 percent of all households in Buffalo City earn less than R1,600 per month. Large portions of the population cannot afford basic services (Buffalo City Metropolitan Municipality, 2008:89).

According to Buffalo City Metropolitan Municipality (2008:90) the national population average for HIV prevalence in 1996, 2001 and 2004 was 3, 52 percent, 9, and 47 percent and 11, 02 percent respectively. Buffalo City’s reported HIV positive population for the same period was 2, 53 percent (1996), 9, 10 percent (2001) and 11, 92 percent (2004). Whilst in 1996 and 2001, Buffalo City ranked seventh out of the nine major cities; the city is now ranked as having the sixth highest HIV prevalence.

In terms of business ownership, most of the businesses in Buffalo City are unregistered and operate as a sole proprietor and to a degree; the businesses are run for the main purposes of poverty alleviation (ECDC, 2005:19).

The Mdantsane area comprises of 70 percent of sole proprietor-run businesses while in the rural zones, the sole proprietor businesses can well exceed 80 percent. The second most common forms of registration are the Close Corporations (only nine percent in Mdantsane). This data has been collected from the SMME Development Strategy Amathole District Municipality.

Most of the businesses in Buffalo City are operated within the trade, manufacturing and service sector. According to Buffalo City Metropolitan Municipality (2008:93), the manufacturing sector in Buffalo City is dominated by the automotive industry as well as by older industries such as clothing and textiles.
In general, Buffalo City has a number of manufacturing competitive advantages. However, these are seen to be under pressure and will require pro-active strategies to strengthen. When referring to the trade and services sector, most businesses operate as spaza shops, hair salons, caterers, service stations and general dealers. The manufacturing sector is made up of roughly 13 percent and is led by dressmaking and sewing (Amathole District Municipality, 2005: 17).

In terms of VAT registration and the revenue most businesses make, most SMMEs make a profit up to R5,000 in a month with a minority making a profit above R25,000 per month. In Mdantsane, 90 percent of businesses earn up to R5000 per month. Most of businesses are not VAT registered nor are they registered for Pay-As-You-Earn and Income Tax (Amathole District Municipality, 2005:24).

Most of the businesses in the area are more likely to be conducting the businesses from home and on the streets. This clearly illustrates the lack of trading facilities in the region.

A fair amount of SMMEs in the region are owned by women. According to the Stats SA research conducted in 2001, women entrepreneurs in the Eastern Cape outnumbered men by almost three to one – a figure well above the national average (Stats SA, 2002). In the Mdantsane area, youth business ownership makes up about 21 percent of SMME enterprises.

In Statistics South Africa (2001:6), it was revealed that roughly nine percent of all small businesses in South Africa (mostly black or previously disadvantaged individuals) are in the Eastern Cape, that is, 209,000 small businesses, as stated in the Amathole District Municipality (2001:22). According to the Amathole District Municipality (2001:22), the turnover for the SMMEs was R143 million in February 2001 or seven percent of the national total.

There is a renewed emphasis on the importance of Small, Medium and Micro-Enterprises (SMME) to the South African economy. According to Statistics South
Africa (2008:10), only 41, 9 % of working-age South Africans are employed. In the Eastern Cape, this figure drops to an alarming 34, 5%.

Based on the above profile, it can be deduced that most of the businesses (with a high probability of exceeding the 70 percent mark) are within the range of the informal and micro-enterprise sector, that is, earn less than R300 000 per annum and employ between one and five people (Amathole District Municipality, 2005:25).

3.8 The magnitude of SMME in the Eastern Cape Province

Table 3.4 below shows the number of SMME in the Eastern Cape Province.

Table 3.4: Statistics of SMMEs in the Eastern Cape 1999

<table>
<thead>
<tr>
<th>Category</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro</td>
<td>174 000</td>
</tr>
<tr>
<td>Small</td>
<td>15 000</td>
</tr>
<tr>
<td>Medium</td>
<td>640</td>
</tr>
<tr>
<td>Large</td>
<td>360</td>
</tr>
<tr>
<td>Total</td>
<td>190 000</td>
</tr>
</tbody>
</table>


A study, conducted by Statistics South Africa in March 2001, estimated that about nine percent of all small businesses in South Africa (mostly black or previously disadvantaged individuals) are in the Eastern Cape, that is, 209,000 small businesses (Statistics South Africa, 2001:6). The turnover for the SMMEs was R143 million in February 2001 or seven per cent of the national total (Statistics South Africa, 2001:6).
SMMEs account for only a small percentage of the overall provincial economic product as represented below:

**Table 3.5: SMME Gross Geographic Domestic Product (GGDP) contribution in the Eastern Cape**

<table>
<thead>
<tr>
<th>Category</th>
<th>% Private GGDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro</td>
<td>6</td>
</tr>
<tr>
<td>Small</td>
<td>14</td>
</tr>
<tr>
<td>Medium</td>
<td>15</td>
</tr>
<tr>
<td>Large</td>
<td>65</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: (ECDC: 2003)

Small, micro and medium enterprises make a significant contribution to employment as opposed to informal and micro businesses.

**Table 3.6: SMME Employment Contribution in the Eastern Cape**

<table>
<thead>
<tr>
<th>Category</th>
<th>% Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro</td>
<td>17</td>
</tr>
<tr>
<td>Small</td>
<td>16</td>
</tr>
<tr>
<td>Medium</td>
<td>21</td>
</tr>
<tr>
<td>Large</td>
<td>45</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: ECDC (2003:25)

In 2001, the contribution of SMMEs (excluding survivalist and micro enterprises) to GDP was 36, 1 percent as opposed to 32, and 7 percent in 1995 in South Africa. In the agricultural and construction sectors, SMMEs accounted for at least 50 percent of the
sector GDP. In terms of employment, an interesting trend has been established. In 2002, SMMEs employed 68.2 percent of people as opposed to 44 percent in 1995 and 53.9 percent in 2001. Medium enterprises constitute the most significant SMME employer, accounting for 21 percent of SMME employment as indicated in the (DTI, 2002:45).

3.9 Concluding remarks

This chapter has presented the definition of the SMMEs. The National Small Business Act of 1996 as revised by the National Small Business Amendment Bill of March of 2003 was used to define the SMME sector in this treatise. The role of the SMME in the economy of South Africa was also presented. In this regard, the contribution of the SMMEs to GDP, employment and investment in South Africa was discussed. Due to a declining labour absorption capacity in South Africa the small business sector played a critical role in the creation of jobs in SA.

The extent and the magnitude of the SMME sector both in Buffalo City and the Eastern Cape at large was presented. Clearly the SMME sector is very much prominent in this region, in that close to 70 percent of the sole proprietors are in Mdantsane. Most of the businesses are in the manufacturing sector.

Further SMMEs employed 80 percent of the labour force in Eastern Cape. The magnitude of the SMME sector in Buffalo City and Eastern Cape reinforces the significance of this study in that in order to ensure the success and effectiveness of the SMME sector, the regulatory environment has to be scrutinised. The next chapter presents the regulatory environment of the SMME sector.
CHAPTER 4

THE REGULATORY ENVIRONMENT OF THE SMALL, MEDIUM AND MICRO-ENTERPRISE SECTOR

4.1 Introduction

Theron and Godfrey (2000:53) state that governmental laws and regulations are unclear. These are also not easy to follow or apply. Even though this may be accurate, regulations remain important to the fair and justifiable for market economies. Nevertheless, even necessary regulations create costs which may be unnecessarily burdensome and high for concomitant benefits.

For the second year running, an investigation by Grant Thornton (2006:1) into the patterns and opinions of medium sized businesses, employing between 50 and 250 people, concluded that the effect of regulations and red tape remains the biggest constraint to the expansion of businesses in South Africa. The impact of regulations on SMMEs is not limited to South Africa only. Nearly all international research in this area reports evidence that the regulatory burdens faced by SMMEs are large (Evans, 2003:68).

The benefits of a strong SMME sector are widely acknowledged. The small businesses are recognised worldwide as the key driver for economic success (Arendse, Karlinsky, Killian & Payne, 2006: 1). The SMME sector is the key driver of job creation, generators of sales and a play a key role in the creation of revenue.

The Ntsika Enterprise Promotion Agency (2002: 67) mentions that of the 906,700 firms operating in South Africa, large enterprises constitute only 6,000 or 0.7 percent of the total. The remainder is made up of SMMEs, which include survivalist and micro-enterprises. In terms of GDP, the large firms contribute a big percentage to their numerical share more than 65 percent as compared to small, medium and micro-enterprises.
The increasing importance of the regulatory effect on SMMEs is acknowledged by government as evidenced by government officials. For example, the former president Nelson Mandela stated:

My government and I are aware of many obstacles that have prevailed against small businesses, historical injustices which prevented the majority of South Africans from gaining access to finance and other resources, restricted their access to major markets, and indeed, prevented millions of people from becoming entrepreneurs. These practices have resulted in what is now a much distorted economy, in which so many small businesses and black businesses are confined to the margins of economic activity, (Davie & Hetherington, 1999:1).

In the state of the nation address by former president Thabo Mbeki, he stated the necessity of the expansion of the SMME sector. He confirmed his support to helping generate the required resources for the expansion and growth of the SMME sector, declaring that:

We will also speed up the consultative process to determine the measures we must take to improve the regulatory climate to facilitate the expansion of this sector, (The Presidency, 2006:14).

The aim of this chapter is to discuss the regulatory environment of SMME. The chapter begins by presenting the impact of the regulatory environment on the SMME sector. This is followed by a discussion on business registration requirements. The second part of the chapter presents the effect of labour regulations on SMMEs. The third part of the chapter provides a discussion on tax issues pertaining to SMME in SA. Concluding remarks are presented at the end of this chapter.

4.2 The impact of the regulatory environment on SMMEs in the Buffalo City Metropolitan Municipality

According to the Department of Trade and Industry (2003:18), South Africa’s post-1994 economic policy has, as its core, the creation of an equitable, sustainable and internationally competitive economy. Key to this policy is the need to support the small
business sector. With many economic policies being pursued concurrently, it is not always clear what the broader impact of government’s new policies is (Department of Trade and Industry, 2003:19). This is a fundamental concern for small business, and particularly micro and very small businesses because of the access to the prescribed processes are absent. On the other hand, large businesses, with better resources, are better able to provide feedback on the likely impact of new policies. The (DTI, 2003:77) states that in 2003 no fewer than 61 bills were legislated. At least a third of these bills, issues relating to small business interests were present. There is no reliable way of assessing whether small business interests were taken account of and with no organised national voice; the chances are likely to have been slim.

DTI (1995:26) stipulates that government has entrusted the DTI with the responsibility of closely monitoring and where needed, coordinating and assisting the regulatory reform process in order promote this sector. Furthermore, the DTI (1995:24) outlines the DTI’s responsibility the distinctively charges the implementation of such a responsibility by DTI to be carried out in a manner in which the DTI should discharge its duties in this area:

- Studies by diverse central government departments and consultants with relevant stakeholders about the correctness of present and projected legislation and regulations in the fields of taxation, labour, zoning and building controls, tendering processes, training requirements, health and occupational conditions, and how the present legislation can be made more appropriate for small enterprises; and
- Steps to be taken by the provincial and local government departments to reduce restrictive legislation and regulatory conditions.

Even though some steps have been taken, there remains reasons for more studies to be conducted in order alleviate the barriers and for the government to be shown that there is still more work that is needed to be done. The World Bank (2008: 25) reveals that there is currently poor statistical data available on the monitoring of policy effectiveness on the SMME sector. The World Bank (2008: 25) data show that a quick, efficient and cost-effective business registration process is critical to fostering formal sector entrepreneurship (Klapper et al., 2009:5). Djankov, Lieberman, Mukherjee and Nenova (2002:130) stated that countries where business regulation was most burdensome are
more likely to be undemocratic, characterised by official corruption, have larger unofficial economies and lower levels of wealth.

Stel and Suddle (2007: 171) state that European Union countries, where these barriers were high, responded, between 1999 and 2006, to the challenge of reducing the burden. Consequently, France reduced the number of days taken to start a business from 53 to eight. Spain also reduced the the number of days which fell from 82 to 47. In Italy, the registration process fell from 62 to 13 days. In addition, the World Bank (2004:10) stated that, heavier regulation is generally associated with more inefficiency in public institutions, longer delays and higher cost and more unemployed people, less productivity and investment, but not with better quality of private or public goods.

4.3 Business registration requirements on the SMME sector in South Africa

DTI (2003:17) states that it is important to note that starting a business does not necessarily mean that the business is already trading. In Global Entrepreneurship Monitoring terminology, a start-up becomes a running business when it starts paying wages and salaries. This means that entrepreneurs who are recorded as starting a business, may be typical one-person businesses but may not have yet reached the stage where they can pay remuneration to their owners, others may be at the stage where projects may never come to fruition.
Listed below is the registration processes followed in South Africa in all the provinces. The table depicts the number of days required to start the business, the young business entrepreneurship rate, opportunity nascent entrepreneurship rate and the necessity nascent entrepreneurship.

**Table 4.1: Number of days required to start a business and entrepreneurship rates in 2005**

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of days required to start a business</th>
<th>Young business Entrepreneurship rate</th>
<th>Opportunity nascent Entrepreneurship rate</th>
<th>Necessity nascent Entrepreneurship rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>2</td>
<td>4.66</td>
<td>4.99</td>
<td>0.49</td>
</tr>
<tr>
<td>Netherlands</td>
<td>11</td>
<td>1.93</td>
<td>1.81</td>
<td>0.16</td>
</tr>
<tr>
<td>Switzerland</td>
<td>20</td>
<td>3.71</td>
<td>2.28</td>
<td>0.16</td>
</tr>
<tr>
<td>Argentina</td>
<td>32</td>
<td>3.93</td>
<td>4.43</td>
<td>1.4</td>
</tr>
<tr>
<td><strong>South Africa</strong></td>
<td><strong>38</strong></td>
<td><strong>1.74</strong></td>
<td><strong>1.89</strong></td>
<td><strong>1.14</strong></td>
</tr>
<tr>
<td>Spain</td>
<td>47</td>
<td>3.36</td>
<td>2.08 0.3</td>
<td>0.3</td>
</tr>
<tr>
<td>Mexico</td>
<td>58</td>
<td>1.36</td>
<td>2.78 0.6</td>
<td>0.6</td>
</tr>
<tr>
<td>Brazil</td>
<td>152</td>
<td>8.17</td>
<td>1.71</td>
<td>1</td>
</tr>
</tbody>
</table>

Sourced from: World Bank 2005:15

Table 4.1 shows the number of days required to start a business for those countries participating in the GEM in 2005.
The information below outlines the administrative and legal obstacles faced by an entrepreneur in order to register a new business, together with their related time and set-up costs. Table 4.2 stipulates the processes, time and cost involved in initiating a commercial or industrial firm with up to 50 employees and start-up capital of 10 times the economy's per-capita gross national income (GNI).

Table 4.2 Registration of a company

<table>
<thead>
<tr>
<th>No.</th>
<th>Procedure</th>
<th>Time to Complete</th>
<th>Associated Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Reserve a company name with the Registrar of Companies and pay fees</td>
<td>3 days</td>
<td>ZAR 50</td>
</tr>
<tr>
<td></td>
<td>The company name can be reserved electronically via the Internet. Otherwise, the promoter must go to the CIPRO and pay the prescribed fee. The official at the CIPRO offices will submit the application electronically on the person’s (company or individual) behalf. Once CIPRO has approved the propose company name, the reservation is valid for 2 months extended by a period of 1 month, within which the company can be incorporated. The name reservation application is processed only if the agent has a credit balance on his or her account. CIPRO officials assign a tracking number to the electronic name reservation and process it in that order. The filing takes 5 minutes; the approval/rejection process takes about 3–5 days depending on the availability of the Web site and the number of applications received and any backlog. In-person filing of a name reservation application at the CIPRO offices may take longer. A name reservation can be extended for another month by filing a name reservation extension form (Form CM6) and paying ZAR 20. When an applicant lodges documents with CIPRO the applicant would be required by CIPRO to open an agent account for the purpose of debiting the amount of any fees payable in connection with that lodgement and future lodgements. On lodgement of the reservation of name application (Form CM5) CIPRO will immediately debit the agent account with an amount of ZAR 50.</td>
<td>3 days</td>
<td>ZAR 50</td>
</tr>
<tr>
<td>2</td>
<td>Lodges formation documentation with CIPRO in Pretoria, Gauteng Province, South Africa for registration</td>
<td>5-7 days</td>
<td>ZAR 350</td>
</tr>
<tr>
<td></td>
<td>A certificate to commence business is required by law (s172 of the Companies Act) before a company can legally trade or raise finance. The form CM46 – certificate to commence business is submitted together with the formation documentation. The Registrar will incorporate the company once all the following documents are submitted simultaneously:</td>
<td>5-7 days</td>
<td>ZAR 350</td>
</tr>
<tr>
<td></td>
<td>➢ A copy of Cipro’s letter advising that the name has been approved and reserved.</td>
<td>5-7 days</td>
<td>ZAR 350</td>
</tr>
<tr>
<td></td>
<td>➢ One signed set of the certificate of incorporation, Memorandum and Articles of Association together with the necessary signatory’s pages. The memorandum of association must reflect the lodgement fees payable which are calculated based on the authorized share capital of the company as a flat rate of R350 plus R5 for every R1,000 or part thereof or, in the</td>
<td>5-7 days</td>
<td>ZAR 350</td>
</tr>
<tr>
<td></td>
<td>lodgement of a name reservation application in person at Cipro’s office may take longer.</td>
<td>5-7 days</td>
<td>ZAR 350</td>
</tr>
</tbody>
</table>
event of the company having shares of no par value, R5 for each 1,000 shares or part thereof. The minimum fee payable on a formation of a company is R415.
- Form CM22 (notice of registered office and postal address) in duplicate.
- Form CM29 (register of director and information pertaining to a company secretary).
- Form CM31 (consent to the appointment of the auditor) in duplicate. Every South African company must appoint a South African auditor.
- Forms CM27 A (consent to the appointment of the company secretary).
- Form CM46 (the certificate to commence business)
- Form CM47 (statement by each Director indicating there is adequate capital in the Company for the purpose of the company's business)

The Registrar will attend to the recording of the registration by allocating a registration number to the company and will release the Memorandum and Articles of Association, certificate of incorporation and certificate to commence business, one form CM22 and CM31. In addition to the CM forms listed above a CM47 which is a statement by each Director indicating there is adequate capital in the Company for the purpose of the company's business, also needs to be completed by the directors of the Company and lodged with CIPRO.

<table>
<thead>
<tr>
<th>3</th>
<th>Open a bank account</th>
</tr>
</thead>
<tbody>
<tr>
<td>In order to open a bank account, the applicant needs to have a proof of which the directors are, and the original company documents. This procedure might take longer if required documentation is not in order.</td>
<td>1-2 days</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>4</th>
<th>Register with the office of the local receiver of revenue (SARS) for income tax, VAT, and employee withholding tax (PAYE and SITE).</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business with annual taxable income of more than ZAR 1,000,000 needs to register for VAT. The application for the registration of VAT is done on a VAT101 form. Cipro and the South African Revenue Service are linked electronically. Once a company is incorporated the relevant South African Revenue Service office is advised and an income tax number is allocated to such entity. The company also has to register as an employer by means of &quot;EMP 101e&quot; form that caters for the necessary registration of all the withholding taxes applicable to the taxpayer including PAYE (Pay as You Earn. i.e.: employee tax) or SITE (inclusive of employee tax), UIF (Unemployment Insurance Fund). SITE always is payable on the &quot;first&quot; R60 000, where after PAYE is payable on the excess (e.g. amount after R60, 000. The Employer is compelled to register as employer in terms of paragraph 15 of the 4th schedule to the Income Tax Act. If an employee earns less than ZAR60 000 SITE is payable and if the employee earns more than ZAR 1, 00,000 PAYE is payable. No separate registration required for SITE. Any employer who is liable to register with SARS for the payment of employees' tax is also required to register with SARS for purposes of paying unemployment insurance fund contributions. An employer does not have discretion whether to</td>
<td></td>
</tr>
<tr>
<td>12 days</td>
<td>No charge</td>
</tr>
</tbody>
</table>
register with SARS or the Unemployment Insurance Commissioner (Department of Labour), as the liability of the employer to register and pay employees' tax and SDL will determine with whom an employer must be registered for UIF purposes.

With regards to VAT applications, SARS assesses the viability of the business as part of the registration process. The company must appoint a public officer in terms of section 101 of the Income Tax Act and must advise the relevant SARS office of the full name, residential and postal address of such person. This person must be a resident of South Africa. SARS also carries out a physical inspection of the business premises and performs an interview with the public officer (or the tax practitioner authorised to carry out the registration process) before the VAT registration application is processed.

SARS introduced new verification procedures for VAT registration with effect from 13 November 2008 in an attempt to combat fraud. These requirements include 1) applications must be submitted in person or by a duly authorised and registered tax practitioner, 2) applications must be accompanied by proof of identity, bank particulars and documentation substantiating the physical business address.

<table>
<thead>
<tr>
<th>Procedure</th>
<th>Description</th>
<th>Timeframe</th>
<th>Fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>Register with the Department of Labor for Unemployment Insurance. To register for unemployment insurance, the company submits U18 &amp; U19 application forms at once. Once the application is approved, the Department of Labour issues a reference number.</td>
<td>4 days, simultaneous with Procedure 4</td>
<td>No charge</td>
</tr>
<tr>
<td>6</td>
<td>Register with the Commissioner according to the Compensation for Occupational Injuries and Diseases Act. Registration forms can be obtained from the Department of Labour's Web site (<a href="http://www.labour.gov.za">www.labour.gov.za</a>). Businesses do not have to wait for the approval of registration to start operations. The relevant form is a W.As.2, and written notification will be sent once the completed application has been examined.</td>
<td>Around 10 days, simultaneous with Procedure 4</td>
<td>No charge</td>
</tr>
</tbody>
</table>
| 7 | Deregistration The processes and forms to be used for deregistration of companies and close corporations are identical in the new Companies Act, due to the fact that section 26 of the Close Corporations Act, 1984 was repealed. A company or close corporation may be referred for deregistration in the following circumstances:  
- Upon application by the company / close corporation itself;  
- If annual returns are outstanding for more than 2 (two) successive years, in which case the company or close corporation will be automatically referred by the system and then notified;  
- If the Commission believes that the company or close corporation has been inactive for 7 (seven) years or more. Once a company or close corporation has been finally deregistered, it may apply for restoration where after all outstanding information (including annual returns) must be lodged. The Act does not provide for deregistration or re-instatement | | |
(restoration) of an external company and therefore they cannot be referred for deregistration due to annual return non-compliance. The reason for this is that only the secondary registration in South Africa was deregistered and the primary registration in the country of origin is still intact.


The data which has been demonstrated above is the processes which are practised in South Africa. The most recent data collection for the project was completed in June 2010.

According to World Bank Doing Business (2010:15), it takes 38 days to register a new business in South Africa which is faster than Germany, the Netherlands and China. Nevertheless, the cost of registering a business in South Africa amounts to about 8, 7 percent of income per capita. In Denmark, there is no monetary cost.

The National Small Business Advisory Council’s Strategic Business Plan (2010:24) makes provision to significantly reducing regulatory and bureaucratic constraints impacting on the small-business environment, by making business registration process accessible to all, review regulatory framework to identify constraints to speed of access to finance and markets.

Klapper et. al., (2009:1) suggests that greater ease in starting a business and better governance are associated with increased entrepreneurial activity. After controlling for economic development higher entrepreneurial activity is associated with cheaper, more efficient business registration procedures and better governance.

Small Business Project (2005:19) reiterated the concerns regarding the effect of regulation on small business and has been evidenced by the 1995 White Paper on Small Business Promotion, which records government’s commitment to ensuring the appropriateness of rules and regulations for the small business sector, and tasks the DTI to “closely monitor and, where possible or necessary, coordinate and assist the regulatory reform process”.

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The “burden of red tape and bureaucracy” and “unintended negative impacts of new legislation and regulations” are two important grievance areas for small enterprises which are highlighted in the White Paper on National Strategy for the Development and Promotion of Small Business in South Africa 1995 and which have often been reiterated by the (DTI, 2004:14). At the same time, small enterprises should recognise that regulations are essential for health reasons, improved product and service quality, international acceptance of South Africa exports and the steady improvement of the quality of life (DTI, 2004:14).

Higher start-up costs discourage entrepreneurs which results in an increased portion of the population who become employees. Job creation is a low level. Costly regulations hinder the creation of new firms, especially in industries that already have high barriers to entry.

4.4 Effect of labour regulations on SMMEs

According to Berry et al (2002:51), a number of challenges are faced by the SMME sector in South Africa which encompasses the need to increase the level of human capital and to assure its effective allocation among potential uses. Labour markets and skill level are undoubtedly the most important contributors to the growth of the SMME sector.

As stated in Kesper (2000:191), “labour laws” are the most frequently perceived constraint of established SMMEs, which are said to raise the costs of employment, especially of lower-skilled employees; artificially prolong retrenchments or corrective action; and do not allow for adequate flexibility, especially in wage settings and the arrangement of working time. Flexibility in the labour market is regarded as a driver of job creation.

Chandra (2001:32) submits that where, for example, wages are rigid, the impact of these shocks result in unemployment as firms are unable to adjust wages downwards to meet competitive pressures and therefore respond by hiring less labour. Nonetheless, Lewis (2001:51) states that the emphasis on regulations should not overshadow the other factors contributing to SMME growth.
The World Bank claims that South Africa’s fairly inflexible labour market has increased the regulatory burden on businesses and curtailed employment creation and economic growth. This claim was reiterated recently in the World Bank Doing Business in 2009 report.

Moreover, the World Business Environment Survey (2000:22) underlined three essential constrictions to investment and job creation in large manufacturing firms in South Africa. These were recent labour regulations, skills shortage and crime. This survey exposed that, in labour regulations, South Africa not only performed below Organization for Economic Cooperation and Development (OECD) member countries but also below middle-income countries (OECD, 2000:5).

As stated by Berry et al., (2002:57), one of the key factors intensifying the unemployment problem in South Africa is that the large presence of an unskilled labour which is exacerbated by two further factors:

- South Africa’s legacy of unequal access to human capital has created a large relatively low-skilled component of the labour force at a time when demand is falling rapidly for that skill level; and
- Trade unions have considerable strength and would naturally be unwilling to accept that, if the equilibrium wage is very low, it should be accepted.

The World Bank SMME survey (2000:12) has not placed focus on which facets of the laws are constraining. Nevertheless, SMMEs have indicated that they do not ideally professionalise industrial relations like large firms, and therefore their desire is that labour regulation should be more flexible for small firms in general, and in particular, when dealing with unskilled or less productive labour (Berry, Von Blottnitz, Cassim, Rajaratnam and Van Seventer, 2002:62).

The following is a synopsis of the acts and their apparent undesirable effects on SMMEs as recorded in the World Bank SME survey (2006:14). This shows that some SMME entrepreneurs use labour experts or seek out legal guidance even though some may not apprehend all facets of law or understand the technical language in which the
4.4.1 The Labour Relations Act (LRA) 66 of 1995

The LRA summarises organisational rights, sets a framework for collective bargaining and extending council agreements to non-parties, offers mechanisms for resolving disputes (including unfair dismissal) and regulated industrial action, and permits the establishment of workplace forums.

SMMEs complain about bargaining councils not including their interests in wage negotiations and the prolonged and burdensome dispute resolution procedures, (Ntsika Promotion Agency, 1999b:69). Meanwhile, there is no probation period for new staff and unfair dismissal claimants are to be paid until the date of the hearing, which is often postponed several times, (Berry et al., 2002:56).

SMMEs state that they may be intimidated by the CCMA proceedings and often fail to not have the expertise to effectively represent themselves. They also claim that the dispute resolution system, of which the CCMA is part, impose a disproportionate burden on small businesses. In addition, it appears that commissioners do not show much regard for the size of the enterprise when making rewards, a factor which may have a differential impact on small businesses, (Godfrey, 2000:56).

Efforts to create a friendlier environment for small businesses are often criticised as these are mainly limited to attempt to deregulate the labour market, (Theron and Godfrey, 2000:53). Kesper (2005) and Godfrey and Theron (1999) claim that, despite the existence of a wide range of literature on regulation and competition, very little has been done to directly assess the effects of regulation on firm competitiveness, especially SMMEs.

4.4.2 The Basic Conditions of Employment Act (BCEA) 75 of 1997

The BCEA lays down basic working conditions such as regulation of ordinary working hours, overtime and leave, and overtime rates, leave provisions and severance pay...
applicable to all fully-employed (working more than 24 hours per week for one employer) in firms with more than five employees.

SMME owner-managers point out that the minimum wage levels, as set by the Employment Conditions Commission (ECC), discourages them from taking on unskilled labour entrants and employing young women. In the case of hiring or employing women, the four months maternity leave is unpaid. Working hours are not averaged as this is not permitted by individual agreement and, together with the limitation of maximum overtime, reduces the flexibility of SMMEs (Berry et al, 2002:56).

Paradoxically, the multi-shift scheme of the ECC aims to encourage small firms to introduce a three-shift working day, while the BCEA prohibits multi-shift work, unless written approval is given by the respective trade unions. The reduction in normal weekly working hours from 45 to 40 is of concern to many SMMEs in South Africa because the minimum overtime rate has been increased to 150 percent of the normal rate. SMMEs see the expansion of their permanent labour force curbed by the costs of the three weeks’ leave provision plus three days family responsibility leave per annum (it is suspected that this benefit is been abused), while severance pay and notice provision requirements force “struggling” SMMEs to continuously work short-time rather than reduce their labour contingent (Kesper, 2002:55). Consequently, SMMEs are unwilling to increase their permanent labour force because of the costs associated with the three weeks’ leave provision and the three days family responsibility leave per annum.

### 4.4.3 The Employment Equity Act 55 of 1998

The act aims to prevent unfair discrimination by employers on the basis of race, gender or health status, and obliges companies with more than 50 employees to develop and implement an employment equity plan to ensure the equitable representation of previously disadvantaged individuals (PDI) in all occupational categories and levels in the workforce (Ntsika, 1999b:29).
Problems identified by larger SMMEs relate to the assignment of a manager to the design and monitoring of such a plan, the search costs involved in identifying suitable PDI candidates for vacancies that require high skill levels, and compliance with this act might require costly retrenchments of long-standing employees (Kesper, 2002:58).

4.5 Tax issues pertaining to the SMMEs

High tax rates and complex tax administration are constraints to enterprise development and can force firms to operate in the “grey” economy, where the pay-off from productive and non-productive activities can be high, with possible tax evasion or avoidance (Mahadea, 2008:431).

The Small Business Project (2003:2) shows that taxation ranks high as a source of regulatory cost and disincentive for small-scale entrepreneurs. It is assumed that small businesses are generally reluctant to enter the formal economy despite the many advantages such as access to bank finance because this step implies falling into the tax net. This is a loss not only to the economy but also to state revenue, because micro-enterprises operate on a cash basis without a “paper trail”, making the enforcement of compliance by the South African Revenue Service (SARS) more difficult.

It is common knowledge that the burden of tax and regulatory compliance impacts adversely on small businesses … (Trevor Manuel, 2005)

The SMME compliance cost in South Africa was R79b (about 6.5 percent of South Africa’s GDP) in 2004, whereas in the OECD, it was less than three percent. It takes about 350 hours (almost nine standard working weekdays) a year for a medium-sized firm to prepare, file and pay taxes in South Africa, a much higher figure compared with that in the United Kingdom (105 hours) and Botswana (140 hours) according to the World Bank (2007:45).

According to Venter (2007:76), income tax or normal tax is taxed in terms of section 5(1) of the Income Tax Act 58 of 1962 on the taxable income received by or accrued to any person during the specific year of assessment. The calculation of the taxable income
of the person is calculated and based upon the background of activities and legal form of the relevant taxpayer.

There are essentially two wide-ranging groups of taxpayers; the first category is a person taxed on the income received for example, a sole trader or partnership, and the second group is where the business is taxed and not the individual for example, companies and close corporations (Venter, 2007:76). For businesses, the income tax category is vital in determining how much tax a business should pay.

The Income Tax Act 58 of 1962 is responsible for information relevant to the various mechanisms that are used to compute taxable income and tax liability. A taxpayer’s annual tax liability is calculated on the basis of the annual tax return that that taxpayer must submit (Income Tax Act 58 of 1962). The information in the tax return is used to calculate the taxpayer’s taxable income for the year of assessment. This amount is then multiplied by the appropriate tax rate depending on the business services SMMEs taxation classification. The following tax rates can be applied to a SMME depending on the legal structure of that SMME:

- A sole proprietor or each individual partner of a partnership is subject to tax on his/her taxable income at progressive rates ranging from 18 percent to 40 percent; and

- Companies and close corporations pay tax at a flat rate of 29 percent on their taxable income for the year of assessment (except in the case of a small business corporation or personal services company – refer to the next sections) and 12.5 percent secondary tax on companies on the net amount of dividends declared (SARS, 2006).

Value added tax (VAT) is an indirect tax levied in terms of the VAT Act 89 of 1991. VAT must be included in the selling price of every taxable supply of goods and/or services made by a vendor. In determining the VAT liability, the vendor must subtract all the input tax claimed from the output tax charged. Should the output tax exceed the input tax, the vendor has to pay the excess to SARS. Should the input tax exceed the output tax, the vendor will be entitled to a refund from SARS (South African Revenue Services, 2006:15).
In terms of compliance, the person with taxable supplies of more than R300,000 excluding VAT must register as a vendor for tax purposes (De Koker, 2004:26). Every vendor is registered for a specific tax period, depending on the size of the business. The tax period may vary from one month to four months. The VAT returns (VAT 201) and any VAT due to SARS must be filed and paid before the 25th of the month following the end of the tax period (Tustin et al., 2005: 20). A supplier must furnish a recipient with a tax invoice within 21 days of a request to do so (South African Revenue Services, 2004:15). If there is a change in the conditions of sale, a debit or credit note should be issued (Brettenny, 2005:106). Late payment or submission of a VAT return could lead to interest and penalties being charged.

According to the Small Business Project (2003:4) VAT requires reasonably high standards of bookkeeping skills as well as time to fill in the VAT forms, deal with queries from customers and suppliers and bad debts. Remarkably, a United Kingdom study of VAT collection costs in 1992 showed that two thirds of the total costs were borne by smaller businesses with a turnover of less than R500,000. A more recent report found that 15,3 percent of VAT-registered firms in the United Kingdom believed that the registration threshold is a problem; 18 percent of non-registered businesses stated that they intentionally forego growth so that their turnover remains below the VAT-registration limit.

Competition from non-VAT registered firms was a significant problem for many businesses, Small Business Project (2003:4). VAT provides an additional incentive for producers to avoid taxation altogether and join the informal economy.

SARS has become strict in imposing the rule that VAT should be paid on invoice and not on receipt of payment. This hits small businesses hard because of shortage of capital and the need to finance start-ups for an extended period before they produce positive cash flows. This regulation has led to serious cash flow problems for small businesses, and in particular those that sub-contract to larger entities which often take their time to pay. There is an overwhelming case for placing small businesses on a cash or receipt basis for VAT (Small Business Project, 2003:4).
Based on discussions above already it is evident that there are numerous legal processes that SMMEs must follow. The application of the legislation with applicable time span imposes a major load on SMMEs. Considering that micro business services establishments only have on average three full-time administrative employees and medium-sized business services establishments only have 12 full-time administrative employees, most SMMEs will find it difficult, not only to comply with the requirements but also to keep up to date with changes, (Venter, 2006:82).

The complexity of a tax system can be an obstacle for small enterprises that wish to comply with tax regulations. In order to comply the SMME must have the required documentation and must submit returns on time on the prescribed form. This entails some administration work and a lot of work indeed. When the requirements are not met adequately and efficiently, this may result in fines, penalties. The penalties and interest charges that can be imposed on a business have an influence on compliance costs, (Abrie, 2006:5)

There is a clear indication that most establishments elect to perform routine tax functions internally in cases where the rules generally stay the same. Besides VAT, most SMMEs deal with the following monthly taxes internally:

- Regional Services Council (RSC) levies;
- Unemployment Insurance Fund (UIF) levies;
- Skills Development Levies (SDL); and
- Employees’ Tax (SITE and PAYE), (Abrie, 2006:5).

According to the Small Business Project survey (2005: 40), approximately half of the small establishments are of the opinion that the burden of complying with tax regulations has increased during the past three years. This observation contributes to undesirable tax morale and contributes to non-compliance.
4.6 Concluding remarks

In the 2005 Budget Speech (National Treasury, 2005:6), the former finance minister Trevor Manuel stated:

“…we have directed attention this year at the costs and complexities for the small business of the tax code because there is compelling evidence that simplified arrangements can assist significantly in creating an environment conducive to enterprise development.” Moreover the former finance minister recommended that in assisting the small business sector, there should be policy and administrative modifications that should be made. Henceforth, in 2005 saw the beginning of structural modifications that would:

- Assist small business in its start-up phase;
- Reduce compliance costs and red-tape;
- Provide tax education and assistance; and
- Build a positive tax compliance climate in South Africa (Manuel, 2005:1).

According to Small Business Project (2009:19), the regulatory, administrative and operating environment should be constantly monitored to uncover and remove constraints on small business growth. In conclusion, a proper regulatory and institutional atmosphere is the most significant factor in an economic growth strategy.

The World Bank Group Entrepreneurship Survey findings (2008:25) show that countries with the highest business entry rates provide entrepreneurs with a stable political climate, good governance, modernised business registries, reduced red tape and simplified business legal forms. Therefore, policy makers and governments should take these variables into account in order to better design, implement, monitor and evaluate policies and programs aimed to develop the private sector, (Klapper et. al, 2009:18).
In summary, the case for making the tax system more “user-friendly”: business in general, but especially small business, should be enabled to concentrate on its basic task of creating wealth and jobs rather than filling out forms (Small Business Project, 2003:2).

Based on the discussions in this chapter, it is evident that there are many legal requirements that SMMEs should meet. Correctly applying the legislation and complying with relevant timeframes is a major burden for SMMEs. Considering that micro business services establishments have on average only three full-time administrative employees and medium-sized business services establishments have only 12 full-time administrative employees, most SMMEs find it difficult, not only to comply with the requirements but also to keep up to date with changes, (Venter, 2006:82). The next chapter presents the empirical findings of the study.
CHAPTER 5

EMPIRICAL RESULTS

5.1 Introduction

The objective of the chapter is to present the empirical findings. The chapter begins with the demographic data, the registration processes, labour regulations on SMMEs in the Buffalo City area and tax issues pertaining to SMMEs in Buffalo City. The chapter concludes by discussing the implications and the interpretation of the findings. The objective of this chapter is to present, using experimental findings from the investigations, the impact of the regulatory environment on SMMEs based in the Buffalo City Metropolitan municipal area.

5.2 Demographic information

5.2.1 Gender

Figure 5.1: Gender

Source: Survey 2011

The amount of female respondents numbered seven percent while the remaining respondents 93 percent were males (Figure 5.1).
5.2.2 Race

Figure 5.2 Race classifications and percentage

<table>
<thead>
<tr>
<th>Race Classification</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coloured</td>
<td>0.066</td>
</tr>
<tr>
<td>Asian</td>
<td>0</td>
</tr>
<tr>
<td>Black</td>
<td>0.933</td>
</tr>
<tr>
<td>White</td>
<td>0</td>
</tr>
<tr>
<td>Other</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: Survey 2011

Ninety three percent of the respondents were black; six percent were coloured, and none were white, Asian and other race (Figure 5.2).

5.2.3 Ownership of business

Table 5.1 Ownership of business

<table>
<thead>
<tr>
<th>Ownership</th>
<th>N</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Owner</td>
<td>28</td>
<td>93 percent</td>
</tr>
<tr>
<td>Manager</td>
<td>2</td>
<td>7 percent</td>
</tr>
<tr>
<td>Total</td>
<td>30</td>
<td>100 percent</td>
</tr>
</tbody>
</table>

Source: Survey 2011

The respondents were asked to indicate their role in the businesses. Ninety three percent indicated that they were owners of the businesses, while seven percent indicated that they were managers or members in the business (table 5.1).
5.2.4 Nature of business

Figure 5.3 Nature of business

Respondents were asked to state the nature or type of business they were involved in. Forty percent indicated that they were in construction, with 20 percent, being involved in the technology sector. The respondents who operated within the manufacturing industry constituted of 13 percent. Businesses categorised as “other” were the businesses involved in events management, constituted of 27 percent (Figure 5.3).
5.2.5 Forms of business

Figure 5.4 Forms of business

The highest percentage 80 percent operated Close Corporations while the lowest percentage, seven percent of the businesses operated private companies. Respondents operating as a sole trader were 13 percent. The percentage of respondents running a family business and any other type of business was nil (Figure 5.4).

Source: Survey 2011
5.2.6 Business Premises

Figure 5.5 Business Premises

![Business Premises Chart]

Source: Survey 2011

Respondents were requested to indicate whether their business premises were rented or owned. The majority of the responses, that is 73 percent respondents, indicated that the business premises were rented. The remaining 27 percent respondents owned their business premises (Figure 5.5).

5.2.7 Operational years of business

Figure 5.6 Period of business

![Period of business Chart]

Source: Survey 2011
The respondents were requested to illustrate the number of years the business has been operating. Sixty six percent of the respondents indicated that they had been operating between one and five years. Twenty percent indicated that their businesses had been operating between six and 10 years. Seven percent of the respondents indicated that their businesses had been operating between 11 and 15 years. Another seven percent of the respondents indicated that their businesses had been operating between 16 and 20 years. None of the businesses had been operating for more than 20 years.

### 5.2.8 Number of employees

#### Table 5.2 Number of employees

<table>
<thead>
<tr>
<th>Employee number</th>
<th>N</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-5</td>
<td>14</td>
<td>46.67 percent</td>
</tr>
<tr>
<td>6-10</td>
<td>14</td>
<td>46.67 percent</td>
</tr>
<tr>
<td>11-20</td>
<td>2</td>
<td>7 percent</td>
</tr>
<tr>
<td>21-30</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>31+</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>30</td>
<td>100.00 percent</td>
</tr>
</tbody>
</table>

Source: Survey 2011

The respondents were asked to indicate the number of employees in the businesses. Responses indicated that 46, 67 percent of the businesses had between one and five and 46, 67 respondents indicated that the number of employees were between six and ten employees. Seven percent of the respondents employed between 11 and 20 employees while none of the respondents employed 21 employees and more (Table 5.2).
5.2.9 Business registration period

The respondents were asked to indicate the business’s registration period. Thirty two percent of the respondents indicated that registration had taken between 31 and 60 working days to complete their registrations. Twenty percent of the respondents indicated that the registration period had been between 15 and 30 working days. Thirteen percent of the respondents indicated that the business registration process had taken between 11 and 14 working days. A smaller group of 21 percent of the respondents registered their businesses within a period of 61 and 150 working days. Only 14 percent of the respondents indicated a business process which had taken between one and five days. No respondents indicated a business registration of more than 150 days (Figure 5.7).
5.2.10 Business registration means

Table 5.3 Business registration means

<table>
<thead>
<tr>
<th>Registration means</th>
<th>N</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manual</td>
<td>20</td>
<td>67 percent</td>
</tr>
<tr>
<td>Electronic</td>
<td>10</td>
<td>33 percent</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>30</strong></td>
<td><strong>100,00 percent</strong></td>
</tr>
</tbody>
</table>

Source: Survey 2011

A majority of the respondents (67 percent) stated that their business registrations were manual registrations. Thirty three percent stated that their business registrations purposes were done electronically (Table 5.3).

5.2.11 Business registration services

Figure 5.8 Business registration services

Source: Survey 2011

The respondents were requested to state the process for business registration, that is, whether or not the service was conducted internally or the business registration was outsourced. Thirty three percent of the respondents indicated that the business registration process was outsourced. The remaining 67 percent stated that the business registration processes were conducted internally (Figure 5.8).
5.2.12 Compliance with labour legislation

Table 5.4 Compliance with labour legislation

<table>
<thead>
<tr>
<th>Tax compliance</th>
<th>N</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-compliance</td>
<td>4</td>
<td>13 percent</td>
</tr>
<tr>
<td>Not applicable</td>
<td>2</td>
<td>7 percent</td>
</tr>
<tr>
<td>Compliance</td>
<td>24</td>
<td>80 percent</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>30</td>
<td>100 percent</td>
</tr>
</tbody>
</table>

Source: Survey 2011

Eighty percent of respondents reported that they complied with the labour legislation of South Africa. Another 13 percent claimed that they did not conform to the labour legislation of South Africa; seven percent stated that the labour regulations were not applicable in their business (Table 5.4).

5.2.13 Working hours

Table 5.5 Working hours per day

<table>
<thead>
<tr>
<th>Number of working hours</th>
<th>N</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-4</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>5-8</td>
<td>22</td>
<td>74 percent</td>
</tr>
<tr>
<td>8-10</td>
<td>4</td>
<td>13 percent</td>
</tr>
<tr>
<td>10+</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Not applicable</td>
<td>4</td>
<td>13 percent</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>30</td>
<td>100 percent</td>
</tr>
</tbody>
</table>

Source: Survey 2011

The respondents were asked to indicate the number of working hours per day of their employees. Most of the respondents (74 percent) stipulated that their working hours were eight hours per day. Another 13 percent stated that their employees worked 10 hours per day, while the remaining 13 percent stated that working hours per day was not
applicable in their type of work and that the hours were determined by the contracts or jobs they received.

5.2.14 Employment Contract

Figure 5.9 Employment Contract

![Employment Contract Graph]

Source: Survey 2011

The respondents were requested to specify whether they had an employment contract with their employees. About 60 percent of the respondents answered that they had signed a work agreement with their employees. Thirty three percent of the respondents indicated that they had not contracted their employees. Seven percent of the respondents stipulated that a work contract was not applicable to their business (Figure 5.9).
5.2.15 Fringe benefits

The respondents were requested to specify whether they had provided fringe benefits to their employees. About 60 percent of the respondents indicated that they provided fringe benefits to their employees. Thirty three percent of respondents indicated that they did not provide fringe benefits for their employees. Seven percent indicated that the provision of fringe benefits to their employees was not applicable due to the nature of the business. The fringe benefits were explained as medical aid, insurance, provident or pension fund, retirement annuities and group life. Included in the fringe benefits was leave grants which included annual, maternity and sick leave.

5.2.16 Equity plan

When the respondents were requested to show whether they had developed an equity plan for their business, the majority of 73 percent answered that they did not have an
equity plan for the business and did not comply with the labour legislation in respect of equity. Twenty percent indicated that they had an equity plan in place for their business operations. Seven percent stated that the equity plan was not applicable due to the nature of work (Table 5.6)

5.2.17 VAT Compliance

Figure 5.11 VAT Compliance

Source: Survey 2011

Fifty three percent of respondents indicated that they were not VAT registered. The remaining forty seven percent claimed that they did conform to the VAT registration (Figure 5.11).

5.2.18 South African Revenue Service registration

All the respondents indicated that they were registered with the South African Revenue Services (SARS).
5.2.19 Tax returns submissions

Table 5.8 Tax returns submissions

<table>
<thead>
<tr>
<th>Tax returns submissions</th>
<th>N</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Timeous submission</td>
<td>28</td>
<td>93 percent</td>
</tr>
<tr>
<td>Not applicable</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Late submission</td>
<td>2</td>
<td>7 percent</td>
</tr>
<tr>
<td>Total</td>
<td>30</td>
<td>100 percent</td>
</tr>
</tbody>
</table>

Source: Survey 2011

Ninety three percent of the respondents indicated that they submitted their tax returns on time. Seven percent of the respondents indicated that they submitted their tax returns late and had been issued with tax penalties by the South African Revenue Services (Table 5.8).

Having outlined the descriptive statistical information in the previous paragraphs, the following section of this chapter presents the qualitative responses.

5.2.20 The effect of business registration process on business

Most businesses, which accounted for more than the half of the respondents, waited for more than a month to be registered. These respondents complained that the process was too time-consuming and long. Some respondents indicated that the business registration process had a positive impact on their business because it gave their businesses identity and recognition. The registration process had a positive impact on others because it created an opportunity for the business to compete nationally. A few of the respondents who had utilised electronic business registration were happy with the quicker way of registration, describing it as smooth and efficient. Some of the respondents indicated that the process of business registration had slightly improved from the way it had been done previously. The improvement was as a result of the improved access through business registration forums. A few of the respondents indicated that once they had registered their businesses, it gave them access to business loans, overdraft and credit cards.
5.2.21 Support for starting a business

Some respondents indicated that the business registration support system was not easily accessible. One of the respondents stated that the support structure appeared to support certain people or businesses, which gave these businesses an unfair advantage. Most responses stated that the support for small businesses could still be improved. Furthermore, respondents stated that there was a lack of capacity building for the business owners in respect of labour and taxation issues. A few of the respondents stated that although government has several support structures for the sector, the structures were not operating effectively and efficiently. Respondents also stated that the small business support agencies in the Buffalo City needed to market more and reach out to rural areas.

5.2.22 Impact and compliance with SA labour legislation

Most respondents indicated that compliance with South Africa’s labour legislation had led to their businesses developing health and safety plans and policies. A few of the respondents mentioned that the labour laws had enabled them to ensure that health and safety compliance was maintained at all times, especially during working hours on site. Some respondents stated that compliance with the labour laws had had a positive impact of protecting the employer and employee. Respondents stated that the labour laws increased the operating costs of the business. However, compliance with South Africa’s labour laws presented a good image to clients who endorsed labour law compliance.

Explanations given by respondents for their nonconformity in this area appeared to be due to internal challenges such as the lack of resources and ineffective management, or external forces such as unfair competition by bigger competitors. Respondents indicated that in small businesses, the owner or manager often was responsible for most of the management functions including compliance with legislative provisions and regulations. This was time-consuming and presented an administrative burden for managers. Respondents indicated that due to labour regulation, they had less control over their business and were less able to respond quickly to the threats and opportunities in the market. The labour legislation was also seen as diminishing the owner’s control over the business.
5.2.23 Bonus remuneration

A few respondents mentioned that they did not provide their employees with any form of bonus remuneration. Most of the responses mentioned that the bonus remuneration was not scientifically drawn from a particular formula. However, bonuses were calculated based on doubling the normal employee salary. Some of the respondents stipulated that bonuses were given in a form of a 13th cheque or Christmas bonus. A few of the respondents said that bonuses were a once-off payment, based on production target successes per 12 month cycle. One responded stated that bonus payment was based on three percent annual net profit. Most bonus remuneration was based on performance.

5.2.24 Impact of tax regulation on business operations

Some respondents indicated that compliance with tax regulations had a positive impact on business operations which ran more smoothly. Other respondents indicated that the tax regulations processes had negatively affected their business operations and that tax clearances could hold up payment processes and affect monthly return payments. This had a negative effect as monies that should be paid to the revenues services would accumulate when these could not be paid up front.

As a result of not having sufficient evidence to prove business expenditure and income, the tax returns submissions were no submitted timeously. The respondents, who outsourced the business’s tax related issues, indicated that the tax regulations impacted negatively on the business as the bookkeepers did not comply with tax regulations. This, in turn, complicated tax clearances and other compliance records. A few indicated that tax regulations impacted on time and that the administrative work involved in tax issues, was very time-consuming. Other respondents indicated that the tax rates were too high and negatively affected the smooth running and cash flow of the business.

5.2.25 Effect of value added tax (VAT) on business cash flow

Most of the respondents indicated that value added tax (VAT) negatively affected cash flow of the business because VAT is payable to SARS despite the SMME not having
received payment. This has resulted in cash flow problems especially to the SMMEs that are subcontracted to larger entities which often take time to pay. Some respondents said that they lacked the facilities to deal with VAT issues. Some of the respondents were not directly affected by VAT as they were not VAT registered.

5.2.26 Compliance with tax return submissions

Some responses indicated that they had been penalised for non-compliance, that is, late submissions of tax returns. This had a negative impact on the business as it had put pressure on cash flow and the business’s viability, especially when the business paid VAT timeously in order to avoid penalties yet clients had not paid in good time.

5.2.27 Areas of improvement in business registration process

A common recommendation by the respondents was that government and business agencies should fast track the business registration process. In addition, there was a need for improved accessibility of youth and business agencies especially for prospective and existing businesses from rural areas. Furthermore, the business registration process needed to be more transparent. Government needed to increase the number of public assistance centres, resourced by properly trained officials. Some of the responses indicated that government should make an information brochure available, showing the business registration processes and requirements per sector, per type of business.

5.2.28 Areas of improvement in tax related issue of SMMEs

Respondents also want improvements in tax compliance for SMMEs so that was simplified and more user friendly. It was also suggested that the brochure should better guide the type of taxes applicable to various business sectors. Respondents also noted that SARS should improve processing of payments that is, speed up payments. It was also suggested that SARS should provide assistance in ensuring SMMEs were paid timeously by their clients. Also mentioned was that SARS should pay VAT based on cash or receipt not on invoices as this affected the business cash flow.
5.2.29 Implementation of labour law in SMMEs and way forward

Some of the respondents indicated that government should integrate labour and SARS requirements into one registration process/procedure package, which may be more effective for the business owners and managers. It was evident that labour legislation was vital and the monitoring of labour legislation compliance within the SMME sector was critical.

5.3 Summary, interpretation of findings and conclusions

The preceding results show that in terms of SMME’s regulatory issues, there was still room for improvement. It was also evident that there was growth in the number of registered SMMEs. More businesses in Buffalo City were now registered. Electronic business registration was a quicker way of registration and was seen as smooth and efficient. It was evident from the majority of respondents who registered manually that this process was time-consuming and long.

Most SMMEs in this sample operate as Close Corporations (CC) with a few businesses operating as sole traders and companies. The owners of business and the managers indicated that the business registration process opened up opportunities to compete for tenders and it gave businesses identification and recognition. Furthermore, the registration process had a positive impact on others because it created access for the business to compete nationally. A large number of the SMMEs in the sample were fairly new businesses, that is, operating for a period of between one and five years. Business registration gave SMMEs the opportunity to be considered for loans from banks.

The current business registration agencies were not easily accessible. There was a perception was unfair support for some SMMEs. Capacity building for the business owners, for labour and taxation issues was also raised. It was also suggested that the support agencies needed to conduct more marketing and should target rural areas.

Based on the number of employees employed by SMMEs, SMMEs were known to generate work opportunities and income for people. SMMEs contributed to the societal
well-being by providing fringe benefits to the employees. Fringe benefits increased the income of employees and the wellbeing of employees and their families.

Compliance with South Africa’s labour legislation improves businesses health and safety plans. The same legislation provided SMMEs and their employees with a sense of security. South African labour laws helped build a good image for the business.

Tax regulations processes negatively affected business operations as tax clearances hold up payment processes. This, in return, affected the monthly return payments. Tax regulations impacted on the time available for other company duties. Administrative work involved in tax issues was time consuming. Tax rates were too high and negatively affected the smooth running and cash flow of the business. SMMEs contributed to tax revenue in Buffalo City.

Taxes played an important role in the restructuring South Africa’s capital. An enlarged tax base, through the increased presence of SMMEs, helped deliver public services which need to reach a large number of people.

Value added tax has negatively affected cash flow of the business because VAT was payable to the South African Revenue Services without the SMME having received payment. Some respondents said they lacked the facilities of dealing with VAT issues. Some respondents were not directly affected by VAT as they were not VAT registered. Summary of the main findings, conclusion and recommendations are provided in the next chapter.
6.1 Introduction

The chapter begins by providing a summary of the main findings. This is followed by providing the recommendations, concluding remarks are presented at the end of the chapter.

6.2 Summary of the main findings

In order to formulate a conceptual framework of the study, a theoretical literature review was presented in chapter two. Various theories, namely Kirzerian, Marshallian and Schumpeter’s were explored. Some commonalities were found amongst these theories; of particular importance is the definition of an entrepreneur. All these theories defined an entrepreneur as someone who is alert, innovative and pioneering.

Chapter three presented the overview of the SMMEs in South Africa. In this chapter the contribution of SMMEs towards GDP, employment and investments was outlined. Clearly SMMEs play a vital role in the economy of South Africa. This is not only the case in South Africa, but in many other developing countries. The role of SMMEs in the Buffalo City region was also presented in this chapter.

In chapter four the regulatory environment of the SMMEs was presented. It was noted in this chapter that whilst the regulatory environment is not a constraining one, there are costs involved, for example, the time taken to register a business.

Chapter five presented the empirical findings of the study. The results showed that in terms of SMME’s regulatory issues, there was still room for improvement. Electronic business registration was a quicker way of registration the majority of respondents who registered manually mentioned that this process was time-consuming and long. It was also suggested that the support agencies needed to conduct more marketing and should target rural areas. South Africa’s labour legislation improves businesses health and
provided SMMEs and their employees with a sense of security. South African labour laws helped build a good image for the business. Administrative work involved in tax issues was time consuming. Some respondents said they lacked the facilities of dealing with VAT issues.

Chapter six outlined the summary of the main findings. The second part of the chapter provided the recommendations, concluding remarks were presented at the end of the chapter.

6.3 Recommendations

The recommendations are that the government should adopt a policy that accommodates the requirements of SMMEs. SMMEs should be able to remain registered but enjoy lower costs. The support structures which are to assist small businesses need to be mentioned in all the media for everyone to be aware of them, even potential business people in the rural areas. The government also should ensure that resources are made available to the SMMEs and that the processes involved in acquiring the resources are explained. The authority should be able to enforce the laws for operating businesses. All the processes involved in starting up a business need to be transparent. The government needs to educate SMME owners and managers on how labour laws can benefit small businesses.

SMMEs should be capacitated on VAT issues in order for them to clearly understand. In general SMME labour legislation should be more flexible especially to lower skilled workers and there should be an increase in the level of human capital and human capital should be properly allocated for potential use.

Also the business registration process should be linked with the other relevant legislation in order for the process to be whole and less time consuming ‘one stop shop’. A final recommendation is that government should invest in human capital to stimulate entrepreneurship. This should form an important part of government’s strategy in order to support SMMEs in attaining their employment potential.
6.4 Concluding remarks

Although the results of the study are based on a small sample, the results point out that there are a few constraints that prevent the SMME sector from developing. On the basis of these results, one can argue that the regulatory environment of the SMMEs in Buffalo City, such as business registration, labour, and tax regulations, are affecting the stimulation and growth of the sector.

Other factors such as transparency, education, accessibility to support structures, the regulatory processes, are also major contributors to compliance, how the SMME managers/owners perceive the regulations and compliance and how owners/managers perceive these regulations to have impacted on the growth of their enterprise. Finally, improving the regulatory environment of the SMMEs will go a long way in ensuring that the sector is sustainable and can also create jobs and alleviate poverty.
List of references


Theunissen, G. 2006. SMME compliance cost. Finance Week (19/10/06).


SURVEY QUESTIONNAIRE

Faculty of Business and Economic Sciences

Nelson Mandela Metropolitan University

INTERVIEW SCHEDULE FOR THE RESEARCH PROJECT ON:

THE IMPACT OF REGULATORY ENVIRONMENT ON SMMES IN BUFFALO CITY MUNICIPALITY

STUDENT: Zanele Mahlanza
STUDENT NUMBER: 208007808
YEAR OF STUDY: 2011

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CELL: 076 298 1991
EMAIL: zmahlanza@yahoo.com
PLEASE NOTE THAT ANY INFORMATION GATHERED DURING THIS PROCESS WILL REMAIN CONFIDENTIAL AND WILL BE USED FOR ACADEMIC PURPOSES ONLY. NO NAMES OF PERSONS AND/OR ORGANISATIONS WILL BE MENTIONED IN OUR REPORT.

SECTION A: DEMOGRAPHIC INFORMATION

Name of business:

Address of business:

Telephone/Cellphone number of the respondent/business

1. Please indicate your gender:

| Gender     |  |
|------------|-
| FEMALE     | 1 |
| MALE       | 2 |

2. Please indicate to which population group you belong

| Population |  |
|------------|-
| White      | 1 |
| Coloured   | 2 |
| Black      | 3 |
| Asian      | 4 |
| Other (specify) | 5 |
3. Are you the owner of the business? YES OR NO

………………………………………………………………………………………………………..

4. If you are not the owner, state your position in the business?

………………………………………………………………………………………………………..

5. Identify the nature of industry in which your business operates.

<table>
<thead>
<tr>
<th>Industry</th>
<th>Code</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retailer and/ Wholesaler</td>
<td>1</td>
</tr>
<tr>
<td>Manufacturer</td>
<td>2</td>
</tr>
<tr>
<td>Finance</td>
<td>3</td>
</tr>
<tr>
<td>Technology</td>
<td>4</td>
</tr>
<tr>
<td>Construction</td>
<td>5</td>
</tr>
<tr>
<td>Health Care</td>
<td>6</td>
</tr>
<tr>
<td>Farming</td>
<td>7</td>
</tr>
<tr>
<td>Mining</td>
<td>8</td>
</tr>
<tr>
<td>Transport</td>
<td>9</td>
</tr>
<tr>
<td>Medicine</td>
<td>10</td>
</tr>
<tr>
<td>Law</td>
<td>11</td>
</tr>
<tr>
<td>Other (specify)</td>
<td>12</td>
</tr>
</tbody>
</table>

6. Does your business operate in the local market? YES OR NO

………………………………………………………………………………………………………..

7. Does your business operate in the global market? YES OR NO

………………………………………………………………………………………………………..
8 State the form of your business:

<table>
<thead>
<tr>
<th>Form of Business</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sole Trader</td>
<td>1</td>
</tr>
<tr>
<td>Close Corporation</td>
<td>2</td>
</tr>
<tr>
<td>Private Company</td>
<td>3</td>
</tr>
<tr>
<td>Partnership</td>
<td>4</td>
</tr>
<tr>
<td>Family Business</td>
<td>5</td>
</tr>
<tr>
<td>Other (specify)</td>
<td>6</td>
</tr>
</tbody>
</table>

9. Are you renting the premises in which your business operates?
RENTING/OWNING……………………………………………………………………
…………………………………………………………………………………………..

10. Do you make use of computers in the running of your business? YES/ NO…. 

11. Do you have a TELKOM line connection in your business?…………………………

12. How long has this business been operating?………………………………………..

13. How many years have you been involved in this business?…………………………

14. Do you provide any fringe benefits to your employees? Yes/No……………………

15. If your answer is YES in question above list the fringe benefits offered by your
business to your employees
…………………………………………………………………………………………..
…………………………………………………………………………………………..
…………………………………………………………………………………………..
16. What is the average gross monthly income your business?

<table>
<thead>
<tr>
<th>Income Range</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than R 50 000.00</td>
<td>1</td>
</tr>
<tr>
<td>R50 000.00 – R100 000.00</td>
<td>2</td>
</tr>
<tr>
<td>R100 000.00 – R150 000.00</td>
<td>3</td>
</tr>
<tr>
<td>R150 000.00 – R200 000.00</td>
<td>4</td>
</tr>
<tr>
<td>R250 000.00 – R300 000.00</td>
<td>5</td>
</tr>
<tr>
<td>R350 000.00 – R400 000.00</td>
<td>6</td>
</tr>
<tr>
<td>R400 000.00 – R450 000.00</td>
<td>7</td>
</tr>
<tr>
<td>R450 000.00 – R500 000.00</td>
<td>8</td>
</tr>
<tr>
<td>Above R500 000.00</td>
<td>9</td>
</tr>
</tbody>
</table>

SECTION B: REGISTRATION PURPOSES

17. Is your business registered?.....................................................................................

18. With which organisation did you register your business?........................................

19. Was the registration process clearly stated?
..............................................................................................................................................
..............................................................................................................................................
..............................................................................................................................................

20. How long did it take you to register your business?..................................................
..............................................................................................................................................
..............................................................................................................................................
..............................................................................................................................................

21. Did you do all the administrative work of business registration yourself, or did you outsource?
..............................................................................................................................................
22. Did you register using electronic business registration or you registered manually?

……………………………………………………………………………………………………
……………………………………………………………………………………………………
……………………………………………………………………………………………………

23. If you used electronic business registration, state how this impacted your business registration process?

……………………………………………………………………………………………………
……………………………………………………………………………………………………
……………………………………………………………………………………………………

24. How has the business registration process affected the business?

……………………………………………………………………………………………………
……………………………………………………………………………………………………
……………………………………………………………………………………………………
……………………………………………………………………………………………………
……………………………………………………………………………………………………

25. Did you find the registration process to be simple and user-friendly? Please explain

……………………………………………………………………………………………………
……………………………………………………………………………………………………
……………………………………………………………………………………………………

26. Did you find the business registration easily accessible? Please explain

……………………………………………………………………………………………………
……………………………………………………………………………………………………
27. Was the business registration process explained to you in your mother tongue?  
YES/NO……………………………………………………………………………………………

(a) If NO in question 27 above, state the language that was used to explain the registration process of your business:
………………………………………………………………………………………………………
………………………………………………………………………………………………………
………………………………………………………………………………………………………

28. Are the processes and support structure that are put in place for the use of SMMEs sufficient in terms of assisting in starting up a business?
………………………………………………………………………………………………………
………………………………………………………………………………………………………
………………………………………………………………………………………………………
………………………………………………………………………………………………………

SECTION C: LABOUR REGULATIONS ON SMMEs IN THE BUFFALO CITY AREA

29. Do you comply with the labour legislation of South Africa? YES/NO
………………………………………………………………………………………………………
………………………………………………………………………………………………………

(a) If the answer is NO in question 29 above state the reason(s) why not:
………………………………………………………………………………………………………
………………………………………………………………………………………………………
………………………………………………………………………………………………………

(b) If YES in question 29 above, state the impact of labour laws in your business
………………………………………………………………………………………………………
………………………………………………………………………………………………………
30. How many employees are currently employed in this business?

<table>
<thead>
<tr>
<th>CATEGORY</th>
<th>NUMBER OF EMPLOYEES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full Time</td>
<td></td>
</tr>
<tr>
<td>Part Time</td>
<td></td>
</tr>
<tr>
<td>Casual</td>
<td></td>
</tr>
<tr>
<td>Temporary (fixed term contract)</td>
<td></td>
</tr>
<tr>
<td>Gender: Males</td>
<td></td>
</tr>
<tr>
<td>Gender: Females</td>
<td></td>
</tr>
<tr>
<td>Race:</td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
</tr>
</tbody>
</table>

31. What is the ordinary working hours for your employees per day?
........................................................................................................................................
........................................................................................................................................

32. Is there a written agreement in place between the employer and employer?
........................................................................................................................................
........................................................................................................................................

33. Does your company provide for overtime compensation, when overtime is worked?
........................................................................................................................................
........................................................................................................................................

34. Is there an agreement between employer and employee, regarding overtime compensation?
........................................................................................................................................
........................................................................................................................................

35. Do your employees receive bonuses? If, yes how is it calculated.
........................................................................................................................................
........................................................................................................................................
........................................................................................................................................
36. Do you have an equity plan in place? YES OR NO

(a) If YES did you draft the plan internally or did you outsource?

SECTION D: TAX ISSUES PERTAINNING TO SMMEs IN BUFFALO CITY AREA

37. Is your company Vat registered? YES OR NO

38. Are you registered with the South African Revenue Service? YES/ No

39. Do you keep any records of your income and expenditure of your business? YES/ NO

40. Is tax compliance easy to follow?

41. Do you file tax submissions internally or do you outsource?

42. Do you have a book keeper internally or do you outsource?

43. How does the tax regulations affect your business operation, explain?
44. Are you happy with the service from SARS? YES OR NO
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(A) If NO state the reasons for your unhappiness about SARS?
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45. How does that VAT compliance affect your cash flow, explain?
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46. Does your company comply with tax legislation in terms of timeous submission?
YES/ NO........................................................................................................

(a) If your answer is NO in question 46 above, please state the reasons for late submission to SARS........................................................................................................
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47. Have the consequences of noncompliance to tax regulations been clearly stated to you? YES/ NO........................................................................................

48. Have you ever been penalised by SARS? YES/ NO........................................

(a) If your answer is YES in question 49 above state how the penalties affected your business operation?........................................................................................................
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49. Kindly list areas where improvement may be developed in the business registration process.

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THANK YOU.